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**FINANCE BILL 2023
- BRIEF ABOUT
AMENDMENTS IN
TAXATION LAWS**

**ZAHID JAMIL
& CO.**

Chartered Accountants

An Independent Member Firm
of Prime Global

Audit | Tax | Advisory | Risk

www.zahidjamilco.com

INCOME TAX ORDINANCE 2001

REVENUE MEASURES

1. Rationalization of Super Tax under section 4C to apply on all persons across the board on income above Rs. 150 (m): insertion of additional three new income slabs of Rs. 350(m) to Rs. 400(m), Rs. 400(m) to Rs. 500(m) and Rs. 500(m) above to be taxed at 6%, 8% and 10% respectively.
2. Re-imposition of 0.6% advance adjustable withholding tax on non-ATL persons on cash withdrawal.
3. 1% increase in withholding tax rates on supply of goods other than sale of rice, cotton seed or edible oils, on rendering of services including service subject to concessionary tax rate of 3% but excluding electronic and print media advertising services and on execution of contracts excluding sportsperson.
4. 0.5% increase in withholding tax rate for commercial importer on import of goods falling in Part III of Twelfth Schedule to the Income Tax Ordinance, 2001.
5. Re-imposition of 10% final withholding tax on issuance of bonus shares by a company (20% for non-ATL).
6. Increase in withholding tax rate from 1% to 5% on payment to non-resident through debit/credit or prepaid cards. (2% to 10% for Non-ATL person).
7. Imposition of an adjustable advance tax at Rs. 200,000 at the time of issuance of work permit/visa on employment of a foreign domestic helper.
8. Imposition of additional tax at the rate not exceeding fifty percent on income profit and gains of a person or class of persons on account of extraordinary gains due to exogenous factors.

RELIEF MEASURES

1. Continuation of concessionary fixed tax rate of 0.25% for IT & ITeS exports for Tax years 2024, 2025 and 2026.
2. Automated issuance of an exemption certificate for payment to a non-resident person within 30 days of application.
3. Withdrawal of Sales Tax return filing requirement for availing concessionary fixed tax rate of 0.25% for IT & ITeS exports.
4. Increase in business turnover limit of a manufacturer from Rs. 250 (m) to Rs. 800 (m) to qualify for concessionary tax regime for SMEs and inclusion of IT & ITeS in SMEs definition.
5. Concessionary tax rate of 20% on banking company's income from additional advances to IT & ITeS sector instead of standard rate of 39%.

6. Enhancement of monetary limit of foreign remittance remitted from outside Pakistan from five million rupees to rupee equivalent of USD 100,000 for the purpose of section 111(4) which places bar on asking nature and source of unexplained income/assets.
7. Waiver of 2% final withholding tax on purchase of immovable property for non-resident individual POC/NICOP holder where immovable property is acquired through foreign remittances remitted from abroad.
8. 10% reduction in tax liability or Rs. 5 (m) whichever is lower for a builder and 10% reduction or Rs. 1 (m) whichever is lower for an individual for own construction of house for three years.
9. 50% reduction in tax liability for three years for youth entrepreneurship (maximum limit of Rs 2 million for Individual / AOP and Rs 5 million for a company). Youth is defined as a natural person upto the age of 30 years.
10. Extension for two years for the purpose of concessionary tax rate of 20% for banking company's income from additional advances to low-cost housing, agriculture, and SMEs including IT & ITeS.
11. Encouraging export of commodities (Agriculture produce, gems, metals etc) through online platform by providing 1% concessionary final tax rate to indirect exporters.
12. Reduction of minimum tax liability on turnover from 1.25% to 1.0% for companies listed on Pakistan Stock Exchange.
13. Extension of exemption for one-year granted to a person to profits and gains on sale of immovable property or share of special purpose vehicle to any type of REIT scheme i.e. upto 30th June, 2024.
14. Extension of Income Tax exemption for one year i.e. upto 30th June, 2024 for resident persons of FATA/PATA.
15. Five years tax holiday for agro based industries being SMEs set up on or after 1st July, 2023 from tax year 2024 to tax year 2028.

STREAMLINING MEASURES

1. Broadening the scope of definition of Permanent Establishment in Pakistan of non-resident person.
2. Streamlining the definition of Associates to make it more succinct and elaborate.
3. Bringing more clarity in carry forward regime of minimum tax on turnover.
4. Removal of technical mistake in banking sector super tax regime by substituting tax year 2022 with tax year 2023.
5. Insertion of enabling provision for computation, collection and payment of super tax under section 4C.
6. Introduction of enabling provision for the purpose of effecting recovery of outstanding non-tax revenue under any other statute or law by the Commissioner Inland Revenue.

7. Giving effect to change of name from “Prime Minister’s Flood Relief Fund 2022” to “Prime Minister’s Relief Fund for Flood, Earthquake and Other Calamities”.

DOCUMENTATION MEASURES

Re-imposition of advance adjustable withholding tax from persons not on ATL.

SALES TAX ACT 1990

RELIEF MEASURES

1. Extension in exemption of sales tax to NMDs (FATA/PATA) for another one year ending 30.06.2024.
2. Grant of exemption of sales tax on contraceptives and accessories.
3. Grant of exemption of sales tax on plant saplings, combine harvesters, dryer for agricultural products, no-till-direct seeder, planters, trans-planters, other planters and bovine semen.
4. Grant of exemption of sales tax on import of IT equipment by exporters of IT and ITeS registered with Pakistan Software Export Board.

REVENUE MEASURES

1. Withdrawal of exemption of sales tax on edible products sold in bulk under brand names or trademarks.
2. Enhancement in reduced rate of sales tax from 12% to 15% on supplies made by the POS retailers dealing in leather and textile products.

STREAMLINING MEASURES

1. The requirement of shop area for tier-1 retailers is proposed to be withdrawn.
2. The Directorate General of Digital Invoicing and Analysis is proposed to be renamed as Directorate General of Digital Initiatives.
3. The scope of penal action is proposed to be enhanced by substituting the “cigarette packs” with “goods specified by the Board”.
4. S. No. 12(xxv) of Fifth Schedule is proposed to be amended by substituting the current description with the “Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000)”.

5. Scope of S. No. 21 of Fifth Schedule providing zero-rating to exporter registered under Export Facilitation Scheme, 2021 is proposed to be enhanced by inserting the word “commodities”.
6. For the purpose of clarification regarding exemption of sales tax on transfusion sets not packed in the aluminum foil imported in one consignment with the blood bags, explanation is proposed under S. No. 121 of Table-1 of the Sixth Schedule.
7. Omission of S. No. 159 and 160 of Table-1 of the Sixth Schedule is proposed being redundant as the time bound exemption has already expired on 31.12.2021.

HARMONIZATION MEASURES

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

ICT (TAX ON SERVICES) ORDINANCE, 2001

RELIEF MEASURES

1. Services provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc. are proposed to be taxed @ 5% if payment is made through debit or credit cards, mobile wallets or QR scanning.

REVENUE MEASURES

1. Electric power transmission services are proposed to be taxed @ 15%.

STREAMLINING MEASURES

1. Granting the status of cottage industry to the freelance exporter of IT and IT enabled services. Such freelance exporters will not be required to file sales tax return.
2. Rate of tax on IT based system development consultants is proposed to be reduced to 15% from 16%.
3. Scope of IT and IT enabled services is proposed to be harmonized with scope envisaged under the Income Tax Ordinance, 2001 on the proposal of Ministry of Information Technology.

FEDERAL EXCISE ACT 2005

REVENUE MEASURES

1. Imposition of FED on energy inefficient fans @ Rs. 2000 per fan and incandescent bulbs @ 20% ad valorem is proposed as approved by the Federal Cabinet in Case No. 01/01/23, dated 03.01.2023.
2. The scope of FED on services is proposed to be enhanced by adding royalty and fee for technical services.

STREAMLINING MEASURES

1. New clause (e) of sub-section (1) of section 3 is proposed to be added which will elaborate further the chargeability of federal excise duty on goods and services.
2. The Directorate General of Digital Invoicing and Analysis is proposed to be renamed as Directorate General of Digital Initiatives.
3. The procedure for publication of general orders and departmental instructions and ruling of the Board on its official website are proposed to align with provisions under the Sales Tax Act, 1990.

CUSTOMS ACT 1969

GUIDING PRINCIPLES

1. No increase of duties on import of essential items
2. Trade facilitation and ease of doing business
3. Encourage the industrialization and investment
4. Incentives for agriculture sector
5. Promotion of Energy efficiency & Conservation
6. Promotion of Information Technology (IT) and IT enabled services

RELIEF MEASURES

1. Exemption of Customs duties on specific papers and Art card and board for Printing of Holy Quran.
2. Incentive for Pharma sector by including one more API and 03 drugs in the existing duty free regime.
3. Incentive for manufacturing of Solar Panels and allied equipment by exempting customs duties on import of machinery, equipment and inputs for manufacturing of solar panels, inverters and batteries.

4. Incentive for exporters of Information Technology (IT) and IT enabled services by allowing duty free import of IT related equipment equivalent to 1% value of their export proceeds.
5. Reduction of Customs duties and additional Customs duties on import of intermediary/ industrial inputs falling under 10 PCT codes.
6. Exemption of Customs duties on raw materials of Diapers, Sanitary Napkins and Adhesive Tape.
7. Concession of Customs duty on raw materials / inputs for manufacturers of Capacitors.
8. Reduction of Customs duty from 10% to 5% on non-localized (CKD) of Heavy Commercial Vehicles (HCVs).
9. Exemption of ACD on import of raw materials of Hemodialyzers fluid / powder
10. Extension in exemption on machinery and equipment imported by erstwhile FATA areas till June, 2024.
11. Continuation of concession on import of Flavouring powders for food preparation for manufacturers of snacks till June, 2024.
12. Exemption of Customs duty on Organic Composite Solvent and Thinners for manufacturers of Butyl Acetate and Dibutyl Orthophthalates.
13. Reduction of Customs duty on import of pet scrap for manufactures of polyester filament yarn.
14. Exemption of Customs duties on Raw Materials for manufacturing of Moulds and Dies.
15. Exemption of Customs duties on raw materials/ inputs for Mining machinery.
16. Exemption of Customs duties on raw materials/ inputs for Rice mill machinery.
17. Exemption of Customs duties on raw materials/ inputs for Machine tools.
18. Alignment of Part(V) of Fifth Schedule to the Customs Act with Auto Industry Development and Export Policy (AIDEP) 2021-26.
19. Exemption of Customs duties on import of seeds for sowing to promote growth in agricultural sector.
20. Exemption of Customs duties on import of shrimps/prawns/juvenile for breeding in commercial fish farms and hatcheries.
21. Exemption of Customs duties on roasted peanuts for manufacturing of ready to use supplementary foods (RUSF) by World Food Program certified manufacturers.
22. Increase of Customs duty on Carbides of Calcium from 3% to 11% to protect the local industry.

REVIEW OF REGULATORY REGIME

1. Removal of regulatory duty on second hand clothing to provide relief to the poor segment of the society.

2. Reduction of regulatory duty on 151 PCT codes pertaining to second hand clothing, fish, tiles, sports goods.
3. Removal of regulatory duty on IT related equipment to encourage Information Technology sector.
4. Removal of Regulatory duty on Synthetic Filament Yarn of Polyester not manufactured locally.
5. Removal of Regulatory duty on parts for flat panels, monitors, projectors.
6. Removal of Regulatory duty on Silicon Steel Sheets.
7. Exemption of RD on special steel round bars and rods of non-alloy steel exceeding diameter 50 mm.
8. Increase / levy of regulatory duty on import of articles of glass to protect the local industry.
9. To discourage the use of inefficient Tungsten Filament Incandescent Bulbs, 20% RD imposed on these bulbs and their parts.
10. Export Regulatory Duty on the export of Molasses increased from 10% to 15%.

MISCELLANEOUS

1. Creation of separate PCT Code for Smart Watches
2. Creation of separate PCT Code for wooden splints for Matches.
3. Change in Description of PCT CODE 2501.0021.
4. Change in Description of PCT CODE 8544.6010.
5. Changes in Descriptions of PCT codes of localized auto parts.
6. Conversion of Specific CD rate on Caustic Soda to Ad-Valorem rate.

REVENUE MEASURES

1. Withdrawal of capping of the fixed duties and taxes on the import of old and used vehicles of Asian Makes above 1300 CC under SRO 577(I)/2005 by omitting serial number 4,5 and 6 of the said SRO.

LEGISLATIVE CHANGES

1. Definition of smuggling is being proposed to be rephrased to enable Customs to conduct anti-smuggling operations within the territorial limits of the country.
2. Provincial Levies and Khasadar Force have been proposed to be added in the list of Government agencies mandated to assist Customs in anti-smuggling operations in Khyber Pakhtunkhwa and Balochistan.

3. Penal provisions for offence of smuggling of essential commodities are proposed to be made more stringent.
4. Penal provisions for the offence of smuggling of banned and contra-banned goods are being proposed to be made more stringent.
5. To ease out congestion at border customs stations, the mandatory time for filing of goods declaration after arrival of goods in the border customs station is proposed to be reduced.
6. In order to facilitate the trade, the warehousing period for perishable items has been proposed to be enhanced from one month to three months.
7. The penalty on documents not found inside the consignment abolished.
8. The pitch of penalty on documents not uploaded electronically with the goods declaration is being rationalized to facilitate trade.
9. In order to reduce the clearance time and to eliminate human interaction, option is being provided to the respondent to go for adjudication through Customs Computerized System.
10. To facilitate the passengers travelling as a group who cannot file their own baggage declarations, the representative of the group of passengers is being allowed to file baggage declaration on behalf of the group members.
11. To check revenue loss, penal provisions for any attempt to evade duty and taxes in breach of laws and procedures are being proposed to be made more stringent.