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A TURBULENT TAKEOFF AMIDST THE IMF NEGOTIATIONS



BUDGET MEMORANDUM 2024-2025

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Prologue:

- The Finance Bill 2024-25 ("The Bill") for the Fiscal Year 2024-25 was tabled before the National Assembly on June 12, 2024. 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. Please note that we have already issued our brief comments on the Amendments made in the KPRA Sales Tax on Services Act, 2022.
- 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. This document, including any contents therein, shall not constitute any tax advice, investment advice, nor shall the same be used for tax planning purposes. Tola Associates does not assume any responsibility whatsoever arising out of the use of this document.
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Kind Regards,

Tola Associates

Thursday, June 13, 2024

The Federal Government (“Government” or “FG”) has announced the Budget for the Fiscal Year 2024-25 (“FY25”), 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 shown a slight improvement of 2.38%, as per the provisional estimates of FY24. Despite significant growth in FY24 compared to FY23, the FY24 growth was primarily supported by the agriculture sector. However, inflation rose throughout the year, and the sluggish 1.2% growth in the industrial and services sectors led to a stagflation situation in Pakistan. Nevertheless, various macroeconomic indicators showed improvement in FY24. Our detailed comments on the economic overview can be downloaded by clicking the following link <https://cutt.ly/MwMw3H8K>.

The key highlights of the Federal Budget 2024-25 are as under:

KEY HIGHLIGHTS OF THE BUDGET 2024-25:

- The total outlay of the Federal budget 2024-25 is Rs. 18,877 billion which is 25.0% more than the size of the budget (revised) estimates of 2023-24.
- The projected interest payment in the budget is estimated at Rs.9,775 billion, which is 18.0% higher than the figures of Rs. 8,251 billion in (revised) budget 2023- 24.
- Current expenditure of the country is estimated at Rs. 17,203 billion in 2024-25 vs. Rs. 14,232 billion a year ago.
- The total Federal expenditure is estimated at Rs. 18,877 billion (Current Expenditure Rs.17,203 plus Development expenditure Rs.1,674).
- The current expenditure accounts for 91.0% of the total estimated expenditures, which is a substantial growth.
- The defense budget is estimated at Rs.2,210 billion in 2024-25 which is almost 18.0% higher than the revised figures of Rs.1,854 billion last year.
- The Federal Government will increase subsidies by Rs.292 billion to Rs. 1,363 billion in 2024-25 from Rs.1,071 billion in estimates of 2023-24.
- Provincial share in the NFC award is estimated for 2023-24 at Rs. 7,438 billion which is 37.0% of the FBR’s revenue collection.
- The size of the total Development expenses is estimated at Rs. 1,674 billion, which includes Federal PSDP Rs. 1,400 billion, public private partnership worth Rs. 274 Billion.
- Moreover, the Federal Government has projected Rs. 12,970 billion as the tax revenue target in FY24, almost a 40.0% growth from the current Fiscal Year’s revised figures of Rs. 9,252 billion.
- Considering the 40% growth target set by the Government for FBR revenue, as against the nominal growth of 15.5%; the projected GDP growth of 3.5%, and the inflation projection of 12.0% during 2024-25. Factoring in the same, the said growth target for FBR revenue seems unrealistic and unachievable.
- However, in our humble view the Government may be able to collect PKR 12,000 billion worth tax target, provided they introduce the remaining revenue measures mentioned in the RRMC interim report in the Finance Act 2024.
- Pakistan has an excellent potential to enhance its tax revenue collection and can easily finance its debts and deficits.

Budget at a Glance 2024-25:

<i>(PKR in Billion)</i>				
GOVERNMENT BUDGET FOR 2023-24				
	Govt. Budget 2024-25 (P)	Govt. Budget 2023-24 (R)	Difference	% Change
Receipts				
FBR Tax Revenue	12,970	9,252	3,718	40
Non Tax Revenue	4,845	2,947	1,898	64
Gross Revenue Receipts	17,815	12,199	5,616	46
Less: Transfer to Provinces	7,438	5,427	2,011	37
Net Revenue Receipts - Federal Share	10,377	6,772	3,605	53
Expenditure				
Total Expenditure	18,877	15,160	3,717	25
Current Expenditure	17,203	14,232	2,971	21
Markup on Debt	9,775	8,251	1,524	18
Pension	1,014	821	193	24
Defense Affairs & Services	2,122	1,854	268	14
Grants & transfers (Province + Others)	1,777	1,482	295	20
Subsidies	1,363	1,071	292	27
Provision for contingencies	1,152	753	399	53
Development Expenditure	1,674	928	746	80
Provincial Surplus	1,217	539	678	126
Federal Budget Deficit	(7,283)	(7,849)	566	(7)
Primary Surplus	2,492	402	2,090	520
Projected Nominal GDP	124,150	106,045	18,105	17
Fiscal Deficit (FED) as % of GDP	(5.9)	(7.40)		
Primary Surplus as % of GDP	2.01	0.38		

Moreover, the FBR has not been able to broaden the tax base in the outgoing fiscal year, in terms of revenue generation, as they have struggled to collect the ongoing FY24's target set by IMF at PKR 9.415tr. Official figures show that from July to May of FY24, FBR's tax revenue stood at PKR 8.12tr – 31% or PKR 1.91tr higher than last year's collection of PKR 6.21tr. The FBR still needs PKR 1.23tr more to reach the revised tax revenue target for FY24. Reaching the revised revenue target seems likely in the remaining month of June 2024.

Further, in the budget 2024-25, FBR's Tax target revised to PKR 9,252 billion, as FBR failed to reach the previous official target set by IMF.

In May 2024, the IMF and Pakistan completed the second and final review under the stand-by arrangement. The plan envisages FBR's need to implement additional taxes on the masses, which is seen in this budget as petroleum development levy has been revised, the income tax slab has been revised upwards, and other additional taxes are implemented.

Unfortunately, Pakistan has a huge parallel base economy, as approximately 44% of the nominal GDP is not contributing significantly towards the direct tax collection, such as traders and agriculturalists. The Government has to urgently 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.

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

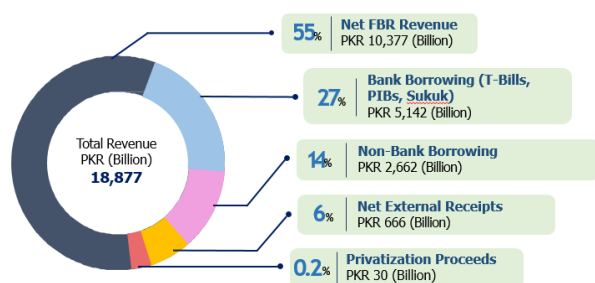
<i>(PKR Billion)</i>		
	2024-25 (Provisional)	2023-24 (Revised)
FBR Taxes	12,970	9,252
Indirect Taxes	5,512	3,721
Direct Taxes	7,458	5,531
Non Tax Revenue	4,845	2,947
Gross Revenue Receipt	17,815	12,199
Less provincial Share	7,438	5,427
Net Revenue Receipts	10,377	6,772

The Federal Government's fiscal deficit would be around Rs. 8,500 billion during 2024-25. However, if the Government incorporates the estimated provincial surplus of Rs. 1,217 billion, then the overall Fiscal deficit of the country would be Rs.7,283 billion during 2023-24. The breakdown thereof is as follows:

<i>(PKR Billion)</i>		
	2024-25 (Provisional)	2023-24 (Revised)
Net Federal Revenue	10,377	6,772
Total Federal Expenditure	18,877	15,160
Federal Budget Deficit	(8,500)	(8,388)
Estimated Provincial Surplus	1217	539
Overall Fiscal Deficit	(7,283)	(7,849)
Primary Balance	402	2492
Overall Fiscal Deficit as % of GDP	(5.9)	(7.4)
Primary Deficit as Percentage of GDP	0.3	2.3

The Federal Government has had a high fiscal deficit of 7.4% (revised) of GDP in 2023-24. Whereas, the projected figure of fiscal deficit would be 5.9% in 2024-25. After experiencing elevated fiscal deficits consecutively for four years, an unprecedented feat 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. 1,953 billion which is 1.6% of the GDP for the Federal Government. However, a primary surplus is estimated at 2.3% of GDP, after incorporating the provincial surplus of Rs. 1,217.

The chart herein below illustrates the financing of the Budget 2024-25



The Federal PSDP is projected at Rs. 1,400 billion for 2024-25. The details thereof are as follows:

<i>(PKR in Billion)</i>	
Size of Development Expense	Budget 2024-25
A. Total Federal PSDP	1,400
B. Net Lending	274

The larger share of the country's taxes is derived 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 the most part of the FY24, the interest rate remained at 22.0% (now 20.5%), in order to curtail the soaring inflation rate, as recommended by the IMF. However, this hike in the interest rate 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 whether 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

1. DEFINITIONS – SECTION 2

The Bill has proposed to add the following definition:

a) Section 2(8) (Board)

The Bill has proposed to add a Member of the FBR that has been delegated the powers of the Board u/s 8 of the Federal Board of Revenue Act 2007 (“FBR Act”), into the definition of “Board” under the ITO.

2. Capital Gains - Section 37 (6)

The existing sub-section mandates a person acquiring shares of a company to deduct adjustable advance tax from the gross amount paid as consideration for the shares at the rate of the 10% of the FMV of shares, that shall be paid to the Commissioner by way of credit to the Federal Government (“FG” or “Government”), within fifteen days of the payment.

The Bill has proposed to amend the aforesaid sub-section, pursuant to which the acquirer of the shares of a company shall now deduct this advance adjustable tax at 10% of the FMV, on the earlier of the following events:

- Payment is made for the shares;
- Shares are registered by the SECP; or
- Shares are registered by the SBP

3. Carry Forward of Business Losses – New Section 57(2C) Proposed

A new sub-section 2C has been proposed to be added under Section 57. Through this amendment, if Pakistan International Corporation Limited (“PIACL”) has sustained a loss under the head “income from business” relating to a tax year commencing from 1st January 2017 and onwards, and the timelimit for adjustment of such business losses have been extended to ten tax years immediately succeeding the tax year in which the loss was computed by PIACL.

For example, in Tax Year 2017, PIACL sustained a loss, which has not been fully adjusted / set-off to-date. Then the time limit to adjust such loss has been extended to Tax Year 2027.

For Tax Year 2018, losses incurred by PIACL under the head business income, shall be able to be carry forward to Tax Year 2028.

4. Tax Credit for Certain Persons - Section 65F(1)

The Bill has proposed to add an explanation in sub-section (1), whereby, it has been clarified that the tax credit available to persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects, shall only be available to the income derived from operations of coal mining projects in Sindh supplying coal to power generation projects

5. Principles of Taxation of AOPS - Section 92(1)

The Bill has proposed to add a second proviso to Section 92(1), whereby it has been proposed that if an AOP has a turnover of PKR 300 million or above (“the AOP”) during the tax year or any of the preceding tax years, the share of a member of such AOP received by the member shall not be exempt from tax if the AOP does not file audited financial statements by a Chartered Accountants Firm as defined in the CA Ordinance 1961, or a Cost and Management Accountants Firm as defined in the CMA Act 1966, alongwith the return of income of the AOP.

This proposed amendment seeks to unlawfully vitiate past and closed transactions by subjecting to tax the amount received by the AOP member in preceding tax years where the AOP has not filed audited financial statements, and may be subject to litigation. Further, the proposed amendment does not even identify the limit of preceding tax years that it seeks to unlawfully reopen. At this juncture, it is imperative to make due reference to the celebrated judgment

issued by the High Court of Sindh (“SHC”) reported as 2011 PTD 1558 held as under:

Quote

“11. ...Ordinarily, a right can be regarded as progressing from a ‘bare’ right to become a vested right and then perhaps even a past and closed transaction. Of course, some rights only become vested rights, and do not go beyond to become past and closed transactions.

Others may vest immediately, as soon as they arise or accrue, and then may (or may not) become past and closed transactions. Some rights (though this would be a somewhat rare and unusual situation) may even become past and closed transactions once they accrue, i.e., progress to that category straight from being ‘bare’ rights.

“12. As even this brief account shows, some care must be taken to properly analyze the nature of the right under consideration. This is all the more so because (especially in the realm of fiscal statutes) past and closed transactions appear to stand on a footing higher than vested rights. This is clearly established by the decision in *Molasses Trading and Export (Pvt) Ltd. v. Federation of Pakistan and others* 1993 SCMR 1905, a case relied on by learned counsel for the petitioners...

“...However, by a majority, it was also held that those cases in which the bills of entry had been filed by or before 30-6-1988 (i.e., before the Finance Act, 1988 came into force) had become past and closed transactions, and section 31A did not apply to them, notwithstanding the absolute terms in which it had, ostensibly, been given retrospective effect.

The reason why the rights in those cases had gone from being vested rights to become past

and closed transactions was that, in respect of customs duties, the levy of the tax stood crystallized on the date on which the bill of entry was filed. It is well-settled (see, e.g., the *Ghulam Hyder Shah’s* case (supra)) that retrospective statutes affecting vested rights and/or past and closed transactions are to be given the narrowest effect and interpretation that is reasonably possible.”

Unquote

6. Special Provisions Relating To Persons Not Appearing In Active Taxpayers List (Section 100BA)

The Bill has proposed to add a new category of “persons” that are appearing in the Active Taxpayers List, but did not file their return of income by the due date specified in Section 118 or by the due date as extended under Section 119 or Section 214A. The Tenth Schedule shall apply to such persons as per this proposed amendment.

This amendment has sought to restrain the practice of persons that become filers merely to save additional advance tax before conducting certain transactions, i.e sale or purchase of immovable property, capital gains on securities etc.

7. Transactions between Associates - Section 108(6))

The Bill has proposed to add a new sub-section (6), as follows:

Quote

(6) Notwithstanding the provisions of sub-section (1), for the tax year 2024 and onwards, where any amount is claimed as deduction for the tax year or for any of the two preceding tax years on **account of royalty paid or payable to an associate directly or indirectly in respect of use of any brand name, logo, patent,**

invention, design or model, secret formula or process, copyright, trademark, scientific or technical knowledge, franchise, license, intellectual property or other like property or right or contractual right, twenty five percent of the total expenditure for the tax year in respect of sales promotion, advertisement and publicity shall be disallowed and allocated to the said associate.

Unquote

Through the aforesaid proposal, the Bill has sought to disallow 25% of total expenses in respect of sales promotion, advertisement and publicity of the person who has claimed any amount as deduction on account of the afore-stated payments (have been emphasized in bold hereinabove), for the forthcoming tax year, or the outgoing Tax year 2024 and Tax Year 2023. The said amount shall also be allocated to the said associate.

This seems like an anti-avoidance measure. However, the proposal would be more legally sound if the amount sought to be disallowed does not exceed the amount claimed on account of the afore-stated emphasized payments.

8. Power to Enforce Filing of Returns (Section-114B(2)(d))

The Bill has proposed to add a new sub-section (d) in Sub-section 2, whereby it has been proposed that the Board shall vide an Income Tax General Order, be able to restrict a Pakistani citizen from traveling abroad, except for persons that; hold a NICOP; are minors; are students; and such other classes of persons as Notified by the Board.

This proposal seems to be extremely harsh, and can potentially be in violation of Articles 14 and 15 of the Constitution of Pakistan 1973 (“Constitution”), and therefore, be violative of the liberty of a citizen. It seems as if this proposal seeks to empower the Board create a parallel Exit Control List (“ECL”), in tandem with the Ministry of Interior. The Hon’ble Supreme Court of Pakistan (“SCP”), in the case of **The Federal Government v/s Ayyan Ali and Others**, (“Ayyan Ali

case”) reported as 2017 SCMR 1179, discussed the issue of being placed on the ECL list on the recommendations of FBR purportedly on the grounds of money laundering. The issue came up for discussion in para 7 of the said judgment, as under:

Quote

7. However, on 15.4.2016, the Respondent No.1 was stopped from proceeding abroad, as her name, despite the above judgments, has not been removed from the ECL, and it was only on 18.4.2016, after a passage of five days of this Court's judgment, that her name was taken off the list, but within a few hours thereafter her name was put back on the ECL, through a second Notification/Memorandum dated 19.4.2016, on the ground of her inability to discharge her tax liability. The Respondent No.1 was not informed about the second Notification/ Memorandum also, despite the earlier noted clear directions of the High Court. The Respondent No.1 was thus constrained to file contempt proceedings before this Court. This Court found that the proceedings were to be filed before the High Court. It was however observed that in view of the circumstances of the case it would be appreciated if the High Court dispose of the matter as expeditiously as possible, and preferably within a period of ten (10) days.

13. Reverting to the third Notification/Memorandum it is crucial to note that like the earlier two Notifications/Memorandums, the third Notification/Memorandum was issued purportedly for the reasons which do not conform to the criteria as laid down in the relevant rules and the exit control policy. It was not only in the case of *Wajid Shamsul Hassan v. Federation of Pakistan through Secretary Ministry of Interior, Islamabad* (PLD 1997 Lahore 617), where it was held that the liberty of a citizen cannot be curtailed by mere registering a criminal case, and that mere registration of FIR would not be a ground for depriving a citizen of the exercise of his constitutional right and further that registration of a criminal case has no nexus with and is extraneous to the object of the Exit from Pakistan (Control) Ordinance 1981, but

even in the case of respondent No.1, in relation to the second Notification/Memorandum, this Court, while dismissing the petitioner's petition for leave, through judgment dated 13.4.2016, has held as follows:-

"5. Respondent No.1, no doubt, has been charged in a case mentioned above which is still pending adjudication in the competent Court of law. But mere pendency of a criminal case cannot furnish a justification for prohibiting her movement. It has never been the case of the petitioners that the respondent is involved in any of the cases listed in Rule 2 of the Exit from Pakistan (Control) Rules, 2010 in general or Rule 2(1)(b) in particular, inasmuch as she has not been charged to have embezzled a large government's fraud or committed institutional fraud."

However, as noted above the third Notification/Memorandum was issued on the ground clearly not falling within the parameters as prescribed by the relevant law, rules, and the above unequivocal pronouncement of this Court. **Unquote**

As can be observed from the Ayyan Ali case and the judgment cited therein, even registration of an FIR or the pendency of a criminal trial cannot curtail the liberty of a citizen to travel abroad.

9. Wealth Statement - Section 116(1)

The Bill has proposed to add the word "including foreign assets" after every occurrence of the word asset in sub-section (1). The proposed sub-section would be as follows:

1. The Commissioner may, by notice in writing, require any person being an individual to furnish, on the date specified in the notice, a statement (hereinafter referred to as the "wealth statement") in the prescribed form and verified in the prescribed manner giving particulars of —

- a. the person's total assets **including foreign assets** and liabilities as on the date or dates specified in such notice;
- b. the total **assets including foreign assets** and liabilities of the person's spouse, minor children, and other dependents as on the date or dates specified in such notice;
- c. any **assets including foreign assets** transferred by the person to any other person during the period or periods specified in such notice and the consideration for the transfer;
- d. the total expenditures incurred by the person, and the person's spouse, minor children, and other dependents during the period or periods specified in the notice and the details of such expenditures and
- e. the reconciliation statement of wealth.

Since the proposed amendment only states "including foreign assets", it is unclear whether the Legislature has proposed to empower the Commissioner to require a person to file his / her wealth statement including his / her foreign liabilities.

10. Best judgment assessment (Section - 121(1)(ac))

The Bill has proposed to empower the Commissioner to pass a best judgment assessment Order, where the person has not submitted his return of income in response to a notice under Section 117(3).

11. Revision by the Commissioner (Section - 122A)

The Bill has proposed to amend Section 122A, whereby, it has removed an amendment recently brought about through the Tax Laws (Amendment) Act 2024, whereby, the Commissioner had been restricted from calling of record for Orders passed by the Commissioner Appeals if the value of the assessment or, refund, did not exceed PKR 20 million.

The Bill has proposed to withdraw this pecuniary restriction.

12. PECUNIARY JURISDICTION IN APPEALS (SECTION 126A(1) and (4))

The Bill has proposed to explain the phrases; “value of assessment of tax” as the net increase in tax liability of a person as a result of order sought to be assailed; and “value of refund” as net reduction in refund as a result of the Order to be assailed.

Further, the Bill has proposed to extend the deadline of the transfer of the appeals pending before the Commissioner Appeals, to the Hon’ble Appellate Tribunal Inland Revenue (“ATIR”), value of assessment of tax or refund whereof is more than PKR 20 million, *from 16th June 2024 to 16th September 2024.*

This amendment may create confusion with regards to what the deadline for transfer is for the aforesaid appeals. The Finance Act 2024 shall be enacted after 16th June 2024 in any case. Therefore, the existing deadline under the law to transfer the appeals to the Hon’ble ATIR, i.e 16th June 2024, shall in any case lapse before this Bill becomes an Act. This shall also apply in cases of the corresponding amendments proposed to the Bill in the Federal Excise Duty Act 2005 and the Sales Tax Act 1990.

A potential further anomaly has arisen due to the aforesaid amendment in sub-section (4) as the deadline has been proposed to be extended to 16th September 2024, however, by virtue of sub-section (5), the limitation set for the Hon’ble ATIR deciding these transferred appeals u/s 132 starts from 16th June 2024. Sub-section (5) shall also be proposed to be amended in the same terms as the proposed amendment in sub-section (4)

13. Appeals to the Commissioner Appeals (Section-127(1))

The Bill has proposed to amend Section 127(1), whereby, the element of pecuniary jurisdiction of the Commissioner Appeals has now been set in Section 127(1), in line with Section 126A as introduced by the Tax Laws (Amendment) Act 2024. It may be noted that the Hon’ble Lahore High Court (“LHC”) had issued an ad-interim Order on 21st May 2024, in W.P No. 31371/2024, whereby the Hon’ble LHC had directed that the appeal of the Petitioner shall be entertained by the CIRA.

This proposed amendment has been introduced to remove an anomaly in the law, and is a streamlining measure.

14. Appeal to the Appellate Tribunal (Section 131(1))

The Bill has proposed to remove the word “Commissioner (Appeals)”, thereby further streamlining the law in line with the amendments introduced through the Tax Laws (Amendment) Act 2024.

15. Advance Tax (Section - 147)

a) Section 147(4)

The Bill has proposed to increase the percentage from 110% to 120% of the turnover of the latest tax year for which a return has been filed, in case where the taxpayer fails to provide the turnover or the turnover of the quarter is not known.

b) Section 147(6B)

The Bill has proposed to add a new sub-section (6B), whereby, any taxpayer filing an estimate for advance tax under sub-section (6) or (6A), must estimate shall contain turnover for the completed quarters of the relevant tax year, estimated turnover for the remaining quarters, supporting evidence of expenses or deductions in computing income, evidence of tax payments and tax credits and computation of estimated taxable income. Further, the Bill has proposed to empower the Commissioner to reject the estimates provided by the taxpayer, after giving an

opportunity of being heard to the taxpayer, where the Commissioner is not satisfied with the documentary evidence provided or where an estimate is not accompanied with the documentary evidence provided.

It may be noted that the power of the Commissioner to reject the estimate given by a taxpayer for the purposes of advance tax under Section 147, was previously introduced by the Finance Act 2018. However, the same was withdrawn later on vide Finance Act 2021.

Further, the Hon'ble IHC has also held in W.P No. 1157 of 2024, that the Commissioner does not have the power to reject the advance tax estimates filed by the taxpayer and / or affect recovery through any coercive recovery measures of any potentially short-paid advance tax, after the power was withdrawn vide Finance Act 2021. The only remedy available to the FBR was to levy default surcharge on any potential short-payment of advance tax after the return of income for the pertinent tax year has been filed.

It is also pertinent to note that a bunch of Constitutional Petitions are reserved for judgment before the Hon'ble SHC, on the issue of the power of the Commissioner to reject the advance tax estimates filed by the taxpayer under Section 147

16. Imports (Section 148(6), (6a) and (9))

a) Section 148(6)

The Bill has proposed to subject the application of the Customs Act 1969 to the newly proposed sub-section (6A).

b) Section 148(6A)

The Bill has proposed to empower the Board, through a Notification in the Official Gazette, to determine the minimum value of goods for the purpose of collection of advance tax under Section 148.

c) Section 148(9)(b)

The Bill has proposed to amend sub-section 9(b), whereby the sub-section has carved out goods in sub-section 9(a) and the newly proposed 9(c) from its application.

d) Section 148(9)(c)

The Bill has proposed to add a new sub-section 9(c), whereby value of goods under sub-section 9(c) has been defined as the minimum value as notified by the Board under subsection (6A) as if such goods were subject to ad valorem duty as increased by the custom-duty, federal excise duty 92 and sales tax, payable in respect of the import of the goods.

17. Payments to Non-Residents (Section 152(4A))

The Bill has proposed to amend Section 152(4A), whereby, the power of the Commissioner to allow payments made to non-residents under Section 152(1A) or to a Permanent Establishment in Pakistan of a non-resident person under Section 152(2A), on the application of the recipient of such payments, to be made without deduction of tax has been withdrawn. Now, the Commissioner can only authorize such payments to be made at a reduced rate of tax.

18. Payments for Goods, Services and Contracts (Section 153(4))

The Bill has proposed to amend Section 153(4), whereby, the power of the Commissioner to allow payments made under Section 153(1), on the application of the recipient of such payments, to be made without deduction of tax (where tax thereon is not minimum) has been withdrawn. Now, the Commissioner can only authorize such payments to be made at a reduced rate of tax.

19. Exports (Section 154(1) and (4))

a) Section 154(1)

The Bill has proposed to subject exporters of goods to advance tax. The deduction of advance tax has been made the responsibility of every authorized dealer in foreign exchange, at the time of realization of foreign exchange proceeds on account of export of goods. The advance tax rate has been proposed to be set at 1% of the proceeds of exports in addition to the 1% deducted at export stage under Section 154(1), (3), (3A), (3B), or (3C), vide proposing to add a sub-clause (2A) in Division IV, Part III of the First Schedule.

b) Section 154(4)

The Bill has proposed to change the tax regime of the exporter of goods, from Final Tax Regime to a Minimum Tax Regime.

This proposal was proposed by the Reforms and Resource Mobilisation Commission ("RRMC" through their interim report dated 17th April 2023. Further, this proposal may yield up to PKR 200 billion in the coming fiscal year. However, in our view, the Government has missed the bus by not implementing this proposal last year, as that could have yielded around PKR 400 billion on account of an estimated PKR 1.5 trillion windfall gain of exporters.

20. Exemption or Lower Rate Certificate (Section 159)

The Bill has proposed to omit the power of the Commissioner to issue an exemption certificate. Pursuant to the proposal, only a lower rate certificate can be issued by the Commissioner.

21. Credits for tax Collected or Deducted (SECTION 168)

The Bill has proposed to make a corresponding amendment under Section 168, whereby, on account of the exporters of goods now being shifted away from the Final Tax Regime, tax credit on the income of such exporters that is disallowed, has now proposed to be allowed.

22. Tax Collected or Deducted as a Final Tax (Section 169)

The Bill has proposed to remove income of exporters from the Final Tax Regime. This is a corresponding amendment / proposal.

23. Prosecution of Non-Compliance with Certain Statutory Obligations (Section 191)

The Bill has proposed to add non-compliance of a notice under Section 117(3) in the list of prosecutable offence.

24. Prosecution for failure to furnish information in return of income (Section 191A)

The Bill has proposed to add a new Section 191A that is as under:

Any company including a banking company and an association of persons who –

(a) fails to fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer;

(b) furnishes blank or incomplete particulars or information as specified in the return of income; or

(c) attaches blank or incomplete annexures, statements or documents where such annexures, statements or records were required to be filed, shall commit an offence

punishable on conviction with a fine or imprisonment for a term not exceeding one year or both”

25. Prosecution for non-registration (Section 191B)

The Bill has proposed to add a new Section 191B that is as under:

“Any person specified in section 99B who is required to apply for registration but fails to do so shall commit an offence punishable on conviction with imprisonment for a term not exceeding six months or fine or both.”

26. Default Surcharge (Section 205)

The Bill has proposed to increase the default surcharge from 12% per annum to KIBOR plus 3%.

27. Disclosure of Information by a Public Servant (Section 216)

The Bill proposes to add a new sub-section (kc) in Section 216(3), whereby nothing in sub-section (1) shall preclude the disclosure of any such particulars to National Database and Registration Authority to process and analyze such data for the purposes of broadening of tax base.

28. Scope of the advance tax on sales to distributors, dealers, wholesalers, and retailers broadened (Sections 236G and 236H).

The Bill has proposed to omit “pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, tyres, varnishes, chemicals, cosmetics, IT equipment, electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector” **from Section 236G.**

And proposed to omit “pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, tyres, varnishes, chemicals, cosmetics, IT equipment,

electronics, sugar, cement, iron and steel products, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector” **from Section 236H.**

The upshot of the above proposal is that now all distributors, dealers, wholesalers and retailers are subject to advance tax.

This proposal was also proposed by the RRMC in their interim report. The said proposal has the potential to yield around PKR 300 billion.

29. Savings Clause (Section 239 (18))

The Bill has proposed to add a new sub-section (18), as under:

“(18) The period of limitation provided in clause (d) of sub-section (2) of section 131 and sub-section (1) of section 133 shall continue to apply where any decision of the Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of commencement of the Tax Laws (Amendment) Act, 2024”.

30. Rates of Withholding Tax Under Section 153(1)(A) On Sale Of Goods Including Toll Manufacturing

The Bill has proposed to segregate the WHT rates as follows:

In case of company:

- 9% of the amount payable for toll manufacturing;
- 5% of the gross amount payable in case other than toll manufacturing;

In case other than a company:

- 11.5% of the gross amount payable for toll manufacturing;
- 5.5% of the gross amount payable in case other than toll manufacturing.

31. Increase of tax rates u/s 236 for persons mentioned in the income tax general order issued under section 114B. (part iv, division v, entry (b), of the first schedule)

The Bill has proposed to enhance withholding tax rates under Section 236 in the case of subscriber of internet, mobile telephone and pre-paid internet or telephone card, for persons that are appearing in the ITGO issued under Section 114B, from 15% to 75% of the amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form.

32. Amendments in the First Schedule

The bill proposes to amend the income tax rates on business individuals and AOPs as under

S.NO.	Taxable Income	Proposed Tax
1	Where taxable income does not exceed Rs. 600,000/-	0%
2	Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 1,600,000/- but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 5,600,000/-	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

Impact of the aforesaid proposed tax rates:

Income from Business/AOP			
Yearly Salary	Present Tax Liability	Proposed Tax Liability	%
Rs	Rs	Rs	
600,000	-	-	0%
1,000,000	45,000	60,000	33%
1,500,000	135,000	150,000	11%
2,000,000	235,000	290,000	23%
2,500,000	340,000	440,000	29%
3,000,000	465,000	590,000	27%
3,500,000	615,000	770,000	25%
4,000,000	765,000	970,000	27%
4,500,000	940,000	1,170,000	24%
5,000,000	1,115,000	1,370,000	23%
5,500,000	1,290,000	1,570,000	22%
6,000,000	1,465,000	1,790,000	22%
6,500,000	1,640,000	2,015,000	23%
7,000,000	1,815,000	2,240,000	23%
7,500,000	1,990,000	2,465,000	24%
8,000,000	2,165,000	2,690,000	24%
8,500,000	2,340,000	2,915,000	25%
9,000,000	2,515,000	3,140,000	25%
10,000,000	2,865,000	3,590,000	25%

The bill proposes to amend the income tax rates on salaried individuals as under:

S.NO.	Taxable Income	Proposed Tax
1	Where taxable income does not exceed Rs. 600,000/-	0%
2	Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs.	Rs. 30,000 + 20% of the amount

	2,200,000	exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
5	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 4,100,000/-	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

- **Increase in dividend tax rates received from Mutual Funds deriving 50% of more income from profit on debt:**

The bill has proposed to increase the tax rate on dividends received from the captioned mutual funds to 25%.

Threshold in PKR	Tax levied in PKR	Proposed change: Introduction of tax on dividend received from Mutual Funds deriving 50% or more income from Profit on Debt
1 million	150,000/-	250,000/-
2 million	300,000/-	500,000/-
3 million	450,000/-	750,000/-
4 million	600,000/-	1,000,000/-
5 million	750,000/-	1,250,000/-
6 million	900,000/-	1,500,000/-
7 million	1,050,000/-	1,750,000/-
8 million	1,200,000/-	2,000,000/-
9 million	1,350,000/-	2,250,000/-
10 million	1,500,000/-	2,500,000/-

Impact of the aforesaid proposed tax rates:

Income from Salary			
Yearly Salary	Present Tax Liability	Proposed Tax Liability	%
Rs	Rs	Rs	
600,000	-	-	0%
1,000,000	10,000	20,000	100%
1,500,000	52,500	75,000	43%
2,000,000	115,000	150,000	30%
2,500,000	187,500	255,000	36%
3,000,000	300,000	380,000	27%
3,500,000	412,500	520,000	26%
4,000,000	545,000	670,000	23%
4,500,000	682,500	840,000	23%
5,000,000	820,000	1,015,000	24%
5,500,000	957,500	1,190,000	24%
6,000,000	1,095,000	1,365,000	25%
6,500,000	1,270,000	1,540,000	21%
7,000,000	1,445,000	1,715,000	19%
7,500,000	1,620,000	1,890,000	17%
8,000,000	1,795,000	2,065,000	15%
8,500,000	1,970,000	2,240,000	14%
9,000,000	2,145,000	2,415,000	13%
10,000,000	2,495,000	2,765,000	11%

▪ **Proposed Tax Rates on Capital Gains on Disposal of Securities:**

	Proposed		
	Present	Filler	*Non-filler
	-		
Where the holding period less than one year	15%	15%	15%
Where the holding period exceeds one year but does not exceed two years	12.50%	12.50%	15%
Where the holding period exceeds two years but does not exceed three years	10%	10%	15%
Where the holding period exceeds three years but does not exceed four years	7.5%	7.5%	15%
Where the holding period exceeds four years but does not exceed five years	5%	5%	15%
Where the holding period exceeds five years but does not exceed six years	2.5%	2.5%	15%
Where the holding period exceeds six years	0%	0%	15%
Future Commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	5%	-

*Rate of Tax on disposal of securities acquired on or after 1st day of July, 2024

▪ **Amendments in the Tax on Motor Vehicle Registration:**

S. No.	Engine capacity	Rate of Tax
1.	Upto 850 cc	0.5% of the value
2.	851cc to 1000cc	1% of the value
3.	1001cc to 1300cc	1.5% of the value
4.	1301cc to 1600cc	2% of the value
5.	1601cc to 1800cc	3% of the value
6.	1801cc to 2000cc	5% of the value
7.	2001cc to 2500cc	7% of the value
8.	2501cc to 3000cc	9% of the value
9.	Above 3000cc	12% of the value

▪ **ADVANCE TAX ON SALE OR TRANSFER OF IMMOVABLE PROPERTY**

S. No.	Amount	Rate of Tax
1.	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%
2.	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%
3.	Where the gross amount of the consideration received exceeds Rs. 100 million	4%

▪ Advance tax on purchase of immovable property

The rate of tax to be collected under section 236K shall be as set out in the following table: –

S. No.	Amount	Rate of Tax
1.	Where the fair market value does not exceed Rs. 50 million	3%
2.	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%
3.	Where the fair market value exceeds Rs. 100 million	4%

33. Amendments to the Second Schedule

a) Part I

1. Clause 102A Removed

The Bill has proposed to remove Clause 102A “ Income of a person as represents a subsidy granted to him by the Federal Government for the purposes of implementation of any orders of the Federal Government in this behalf.”

2. Income of Individual Domiciled in Tribal Areas forming Part of KPK and Balochistan (Clause 145a)

The Bill has proposed to extend the exemption on income of the captioned individuals from 30th June 2024 to 30th June 2025.

b) PART II

3. Reduced Rate of WHT Under Section 153(1)(A) On Distributors Of Cigarettes (Clause 24a)

The reduced rate of WHT under Section 153(1)(a) on distributors of cigarettes has been increased from 1% to 2.5%.

c) PART III

4. Clause 2 Proposed to be Omitted

The Bill has proposed to omit the following clause:

Quote:

(2) The tax payable by a full time teacher or a researcher, employed in a non profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government research institution, shall be reduced by an amount equal to [25]% of tax payable on his income from salary

Provided that this clause shall not apply to teacher of medical profession who derive income from private medical practice or who receive share of consideration received from patients.

Unquote

As such, the aforesaid reduction in tax liability is proposed to be withdrawn for the aforesaid persons.

d) Part IV

5. Exemption from Specific Provisions (Clause 109a and Clause 110)

The Bill has proposed to extend the exemption of applicability of the provisions of sections in Division III of Part V of Chapter X and Chapter XII of the Ordinance for deduction or collection of withholding tax, and the provisions of sections in Division III of Part V of Chapter X and Chapter XII of the Ordinance for deduction or collection of withholding tax, shall not apply to individual domiciled or company and association of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan, from 30th June 2024 to 30th June 2025.

34. Amendments in the Seventh Schedule

1. RULE (1D)

The Bill has proposed to amend Clause 1(d) to disallow as an expense for banking companies, bad debts classified as sub-standard or doubtful under the Prudential Regulations issued by the State Bank of Pakistan or provisions for advances, off-balance sheet items or any other financial asset classified in stage I, II or III as performing, under-performing or non-performing under any applicable accounting standard including IFRS 09.

Provided that only “bad debts” classified as “loss” pertaining to non-performing assets under the Prudential Regulations issued by the State Bank of Pakistan shall be allowed as expense.

2. RULE 1(DA)

The Bill has proposed to add a new Clause 1(da), whereby Provisions or Expected Credit loss for Advances and off balance sheet items or any other financial asset existing before or after the 1st day of January, 2024 under IFRS 09 have been proposed to be disallowed as an expense for banking companies.

3. RULE 1(G)

Currently, as per Clause 1(G), adjustment made in the annual accounts, on account of application of international accounting standards 39 and 40 shall be excluded in arriving at taxable income for banking companies. The Bill has proposed to widen the application from international accounting standards 39 and 40 to **any applicable accounting standard or policy**.

4. Rule 7CA – Explanation Added

The Bill has proposed to add an explanation, whereby for removal of doubt it is clarified that the expression “tax year 2023 onwards”, means that provisions of section 4C are applicable for the tax year 2023 and for all subsequent tax years. Therefore, the Bill has proposed to clarify / explain that super tax under Section 4C on banking companies, shall only apply from Tax Year 2023 and onwards.

35. TENTH SCHEDULE

1. RULE 1

a. The Bill has proposed to amend the reference to this First Schedule in Rule 1.

b. Amendment in 2nd Proviso of Rule 1

Provided further that the tax required to be collected under section 236K shall be at the rates set out in the following table, in case of persons not appearing in the active taxpayers’ list.

S. No.	Fair Market Value of Immovable Property	Tax Rate
1	Where the fair market value does not exceed Rs. 50 million	12%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	16%
3	Where the fair market value exceeds Rs. 100 million	20%

Provided also that the tax required to be collected or deducted, under sections specified in column (2) against transactions specified in column (3) shall be at the rates specified in column (4) of the following Table, in case of persons not appearing in the active taxpayers' list: –

S. No.	Section	Description	Tax Rate
1.	Section 151	On yield or profit on debt	35%
2.	Section 236C	On the gross amount of consideration received on sale or transfer of immovable property	10%
3.	section 236G	On the gross amount of sale to distributors, dealers or wholesalers other than sale of fertilizer.	2%
4.	Section 236H	On the gross amount of sale to retailers	2.5%";

c. Addition of Rule 1A:

Rate of deduction or collection of tax from persons who are appearing on active taxpayers' list but have not filed return by the due date. – Where tax is required to be collected in respect of persons appearing on the active taxpayers' list who have not filed the return by the due date specified in section 118 or by the due date as extended under section 119 or 214A, the rate of tax shall be:

1. as per rates set out in the following Table in case of tax to be collected under section 236C;

S. No.	Gross Amount of Consideration Received	Tax Rate
1	Where the gross amount consideration received does not exceed Rs. 50 million	6%
2	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 Million	7%
3	Where the gross amount consideration received exceeds Rs.100 million	8%

2. as per rates set out in the following Table in case of tax to be collected under section 236K:

S. No.	Fair Market Value of Immovable Property	Tax Rate
1	Where the fair market value does not exceed Rs. 50 million	6%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 Million	7%
3	Where the fair market value exceeds Rs.100 million	8% ; and

The bill has proposed that the tenth schedule shall not apply on Capital Gain on Disposal of Securities.

	Open Plots			Constructed Property			Flats		
	Present	Proposed		Present	Proposed		Present	Proposed	
	-	Filler	*Non-filler	-	Filler	*Non-filler	-	Filler	*Non-filler
Where the holding period less than one year	15%	15%	15%	15%	15%	15%	15%	15%	15%
Where the holding period exceeds one year but does not exceed two years	12.50%	12.50%	15%	10%	10%	15%	7.50%	7.50%	15%
Where the holding period exceeds two years but does not exceed three years	10%	10%	15%	7.5%	7.5%	15%	0	0	15%
Where the holding period exceeds three years but does not exceed four years	7.5%	7.5%	15%	5%	5%	15%	-	-	15%
Where the holding period exceeds four years but does not exceed five years	5%	5%	15%	0	0	15%	-	-	15%

Where the holding period exceeds five years but does not exceed six years	2.5%	2.5%	15%	-	-	15%	-	-	15%
Where the holding period exceeds six years	0%	0%	15%	-	-	15%	-	-	15%

*** Rate of Tax on disposal of securities acquired on or after 1st day of July, 2024**

1. Definitions – Section 2

The Bill has proposed to add/amend certain definitions as under:

(a) Associates (associated persons):

Earlier, the clause (3) provided the definition of associates (associated persons). The bill has proposed to link the definition with the definition as provided in section 85 of the ITO.

The amendment intends to align the definitions under both the STA and ITO and at the same time, it also broadens the definition as compared to earlier definition provided in the STA.

(b) Board:

The Bill has proposed to align the definition as provided in the ITO.

(c) Investigative audit:

The Bill has proposed to add the definition of the investigative audit to be the investigative audit conducted under section 25A of the STA. However, section 25A pertains to the provisions with respect to drawing of samples. This seems to be a typing error and the reference should have been section 25AB (newly inserted vide the bill) instead of section 25A.

(d) Investigative audit:

The Bill has proposed to add the definition of the licensed integrator to be the person licensed by the Board to provide electronic invoicing system for integration of registered persons in the prescribed manner.

(e) Tax fraud:

The bill has proposed to substitute the definition to broaden the scope of the term. As per the proposed substitution, tax fraud will include the following:

- Intentional evasion of legally due taxes.
- Obtaining undue refunds by submitting false returns, statements, or documents.
- Withholding correct information or documents.
- Suppression of sales or receipts that are taxable.
- False claim of input tax credit.
- Making taxable supplies without issuing tax invoices, violating the Act or its rules.
- Issuing tax invoices without actual supply of goods, leading to inadmissible input tax credit or refund claims.
- Evading tax by availing undue input tax credit or obtaining inadmissible refunds through methods not covered in other specific clauses.
- Collecting tax amounts but not depositing them within three months from the due date.
- Falsifying or substituting financial records, producing fake accounts, or furnishing false information to evade tax or claim inadmissible refunds.
- Tampering with or destroying material evidence or documents required under the Act or its rules, through human or digital means.
- Involvement in acquisition, possession, transportation, disposal, or any form of dealing with goods liable to confiscation under the Act or its rules.

Any act or omission listed is considered intentional unless proven otherwise by the accused, demonstrating lack of intention, motive, knowledge, or reason to believe in committing tax fraud.

(f) Time of supply:

The bill has proposed to amend the definition of the time of supply and has also added the event of receipt of payment, by the supplier in respect of the supply, for the assessment of time of supply.

This means if the supplier has received any payment before delivering the goods or making the goods available, the time of receipt of payment will constitute the time of supply.

2. Assessment and recovery of tax - Section 11

The Bill has proposed to withdraw the section 11 of the STA, only to substitute the provisions with the newly inserted sections 11D, 11E, 11F, and 11G. Both sets of provisions cover similar grounds regarding the assessment of tax not levied, short-levied, or erroneously refunded, with specific actions related to filing returns, handling short payments, and dealing with collusion or errors. The main differences lie in the additional specific sections (11D, 11E, 11F, 11G) that detail best judgment assessments, failure to withhold sales tax, and limitations for assessment with clear procedural guidelines and definitions.

3. Assessment giving effect to an order - Section 11B

The Bill has proposed to align the provisions for issuing appeal effect orders under STA with the provisions under section 124 of the ITO. A snapshot of the comparison between the provisions under STA and ITO are provided hereunder:

	Current	Proposed
Time Limit for Issuing Orders	Within one year from the end of the financial year in which the appellate order was served	Two years from the end of the financial year in which the appellate order was served, except for assessments/refunds not exceeding twenty million rupees, where the

Remanded Orders	New order must be passed within one year from the end of the financial year in which the remanded order was served	limit is one year Similar stipulation applies if the value of the assessment or refund does not exceed twenty million rupees
Recommencement of Proceedings	Not mentioned	Proceedings may recommence from the stage preceding the setting aside or modification of an order without needing to reissue notices or refurnish documents
Direct Relief Orders	Not mentioned	Commissioner must issue appeal effect orders within two months if direct relief is provided under certain sections
Reallocation of Income	Not mentioned	Addresses reallocation of income between tax years or taxpayers, treating these adjustments as necessary to give effect to appellate orders
Additional Applicability	Not mentioned	Clarifies applicability to orders issued by appellate authorities and courts in both original and appellate jurisdiction
Exceptions to Time Limits	Time limit does not apply if an appeal or reference is preferred against the order	Similar exception provided

4. Revision by the Chief Commissioner | Blacklisting - Section 21 and 46

The Bill has proposed to empower the Chief Commissioner, on his motion or on an application by the registered person, to modify the blacklisting orders passed by the Commissioner as he may deem fit. The Bill has further proposed that such an order shall only be passed after providing an opportunity of being heard to the registered person.

The Bill has also proposed to withdraw the right of appeal of the registered person before the Appellate Tribunal (under section 46) against the order of the officer.

5. Issuance of electronic invoices - Section 23

Currently, a registered person is allowed to issue electronic invoices at his own discretion. The Bill has now proposed to make it mandatory for the registered persons making taxable supply to issue electronic invoices. However, such issuance shall be subject to conditions, restrictions and limitations as the Board may, by notification in the official Gazette, specify. This means this provision shall only be applicable after the notification specifying the conditions, etc. is issued

6. Sales Tax Audit - Section 25

The Bill has proposed to substitute the provisions of section 25 of the STA. The table hereinbelow provides a brief snapshot of the differences:

	Current	Proposed
Initiation of Audit	Conducted by the officer of Inland Revenue authorized by the Commissioner, based on required records	Directed by the Commissioner based on recorded reasons and notice to registered person
Audit Notice	No specific requirement for prior notice before audit	Commissioner must issue a notice with reasons to the registered person
Audit Frequency	Can be conducted once a year; multiple audits possible if tax fraud or evasion is suspected	Not specified
Reasons for Audit	Not specifically required to be communicated to the registered person before audit	Reasons must be communicated to the registered person, based on scrutiny of available records
Best Judgment Assessment	Can be conducted if records/documents not produced; no specific section mentioned	Specific provision under section 11D for best judgment assessment if records/documents not produced
Investigative Audit	Not specifically mentioned	Provision for investigative audit under section 25AB if tax fraud is suspected with Commissioner's approval
Independence from Section 72B	Powers under sections 25, 38, 38A, 38B, and 45A are independent of powers under section 72B	Similar declaration of independence from section 72B powers

Both sets of provisions detail procedures for accessing records and conducting audits, with specific requirements for initiating audits, handling records, conducting audits electronically, post-audit actions, and penalties for voluntary payment of tax shortfalls. The main differences lie in the initiation and notification processes, with the proposed provisions emphasizing more detailed communication of reasons for audits and including provisions for investigative audits and best judgment assessments.

7. Sales Tax Audit - Section 25

The Bill has proposed to add a new section for the investigative audits. The proposed provisions of the new section are summarized hereunder:

- **Initiation of Investigative Audit:**
 - Suspected tax fraud based on audit information or otherwise.
 - Requires prior written approval from the Commissioner.
- **Conduct of Investigative Audit:**
 - Conducted by an officer of Inland Revenue not below the rank of Assistant Commissioner.
 - Must be completed within ninety days of initiation.
 - Based on records and evidence obtained under specified sections (37, 37A, 38, 38A, 38B, and 40).
- **Post-Audit Actions:**
 - Pass an order under section 11E after providing an opportunity of being heard.

- Issue a best judgment assessment order under section 11D if records/documents are not produced.
- Blacklist the registered person under section 21.
- Impose penalty and cause prosecution as per section 33, Serial No. 13.

➤ **Disallowance of Input Tax:**

- Disallow input tax on goods/services if the registered person cannot provide a receipt, invoice, or other necessary evidence without reasonable cause

8. Commissioner empowered to call for return filing - Section 26

The Bill has proposed to empower the officer of inland revenue to issue a notice to any person who is required to file a return for a specific tax period or periods but has failed to do so.

The notice may require the person to furnish the return(s) within fifteen days from the date of service of the notice, or within a different period specified in the notice or allowed by the officer.

This notice must be issued within fifteen years from the end of the financial year in which the return was supposed to be filed in cases of tax fraud, and within five years for all other cases.

9. Penalties - Section 33

The Bill has proposed to add and amend certain penalties.

The most noteworthy is the penalty for tax fraud (including committing, causing or attempting to commit). The penalty is of twenty-five thousand rupees or one hundred percent of the evaded tax amount, whichever is higher. Additionally, upon conviction by a Special Judge, they may face

imprisonment of up to five years if the evaded tax is up to five hundred million rupees, and up to ten years if it is one billion rupees or more, along with a fine equal to the amount of tax evaded. A person who abets or connives in the tax fraud faces similar imprisonment terms and fines.

Another penalty which is proposed to be levied is upon authorized licensed integrators who fail to integrate in the required manner. The penalty is of Rupees one million or one percent of the total value of sales suppressed, whichever is higher.

10. Default surcharge - Section 34

The Bill has proposed to amend the rate of default surcharge from 12% per annum to KIBOR+3% per annum.

11. Cut-off date for the transfer of cases - Section 43A

The Tax Laws (Amendment) Act, 2024 dated May 06, 2024 had prescribed the cutoff date for the transfer of cases from Commissioner Inland Revenue to the Appellate Tribunal Inland Revenue to be 16th June, 2024.

The Bill has now proposed to amend this date to be 16th September, 2024

12. Time limitation | Tax Laws (Amendment) Act - Section 47

The bill has proposed that where any decision from Commissioner (Appeals) or the Appellate Tribunal is received prior to 16th June, 2024, the time limitations for filing of appeals, as applicable earlier, shall continue to apply.

13. Transactions through banking channel - Section 73

Section 73 provides that payment for any transaction exceeding Rs. 50,000 is required to be made through banking channel. The bill has now proposed that the limit of Rs. 50,000 should be taken in aggregate and not be taken for a single transaction.

14. Amendment in sales tax rates - Section 73

The bill has proposed to amend the sales tax rates on certain items as under:

Description	Current	Proposed
DAP	5% - Eighth Schedule	5% - Third Schedule
The following goods and the raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of the said goods:		
<ul style="list-style-type: none"> ▪ Preparations suitable for infants, put up for retail sale not exceeding rupees six hundred per two hundred grams (PCT heading 1901.1000) ▪ Colors in sets (PCT heading 3213.1000). ▪ Writing, drawing and marking inks (PCT heading 3215.9010 & 3215.9090) ▪ Erasers (PCT heading 4016.9210 and 4016.9290) ▪ Exercise books (PCT heading 4820.2000) ▪ Pencil sharpeners (PCT heading 8214.1000) ▪ Other drawing, marking out or 	0%	18%

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mathematical calculating instruments (geometry box) (PCT heading 9017.2000).			endosurgery, endoscopy, oncology, urology, gynaecology, disposables and other equipment		
<ul style="list-style-type: none"> ▪ Pens, ball pens, markers and porous tipped pens (PCT heading 96.08) ▪ Pencils including color pencils (PCT heading 96.09) 			Diagnostic kits or equipment,	Exempt	18%
Milk (PCT heading 04.01)	0%	18%	Supplies; and imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas	Exempt	(i) 6% till 30.06.2025 (ii) 12% from 1.7.2025 till 30.06.2026 Subject to conditions
Fat filed milk (PCT heading 1901.9090)	0%	18%	Supplies of electricity, as made to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries.	Exempt	(i) 6% till 30.06.2025 (ii) 12% from 1.7.2025 till 30.06.2026
Local supplies of 5 [commodities,] raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021	0%	18%	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more	Exempt	18%
Edible vegetables 2 [imported from Afghanistan] including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled or canned	Exempt	18%	Oil cake and other solid residues	Exempt	10%
Fruit imported from Afghanistan excluding apples PCT 0808.1000	Exempt	18%	Tractor	Exempt	10%
Newsprint and books but excluding brochures, leaflets and directories	Exempt	10%	Machinery and equipment as listed at serial number 32 of the Table of Part-I of Fifth Schedule to the Customs Act	Exempt	18%
Colours in sets (Poster colours)	Exempt	18%	Goods imported by hospitals run by the non-profit making institutions	Exempt	18%
Writing, drawing and marking inks	Exempt	10%	Import of all goods received, in the event of a natural disaster or other catastrophe, as gifts and relief consignments or any goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments or	18%	Exempt
Erasers	Exempt	10%			
Exercise books	Exempt	10%			
Pencil sharpeners	Exempt	10%			
Other drawing, marking out or mathematical calculating instruments (geometry box)	Exempt	10%			
Pens, ball pens, markers and porous tipped pens]	Exempt	10%			
Pencils including colour pencils	Exempt	10%			
cardiology/cardiac surgery, neurovascular, electrophysiology,	Exempt	18%			

any public sector organization. Subject to the recommendations of the Minister Incharge and concurrence by the Federal Board of Revenue subject to condition that the concerned Ministry shall verify the genuineness of such cases and furnish an undertaking to the effect that donated goods shall not be sold, utilized or disposed of otherwise than for the purpose for which the same have been imported.		
POL products: (i) MS (Petrol) (ii) High Speed Diesel Oil (iii) Kerosene (iv) Light Diesel Oil	18%	Exempt
Local supply of vermicillies, sheer mal, bun and rusk excluding those sold in bakeries and sweet shops falling in the category of Tier-1 retailers.	Exempt	10%
Local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal	Exempt	10%
Milk excluding that sold under a brand name	18%	Exempt
Iron and steel scarp	18%	Exempt
LPG	10%	18%
Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	15%	18%
Locally manufactured Hybrid electric vehicles: (a) Upto 1800 cc (b) From 1801 cc to 2500 cc	8.5% 12.75%	18%
Personal computers and Laptop computers, notebooks whether or not incorporating multimedia kit	5%	10%
medicaments as are classifiable under chapter 30 of the First Schedule to the	1%	18%

Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:-
(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.

15. Sales Tax withholding | Eleventh Schedule

The Bill proposes to amend the sales tax withholding rates as under:

- Currently a registered person manufacturing lead batteries is required to withhold 75% of the sales tax applicable on supply of any kind of lead or scrap. The bill proposes to increase the withholding tax rate to 80%.
- Withholding tax rates have been added for the following persons:

Withholding agent	Supplier category	Rate or extent of deduction
Registered persons manufacturing cement	Persons supplying any kind of gypsum under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000) or limestone flux under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000)	80% of the sales tax applicable
Registered persons	Persons supplying any kind of coal under chapter 27 (PCT headings 2701.1100, 2701.1200, 2701.1900, 2701.2000, 2704.0010, 2704.0020, 2704.0090) or	80% of the sales tax applicable
Registered persons	Persons supplying any kind of waste of paper	80% of the sales tax

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	and paper board (Respective headings)	applicable
Registered persons	Persons supplying any kind of plastic waste (Respective headings)	80% of the sales tax applicable
Registered persons	Persons supplying crush stone and silica	80% of the sales tax applicable

Currently, sales tax is not required to be withheld in case of supplies from an active taxpayer to another registered person with the exception of advertisement services. The Bill has proposed to add the above newly inserted entries in the exception along with advertisement services lead batteries.

This means that the specified registered persons in the exceptions will withhold the sales tax in any case irrespective of the status of the supplier.

16. Sales tax on Mobile Phones - Ninth Schedule

The bill has also proposed to amend the sales tax on mobile phones as under:

Description	Current			Proposed		
Cellular mobile phones or satellite phones to be charged on the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer, at the rate as indicated against each category:--	Sales tax on CBUs at the time of import or registration (IMEI number by CMOs)	Sales tax on import in CKD / SKD condition	Sales tax on supply of locally manufactured mobile phones in CBU condition in addition to tax under column (4)	Sales tax on CBUs at the time of import or registration (IMEI number by CMOs)	Sales tax on import in CKD / SKD condition	Sales tax on supply of locally manufactured mobile phones in CBU condition in addition to tax under column (4)
A. Not exceeding US\$ 30 (excluding smart phones)	Rs. 130	Rs. 10	Rs. 10	18% ad valorem	18% ad valorem	18% ad valorem
B. Not exceeding US\$ 30 (smart phones)	Rs. 200	Rs. 10	Rs. 10	18% ad valorem	18% ad valorem	18% ad valorem
C. Exceeding US\$ 30 but not exceeding US\$ 100	Rs. 200	Rs. 10	Rs. 10	18% ad valorem	18% ad valorem	18% ad valorem
D. Exceeding US\$ 100 but not exceeding US\$ 200	Rs. 1,680	Rs. 10	Rs. 10	18% ad valorem	18% ad valorem	18% ad valorem
E. Exceeding US\$ 200 but not exceeding US\$ 350	18% ad valorem	Rs. 10	Rs. 10	18% ad valorem	18% ad valorem	18% ad valorem
F. Exceeding US\$ 350 but not exceeding US\$ 500	18% ad valorem	Rs. 10	Rs. 10	18% ad valorem	18% ad valorem	18% ad valorem
G. Exceeding US\$ 500	25% ad valorem	Rs. 10	Rs. 10	25% ad valorem	18% ad valorem	18% ad valorem

1. Default Surcharge - Section 8

The Bill has proposed to enhance the existing rate of default surcharge from 12% per annum of the duty due, refund of duty or drawback to Kibor +3%. For instance, KIBOR rate as per SBP for 11.06.2024 stood at 22.54%. Hence, as per the Bill, the default surcharge would be 27.54%.

2. Offences, penalties, fines and allied matters - Section 19 (3f)

The Bill has proposed to introduce a penalty of either higher of **(a) Rs 50,000/-** or 5 times of the duty; or **(b) imprisonment of 5 years**; or **(c) both if plant and machinery having value of Rs 50 million or more**, is installed, or commences production, or is removed without prior permission of the Commissioner.

3. Offences, penalties, fines and allied matters - Section 19 (10A)

The Bill has proposed to seal retail outlets of retailers selling cigarette packs without affixing, or affixing counterfeited tax stamps, banderols, stickers, labels or barcodes.

4. Pecuniary jurisdiction in appeals - Section 33A

The Bill has proposed to extend the deadline of the transfer of the appeals pending before the Commissioner Appeals, to the Hon'ble Appellate Tribunal Inland Revenue ("ATIR"), value of assessment of tax or refund whereof is more than PKR 5 million, from 16th June 2024 to 16th September 2024.

5. Introduction of Saving - Section 34AB

The Bill has proposed that the period of limitation as set out for appeal before the Commissioner (Appeals) and pecuniary jurisdiction, would continue to apply on Orders passed by the Commissioner (Appeals) or Appellate Tribunal before the commencement of the Tax Laws (Amendment) Act, 2024.

6. Amendments in the First Schedule

The following have been proposed to be inserted:

Sr. No.	Description	Rate
1	Acetate tow	Rs 44,000/kg
2	Nicotine pouches	Rs 1,200/kg
3	Allotment or transfer of commercial property and first allotment or transfer of residential property	5%
4	Sugar supplied by any person to a manufacturer	Rs 15/kg

7. Enhancement of rates in the First Schedule

Sr. No.	Description	Present rate	Proposed by the Bill
1	E-liquids for electric cigarette kits	Rs 10,000/kg	Higher of Rs 10,000/kg or 65% of the retail price.
2	Locally produced cigarettes (if their on-pack printed retail price exceeds Rs 9,000 per thousand cigarettes)	Rs 16,500/ thousand cigarettes	Retail price threshold of Rs 9,000/ thousand cigarettes increased to Rs 12,500/ thousand cigarettes.

3	Locally produced cigarettes (if their on-pack printed retail price does not exceed Rs 9,000 per thousand cigarettes)	Rs 5,050/ thousand cigarettes	Retail price threshold of Rs 9,000/ thousand cigarettes increased to Rs 12,500/ thousand cigarettes.
4	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers	Rs 2/ kg	Rs 3/kg
5	Filter rod for cigarettes	Rs 1,500/kg	Rs 80,000/kg

8. Explanation for brand variants at different price points for cigarettes

The Bill has proposed to insert an explanation with respect to the term “brand variants”, whereby brand variants would mean any cigarette brand with a similar logo, name, colour, design, pattern or unique distinguishing mark associated with the existing brand family.

9. Conditional Exemptions - Third Schedule

The Bill has proposed to grant conditional exemption on imports made by diplomats, diplomatic missions, privileged persons, and privileged organisations covered under the Acts, Ordinances and Agreements passed by the Parliament or agreed by the Government of Pakistan.

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