TOLA ASSOCIATES
TAX & CORPORTE ADVISORS

COMMENTS ON THE FINANCE BILL 2023-24

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Prologue:

- Finance Bill 2023-24 ("The Bill") for the Fiscal Year 2023-24 was tabled before the National Assembly on June 09, 2023. The Bill has proposed amendments in the Income Tax Ordinance, 2001 ("ITO"), Sales Tax Act, 1990 ("STA"), and Federal Excise Act, 2005 ("FEA") amongst other laws.

- We have prepared our comments on the significant amendments proposed in the ITO, STA and FEA. Moreover, the comments presented in this document are not exhaustive and detailed comments will follow after the Bill is passed by the Parliament, along with the passing of the respective Provincial Finance Bills in the respective Provincial Assemblies.

- The interpretations of the amendments are based on our understanding of tax law and past practices. These comments are provided for general use of the public and should not be used for any specific transaction. We do not guarantee that these interpretations will be acceptable by the tax department, tax authorities, revenue authorities or any other authorities. Furthermore, these comments are prepared for general business understanding of the masses. In case of any technical query, kindly contact us.

- Please feel free to provide your feedback for further improvements in this publication.

Kind Regards,

TOLA ASSOCIATES

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BUDGET BRIEF

The Federal Government has announced the Budget for the Fiscal Year 2023-24, emphasizing on an 'expansionary fiscal policy', aimed to achieve a balance between countering structural imbalances and moving towards robust growth. As per the Government, an inclusive and sustainable growth budget has been announced to bring the economy back on track. Moreover, Pakistan's GDP growth has slowed down to 0.29%, as per the provisional estimates of Fiscal Year 2022-23 ("FY23"). Despite a high growth in FY22, as compared to the GDP growth in FY23, the growth in FY22 was import and consumption oriented, which created a huge external sector pressure on the economy. The after affects thereof have been visible in various macroeconomic indicators for FY23. Our comments on the Economic overview can be downloaded by clicking the following link: "https://cutt.ly/VweWRmpY".

The key highlights of the Federal Budget 2023-24 are as under:

KEY HIGHLIGHTS OF THE BUDGET 2023-24:

- The total outlay of the Federal budget 2023-24 is Rs. 14,461 billion which is 30.40% more than the size of the budget (revised) estimates of 2022-23.
- The projected interest payment in the budget is estimated at Rs.7,303 billion, which is 32.30% higher than the figures of Rs. 5,520 billion in (revised) budget 2023-24.
- Current expenditure of the country is estimated at Rs. 13,320 billion in 2023-24 vs. Rs. 10,528 billion a year ago.
- The total Federal expenditure is estimated at Rs. 14,461 billion (Current Expenditure Rs.13,320 plus Development expenditure Rs.1,140).
- The current expenditure accounts for 92.10% of the total estimated expenditures, which is a substantial growth.
- The defense budget is estimated at Rs.1,804 billion in 2023-24 which is almost 13.67% higher than the revised figures of Rs.1,587 billion last year.
- Federal Government will decrease subsidies by Rs. 29 billion to Rs. 1,074 billion in 2023-24 from Rs.1,103 billion in revised estimates of 2022-23.
- Provincial share in the NFC award is estimated for 2023-24 at Rs. 5,276 billion which is 57.30% of the FBR's revenue collection.
- The size of the total PSDP is estimated at Rs. 2,709 billion, which includes Federal PSDP Rs. 950 billion, public private partnership worth Rs. 200 Billion and provincial PSDP is estimated at Rs. 1,559 billion in 2023-24.
- Moreover, the Federal Government has projected Rs. 9,200 billion worth tax revenue target in FY24, almost a 28.0% growth from the current Fiscal Year's revised figures of Rs. 7,200 billion.
- The projected GDP growth is 3.5%, and inflation is projected at 21.0% during 2023-24. Factoring in the same, the FBR's projected tax revenues growth by 28.0% seems achievable. However, the FBR will need to enact Rs. 236 billion worth additional tax revenue measures.
- However, in our humble view the Government may be able to collect PKR 9,200 billion worth target should tax measures be enforced effectively.
- Pakistan has an excellent potential to enhance its tax revenue collection and can easily finance its debts and deficits.

Budget at a Glance 2023-24:

Government Budget for 2023-24				
PKR Billion	**Govt. Budget 2023-24**	**Govt. Budget 2022-23 (R)**	**Difference**	**% Change**
Receipts				
FBR Tax Revenue	**9,200**	**7,200**	**2,000**	**27.8**
Non Tax Revenue	**2,963**	**1,618**	**1345**	**83.1**
Gross Revenue Receipts	12,163	8,818	3,345	37.9
Less: Transfer to Provinces	5,276	4,129	1,147	27.8
Net Revenue Receipts - Federal Share	6,887	4,689	2,198	46.9
Expenditure				
Total Expenditure	**14,461**	**11,090**	**3,371**	**30.40**
Current Expenditure	13,320	10,528	2,792	26.52
Domestic Debt	6,431	4,795	1,636	34.12
Foreign Debt	872	725	147	20.21
Pension	761	609	152	24.96
Defense Affairs & Services	1,804	1,587	217	13.67
Grants & transfers (Province + Others)	1,464	1,155	309	-
Subsidies	1,074	1,103	(29)	(2.63)
Running civil Government	714	553	161	29.11
Provision for contingencies	200	-	200	-
Development Expenditure	**1,140**	**562**	**588**	**102.85**
Federal Budget Deficit	**(7,574)**	**(6,401)**	**(57)**	**18.33**
Primary Deficit	**(270)**	**(880)**	**(57)**	**(69.33)**
Projected Nominal GDP	**105,817**	**84,658**	**21,159**	**24.99**
Fiscal Deficit (FED) as % of GDP	**(7.2)**	**(7.6)**		
Primary Deficit as % of GDP	**(0.3)**	**(1.0)**		
				(Sources: Finance Ministry)

Official figures of the Federal Board of Revenue ("FBR") showed that from July to May of outgoing FY23, FBR's tax revenue stood at Rs.6,210 billion – 16.10% or Rs.861 billion higher against FY22 collection of Rs.5,349 billion. However, FBR's target has been revised down to Rs. 7,200 billion from IMF's previous target of Rs. 7,640 billion.

Last year in September 2022, the IMF and Pakistan have reached a Staff-Level Agreement under the IMF's Extended Fund Facility which revived Pakistan's 'suspended' IMF program. The plan envisages FBR's tax collection target of PKR 9,200 billion for 2023-24 which would be 20.4% higher than the previous revised tax revenue target for FY23 of PKR 7,640 billion by IMF and almost 28.0% higher than the likely achievable target of PKR 7,200 billion for FY23, set by the Government. If the inflation is projected at 21.0% and GDP growth at 3.5% in the upcoming fiscal year, then the FBR might easily collect PKR 8.9 trillion worth of tax revenue target given that FBR collects at least PKR 7.2tr in the outgoing Fiscal Year. Therefore, only additional tax revenue measures worth of PKR 236 billion may be required in the forthcoming budget.

Unfortunately, Pakistan is facing a challenge of a huge parallel base economy, as approximately 44.5% of the nominal GDP is not contributing significantly towards the direct tax collection, such as traders and agriculturalists. The Government has to urgently need to tap the potential of these sectors for their optimum contribution towards the National exchequer which will not only remove inequities in the tax regime, but will also provide much-needed additional revenue to the Government.

Some of the good policies of the budget have been announced in order to provide much needed assistance to the poorer class of the country, who are facing huge inflationary pressure. Subsidies on petroleum, fertilizer plant, and utility store corporation has been proposed. Furthermore, wheat subsidy has been proposed for the flood affected areas and special grants such as interest free loan has been granted for farmers who are affected due to floods in this year's budget. Moreover, waiver of mark up for outstanding loans for farmers is proposed. In addition to that, in order to enhance rice production which has been decline due to devastating flood, Government introduce duty free for Rice Planters, Seeder, and dryers for farmers.

Current regime also allocated Rs. 400 billion worth of Grants and transfer as Benazir Income support programme which is also highly appreciated. In present economic scenario where purchasing power of many Pakistani families has been eroded by soaring inflation and the increasing cost of food and oil. This income support programme arose against this backdrop as a means to address depletion in purchasing power.

Several other relief measures have been proposed to support the growth of agriculture, manufacturing, and the Information Technology ("IT") sectors in Pakistan. These measures include incentivizing the manufacturing of solar panels and related equipment by exempting customs duties on machinery imports. Additionally, exporters of IT and IT-enabled services are granted a duty-free import of IT equipment equivalent to 1% of their export proceeds. Customs duties and additional duties on imports of intermediary/industrial inputs falling under specific PCT codes have been reduced. Further concessions include the exemption of customs duties on raw materials and inputs for manufacturers of capacitors and mining machinery. Customs duties are also exempted on raw materials and inputs for rice mill machinery, seeds for sowing to promote agricultural growth, as well as import of shrimps/prawns/juveniles for breeding in commercial fish farms and hatcheries. These measures aim to provide support and incentives for the mentioned sectors, fostering their development and contributing to the overall economic growth of the country.

The table *infra* shows the FBR's revenue collection and its distribution:

FBR's Revenue for 2023-24			
(Rs in Billion)	**Budget 2023-24**	**Budget 2022-23**	**% change**
FBR Taxes	9,200	7,200	27.8%
Direct Taxes	3,759	2,851	31.8%
Indirect Taxes	5,441	4,349	25.1%
Non-Tax Revenues	2,963	1,618	83.1%
Gross Revenue Receipts	12,163	8,818	37.9%
Less provincial Share	5,276	4,129	27.8%
Net Revenue Receipts	6,887	4,689	46.9%

(Source: Budget Document 2022-23, Finance Division)

- Regarding the non-tax revenues target of Rs.2,963 billion in budget 2023-24, the Federal Government is relying mainly on petroleum levy to accomplish its targets and estimate massive funds worth Rs. 869 billion in 2023-24, which is 60.30% higher than last year's revised estimates of 2022-23.

- The Federal Government's fiscal deficit would be around Rs. 7,574 billion during 2023-24. However, if the Government incorporates the estimated provincial surplus of Rs. 650 billion, then the overall Fiscal deficit of the country would be Rs. 6,924 billion during 2023-24. The breakdown thereof is as follows:

FEB's Tax Revenue for 2023-24		
(Rs in billion)	**Budget 2023-24**	**Budget 2022-23**
Net Federal Revenue	6,887	4,689
Total Federal Expenditure	14,461	11,090
Federal Budget Deficit	(7,574)	(6,401)
Estimated Provincial Surplus	650	459
Overall Fiscal Deficit	(6,924)	(5,942)
Primary Balance	379	(421)
Nominal GDP (Rs. in Billion)	**105,817**	**84,658**
Overall Fiscal Deficit as % of GDP	**(6.5)%**	**(7.0)%**
Primary Deficit as Percentage of GDP	**0.4%**	**(0.5)%**

(Source: Budget Document 2022-23, Finance Division)

- The Federal Government has had a high fiscal deficit of 7.0% of GDP in 2022-23. Whereas, the projected figure of fiscal deficit would be 6.50% in 2023-24. After experiencing three year consecutive high fiscal deficits, which is unprecedented in the history of Pakistan, the Government is moving towards the path of lowering the Fiscal deficit.

- The next year's primary deficit is estimated at Rs. 270 billion which is 0.3% of GDP for the Federal Government. However, a primary surplus is estimated at 0.4% of GDP, after incorporating the provincial surplus of Rs. 650.

- To curtail the Fiscal deficit, the Federal Government is heavily dependent on enhancing the tax revenue collection and they are taking concrete steps in this regard.
- The country's mark-up is the biggest expense out of the current expenditure. The same is almost 55% of total current expenditure.
- The financing of the budget deficit is the most critical factor for the economy, and financing of the fiscal deficit will remain a key challenge for the policy makers.
- The Federal Government can rely on domestic financing for the Fiscal deficit in 2023-24 (rather than to use provincial surplus), with 66.6% through domestic resources and 33.4% through external resources. The details of the financing are as under:

Financing of Budget Deficit 2023-24	
(Rs in billion)	**Budget 2023-24**
A. Net External Financing	**2,527**
i- Multilateral and Bilateral Sources	926
ii- Commercial Sources	1,601
B. Net Domestic Financing	**5,031**
i- National Schemes and Others	7
ii- Bank (Government Securities)	5,023
C. Privatization Proceeds	**15**
Grand Total	**7,573**

(Source: Budget Document 2023-24, Finance Division)

- The Federal PSDP is projected at Rs. 2,709 billion for 2023-24. The details thereof are as follows:

Size of National PSDP	
(Rs in billion)	**Budget 2023-24**
A. Total Federal PSDP	950
B. Public Private Partnership	200
C. Provinces	1,559
Size of PSDP	**2,709**

(Source: Budget Document 2023-24, Finance Division)

- The larger share of the country's taxes comes from indirect taxes which is contingent with the economic activity and GDP growth. If the tax base is not going to increase, moving forward, the country's tax revenues growth can drop further and it might end up as a dead weight loss to the economy.
- Moreover, in FY23, the interest rate rose to 21.0% from 13.75% in last year's June 2022, in order to curtail the soaring inflation rate, recommended by the IMF. However, this hike in the interest rates increased the cost of doing business and interest payments on debts. Thereby, it puts more fiscal pressure on the Government, along with that, the T-bill rate is more than 21%, which means that the Government is borrowing at a higher rate. This is mainly because of the SBP Amendment Act 2021 that does not allow the Government to borrow directly from the SBP.
- In terms of Pakistan's fiscal operations, it is crucial to establish whether the taxation system should be the driving force behind the economy or if the economy should shape the taxation system. Under the current IMF program, consolidating the fiscal deficit is a key objective in addressing Pakistan's fiscal challenges, stimulating economic growth,

and alleviating the external sector crisis whilst maintaining necessary buffers. Despite that, the implementation of IMF policies, including an increased policy rate, has negatively impacted Pakistan's spending capacity, exacerbating the country's macroeconomic crisis. Rather than focusing on expanding the tax base, the FBR has resorted to imposing additional taxes on existing taxpayers.

- The reasons for the sluggish growth rate of 0.29% in the ongoing Fiscal Year can be attributed to multiple factors. Firstly, the country was hit by disastrous floods, causing widespread damage to infrastructure, agricultural lands, and displacing a significant population. This natural disaster had a detrimental impact on various sectors of the economy, leading to a slowdown in growth. Furthermore, political uncertainty has also played a role in impeding economic progress. The volatile political landscape, characterized by frequent protests and a charged political environment, along with policy instability, has created an environment of uncertainty for businesses and investors.

- Pakistan has not achieved majority of its economic targets set for 2022-23 including agriculture sector, industry, services sector, tax revenue, investment etc. The targets for the next fiscal year mainly depend on how the Government will regulate more financial inclusion in the economy and ensure structural balances.

- The new Finance team faces the dual challenge of ensuring macroeconomic stability and economic recovery, all while keeping the IMF program on track before its current duration concludes in June 2023. Given the ongoing crisis, it is highly likely that the Government will engage in another program with the IMF.

- Mr. Mohammad Ishaq Dar, the Federal Minister for Finance and Revenue, has previously showcased his dedication to implementing an expansionary and growth-oriented budget for Pakistan during his tenure from 2013 to 2017. His emphasis is on an investment-driven strategy aimed to foster inclusive development and creating a favorable economic environment. In light of the current unprecedented challenges faced by the nation, there is optimism that the current finance team will draw upon their past successes and utilize their expertise and experience to guide Pakistan towards a more promising future. By leveraging their knowledge and skills, they have the potential to overcome the existing difficulties and steer the country towards sustainable growth.

1. Income Tax

- 10% fixed tax applied on bonus shares.
- Income from Reko Diq project has been exempted.
- Transaction with the resident of zero taxation regime treated as transaction with associates
- Enabling provisions to tax income on the basis of economic factors resulting in unexpected income.
- Threshold of foreign remittances increased from PKR 5 million to USD 100,000
- Automatic issuance of exemption certificates for payments to NR within 30 days
- Software exporters relieved from filing of sales tax returns
- Advance tax on cash withdrawals by Non-Filers at 0.6%
- Advance tax on sponsoring foreign domestic workers at Rs. 200,000.
- Exemption on 2 % advance tax u/s 236K for overseas Pakistanis.
- Commissioner empowered to recover income tax under other laws.
- Super tax rates increased for persons earning more than Rs. 350 million.
- Turnover tax on listed companies reduced to 1%.
- Advance Tax at import stage for Commercial Importers increased from 5.5% to 6%.
- Advance tax rate on payments to residents and non-residents for goods, services and contracts increased by 1%.
- Tax deduction on foreign payments through Debit/Credit card increased from 1% to 5%.
- Exemption to REITs extended till 30th June 2024.
- Exemption for FATA/PATA extended till 30th June 2024.
- Exemption granted to Agro based SMEs for 4 years.
- Tax reduction of lower of 10% or Rs. 5 million for builders for three years.
- Tax credit of lower of 10% or Rs. 1 million for construction of new house.
- Tax reduction of lower of 50% or Rs. 5 million (Rs. 2 million for AOP or Individual) for Youth enterprise.
- It and IT enabled Service included in SMEs and SMEs turnover threshold increased from Rs. 250 million to Rs. 800 million.
- Reduced tax rates of 20% for banking companies for additional advances for IT and IT enabled Services Sector.
- Reduced tax rates of 20% expiring in 2023 extended till 2025.

2. Sales Tax and FED

- Power transmission excluded from goods and classified as service.
- Local supplies of commodities authorized under the export facilitation scheme 2021
- Branded red chilies, Ginger and Turmeric excluded from Exemption
- Exemption for tribal areas have been extended till 30th June 2024
- Certain edibles sold in retail packing without brand name exempted.
- Sales tax rate on supplies from FBR integrated retail outlets increased from 12% to 15%.
- FED charged on energy inefficient fans (Rs. 2,000) and Bulbs (20%).
- Sales tax on IT and It enabled services reduced from 15% to 5%.

Amendments in Income Tax Ordinance, 2001

1. DEFINITIONS – SECTION 2

The bill has proposed to introduce following definitions:

a) Income - Section 2(29)

The Bill has proposed to add Section 236Z in the definition of income. Moreover, the Bill has also proposed to add Section 236Z (Bonus shares) in the ITO, which will be discussed later in this document. This means that bonus shares is proposed to be made part of income of a taxpayer.

b) Permanent Establishment - Section 2(41)

i. The Bill has proposed to omit the word "fixed" from the definition of Permanent Establishment ("PE"). The affect of this amendment will be that a place of business does not have be established at a distinct place with a certain degree of permanence (reference: Paragraph 6 of the Commentary on Paragraph 1 of Article 5 of the OECD Model Convention on Avoidance of Double Taxation 2017, and Paragraph 3 of the Commentary on Article 5 of the UN Model Convention on Avoidance of Double Taxation 2017 ("UNMC"). The UNMC Commentary in paragraph 5 further states that a place of business is supposed to be a "fixed" one, in the sense that there has to be a link between the place of business and a specific geographical point.

   This amendment seems like an anti-avoidance measure, in so much so, that it would now include those foreign entities operating in Pakistan without having a distinct place of business. This may also rope in virtual presence of foreign entities, and constitute virtual PEs.

ii. The Bill has also proposed to add the words "or Entity" in Section 2(41)(d) of the ITO. This amendment extends the concept of a "Services PE" to entities. This means that foreign person(s) providing services through entities in Pakistan may now constitute a Services PE in Pakistan.

2. Bonus Shares - Section 39(LB)

The Bill has proposed to insert a new Section 39(lb) in the ITO.

This is a corresponding amendment to the amendment proposed under Section 2(29) (Definition of Income) of the ITO. As per this proposed amendment, income arising from the issuance of bonus shares shall now be treated as income under the head "Income from Other sources".

3. Exemption under Foreign Investment (Promotion and Protection) Act, 2022 | Reko Diq project - Section 44A

The Bill has proposed to add a new Section 44A in the ITO. The proposed amendment is a corresponding amendment in the ITO pursuant to the enactment of Foreign Investment (Promotion and Protection) Act 2022 ("FIPPA"). Section 4(1)(a) of FIPPA provided for income tax exemption incentives to investors on income from qualified investments (as defined under the FIPPA) from the ITO. Whereas, Section 4(1)(b) of FIPPA stated that anti-avoidance provisions under the ITO or any other legislation may not be applicable.

This amendment exempts income arising from the Reko Diq project from tax to the extent mentioned in the Second and Third Schedule of the FIPPA. Moreover, it also exempts the application of Anti-avoidance provisions to the extent specified under FIPPA including Sections 106, 106A, 108, 109 and 109A of the ITO to the persons mentioned in the proposed sub-section (1) and (2). Further, the rates of depreciation, initial allowance and pre-commencement expenditure given under the Third Schedule to FIPPA, shall continue to be applicable to the persons mentioned in the proposed sub-sections (1) and (2).

4. Amendment of the definition of Associates - Section 85

a. The Bill has proposed to substitute Section 85(1) of the ITO. The aforesaid proposed amendment seeks to build on the current definition of Associates in the ITO. Currently, section 85 provides that two persons shall be associates where the relationship between the two is such that one may reasonably be expected to act with the intentions of the other.

The bill proposes to further expand the definition by adding following:

- One person sufficiently influences, either alone or together with an associate or associates, the other person; or
- One person enters into a transaction, directly or indirectly, with the other who is a resident of jurisdiction with zero taxation regime.

The proposed amendment is an anti-avoidance measure as it seeks to broaden the scope of an associate. Once enacted, a broader range of transactions shall be subject to the arms-length principle, and may be subject to transfer pricing audits.

Moreover, this proposed amendment read with the proposed amendment to Section 2(41)(i) (through which the word "fixed" has sought to be removed), may result in the constitution of more dependent agent PEs in Pakistan under Section 2(41)(g) of the ITO.

Moreover, it may also affect the exemption from tax on profit on debt received by a non-resident person on a security issued by a tax resident person in Pakistan in terms of Section 46 of the ITO, as the said exemption is not available to associates.

Furthermore, it may also expand the geographical source of income under section 101(3)(e) of the ITO. It may also have an impact on Section 106 of the ITO for Thin Capitalization.

b. The Bill has proposed to define jurisdiction with zero taxation regime as any Jurisdiction as may be specified.

5. Proposed Additional tax on certain income, profits and gains - Section 99D

A new Section 99D is proposed to be added in the ITO. The proposed amendment seeks to introduce a new Section 99D, through which "unexpected income, profits or gains" disclosed or undisclosed, have sought to be taxed. There are two requirements for this section to be invoked. The first requirement is that there must be an economic factor(s) and that / those economic factor(s) must have resulted in unexpected income. Economic factors have been given an inclusive definition, which include but are not limited to international price fluctuation having bearing on any commodity price in Pakistan or any sector of the economy or difference in income, profit or gains on account of foreign currency fluctuation.

This proposed amendment introduces an extremely broad ranging tax, which may cover, amongst other sectors: exporters, commercial banks, foreign exchange currency dealers, etc. The proposed tax rate is not more than 50% of such income, gain or profit.

Moreover, this Section by including income "not disclosed in financial statements" has given a broad discretionary power to the FBR to tax under this Section. This amendment may be a parallel, if not a greater parallel to Section 177 of the ITO.

However, it has been proposed that such economic factors, rate of tax, scope, time and payment of tax shall be specified through notification in official Gazette. Which means these provisions will not be effective until such notification is issued and the methodology and scope is specified.

6. Threshold of Foreign Remittances Increased - Section 111(4)

The Bill has proposed to increase the threshold of foreign remittances received under Section 111(4) of the ITO, from PKR 5 million to USD 100,000/-.

This proposed threshold is similar to the amendment made vide Income Tax (Amendment) Ordinance, 2018, whereby this threshold was reduced to PKR 10 million at the time. Considering the PKR/USD back then, the threshold of PKR 10 million amounted to around USD 100,000/-. The same threshold of USD 100,000/- has been proposed through this Bill.

Moreover, this may not have any adverse effect in relation to Pakistan's status with the Financial Action Task Force ("FATF"), as any potential money laundering concerns can be investigated by the Financial Monitoring Unit. Whereas, this Section only pertains to an exemption from tax for such foreign remittance received through banking channel and encashed into the PKR.

7. Automatic issuance of exemption certificate for payments to non-resident - Section 152(5A)

Section 152(5A) obliges the Commissioner to pass an Order accepting the contention of the person regarding exemption of withholding tax on payment to non-resident under Section 152, or rejecting the same, within 30 days of the notice / application received by the Commissioner.

The Bill has proposed to add a proviso at the end of Section 152(5A), whereby, if the Commissioner does not pass an Order accepting or rejecting the aforesaid application within the aforesaid 30 days (excluding the period of days falling under any adjournment sought by the applicant), the Commissioner shall be deemed to have issued the exemption certificate upon expiry of the said 30 days. The Bill further proposes that the said exemption certificate shall automatically be processed and issued by IRIS once the said 30 days' timeframe expires.

The Bill has further proposed to empower the Commissioner to modify or cancel the automatically issued certificate on the basis of reasons to be recorded in writing after providing an opportunity of being heard.

8. Exports of Services - Section 154A(2c)

The Bill has proposed to add a proviso to Section 154A(2c), whereby, an exporter registered and duly certified by the Pakistan Software Export Board (PSEB) who exports computer software or IT services or IT enabled services, shall not have to file sales tax returns under Federal or Provincial laws, to avail the option of the final tax regime under Section 154A of the ITO.

9. Advance tax on cash withdrawal - Section 231AB

The Bill has proposed to add a new Section 231AB to the ITO, whereby, an advance tax on cash withdrawals by a person (whose name is not appearing in the Active taxpayers list) exceeding PKR 50 thousand in aggregate during a single day, has been levied at 0.6%. The said advance tax shall be adjustable.

This tax was in-field earlier, till it was abolished vide Finance Act 2021.

10. Advance tax on foreign domestic workers - Section 231C

The Bill proposes to levy an adjustable advance tax of PKR 200,000/- at the time any authority is issuing or renewing domestic aide visa to any foreign national as a domestic worker. The authority issuing or renewing such visa shall be obliged to collect such advance tax from the agency, sponsor or the employer of the foreign domestic worker. This tax is proposed to be adjustable against the income of agency, sponsor or the employer of the foreign domestic worker.

11. Advance tax on purchase or transfer of immoveable property by Overseas Individuals - Section 236K

The Bill has proposed to exempt the buyer or transferee from advance tax on purchase or transfer of immoveable property under Section 236K, if the buyer or transferee is a non-resident individual holding a Pakistan Origin Card, NICOP, or CNIC, who has acquired the said immoveable property through a Foreign Currency Value Account or NRP Rupee Value Account maintained with authorized banks in Pakistan under the Foreign exchange regulations issued by the SBP upon submission of certificate as may be prescribed.

This amendment seems to be an incentive for non-resident Pakistanis to invest in immoveable properties.

12. Bonus shares - Section 236Z

The Bill has proposed to levy a tax on the issuance of bonus shares by every company. The company has been obliged to withhold 10% of bonus shares to be issued by the Company. The 10% bonus shares shall only be issued if the company collects from the shareholders 10% tax on the value of the bonus shares (including the withheld bonus shares) issued. The value of the bonus shares shall be determined on the basis of the day-end price on the first day of closure of books for listed companies, and in case of other companies the value as prescribed.

The company shall be liable to deposit the aforesaid tax within 15 days of the closure of its books, whether or not it has collected the tax from the shareholder to whom the bonus shares have been issued.

The company shall be entitled to collect and recover the tax from the shareholder before bonus shares have been issued to the shareholder.

Moreover, if the shareholder does not pay tax to the company nor collects his bonus shares within 15 days of the date of issuance of bonus shares, the Company may dispose of its bonus shares to the extent it has paid tax on behalf of the shareholder.

Furthermore, the issuance of the bonus shares shall be deemed to be the income of the shareholder. The tax collected by the company under this section or the proceeds of the bonus shares disposed off shall be deemed to have been paid on behalf of the shareholder.

The tax under this section is proposed to be a final tax.

13. Recovery of Liability Outstanding Under Other Laws – Section 146D

The bill proposes to introduce a new section 146D, whereby, the Commissioner is empowered to collect outstanding liability in or under any other statute or law for the time being in force, from defaulter.

Such powers will be exercisable in circumstances where the amount is:

a) Treated as income tax arrears in that law;
b) Required to recovered or collected by Commissioner; or
c) Is referred to Commissioner for the recovery-

The bill proposes that the commissioner shall recover the said liability in terms of aforesaid section and the receipts of the said liability shall be deposited in the designated accounts specified in that law.

14. Tax on High Earning Persons | Increase in rates – Section 4C

A tax on high earners called super tax, for poverty alleviation, was introduced vide Finance Act, 2022. The bill proposes to increase rates of super tax as under:

S. No.	Income u/s 4C	Current (TY 2022 and onwards)	Proposed	
			TY 2022	TY 2023 and onwards
1	Income upto Rs. 150 million	0%	0%	0%
2	Rs. 150 million to 200 million	1%	1%	1%
3	Rs. 200 million to Rs. 250 million	2%	2%	2%

4	Rs. 250 million to Rs. 300 million	3%	3%	3%
5	Rs. 300 million to Rs. 350 million	4%	4%	4%
6	Rs. 350 million to Rs. 400 million			6%
7	Rs. 400 million to Rs. 500 million			8%
8	Income exceeding Rs. 500 million			10%

The rate of super tax for specified sectors earning income more than Rs. 300 million will be continue to be 10% as earlier.

The Bill also proposes to add sub-section (5A) to Section 4C. By virtue of this proposed amendment, Super Tax under Section 4C shall now be collectable as an advance tax by the FBR under Section 147 of the ITO.

The bill also proposes that NCCPL shall also compute and collect tax under section 4C on the amounts of capital gains.

15. Minimum tax rate for listed Companies – Section 113

Section 113 of ITO provides for charging of a minimum tax on the basis of turnover of the taxpayers. Currently, the general rate of turnover tax under section 113 is 1.25%. The bill proposes to reduce this turnover tax from 1.25% to 1% in case of a company listed on Pakistan Stock Exchange. In case the Company is already charged at reduced rate, such reduced rate shall apply.

For example, Pakistan International Airlines Corporation ("PIAC") is specified to be charged at turnover tax of 0.75%. Therefore, the above proposal will not apply to PIAC and PIAC will continue to enjoy turnover tax rate of 0.75%.

16. Advance Income Tax at Import Stage | Commercial Importers – Section 148

Section 148 of the ITO provides for collection of advance tax at specified rates at import stage. The rates of advance taxes has been categorized into three classes of goods with specified tax rates as under:

- Part I of 12th Schedule - 1% **(3.5% for commercial importers);**
- Part II of 12th Schedule – **2%; and**
- Part III of 12th Schedule - **5.5%.**

The Bill proposes to introduce advance tax rate of 6% for commercial importers importing goods specified in Part III of 12th Schedule.

17. Advance tax collection on payments for provision of goods and services – Section 152, 153

Section 152 and 153 of the ITO provides for deduction of tax from payments to Non-Residents and Residents, respectively, on account of provision of Goods, Services and execution of Contracts. The bill proposes to increase the rates by 1% as under:

Payments to Non-Residents:

Payment on account of	Payment to	Current rates	Proposed rates
Sale of Goods	Company	4%	5%
	Individual or AOP	4.5%	5.5%
Specified Services	Any person	3%	4%
Other Services	Company	8%	10%
	Individual or AOP	10%	11%
Execution of Contract	other than Sportsperson	7%	8%

Payments to Residents:

Payment on account of	Payment to	Current rates	Proposed rates
Sale of Goods	Company	4%	5%
	Individual or AOP	4.5%	5.5%
Specified Services	Any person	3%	4%
Other Services	Company	8%	10%
	Individual or AOP	10%	11%
Execution of Contract	Company	6.5%	7.5%
	other than Sportsperson	7%	8%

18. International center of tax excellence – section 230J

The bill proposes to introduce the new section 230J, whereby, the concept of establishment of an Institute known as International Centre of Tax Excellence, is introduced. This institute shall help to contribute the internal development for tax policy, prepare model national tax policy, deliver interdisciplinary research in tax administration and policy, international tax cooperation, revenue forecasting, conduct international seminars, workshops and conferences on the current issues faced by tax authorities in the field of international taxation, capacity building of Inland Revenue officers, tax analysis, improve the design and delivery of tax administration for maximizing revenue within existing provisions to close the tax gap or any other function as directed by the Board or the Federal Government.

19. Foreign Payments Through Credit or Debit Cards – 236Y

Section 236Y of the ITO provides for deduction of advance tax on amounts remitted abroad through Debit, Credit or prepaid cards. The bill proposes to increase the rate of such deduction from 1% to 5%.

20. Charitable Institutions – Section 53, 61 – Clause (66), Part I, 2nd Schedule

Clause (66), part I of Second Schedule provides a list of Charitable Institutions, any income of which is exempt from tax. Table I of the clause provides a list of Institutions which are exempt without fulfilling conditions under section 100C while Table II provides list of Institutions who are required to fulfill conditions mentioned under section 100C.

The bill proposes to add following institutions in Table I of Clause (66):

(IXiii)	The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5th August, 2022
(IXiv)	Film and Drama Finance Fund
(Ixv)	Export-Import Bank of Pakistan
(IXvi)	Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi
(Ixvii)	Shaheed Zulfikar Ali Bhutto Institute of Science and Technology

21. Sale of Immovable property to a REIT Scheme – Clause (99A), Part I, 2nd Schedule

Clause (99A) provides that profits and gains from sale of immovable property or shares of Special purpose vehicle to any type of REIT Scheme will be exempt upto 30th Day of June 2023.

The bill proposes to extend the time limit of such exemption till 30th June 2024.

22. Income of Persons residing under FATA and PATA – Clause (145A), Part I, 2nd Schedule

Clause (145A) provides that incomes of individuals domiciled under, and AOPs and Companies resident in, Tribal Areas of Khyber Pakhtunkhwa and

Baluchistan will be exempt from tax from 1st Day of June 2018 to 30th Day of June 2023.

The Bill proposes to extend the time line of exemption till 30th June 2024.

23. Exemption to Agro Based SMEs - Clause (154), Part I, 2nd Schedule

The bill proposes to provide exemption to profits and gains of a small and medium enterprise setup exclusively as agro based industry in a rural area duly notified for a period of five tax years commencing from tax year 2024 and up to tax year 2028. The bill also provides that such enterprise is setup on or after 1st day of July, 2023 and is not formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

24. Tax Reduction for Builders - Clause (21), Part II, 2nd Schedule

The bill proposes a reduction in tax liability for a builder on profits and gains derived from business of a builder as under:

- The benefit will be available only to such builders who are registered with Directorate General of Designated Non-Financial Business and Professions ("DG DNFBP").
- The benefit will be for a new building project for construction of a building layout plan of which is approved by the authority concerned on or after 1st July 2023.
- The benefit will not be available to a land development project.
- The benefit will be available in the tax year in which completion certificate is furnished along with return of income.
- The benefit will be available for tax years 2024 to 2026.
- The tax liability will be reduced by 10% or Rs. 5 million, whichever is lower.

25. Tax credit for construction of house - Section 65I

The Bill proposes to add a new Section 65I in the ITO, whereby an individual, for the Tax Years 2024 to 2026, is proposed to be given a tax credit in respect of the construction of a new house, provided the construction of the new house is completed during the said tax year and the completion certificate thereof is submitted with the income tax return filed by the individual.

The amount of tax credit proposed is the lesser of 10% of the tax assessed to the person for the tax year or PKR One million.

A new house for the purpose of Section 65I has been defined as a residential house the layout plan of which is approved by the concerned authority on or after 1st July 2023.

26. Tax Reduction for a Youth Enterprise - Clause (22), Part II, 2nd Schedule

The bill proposes a tax reduction for the tax payable on business income of a Youth Enterprise as under:

- The tax reduction will be calculated as under:
  - For AOP and Individual - 50% or Rs. 2 million, whichever is lower
  - For a Company - 50% or Rs. 5 million, whichever is lower
- Youth Enterprise means a startup:
  - In case of sole proprietorship – owned by a Youth Individual;
  - In case of AOP – all members are Youth Individuals; and
  - In case of a Company – 100% shareholding is owned by Youth Individuals

- The startup should be established on or after 2st July 2023
- Youth Individual means a natural person upto the age of 30 years as on first day of the relevant tax year.
- The benefit is available for tax years 2024 to 2026.

27. Prime Ministers Relief Funds

The bill proposes to provide following exemptions to The Prime Minister's Relief Fund ("Fund") for flood, Earthquake and Other Calamities with effect on and from the 5th August, 2022:

- Exemption from minimum tax under section 113
- Exemption from application of section 151 (tax deduction on profit on debt) on profit on debt earned by the fund.
- Exemption from section 236 (advance tax on telephone bill, prepaid cards, etc.) on the amounts donated through SMS.
- Tax credit for investment in the Fund under section 61 of ITO.

28. Small and Medium Enterprises | IT and IT Enabled Services – 2(59A), Fourteenth Schedule

The Bill has proposed to substitute the definition of Small and Medium Enterprises ("SMEs") as follows:

This proposed amendment has the following two effects:

- The maximum threshold of qualifying as an SME has been increased to a turnover of PKR 800 million from a turnover of PKR 250 million in a tax year.

Consequent to increase in Turnover limit, the tax rate for additional turnover has also been proposed as under:

For Normal Tax Regime:

Category	Turnover	Current rates	Proposed rates
Category – 1	Upto Rs. 100 million	7.5% of taxable income	7.5% of taxable income
Category – 2	Rs. 100 million to Rs. 250 million	15% of taxable income	15% of taxable income
Category – 3	Rs. 250 million to Rs. 800 million	N/A	20% of taxable income

For Fixed Tax Regime:

Category	Turnover	Current rates	Proposed rates
Category - 1	Upto Rs. 100 million	7.5% of taxable income	0.25% of turnover
Category – 2	Rs. 100 million to Rs. 250 million	15% of taxable income	0.5% of turnover
Category - 3	Rs. 250 million to Rs. 800 million	N/A	0.75% of turnover

Previously the definition only encompassed manufacturers. However, this amendment has proposed to add IT service providers (Section 2(30AD) or providers of IT enabled services (Section 30AE) within the purview of an SME, provided their turnover does not exceed PKR 800 million in a tax year.

The bill also proposes to add the requirement of registration with FBR on FBR web portal or with Small and Medium Enterprises Development Authority on its SME registration portal (SMERP).

The Bill also proposes that SMEs engaged in It and IT enabled services shall also be required to register with and duly certified by Pakistan Software Export Board, in addition to registration with SMERP.

29. Reduced rate of tax on additional advances for IT and IT enabled Services by Banking Companies | Rule 7G, Seventh Schedule

The Bill proposes to charge reduced tax rate of 20% on taxable income for the tax years 2024 to 2025 from additional advances provided to IT and IT Enabled Services in Pakistan instead of the normal tax rate which is applicable on banks at present.

The Bill provides the definition of the additional advances as any average advances disbursed in addition to the average amount of such advances made in such sector by the bank for the immediately preceding tax year starting from 2023.

For example, then average advances disbursed to IT and IT enabled services during tax year 2024 were Rs. 100 million while the average advances disbursed to the same sector during tax year 2023 were Rs. 90 million. In such a case, the additional advances amount would be Rs. 10 million for tax year 2024.

The taxable income attributable for the reduced rate of 20% shall be computed through the following formula:

$$A x \frac{B}{C}$$

Where, A= Taxable income of the Banking Company;

B= Net mark-up income earned from additional advances for the tax years as declared in the annual accounts;

and C= Total of the net mark-up and non-markup income of the banking company as per accounts.

Furthermore, a certificate from the external auditor should be attached along with the accounts while e-filing the return of income. The certificate shall certify that the amounts of such advances made in the proceeding tax years, additional advances made for the tax year and net mark-up earned from such additional advances for the tax year. The Commissioner will be empowered to inquire the banking company to furnish details of the advances made to determine the applicability of the reduced rate of tax.

30. Extension in time for reduced rates for Banking Companies | Rule 7D, 7E, 7F, Seventh Schedule

Currently banking companies enjoy reduced tax rate of 20% on following till tax year 2023:

- on additional advances for micro, small and medium enterprises
- on additional advances for low cost housing; and
- on additional advances as farm credit.

The bill proposes to extend such reduced rates till tax year 2025.

Amendments in Sales Tax Act, 1990

1. Definitions – Section 2

The Bill has made the following amendments in section 2 (definitions) of the Sales Tax Act, 1990 (“STA”). these are as follows:

(a) Goods - Section 2(12):

The Bill has proposed to omit the term “Production, transmission and distribution of electricity” from the definition of Goods. Through this proposed amendment, the production, transmission, and distribution of electricity will no longer be classified as goods.

(b) Supply - Section 2(33):

The Bill has proposed to withdraw clause (e) whereby production, transmission and distribution of electricity shall no longer fall within the purview of the definition of “Supply”.

(c) Tier-1 Retailers - Section 2(43A):

The Bill has proposed to omit the following from the definition of Tier 1 retailers:

i. Retailers whose shop measured 1,000 sq ft or more or 2,000 sq ft or more in case of retailers of furniture; and

ii. Retailers engaged in supply of articles of jewelry, or parts of metal/ metal clad with precious metals.

Exclusion from the definition of Tier-1 retailers means such retailers shall pay sales tax through their monthly electricity bills at specified rates.

2. Directorate General of Digital Initiatives-Section 30CA

The Bill has proposed to substitute the title of the designation of the Directorate General of Digital Invoicing and Analysis to “Directorate General of Digital Initiatives”. It is pertinent to mention that the remaining provision shall remain the same, i.e., appointment of as many directors as notified by the Board by notification in the official Gazette.

3. Offences and Penalty -Section 33(23)

The Bill has amended section 33(23) by broadening the offenses pertaining to selling of cigarette packs with counterfeited tax stamps, banderoles, stickers, labels, or barcodes or without tax stamps, banderoles, stickers, labels, or barcodes by substituting the words “cigarette packs” with goods / class of goods specified by the Board under section 40C(1).

4. Amendments in The Fifth Schedule (Zero Rated Goods)

The Bill has proposed the following amendment in the Fifth Schedule:

i. **Addition:**

a. Imports / supplies made by, for or to a qualified investment as specified at Serial No. 1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule of the STA;

b. Local supplies of commodities authorized under the Export Facilitation Scheme 2021;

ii. The Bill has proposed to charge 0% on other drawing, marking out or mathematical calculating instruments (geometry box) instead of only applying to geometry boxes.

5. Amendments in the Sixth Schedule (Exempted Goods)

The Bill has proposed amendments with respect to the following **imported** goods:

i. The exemption shall not be applicable on the following items if sold under brand names and trademarks.

   a. Red chilies;
   b. Ginger; and
   c. Turmeric.

Currently exemption on these items is not applicable if sold in retail packaging under a brand name. This means after approval of the aforesaid proposal, the exemption on these items will be available even if sold in retail packaging as long as these are not sold under a brand name or a trademark.

ii. An explanation was inserted in the Bill, wherein blood transfusion sets (not packed in aluminum foil), imported with blood bags CPDA-1, in corresponding quantities, in the same consignment are proposed to be exempt

iii. Currently import of plant, machinery, equipment for installation in tribal areas and of industrial inputs by industries located in tribal areas as made till 30th June 2023 are exempt from sales tax. The timeline has been proposed to be extended till 30th June 2024.

iv. Earlier, supplies of electricity to all residential and commercial consumers in tribal areas and such other industries specified therein, were exempted till 30th June 2023. The same has been proposed to be extended to 30th June 2024.

v. It is proposed that import of auto disposable syringes till 31st December 2021 with and without needles shall no longer be exempted.

vi. It is proposed that import of Tubular metal needles and rubber gaskets for manufacturers of auto disable syringes till 31st December 2021, shall no longer be exempt.

vii. The following imports are proposed to now be exempt from Sales tax:

   a. Contraceptives and accessories thereof;
   b. Bovine semen;
   c. Saplings;
   d. Combined Harvester-Thresher;
   e. Dryer for agricultural products;
   f. No-till-direct seeder, planters, trans-planters, and other planters;
   g. Import of goods mentioned u/s 159 of Part III, Fifth Schedule of the Customs Act, 1969 (IV of 1969) chargeable to custom duty at 0% subject to restriction contained therein by the software exporters registered with Pakistan Software Export Board.

Currently, the following items are not exempt if sold in retail packing under a brand name:

i. Yogurt;
ii. Butter;
iii. Desi Ghee;
iv. Cheese;
v. Processed cheese not grated/ powdered;
vi. Products of meat / meat offal;
vii. Meat of bovine animals, sheep, goat, and uncooked poultry meat;
viii. Fish and crustaceans;

The bill proposes that these items will remain exempt even if sold in retail packing as long as these are not sold under a brand name or a trademark.

6. Amendments in The Eighth Schedule (Subject to Special Tax Rates)

- Supplies made from retail outlets integrated with the Board's computerized system for real-time system for real-time reporting of sales has been increased from 12% to 15%, subject to certain pre-existing conditions as specified in the STA.

- Earlier, manufacture/ import of substances registered as "Drugs" under the Drugs Act, 1976 was chargeable to tax at 1%. The Bill instead, proposes to also add medicaments classified under chapter 30 of the First Schedule to the Customs Act, 1969 in addition to Drugs. The Bill also provides an exception to the above irrespective of whether they are medicated or medicinal in nature or not; the exceptions are mentioned as under:

a. filled infusion solution bags imported with or without infusion given sets;
b. scrubs, detergents and washing preparations;
c. soft soap or no soap;
d. adhesive plaster;
e. surgical tapes;
f. liquid paraffin;
g. disinfectants and
h. cosmetics and toilet preparations

The Bill has also proposed that the above shall be deemed to have been enforceable since 1st July 2022.

- Earlier, Active Pharmaceutical Ingredients ("API") except excipients for manufacturing drugs under the Drugs Act, 1976 / Raw materials for basic manufacture of APIs were charged to 1%. The same has been proposed to be amended and now raw materials for basic manufacture of APIs/ pharmaceutical products shall be charged at 1%. However, in case of import, only those raw materials shall be entitled to exemption on which customs duty does not exceed 11% ad valorem, either under the First Schedule / Fifth Schedule to the Customs Act, 1969 / under a notification under Section 19.

The Bill has also proposed that the above shall be deemed to have been enforceable since 1st July 2022.

Amendments in Federal Excise Act, 2005

1. Appointment of Inland Revenue Officers and Delegation of Powers - Section 29

The Bill proposes to appoint a "Directorate General of Digital Initiatives" who shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, and Assistant Directors and such other officers as the Board may specify through a notification in the official Gazette.

2. Power of Board to make rules - Section 40

The Bill proposes all rules made under any provision of the FEA, shall be collected, arranged and published along with general orders and departmental instructions and rulings and sold to the public at reasonable prices / placed regularly in the official website maintained by the Board.

3. Amendments to the First Schedule Excisable Goods and Services – Section 3

The Bill proposed to charge duty on any item specified in the First Schedule.

The Bill proposes to introduce the following as excisable goods:

Sr. No.	Excisable Goods	Rate
1	Energy inefficient fans both locally manufactured and imported which do not comply with the MEPS, notified by the PSQCA	Rs 2,000/- per fan
2	Incandescent bulbs- locally manufactured or imported	20% ad valorem

The Bill proposes to charge FED on royalty and fee for technical services along with franchise services at a rate of 10%.

4. Amendments to the First Schedule Excisable Goods and Services – Section 3

The Bill proposes to include import, supplies, or services made by, for, or to a qualified investment as specified in the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 ("FIPPA") for the period as specified in the Second Schedule of the FIPPA.

1. SCOPE OF TAX (SECTION 3(2A))

The Bill proposes that the provisions of the STA shall also apply to the services rendered or provided by freelance exporter exclusively dealing in export of IT and IT enabled services. Furthermore, the Bill further explains that a freelance exporter means that a person who works on per job and on a self-employed basis without being attached to / under employment of any other person, having the liberty to work on various tasks simultaneously, and provisions in respect of withholding / collection shall be applicable as in the STA.

The Bill has proposed the following:

- Services rendered by the following shall now be taxed at 15% instead of the existing 16%:

  i. Hotels;
  ii. Motels;
  iii. Guest Houses;
  iv. Farmhouses;
  v. Marriage halls;
  vi. Lawns;
  vii. Clubs and caterers.

- Services provided or rendered by pandal and shamiana have been excluded from sales tax.

- Currently, a 15% tax is imposed on services by restaurants including cafes, food, ice cream parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar cooked/prepared/ready-to-eat food services/outlets. The Bill proposes that if payment is received through debit/credit cards, mobile wallets/QCR scanning then the applicable tax rate shall be 5%, provided that no input tax adjustment/ refund shall be allowed.

- The Bill proposes that Services by software/ IT based system development consultants shall be taxed at 5% instead of the existing 15%. However, no input tax adjustment or refund shall be allowed.

- Moreover, the Bill proposes that Electric Power Transmission Services shall now be subject to tax at the rate of 15%.