

BUDGET BRIEF

INCOME TAX
SALES TAX



COMMENTS ON FINANCE BILL 2023

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This Memorandum has been prepared as a general guide for the benefit of our clients. This is not an exhaustive treatise as it sets out interpretation of the amendments proposed through the Finance Bill, 2023 in the Income Tax Ordinance, 2001 and the Sales Tax Act, 1990 in a concise form sufficient to amplify the important aspects of the changes proposed. It is suggested that the text of the Bill and the relevant notifications, where applicable, be referred to, in considering the interpretation of any provision. Since these are only general comments, no final conclusion on any issue should be drawn without further consideration and consultation. For additional information or guidance on the issues dealt with in these comments, specific professional advice should be sought before any action is taken. The provisions of the Finance Bill, 2023 will be given effect from 1st day of July 2023.

AMENDMENTS PROPOSED IN INCOME TAX ORDINANCE 2001

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FINANCE BILL, 2023

DEFINITIONS ---- INSERTION /AMENDMENTS IN SECTION 2:

Small and medium enterprise-- amendment of clause (59A): “small and medium enterprise” was previously limited to the manufacturers only with maximum limit of turnover amounting to Rs. 250 million. Now entities providing IT services or IT enabled services are also included in this definition and the maximum limit of turnover has been increased from Rs. 250 million to Rs. 800 million.

Super tax on high earning persons – amendment in section 4C: The rates of super tax levied under this section have been increased as under:

S. No	Income under section 4C	Rate of tax 2022	Rate of tax 2023 and onward
1	Where income does not exceed Rs. 150 million	0% of the income	0% of the income
2	Where income exceeds Rs.150 million but does not exceed Rs. 200 million	1% of the income	1% of the income
3	Where income exceeds Rs.200 million but does not exceed Rs. 250 million	2% of the income	2% of the income
4	Where income exceeds Rs.250 million but does not exceed Rs. 300 million	3% of the income	3% of the income
5	Where income exceeds Rs. 300 million but does not exceeds 350 million	4% of the income	4% of the income
6	Where income exceeds Rs. 350 million but does not exceeds 400 million	4% of the income	6% of the income
7	Where income exceeds Rs. 400 million but does not exceeds 500 million	4% of the income	8% of the income
8	Where income exceeds Rs. 500	4% of the	10% of the

	million	income	income
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Tax credit for construction of house – insertion of section 65I: A tax credit has been allowed to individuals for construction of new house in the year in which house is completed. Tax credit is allowed to the extent of 10% of tax payable or Rs. One million whichever is lesser. The section is inserted as under:

65I. Tax credit for construction of house. – (1) *For tax years 2024 to 2026, a person, being an individual, shall be entitled to a tax credit for a tax year in respect of construction of a new house, provided that the said house is completed during the said tax year and completion certificate is furnished along with return.*

(2) *The amount of tax credit allowed under sub-section (1) shall be lesser of –*

(a) *ten percent of tax assessed to the person for the tax year; or*

(b) *one million rupees.*

(3) *For the purpose of this section, new house means a residential house, layout plan of which is approved by the concerned authority on or after the 1st day of July, 2023.*

Additional tax on certain income, profit and gains – insertion of section 99D: An additional tax is proposed on the income, profits and gains that have arisen to any person or class of persons due to any economic factor or factors that resulted in unexpected income, profits or gains. The section is inserted as under:

99D. Additional tax on certain income, profits and gains. – (1) *Notwithstanding anything contained in this Ordinance or any other law for the time being in force, for any of the preceding five tax years from tax year 2023 and onwards, in addition to any tax charged, paid or payable under any of the provision of the Ordinance, an additional tax shall be imposed on every person who has any income, profit or gains that have arisen to any person or class of persons due to any economic factor or factors that resulted in unexpected income, profits or gains whether or not disclosed in the financial statements.*

(2) *Federal Government, may through a notification in the official Gazette –*

(a) *determine economic factor or factors including but not limited to international price fluctuation having bearing on any commodity price in Pakistan or any sector of the economy or difference in income, profit or gains on account of foreign currency fluctuation;*

(b) *provide the rate not exceeding fifty percent of such income, profits or gains;*

(c) *provide for the scope, time and payment of tax payable under this section in such manner and with such conditions as may be specified; and*

(d) *exempt any person or classes of persons, any income or classes of income from the application of this section, subject to any condition as may be specified.*

Unexplained income or assets – amendment in section 111: Exemption from this section was previously allowed on foreign exchange remitted through normal banking channel to the extent of five million rupees. Now this limit of five million rupees has been increased to the amount equivalent to “One Hundred Thousand US Dollars”.

Advance tax paid by the taxpayer – amendment in section 147: In this section the scope of advance tax is increased and super tax is also included for collection of advance tax on quarterly basis.

Advance tax on cash withdrawal – insertion of section 231AB: Tax on cash withdrawal which was abolished previously has been levied again on the persons not appearing on ATL @ 0.6% of the cash withdrawal amount exceeding Rs. 50,000 per day. The section is inserted as under:

231AB. Advance tax on cash withdrawal. — (1) Every banking company shall deduct advance adjustable tax at the rate of 0.6% of the cash withdrawal from a person whose name is not appearing in the active taxpayers' list on the sum total of the payments for cash withdrawal in a day, exceeding fifty thousand rupees.

Explanation. – For removal of doubt, it is clarified that the said fifty thousand rupees shall be aggregate cash withdrawals in a single day.

Advance tax on foreign domestic workers – insertion of section 231C: Advance tax on the persons employing the foreign nationals is proposed at Rs. 200,000 at the time of issuance of Visa. This tax shall be adjustable against the income of domestic employer. The section is inserted as under:

231C. Advance tax on foreign domestic workers. – (1) Any authority issuing or renewing domestic aide visa to any foreign national as a domestic worker at the time of issuing or renewing such visa shall collect from the agency, sponsor or the person as the case may be, employing the services of such foreign national a tax of two hundred thousand rupees.

(2) The tax collected or collectible under this section shall be adjustable advance tax for the tax year to which it relates on the income of such agency, sponsor or a person, as the case may be, employing the services of such foreign national.

Bonus shares issued by companies – insertion of section 236Z: Bonus shares are now proposed to be treated as other income and a tax at a rate of 10% is levied on the bonus share. The company issuing bonus shares is required to deduct tax from shareholders and deposit in the Government treasury. Tax paid under this section shall be final tax on the income of the shareholder. The section is inserted as under:

236Z. Bonus shares issued by companies. – (1) Notwithstanding anything contained in any law for the time being in force, every company, issuing bonus shares to the shareholders of the company, shall withhold ten percent of the bonus shares to be issued.

(2) Bonus shares withheld under sub-section (1) shall only be issued to a shareholder, if the company collects from the shareholder, tax equal to ten percent of the value of the bonus shares issued to the shareholder including bonus share withheld, determined on the basis of day-end price on the first day of closure of books in the case of listed company and the value as prescribed in case of other companies.

(3) Tax under sub-section (2), shall be deposited by the company, within fifteen days of closure of books, whether or not tax has been collected by the company under sub-section (2).

(4) A company liable to deposit tax under this section shall be entitled to collect and recover the tax deposited from the shareholder, on whose behalf the tax has been deposited, before the issuance of bonus shares.

(5) *If a shareholder neither makes payment of tax to the company nor collects its bonus shares, within fifteen days of the date of issuance of bonus shares, the company may proceed to dispose of its bonus shares to the extent it has paid tax on its behalf under this section.*

(6) *Issuance of bonus shares shall be deemed to be the income of the shareholder and the tax collected by a company under this section or proceeds of the bonus shares disposed of and paid under this section shall be treated to have been paid on behalf of the shareholder.*

(7) *Tax paid under this section shall be final tax on the income of the shareholder of the company arising from issuing of bonus shares.*

Reduction in minimum tax on listed companies – amendment in Division IX Part I Schedule I: The general rate of minimum tax u/s 113 on the companies listed on Pakistan Stock Exchange has been reduced from 1.25% to 1% of the turnover. The companies which are already subject to reduced rates based on their business sector shall have no impact.

Increase in tax rate on commercial importers – amendment in Part II Schedule I: The imports mentioned in Part III of the Twelfth Schedule which were subject to tax at a rate of 5.5% for all are now subject to tax at the rate of 6% of the value of goods for the commercial importers at import stage u/s 148.

Increase in withholding tax rate on non-residents – amendment in Division II Part III Schedule I: The payments to non-residents are subject to tax u/s 152, the rates of tax on payment to non-residents against all types of supplies and services have been increased by 1%.

Increase in withholding tax rate on local goods and services – amendment in Division III Part III Schedule I: The payments for goods or services are subject to tax u/s 153, the rates of tax on payment against all types of supplies and services have been increased by 1%.

Type of goods or services	Existing rate	Proposed rate
Supply of goods - companies	4%	5%
Supply of goods – non-companies	4.5%	5.5%
On Specialized services	3%	4%
Other services - companies	8%	9%
Other services – non-companies	10%	11%
Contract - companies	6.5%	7.5%
Contract – non-companies	7%	8%

Increase in advance tax on amount remitted abroad through cards – amendment in Division XXVII Part IV Schedule I: Advance tax on payments remitted abroad through credit, debit or prepaid cards u/s 236Y was applicable at a rate of 1% now this rate has been increased to 5%.

Exemption in tax liability for builders – amendment in Part III Schedule II: A new clause (21) has been inserted for reduction in tax liability on builders registered under DNFB in the following manner:

(21) (a) For tax year 2024 to tax year 2026, tax payable on profits and gains derived from business chargeable to tax under the head “Income from Business” by a builder registered with Directorate General of Designated Non-Financial Business and Professions from a new building construction project, shall be reduced, not below zero, by ten percent or rupees five million whichever is lower for the tax year in which the builder furnishes along with return the completion certificate issued by the concerned regulatory authority; and

(b) New building project means a project for the construction of building excluding a land development project, layout plan of which is approved by the authority concerned on or after the 1st day of July, 2023.

AMENDMENTS PROPOSED IN SALES TAX ACT, 1990

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FINANCE BILL, 2023

DEFINITIONS ---- INSERTION /AMENDMENTS IN SECTION 2:

Goods-- amendment of clause (12): Through Finance Act 2022, “production, transmission and distribution of electricity” was included in definition of “goods” which has now been omitted from the definition of goods.

Supply-- amendment of clause (33): Through Finance Act 2022, “production, transmission and distribution of electricity” was included in definition of “supply” which has now been omitted from the definition of supply.

Tier-1 retailer-- amendment of clause (43A): The definition of Tier-1 retailer includes the retailers on different parameters including measurement of shop area. Now the parameters relating to measurement of shop area have been omitted from this definition.

Withdrawal of exemption on edible products sold in bulk under brand name-- amendment in Schedule 6: The agriculture based edible products which are sold under brand name were exempt from sales tax if sold in bulk packing. Now these edible products namely red chili, ginger, turmeric, yogurt, butter, desi ghee, cheese, products of meat and fish are taxable if sold under brand name whether in bulk packing or retail packing.

Increase in sales tax rate on retail outlets – amendment in clause (66) Schedule 8: The rate of sales tax on supplies as made from retail outlets as are integrated with Board’s computerized system for real time reporting of sales was previously 12% has now been increased to 15%.
