Hasnain Ali & Co

Chartered Accountants

Budget Highlights

2023



TAX MEMORANDUM

FINANCE BILL 2023

This memorandum summarises the important changes proposed in the Finance Bill 2023 relating to Income Tax, Sales Tax, Federal Excise Duty, Customs Duty and Other Laws. For considering the precise impact of a particular change,reference should be made to the specific wordings in the relevant statute.

The proposals introduced in the Bill have to be approved by the National Assembly before they become effective. They should, therefore, not generally be acted upon without obtaining appropriateadvice.

CONTENTS

	Page Number
Significant Amendments	2-3
Income Tax	4-10
Sales Tax	11-13

SIGNIFICANT AMENDMENTS

INCOME TAX

- Withholding income tax on Goods has been increased by 1% i.e 5.5% for individual and AOP and 5% for Companies
- Withholding income tax on Services has been increased by 1% i.e 11% for individual and AOP and 9% for Companies and 4% for specified services.
- 10% Final Tax on Bonus Shares introduced
- Foreign Remittance Amnesty limit exceeded from five million rupees to 100 thousand USD.
- Advance tax to be applicable on Super Tax.
- Tax credit introduced for construction of new house at lesser of 10% or one million rupees.
- Advance Tax on Cash Withdrawals exceeding 50,000 in a single day at 0.6% reintroduced.
- Advance tax on purchase of property by overseas Pakistanis withdrawn subject to payment via NRV or FCV Account.
- Sales Tax return filing condition for IT & IT Enabled Service exporters withdrawn.

SIGNIFICANT AMENDMENTS

SALES TAX

- Enhancement in reduced rate of sales tax from 12% to 15% on supplies made by the POS retailers dealing in leather and textile products.
- The requirement of shop area for tier-1 retailers is proposed to be withdrawn.
- Grant of exemption of sales tax on import of IT equipment by exporters of IT and ITeS registered with Pakistan Software Export Board.
- Grant of exemption of sales tax on accessories.
- Withdrawal of exemption of sales tax on edible products sold in bulk under brand names or trademarks.
- The Directorate General of Digital Invoicing and Analysis is proposed to be renamed as Directorate General of Digital Initiatives.

INCOME TAX

INCOME

[Section 2(29)]

- 10% amount on account of deduction of tax by companies issuing bonus shares has been included in the definition of Income .

PERMANENT ESTABLISHMENT

[Section 2(41)]

- The word "Fixed "is proposed to be deleted so as to enhance the scope of definition of permanent establishment ;
- Service providing entities are also specifically included in the definition.

SMALL & MEDIUM ENTERPRISE

[Section 2(59A)]

- Business turnover threshold has been increased to Rs.800 million from earlier Rs.250 million.
- IT and IT enabled service providers are also included in the definition .

SUPER TAX ON HIGH EARNING PERSONS

[Section 4C]

- Super tax shall be considered in the calculation of advance tax under section 147 of the Ordinance,2001.

INCOME FROM OTHER SOURCES

[Section 39]

- Bonus shares issued by the company shall be treated as income of the shareholder under this head .

EXEMPTION UNDER FOREIGN INVESTMENT

[Section 44A]

- Taxes on income ,withholding taxes , minimum and final taxes shall be exempt in respect of qualified investment as specified in First Schedule of Foreign Investment (promotion and Protection) Act ,2022.
- All investors , shareholders , their associates and companies including third party lenders on account of any loan shall be exempt from taxes .
- Anti Avoidances clauses of the Ordinance shall not apply to them.
- Rates of depreciation , Initial allowance and pre-commencement expenditure shall continue to be applicable for 30 years .

TAX CREDIT FOR CONSTRUCTION OF HOUSE
[Section 65I]

- A new clause is added whereby an individual shall be entitled to a tax credit in respect of construction of house from tax years 2024 to 2026.
- The said house needs to be constructed during the said time period .
- The tax credit shall be lesser of Rs.1,000,000 or 10% of the tax assessed for the tax year

ASSOCIATES
[Section 85]

- A person who sufficiently influences either alone or together with an associate shall be treated as an associate.
- Sufficiently influencing means economically and financially dependent on each other .
- A person who transacts with the other person who is a resident of jurisdiction of zero tax regime .

ADDITIONAL TAX ON CERTAIN INCOME , PROFITS & GAINS
[Section 99D]

- The Federal government may by notification in the official gazette impose additional tax on the preceding 5 years from tax year 2023 onwards on any unexpected income , profits or gains which may or may not be disclosed in financial statements .
- The rate shall not exceed 50% of such income , gains or profits .

UNEXPLAINED INCOME OR ASSETS
[Section 111]

- Unexplained remittance from abroad has been changed from Pak rupees to United States Dollars .
- Rs.5,000,000/- cap has been replaced to US$100,000/-

RECOVERY OF LIABILITY OUTSTANDING UNDER OTHER LAWS
[Section 146D]

- Seeks to recover any outstanding liability under any other statute or law .
- It will be treated as Incoem tax arrears under that law .
- It will be recovered or collected by Commissioner Inland Revenue.

ADVANCE TAX PAID BY THE TAXPAYER
[Section 147]

- The advance tax calculation will consider the tax payable under section 4C i.e. Super tax payable .

PAYMENTS TO NON RESIDENTS
[Section 152]

- The Finance Act proposes to automatically issue an exemption certificate after the expiry of 30 days through online application .
- It is proposed that the Commissioner can modify or cancel the automatically issued exemption certificate after reasoning and providing an opportunity of being heard to the taxpayer .

EXPORTS
[Section 154]

- The benefits of export regime are further advanced to entities registered under the 'Export Facilitation Scheme ,2021 '.

EXPORT OF SERVICES
[Section 154 A]

- Seeks to relax the condition of filing sales tax returns for exporters of IT and IT enabled services.

CREDIT FOR TAX COLLECTED OR DEDUCTED
[Section 168]

- No credit for tasx deducted will be allowed in respect of tax deducted in respect of bonus shares issued by the companies under section 236Z.

TAX COLLECTED OR DEDUCTED AS FINAL TAX
[Section 169]

- Tax paid shall be final tax on the income of a shareholder of the company arising from issuance of bonus shares under section 236Z.

INTERNATIONAL CENTRE OF TAX EXCELLENCE
[Section 230J]

- The Institute shall help to contribute development of tax policy , prepare model national tax policy , revenue forecasting , international tax co-operation.
- There shall be an executive committee comprising of Chairman FBR , Member (IR-Policy), Member Operations and 2 independent Directors .

ADVANCE TAX ON CASH WITHDRAWAL
[Section 231AB]

- Every banking company shall deduct advance tax at the rate of 0.6% from a person whose name is not appearing on active taxpayer list which makes a cash withdrawal exceeding Rs.50,000/- in a single day .
- The tax so deducted shall be adjustable .

ADVANCE TAX ON FOREIGN DOMESTIC WORKERS
[Section 231C]

- Any authority issuing or renewing domestic aide visa to any foreign national shall collect tax from that agency or sponsor .
- The tax shall be Rs.200,000/-
- The tax so collected shall be adjustable .

ADVANCE TAX ON PURCHASE OR TRANSFER OF IMMOVABLE PROPERTY

[Section 236K]

- Seeks to exempt non resident individuals from collection of this tax provided they are holding
  - i) Pakistan Origin Card or
  - ii) National ID Card for Overseas Pakistanis (NICOP)
  - iii) Immovable property was acquired through NRP rupee Value Account
  - iv) Foreign Currency Value Account

BONUS SHARES ISSUED BY THE COMPANIES

[Section 236Z]

- Every company issuing bonus shares to the shareholders of the company shall withhold 10% of the bonus shares issued .
- Tax shall be deposited by the company within 15 days of the closure of books .
- Bonus shares shall be issued to the shareholder if the company collects from the shareholder 10% of the value of bonus shares .
- Issuance of bonus shares shall be deemed to be the income of the shareholder .

FIRST SCHEDULE
PART - I
DIVISION – IIB

Super tax on High Earning Persons

- The rates of tax under section 4C shall be —

Table

S.No.	Taxable Income	Tax year 2023 onwards
1	Where income does not exceed Rs.150 million	0% of the income
2	Where income exceeds Rs.150 million but does not exceed Rs. 200 million	1% of the income
3	Where income exceeds Rs.200 million but does not exceed Rs. 250 million	2% of the income
4	Where income exceeds Rs.250 million but does not exceed Rs. 300 million	3% of the income
5	Where income exceeds Rs.300 million but does not exceed Rs. 350 million	4% of the income
6	Where income exceeds Rs.350 million but does not exceed Rs. 400 million	6% of the income
7	Where income exceeds Rs.400 million but does not exceed Rs. 500 million	8% of the income
8	Where income exceeds Rs. 500 million	10% of the income

DIVISION –IX

Minimum tax

- The rates of tax under section 113 shall be —

S.No.	Persons	Minimum tax as percentage of turnover for the year
4	Company listed on Pakistan Stock Exchange , if not covered under S.No.1 to 3 above.	1%

FIRST SCHEDULE
PART - II

Rates of Advance tax

- The rates of advance tax under to be collected under section 148 shall be —

S.No.	Persons	Rate
3	Persons importing goods classified in Part -II of the Twelfth Schedule.	6% in the case of commercial importer

FIRST SCHEDULE
PART - III
DIVISION – II

S.No	section	Old rate	New Rate
1.	Payments made to non resident on account of sales of goods, i) In the case of company ii) In any other case	 4% 4.5%	 5% 5.5%
2.	Payments made to non resident on account of i)transport , manpower ,hotel services etc ii)Other services-Corporate Other services -Non corporate	 3% 8% 10%	 4% 9% 11%
3.	Payments made to non resident on account of execution of contract	7%	8%

FIRST SCHEDULE
PART - III
DIVISION – III

S.No	section	Old rate	New Rate
1.	Payments made to resident on account of sales of goods, i) In the case of company ii) In any other case	 4% 4.5%	 5% 5.5%
2.	Payments made to resident on account of i)transport , manpower ,hotel services etc ii)Other services-Corporate Other services -Non corporate	 3% 8% 10%	 4% 9% 11%
3.	Payments made to resident on account of execution of contract i) In the case of company ii) In any other case	 6.5% 7%	 7.5% 8%

FIRST SCHEDULE
PART - III
DIVISION – IVA

Export of Services

- The rates of tax under section 156A shall be valid for tax year 2024 to tax year 2026.

FIRST SCHEDULE
PART - IV
DIVISION –XXVII

Advance tax under section 236Y

S.No	section	Old rate	New Rate
1.	Advance tax on amount remitted abroad through credit , debit or prepaid cards	1%	5%

SECOND SCHEDULE
PART - I
EXEMPTIONS FROM TOTAL INCOME

[CLAUSE 99A]

- Seeks to extend the limitation of exemption from 30th day of June 2023 to 30th day of June 2024 on profit and gains on sale of immoveable property or shares of Special Purpose Vehicle to any REIT scheme The rates of tax under section 156A shall be valid for tax year 2024 to tax year 2026.

[CLAUSE 145A]

- Seeks to extend the limitation of exemption from 30th day of June 2023 to 30th day of June 2024 on any income of any individual domiciled or company and AOP resident in e Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan.

[CLAUSE 154]

- Seeks to insert new clause to provide tax holiday to SME setup exclusively as agro based industry for five years up to tax year 2028.

SECOND SCHEDULE
PART - III
REDUCTION IN TAX LIABILITY

[CLAUSE 21]

- 10% reduction in tax liability or Rs. 5 (m) whichever is lower for a builder which is registered with Director General of Designated Non Financial Business or Profession for tax years 2024 to 2026.

[CLAUSE 22]

- 50% reduction in tax liability for three years for youth entrepreneurship (maximum limit of Rs 2 million for Individual / AOP and Rs 5 million for a company). Youth is defined as a natural person upto the age of 30 years.

FOURTEENTH SCHEDULE

- Small & Medium Enterprises shall be required to register with FBR on its web portal or SME Registration Portal (SMERP).
- Small & Medium Enterprises engaged in IT Services or IT enabled services shall be required to register with Pakistan Software Export Board along with SME Registration Portal (SMERP).
- New Slabs have been entered for SME entities

Cateogary	**section**	**Rate of tax**
3.	Where annual turnover exceeds Rs.250 million but does not exceed Rupees 800 million .	20% of taxable income

SALES TAX

SUPPLY
[Section 2 (33(e))]

- Production, transmission and distribution of electricity is **omitted** from the definition of supply.

TIER-1 RETAILER
[Section 2 (43A(e)&(ga))]

- Rretailer, whose shop measures one thousand square feet in area or more or two thousand or more in case of retailer of furniture are **omitted from Tier-1 retailer.**

DIRECTORATE GENERAL OF DIGITAL INVOICING AND ANALYSIS
[Section 30CA]

- Word "Director General of Digital Invoicing and Analysis" substituted **by "Director General of Digital Initiatives"**

OFFENCES AND PANALTIES
[Section 33(23)]

- Section 33(23) in column 1 word "cigarette packs" substituted by the word "goods or class of goods specified in subsection(1) of Section 40C

FIFTH SCHEDULE

- In Fifth Schedule **new serial number 8A and entries inserted in column (2)** after serial number 8 which is as follow

Sr. No	Description
8A	Imports or supplies made by, for or to a qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act."

- In Fifth Schedule **serial number 12** in column (2), for clause (xxv) the following shall be substituted

12	other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000)."; and

SIXTH SCHEDULE

Table-1

(Imports or Supplies)

- **In Sixth Schedule Serial No. 121, in column (2) the following explanation added:-**

Explanation- For removal of doubt, it is clarified that the blood transfusion sets not packed in aluminum foil imported with blood bags CPDA-1, in corresponding quantity in same consignment are also exempt;"

- Seeks to omit serial numbers 159 i.e Import of auto disable Syringe with and without needles.
- Seeks to omit serial numbers 160 i.e Import of raw material for manufacture auto disable Syringe i.eTabular metal needles & rubbar gaskets
- after serial number 174 and entries relating thereto in columns (2) and (3), the following shall be added, namely:–

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
175	Contraceptive and accessories thereof	3926.9020 and 4014.1000
176	Bovine semen	0511.1000
177	Saplings	Respective heading
178	Combined Harvester –Thresher	8433.5100
179	Dryer for agricultural products	8419.3400
180	No-till-direct seeder, planters, trans-planters and other planters	8432.3100 and 8432.3900
181	Import of goods as mentioned under S. No. 159 of Part III of Fifth Schedule to the Customs Act, 1969 (IV of 1969) chargeable to customs duty at the rate of zero percent, subject to the conditions, restrictions and limitations mentioned therein, by the software exporters registered with the Pakistan Software Export Board.	7471.3010, 8471.3020, 8471.3090, 8471.4110, 8471.6010, 8471.6020, 8471.6090, 8471.7040, 8471.9020, 8471.7020, 8471.5000 and 8517.6270.".

Table-2

In Table-2, in column (1),– against the serial number 32, 34, 35, 36, 37, 39, 41, 42 after the word "sold", the words "in retail packing" shall be omitted

EIGHTH SCHEDULE

- Sales tax Rate for the supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales change from 12% to 15%.
- Substances registered as drugs under the Drugs Act, 1976 and medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 shall be charge tax at the rate 1% **except the other medicated & medicinal in nature**.
- Raw materials for the basic manufacture of pharmaceutical active ingredients and pharmaceutical products shall be charge tax 1% **provided that imported** raw materials shall be entitled to exemption which are liable to customs duty not exceeding eleven per cent ad valorem

© Hasnain Ali & Co (HAC- *Chartered Accountants*-2023)

This work is copyright. Apart from any use as permitted under the Copyright Act, no part may be reproduced by any process without prior written permissionfrom HAC. Any requests and inquiries should be addressed to:

Hasnain Ali & Co -*Chartered Accountants*
Room # 202, 2nd Floor, Regency Plaza,
Near Mini Market, Gulberg –II,
Lahore.
Ph: +92-42-35755212/35755213
Cell:0322-4185440
Email: hasnain@hac.com.pk