



## Finance Bill, 2023: Bulletin on Key Tax Changes



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# Preamble

Dear Reader,

Hope, these words will find you in good health. As a routine annual ritual, we are pleased to present our bulletin on key changes proposed through Finance Bill, 2023. This bulletin contains key changes in tax laws and our feedback wherever it is considered pertinent and relevant.

Federal Budget 2023-24 is going to be the second and most likely the last budget of the Sharif-Led coalition government. This budget is being presented on a very critical time as at one side Pakistan is facing severe economic challenges like depleting foreign exchange reserves, raging inflation and rising unemployment and on other side Pakistan is facing grave political unrest. This budget is being presented by this government when the national assembly tenure is about to end so it is highly likely that the new government would present their supplementary budget after assuming charge.

Recently publicized Economic Survey of Pakistan for year 2022-23 has shown a very gruesome picture of the economy as almost all indicators are lacking behind their targets. In this budget, IT, Construction, Real Estate, Agriculture, SMEs and Alternate Energy sectors are the major gainers whereas, Large Scale companies, Commercial Importers and Tier-1 Retailers are in the list of major losers. Moreover, a hefty adhoc allowance 30%/35% for government employees is also proposed whereas, no tax cut was proposed for private sector employees.

We would love to hear your feedback on this bulletin. Kindly, share your feedback at [connect@uzandco.com](mailto:connect@uzandco.com). We also advice our readers to take expert opinion before acting on certain piece of information provided in this document. UZCO-CAs wishes luck to our beloved country and its citizen. May this budget and initiatives proposed bring prosperity for Pakistan and its citizens, aameen. Pakistan Zindabaad!!!

Regards,

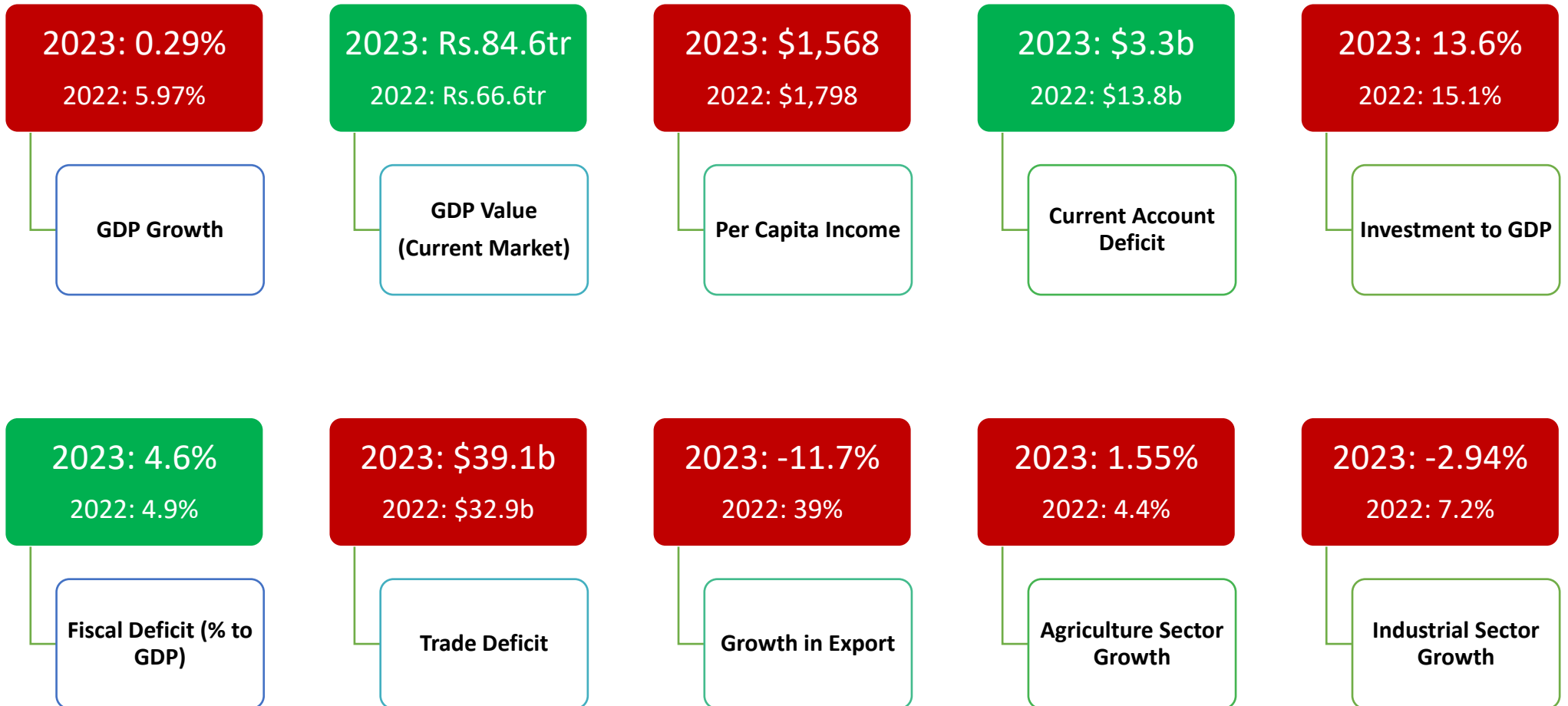
*Uzco-CAs*



# | Economic Snapshot 2022-23

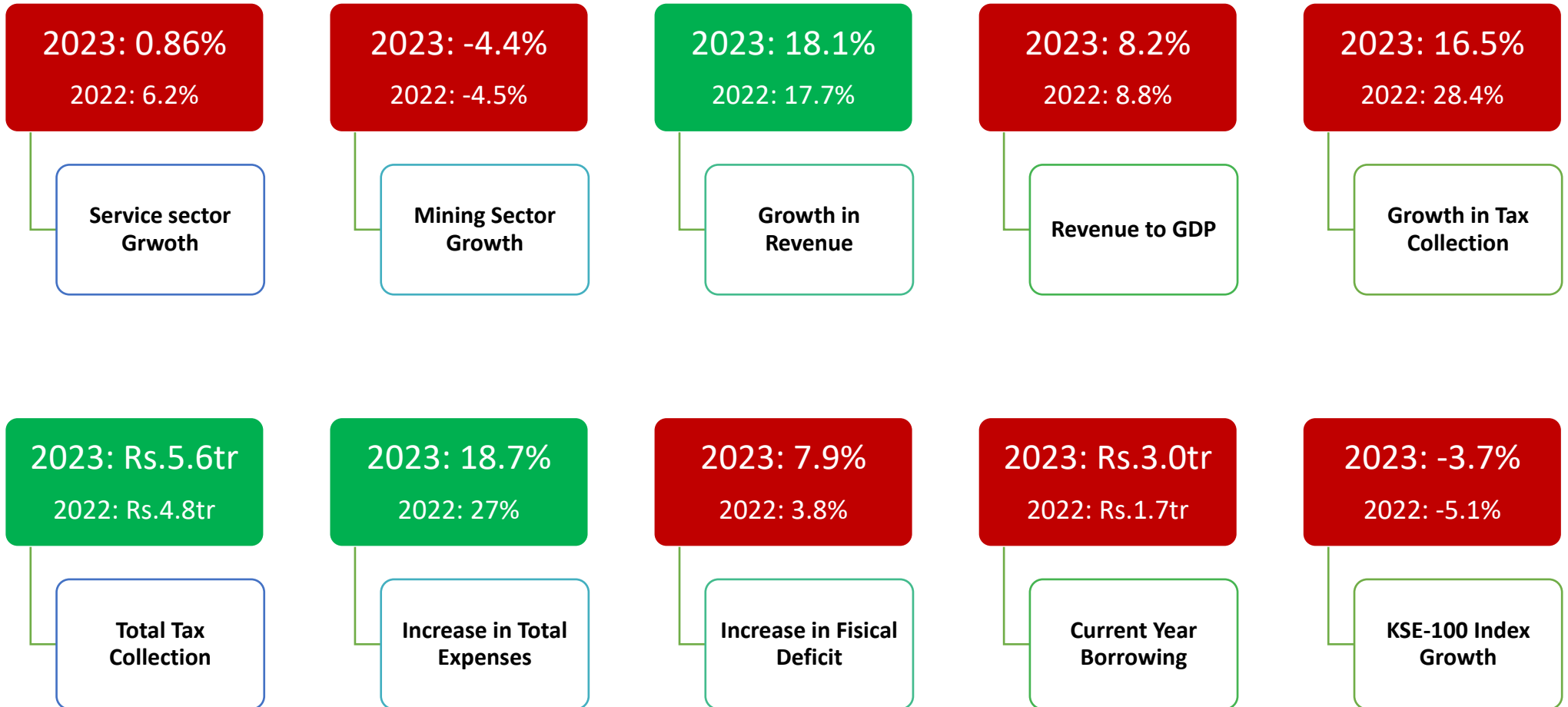


# Economic Snapshot 2022-23 (Source: Economic Survey of Pakistan)



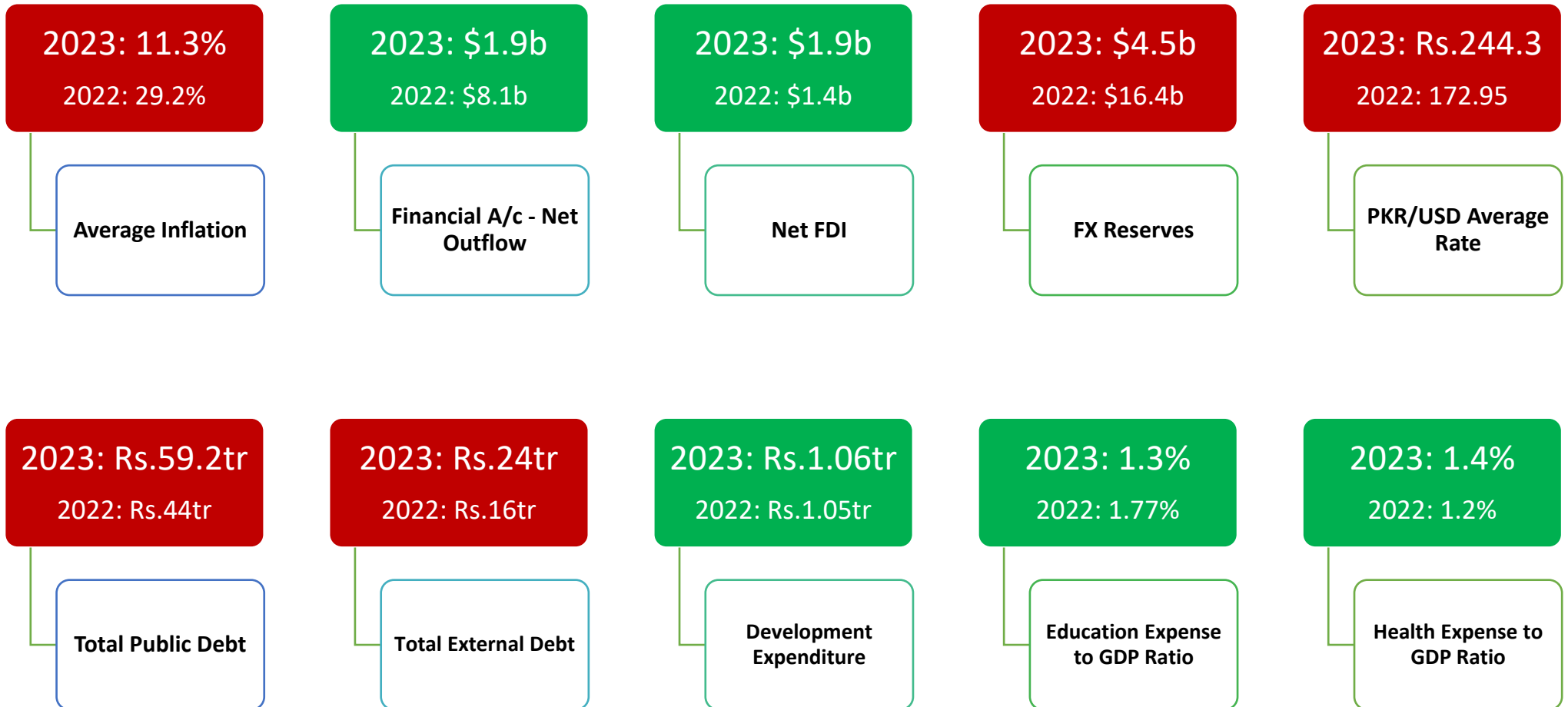


# Economic Snapshot 2022-23 (Source: Economic Survey of Pakistan)





# Economic Snapshot 2022-23 (Source: Economic Survey of Pakistan)





# | Income Tax Ordinance, 2001





# Key Changes in Income Tax Ordinance, 2001

Section/Ref	New Provision / Changes	Target Industry/Sector	Measure
2(59A)	<p><b>Small and Medium Enterprises</b></p> <p>With this bill, the definition of Small and Medium Enterprises has been expanded by including IT sector. Moreover, the turnover threshold cap required for qualifying SME is also increased to Rs.800m which was earlier Rs.250m.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>As the IT sector is one of the major gainers for in this bill and it is one of the relieve awarded to them. By including in SME definition, now the IT sector can also avail concessionary treatment as provided in Fourteenth schedule of the Income Tax Ordinance, 2001.</i></p>	IT Sector / SMEs	Relief
4C	<p><b>Super Tax</b></p> <p>New slabs of incomes are added with the introduction of new tax rates.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>Large scale foreign enterprises and Banks have been lobbying against Super Tax for quite some time as they term it as unjustified tax. In this bill, instead of giving some relief, the government has increased the toll for these businesses.</i></p>	Large Scale Businesses	Revenue
39	<p><b>Bonus Shares as Income</b></p>	All	Revenue



# Key Changes in Income Tax Ordinance, 2001

	<p>Bonus shares are considered as income and proposed to be subject to withholding tax @10% for persons appearing in ATL and 20% for rest. This tax would be the final discharge of tax liability.</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>Bonus share taxation is again introduced. Earlier, it was omitted in 2018 and perhaps, now the government is again introducing this on the pretext of saving small investor interest who are looking for cash dividend.</i></p>		
65I	<p><b>Tax Credit on Construction</b></p> <p>Reduction in tax liability @10% or Rs.1m (whichever is lower) is proposed for individuals building their new house for three years. Moreover, similar tax credit is also proposed for Builder @10% or Rs.5m (whichever is lower)</p> <p><i>UZCO-CAs Feedback:</i></p> <p><i>This step is taken to support construction sector which is facing severe challenges due to rolling back of low-cost financing schemes.</i></p>	Construction	Relief
99D	<p><b>Additional Tax on Gains due to Economic Factors</b></p> <p>It is proposed to impose an additional tax up to the rate of fifty percent on any income, profits on gains for the tax year 2023 and onwards arising due to economic factors as determined and notified by the Federal Government.</p>	All	Revenue



# Key Changes in Income Tax Ordinance, 2001

111(4)	<b>Exemption from Tax for Unexplained Foreign Remittance</b> Earlier, Rs.5m was the limit which was effectively exempt in a tax year if it is received from abroad as foreign remittance. Now this limit has been enhanced to USD100k	Foreign Pakistani	Relief
113	<b>Reduction of Minimum Tax for Listed Companies</b> The rate of minimum tax on turnover has been proposed to reduce to 1% from existing 1.25%.	Listed Companies	Relief
146D	<b>Recovery under Other Laws</b> With this proposed change recovery proceedings under this ordinance is expanded to recover arrears under other laws	All	Neutral
147	<b>Super Tax for Advance Tax Computation</b> For quarterly payment of advance tax under section 147, it is clarified that Super Tax would also be computed and included in tax payable	All	Revenue
148	<b>Increase of Advance Tax on Commercial Import</b> An increase of 0.5% rate of advance tax has been proposed for commercial importers.	Commercial Importer	Revenue
152(5A)	<b>Automatic Issuance of Exemption Certificate</b> If commissioner doesn't issue Tax Exemption Certificate within 30 days from the date of application, then exemption certificate would automatically be issued by the System.	All	Relief



# Key Changes in Income Tax Ordinance, 2001

	<p><i>UZCO-CAs Feedback:</i></p> <p><i>Due to this administrative delay, a lot of money has been stuck in refunds. This will definitely make life easier for tax payers but 30 days are still a long period for many tax payers.</i></p>		
153	<p><b>Increase of Tax Withholding Rate</b></p> <p>It is proposed to increase tax withholding on provision of goods, rendering of services and executing of contract @1%.</p>	All	Revenue
154	<p><b>Relaxation in Filings</b></p> <p>With this change, IT Exporters would not be required to file sales tax returns.</p>	IT Sector	Relief
154A	<p><b>Period Extended for IT Sector Reduced Rate</b></p> <p>Reduced rate of 0.25% for IT sector export services was going to end during current fiscal year which is now proposed to extend for another one year.</p>	IT Sector	Relief
231AB	<p><b>Advance Tax on Cash Withdrawal</b></p> <p>To promote documented economy, advance tax @0.6% is re-introduced in for persons withdrawing money from Bank and whose names are not appearing in ATL.</p>	Banking / Small Traders	Revenue
231C	<p><b>Advance Tax on Hiring Foreign Domestic Workers</b></p> <p>Rs.200k per worker visa is levied on employer or hiring agency.</p>	All	Revenue



# Key Changes in Income Tax Ordinance, 2001

	<p><i>UZCO-CAs Feedback:</i></p> <p><i>We think the same would also be paid while renewing the visa for existing worker. Moreover, registered medical workers should be excluded from the application of this clause.</i></p>		
236K	<p><b>Exemption of Withholding Tax on Purchase of Property from Foreign Remittance</b></p> <p>The withholding rate of 2% on purchase of real estate property in Pakistan from the remittances received from abroad is exempted through this change.</p>	Real Estate	Relief
236Y	<p><b>Increase of Withholding Rate on Credit/Debit Card Transactions</b></p> <p>All transactions involving payment abroad through all types of Bank Cards is now subject to withholding of 5% which was earlier 1%.</p>	Banking	Revenue
2 <sup>nd</sup> Schedule	<p><b>Exemption for REITs</b></p> <p>Exemption period has been extended for another one year</p>	REIT	Relief
2 <sup>nd</sup> Schedule	<p><b>Exemption for FATA/PATA Tax Persons</b></p> <p>Exemption period has been extended for another one year</p>	PATA/FATA Residents	Relief
2 <sup>nd</sup> Schedule	<p><b>Tax Holiday for Agro-based SME</b></p> <p>A tax period of 5 years have been proposed in the bill for Agro-based SMEs</p>	Agriculture / SMEs	Relief



# Key Changes in Income Tax Ordinance, 2001

7 <sup>th</sup> Schedule	<b>Tax Concession for Advancing to IT Sector</b> Banks are encouraged to offer advances to IT sector by offering them concessionary rate of 20% instead of existing 39%.	Bank	Relief
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# | Sales Tax Act, 1990



# Key Changes in Sales Tax Act, 1990

Section/Ref	New Provision / Changes	Target Industry/Sector	Measure
1	<b>Increase in Rate of Tax</b> It is proposed to increase rate of income tax by 3% on POS retailers dealing in leather and textile goods. New rate would be 15%.	Textile and Leather Retailer	Revenue
2	<b>Exemption of Sales Tax</b> <ul style="list-style-type: none"><li>• extension in exemption of sales tax to NMDs (FATA/PATA) for another one year ending 30.06.2024.</li><li>• contraceptives and accessories</li><li>• plant saplings, combine harvesters, dryer for agricultural products, no-till-direct seeder, planters, trans-planters, other planters and bovine semen</li><li>• IT equipment by exporters of IT and ITeS registered with Pakistan Software Export Board</li></ul>	FATA/PATA Businesses Healthcare Agriculture IT Sector	Relief
3	<b>Imposition of Sales Tax</b> <ul style="list-style-type: none"><li>• Withdrawal of exemption of sales tax on edible products sold in bulk under brand names or trademarks.</li></ul>	Food	Revenue





## | Custom Act, 1969



# Key Changes in Custom Act, 1969

Sr.	New Provision	Target Industry/Sector	Measure
1	<p><b>Exemption of Custom Duty</b></p> <p>Following goods would be exempted from Custom Duty:</p> <ul style="list-style-type: none"> <li>• Specific papers and Art card and board for Printing of Holy Quran</li> <li>• One more API and 3 drugs for Pharma sector</li> <li>• Machinery and input for solar panel manufacturers</li> <li>• Machinery imported upto 1% of export proceeds by IT Export sector</li> <li>• Raw materials of Diapers, Sanitary Napkins and Adhesive Tape</li> <li>• Machinery imported in FATA (extended for another 1 year)</li> <li>• Organic Composite Solvent and Thinners for manufacturers of Butyl Acetate and Dibutyl Orthophthalates</li> <li>• Raw Materials for manufacturing of Moulds and Dies</li> <li>• Raw materials/ inputs for Mining machinery</li> <li>• Raw materials/ inputs for Rice mill machinery</li> <li>• Seeds for sowing</li> <li>• Shrimps/prawns/juvenile for breeding in commercial fish farms and hatcheries</li> </ul>	<p>Pharma</p> <p>Solar Panel Manufacturers</p> <p>IT Export Sector</p> <p>FMCG – Hygiene</p> <p>Chemical</p> <p>Mining</p> <p>Rice Shellers</p> <p>Agriculture</p> <p>Fisheries</p>	Relief
2	<p><b>Concession/Reduction of Custom Duty</b></p> <p>Following goods would be subject to reduced / concessionary rate of Custom duty:</p> <ul style="list-style-type: none"> <li>• Raw materials / inputs for manufacturers of Capacitors.</li> <li>• Non-localized (CKD) of Heavy Commercial Vehicles (HCVs) (Duty reduced to 5% from 10%)</li> </ul>	<p>Construction</p> <p>Automobile</p> <p>Healthcare</p>	Relief



# Key Changes in Custom Act, 1969

	<ul style="list-style-type: none"> <li>• Raw materials of Hemodialyzers fluid / powder.</li> <li>• Flavouring powders for food preparation for manufacturers of snacks (extension for another one year)</li> <li>• Pet scrap for manufactures of polyester filament yarn.</li> </ul>		
3	<p><b>Increase in Custom Duty</b></p> <p>Following goods would be subject to higher rate of Custom duty:</p> <ul style="list-style-type: none"> <li>• Carbides of Calcium (duty increase from 3% to 11%)</li> </ul>	Steel	Revenue
4	<p><b>Removal / Reduction of Regulatory Duty</b></p> <p>Following goods would be subject to no or reduced rate of Regulatory duty:</p> <ul style="list-style-type: none"> <li>• Second hand cloth</li> <li>• IT related equipment</li> <li>• Synthetic Filament Yarn of Polyester not manufactured locally</li> <li>• parts for flat panels, monitors, projectors</li> <li>• Silicon Steel Sheets</li> <li>• Special steel round bars and rods of non-alloy steel exceeding diameter 50 mm</li> </ul>	Second Hand Clothing IT Sector Textile Electronics Construction	Relief
5	<p><b>Increase or Imposition of Regulatory Duty</b></p> <p>Following goods would be subject to Regulatory duty:</p> <ul style="list-style-type: none"> <li>• Articles of glass</li> <li>• Inefficient Tungsten Filament Incandescent Bulbs</li> <li>• Export of Molasses (duty increased from 5% to 10%)</li> </ul>	Glass Industry Electronics Sugar Industry	Revenue



## | **Federal Excise Act, 2005**



## Key Changes in Federal Excise Act, 2005

Sr.	New Provision	Target Industry/Sector	Measure
1	<b>Expansion of Excisable Services</b> Royalty and fee for technical services are including in the scope of excise duty.	Foreign Companies	Revenue
2	<b>Imposition of Duty</b> Energy inefficient fans would now be charged with excise duty @Rs.2,000 per fan and incandescent bulbs would also be charged with excise duty @20% ad valorem.	Electronics Companies	Revenue



## | ICT (Tax on Services) Ordinance, 2001



# Key Changes in ICT (Tax on Services) Ordinance, 2001

Sr.	New Provision	Target Industry/Sector	Measure
1	<b>Reduction in Rate</b> 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 [currently it is charged @13%]	Restaurant	Relief
2	<b>Imposition of Tax</b> Electric power transmission services are proposed to be taxed @ 15%.	Electricity Transmission	Revenue
3	<b>Measures for IT Sector</b> <ul style="list-style-type: none"><li>• Declaring IT sector as Cottage industry</li><li>• Rate of tax on IT based system development consultants is proposed to be reduced to 15% from 16%.</li></ul>	IT Sector	Relief



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-  [connect@uzandco.com](mailto:connect@uzandco.com)
-  [www.uzandco.com](http://www.uzandco.com)
-  0092 318 8926326(UZANDCO)
-  Head Office: Lahore, Pakistan

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