

The background of the cover is a collage of financial and technological imagery. It includes a close-up of a US dollar bill with Benjamin Franklin's face, overlaid with a white line graph showing an upward trend. In the upper right, there's a blue-tinted area with binary code (0s and 1s) and a candlestick chart. The title 'BUDGET BRIEF' is prominently displayed in the top left, with each letter of 'BUDGET' containing a different Pakistani currency note or coin. The year '2023' is written in large, bold yellow letters below the title.

BUDGET

BRIEF

2023

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These comments neither purport nor intended to be an advice on any particular matter and, therefore, should not generally be acted upon without obtaining appropriate advice.

If you need any clarification/explanation, you may contact any of our offices.

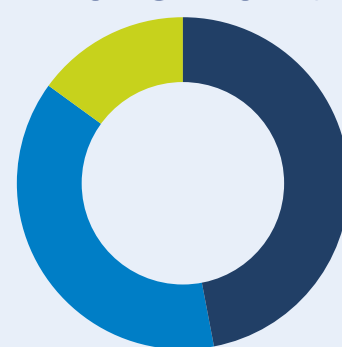
9th June, 2023

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Budget

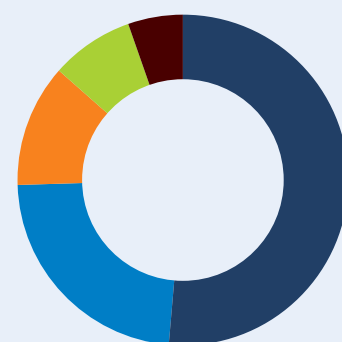
At A Glance 2023-24

Resources 2023-2024



- 47 ● Tax revenue
- 38 ● Deficit Financing
- 15 ● Non-tax revenue

Expenditure 2023-24



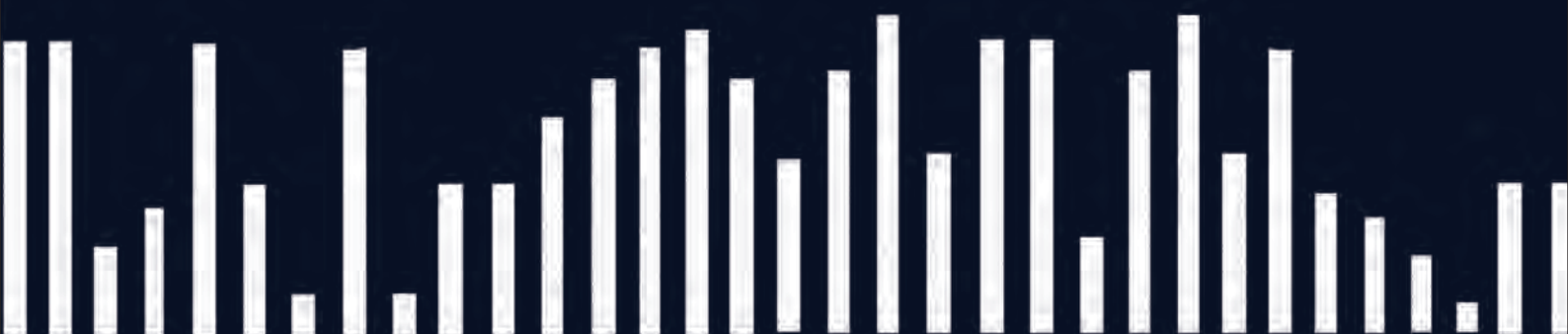
- 51 ● Interest payments
- 24 ● Others
- 12 ● Defense Expenditures
- 8 ● Development expenditures
- 5 ● Pension

Resources	2023-24	2022-23
Rupees in Billions		
Tax revenue	9,200	7,470
Non-tax revenue	2,963	1,935
Total Federal resources	12,163	9,405
Less: Provincial share in Federal taxes	(5,276)	(4,373)
Net Federal resources	6,887	5,032
Deficit financing	7,573	4,547
Total resources	14,460	9,579

Allocation of Resources	2023-24	2022-23
Rupees in Billions		
Pension	761	609
Debt	7,303	3,950
Defense expenditures	1,804	1,563
Development expenditures	1,140	871
Others	3,452	2,586
Total expenditure	14,460	9,579

ECONOMIC SURVEY

2022-23



Increase in commodity prices



The previous fiscal year was one of the worst period in history of Pakistan economy. The government failed to achieve any of its economic targets due to heavy floods, political unrest, debt repayment crises, Ukraine war, increase in commodity prices and import restrictions due to currency issues.



Growth

The GDP growth rate for 2022-2023 is **0.29 %**
as compared to last year growth rate of **6.1%** and
targeted growth rate of **5%.**



0.29%



Agriculture Sector

The agriculture sector showed a growth of **1.55 %** as compared to last year growth of **4.27%** and as against targeted growth rate of **3.9%**. The growth was not achieved mainly due to the floods in Pakistan that destroyed the crops and livestock in south of Punjab and parts of Sindh.



Industrial & Service Sector

Industrial sector shows negative growth, that is expected to be around **(2.94%)** as compared to last year growth of 6.83% whereas, Service sector growth is **0.86%** as compared to last year growth of **6.59%**.

Growth Of Various Sectors

Description	2023	2022	2021	2020	2019
GDP (PKR Trillion)	84.7	66.6	55.8	47.5	43.8
GDP per Capita (US\$)	1,568	1,765	1676	1,458	1,578
GDP Growth % (US\$)	0.29	5.97	5.74	(5.5)	3.3
Agricultural Growth (%)	1.55	4.4	3.48	3.3	0.9
Industry Growth (%)	(2.94)	7.19	7.8	(3.8)	1.4
Service Growth (%)	0.86	6.19	6	(0.6)	4.7

Composition of GDP

The service sector contributed 59% in overall GDP, whereas agriculture sector and industrial sector contributed 23% and 18%, respectively.

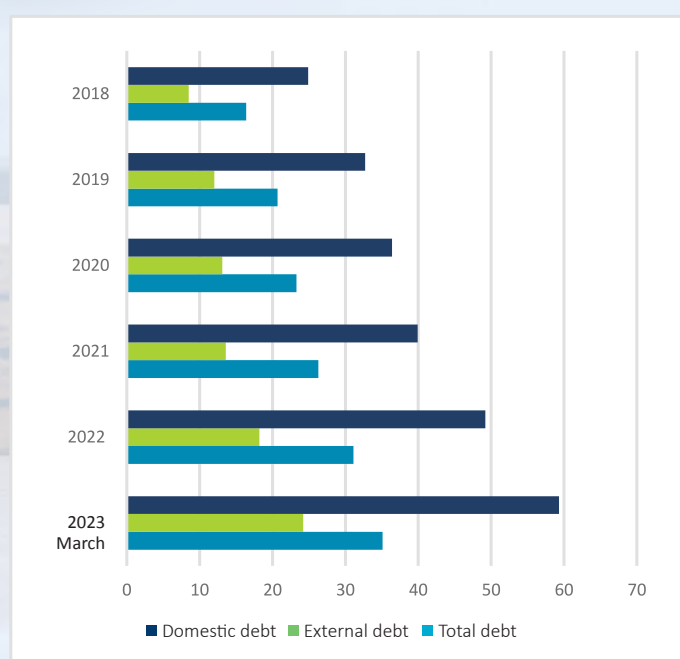




Public Debt

Public debt is rising every year and it reached at PKR 59.3 trillion by March 2023 that is around 71% of GDP as compared to 74% of GDP at end of June 2022.

Description	Domestic debt	External debt	Total debt
PKR Trillions			
2023 March	35.1	24.2	59.3
2022	31.1	18.2	49.2
2021	26.3	13.6	39.9
2020	23.3	13.1	36.4
2019	20.7	12.0	32.7
2018	16.4	8.5	24.9



Capital Market

The KSE-100 index of Pakistan opened at 41,540 points on 1st July, 2022 and closed at 40,000 points on 31st March, 2023 showing a decline of 3.7%. The lack lustre performance is mainly due to significant increase in interest rates, unstable political situation and currency crises.

Trade & Payments

During the current fiscal year the Rupee remained under severe pressure due to significant increase in international commodity prices and debt repayment issues.

The reason for decrease in imports is the import

Import & Export of Goods

The import of goods during the period from July 2022 – March 2023 were US\$ 43.7 billion as compared to US\$ 58.9 billion during same period last year that shows decline of around 26%.

The export of goods during the period from July 2022 - March 2023 were US\$21.0 billion as compared to US\$ 23.35 billion for same period last year that shows decline of around 10%.

Description	Import	Export	Trade Deficit
US \$ Billions			
July-March 2023	43.7	23.4	20.3
2022	80.1	31.8	48.3
2021	56.4	25.3	31.1
2020	44.6	21.3	23.3
2019	55.8	23.0	32.8
2018	60.8	23.2	37.6
2017	52.9	20.4	32.5



Import & Export of services

The import of services during the period from July 2022 – March 2023 were US\$ 5.76 billion as compared to US\$ 8.34 billion during same period last year that shows decline of around 30%.

The export of services during the period from July 2022 - March 2023 were US\$ 5.53 billion as compared to US\$ 5.16 billion for same period last year that shows increase of around 7%.

Workers Remittances

Workers' remittances during the period from Jul 2022 - March 2023 were US\$ 20.53 billion as compared to US\$ 23.0 billion during same period last year that shows decline of around 11%.

Description	Worker remittance US \$ Billions
July-March 2023	20.53
2022	31.28
2021	29.40
2020	23.13
2019	21.74
2018	19.91
2017	19.35



Inflation & Interest Rate

During July 2022 to April 2023, the CPI increased at the rate of 28.2% as compared to 11.3% in same period last year. The current government faces significant criticism from general public due to inflation of essential commodities. The main reason for increase in inflation is devaluation of PKR and effect on major crops due to floods.

The State Bank policy discount rate increased from 13.75% to 21% during the fiscal year.

Policy rate during the year were as follows

Year	Rate
1 July 2022	13.75%
13 July 2022	15.00%
28 Nov 2022	16.00%
24 Jan 2023	17.00%
3 March 2023	20.00%
5 April 2023	21.00%

The market interest rate significantly increased during the period due to increase in inflation and

reached at historically high rates.

Maturity	9 th June 2023	30 th June 2022	30 th June 2021	30 th June 2020	30 th June 2019
1 Year	21.95%	15.30%	7.81%	7.05%	13.13%
3 Year	19.15%	13.45%	8.99%	7.53%	13.85%
5 Year	15.05%	12.93%	9.49%	8.11%	13.88%
10 year	15.10%	12.92%	9.94%	8.69%	13.72%

COMPARISON BETWEEN INFLATION AND INTEREST

Year	Inflation %	Interest %
2023	28.20	17.00
2022	11.00	9.40
2021	8.80	7.00
2020	10.70	12.00
2019	6.80	9.50
2018	4.70	5.90
2017	4.80	5.75

Fiscal Development

During July 2022-April 2023, net tax collection increased by 16.1% to Rs. 5,637.9 billion against 4,855.9 billion during same period last year.

The major source of revenue is indirect taxes that include sales tax, customs and excise duty. Around 55% is collected through indirect taxes whereas 45% is collected through direct tax.



45 37 13 5

● Income tax ● sale tax ● cusom duty ● excise duty



BUDGET₂₀₂₃₋₂₄

HIGHLIGHTS

Income Tax Ordinance, 2001

- ◆ Super Tax under section 4C is proposed to apply on all persons having income above 150 million across the board on varying rate from 1% to 10%.
- ◆ Withholding tax on Non-ATL persons is proposed to be re-imposed on cash withdrawal @ 0.6% as advance adjustable tax.
- ◆ Withholding tax rates on supply of goods, rendering of services and execution of contracts are proposed to be increased by 1%.
- ◆ Withholding tax rate is proposed to be increased to 6% from existing 5.5% for commercial importer on import of goods.
- ◆ Issuance of bonus shares proposed to be taxed @10% (20% for non-ATL).
- ◆ Withholding tax rate on payment to non-resident through debit/credit or prepaid cards is proposed to be enhanced from 1% to 5% (2% to 10% for Non-ATL person).
- ◆ Adjustable advance tax is proposed at Rs.200,000/- at the time of issuance of work permit/visa on employment of a foreign domestic helper.
- ◆ Additional tax is proposed up to 50% on income, profit and gains of a person or class of persons on account of extraordinary gains due to exogenous factors.
- ◆ Concessionary fixed tax rate of 0.25% for IT & ITes exports is proposed to be restricted up to tax year 2026.
- ◆ Exemption to income of Agro based industries being SMEs set up on or after 1st July, 2023, proposed for the tax year 2024 to 2028.
- ◆ Concession in tax liability for three years for youth enterprises is proposed at different rates.
- ◆ Tax concession is proposed to builder registered as DNFBP.
- ◆ Reduction of minimum tax liability is proposed on turnover from 1.25% to 1% for companies listed on Pakistan Stock Exchange.
- ◆ The bill proposes to enhance the limit of foreign remittances under section 111 from PKR 5 million to US\$ 100,000.
- ◆ The bill proposes to enhance exemption of capital gains for sale of property to REIT till 30 June 2024.
- ◆ The bill proposes to increase turnover limit from Rs. 250M to 800M to qualify for small and medium enterprise. Further, IT and ITes are also proposed to be treated as SMEs.
- ◆ The bill proposes to exempt non-residents from advance tax on purchase of property.
- ◆ The bill proposes to enhance the definition of associates and include non-resident person who enters into a transaction with resident of Pakistan as associate.
- ◆ The bill proposes to allow tax credit to individual tax payer for construction of new house.

Sales Tax Act, 1990

- ◆ Sales tax is proposed to be enhanced 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.
- ◆ Sales tax is proposed to be exempted on import of IT equipment by exporters of IT and IT's registered with Pakistan Software Export Board.
- ◆ Sales tax is proposed to be exempted on plant saplings, combine harvesters, dryer for agricultural products, no-till-direct seeder, planters, trans-planters, other planters and bovine semen.
- ◆ Sales tax is proposed to be exempted on contraceptives and accessories.
- ◆ Sales tax exemption is proposed to be withdrawn on edible products sold under brand names or trademarks.

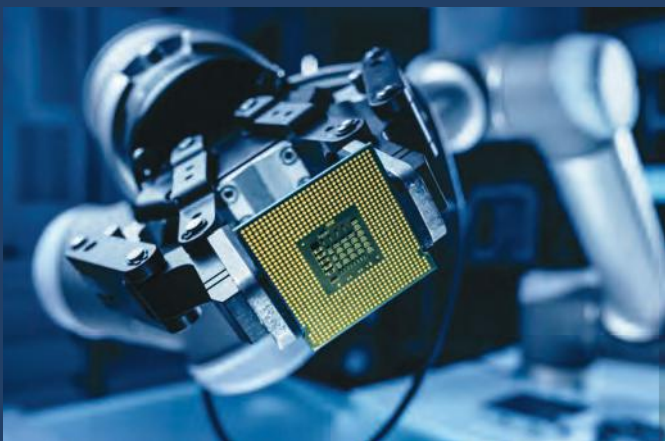
- ♦ Production, transmission and distribution of electricity is proposed to be excluded from the purview of sales tax in accordance with the decision of National Tax Council.

FEDERAL EXCISE ACT, 2005

- ♦ Federal excise duty is proposed to be imposed on energy inefficient fans @ Rs. 2,000 per fan and incandescent bulbs @ 20% ad valorem as approved by the Federal Cabinet in Case No. 01/01/23, dated 03.01.2023.
- ♦ The scope of FED on services is proposed to be enhanced by adding royalty and fee for technical services.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

- ♦ Services provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, dears, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc. are proposed to be taxed @ 5%, if payment is made through debit or credit cards, mobile wallets or QR scanning.
- ♦ Electric power transmission services are proposed to be taxed @ 15%.
- ♦ Granting the status of cottage industry to the freelance exporters of IT and IT enabled services.
- ♦ Rate of tax on IT based system development consultants is proposed to be reduced to 15% from 16%.





INCOME TAX

ORDINANCE, 2001

Permanent Establishment Section 2(41)

- ♦ The bill seeks to make certain amendments in definition of PE in line with the digitalization of economy.
- ♦ The condition of “fixed place of business” is being replaced with the word “place of business”; meaning thereby that the person having a digital or mobile office etc. would also be considered as a place of business, for the purpose of permanent establishment.
- ♦ The bill also proposes to enhance the scope of PE in relation to furnishing of services to include consultancy services being provided by any person through entity, engaged by person for such purpose.

Tax on High Earning Person For Poverty Alleviation (Super Tax) Section 4C/147/1st Schedule

- ♦ The bill proposes to amend the above section to provide for payment of super tax in advance, in accordance with the provisions of advance tax under section 147.
- ♦ The bill also seeks to provide the following uniform slab rates for all types of taxpayers:

Sr. No.	Income under Section 4C	Tax year 2022	Tax year 2023 & Onwards
1	Upto Rs 150 Million	0%	0%
2	Exceeds Rs. 150M and doesn't exceed Rs. 200M	1%	1%
3	Exceeds Rs. 200M and doesn't exceed Rs. 250M	2%	2%
4	Exceeds Rs. 250M and doesn't exceed Rs. 300M	3%	3%

5	Exceeds Rs. 300M and doesn't exceed Rs. 350M	4%	4%
6	Exceeds Rs. 350M and doesn't exceed Rs. 400M	4%	6%
7	Exceeds Rs. 400M and doesn't exceed Rs. 500M	4%	8%
8	Exceeds Rs. 500 Million	4%	10%

Income From Other Sources (Taxation Of Bonus Share) Section 39 & 236Z

The bill seeks to include income arising to a shareholder from issuance of bonus shares as taxable income chargeable under the head “Income from Other Sources”. Under the proposed amendment, the value of bonus share would be liable to tax in the hands of the shareholder at rate of 10%. The said tax shall be final discharge of tax liability on the income of shareholder arising from issuance of bonus shares.

The bill further provides that every company issuing bonus shares shall withhold 10% of the bonus shares to be issued.

Company would be liable to deposit tax within 15 days from the date of closure of books, irrespective of the fact whether the tax is collected from the shareholder or not. However, the company would be entitled to recover the tax, so deposited, from the shareholder on whose behalf the tax has been paid before the release of bonus shares.

Where a shareholder neither makes a payment of tax nor collects bonus shares, within 15 days of the date of issuance of bonus shares, the company may proceed to dispose off its bonus shares to the extent it has paid tax on its behalf, under this section.

Exemption Under Foreign Investment (Promotion and Protection) Act, 2022 – Section 44A

The Parliament passed “Foreign Investment (Promotion & Protection) Act, 2022 in December, 2022, to provide certain concessions and exemptions to qualified investments. The said Act notified Reko Diq project and its related projects as qualified investments. The said Act has also provided for corresponding amendments in Income Tax Ordinance to give effect to concessions and exemptions granted under the Act.

Now the bill proposes the corresponding amendments by way of inserting section 44A to the Ordinance and proposes exemption on taxes on income (including capital gains), withholding taxes, minimum and final taxes under the ordinance to the extent provided in Second and Third Schedule to the Foreign Investment (Promotion & Protection) Act, 2022.

Tax Credit For Construction of House – Section 65I

A new section is proposed allowing a tax credit to a person, being an individual, on construction of new house for the tax year 2024 to 2026. The credit will be subject to the following conditions:

- a) The house is completed during the above tax years and completion certificate is furnished alongwith return.
- b) The new house would mean a residential house, layout of which is approved by the concerned authority on or after 1st day of July, 2023.
- c) The total tax credit to be allowed shall be lesser of:
 - i) 10% of the tax assessed, or
 - ii) Rs. 1 Million.

Associates – Section 85

Transaction amongst associates are liable to scrutiny by Commissioner under the provisions of section 108 of Income Tax Ordinance, 2001.

The bill proposes to enhance the scope of term “associates” by including the following relations in the above term:

- i) One person sufficiently influences either alone or together with an associate or associates, the other person;

An explanation has also been proposed to provide that two persons shall be treated as sufficiently influencing each other, where one or both persons, directly or indirectly, are economically and financially dependent on each other and decisions are made in accordance with the directions, instructions or wishes of each other for common economic goal.

- ii) One person enters into a transaction directly or indirectly with the other, who is a resident of jurisdiction with zero taxation regime.

Additional Tax on Certain Income Section 99D

The bill proposes to add a new section providing for additional tax on any income, profit or gains that have arisen to any person or classes of persons due to any economic factor or factors that resulted in unexpected income, profits or gains, whether or not disclosed in financial statements. This additional tax is payable in addition to any tax charged, paid or payable under any provision of the Ordinance.

The bill provides the levy of additional tax for any of the preceding five tax years from tax year 2023 and onwards.

The bill also seeks to authorize the Federal Government to do the following:

- 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.
- 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.

The above law is also proposed to be applicable to insurance, exploration and production of petroleum, extraction of mineral deposits and banking companies.

Exemption on Foreign Remittance Section 111

Under the existing law, section 111(4) provides exemption and protection from any proceedings under the income tax law to an amount not exceeding Rs. 5 million, being foreign exchange remitted from outside Pakistan through normal banking channel in a tax year, that is encashed into Rupees by a scheduled bank and a certificate from the bank is produced. The bill proposes to enhance the limit of Rs.5 million to rupees equivalent to 100,000 US Dollars.

Minimum Tax on Income Of Certain Persons-Section 113

- ♦ The section 113(2) provides a concession to carry forward the minimum tax paid as is in excess of actual tax payable under Part-1, clause (1) of Division I or Division II of the First Schedule for adjustment against tax liability under Part-1 of the First Schedule in subsequent tax year. This facility of carry forward is available for three tax years immediately succeeding the tax year for which the amount was paid.

Due to levy of super tax under section 4C, a dispute has arisen that whether this carry forward minimum tax will be available for adjustment against super tax liability or not. The amendment proposes to exclude all taxes including super tax which are levied other than under clause (1) of Division I (tax rate for individuals and AOPs) or Division II (tax rate for companies) of First Schedule from adjustment against such excess turnover tax.

This effectively means that carried forward turnover tax credit would only be adjustable against normal tax liability computed under above referred divisions.

- ♦ The bill further proposes a relief for listed companies by reducing the rate of turn-over tax from existing 1.25% to 1%.

Recovery of Liability Outstanding Under Other Laws-Section 146D

The bill proposes to add a new section authorizing the Commissioner to recover any outstanding liability in any other statute of law, for the time being in force as income tax arrears, required to be recovered or collected by the Commissioner.

This amendment appears to cover the inability of the state to recover capital value tax on foreign assets, which was introduced by Finance Act 2022, but could not be recovered due to lack of enabling provisions in the Income Tax Ordinance, 2001.

Payments To Non-Residents Section 152

- ♦ The above section requires the permission of the Commissioner while making payment to a non-resident person, without deduction of tax. The Commissioner is liable to take decision within 30 days from the date of receipt of the application.

Now the bill proposes to provide for automatic issuance of exemption certificate through IRIS where the Commissioner does not decide the application within 30 days. However, while computing the period of 30 days for automatic issuance of exemption certificate, the adjournment obtained by the applicant shall be excluded. The bill further provides power to the Commissioner to modify or cancel the exemption certificate issued automatically by IRIS on the basis of reasons to be recorded in writing after providing an opportunity of being heard.



Similar mechanism for automatic issuance of exemption certificate after the lapse of specified time is already available under different provision of the Ordinance. However, practically no exemption is automatically issued on IRIS even after the lapse of specified period.

- ♦ The bill also proposes the following changes in withholding tax rates for payments to PE of a non-resident:

Sale of goods:

Sr. No.	Person	Existing Rates	Proposed Rates
1	Companies	4%	5%
2	Other taxpayers	4.5%	5.5%

Rendering of services:

Sr. No.	Person	Existing Rates	Proposed Rates
1	Specified services	3%	4%
Other Services			
2	(a) Companies	8%	10%
	(b) Other taxpayers	10%	11%

Execution of contracts:

Sr. No.	Person	Existing Rates	Proposed Rates
1	Other than sports person	7%	8%

Taxation of Export Sector

Section 154A

The section 154A provides the procedure and conditions for taxation of different services exported from Pakistan. The section further provides that the tax deductible under the above section shall be a final tax on income arising from the export of services subject to following conditions:

- return has been filed.
- withholding tax statements for the relevant tax year have been filed as required under the Ordinance.

- sales tax returns under Federal or Provincial Law have been filed, if required under the law.
- no credit for foreign taxes paid shall be allowed.

Now the bill proposes to omit the condition (c) of filing of sales tax returns under Federal or Provincial law in case of export of computer software or IT services or IT enabled services.

- ♦ Under the existing law, export of computer software or IT services or IT enabled services, are taxable at the rate of 0.25% of export proceeds, whereas export of other services are taxable at the rate of 1%. Now the bill proposes to restrict this concessionary rate of 0.25% upto tax year 2026. By virtue of the proposed amendment, the export of computer software or IT services or IT enabled services would be taxable at par with other services at the rate of 1% from tax year 2027 onwards.

International Centre of Tax Excellence Section 230J

The bill purposes to add new section providing for establishing “International Centre of Tax Excellence” whose function shall be to contribute to the development of tax policy, prepare model national tax policy, deliver interdisciplinary research in tax administration and policy, international tax cooperation, revenue forecasting, conduct international seminars, workshops and conferences on the current issues faced by tax authorities in the field of international taxation, capacity building of Inland Revenue Officers, tax analysis, improve the design and delivery of tax administration for maximising revenue within existing provisions to close the tax gap or any other function as directed by the Board or the Federal Government.

Advance Tax on Cash Withdrawal Section 231AB

The bill proposes to re-introduce advance tax at the rate 0.6% on account of cash withdrawal by any person, whose name is not appearing in the active taxpayer's list, where the cash withdrawal within a day exceeds Rs. 50,000.

Advance Tax on Foreign Domestic Workers-Section 231C

The bill also seeks to introduce an advance tax at the rate of Rs. 200,000 at the time of issuing or renewing of domestic aide visa to any foreign national as a domestic worker. This tax is to be collected by the authority at the time of issuing or renewing such visa from agency, sponsor or the person as the case may, employing the services of such foreign national.

The tax collected or collectable under this section shall be adjustable as advance tax for the tax year to which it relates.

Exemption To Non-Resident from Advance Tax On Purchase Or Transfer of Immovable Property - Section 236K

Under the existing law, the non-resident individual are liable to withholding tax under section 236K on purchase or transfer of immovable property, and the same is considered as a final discharge of tax liability for such non-resident buyer or transferee.

The bill now seeks to grant exemption from withholding tax to buyer or transferee of immovable property provided they are non-resident individual holding a Pakistan Origin Card (POC) or National Identity Card for overseas Pakistanis (NICOP), or Computerized National Identity (CNIC) who has acquired the said-immovable property through a foreign currency value account (FCVA) or NRP Rupees value Account (NRVA) maintained with authorized bank in Pakistan under the foreign exchange regulation issued by the State Bank of Pakistan upon submission of certificate as may be prescribed.

Small and Medium Enterprise Section 2(59A)/Fourteenth Schedule

The bill proposes changes to law relating to SME's eligible for tax concessions. The following amendments are proposed:

- The scope is being enlarged to include providing or rendering of IT services or IT enabled services within the ambit of above section besides manufacturing.
- The existing maximum turnover threshold is proposed to be enhanced to Rs 800 Million from existing threshold of Rs 250 million.
- The SME sector is proposed to be liable to tax at the following rates:

Sr. No.	Category	Turnover	NTR Rates	FTR Rates
1	Category-1	Does not exceed Rs. 100 million.	7.5% of taxable income	0.25% of gross turnover
2	Category-2	Exceeds Rs. 100 million but does not exceed 250 million.	15% of taxable income	0.5% of gross turnover
3	Category-3	Exceeds Rs. 250 million but does not exceed 800 Million.	20% of taxable income	0.75% of gross turnover

First Schedule

Increase in Tax Rate for Commercial Importer

In existing law, imported goods classified in part III of the Twelfth Schedule are subject to advance tax at the rate 5.5% of the import value. The bill proposes to increase the tax rate of advance tax from 5.5% to 6% for goods imported by commercial importers. However, the advance tax rate of 5.5% remains the same for persons other than commercial importers.

Withholding Tax Rates on Payments for Goods or Services

The following changes in rates of withholding taxes are proposed on payment for goods and services u/s 153.

Supply of Goods:

Sr. No.	Person	Existing Rates	Proposed Rates
1	Companies	4%	5%
2	Other taxpayers	4.5%	5.5%

Rendering of services:

Sr. No.	Person	Existing Rates	Proposed Rates
1	Specified services	3%	4%
Other Services			
2	(a) Companies	8%	9%
	(b) Other taxpayers	10%	11%

Execution of contracts:

Sr. No.	Person	Existing Rates	Proposed Rates
1	Companies	3%	4%
2	Other taxpayers	8%	9%

The Second Schedule

Exemptions from Total Income Second Schedule - Part I

Tax Exemption to Specific Institutions [Clause 66]

The bill proposes to allow the exemption on the income of the following institutions, foundation, funds etc.

- (lxiii) The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities
- (lxiv) Film and Drama Finance Fund
- (lxv) Export-Import Bank of Pakistan
- (lxvi) Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi
- (lxvii) Shaheed Zulfikar Ali Bhutto Institute of Science and Technology

Profits and Gains on sale of Immovable property [Clause 99A]

Exemption on Profits and gains accruing to a person on the sale of immovable property or shares of Special Purpose Vehicle is proposed to be extended to Tax Year 2024.

Resident of Tribal Area - [Clause 145A]

The exemption to income of individual resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan is proposed to be extended to Tax Year 2024.

Tax Exemption to Agro based small and medium size industry [Clause 154]

The bill proposes to allow exemption for five tax year starting from tax year 2024 to 2028 on the Profits and gains of "Agro based Small and medium size Industry" set-up on or after 1st July, 2023, in rural area duly notified.

Reduction in Tax Liability Second Schedule - Part III

The bill proposes to allow the reduction in tax liability specifically to the following persons deriving the Income from Business with respect to certain conditions:

Builders [Clause 21]

Tax liability of builders registered with DNFBP, deriving income from construction of new building under the head "Income from business" shall be reduced by Lower of;

- (a) 10% of tax liability or
- (b) Rs. 5,000,000/-

The above reduction in tax liability would be available for tax year 2024 to 2026 subject to furnishing of completion certificate issued by the concerned authority along with income tax return.

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.

Youth Enterprise [Clause 22]

The bill introduces a new concept of Youth enterprise and proposes tax concession for the same. Youth enterprise means a startup established on or after first day of July, 2023 under one of the following legal structures:-

- i) sole proprietorship concern owned by a youth individual,
- ii) an AOP all of whose members are youth or,
- iii) a company whose hundred percent shareholding is held or owned by youth individuals.

Provided that the startup is not formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

The bill further defines the youth individual as a natural person up to the age of thirty years as on first day of the commencement of the relevant tax year.

The bill proposes following reduction in tax payable by a youth enterprise on profit and gains derived from business under the head Income from Business:-

Sr. #	Category	Reduction in tax liability
1	Individual and AOP	Lower of: -50% of tax liability, or - Rs 2 million
2	Company	Lower of: -50% of tax liability, or - Rs 5 million

Exemption From Specific Provision Second Schedule - Part IV

Prime Minister's Relief Fund

The bill proposes following measures concerning to "Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities".

- ♦ Exemption from minimum tax u/s 113 (clause 11A).
- ♦ Exemption from withholding tax on profit on debt under section 151 (clause 121).
- ♦ Exemption from withholding tax on mobile phones on donation made through SMS (clause 122).
- ♦ Exemption of withholding tax on imports of goods u/s 148 for the flood affectees (clause 123).

Imports of Specific Products [Clause 124]

The bill also seeks to provide the tax relief on import u/s 148 on tomatoes and onions imported till the 31st day of December, 2022.

The Seventh schedule – Banking Compaines

Enhanced Rate of Tax on Income from Federal Government Securities Rule [6C]

The bill seeks to provide relief by withdrawing sub rule 6A relating to taxation of Income attributable to investment in Federal Government securities at high rate. The said relief is available for tax year 2024 only.

Reduced rate of tax on additional advances – [Rule 7D, 7E and 7F]

The bill seeks to extend the concession under rule 7D, 7E and 7F relating to reduced rate of tax on additional advance as micro small and medium enterprises, low cost housing and farm credit respectively upto Tax Year 2025.

Eighth Schedule

Computation, collection and payment of tax under section 4C By NCCPL [Rule 4A]

In addition to capital gains tax, NCCPL is proposed to be made liable to compute and collect tax under section 4C at the rates specified in Division IIB of Schedule on Part I of the First Schedule on the amount of capital gains computed under this Schedule in the manner specified in this Schedule and rules made thereunder.



Thirteenth Schedule

Tax Credit on Charitable Donations Paid to Different Funds

A person is proposed to be entitled to a tax credit in respect of any sum paid, or any property given by the person during the tax year as donation to the following funds:

- ♦ The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect from 5th August, 2022.
- ♦ Film and Drama Finance Fund.





SALES TAX

ACT, 1990

Exclusion of “Production, Transmission and Distribution of Electricity” from Scope of Sales Tax Act, 1990 Section 2 (12) & 2 (33).

Pursuant to decision of National Tax Council, the Finance Bill of 2023 has proposed to exclude "production, transmission, and distribution of electricity" from the definition of goods & supply and same is brought under ambit of ICT Tax on Services Ordinance, 2001 to be chargeable to sales tax at the rate of 15%. Earlier, through Finance Act, 2022 the “production, transmission, and distribution of electricity” were classified as the supply of goods to bring same within the scope of the Sales Tax Act, 1990. However, this step appears to be taken in haste as services was brought under the ambit of goods law for which, after 18th constitutional amendment, Federation has no power/mandate.

Exclusion of area criterion from Tier-I Retailer definition - Section 2(43A) (e).

Under the existing law, a retailer with a shop area of 1000 sqft or more and a retailer of furniture with an area of 2000 sqft or more were classified as Tier-I retailers. Out of criteria to qualify as Tier-I retailer, this shop area criteria were much criticized for the reason that a person was simply brought under Tier-I retailer on basis of shop area without evaluating income or turnover of shop keeper and FBR officials were heavily harassing shop keepers to install POS & integrate same with FBR system. However, now a wise move is proposed remove the shop area criterion for Tier-I retailer qualification. Consequently, retailers will no longer be obligated to register under the act or file monthly sales tax returns or integrate its POS with FBR. Instead, such retailer, if they do not fall in any other criteria, will pay sales tax through their electricity bills, as this is the common method of collecting sales tax from retailers.

Exclusion of Jewelers From Tier -I Retailer Definition Section 2 (43A).

Earlier through the Finance Act, 2022, in order to broaden the tax base and document the jewelry sector, the condition of shop area was reduced to 300 Sq.ft. or more for Jewelers, being a high value item. However, the Finance Bill 2023, proposes to remove 300 Sq.ft shop condition for jewelry retailers from Tier-I. As a result, jewelry retailers will no longer be required to install & integrate POS with FBR, unless they fall in any other criteria, under clause 43A.

Definition of Directorate General of Digital Initiatives - Section 30CA.

The name of Directorate General of Digital Invoicing and Analysis is proposed to be changed to Directorate General of Digital Initiatives.

Offences and Penalties - Clause 23 of Section 33.

For the purpose of section 40C-Monitoring or Tracking by Electronic or other means, a penalty of twenty-five thousand rupees or one hundred percent of the tax amount involved, whichever is higher, was applicable to persons engaged in manufacturing, possessing, transporting, distributing, storing, or selling counterfeit cigarette packs with forged tax stamps, banderoles, stickers, labels, or barcodes, or those without proper tax stamps, banderoles, stickers, labels, or barcodes.

Now the bill seeks to amend this entry by substituting the phrase "cigarette packs" with "goods or class of goods as specified by the Board under sub-section (1) of section 40C." This change broadens the scope of this entry, enabling it to cover a wider range of goods or specific categories of goods as determined by the Board.

Fifth Schedule - Zero rated.

- ♦ In the Fifth Schedule, in column (1), – after serial number 8, the following new serial number and entries thereto in column (2) shall be inserted, namely: –

“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.”
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Reko Diq project of Gold mining which includes work done by Reko Diq Mining Company (Private) Limited and its associated Companies is listed as qualified project under the 1st Schedule to Foreign Investment (Promotion and Protection) Act, 2022. It means that import or supplies for Reko Diq project are proposed to be Zero Rated.

- ♦ The bill proposes to stream line the clause (xxv) of entry at Serial No. 12 by substituting the word “Geometry boxes” with phrase “other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000).”
- ♦ The entry at Serial No. 21 provides that zero rate sales tax will be applicable on local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021. The bill proposes to add work “Commodities” which means that other than raw material now supplies of commodities to registered exporter will also be zero rated.

Existing Entry	New/substituted
Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein.	Local supplies of commodities, raw materials, components , parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein.

Sixth Schedule – Exemptions.

Sixth Schedule deals with exemptions as per section 13 of the Sales Tax Act, 1990. The bill proposes to extend exemptions to certain new items and also proposes to take away or amend the already provided exemptions.

Table-I (Imports & local Supply).

- ♦ The bill proposes to widen the scope of sales tax on import & local supply of daily eatables namely Red Chilies, Ginger and Turmeric if sold under a brand name. Currently, the same is exempt with precondition of a retail packaging. The bill seeks to omit the word “retail packing” which means that all types of packing, under a brand name would be liable to sales tax. Following table represents the comparison of existing law with proposed amendment:

Sr. No.	Existing Description	Proposed Description
16.	Red chilies excluding those sold in retail packing bearing brand names and trademarks.	Red chilies excluding those sold under brand names and trademarks.
17.	Ginger excluding those sold in retail packing bearing brand names and trademarks.	Ginger excluding those under brand names and trademarks.
18.	Turmeric excluding those sold in retail packing bearing brand names and trademarks	Turmeric excluding those sold under brand names and trademarks

- ♦ The bill seeks to clarify exemption of sales tax on transfusion sets not packed in the aluminum foil imported in one consignment with the blood bags, explanation is proposed under Sr. No. 121 of Table-1 of the Sixth Schedule.”
- ♦ Amendment is proposed in Sr. No.151 whereby exemption from sales tax on supplies and import of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan, is proposed to be extended for one more year i.e. till 30th June, 2024.

- ♦ It is proposed to extend exemption of sales tax on supply of electricity to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries for one year i.e. till 30th June, 2024.
- ♦ S. No. 159 and 160 of Table-1 of the Sixth Schedule relates to import of auto disable Syringes & import of raw material for manufacture of auto disable syringes, the same is proposed to be omitted being redundant as the time bound exemption has already expired on 31.12.2021.
- ♦ Exemption from sales tax on import & local supply on following items is proposed through bill:

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.
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Table –II (Local Supplies Only).

The bill seeks to make following amendment in Table-II of the Sixth Schedule of the Act.

The following items under existing law are taxable if sold in retail packing under a brand name. The bill purposes to remove the word “in retail packing”. As a result, goods will be liable to sales tax, irrespective of their packing size, if they are associated with a brand name.

Sr. No.	Description of Goods
32	Yogurt
34	Butter
35	Desi ghee
36	Cheese
37	Processed Cheese not grated or Powdered
39	Products derived from meat or meat offal
41	Meat of bovine animals, sheep, goat, and uncooked poultry meat
42	Fish and crustaceans

Eighth Schedule – Goods subject to reduced rate.

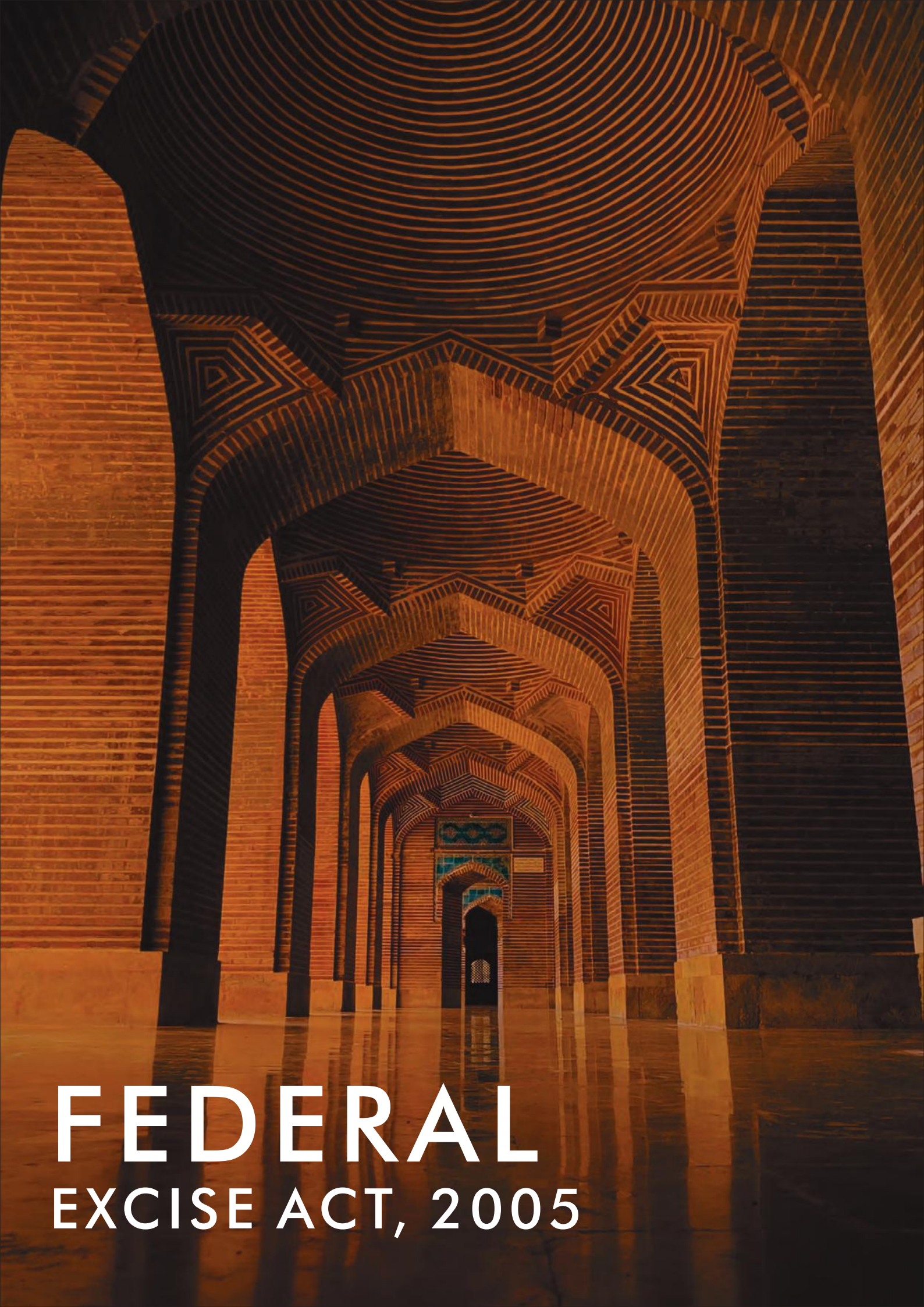
- ♦ The bill proposes that supplies of leather and garments as made from retail outlets which are integrated with the Board's computerized system for real-time reporting of sales, the rate of tax is proposed to be increased from 12% to 15%.
- ♦ The bill proposes to substitute entries at Sr. No. 81 and 82. Before substitution, the reduced rate of 1% as final sales tax liability was applicable on manufacture or import of substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976), however, in the proposed bill this reduced rate will not be applicable in following cases;
 - (a) filled infusion solution bags imported with or without infusion given sets;
 - (b) scrubs, detergents and washing preparations;
 - (c) soft soap or no soap
 - (d) adhesive plaster
 - (e) surgical tapes
 - (f) liquid paraffin
 - (g) disinfectants
 - (h) cosmetics and toilet preparations.

Further in case of raw material for manufacture of active pharmaceutical ingredients or raw material for basic manufacture of pharmaceutical products only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding 11% either under the First Schedule or Fifth Schedule to the Customs Act, 1969) or under a notification issued under section 19.

The proposed entries at serial number 81 and 82 are as following:

Sr. No.	Description	Respective Heading	Rate	Conditions
81.	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:- (a) filled infusion solution bags imported with or without infusion given sets; (b) scrubs, detergents and washing preparations; (c) soft soap or no soap; (d) adhesive plaster; (e) surgical tapes; (f) liquid paraffin; (g) disinfectants, and (h) cosmetics and toilet preparations. This substitution shall be deemed to have been made from the 1st day of July, 2022.	Respective Headings	1%	Subject to the conditions that: (i) Tax charged and deposited by the manufacturer or importer, as the case may be, shall be final discharge of tax in the supply chain (ii) No input tax shall be adjusted by the manufacturer or importer

Sr. No.	Description	Respective Heading	Rate	Conditions
82.	Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products, provided that in case of import, only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding eleven per cent ad valorem, either under the First Schedule or Fifth Schedule to the Customs Act, 1969 (IV of 1969) or under a notification issued under section 19 thereof. This substitution shall be deemed to have been made from the 1st day of July, 2022.	Respective Headings	1%	Subject to the conditions that: (i) DRAP shall certify item-wise requirement of manufacturers of drugs and APIs and in case of import shall furnish all relevant information to Pakistan Customs Computerized System; and (ii) No input taxes shall be adjusted by the manufacturer or importer.



FEDERAL EXCISE ACT, 2005

Duties Specified In The First Schedule To Be levied Section 3.

The Finance Bill 2023 aims to bring a slight change to the existing structure of Section 3, which defines the dutiable goods to elaborate further the chargeability of Federal Excise Duty on goods and services.

The proposed amendment seeks to add a new clause as follows;

“(e) any item specified in the First Schedule.”

Prior to the Finance Bill 2023, Federal Excise Duty (FED) was charged on the items specified in the First Schedule. However, it was not explicitly mentioned in Section 3 of the FED Act 2005, leading to ambiguities and possible misinterpretations. Therefore, the proposed amendment aims to address these ambiguities by explicitly stating that any item specified in the First Schedule shall be subject to FED.

Appointment of Federal Excise Officers and Delegation of Powers - Section 29.

The bill proposes to add following new clause (d) to section 29(2) to bring the at par with Sales tax Act, 1990.

“(d) the Directorate General of Digital Initiatives shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.”;

Power of Board To Make Rules Section 40.

The bill proposes to add a sub-section to section 40 as such that the procedure for publication of general orders and departmental instructions and ruling of the Board on its official website are proposed to align with provisions under the Sales Tax Act, 1990. The proposed sub-section is as follows;

“(4) All rules made under sub-section (1) or any other provisions of this Act, shall be collected, arranged and published along with general orders and departmental instructions and rulings, if any, at appropriate intervals and sold to the public at reasonable price or may be placed regularly on the official website maintained by the Board.”

First Schedule Table-I Excisable Goods

First schedule deals with the chargeability of the FED on the goods.

Following new additions are proposed in First Schedule Table-I of the FED Act, 2005.

Sr. No.	Description Of Goods	Proposed Description	Proposed Rate
60.	Energy inefficient fans both locally manufactured and imported which do not comply with the MEPS, notified by PSQCA	Respective heading	Rupees two thousand per fan
61.	Incandescent bulbs both locally manufactured and imported	8539.22 00 and 8539.90 10	Twenty percent ad valorem.

These proposed additions intend to discourage the use of energy inefficient fans and incandescent bulbs. By imposing the FED on these products, the government aims to promote energy conservation, reduce electricity consumption, and encourage the adoption of energy-efficient alternatives in the market.

First Schedule Table-II Excisable Services

Following entry is proposed to be substituted:

Sr. No.	Description Of Goods	Proposed Description	Proposed Rate
11.	Franchise services, royalty and fee for technical services	Respective heading	Ten percent of the charges.

The Finance Bill, 2023 proposes to bring Services of “Royalty and fee for technical services”, under the ambit of the FED Act, 2005.

Third Schedule

Table-I Excisable Goods

The Third schedule Table-I of the FED Act, 2005 deals with the exemption of the goods from FED.

Following new exemption is proposed in Third Schedule Table-I of the FED Act, 2005.

Sr. No.	Description Of Goods	Headings
26.	Imports or supplies made by, for or to a Qualified investment as specified at Serial No.1 of the First Schedule of the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.	Respective heading.

Reko Diq project of Gold mining which includes work done by Reko Diq Mining Company (Private) Limited and its associated Companies is listed as qualified project under the 1st Schedule of the Foreign Investment (Promotion and Protection) Act, 2022. It means that import or supplies for Reko Diq project are proposed to be exempt from FED.

Similar exemption is proposed under Sales tax Act, 1990 as discussed above.

Third Schedule

Table-II Excisable Services

The Third schedule Table-II of the FED Act, 2005 deals with the exemption of the services from FED.

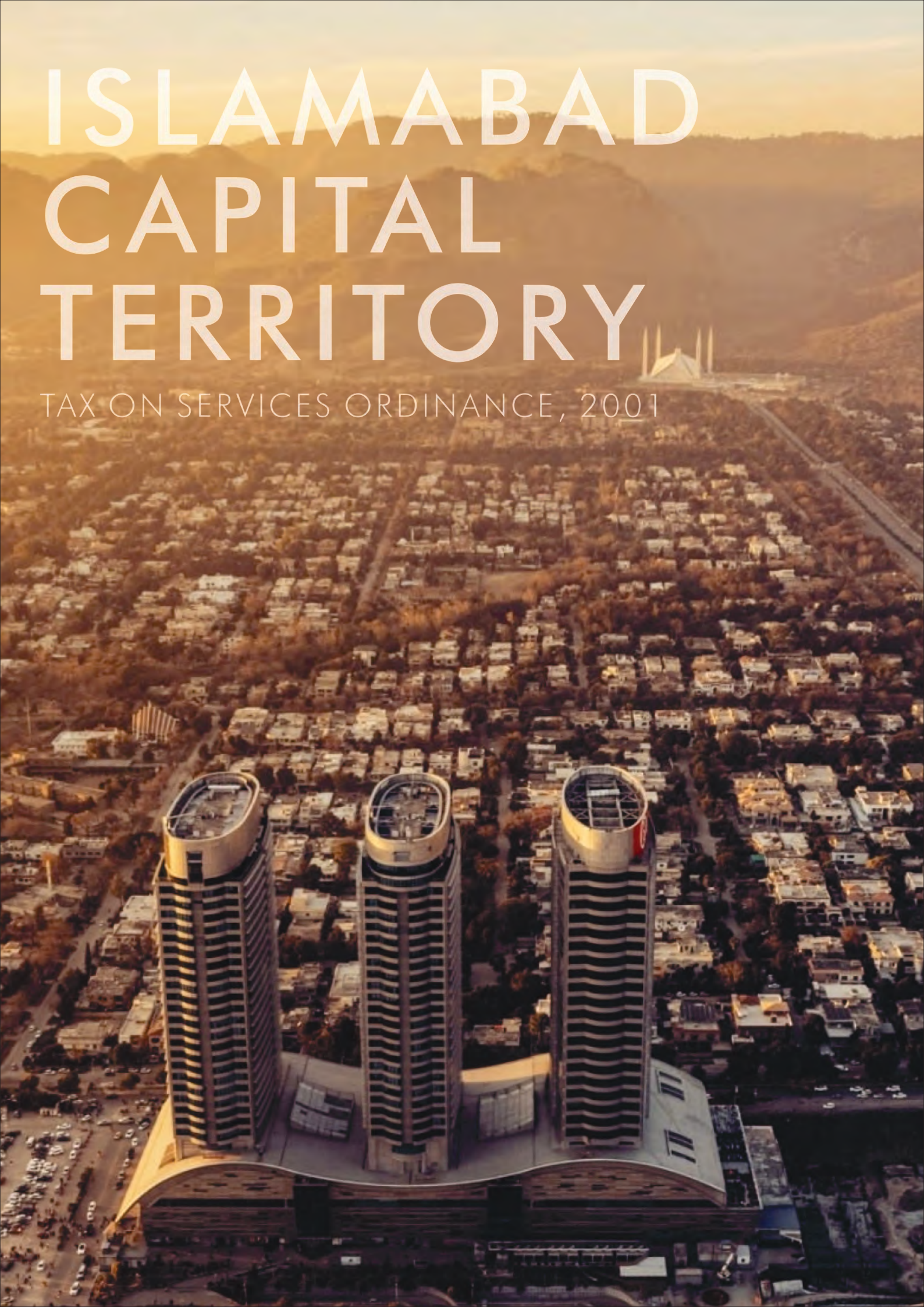
Following new exemption is proposed in Third Schedule Table-II of the FED Act 2005.

Sr. No.	Description Of Goods	Headings
15.	Services provided or rendered by, for or to a qualified investment as specified at Serial No.1 of the First Schedule of the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.	Respective heading.

As discussed above, Reko Diq project is proposed to be awarded various exemptions including sales tax and FED on goods & services.

ISLAMABAD CAPITAL TERRITORY

TAX ON SERVICES ORDINANCE, 2001



IT & ITeS Services.

- ♦ Earlier, export of services was liable to charge of sales tax @ 0% irrespective to the volume of services exported.

The bill now proposes to include the freelance exporter in the scope of Cottage Industry exclusively dealing in export of IT and IT enabled services having annual turnover upto Rs. 8 Million aligning with the limit provided in Sales Tax Act, 1990.

The freelance exporter means a person who works on per job and on self-employed basis without being attached to or under employment of any other person, having the liberty to work on various tasks simultaneously.

Now, the qualifying exporters will no longer be required to get sales tax registration and subsequent filing of sales tax returns.

- ♦ Earlier, there was no restriction on adjustment of input tax against output of reduced rate of IT & IT enabled services provided at entry No. 11 of the Second Schedule to the Ordinance. The bill now proposes restriction on adjustment of input tax.

The bill proposes to reduce 16% existing rate to 15% for Services provided by software or IT-based system development consultants to streamlined as standard rate of 15% except for special & reduced rate applicable under the law.

Reko Diq Project.

The bill proposes to tax services @ 0% provided by, for or to a qualified investment (Reko Diq Project) 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.

A parallel entry has also been proposed to be added at serial No. 8A the Fifth Schedule to the STA, 1990 read with section 4 of the Act, which will attract the foreign Investment in the country.

Reduced Rate on Restaurant Services.

The bill proposes to reduce existing 15% tax rate to 5% on services provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc if payments is made through debit or credit cards, mobile wallets or QR scanning with no input tax adjustment.

Electric Power Transmission Services.

The bill proposes to impose tax on Electric Power Transmission Services @ 15%.

As explained in earlier part, pursuant to decision of National Tax Council, the Finance Bill of 2023 has proposed to exclude "production, transmission, and distribution of electricity" from the definition of goods & supply and same is brought under ambit of ICT Tax on Services Ordinance, 2001 to be chargeable to sales tax at the rate of 15%. Earlier, through Finance Act, 2022 the "production, transmission, and distribution of electricity" were classified as the supply of goods to bring same within the scope of the Sales Tax Act, 1990. However, this step appears to be taken in haste as services was brought under the ambit of goods law for which, after 18th constitutional amendment, Federation has no power/mandate.



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