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BUDGET INSIGHT | 2024–25

ROAD TO RECOVERY

Foreword

WITH COMPLIMENTS TO OUR VALUED CLIENTS AND ASSOCIATES

We are pleased to present this publication as part of our continued services to our clients' ns associates with up-to-date information regarding the prevalent economic outlook of Pakistan and the amendments in various laws proposed vide Budget for 2024-25 affecting them and their business.

This memorandum has been prepared as a general guide for the benefit of our clients and is available upon request. This is not an exhaustive summary and only laws down interpretation of the amendments proposed in the Finance Bill 2024-25 and takes into consideration important aspects of the changes made.

It is recommended that the text of the Bill and relevant provisions and/or notifications, where applicable, be referred to in considering the interpretation of any provision the comments and statements contained therein are correct to the best of your knowledge and belief at the time of this publication.

This publication contains general information only, and none of RSM International, its member firms or their related entities is by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business you should consult a qualified professional advisory

If you require any information or have enquiries with regards to the budge announcements, please do not hesitate to contact our partners and/or the individuals listed on the back cover of this publication.

We trust that you will find this guide useful.

RSM Pakistan

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BUDGET INSIGHT

2024–25

ECONOMIC OUTLOOK

GLOBAL ECONOMIC OUTLOOK

The general outlook of global economy shows a constant growth of 3.2% in 2023 and is expected to be 2.6% by the end of 2024 despite of significant events occurred globally during the last fiscal year including ongoing Russia-Ukraine conflict and tensions in the Middle East. (Source: *https://www.worldbank.org.)*

The expected growth rates in globally leading economies are 2.7% in USA and China at 5% in 2024. Europe and Japan are expected to be slightest to 1% whereas Africa shows a slight growth from 3.4% in 2023 to 3.8% by the end of 2024.

The role of international trade in fuelling growth is losing steam, as evidenced by a slowdown in global trade growth to 0.3% in 2023. However, there is anticipation of a comeback, with projections suggesting a recovery to 3% in 2024.

The potential escalation of tensions in the Middle East raises serious concerns, especially considering the region's vital role, representing nearly 30% of the world's oil production. Recent disturbances in the Red Sea have already disrupted shipping through the Suez Canal, which facilitates almost 30% of global container traffic.

The significance of Artificial Intelligence has grown drastically around the world shaping technologies and opening new avenues of investment and businesses. In 2023, the majority of the $27 billion raised by emerging AI companies was secured by tech giants. Despite growth in the AI sector in 2021, it required support from established tech firms to develop its products and services.

The AI market is forecasted to grow by 154%. By 2025, global investment in AI technologies is anticipated to reach $200 billion, as forecasted by Goldman Sachs Economics Research. (Source: *https://edgedelta.com)*

PAKISTAN ECONOMY OUTLOOK

The Gross Domestic Product (GDP) of Pakistan increased by 2.38%. The GDP at current market prices is valued Rs. 106,045 billion (US $ 375 billion), representing a 26.4% increase from last year's Rs. 83,875 billion (US $338 billion). The per capita income has risen to US $ 1,680, from US $ 1,551 as compared to last year. The investment-to-GDP ratio for FY 2024 stood at 13.14%, a decrease from 14.13% in FY 2023. The major factors affecting the investment-to-GDP ratio includes global political and economic conditions, political instability within the country, economic stability, regulatory environment and infrastructure, demographic trends, economic, monetary and other government policies and measures.

The inflation measured by Consumer Price Index (CPI) for the period July-April FY 2024 stood at 26% in contrast to 28.2% during the same period last year.

The Gross Fixed Capital Formation showed an increase of 11.4% over the Financial Year 2023. Private and public investments rose by 15.8% and 18.2% respectively whereas the National Saving remained stable at 13% in financial year 2024.

SECTORWISE PERFORMANCE

Agriculture

The agriculture sector has been the main driver of economic growth in current fiscal year with an overall increase of 6.25%. This sector witnessed a growth of 6.25% in 2023-24 as compared to 2.27% last year due to healthy growth in important crops i.e. 16.82% due to significant growth in the production of cotton, rice and wheat.

Crops:

Crop	FY 2023-24 (mln)	FY 2022-23 (mln)	Change %
Wheat (tonnes)	31.44	28.16	11.65%
Cotton (bales)	10.4	4.91	108.20%
Rice (tonnes)	9.87	7.32	34.83%

Other segments of the Agriculture Sector have also shown positive growth trends:

- Livestock, with a significant share of 60.84 percent in agriculture and 14.63 percent in GDP, grew by 3.89 percent compared to 3.70 percent last year.
- Forestry, having a share of 2.33 percent in agriculture, grew by 3.05 percent compared to 16.63 percent last year.
- Fishing, with a sectoral share of 1.30 percent has shown a growth of 0.81 percent against 0.60 percent during last year.

Manufacturing

The industrial sector's contribution to the GDP has reduced to 18.22% in FY24 from 18.43% in FY23. The factors contributing towards this are the persisting high interest rates, rising energy and raw material costs, and subdued domestic demand.

The Large-Scale Manufacturing has resulted in -0.1% during July-March FY 2024 however it was recorded at -7% last year. The decrease in the negative performance has been due to growth of 11 sectors out of 22 sectors including Food, Wearing Apparel, Leather, Wood Products, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Rubber Products, Machinery & Equipment, Furniture, and Other Manufacturing (e.g., footballs).

The Mining and Quarrying sector documented a growth of 4.9% during FY 2024 against a dip of 3.3 percent last year.

Sub Sectors	Provisional Growth/(Contraction) 2023-24 (%)	Share in GDP (%)
1. Mining and Quarrying	4.80	1.66
2. Manufacturing (i + ii + iii)	**2.40**	11.89
i. Large Scale	0.10	8.24
ii. Small Scale	9.10	2.30
iii. Slaughtering	6.60	1.34
3. Electricity Generation & Distribution & Gas	(10.50)	2.30
4. Construction	5.90	2.37
Overall Growth/(Contraction)	1.20	18.22
		(Source: PBS)

Services

The share of services sector in the GDP IS 57.74% in FY24 as per the base year 2015-16, showing a decrease from 58.41% in FY23. The commodity-producing sectors achieved a 4% growth in FY24, however the same upward flow wasn't fully transmitted to the dependent services sector, which showed a lesser growth of 1.2%.

Sub Sectors	Provisional Growth/(Contraction) 2023-24 (%)	Share in GDP (%)
1. Wholesale and Retail trade	0.30	17.78
2. Transport, storage , and communication	1.20	10.53
3. Accommodation and Food Services Activities	4.10	1.48
4. Information and Communication	(3.00)	2.73
5. Financial and Insurance Activities	(9.60)	1.51
6. Real Estate Activities (OD)	3.80	5.85
7. Public Administration and Social Security	(5.20)	4.11
8. Education	10.30	3.13
9. Human Health and Social Work Activities	6.80	1.76
10. Other Private services	3.60	8.86
Overall Growth	1.20	57.74
		(Source: PBS)

HIGHLIGHTS – ECONOMIC SURVEY 2023-2024

- Real GDP grew by 2.38% in FY24, reversing the negative growth of 0.2% in FY23.
- Agriculture Sector was the key driver of economic growth in FY24. The sector grew by 6.25% in FY24, driven by 16.82% growth in key crops like wheat, rice, and cotton.
- Industrial sector grew by 1.21% in FY24, with manufacturing up by 2.42% and construction by 5.86%.
- Services sector, making up 57.7% of GDP in FY24, experienced a moderate growth of 1.21%.
- GDP at current market prices increased by 26.4% to Rs106 trillion in FY24, up from Rs. 84 trillion last year.
- Per capita income rose by $129 to $1,680, due to increased economic activity and exchange rate appreciation.
- Investment-to-GDP ratio fell to 13.14% in FY24 from 14.13% in FY23, mainly due to contractionary macroeconomic policies and political uncertainty.
- Saving-to-GDP ratio was 13% in FY24, slightly down from 13.2% in FY23.
- Growth of the automobile sector plunged by 37.4% against a contraction of 42.2% last year.

- Pharmaceuticals witnessed encouraging growth of 23.2%, against a contraction of 23.1% last year.
- Food group imports declined by 14.2%. The group's imports dropped to $6.3 billion.
- Pakistan's headline inflation Consumer Price Index (CPI) averaged at 24.52% during July-May in FY24. In FY2022-23, CPI stood at 29.2%.
- Current account deficit (CAD) shrank by 94.8% to $200 million in July-April, as compared to $3.9 billion during the same period last year.
- Trade deficit in goods decreased by 21.6% to $17.7 billion in July-April from $22.6 billion last year amid a significant decline in imports.
- Primary income account deficit rose by 34.8% to $6.1 billion in July-April, compared to $4.6 billion last year, driven by higher dividend repatriation and interest payments.
- Remittances experienced a 3% year-on-year (YoY) decline, totaling $23.9 billion during July-April.
- Financial account saw net inflows of $3.9 billion in July-April, mainly due to inflows from the International Monetary Fund (IMF)'s Stand-by Arrangement (SBA) and friendly countries, compared to outflows of $0.6 billion last year.
- Foreign Direct Investment (FDI) inflows increased by 8.1% to $1.5 billion in July-April, compared to $1.3 billion in the same period last year.
- Pakistan rupee appreciated by nearly 3.0% during the first eleven months of FY24 against the US dollar.
- Total public debt stood at Rs67.5 trillion by end-March 24. Domestic debt was recorded at Rs43.4 trillion while external debt reached Rs24.1 trillion ($86.7bn).
- With high revenue collection of Rs9.8 trillion (41% higher YoY), fiscal deficit was contained at 3.7% of GDP against the last year same period's deficit of 3.6%.
- Total expenditures during grew by 37% to Rs13.7 trillion (Rs10.1 trillion in same period last year) mainly on account of 33% higher current expenditure (Rs12.3 trillion).
- Primary Balance posted a surplus of Rs1,615 billion against a deficit of Rs503.8 billion.
- Tax collection grew by 29% while non-tax revenues increased by 91%. Federal Board of Revenue (FBR) revenue collection stood at Rs8.1 trillion for July-April.

ROAD TO RECOVERY

After a very turbulent two years the Pakistan economy is on the way to a path (although rocky) to recovery with most of macro indicators going in the positive directions. The government with the successful completion of the IMF program is now negotiating on a medium-term program with the IMP. However, there are challenges and roadblock in the path of this recovery.

The GDP of Pakistan for the year 2024-25 is expected to be around 3.6%. In order to achieve a sustainable economic growth, some of the areas and measures have been focused by the Government important among them are:

- Development of digital infrastructure.
- Introduction of Markup Waiver Scheme (MWS) for subsistence farmers against agriculture loans.
- GoP Markup Subsidy Scheme (GMSS) for revival of agriculture/livestock sector.
- Implementation of Green Pakistan Upscaling Programme, Phase-I across the country.
- Grant of Exploration Licenses for Copper and Gold to privately owned companies.
- Enhancing the Scope of Super Tax on High-Earning Persons.
- Enhancing the withholding tax rates on payments.

- Established the legal framework and implemented the Synchronized Withholding Administration and Payment System (SWAPS).
- Automation of Audit monitoring system/Audit Dashboard.
- Pakistan Regulatory Modernization Initiative (PRMI) through PRMI, BOI has introduced 163 reforms in 32 sectors involving 92 departments nationwide.
- Digital Pakistan Policy 2024.
- Artificial Intelligence Policy.
- National Freelancing Facilitation Policy.
- Pakistan Start-up Fund (PSF): PSF is a government-backed initiative aimed at supporting and promoting the growth of start-ups in Pakistan.

With these and other initiatives like these the GOP hopes to bring in economic stability and growth on a medium to long-term basis.

The road blocks that can hamper this recovery push externally are the effects of geo-political tensions in the Middle East and due to Russia-Ukraine conflict which can result in increase in energy prices leading to another bout of inflation.

Internally, political uncertainty, climate change, shortage and high prices of energy and the inability of the government to implement its fiscal policies and ease of business policies can derail the road to recovery.

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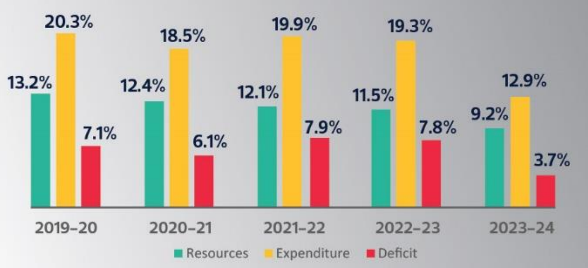
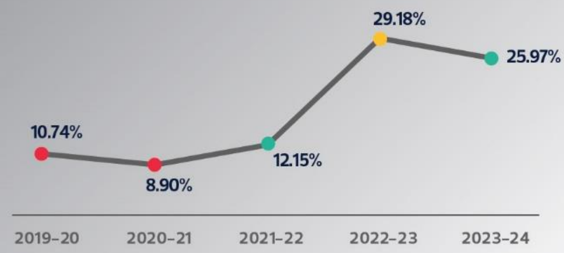
Economic Survey 2023–2024

PAKISTAN ECONOMY A SNAPSHOT

NET DECIFIT (as% of GDP mp)



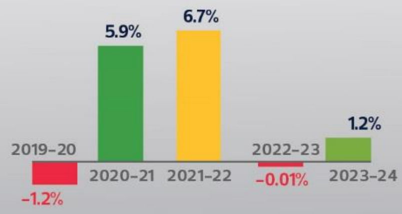
INFLATION



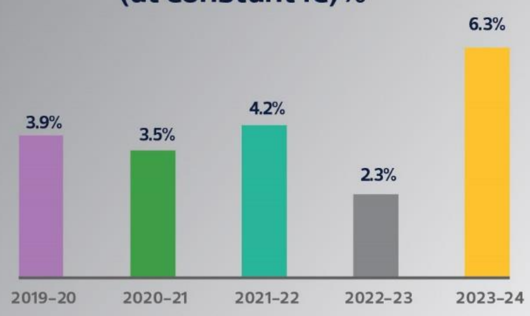
REAL GDP GROWTH

FOREIGN EXCHANGE RESERVES (in USD billion)

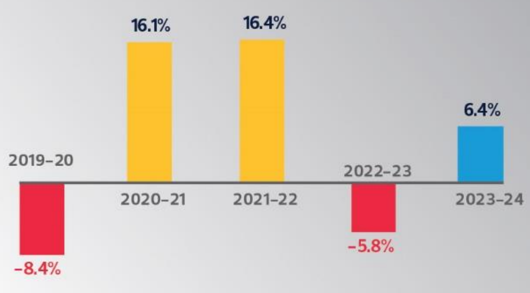
Services (at constant fc)%



Agriculture (at constant fc)%



Industrial Growth (at constant fc)%



BUDGET AT A GLANCE

				(PKR in Billion)
GOVERNMENT BUDGET FOR 2023-24				
	Govt. Budget 2024-25 (P)	**Govt. Budget 2023-24 (R)**	**Difference**	**% Change**
Receipts				
FBR Tax Revenue	12,970	9,252	3,718	40
Non Tax Revenue	4,845	2,947	1,898	64
Gross Revenue Receipts	17,815	12,199	5,616	46
Less: Transfer to Provinces	7,438	5,427	2,011	37
Net Revenue Receipts - Federal Share	10,377	6,772	3,605	53
Expenditure				
Total Expenditure	18,877	15,160	3,717	25
Current Expenditure	17,203	14,232	2,971	21
Markup on Debt	9,775	8,251	1,524	18
Pension	1,014	821	193	24
Defense Affairs & Services	2,122	1,854	268	14
Grants & transfers (Province + Others)	1,777	1,482	295	20
Subsidies	1,363	1,071	292	27
Provision for contingencies	1,152	753	399	53
Development Expenditure	1,674	928	746	80
Provicial Surplus	1,217	539	678	126
Federal Budget Deficit	**(7,283)**	**(7,849)**	**566**	**(7)**
Primary Surplus	**2,492**	**402**	**2,090**	**520**
Projected Nominal GDP	**124,150**	**106,045**	**18,105**	**17**
Fiscal Deficit (FED) as % of GDP	**(5.9)**	**(7.40)**		
Primary Surplus as % of GDP	**2.01**	**0.38**		

		(PKR Billion)
	2024-25 (Provisional)	**2023-24 (Revised)**
FBR Taxes	12,970	9,252
Indirect Taxes	5,512	3,721
Direct Taxes	7,458	5,531
Non Tax Revenue	4,845	2,947
Gross Revenue Reciept	17,815	12,199
Less provincial Share	7,438	5,427
Net Revenue Receipts	10,377	6,772

		(PKR Billion)
	2024-25 (Provisional)	**2023-24 (Revised)**
Net Federal Revenue	10,377	6,772
Total Federal Expenditure	18,877	15,160
Federal Budget Deficit	(8,500)	(8,388)
Estimated Provincial Surplus	1217	539
Overall Fiscal Deficit	(7,283)	(7,849)
Primary Balance	402	2492
Overall Fiscal Deficit as % of GDP	(5.9)	(7.4)
Primary Deficit as Percentage of GDP	0.3	2.3

DIRECT TAXES

INCOME TAX ORDINANCE, 2001

Section-wise amendments and comments thereupon

Taxation of Individuals & AOP

The proposed tax reforms for 2024-2025 significantly increase tax rates across various income brackets for both salaried and non-salaried individuals.

Salaried individuals earning between Rs. 600,001 and Rs. 1,200,000 will see their tax rate doubled from 2.5% to 5%, and those earning between Rs. 1,200,001 and Rs. 2,400,000 will face an increase from 12.5% to 15%. For incomes above Rs. 6,000,000, the highest tax rate will remain 35%, with the threshold for this rate reduced to Rs. 4,100,000.

Salaried Individuals (comparison of existing & new rates)

S. No.	Taxable Income	Rates 2023-24	Taxable Income	Rates 2024-25
1.	Where the taxable income does not exceed Rs 600,000	Nil	Where the taxable income does not exceed Rs 600,000	Nil
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	2.5% of the amount exceeding Rs 600,000	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	5% of the amount exceeding Rs 600,000
3.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs. 15,000 + 12.5% of the amount exceeding Rs 1,200,000	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs 1,200,000
4.	Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,600,000	Rs. 165,000 + 22.5% of the amount exceeding Rs 2,400,000	Where the taxable income exceeds Rs 2,200,000 but does not exceed Rs 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs 2,200,000
5.	Where the taxable income exceeds Rs 3,600,000 but does not exceed Rs 6,000,000	Rs. 435,000 + 27.5% of the amount exceeding Rs 3,600,000	Where the taxable income exceeds Rs 3,200,000 but does not exceed Rs 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs 3,200,000
6.	Where the taxable income exceeds Rs 6,000,000	Rs 1,095,000 + 35% of the amount exceeding Rs 6,000,000	Where the taxable income exceeds Rs 4,100,000	Rs 700,000 + 35% of the amount exceeding Rs 4,100,000

The above-mentioned changes will have the following tax impact on annual income:

Annual Taxable Income	Tax Year 2024 Tax Expense	Tax Year 2025 Tax Expense (proposed)	Impact	
----------Rupees----------				%
600,000	0.00	0.00	0.00	0.00
1,200,000	15,000	30,000	15,000	100.00
2,200,000	140,000	180,000	40,000	28.57
3,200,000	345,000	430,000	85,000	24.63
4,100,000	572,500	700,000	127,500	22.27
6,000,000	1,095,000	1,365,000	270,000	24.65

Non-salaried individuals and associations of persons (AOPs) will experience even steeper increases, with tax rates doubling for incomes between Rs. 600,001 and Rs. 800,000, rising from 7.5% to 15%, and jumping from 25% to 40% for incomes between Rs. 2,400,001 and Rs. 3,000,000.

Additionally, the tax burden on business individuals and AOPs will increase from 35% to 45%, and an incremental 2.5% increase will apply to every income slab.

Non-salaried Individuals/AOPs (comparison of existing & new rates)

S. No.	Taxable Income	Rates 2023-24	Taxable Income	Rates 2024-25
1.	Where the taxable income does not exceed Rs 600,000	Nil	Where the taxable income does not exceed Rs 600,000	Nil
2.	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 800,000	7.5% of the amount exceeding Rs 600,000	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	15% of the amount exceeding Rs 600,000
3.	Where the taxable income exceeds Rs 800,000 but does not exceed Rs 1,200,000	Rs. 15,000 + 15% of the amount exceeding Rs 800,000	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs 1,200,000
4.	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,400,000	Rs. 75,000 + 20% of the amount exceeding Rs 1,200,000	Where the taxable income exceeds Rs 1,600,000 but does not exceed Rs 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs 1,600,000
5.	Where the taxable income exceeds Rs 2,400,000 but does not exceed Rs 3,000,000	Rs. 315,000 + 25% of the amount exceeding Rs 2,400,000	Where the taxable income exceeds Rs 3,200,000 but does not exceed Rs 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs 3,200,000
6.	Where the taxable income exceeds Rs 3,000,000 but does not exceed Rs 4,000,000	Rs 465,000 + 30% of the amount exceeding Rs 3,000,000	Where the taxable income exceeds Rs 5,600,000	Rs 1,610,000 + 45% of the amount exceeding Rs 5,600,000
7.	Where the taxable income exceeds Rs 4,000,000	Rs. 765,000 + 35% of the amount exceeding Rs 4,000,000		

The above-mentioned changes will have the following tax impact on annual income:

Annual Taxable Income	Tax Year 2024 Tax Expense	Tax Year 2025 Tax Expense (Proposed)	Impact	
----------------Rupees----------------				%
600,000	0.00	0.00	0.00	0.00
1,200,000	75,000	90,000	15,000	20.00
1,600,000	155,000	170,000	15,000	9.67
3,200,000	525,000	650,000	125,000	23.81
5,600,000	1,325,000	1,610,000	285,000	21.51

Audited Financial Statements requirement for Association of Persons

The share of profit/income of the member of an Association of Person (AOP) is exempt, however, the said income is added in the income of the member for calculating the tax on other sources of income for the member only, while tax credit to the extent of tax on the income earned from AOP was allowable to the member. The proposed amendment seeks to allow the tax credit to the members of the AOP whose gross turnover is of Rupees Three Hundred Million or more only if the said AOP will submit the Audited Financial Statements along with the Annual Income Tax Return. Hence, the Audited Financial Statements have been made mandatory for the AOP whose Turnover is Rupees Three Hundred Million or above, otherwise the share of profit in the hand of members would also be taxed again.

Capital Gain on Sale of Securities

Currently the advance tax on sale of shares is deductible at the time of payment of consideration by the purchaser of the shares. However, in the proposed bill deduction is required to be made at the time of payment or at the time of transfer of shares, whichever is earlier.

The proposed bill further seeks to impose penalty up to 50% of the tax payable on purchaser of shares, if the person purchasing the shares fails to pay the Capital Gain Tax at the time of payment of consideration against the purchase of shares or at the time of transfer of such shares, whichever is earlier.

The proposed bill further seeks to flatten the tax rate at 15% on the Capital Gain on sale of Securities irrespective of the holding period. Further, the tax on Capital Gain on disposal of Securities purchased between July 01, 2013 to June 30, 2022 is unchanged i.e. taxable at the rate of 12.5% and for Securities purchased prior to July 01, 2013 is 0%.

Lastly, the tax deductible by Mutual Fund, a Collective Investment Scheme or REIT on redemption of securities has been proposed to be enhanced from 10% to 15% on disposal by Individuals, AOPs or Companies except in case of disposal of securities of other than Stock Funds by Companies which rate remain unchanged at 25%. Further, in case of stock funds, where the dividend receipts would be less than the Capital Gain, the current rate of 12.5% is proposed to be enhanced to 20%.

To bring more clarity into the above, the detailed comparison of the proposed amendment is provided in the following table:

S. No.	Holding Period	Rates 2023-24	Rates 2024-25
1.	Where the holding period does not exceed one year	15%	15%
2.	Where the holding period exceeds one year but does not exceed two year	12.5%	15%
3.	Where the holding period exceeds two years but does not exceed three year	10%	15%
4.	Where the holding period exceeds three years but does not exceed four year	7.5%	15%
5.	Where the holding period exceeds four years but does not exceed five year	5%	15%
6.	Where the holding period exceeds five years but does not exceed six years	2.5%	15%
7.	Where the holding period exceeds six years	0%	15%
8.	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	5%
Reduced rate *(Except for serial no 8 i.e; Future commodity contracts)*	The reduced rates of tax on capital gain where the securities are acquired on or after the first day of July, 2013 but on or before the 30th day of June, 2022;	12.5%	12.5%
	The reduced rates of tax on capital gain shall be charged on capital gain arising on disposal where the securities are acquired before the first day of July, 2013	0%	0%
Mutual Fund or Collective Investment Scheme or a REIT scheme	Individual and association of persons	10% for stock funds 10% for other funds	15% for stock funds 15% for other funds
	Company	10% for stock funds 25% for other funds	15% for stock funds 25% for other funds
	In case of a stock fund if dividend receipts of the fund are less than capital gains	12.5%	20%
	If the holding period of the security acquired on or before June 30, 2024 is more than six years.	0%	0%

Carry Forward of Losses

Currently the Business Loss, if any not adjusted during the year can be carried forward to the subsequent years, but not for more than six years. The proposed bill seeks to extend the adjustment period of loss for ***Pakistan International Airlines*** (PIA) only for Ten subsequent years instead of Six years. The intention of legislator seems to be the incentivization of PIA who is the continuously incurring losses and not being able to adjust the same within six years' time. Further the benefit of carried forward losses would also be an incentive for the potential buyer of PIA in case of privatization.

Tax Credit for Coal Mining projects in Sindh

The proposed amendment seeks to clarify that the tax credit under section 65F to the Coal Mining project in Sindh are restricted to their income from sale of coal to Power Generation Companies only and no such credit would be available on tax calculated on any other income.

Provisions relating to persons not appearing in the Active Taxpayers' List

Currently the legislation only defines the ***Active Taxpayers*** and ***In-Active Taxpayers***, whereby the Active Taxpayers are those who have filed the Return and In-Active Taxpayers are considered as those who have not filed their Annual Income Tax Return for the preceding year. However, the proposed bill seeks to introduce a new concept of person who will not file the Income Tax Return within the stipulated time period, to be considered as ***Delayed Filers***.

Advertisement Expenses for the Entities making payment of Royalty to Associated Undertakings

The proposed amendment seeks to introduce a new clause through which it is intended that the expenditure incurred by an Associated Undertaking in respect of Sale Promotion, Advertisement and Publicity would be allowable to the extent of seventy five percent only, if the Royalty is paid or payable to the Associated Undertaking in connection with the use of Brand Name or Logo. Meaning thereby that if the Royalty is payable to an Associated Undertaking by any entity the expenditure as would be incurred by the said entity in respect of the Advertisement shall be claimable in the ratio of 3:1 i.e. 75% of the expense will be claimable by the entity and remaining 25% of the cost is to be transferred to the Associated Undertaking on whose behalf the Brand name is used. The rationale of the legislator seems to be that the Advertisement Expense is contributed towards the Brand as well, so the cost of Advertisement expense to that extent must be transferred to the Associated Undertaking who owns the Brand Name/Intellectual Property rights.

Restrictions on Non-Filers

Non filers are not allowed to travel abroad.

In addition to punitive actions such as blocking SIMs and disconnecting telephone, electricity, and gas connections for non-filers who fail to submit their returns even after receiving a notice from the Commissioner, non-filers are now restricted from exiting the country.

However, this restriction on travel does not apply to individuals proceeding on Hajj or Umrah, minors, students, or overseas Pakistanis holding NICOP

Further, for non-filers whose names appear in the general order for non-filing of returns, the withholding tax rate has been increased from 15% to 75% of the amount of the bill of telephone or sale price of internet services.

Moreover, a substantial penalty of one hundred million rupees will be imposed on implementing agencies that fail to block SIMs, disconnect utilities, or prevent non-filers from exiting Pakistan. An additional penalty of two hundred million rupees will be charged for any subsequent default.

Discontinued Operations

Where Commissioner has served a notice under Section 117 (3) to the taxpayer in respect of discontinued operations, and where the taxpayer fails to file the return in response to said notice:

1. The Commissioner may declare a best judgment assessment based on any available information under Section 121 of ITO.
2. A penalty will be imposed equal to the higher of 0.1% of the tax payable for that year or Rs. 1,000 per day of default. A minimum penalty of Rs. 10,000 is proposed for individuals, and Rs. 50,000 for other cases, and
3. Where a taxpayer fails to file a return under Section 117 of the Income Tax Ordinance (ITO) without any reasonable excuse, it will be considered an offense punishable upon conviction with a fine and imprisonment for up to one year, or both.

Amendments in Pecuniary Jurisdiction in Appeals

The following amendments have been introduced for the clarity of pecuniary jurisdiction in appeals.

In May 2024, Section 126A was introduced to define the jurisdiction of appeals based on the value of tax assessments and refunds. An amendment to this section clarified the terms by specifying that the "value of assessment of tax" means the net increase in tax liability from the appealed order, and the "value of refund" means the net reduction in refund from the appealed order. This clarification helps in accurately determining the appropriate appellate authority based on these net changes.

Additionally, an amendment to sub-section (4) changed the transfer date for cases with a value of assessment or refund exceeding twenty million rupees from June 16, 2024, to September 16, 2024. This amendment is retroactive, taking effect as if it were originally set from June 16, 2024, ensuring no gap or confusion regarding the effective transfer date. These changes enhance the clarity and efficiency of the tax appeal process.

The new section introduced in May 2024 restricted appeals before the Commissioner (Appeals) to tax cases with a liability of Rs. 20 million or less. However, the section granting the right of appeal was not amended, creating a legislative inconsistency. The proposed amendment to section 127 addresses this by explicitly restricting the right of appeal to cases where the tax liability or refund does not exceed Rs. 20 million.

Similarly, to address the legislative inconsistency and ensure the applicability of section 126A, an amendment has been proposed to section 131, sub-section (1). This amendment omits the expression "or the Commissioner (Appeals)," thereby aligning the provisions with the jurisdictional limits defined in section 126A. This change ensures that appeals falling under the pecuniary jurisdiction defined by section 126A are appropriately directed to the correct appellate authority.

The proposed amendment seeks maintains the existing time limits for filing appeals to the Appellate Tribunal and making references to the High Court if a decision by the Commissioner (Appeals) or the Appellate Tribunal was received before the commencement of the Tax Laws (Amendment) Act, 2024 where the time limit is within 30 days in both cases.

Advance Income Tax

Currently where the taxpayer does not provide the turnover for the quarter or the turnover for the quarter is not known, then the turnover for the quarter should be taken as one-fourth of 110% of the latest tax year for which a return has been filed. The proposed bill seeks to enhance the estimate of turnover from 110% to 120% of the latest tax year in cases where the taxpayer either does not provide the Turnover or does not know the turnover of the quarter for which the advance tax is to be paid.

Further, the law provides an option to the taxpayer to file the advance tax liability on the basis of actual turnover or the estimated turnover for which the basis and evidence is to be provided by the taxpayer. The proposed bill further seeks to empower the concerned Commissioner Inland Revenue to disregard the said advance tax estimate, if the same is not supported with proper documentary evidences, while estimating the income on the basis of information available with the concerned Commissioner Inland Revenue.

Tax on Import of Goods

The proposed amendment seeks to empower the Board for determining the minimum value of the goods in certain cases, on which the advance income tax on imports will be collected as per the prescribed minimum value determined by the Board.

Exemption from Tax on Payments to Permanent Establishment (PE) of Non-residents and Non-Residents

Currently the law provides for an option to the Commissioner Inland Revenue to issue exemption certificate for payment to PE of non-resident and Non-Resident without deduction of Tax or deduction of Tax at reduced rate. The proposed amendment seeks to restrict the benefit by allowing only reduce rate certificate, while revoking the option of issuing exemption certificate for payment without deduction of tax.

Exemption from Tax on Payments to Residents

Currently the law provides for an option to the Commissioner Inland Revenue to issue exemption certificate for payment to Resident without deduction of Tax or deduction of Tax at reduced rate in cases where the tax deductible is not minimum tax. The proposed amendment seeks to restrict the benefit by allowing only reduce rate certificate, while revoking the option of issuing exemption certificate for payment without deduction of tax. The said change will adversely affect the industry, as huge refunds will be accumulated which as per history are hard to process, so adversely impacting the cash flows of the businesses.

Exclusion of Exports from Final Tax Regime

The proposed amendment seeks to exclude the Exporters currently being assessed under Final Tax Regime at the rate of 1%, by making the said 1% to be the minimum tax, while the income would be assessable as per the normal tax regime i.e. 29% in case of companies, 20% in case of small companies and as per the slab rates applicable on AOPs and Individuals. Hence, all the provisions applicable on the persons assessed under Normal Tax Regime will become applicable such as advance tax liability and super tax etc.

The proposed bill further seeks to levy an additional 1% advance tax on the Exporters to be collected from such exporter that will be adjustable against the final tax liability to be calculated at the time of filing of the Income Tax Return.

Measures to implement Tajir Dost Scheme

Tajir Dost (Special) Procedures 2024

The FBR has prescribed special procedures for small traders and shopkeepers titled 'Tajir Dost (Special) Procedure, 2024' vide S.R.O No. 457(I)/2024 dated 30.03.2024, whose part 1 and 2 (Preliminary and registration) are effective from 1st April 2024 and part 3 (payment of advance tax) will be effective from 1st July, 2024.

These special procedures require registration of shopkeepers and traders operating through a fixed place of business including shop, store, warehouse, office or similar physical place (business premises) located in the four provincial capitals and Islamabad and Rawalpindi.

These special procedures will not be applicable on the companies, persons operating as unit of national or international chain of stores in more than one city and to persons as prescribed by the FBR.

The prescribed persons are liable to get registered under National Business Registry (Tajir Dost) and will be required to pay monthly advance tax which will be minimum tax payable by such person and at the time of filing of return higher of normal tax and minimum tax will be applicable. The 1st payment will be due on 15th July, 2024 and thereafter upon 15th of each month.

The rate of tax has not been notified, however, definition of indicative income given in the notification refer to the formula based on Annual Rental Value (ARV). The ARV will be 10% of the fair market value (FMV) of the property and FMV is value of property provided in valuation table notified by FBR or if no such valuation is provided than value for the purpose of stamp duty taken by DO or provincial or other revenue authority.

No such tax will be payable if income is otherwise exempt. If on the basis of formula, the advance tax comes out to be zero than Rs.1,200 p.a will still be payable as minimum tax. The incentive of 25% reduction in liability is provided in case of lump sum payment for whole year and for filing of tax return for tax year 2023 in case it is not already filed.

To make this registration scheme successful, the following measures are suggested:

1. If a person fails to apply for registration or pay advance tax, their shop can be sealed for seven (7) days for the first default and for twenty-one (21) days for each subsequent default.
2. Furthermore, if a person required to apply for registration under the Tajir Dost Scheme fails to do so, it will be considered an offense punishable upon conviction with a fine and imprisonment for up to six months, or both.

Incomplete Income Tax Return

The proposed bill seeks to introduce new provisions regarding Companies and AOPs filing Income Tax Return with incomplete/wrong particulars and details and/or incomplete or blank attachments, who will be charged a penalty of Rupees Five Hundred Thousand or 10% of the Tax Chargeable on the taxable Income, whichever is higher.

Further, the proposed bill seeks to impose either a fine or charge with the person committing the aforesaid offence with imprisonment of a term not in excess of one year or charge with both i.e. fine plus imprisonment.

Default Surcharge

Currently the Default Surcharge is chargeable at the rate of 12%, whereas the proposed bill seeks to increase the rate, while correlating the same with the KIBOR (Karachi Interbank Offered Rate) to make it KIBOR plus 3%.

Information Sharing with NADRA

Now the public servants are allowed to share data with National Database and Registration Authority (NADRA) to analyse such data for the purposes of broadening of tax base.

Advance Tax on sales to Distributors, Dealers and Wholesalers

Currently, only manufacturers or commercial importers of certain sectors were required to withhold income tax on the sales to Distributors, Dealers and Wholesalers. However, the proposed bill seeks to include all manufacturers or commercial importers to withhold income tax on the sales to Distributors, Dealers and Wholesalers. The spirit of law behind the same is to broaden the tax net by bringing more persons into the tax net, as the activity of such persons will be highlighted through the withholding taxes that will be deposited in the name of Distributors, Dealers and Wholesalers, who will be purchasing from the manufacturers and commercial importers.

Advance Tax on sales to Retailers

Currently, only Manufacturers, Commercial Importers, Distributors, Dealers or Wholesalers of certain sectors were required to withhold income tax on the sales to Retailers. However, the proposed bill seeks to include all Manufacturers, Commercial Importers, Distributors, Dealers or Wholesalers to withhold income tax on the sales to Retailers. The spirit of law behind the same is to broaden the tax net by bringing more persons into the tax net, as the activity of such persons will be highlighted through the withholding taxes that will be deposited in the name of Retailers to whom such sales would be made by the Manufacturers, Commercial Importers, Distributors, Dealers or Wholesalers.

Tax on Dividend from REIT and Mutual Funds

Currently the rate of tax on the dividends received from REIT and Mutual Funds etc. is 15%. Now, the proposed bill seeks to enhance the rate of tax on the dividend to be received from the REIT, Mutual Fund or other such entities whose portion of income earned from Profit on Debt as compared to its total income is 50% or more, the rate of tax on such dividends is proposed to be 25%. The spirit of law behind the same is to discourage investment in the entities who further makes idol investment in fixed/term deposits and promote investment in ventures that will contribute towards the economy positively.

Real estate

The proposal introduces amendments to maintain the current capital gains tax rates for properties purchased before June 30, 2024. For properties purchased after this date, regardless of their holding period, new capital gains tax rates (Table -) will apply upon disposal.

Capital gain on property acquired on or before 30th June 2024.				
Sr.	Holding Period	Rate of Tax		
		Open Plot	Constructed Property	Flats
1	Where the holding period does not exceed one year	15%	15%	15%
2	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	-
4	Where the holding period exceeds three years but does not exceed four years	7.5%	5.0%	-
5	Where the holding period exceeds four years but does not exceed five years	5%	-	-
6	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
7	Where the holding period exceeds Six years	-	-	-

Proposed Tax on property acquired on or after 1st day of July 2024

Person appearing in active taxpayer list on the date of disposal: Rate of tax shall be 15% of the capital gain.
Person not appearing in active taxpayer list on the date of disposal:

a) **For Individual and AOP:**

Higher off:

- 15% of the gain
- Rate as per slab given in Division I, Part I, First Schedule

b) **For Companies:**

For companies: Division II, Part I, First Schedule

Through this finance bill amendments have been proposed for the imposition of advance tax under section 236C and 236K based on the filing status of the taxpayer.

- Rate for a person appearing in active taxpayer list and has also filed return on timely manner.
- Person appearing in Active taxpayer list but has not filed return on the time.
- Non filer

Advance tax on the sale or transfer of the immovable property – 236 C

Currently sale on immovable property tax @ 3% on filer and @ 6% on non-filer is applicable.

Proposed Rate for 2024-2025				
Sr.	Description	Return file within due date	Late return filed	Non- Filer
1	Where the gross amount of the consideration received does not exceed Rs. 50 million.	3%	6%	10%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	7%	10%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	8%	10%

Advance tax on the purchase or transfer of the immovable property – 236 K

Currently purchase of immovable property tax @ 3% on filer and @ 10.5% on non-filer is applicable.

Proposed Rate for 2024-2025				
Sr.	Description	Return file within due date	Late return filed	Non- Filer
1	Where the fair market value does not exceed Rs. 50 million.	3%	6%	12%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million.	3.5%	7%	16%
3	Where the fair market value exceeds Rs. 100 million.	4%	8%	20%

Federal excise duty at the rate of 5% is proposed on allotment and transfer of commercial property and first allotment and transfer of residential property.

Toll Manufacturing

In case of companies, the withholding tax for toll manufacturing has been increased from 5% to 9% and in other cases from 5.5% to 11%.

Increase in tax on vehicle registration.

Though this finance bill Fixed tax based on engine capacity has been proposed to be replaced with engine capacity-based tax rates on the value of vehicles.

Sr.	Engine Capacity	Tax based on engine capacity	Proposed tax rates
1	Up to 850 CC	10,000	0.5% of the value
2	851cc to 1000cc	20,000	1% of the value
3	1001cc to 1300cc	25,000	1.5% of the value
4	1301cc to 1600cc	50,000	2% of the value
5	1601cc to 1800cc	150,000	3% of the value
6	1801cc to 2000cc	200,000	5% of the value

7	2001cc to 2500cc	6% of the value	7% of the value
8	2501cc to 3000cc	8% of the value	9% of the value
9	Above 3000cc	10% of the value	12% of the value

Illustration for the comparison of both rates

Sr.	Particular of vehicle	Engine Capacity	Vehicle value (A)	Tax based on engine capacity. (B)	Proposed tax rates on value of vehicle (C)	Proposed tax Amount D = A * C	Difference / Increase in tax E = D - B
1	Suzuki Alto (658 cc)	Up to 850 cc	2,800,000	10,000	0.5%	14,000	4,000
2	Suzuki Wagon R (998 cc)	851 cc to 1000 cc	3,740,000	20,000	1%	37,400	17,400
3	Toyota Corolla (1298 to 1800 cc)	1001 cc to 1300 cc	7,550,000	25,000	1.5%	113,250	88,250
4	Honda Civic (1499 cc)	1301 cc to 1600 cc	9,500,000	50,000	2%	190,000	140,000
5	KIA Sportage (up to 1800 cc)	1601 cc to 1800 cc	8,800,000	150,000	3%	264,000	114,000
6	Honda CR-V 2.0 (1997 cc)	1801cc to 2000cc	10,700,000	200,000	5%	535,000	335,000
7	Hyundai Sonata 2.5 (2497 cc)	2001cc to 2500cc	10,930,000	6% of the value (Rs. 655,800)	7%	765,100	109,300
8	Toyota Hilux Revo V 2.8 (2755 cc)	2501cc to 3000cc	13,849,000	8% of the Value (Rs. 1,107,920)	9%	1,246,410	138,490
9	Hyundai Staria HGS (3500 cc)	Above 3000cc	11,009,000	10% of the value (Rs. 1,100,900)	12%	1,321,080	220,180

Subsidy by Federal Government

The proposed bill seeks to withdraw the benefit available to the persons receiving subsidy from the Federal Government for implementing of any order. Due to said change, the subsidy as would be received by any person will become taxable, so in cases of companies the tax on subsidy would be 29% of the amount of subsidy received.

Exemption of Tribal Areas

The proposed bill seeks to extend the exemption available to the persons of Tribal Areas including FATA and PATA in respect of their income and withholding tax provisions for a period of another one year, as the exemption period was ending on June 30, 2024, so the proposed amendment seeks to extend the exemption of the Tribal Areas including PATA and FATA up to June 30, 2025.

Reduced rate of tax on Cigarette Distributors

Currently the Withholding Income Tax on Distributors of Cigarettes and Pharmaceuticals was 1%, however, the proposed bill seeks to enhance the rate of Withholding Income Tax on Cigarette Distributors to 2.5% from 1%.

Tax Reduction in case of Full Time Teacher/Researcher

Currently the full-time teacher or researcher employed in a non-profit education or research institution was subject to benefit of 25% reduction in the tax liability in respect of the salary income earned from such organization. The proposed bill seeks to withdraw the said benefit of reduction in the tax liability. The said clause will affect adversely the teachers and researchers, who are already struggling hard in the current economy to contribute towards nurturing of our future generations, so revoking such benefits will discourage people to come into the field of research and education, while contributing to the economy silently, as the teachers and researchers make the very foundation of any society.

Banks

Some clarifications are made in the Seventh Schedule of the Ordinance to continue the existing tax regime for banks with no new provisions to be allowed. Following are modification:

1. The amount of bad debts classified as 'substandard' or 'doubtful' as per prudential regulations or provisions for advances, off balance sheet items or any other assets classified in stage I, II or III as pe IFRS 09 shall not be allowed as expense. Provided that only 'bad debts' classified 'Loss' as per prudential regulations shall be allowed as expense.
2. Provisions or Expected Credit loss for advances and off-balance sheet items or any other financial asset existing before or after 1st January 2024 under IFRS 09 shall not be allowed as expense or deduction.

In respect of super tax, it has been clarified that the provisions of Section 4C of ITO are applicable for the tax year 2023 and for all subsequent tax years.

INDIRECT TAXES

SALES TAX ACT, 1990

Best judgment assessment scheme:

Scheme of best judgment assessment is proposed in Sales Tax Act similar to Income Tax Ordinance. Inland revenue officer, not below the rank of Assistant Commissioner, based on any available information or material and to the best of his judgment, may make an assessment of tax payable or refund due and also charge penalty and default surcharge, where a person,

(a) fails to furnish a sales tax return in response to notice or
(b) fails to produce before the Officer of Inland Revenue under section 25 or 38A, accounts, documents and records required, or any other relevant document or evidence that may be required by him.

Where a best judgment assessment has been made, due to non-filing of tax return and the person files the return thereafter and pays the amount of tax payable along with default surcharge and penalty, the notice to show cause and the order of assessment shall abate.

The show cause notice under this section shall be issued within five years, from the end of the financial year in which the relevant date falls. An order under this section shall be made within one hundred and twenty days of issuance of show cause notice.

Assessment of Tax and Recovery of tax not levied or short levied or erroneously refunded:

Section 11 regarding assessment of tax is being deleted and new section 11E is being introduced for assessment of tax and recovery of tax not levied or erroneously refunded.

Failure to withhold sale Tax:

A new section 11F is proposed through finance bill regarding determination and recovery of withholding tax along with default surcharge and penalty by the inland officer were prescribed person

1) fails to withhold the tax or
2) having withheld the tax fails to deposit the same in the prescribed manner.

The show cause notice under this section is to be issued within five years, from the end of the financial year in which the relevant date falls. An order under this section is to be made within one hundred and twenty days of issuance of show cause notice.

Audit of sales tax affairs:

Section 25 is being revamped and is being introduced with significant changes. This bill proposes the selection of audit case being made by the commissioner on the basis of reasoning in writing and identifying risk factors that require further verification and direct the assessing officer, not below rank of Assistant Commissioner, to conduct the audit of sales tax affairs.

Reasoning is to be based on scrutiny by the Commissioner or any other sales tax authority of the available records including sales tax and federal excise returns, income tax returns and withholding statements, financial statements or third-party information. Further the Commissioner is required to communicate reasons to the registered person whose audit is to be conducted through the notice.

However, Officer of Inland Revenue cannot call for record or documents of the registered person after expiry of six years from the end of the financial year to which they relate.

After completion of the audit, the officer of Inland Revenue may pass an order under section 11E, after providing an opportunity of being heard to the taxpayer under sub-section (1) of section 11E.

Where a registered person, fails to produce before the officer of Inland Revenue, any accounts, documents and records required to be maintained under the Act or the rules or any other relevant document electronically kept record, electronic machine or any other evidence that may be required by the officer of Inland Revenue for the purpose of audit. The officer of Inland Revenue may proceed to make best judgment assessment under section 11D of this Act.

Investigative Audit:

Through finance bill new section 25AB regarding investigative audit is proposed to eliminate tax fraud and imposition of hard punishment for persons involved in tax fraud in sale tax affairs.

Where on the basis of information from audit or otherwise, the officer of Inland Revenue not below the rank of Assistant Commissioner, on the balance of probabilities, suspects that a registered person is involved in tax fraud, he may with the prior approval of the Commissioner in writing, initiate investigative audit against such person.

The officer of Inland Revenue is required to conduct investigative audit on the basis of the record and evidence obtained under sections 37, 37A, 38, 38A, 38B and 40 within ninety days of the initiation of the investigative audit.

After completion of investigative audit, the officer of Inland Revenue may take one or more of the following actions:

(a) pass an order under section 11E, on all the issues arising from the investigative audit.

(b) issue a best judgment assessment order under section 11D, where the registered person fails to produce, any accounts, documents records or evidence or any other relevant document that may be required by the officer of Inland Revenue;

(c) black list the registered person under section 21; and

(d) impose penalty and cause prosecution of the registered person as provided against Serial. No. 13 of the Table in section 33.

The bill proposes new penalty for person involved in tax fraud of Rs. Twenty-five thousand rupees or one hundred percent of the amount of tax evaded or sought to be evaded, whichever is higher. He may also be liable, upon conviction by a Special Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is up to five hundred million and above, and which may extend to ten years if the tax evaded or sought to be evaded is one billion and above and fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded.

Powers of Inland Officer to call for filing of sale tax returns of Past Fifteen in Tax Fraud cases or Five Years in other cases:

An officer of Inland Revenue is being authorized under sub section (2A) of section 26 to ask any person who, in his opinion, is required to file a return under this section for a tax period or tax periods, to furnish the return or returns, for period of past fifteen years, in case of tax fraud, and for five years in all other cases, within fifteen days from the date of service of such notice or such longer or shorter period as may be specified in such notice or as the officer of Inland Revenue may allow.

Computerized System for real time reporting of sales:

A new sub section 4 of Section 40C is being introduced to give power to the Board to call any person or class of persons to integrate their electronic invoicing system with the Board's Computerized System for real time reporting of sales. Licensed integrator shall integrate electronic invoicing system of registered persons.

Any licensed integrator who is authorized to provide electronic invoicing system for integration of registered persons fails to integrate such registered persons in the manner as required under this Act and rules made thereunder, such person shall be liable to pay penalty of rupees one million or one percent of the total value of the sales suppressed, whichever is higher.

Change in rate of default surcharge:

This bill proposes to enhance the default surcharge rate to "KIBOR plus 3%" from "12%" .

Impact of Changes in rate of Sales Tax on difference sectors of Economy

Agriculture and Food Sector

The rate of sales tax on DAP is being increased from reduced rate of 5% to Standard rate of 18%. This will increase the cost of DAP for farmers and may impact the agriculture sector.

Similarly the Poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal were exempt from Salex tax however, now all the above mentioned items will be charged at reduced rate of 10%,, it will increase the cost of poultry products and cattle.

Milk products were charged to sales tax at Zero rate, however, Milk which is being sold under a brand name will now be charged to sales tax at 18%. This will increase the cost of all the household.

Export Sector

Local supplies of commodities, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 are now being taxed at Standard rate of 18% instead of Zero rate. This will increase the cost of industries who are exporting goods and thus would negatively affect the profitability of such industries.

Healthcare sector

Healthcare equipment related to Cardiology/cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynaecology, disposables and other equipment, Diagnostic kits or equipment were included in Exempt goods but now would be charged at Standard rate of tax of 18%. This will increase the cost of healthcare services in the country.

Petroleum Products

POL products: (i) MS (Petrol) (ii) High Speed Diesel Oil (iii) Kerosene (iv) Light Diesel Oil were being charged at standard rate of tax now it is declared as exempt goods. In this way sales tax will not be charged to such products however, the rate of Petroleum levy is being enhanced on all the POL products except Kerosene Oil.

Liquified Petroleum Gas (LPG) is now being charged at the rate of 18% instead of 10%. This will increase the price of LPG for the consumers.

Telecom Sector

Sales tax on mobile phones was being charged at fixed rate in the following manner:

Import value of mobile phone not exceeding US$ 30	Rs.130
Import value of mobile phone not exceeding US$ 30 (smart Phone)	Rs.200
Import value of mobile phone exceeding US $30 but not exceeding US$100	Rs.200
Import value of mobile phone exceeding US $130 but not exceeding US$200	Rs.1,680

Now it is proposed that the sales tax on all phones will be charged at the rate of 18% irrespective of its import value for phone under US$ 200. It means that the prices of phones will low value will be increased after imposition of enhanced rate of tax on such mobiles.

FEDERAL EXCISE ACT 2005

Section-wise amendments and comments thereupon

Default Surcharge

Currently the Default Surcharge is chargeable at the rate of 12%, whereas the proposed bill seeks to increase the rate, while correlating the same with the KIBOR (Karachi Interbank Offered Rate) to make it KIBOR plus 3%.

Offences

Installation and Removal of Plant & Machinery

The proposed bill seeks to introduce a new clause, whereby if the prior approval of Commissioner is not obtained in respect of installation of any Plant & Machinery on which any production will be commenced or any Plant & Machinery already in operation is removed would be treated as an offence punishable under the FED.

Selling of Counterfeit or Smuggled Cigarettes

The proposed bill seeks to introduce a new clause, whereby if any retailer will sell the cigarettes without affixing the stamps or with counterfeit stamps, the retail outlet will be sealed as per the prescribed manner.

Amendments in Pecuniary Jurisdiction in Appeals

The following amendments have been introduced for the clarity of pecuniary jurisdiction in appeals.

An amendment has already been made whereby the appeals exceeding tax liability of Rupees Five Million would be filed before the Appellate Tribunal and cases below the said threshold to be filed before the Commissioner (Appeals). However, for pending cases exceeding the threshold that have already been filed with the Commissioner (Appeals) prior to said amendment, it was decided that the cases not concluded prior to June 16, 2024 will be transferred to Appellate Tribunal automatically. Now, the proposed amendment seeks to extend the said time period uptil September 16, 2024 providing ample time for transfer of cases smoothly and swiftly.

The proposed amendment seeks to further clarify the fact that the appeals of the assessment orders passed prior to the said amendment will be dictated as per the provisions applicable prior to the current change.

Excise Duty on Certain Commodities

Acetate Tow

The proposed bill seeks to levy FED on Acetate Tow at the rate of Rs. 44,000/- per Kg.

Nicotine Pouch

The proposed bill seeks to levy FED on Nicotine Pouch at the rate of Rs. 1,200/- per Kg.

Locally Packed Cigarettes

The proposed bill seeks to increase the threshold of applicability of Federal Excise Duty from on-pack printed retail price of Rs. 9,000/- per thousand cigarettes to Rs. 12,500/- per thousand cigarettes.

The proposed bill seeks to increase the rate of FED on Cigarette Filter Rod from Rs. 1,500/- per Kg to Rs. 80,000/- per Kg.

Cement

The proposed bill seeks to increase FED on cement sector from Rs. 2/- per Kg to Rs. 3/- per Kg.

Allotment and Transfer of Residential or Commercial Property

The proposed Bill seeks to levy FED on the sale, transfer or allotment of Commercial Property at the rate of 5%, in the prescribed manner, every time the property is sold, transferred or allotted. However, in case of Residential Property the said FED would be applicable only in case of first transfer and no FED would apply on any subsequent transaction.

Sugar

The proposed bill seeks to impose FED at the rate of Rs. 15 per Kg on the sugar supplied by any person to the manufacturer.

The proposed bill seeks to impose Federal Excise Duty on the commodities as stated above, which are provided in the following table for further clarity:

S. No.	Description of Goods	Rates 2023-24	Rates 2024-25
7a.	Acetate tow	0/-	Rupees forty-four thousand per kg
8a.	E-liquids by whatever name called, for electric cigarette kits	Rupees ten thousand per kg	Rupees ten thousand per kg or Rs. Forty-four thousand per kg, whichever is higher
8d.	Nicotine pouches	0/-	Rupees one thousand and two hundred per kg.
9.	Locally produced cigarettes if their on-pack printed retail price	Exceeds nine thousand rupees per thousand cigarettes Sixteen thousand five hundred per thousand cigarettes	Exceeds twelve thousand rupees per thousand cigarettes Sixteen thousand five hundred per thousand cigarettes
10.	Locally produced cigarettes if their on-pack printed retail price	Does not exceed nine thousand per thousand cigarettes Rupees five thousand and fifty per thousand cigarettes	Does not exceed twelve thousand per thousand cigarettes Rupees five thousand and fifty per thousand cigarettes
13.	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers	Two rupees per kilogram	Three rupees per Kilogram
56.	Filter rod for cigarettes	Rupees fifteen hundred per kg	Rupees eighty thousand per kg
63.	Allotment or transfer of commercial property and first allotment or transfer of residential property in such mode and manner and subject to such conditions and restriction as may be prescribed by the Board	0/-	5%
64.	Sugar supplied by any person to a manufacturer	0/-	Rupees fifteen per kg

Exemption on Import by Certain Persons

The proposed bill seeks to provide for the exemption from levy of FED, if the imports are made by the Diplomats, Diplomatic Missions, privileged persons and privileged organization.

THE CUSTOMS ACT, 1969

Section-wise amendments and comments thereupon

Definitions

The Bill proposes to amend section 2 of the Custom Act, 1969 whereby inserted new definitions as under;

Nuclear Material

After clause (n), a new clause (na) inserted to give the definition of Nuclear Material as under;

> (na) "nuclear material" means the nuclear material as defined in the Pakistan Nuclear Regulatory Authority Ordinance, 2001.
>
> The said definition is given in section 2(l) of the Pakistan Nuclear Regulatory Authority Ordinance, 2001, as under.
>
> (l) "nuclear material" means;
>
> i. nuclear fuel, including natural uranium and depleted uranium, capable of producing energy by a self-sustaining chain process of nuclear fission outside a nuclear reactor, either alone or in combination with some other material; and
> ii. radioactive products or wastes.

Radioactive Material

After clause (qa), a new clause (qaa) inserted to give the definition of Radioactive Material as under

> (qaa) "radioactive material" means the radioactive material as defined in Pakistan Nuclear Regulatory Authority Ordinance 2001, as under;
>
> > (q) "radioactive material" means any substance which contain or consists of radioactive nuclei, naturally occurring or artificially produced, provided that the specific activity of the substance is in accordance with the level as may be prescribed by the regulations.

The Bill proposes to amend section 3 of the Customs Act, 1969 whereby created new Directorate General. Section 3 of the Customs Act, 1969 relates to the appointment of officers of customs and their power. The Bill proposes to introduce new Directorate General as under;

Directorate General of National Targeting Center

The Bill seeks to insert new clause 3CCD after clause 3CCC to establish Directorate General of National Targeting Center which shall consist of Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the board may, by notification in the official Gazette, appoint.

Directorate General of Trade Based Money Laundering

The Bill seeks to insert this new section after Section 3CCD to set-up Directorate General of Trade Based Money Laundering which shall consist of Director General, and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may by notification in the official Gazette, appoint.

Delegation of power

Section 5 of Customs Act, 1969 deals with "Delegation of Powers". The Bill seeks to substitute sub-section (I) of Section 5 to align Customs Act, 1969 with Section 8 of FBR Act, 2007 As under;

"The Board may, subject to such conditions as it deem necessary, delegate any of its functions and powers to the Chairman, Additional Collector, Deputy Collector, Assistant Collector or any officer duly appointed under the act."

Section 6 relates to "entrustment of functions of customs officers." The Bill seeks to empower the officers of National Command Authority and Pakistan Nuclear Regulatory Authority to implement and enforce Customs Act.

Assistance by Intelligence Bureau

This section relates to Assistance to the officer of Customs. The Bill seeks to include Intelligence Bureau, in the list of departments which are mandated to assist Customs whenever requested.

Powers of the officers

The power of certain officers of Customs include detention, seizure and confiscation of goods imported into or exported out of Pakistan in violation of Section 15 and 16 of the Act.

The Bill seeks to extend such power as mentioned to Additional Collector and Additional Director.

The general power to exempt, subject to certain conditions, any goods imported into or exported from Pakistan till June 30, 2024.

The Bill seeks to grant said exemption till June 30, 2025.

Offenses relating to nuclear and radioactive materials

The Bill seeks to insert two new penal clauses (V) or (Vi) in Serial No. 8 of the table of section 156(I) as under to take cognizance of offenses related to nuclear and radioactive materials;

"(v)	If the smuggled goods are identified and categorized as nuclear material: Provided that if any offence specified within this section concerns breach of national security, the same shall be dealt with under the National Command Authority Act, 2010, (V of 2010), if	such goods shall be liable to confiscation and any person concerned in the offence shall be liable to-
	(a) the quantity and form of nuclear material is that as defined in the Regulations on Physical Protection of Nuclear Material and Nuclear Installations – (PAK/925) or any amendment therein as determined by PNRA, in case of- (i) unirradiated Plutonium including all plutonium except that with isotopic composition exceeding eighty percent of Plotunium-238, is less than fifteen grams, or; (ii) unirradiated Uranium enriched to twenty percent or more of U-235, is less than fifteen grams, or;	imprisonment which may extend to seven years, or with fine which may be up to one million rupees, or with both.

	(iii) unirradiated uranium enriched to ten percent U-235 but less than twenty percent of U-235, is less than 1kg, or; (iv) unirradiated uranium enriched above natural, but less than ten percent U-235 is less than ten kgs, or; (v) unirradiated U-233, is less than fifteen grams.	
	(b) the quantity and form of nuclear material is that as defined in the Regulations on Physical Protection of Nuclear Material and Nuclear Installations – (PAK/925) or any amendment therein, and determined by PNRA, in case of; (i) unirradiated Plutonium including all plutonium except that with isotopic composition exceeding eighty percent of Plotunium-238, is fifteen grams but does not exceed 500 grams, or; (ii) unirradiated Uranium enriched to twenty percent or more of U-235, is fifteen grams or more but does not exceed one kilogram, or; (iii) unirradiated uranium enriched to ten percent U-235 but less than twenty percent of U-235, is 1kg or more but does not exceed ten kgs, or; (iv) unirradiated uranium enriched above natural, but less than ten percent U-235, is more than ten kgs, or; (v) unirradiated U-233, is fifteen grams or more but does not exceed five hundred grams;	imprisonment which may extend to ten years and shall also be liable to fine which may be up to five million rupees.
	(c) the quantity and form of nuclear material is that as defined in the Regulations on Physical Protection of Nuclear Material and Nuclear Installations – (PAK/925) or any amendment therein as determined by PNRA, in case of	imprisonment for life, or imprisonment for a term which may extend to fourteen years and shall also be liable to fine which may extend to ten million rupees.
	(i) unirradiated plutonium including all plutonium except that with isotopic composition exceeding eighty percent of plotunium-238, is more than five hundred grams but does not exceed two Kgs, or; (ii) unirradiated Uranium enriched to twenty percent or more of U-235, is more than one Kg but does not exceed five kilograms, or; (iii) unirradiated uranium enriched to ten percent U-235 but less than twenty percent of U-235, is more than ten kgs, or; (iv) unirradiated U-233, is more than five hundred grams but does not exceed two Kgs;	

	(d) the quantity and form of nuclear material is that as defined in the Regulations on Physical Protection of Nuclear Material and Nuclear Installations – (PAK/925) or any amendment therein as determined by PNRA, in case of- (i) unirradiated plutonium including all plutonium except that with isotopic composition exceeding 80% of Plotunium-238, is more than two Kgs, or; (ii) unirradiated Uranium enriched to twenty percent or more of U-235, is more than five kilograms, or; (iii) unirradiated U-233, is more than two Kgs; and	Imprisonment for life, or imprisonment for a term which shall not be less than fourteen years and shall also be liable to fine which may be up to five million rupees
(vi)	If the smuggled goods are identified and categorized as radioactive material and radioactive sources: Provided that if any offence specified within this section concerns breach of national security, the same shall be dealt with under the National Command Authority Act, 2010, if	such goods shall be liable to confiscation and any person concerned in the offence shall be liable to;
	(a) the activity (A) to dangerous value (D) ratio of radioactive materials or radioactive sources, as defined in the Regulations on Security of Radioactive Sources- (PAK/926) or any amendment therein as determined by the PNRA, does not exceed one (1) in numeric number;	imprisonment which may extend to two years, or with fine, or with both
	(b) the activity (A) to dangerous value (D) ratio of radioactive materials or radioactive sources, as defined in the Regulations on Security of Radioactive Sources- (PAK/926) or any amendment therein as determined by the PNRA, is more than one but does not exceed ten in numeric number;	imprisonment which may extend to seven years, or with fine, or with both
	(c) the activity (A) to dangerous value (D) ratio of radioactive materials or radioactive sources, as defined in the Regulations on Security of Radioactive Sources- (PAK/926) or any amendment therein as determined by the PNRA, is more than ten (10) but does not exceed thousand in numeric number; and	imprisonment which may extend to fourteen years and shall be liable to fine up to five million;
	(d) the activity (A) to dangerous value (D) ratio of radioactive materials or radioactive sources, as defined in the Regulations on Security of Radioactive Sources- (PAK/926) or any amendment therein as determined by the PNRA, exceeds the limit specified under clause (c).	imprisonment for life, or imprisonment for a term which shall not be less than fourteen years and shall also be liable to fine which may be up to five million rupees;”;

Penalties

The Bill seeks to amend serial No. 83 of the table of Section 156(I) to enhance the penalty from Rs. 2,000 to Rs. 50,000 in case failure to deposit seized goods in the nearest custom house within the stipulated time limit Existing penalty for the aforesaid offences is Rs. 2,000/-.

The Bill seeks to amend serial No. 85 of the table of section 156(I) to enhance the penalty from Rs. 25,000/- to Rs. 100,000/- on a person assaulting customs officers / officials.

Existing penalty for the aforesaid offence is Rs. 25,000/-.

The Bill seeks to insert new penal clause is serial No. 89 of the table of section 156(I) to deter the possibility of illegal removal and privilege of smuggled goods. Hence Bill seeks to insert new sub-serial No. (III) as under;

"(iii)	in case any smuggled goods, liable to confiscation, seized and placed in the custody of the owner of the goods or any person holding the goods in his possession or charge are found removed illegally, exchanged, pilfered or disposed of in any manner,	such person shall be liable to a penalty not exceeding ten times the value of such goods and upon conviction by a Special Judge, shall further be liable to imprisonment for a term not exceeding six years or to a fine not exceeding one million rupees or both."

Customs Appellate Tribunal

The Bill seeks to amend Section 194 whereby to establish a Customs Appellate Tribunal to accelerate the process and enhance efficiency of Customs Appellate Tribunal for disposal of pending cases and to exercise jurisdiction, powers and perform functions conferred upon it under this Act. The bill further seeks to amend the procedure of appointment of members who shall be appointed by the Federal Government and in such manner as may be prescribed by the Federal Government which shall be made and take effect notwithstanding anything contained in Section 219 of this Act, or Federal Public Service Commission Ordinance, 1977 or any other law or rules for the time being in force.

Presently, Customs Appellate Tribunal consist of chairman, Judicial and technical member appointed in such manner as Prime Minister may prescribe by rules.

The Bill seeks to amend Section 194A, to accelerate the process and enhance efficiency of Customs Appellate Tribunal for speedy disposal of pending appeals. The Bill seeks to amend the procedure of filing of appeal by any person or an officer of Customs aggrieved by the order / decision passed by the Officer concerned. Every appeal on the prescribed form and accompanied by prescribed fee shall be filed within thirty days from the date of service of the order.

Presently, such appeals can be filed within sixty days from the date of service of the order.

The Bill seeks to empower the Appellate Tribunal who may after giving the parties to the appeal an opportunity of being heard, pass such orders as it thinks fit within ninety days of the filing of appeal. Provided further that where an appeal is not decided within the said period, the Appellate Tribunal with the consent of both the parties may extend for further period of sixty days. Further the Appellate Tribunal may, at any time within fifteen days from the date of communication of order amend any order passed by it to rectify any clerical or arithmetical errors.

Presently, it is mandatory for the Appellate Tribunal to decide the appeal within sixty days of filing of appeal or within the extended period as the Tribunal may fix.

Alternate Dispute Resolution Committee

The Bill seeks to amend section 195C to make Alternate Dispute Resolution Committee (ADRC) system more effective forum for settlement of disputes pending at appellate fora. Accordingly, the aggrieved person, in connection with any dispute pertaining to liability of custom duty, admissibility of refund or rebate, waiver or fixation of penalty, fine, confiscation of goods except the case where criminal proceedings have been initiated, may subject to certain conditions apply to the Board for the appointment of committee for the resolution of dispute in appeal. The Board may appoint committee within fifteen days of receipt of such application.

Presently, the board may, subject to certain conditions, appoint a committee within thirty days of such application.

Efficiency of cases in High Court

The Bill seeks to amend Section 196 to make the system more efficient by accelerating the disposal of pending cases at the High Courts. Accordingly, within thirty days of the order of Appellate Tribunal, the aggrieved person or any specified officer of Customs may file reference in the prescribed form and in prescribed manner along with statement of the case, before the High Court, stating any question of law or a mixed question of law and fact arising out of such order. The High Court shall decide a reference within six months from the date of its filing.

Presently, the aggrieved person or officer may file such reference before High Court within ninety days of the service of order of the Applied Tribunal.

INDUSTRY WISE ANALYSIS

Aquaculture Industry

Custom duty on import of machinery, equipment, capital goods and materials by fish shrimp hatcheries farms, feed mills and seafood processing units for setting up, modernization, replacement or expansion for hatcheries shall be subject to Custom Duty at the rates of 0%, 3% and 5%.

Solar Panel Industry

In order to boost local manufacturing of Solar Panels. Custom duty on manufactures of Solar Panels shall be at the rate of 0% on Import of Raw materials like PV Modules, Parts of Solar Inverters, Parts of Lithium Batteries & Machinery. Further, the custom duty on import of equipment's and machinery for manufacturing of Solar Panels shall also subject to rate of 0%.

Electric Car Industry

Import of luxury Electric Vehicles having value exceeding or equals to 50,000 US $ which are previously subject to custom duty at the rates reduced by 50% of the prevailing tariff rates shall now subject to full tariff rate of customs duty.

Hybrid Car Industry

In response to the increase in local manufacturing, the customs duty on importing Hybrid Electric Vehicles proposed to 100% tariff and custom duty. Previously, these vehicles are entitled for exemptions of 50% for engine capacities up to 1800cc and 25% for engine capacities between 1800cc and 2500cc.

Glass Manufacturing Industry

Due to increasing export of locally produced glass, custom duty shall be levied at the rate of 20% on import of Glass Evacuated tubes for the collection and transportation of blood.

Steel and Paper Industry

In order to encourage local manufacturing of Ball Bearings. The Custom duty on import of Ball bearing is now proposed to be increased.

Other miscellaneous

Item	Existing CD	Proposed CD
Rice Flour	N/A	11%
HSD Oil	11%	0%
Natural Gas	11%	0%
Aerosol Products	11%	16%
Valves for tyre tubes	N/A	16%
Photovoltaic power cable having single conductor of kind used for solar	N/A	20%
Night vision goggles	N/A	11%
Evacuated tubes for the collection and transport of blood: glass, PET & others	N/A	20%

OTHER LAWS

The Petroleum Products (Petroleum Levy) Ordinance 1961 (xxv of 1961)

The budget seeks to replace the existing Fifth schedule of the Ordinance of 1961 which only provided the maximum petroleum levy rates for different petroleum products with the new schedule which provides the range from minimum to maximum petroleum levy rates and the proposed maximum rates are relatively higher than the existing one except for Superior kerosene Oil and Pakistani produced LPG. The burden of this increase isn Petroleum levy would ultimately be passed to the customer resulting in increase in the prices of the petroleum products.

The Fifth Schedule

Petroleum Products	Unit	Existing	Proposed	
		Max petroleum levy rate (PKR per unit)	Min petroleum levy rate (PKR per unit)	Max petroleum levy rate (PKR per unit)
High Speed diesel oil (HSDO)	Litre	60	60	80
Motor Gasoline	Litre	60	60	80
Superior Kerosene Oil (SKO)	Litre	50	50	50
Light Diesel Oil (LDO)	Litre	50	50	75
High octane blending component (HOBC)	Litre	50	50	75
E-10 gasoline	Litre	50	50	75
Liquefied petroleum gas (Produced/extracted in Pakistan)	Metric Ton	30,000	30,000	30,000

Public Finance Management Act 2019

The existing definition of the term ‘technical supplementary grant’ has been proposed to be replaced with a new definition. The existing definition only allowed authorization for additional funds by surrender of funds from other budget grant and also restricted that the total government expenditure should not increase. The new definition has removed the limitation of increase in expenditure and have also included the other sources for the appropriation of funds. The definition is reproduced below for brevity:

“Technical supplementary grant” means appropriation or authorization, as the case may, of additional funds to a demand for grant against;

i. Surrender from another demand for grant; or
ii. Anticipated saving received by the Finance Division; or
iii. Unbudgeted revenue receipt deposited by provinces or Entities in Federal consolidated Fund for a specific purpose; or
iv. Unbudgeted foreign grants received or deposited by foreign governments or international donors in Federal Consolidated fund for a specific purpose.”

In view of the above amendment now the supplementary grants can be authorized or appropriated out of the anticipated savings or unbudgeted revenues which may be in excess of the budgeted expenditure of the government.

Federal Board of Revenue Act 2007

The proposed amendment seeks to amend the section regarding delegation of powers of the Board thereby proposing that the powers of the Board can only be delegated to any government agency, chairman or the member of the Board and not the employee of the Board.

Amendment in the Abandoned properties (Management) Act, 1975 (XX of 1975)

The proposed amendment seeks to empower the Administrator to invest in any security approved by the Federal Government in the manner as may be prescribed. Further by omission of Section 29(2) of the said Act, the compulsion to submit the sale proceeds of the abandoned properties into the federal consolidated fund has been removed.

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