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ASSURANCE | TAX | CONSULTING

# Finance Act 2024–25

Addendum

## Tax Memorandum on Amendments in the Finance Bill 2024

On June 12, 2024, the Federal Government presented the Finance Bill (FB) 2024 in the National Assembly. Following deliberations in the Senate and National Assembly, the Government enacted the Finance Act (FA) 2024 on June 28, 2024, incorporating certain modifications to the original bill. These changes take effect from July 1, 2024, unless stated otherwise.

This memorandum provides an overview of the major amendments introduced in the Finance Bill and subsequently incorporated into the Finance Act.

Our comments on Finance Bill 2024 are available at <https://rb.gy/bc1q3o>



## Income Tax

### SURCHARGE

- **Applicability:** A surcharge of 10% on income tax is now applicable for individuals, including salaried individuals, and Association of Persons (AOP) with taxable incomes exceeding Rs.10 million. For instance, an individual with a taxable income of Rs. 12 million, who has a regular income tax liability of Rs. 2,765,000, will now be subject to an additional surcharge of Rs. 276,500.
- **Withholding Tax Adjustment:** Employers making salary payments to employees are required to withhold the surcharge amount from the affected employees under section 4AB of the Income Tax Ordinance, 2001 where taxable income exceeds Rs. 10 million or more in a tax year.
- **Exemptions:** The surcharge does not apply to incomes that fall under the final tax regime or those subject to special tax rates, such as capital gains on listed securities and immovable properties.
- **Super Tax Consideration:** For taxpayers liable to pay super tax due to their income surpassing Rs. 150 million, the surcharge is only calculated on their normal income tax liability and not on the super tax amount.

### SALARIED INDIVIDUALS

There have been no changes to the tax rates proposed in the Finance Bill. The table below illustrates the impact of these rates, alongside the surcharge and super tax where applicable, for different income levels:

Annual Taxable Income (Rs.)	Tax Year 2024 Income Tax	Effective Tax Rate (%)	Tax Year 2025 Income Tax	Surcharge U/S 4AB	Effective Tax Rate (%)	Increase in Tax (Rs.)	Increase in Tax Rate (%)
600,000	-	-	-	-	-	-	-
1,200,000	15,000	1.25	30,000	-	2.50	15,000	1.25
2,200,000	140,000	6.36	180,000	-	8.18	40,000	1.82
2,400,000	165,000	6.88	230,000	-	9.58	65,000	2.71
3,200,000	345,000	10.78	430,000	-	13.44	85,000	2.66
3,600,000	435,000	12.08	550,000	-	15.28	115,000	3.19
4,100,000	572,500	13.96	700,000	-	17.07	127,500	3.11
6,000,000	1,095,000	18.25	1,365,000	-	22.75	270,000	4.50
8,000,000	1,795,000	22.44	2,065,000	-	25.81	270,000	3.38
10,000,000	2,495,000	24.95	2,765,000	-	27.65	270,000	2.70
12,000,000	3,195,000	26.63	3,465,000	346,500	31.76	616,500	5.14
15,000,000	4,245,000	28.30	4,515,000	451,500	33.11	721,500	4.81
200,000,000	70,995,000	35.50	71,265,000	6,926,500	39.10	7,196,500	3.60
300,000,000	112,995,000	37.67	113,265,000	10,426,500	41.23	10,696,500	3.57

Note: These amounts include super tax under section 4C at applicable rates.

## NON-SALARIED INDIVIDUALS / AOPS

There are no changes to the proposed tax rates in the Finance Bill, except for professional firms restricted from incorporation by law, where the maximum tax rate has been reduced from 45% to 40%.

The impact of the revised tax rates, including the surcharge and super tax where applicable, is as follows:

Annual Taxable Income (Rs.)	Tax Year 2024 Income Tax	Effective Tax Rate (%)	Tax Year 2025 Income Tax	Surcharge U/S 4AB	Effective Tax Rate (%)	Increase in Tax (Rs.)	Increase in Tax Rate (%)
600,000	-	-	-	-	-	-	-
800,000	15,000	1.88	30,000	-	3.75	15,000	1.88
1,200,000	75,000	6.25	90,000	-	7.50	15,000	1.25
1,600,000	155,000	9.69	170,000	-	10.63	15,000	0.94
2,400,000	315,000	13.13	410,000	-	17.08	95,000	3.96
3,000,000	465,000	15.50	590,000	-	19.67	125,000	4.17
3,200,000	525,000	16.41	650,000	-	20.31	125,000	3.91
4,000,000	765,000	19.13	970,000	-	24.25	205,000	5.13
5,600,000	1,325,000	23.66	1,610,000	-	28.75	285,000	5.09
6,000,000	1,465,000	24.42	1,790,000	-	29.83	325,000	5.42
8,000,000	2,165,000	27.06	2,690,000	-	33.63	525,000	6.56
10,000,000	2,865,000	28.65	3,590,000	-	35.90	725,000	7.25
12,000,000	3,565,000	29.71	4,490,000	449,000	41.16	1,374,000	11.45
15,000,000	4,615,000	30.77	5,840,000	584,000	42.83	1,809,000	12.06
200,000,000	70,995,000	35.50	71,265,000	6,926,500	39.10	7,196,500	3.60
300,000,000	112,995,000	37.67	113,265,000	10,426,500	41.23	10,696,500	3.57

*Note: These amounts include super tax under section 4C at applicable rates.*

## TAX ON EXPORT OF GOODS

The Finance Bill proposed converting the final tax regime for exporters of goods, Export Processing Zone (EPZ) entities, and indirect exporters to a minimum tax regime. Additionally, it recommended the collection of an additional 1% advance tax from direct exporters of goods.

A new provision has been introduced in Section 147 (Advance Tax), mandating specified withholding agents to collect 1% advance income tax from exporters of goods (both direct and indirect) at the time of realizing export proceeds. Consequently, the advance tax collection under Section 154 proposed for direct exporters has been withdrawn.

Due to these amendments, the revised tax impact on exporters and other individuals is summarized in the following table:

Nature of Transaction	Withholding Agent	Prior to Finance Act	Subsequent to Finance Act	Advance Tax (under Section 147)
Export of goods	Banks	1%	1%	1%
Indirect exporter under inland back-to-back L/C arrangements	Banks	1%	1%	1%
Exports by EPZ entities	EPZA	1%	1%	1%
Sale of goods by an indirect exporter to certain direct exporters and export houses	Exporters / Export House	1%	1%	1%
Clearance of certain exported goods	Collector of Customs	1%	1%	1%

## TAXATION OF BUILDERS & DEVELOPERS

A specific tax regime for builders and developers has been established, where applicable tax will be payable on taxable profits from these activities. The profits will be computed as follows:

Sr. No.	Nature of Activities	Taxable Profits Computed on Gross Receipts Basis
1	Construction and sale of residential, commercial, or other buildings	10%
2	Development and sale of residential, commercial, or other plots	15%
3	Carrying on both activities as mentioned in (1) and (2) above.	12%

Taxpayers explaining the nature and source of amounts credited, investments made, or funds used for expenditures must adhere to the taxable profits percentages outlined above. Credits exceeding these computed profits are not permissible unless actual taxable income surpasses the computed profits, in which case the taxpayer can claim credit for the excess income subject to normal tax rates.

The provisions of section 7F shall not be applicable to a builder or developer established by an Act of the Parliament or a Provincial Assembly or by a Presidential Order and who is engaged in activities for the benefit of its employees or otherwise (including activities for the planning



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and development of and for providing and regulating housing and ancillary facilities in a specified or notified area).

### **POWERS TO ISSUE EXEMPTION CERTIFICATES**

The previously proposed measure to rescind the Commissioner's authority to issue tax withholding exemption certificates for incomes that are either exempt from tax or eligible for a 100% tax credit (such as Non-Profit Organizations) has been abandoned. However, for payments made to both resident and non-resident individuals (who are not subject to the minimum tax), such as sales of goods by manufacturers, the power to issue exemption certificates has not been reinstated. Instead, the permissible reduction through a lower rate certificate will now be capped at 80% of the normal rate.

For instance, a corporate manufacturer of goods whose standard withholding tax rate on payments for the sale of such goods is 5% can now secure a reduced rate certificate of up to 1% (i.e., a maximum reduction of 4%, being 80% of 5%).

The Bill had proposed to remove the 25% rebate available of the tax payable on the income from salary, to a full-time teacher or a researcher employed in a non profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government research institution. The Amended Bill has proposed to withdraw such removal. Consequently, such 25% rebate has been restored vide the Amended Bill.

### **MINIMUM TAX ON SPECIAL ECONOMIC ZONE ENTITIES**

A specific clause has been reintroduced to exempt from minimum tax under section 113 of the Income Tax Ordinance, 2001 to the persons qualifying for exemption under Clause 126E of Part 1 of the Second Schedule as follows:

Income derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 (XX of 2012) for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operation and for a period of ten years to a developer of zone starting from the date of signing of the development agreement in the special economic zone as announced by the Federal Government.

Provided that this clause shall also apply to a co-developer as defined in Special Economic Zone Rules, 2013 subject to the condition that a certificate has been furnished—

- a. by the developer that he has not claimed exemption under this clause and has relinquished his claim in favour of the co-developer; and

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- b. by the Special Economic Zone Authority validating that the developer has not claimed exemption under this clause and has relinquished claim in favour of the co-developer.

This exemption was earlier available, but was withdrawn vide Finance Act 2022.

### **SALES PROMOTION, ADVERTISEMENT & PUBLICITY EXPENDITURE**

An amendment proposed in the FB suggested that if royalty payable to an associate for certain specified intangibles is allowed to a taxpayer, it could lead to the disallowance of 25% of the taxpayer's sales promotion, advertisement, and publicity expenditure. This disallowance will now only occur if the taxpayer fails to provide an explanation or evidence that no benefit was conferred on the associate due to incurring such expenditure, upon notice issued by the Commissioner.

### **INCOME FROM STOCK FUNDS**

The Bill had proposed to increase the dividend withholding rates if the dividend receipts of the fund are less than capital gains, from 12.5% to 20%. The Amended Bill has proposed to reduce the proposed 20% to 15%.

### **SIGNIFICANT ECONOMIC PRESENCE FOR NON-RESIDENTS**

The definition of Pakistan-sourced business income for non-residents has been broadened to include income attributable to a "significant economic presence" in Pakistan. Significant economic presence is defined as:

1. Transactions involving goods, services, or property with any person in Pakistan, including data or software downloads, if total payments exceed a prescribed amount during a tax year.
2. Systematic and continuous business activities or digital interactions with a specified number of users in Pakistan, regardless of whether:
  - The agreement is signed in Pakistan,
  - The non-resident has a residence or place of business in Pakistan, or
  - The non-resident provides services in Pakistan.

Non-residents covered by a double tax treaty will not be affected by this amendment due to the treaty's precedence over domestic tax laws, subject to certain general anti-avoidance rules.

### **SECTORAL BENCHMARKS FOR BEST JUDGMENT ASSESSMENT**

The Amended Bill has proposed to add a new sub-Section (1A) in Section 121, whereby, the Commissioner has been empowered to determine taxable income for making a best judgment assessment order based on the sectoral benchmark ratios prescribed by the

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Board. The Amended bill has further sought to define sectoral benchmark ratios as "standard business sector ratios notified by the Board on the basis of comparative cases and includes financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio and such other ratios in respect of such sectors as may be prescribed."

## **YEAR OF DISCOVERY FOR CONCEALED FOREIGN ASSETS OR EXPENDITURE OR CONCEALED INCOME**

Before the Financial Act (FA) 2018, both local and foreign concealed assets, income, or expenditures were added to the tax year they pertained to. Post-FA 2018, any addition for concealed foreign assets, expenditures, or income was made in the tax year immediately preceding the discovery year by the Commissioner. This led to disputes regarding the exact tax year of discovery—whether it was when information was received (e.g., under the Common Reporting Standard) or when the Commissioner issued the notice.

The recent amendment clarifies that the "year of discovery" for foreign assets or concealed income or expenditure is defined as the year the Commissioner issues a notice requesting the taxpayer to explain the nature and source of these assets or income. For instance, if information was received in tax year 2019 and the Commissioner issues a notice in tax year 2024, the addition would be made in the tax year immediately preceding (i.e., tax year 2023).

The Finance Bill proposed to empower the FBR to issue a general order restricting the foreign travel from Pakistan of such citizens of Pakistan whose name are not appearing on ATL. As per Finance Bill, such restriction for traveling was not to apply on the following persons:

- Persons holding a National Identity Card for Overseas Pakistanis (NICOP);
- Minors;
- Students;
- Such other classes of persons as notified by FBR.

The Amended Bill seeks to extend the above list of persons by including the person travelling abroad for Hajj or Umrah.

## **ASSETS OF SPOUSE FOR WEALTH STATEMENT**

The Amended Bill has proposed to add a new explanation in Section 116(1)(b) of the 2001 Ordinance, whereby the Government has explained that the assets of the spouse shall only be included in the wealth statement of a person if the spouse is a dependent.

## **LATE FILERS**

The FB proposed an enhanced rate of advance tax collection on purchase and sale of property for filers who filed their returns after the due date (referred as 'late filers'). It is now provided



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that such enhanced rate would only be applicable on those persons who filed their returns for last three preceding tax years after the respective due dates.

### **TAX CREDIT AVAILABLE TO FULL-TIME TEACHERS & RESEARCHERS**

Initially, the FB proposed to eliminate the 25% tax credit available of the tax payable on salary to a full-time teachers or researchers employed in a recognized non-profit educational or research institution. However, this proposal was not included in the FA, meaning the 25% tax credit has been restored vide amended Bill.

### **RATE OF DEFAULT SURCHARGE**

The FB proposed increasing the default surcharge rate from 12% per annum to KIBOR plus 3%. The FA revised this to the greater of 12% per annum or KIBOR plus 3%, aligning similar amendments in sales tax and federal excise laws.

### **PENALTY FOR FAILURE TO COMPLY WITH FBR GENERAL ORDER FOR DISCONNECTION OF UTILITIES, ETC.**

The FB proposed a penalty for failing to comply with an income tax general order issued by the Federal Board of Revenue (FBR) for those not on the active taxpayers' list but required to file returns. Initially, the penalties were Rs. 100 million for the first default and Rs. 200 million for each subsequent default. The FA reduced these penalties to Rs. 50 million for the first default and Rs. 100 million for each subsequent default, effective from a date to be notified by the Board.

### **APPEALS**

In the Finance Bill, several adjustments were suggested to the recently implemented two-tier appeal system to enhance clarity regarding tax assessment values, extend the timeframe for transferring cases from the Commissioner Inland Revenue Appeals (CIRA) to the Appellate Tribunal Inland Revenue (ATIR), and safeguard time limitations for orders issued before the enactment of the Tax Laws (Amendment) Act, 2024. These suggestions have been adopted with the following modifications:

1. The deadline for transferring pending appeals, value of assessment of tax or refund whereof is more than Rs. 20 million, from CIRA to ATIR was initially proposed to shift from June 16, 2024, to September 16, 2024. This has been further adjusted, allowing transfers to occur on or before December 31, 2024. This amendment is considered effective from June 16, 2024.
2. Cases transferred to the ATIR were initially required to be resolved within a specific period from June 16, 2024. The new provision mandates that such cases must be resolved within a specified period from the date of transfer. It means the limitation of

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ATIR for deciding the transferred appeals shall start from the date of transfer of the said appeals.

3. For references to the High Court, the applicant was previously required to submit the complete ATIR record within 15 days of filing an application. This requirement now extends to records related to CIRA as well.
4. Under existing law, the High Court can grant a stay on tax recovery conditional upon the deposit of at least 30% of the tax determined by the ATIR. The FA has extended this condition to include orders issued by CIRA.
5. An explanation has been added to clarify that references against CIRA orders communicated after the Tax Laws (Amendment) Act, 2024, must be submitted to the High Court. These cannot be contested before the Tribunal, regardless of the tax or refund assessment value.
6. A fee of Rs. 50,000 is required to accompany reference applications to the High Court. This requirement now also applies to aggrieved individuals other than the Commissioner.

The FA has also introduced corrective amendments to resolve ambiguities regarding the jurisdiction of CIRA, ATIR, and the High Court. However, further corrective measures are needed to align the appeal system laws under Sales Tax and Federal Excise laws.

### **TAX FRAUD INVESTIGATION WING (TFIW)**

The FA introduces provisions across Income Tax, Sales Tax, and Federal Excise Laws to establish a Tax Fraud Investigation Wing (TFIW).

Further, the functions of the newly established Tax Fraud Investigation Wing ("TFIW") shall be to detect, analyze, investigate, combat and prevent tax evasion and fraud.

The Tax Fraud Investigation Wing Inland Revenue shall comprise Fraud Intelligence and Analysis Unit, Fraud Investigation Unit, Legal Unit, Accountants Unit, Digital Forensic and Scene of Crime Unit, Administrative Unit or any other Unit as may be approved by the Board or the Federal Government.

The Tax Fraud Investigation Wing Inland Revenue shall consist of a Chief Investigator and as many following officers, as may be notified by the Board –

- a) Senior Investigators, Investigators, Junior Investigators or any other officer of Inland Revenue with any other designation;
- b) a Senior Forensic Analyst and as many Forensic Analysts and Junior Forensic Analysts; and
- c) a Senior Data Analyst and as many Data Analysts and Junior Data Analysts.

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The Board may, by notification in the official Gazette, –

- a) specify the functions and jurisdiction of the Tax Fraud Investigation Wing Inland Revenue and its officers; and
- b) confer the powers of authorities specified in section 207 upon the Tax Fraud Investigation Wing Inland Revenue and its officers in clause (a) of sub-section 4.

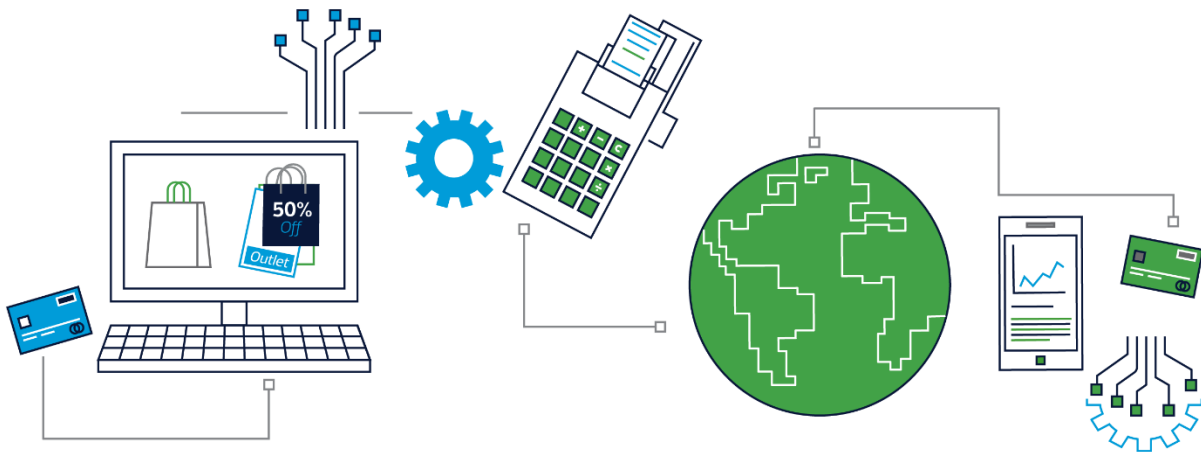
The Amended Bill has further proposed that nothing contained in this section shall prevent the authorities appointed under section 207 and 208 or any other authority or officer conferred with the power of authorities under section 207 and 208 from conducting prosecution Part XI of Chapter X of the Ordinance.

### DIVERSIFIED PAYMENT RIGHTS

Income from a Special Purpose Vehicle (SPV) that purchases Diversified Payment Rights from Authorized Dealers in Pakistan is now exempt from tax. Withholding tax provisions on payments to non-residents (section 152) will not apply to these SPVs.

For banking companies under the special taxation provisions (Seventh Schedule), any asset transfers by an Authorized Dealer to an SPV due to a Diversified Payment Rights transaction will be treated as financing transactions, irrespective of the accounting method adopted by the Authorized Dealer.

The terms Diversified Payment Rights, Special Purpose Vehicle, and Authorized Dealers will have the same meanings as defined in the State Bank of Pakistan's Circulars or Regulations on Diversified Payment Rights.



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## SALES TAX

### DEFINITION OF ASSOCIATE

The FB proposed to amend the definition of 'Associates' to align it with section 85 of the Income Tax Ordinance, 2001. The FA has made the necessary editorial amendments to fully synchronize these definitions. Adoption of definition provided in ITO, 2001 would have resulted into broadening of scope of term 'Associates' for the purpose of sales tax.

### INPUT SALES TAX

The FA has modified the definition of 'input tax' to empower the Board to exclude certain services subject to provincial sales tax from being admissible as input tax. This will be done through notifications, subject to conditions, restrictions, or limitations specified. The Act empowers the Board to restrict the scope of input tax related to provincial sales tax on services through notification in Official Gazette subject to such conditions as may be prescribed.

### TAX FRAUD

Tax fraud means "intentionally understating or underpaying the tax liability or overstating the entitlement to tax credit or tax refund in contravention of duties or obligations imposed under the Act by way of submission of false return, statements or false documents or withholding of correct information or documents to cause loss of tax. The FB proposed an extensive revamp of the 'tax fraud' definition in the Sales Tax Act (STA), significantly broadening its scope. The FA further strengthens this legal position by redefining 'tax fraud' to include intentionally understating or underpaying tax liability, overstating tax credit or refund entitlement, and submitting false returns or documents. Additionally, the FA includes the following as part of tax fraud:

- Making taxable supplies without STA registration
- Intentional acts or omissions causing tax loss under the STA

Hence, the amended Bill has slightly rephrased the earlier proposed definition.

### BEST JUDGEMENT ASSESSMENT

The Finance Act (FA) introduces a provision that empowers tax authorities to conduct a best judgement assessment in specific circumstances. This measure is implemented when a taxpayer fails to comply with required filings or provide necessary documentation. The key aspects of this assessment are outlined below:

- **Trigger for Best Judgement Assessment:** This assessment can be initiated if a taxpayer does not submit a sales tax return following a notice or fails to present

accounts, records, or documents requested under sections 25, 25AB, or 38A of the Sales Tax Act (STA).

- **Assessment Procedure:** Competent tax officials are authorized to make an assessment based on the available information and materials.
- **Abatement of Assessment:** If a taxpayer files the required return and pays the due tax within sixty days of the best judgement assessment order, the show cause notice or assessment order will be nullified.

The following table illustrates the conditions and outcomes for best judgement assessment:

Condition	Action by Tax Authority	Outcome if Complied Within 60 Days
Failure to submit sales tax return	Issuance of a best judgement assessment order	Abatement of assessment order
Failure to produce accounts, records, or documents	Issuance of a best judgement assessment order	Abatement of assessment order

The amended Bill has specified time limit of 60 days from issuance of order for best Judgement assessment.

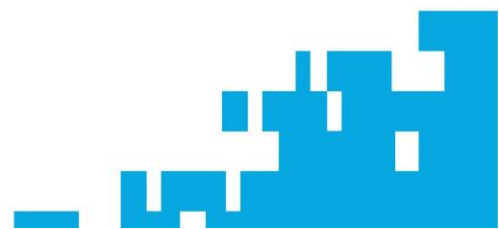
### DE-REGISTRATION, BLACKLISTING AND SUSPENSION OF REGISTRATION

The FA extends the authority of the Chief Commissioner to review and modify blacklisting and suspension orders issued by the Commissioner. The details are as follows:

- **Review Authority:** The Chief Commissioner can examine and potentially alter the 'Blacklisting' or 'Suspension' order either independently or upon the taxpayer's application.
- **Non-Appealable Orders:** Orders passed by the Commissioner are not subject to appeal before the Appellate Tribunal.

### PAYMENT THROUGH BANKING CHANNELS

The threshold for considering payments not made through banking channels was clarified in the FA. The aggregate amount of Rs 50,000 is now specified to refer to payments made to a single supplier within a tax period.



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## INVESTIGATIVE AUDIT

The FA has withdrawn the provisions of Investigative Audit. Earlier, the proposal was to authorize Inland Revenue officers to conduct investigative audits in cases involving tax fraud. Instead, a new section 30AB has been added to the STA, which establishes a Tax Fraud Investigation Wing with the mandate to:

- Detect
- Analyze
- Investigate
- Combat
- Prevent tax fraud

This new wing will have defined functions to handle matters related to tax fraud comprehensively.

## TAX FRAUD INVESTIGATIVE WING IR

The Amended Bill has proposed to introduce a new wing titled as "Tax Fraud Investigation Wing–Inland Revenue", whereby their main objective would be to detect, analyze, investigate, combat and prevent tax fraud and shall comprise of the following units:

- a. Fraud Intelligence and Analysis Unit;
- b. Fraud Investigation Unit;
- c. Legal Unit;
- d. Accountants Unit;
- e. Digital Forensics and Scene of Crime Unit;
- f. Administrative Unit;
- g. Or any other Unit as notified by the Board.

Moreover, the wing would comprise of a Chief Investigator and as many officers as may be notified for the following:

- a) Senior Investigators, Investigators, Junior Investigators, or any other officer of the Inland Revenue with any other designation;
- b) A Senior Forensic Analyst and as many Forensic Analysts and Junior Forensic Analysts; and
- c) A Senior Data Analyst and as many Data Analysts and Junior Data Analysts.

Moreover, the Board shall specify the functions and jurisdictions of the wing, its units, officers and the shall confer powers of authorities as specified in section 30. Furthermore, the Amended Bill has proposed that nothing under this section would prevent the authorities from conducting investigation and prosecution as laid down as Offences and Penalties under Chapter–VII of the Act.

## DEFAULT SURCHARGE [SECTION 34]

The Bill proposed to enhance the rate of default surcharge from 12% to KIBOR plus 3%. The amended Bill proposed default surcharge would be the higher of 12% per annum or KIBOR plus 3% per annum.

## PECUNIARY JURISDICTION IN APPEALS [SECTION 43A]

Through the Bill, the date of transfer of cases involving the value of assessment of tax or refund of tax exceeding ten million rupees from Commissioner (Appeals) to the Appellate Tribunal Inland Revenue, was proposed to be extended till September 16, 2024. As per adaptation in the Amended Bill, the said date has been extended till December 31, 2024.

## CERTAIN TRANSACTIONS NOT ADMISSIBLE [SECTION 73]

Section 73 of the Act restricts the admissibility of input tax if payment for a transaction exceeding Rs. 50,000 (excluding utility bill) is made otherwise than through a banking channel. The Bill proposed that said amount shall be considered in aggregate for the purpose of admissibility of input tax. The Amended Bill further clarifies that the limit of Rs. 50,000 In aggregate shall apply to a single supplier in a tax period.

## PENALTIES

In the Finance Bill (FB), it was initially proposed to extend the maximum imprisonment for offences under the Sales Tax Act (STA) to up to ten years, overriding the provisions of the Code of Criminal Procedure, 1898. However, this proposal has been rescinded by the Finance Act (FA).

Moreover, the FA has introduced several amendments to enhance the efficacy of penal provisions initially proposed in the FB. These changes are aimed at bolstering the enforcement mechanisms and ensuring compliance with the tax laws. Some of the key modifications include:

- **Penalties for Non-compliance with FBR Orders:** A penalty structure has been outlined for entities failing to adhere to general orders issued by the Federal Board of Revenue (FBR) regarding individuals not listed as active taxpayers but obligated to file returns. The penalties have been revised as follows:

Default Type	Penalty Amount
First Default	Rs 50 million
Subsequent Default	Rs 100 million

- The imposition of these penalties will be effective from a date specified by the Board.

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## EXEMPTIONS FROM IMPOSITION OF SALES TAX – RETAINED

The FB proposed to withdraw exemptions on the import and supply of certain goods. However, the FA has retained exemptions for the following items:

- Medical equipment and disposables related to cardiology/cardiac surgery, neurovascular procedures, electrophysiology, endo-surgery, endoscopy, oncology, urology, and gynecology.
- Goods supplied to charitable hospitals with fifty beds or more and goods imported by non-profit institutions (excluding electricity and natural gas).

## NEW EXEMPTIONS INTRODUCED

The FA has introduced new exemptions from sales tax for the supply/import of the following goods:

Description	Heading
Electricity supplied to Azad Jammu and Kashmir	Respective headings
Import of gold under the entrustment scheme (SRO 760(I)/2013)	Respective headings
Import of cystagon, cysta drops, and trientine capsules (for personal use only)	3004.9099
Bovine semen	0511.1000

Additionally, while the FB proposed an exemption for non-branded milk, the FA has refined this to also exclude milk supplied by corporate dairy farms from the exemption.

## RESTRICTION ON EXEMPTIONS FOR IRON AND STEEL SCRAP

The FA has limited the scope of the exemption on the supply and import of iron and steel scrap. Specifically, supplies made by manufacturer-cum-exporters of recycled copper under the Export Facilitation Scheme, 2021 are excluded from this exemption.

## EXEMPTIONS RELATING TO ERSTWHILE TRIBAL AREAS

The Finance Bill (FB) had proposed several changes regarding the tax treatment of supplies and imports in the erstwhile tribal areas, recognizing the expiration of existing exemptions on June 30, 2024. These proposed changes included:

1. Supplies meant for consumption in tribal areas



2. Import of plant, machinery, and equipment for installation in tribal areas
3. Import of industrial inputs by industries located in tribal areas
4. Supplies of electricity to all residential and commercial consumers in tribal areas
5. Supplies of electricity to industries (excluding steel and ghee or cooking oil industries) that were set up and commenced industrial production before March 31, 2018

However, through the Finance Act (FA), these exemptions from the imposition of sales tax have been extended until June 30, 2025. Consequently, the proposed taxation of the above items at a reduced rate has been withdrawn.

### LOCALLY MANUFACTURED HYBRID ELECTRIC VEHICLES

The FB had proposed to exclude locally manufactured hybrid electric vehicles from the reduced rate regime. Nevertheless, the FA has modified this proposal, ensuring that these vehicles will continue to be subject to the following reduced rates of sales tax until June 30, 2026:

Description	Reduced Rate of Sales Tax
Locally manufactured hybrid electric vehicles (up to 1800 cc)	8.5%
Locally manufactured hybrid electric vehicles (1801 cc to 2500 cc)	12.75%



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## FEDERAL EXCISE DUTY

### FIRST SCHEDULE

#### TABLE I: DUTIABLE GOODS

##### BOARD

The amended Bill has proposed that the term "Board" shall have the same meaning as in the Income Tax Ordinance, 2001.

##### DEFAULT SURCHARGE

The amended Bill has proposed that the default surcharge would be higher of 12% per annum or KIBOR plus 3% per annum.

##### TAX FRAUD INVESTIGATION WING IR

The Amended Bill has proposed to introduce a new wing titled as "Tax Fraud Investigation Wing-Inland Revenue", whereby their main objective would be to detect, analyze, investigate, combat and prevent tax fraud and shall comprise of the following units:

- a. Fraud Intelligence and Analysis Unit;
- b. Fraud Investigation Unit;
- c. Legal Unit;
- d. Accountants Unit;
- e. Digital Forensics and Scene of Crime Unit;
- f. Administrative Unit;
- g. Or any other Unit as notified by the Board;

Moreover, the wing would comprise of a Chief Investigator and as many officers as may be notified for the following:

- a) Senior Investigators, Investigators, Junior Investigators, or any other officer of the Inland Revenue with any other designation.
- b) A Senior Forensic Analyst and as many Forensic Analysts and Junior Forensic Analysts; and
- c) A Senior Data Analyst and as many Data Analysts and Junior Data Analysts.

Moreover, the Board shall specify the functions and jurisdictions of the wing, its units, officers and the shall confer powers of authorities as specified in section 27. Furthermore, the

Amended Bill has proposed that nothing under this section would prevent the authorities from conducting investigation and prosecution as laid down in Chapter III of the Act.

### TRANSFER OF APPEALS TO ATIR

The Amended Bill has proposed to extend the date from 16<sup>th</sup> June 2024 to 31<sup>st</sup> December 2024 for cases which were supposed to be transferred to the Hon'ble Appellate Tribunal Inland Revenue ("ATIR") upon enactment of the Tax Laws (Amendment) Act, 2024.

### FEDERAL EXCISE DUTY ON CEMENT

The proposed rate of Federal Excise Duty (FED) on Portland cement, aluminous cement, slag cement, super sulphate cement, and similar hydraulic cements, whether or not colored or in the form of clinkers, has been adjusted. The Finance Bill (FB) initially suggested an increase from Rs 2 per kg to Rs 3 per kg. However, the Finance Act (FA) has further raised this rate to Rs 4 per kg.

### FEDERAL EXCISE DUTY ON LUBRICATING OIL

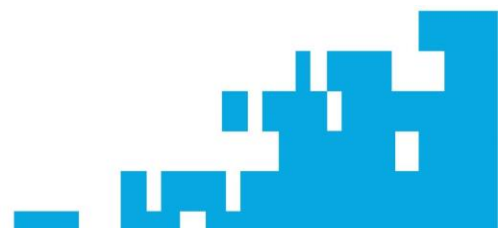
In line with the new amendments, a 5% ad valorem FED has been imposed on lubricating oil. This encompasses tariff headings 2710.1951, 2710.1952, and 2710.1953.

### MINIMUM PRICE RESTRICTION ON CIGARETTES

The Finance Bill proposed adjustments to the retail price for various tiers of cigarettes manufactured in Pakistan. The goal was to maintain different brands within the same tiers despite the price increase. The adjustments are as follows:

Sr. No.	Rates of Duty	Existing Description	Proposed Description
9.	Rs 16,500 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price exceeds Rs 9,000 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price exceeds Rs 12,500 per 1,000 cigarettes
10.	Rs 5,050 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price does not exceed Rs 9,000 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price does not exceed Rs 12,500 per 1,000 cigarettes

The FA has revised the minimum price restriction, reducing it from 60% of the retail price to 55%, as noted in Serial No. 9 above.



## TABLE II: EXCISABLE SERVICES

### INCREASE IN FEDERAL EXCISE DUTY ON INTERNATIONAL AIR TRAVEL

The FA has increased the FED on services related to international air travel for passengers embarking on International journey from Pakistan. The new rates are categorized based on the date of ticket issuance and the class of travel as under:

Categories	Tickets Issued Before July 1, 2024	Tickets Issued on or After July 1, 2024
Economy and Economy Plus Air Tickets	Rs. 5,000	Rs. 12,500
Club, Business, and First-Class Air Tickets		
(a) IATA Traffic Conference Area 1 (North, Central, South America and Environs)	Rs. 250,000	Rs. 350,000
(b) IATA Traffic Conference Area 2		
(i) Middle East and Africa	Rs. 75,000	Rs. 105,000
(ii) Europe	Rs. 150,000	Rs. 210,000
(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand, and Pacific Islands)	Rs. 150,000	Rs. 210,000

### TABLE III: EXCISABLE ITEMS OTHER THAN THOSE MENTIONED UNDER TABLES I AND II

A new Table III has been introduced to align the FED applicability on items not previously covered under the import/manufacturing of excisable goods or rendering of excisable services. The FA includes the following changes:

#### FED ON ALLOTMENT/TRANSFER OF IMMOVABLE PROPERTY

The FB proposed a 5% FED on the allotment and transfer of immovable property. The FA has now introduced different rates based on the taxpayer's status, along with specified values for FED imposition:

Description of Items	Heading/Sub-heading Number	Rate of Duty
Allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property by any developer or builder in such mode and manner and subject to such conditions and restrictions as may be prescribed by the Board	Respective headings	(i) 3% of gross amount of consideration involved where the buyer is on the active taxpayer list maintained under section 181A of the Income Tax Ordinance, 2001 on the date of acquisition of property
		(ii) 5% of gross amount of consideration involved where the buyer has not filed the income tax return by due date as specified in proviso to Rule 1A of the Tenth Schedule to the Income Tax Ordinance, 2001
		(iii) 7% of gross amount of consideration involved where the buyer is not on the active taxpayer list maintained under section 181A of the Income Tax Ordinance, 2001 on the date of acquisition of property

## FEDERAL EXCISE DUTY ON SUGAR

The Federal Excise Duty (FED) on sugar has been revised through the Finance Act (FA). The updated provisions impose a duty of Rs. 15 per kilogram on the supply of white crystalline sugar by any individual to manufacturing, processing, or packaging entities. This modification broadens the scope compared to the earlier proposal in the Finance Bill (FB), which suggested levying FED only on supplies from sugar manufacturers to manufacturing entities.

Table of Revised Federal Excise Duty on Sugar

Description	Previous Rate (FB)	Revised Rate (FA)
Supply of white crystalline sugar	Rs. 10 per kg	Rs. 15 per kg

## CAPITAL VALUE TAX (CVT)

### CVT ON REAL ESTATE

The Capital Value Tax (CVT), initially introduced through the Finance Act of 2022, is now applicable to farmhouses and residential houses within Islamabad Capital Territory, based on their area rather than their value. The revised rates are detailed below:

The Amended Bill has proposed that the term "farmhouse" would have the same meaning as defined in the Income Tax Ordinance, 2001 and that CVT shall apply to farmhouses and residential houses within the territorial limits of the Islamabad Capital Territory ("ICT").

The Amended Bill has proposed that CVT on farmhouses and residential houses in the ICT would be liable to pay tax at the time the income tax return for the tax year is due.

The Amended Bill has introduced the following in the Table in the First Schedule in the following manner:

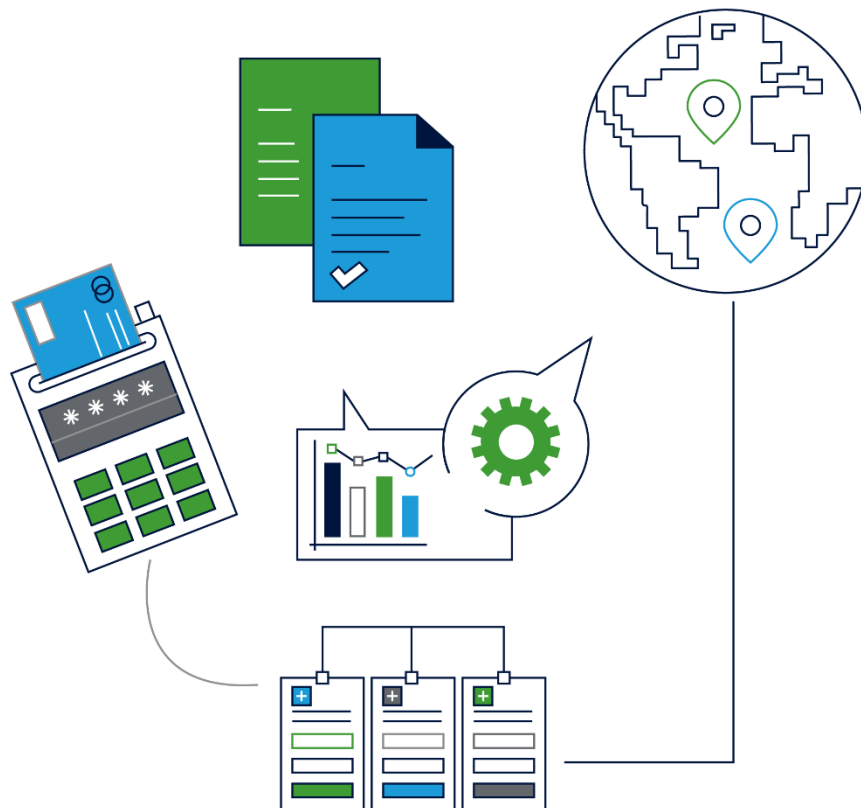
Sr Nos.	Description	Existing Rates	Rate of CVT
2	Farmhouses within the territorial limits in the ICT	None	Rs 500,000/- where area falls between 2,000sq. yards to 4,000 sq. yards.  Rs 1,000,000 where area exceeds 4,000 sq. yards.
3	Residential Houses within the territorial limits in the ICT	None	Rs 1,000,000/- where area falls between 1,000 sq. yards to 2,000 sq. yards.  Rs 1,500,000/- where area exceeds 2,000 sq. yards.

The CVT is payable when the income tax return for the respective tax year is due, in the prescribed manner.

## PETROLEUM LEVY (PL)

Changes have been made to the Petroleum Levy (PL) rates as specified in the Fifth Schedule to the Petroleum Products (Petroleum Levy) Ordinance, 1961. The FA has reduced the maximum proposed rates while eliminating the proposed minimum rates. The revised maximum rates are listed below:

Petroleum Product	Unit	Previous Max Rate (Rs/unit)	Revised Max Rate (Rs/unit)
High-Speed Diesel Oil (HSDO)	Litre	60	70
Motor Gasoline	Litre	60	70
Superior Kerosene Oil (SKO)	Litre	50	50
Light Diesel Oil (LDO)	Litre	50	50
High Octane Blending Component (HOBC)	Litre	50	70
E-10 Gasoline	Litre	50	50
Liquefied Petroleum Gas (produced/extracted in Pakistan)	Metric ton	30,000	30,000



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## Customs Act, 1969

### DIRECTORATE GENERAL OF TRADE BASED MONEY LAUNDERING

The Bill proposed to insert a new section whereby a Directorate General of Trade Based Money Laundering (TBML) is to be established with the aim to enhance regulatory measures and enforcement actions.

Through the Amended Bill, the name of office has been modified from DG of Trade Based Money Laundering to DG of Combatting Trade Based Money Laundering. The change of name adapted in the Amended Bill appears to have no impact on the aims and objectives of the authority introduced through the Bill.

### PROCEDURE OF APPELLATE TRIBUNAL

The Bill proposed to omit section 194C of the Act being redundant as procedure of the Appellate Tribunal was proposed to be regulated through the rules in accordance with sub-section (6) of the revised section 194 as proposed to be substituted by the Bill.

The Amended Bill has reinstated section 194C whereas proposed introduction of sub-section (6) of section 194 has not been adapted.

### APPEALS TO THE APPELLATE TRIBUNAL

The Bill proposed to substitute the entire section 194A of the Act. The substituted section explains the appeal process, and the criteria of constitution of special benches for certain appeals which were to be mandatorily required to be presided by the Chairman.

The Amended Bill, redefined the proposed criteria of constitution of such special benches whereby now it is not mandatory for the Chairman to preside the Bench, which condition was mandatory as per proposition in the Bill.

### ALTERNATIVE DISPUTE RESOLUTION (ADR)

The Bill proposed to substitute the entire section, providing mechanism for dispute resolution including appointment of dispute resolution committees, application requirement and withdrawal of litigation. The Amended Bill adapted the proposition with a change whereby now a Cost and Management Accountant can also be appointed as Committee Member.



# Finance Act 2024–25

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