

Highlights on Finance Act 2023

The Finance Bill, 2023 has since been passed recently, the purpose of this document is to highlight the enactments vide the **FINANCE ACT, 2023**, related to following fiscal laws effective from July 1, 2023 or such other date, as specified, for certain changes:

1. Income Tax
2. Sales Tax
3. Federal Excise Duty
4. ICT (Tax on Services)
5. Petroleum Levy

RATES FOR WITHHOLDING (INCOME) TAX

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1. INCOME TAX

Tax burden for salaried individuals

Increased tax burden for all cases above PKR 2.4M annual income.

Taxable Income (Rs.)		Rates of Tax	
From	To	Existing	Revised
600,000		NIL	
600,001	1,200,000	2.5% on amount exceeding Rs.0.6M	
1,200,001	2,400,000	Rs. 15K + 12.5% on amount above Rs.1.2M	
2,400,001	3,600,000	Rs. 165K + 20% on amount above Rs.1.2M	Rs. 165K + 22.5% on amount above Rs.1.2M
3,600,001	6,000,000	Rs. 405K + 25% on amount above Rs.3.6M	Rs. 435K + 27.5% on amount above Rs.3.6M
6,000,001	12,000,000	Rs. 1.005M + 32.5% on amount above Rs. 6M	Rs. 1.095M + 35% on amount above Rs. 6M
Above 12,000,000		Rs. 2.955M + 35% on amount above Rs. 12M	

Tax burden for non-salaried individuals & AOPs

Increased tax burden for all cases above PKR 0.6M annual income.

Taxable Income (Rs.)		Rates of Tax	
From	To	Existing	Revised
600,000		NIL	
600,001	800,000	5% on amount above Rs. 0.6M	7.5% on amount above Rs. 0.6M
800,001	1,200,000	Rs. 10K + 12.5% on amount above Rs. 0.8M	Rs. 15K + 15% on amount above Rs.0.8M
1,200,001	2,400,000	Rs. 60K + 17.5% on amount above Rs.1.2M	Rs. 75K + 20% on amount above Rs.1.2M
2,400,001	3,000,000	Rs. 270K + 22.5% on amount above Rs.2.4M	Rs. 315K + 25% on amount above Rs.2.4M
3,000,001	4,000,000	Rs. 405K + 27.5% on amount above Rs.3M	Rs. 465K + 30% on amount above Rs.3M
4,000,001	6,000,000	Rs. 680K + 32.5% on amount above Rs. 4M	Rs. 765K + 35% on amount above Rs. 4M
Above 6,000,000		Rs. 1.33M + 35% on amount above Rs. 6M	

Relief measures

1. Capital gains on disposal of securities acquired before July 1, 2013 to be taxed at 0% instead of the prevailing rate of 12.5%.
2. Enacting the exemptions and concessions given vide the Exemption under Foreign Investment (Promotion and Protection) Act, 2022.
3. Lower rate of 1% to apply to payments by direct exporters covered under the Export Facilitation Scheme, 2021 at par with those exporters covered under DTRE.
4. The condition for filing of sales tax returns not to apply for availing concessional final rate on export of IT and IT Enabled services.
5. Advance tax u/s 236 not to apply on the amount donated through SMS to the Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities.
6. Income arising to Non-resident Banking Companies from Federal Government's sovereign debt or a sovereign debt instrument to be exempt from tax.
7. Immunity from higher tax rates for the tax year 2024 to local banks on income attributable to investment in the Federal Government securities.

Revenue measures

1. Advance tax collectible from buyers and sellers on property sale/ purchase/ transfer increased from 2% to 3%. For non-filer sellers/ transferors the said rate rises from 4% to 6% and from 7% to 10.5% for purchasers/ transferees.
2. Enhancement to the scope of place of business for PEs to any place of business in Pakistan, whether such place of business is fixed or not, including virtual business presence in Pakistan and businesses where transactions are conducted online or via any other electronic medium.

3. Builders and developers to pay advance tax at rates as per Eleventh Schedule on quarterly advance basis.
4. Substantial increase in advance tax rates on registration of motor vehicles above 2000cc by linking the advance tax rate with vehicle value.
5. 10% tax on bonus shares.
6. Super tax applicable on higher income thresholds increased w.e.f. tax year 2023.
7. Super tax also to be collected on quarterly basis in advance.
8. Super tax to be computed and collected by NCCPL on the amount of capital gains.
9. For companies operating in specified sectors, an additional tax to be imposed up to 50% on income, profit or gains for preceding three tax years from tax year 2023 and onwards that have arisen due to any economic factors that resulted in unexpected income, profits or gains.
10. Increase in rate of minimum tax at imports stage from commercial importers from existing 5.5% to 6% in respect of goods classified in Part III of the Twelfth Schedule.
11. Enhancement in the rates of withholding taxes on payments to PEs of non-residents.
12. Increase in the rates of withholding taxes on payments for goods and services to residents.
13. Final tax at concessional on export of IT or IT-enabled Services to discontinue after tax year 2026.
14. Advance tax levied at 0.6% of the cash withdrawal in case of non-filers, where the total daily cash withdrawal exceeds Rs.50,000.
15. Advance tax at Rs. 200,000 to be collected on issuance/ renewal of domestic aide visa to any foreign nationals.
16. Advance tax on foreign currency transactions through credit/ debit cards enhanced from 1% to 5%.

Other/ regulatory measures

1. 1% effective tax on deemed income u/s 7E applicable on certain property was brought to the statute earlier vide Finance Act, 2022. The Act now subjects certain immunities from this tax only if a person holding such property(ies) is a filer. Moreover, in case of persons not required to file income tax return, these persons will be required to obtain a certificate to this effect in order to avail the immunity from incidence of this tax.
 2. The authority to register, record or attest transfer of property is now obliged to verify evidence of payment of the above tax on deemed income before effecting/ attesting the transfer.
3. Increase in threshold for cash salary payments from existing PKR 25,000 to PKR32,000.
 4. Two persons to be considered as associates where one person enters into a transaction, directly or indirectly, with the other who is a resident of jurisdiction with zero taxation regime.
 5. Commissioner (Inland Revenue) empowered to recover any outstanding liability under other statutes or laws.
 6. An International Centre of Tax Excellence to be established to help contribute to the development of tax policy and assist on related matters.
 7. The decision of the Alternate Dispute Resolution (ADR) Committee shall be binding upon the Commissioner only if the taxpayer withdraws his appeal and communicates the same to the Commissioner within 60 days of ADR Committee's decision. The Commissioner is also required to withdraw his appeal in these cases within 30 days of notice for appeal withdrawal by the taxpayer. Moreover, the time period for Committee's appointment has been reduced from existing 45 days to 15 days and for the decision on the dispute been reduced from 120 days to 45 days.

2. SALES TAX

Relief measures

1. Concessional sales tax rate at 1%, without adjustment of input tax, wef July 1, 2023 on supply of medicaments as classified under chapter 30 of the First Schedule of the Customs Act 1969.
2. The existing retail value threshold of Rs. 500 per 200gm for zero-rated supply of *Preparation Suitable for Infants* and raw materials, packing materials, components, etc. used in the manufacturing thereof is being increased to Rs.600 per 200 gm.
3. Sales tax exemption on local supplies including supply of electricity and imports of plant and machinery to FATA/ PATA extended till June 30, 2024.
4. Retailers of jewelry & other retailers qualifying as Tier-1 retailer on shop covered area basis excluded from the definition of Tier-1 retailer and thereby from the requirement to integrate with FBR POS system.

5. Zero-rating of imports or supplies made by, for or to a qualified investment under the Foreign Investment (Promotion and Protection) Act, 2022.
6. Grant of Zero-rating to exporters registered under Export Facilitation Scheme 2021.

Revenue measures

1. Subject to certain exclusions, further tax is being charged at 3% on supply of taxable goods to persons who have not availed registration or are not borne on sales tax active taxpayers list. The rate of this further tax has now been increased to 4%.
2. Imports/ supplies of Diammonium Phosphate (DAP) which are exempt from sales tax are being subjected to reduced tax rate of 5% with no refund of excessive input tax, if any.
3. Withdrawal of exemption from sales tax on edible products sold in bulk under brand names & trademarks; including Red Chillies, Ginger, Turmeric, Yogurt, Butter, Desi Ghee, Cheese, Processed Cheese not grated or powdered, Products of Meat or Meat Offal, Meat of Bovine Animals and Uncooked Poultry meat, Fish and Crustaceans.
4. Increase in the rate of sales tax from 12% to 15% on retailers of textile & leather integrated with FBR's POS.
5. Reduced rate of 1% available on imports of Active Pharmaceutical Ingredients and raw materials is restricted to such ingredients having CD rate up to 11%.

Regulatory measures

The scope of penalties and confiscation on movement of counterfeited cigarettes extended to goods/ class of goods specified by the Board.

Other measure

Transmission of electricity excluded from the ambit of Sales Tax Act, 1990.

3. FEDERAL EXCISE DUTY

Relief measure

Imports, supplies and services covered under the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 exempted from FED.

Revenue measure

1. Enhancement of FED from Rs.5,200/ kg to Rs.16,500/ kg on Tobacco Mixture in an electrically heated tobacco product intended for consumption by using a tobacco heating system without combustion.
2. Increase in duty from existing 10% to 20% of retail price in case of Sugary Fruit Juices, Syrups & Squashes, Waters whether or not containing added sugar or artificial sweeteners excluding mineral and aerated waters.
3. Excise duty at the rate of 5% ad valorem levied on Fertilizers.
4. Expanding the scope of excise duty to items specified in the First schedule in addition to certain specified items.
5. Levy of FED on royalty & fee for technical services in addition to the existing franchise services.
6. FED at Rs. 2,000 levied on energy inefficient fans & 20% on incandescent bulbs with effect from January 1, 2024.

4. ICT (TAX ON SERVICES)

Relief Measures

1. Reduced rate 5% instead of 15% to apply on services of restaurants on payments made through debit/ credit cards, mobile wallets or QR scanning.
2. Reduced rate of sales tax at 15% instead of 16% on services of IT & IT based system development consultants.

Revenue measures

1. Input tax not to be allowed where reduced rate of 5% tax to apply on services of restaurants.
2. Electricity transmission services brought under the ambit of sales tax on services to be subjected to a rate of 15%.

5. PETROLEUM LEVY

Enhancing the petroleum levy on High Speed Diesel Oil and Motor Gasoline from existing Rs. 50/ liter to Rs. 60/ Liter.

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