



Finance Bill, 2023: Bulletin on Key Tax Changes



Index

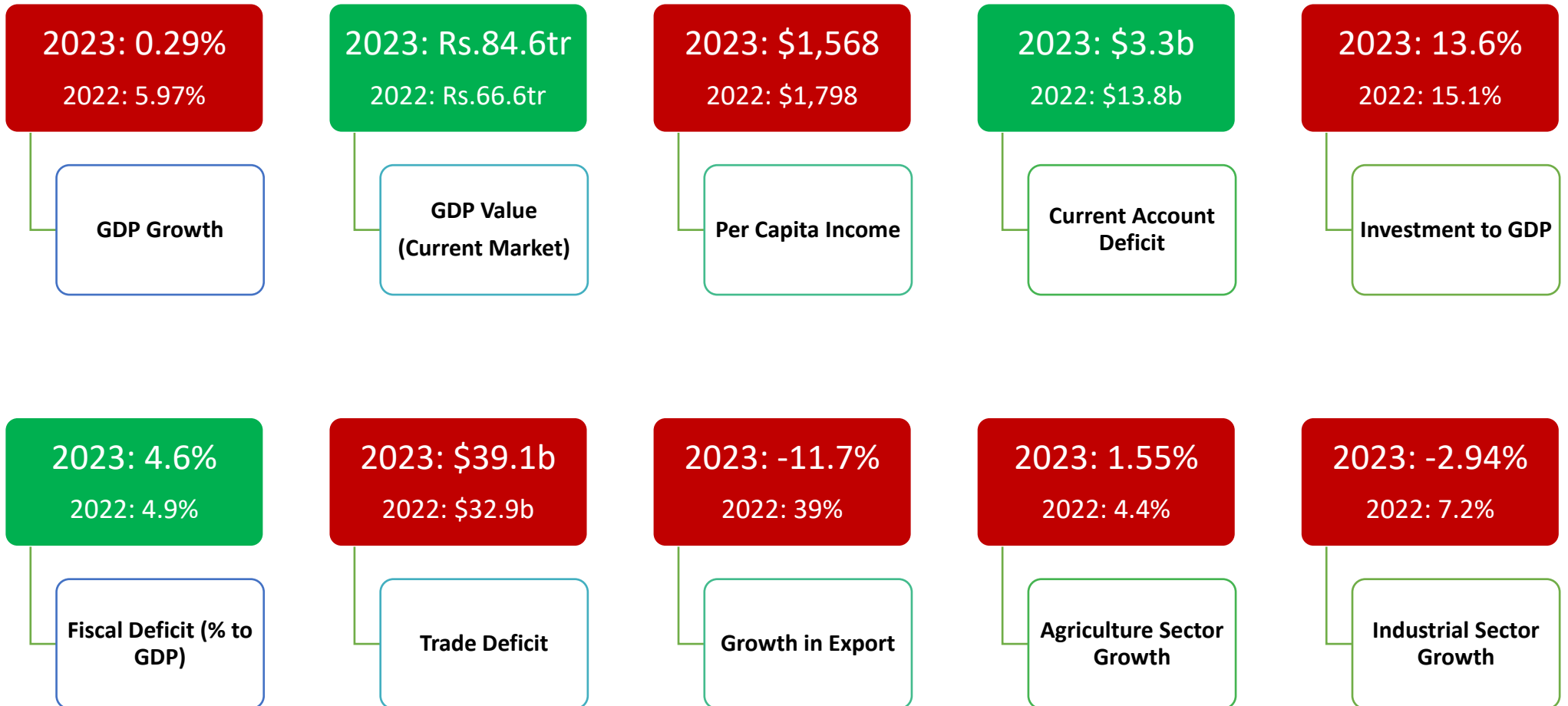
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| Economic Snapshot 2022-23

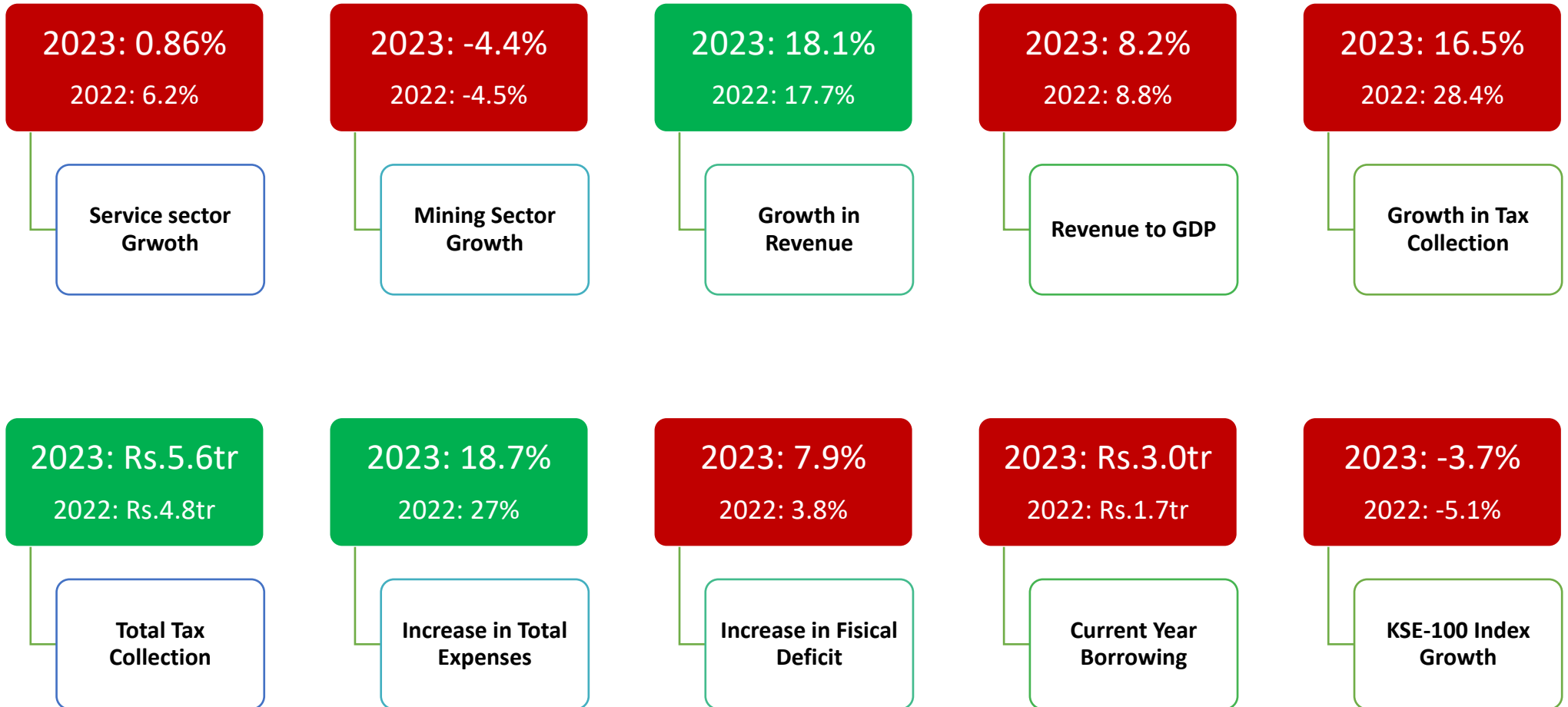


Economic Snapshot 2022-23 (Source: Economic Survey of Pakistan)



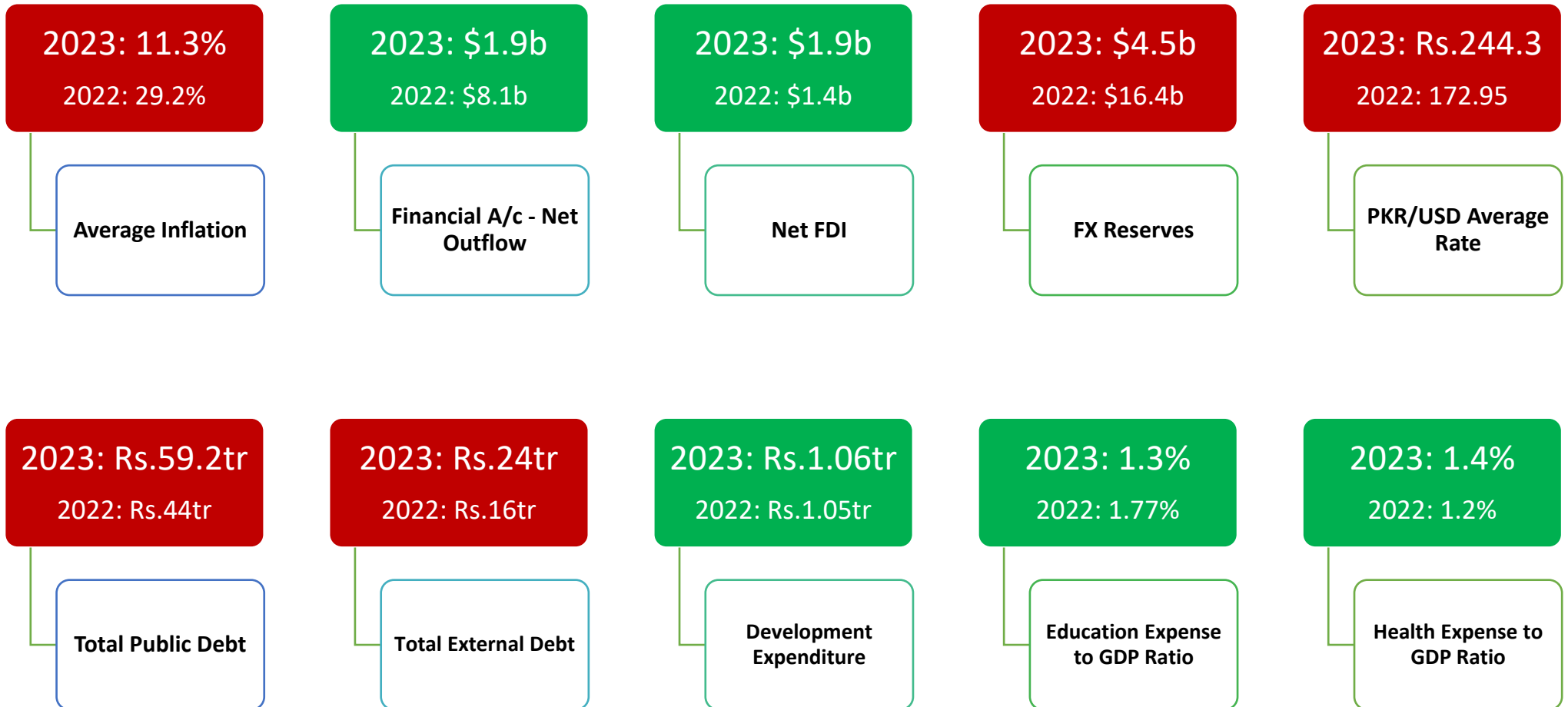


Economic Snapshot 2022-23 (Source: Economic Survey of Pakistan)





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>Small and Medium Enterprises</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>Super Tax</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>Bonus Shares as Income</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>Tax Credit on Construction</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>Additional Tax on Gains due to Economic Factors</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) | Exemption from Tax for Unexplained Foreign Remittance 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 | Reduction of Minimum Tax for Listed Companies The rate of minimum tax on turnover has been proposed to reduce to 1% from existing 1.25%. | Listed Companies | Relief |
| 146D | Recovery under Other Laws With this proposed change recovery proceedings under this ordinance is expanded to recover arrears under other laws | All | Neutral |
| 147 | Super Tax for Advance Tax Computation 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 | Increase of Advance Tax on Commercial Import An increase of 0.5% rate of advance tax has been proposed for commercial importers. | Commercial Importer | Revenue |
| 152(5A) | Automatic Issuance of Exemption Certificate 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>Increase of Tax Withholding Rate</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>Relaxation in Filings</p> <p>With this change, IT Exporters would not be required to file sales tax returns.</p> | IT Sector | Relief |
| 154A | <p>Period Extended for IT Sector Reduced Rate</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>Advance Tax on Cash Withdrawal</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>Advance Tax on Hiring Foreign Domestic Workers</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>Exemption of Withholding Tax on Purchase of Property from Foreign Remittance</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>Increase of Withholding Rate on Credit/Debit Card Transactions</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 nd Schedule | <p>Exemption for REITs</p> <p>Exemption period has been extended for another one year</p> | REIT | Relief |
| 2 nd Schedule | <p>Exemption for FATA/PATA Tax Persons</p> <p>Exemption period has been extended for another one year</p> | PATA/FATA Residents | Relief |
| 2 nd Schedule | <p>Tax Holiday for Agro-based SME</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

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|--------------------------|---|------|--------|
| 7 th Schedule | Tax Concession for Advancing to IT Sector Banks are encouraged to offer advances to IT sector by offering them concessionary rate of 20% instead of existing 39%. | Bank | Relief |
|--------------------------|---|------|--------|



| Sales Tax Act, 1990



Key Changes in Sales Tax Act, 1990

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



| Custom Act, 1969



Key Changes in Custom Act, 1969

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



Key Changes in Custom Act, 1969

| | | | |
|---|---|---|---------|
| | <ul style="list-style-type: none"> • Raw materials of Hemodialyzers fluid / powder. • Flavouring powders for food preparation for manufacturers of snacks (extension for another one year) • Pet scrap for manufactures of polyester filament yarn. | | |
| 3 | <p>Increase in Custom Duty</p> <p>Following goods would be subject to higher rate of Custom duty:</p> <ul style="list-style-type: none"> • Carbides of Calcium (duty increase from 3% to 11%) | Steel | Revenue |
| 4 | <p>Removal / Reduction of Regulatory Duty</p> <p>Following goods would be subject to no or reduced rate of Regulatory duty:</p> <ul style="list-style-type: none"> • Second hand cloth • IT related equipment • Synthetic Filament Yarn of Polyester not manufactured locally • parts for flat panels, monitors, projectors • Silicon Steel Sheets • Special steel round bars and rods of non-alloy steel exceeding diameter 50 mm | Second Hand Clothing IT Sector Textile Electronics Construction | Relief |
| 5 | <p>Increase or Imposition of Regulatory Duty</p> <p>Following goods would be subject to Regulatory duty:</p> <ul style="list-style-type: none"> • Articles of glass • Inefficient Tungsten Filament Incandescent Bulbs • Export of Molasses (duty increased from 5% to 10%) | 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 | Expansion of Excisable Services Royalty and fee for technical services are including in the scope of excise duty. | Foreign Companies | Revenue |
| 2 | Imposition of Duty 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 | Reduction in Rate 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 | Imposition of Tax Electric power transmission services are proposed to be taxed @ 15%. | Electricity Transmission | Revenue |
| 3 | Measures for IT Sector <ul style="list-style-type: none">• Declaring IT sector as Cottage industry• Rate of tax on IT based system development consultants is proposed to be reduced to 15% from 16%. | IT Sector | Relief |



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