



Finance Act 2023

COMMENTARY ON SIGNIFICANT TAX AMENDMENTS



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EXECUTIVE SUMMARY

This document contains summary of the significant tax amendments made by the **Finance Act 2023 ('the Act')** to existing tax laws.

Subsequent to presentation of the Finance Bill 2023 ('the Bill'), a great number of changes have been made before the Act had been passed by the Parliament. A major change is the inclusion of amendment for **increase in 'normal tax rates'** for all persons except companies. Another change is the revamping of **Alternative Dispute Resolution (ADR) mechanism** to improve its effectiveness. **Advance quarterly tax for builders** has also been revised to be now applicable on project-by-project basis based on area of the project.

A number of tax concessions proposed by the Bill have not been adopted by the Act. These include tax credits to individuals for **construction of new house**, tax credits for **youth enterprises** and tax credit for **builders for new projects**. Furthermore, tax concession proposed for **IT services** through inclusion of providers of such services within definition of '**Small and Medium Enterprises (SME)**' is also not adopted. It had also been proposed for **foreign remittance exemption** limit u/s 111 to be increased to **USD 100,000**. This proposal has also not been adopted.

Proposals made in the Bill that have been adopted in the Act include **increase in withholding tax rates by 1%**, increase in scope of **super tax** on **high income earners**, re-introduction of withholding tax on **bonus shares** as well as advance tax on **cash withdrawals** by non-filers.

The remaining document provides further explanation of these and other amendments made within the Act along with our comments thereon.

This document is purely for provision of information to the general public, and is not intended to provide consultation or advice on any specific matter.

For any queries or feedback feel free to contact us.

Warm Regards,

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INCOME TAX AMENDMENTS

1. INCREASE IN NORMAL TAX RATES

The Act has increased 'normal tax rates' for all individuals and Association of Persons (AOP). The updated tax rates are provided below.

INDIVIDUALS (OTHER THAN SALARIED) AND AOPS

Annual Income (PKR)	Tax Rates	
	Tax Year 2023	Tax Year 2024
< 600,000	0%	0%
600,000 - 800,000	5% above 600,000.	7.5% above 600,000.
800,000 - 1,200,000	10,000 + 12.5% above 800,000.	15,000 + 15% above 800,000.
1,200,000 - 2,400,000	60,000 + 17.5% above 1,200,000.	75,000 + 20% above 1,200,000.
2,400,000 - 3,000,000	270,000 + 22.5% above 2,400,000.	315,000 + 25% above 2,400,000.
3,000,000 - 4,000,000	405,000 + 27.5% above 3,000,000.	465,000 + 30% above 3,000,000.
4,000,000 - 6,000,000	680,000 + 32.5% above 4,000,000.	765,000 + 35% above 4,000,000.
> 6,000,000	1,330,000 + 35% above 6,000,000.	

SALARIED INDIVIDUALS

Annual Salary (PKR)	Tax Rates	
	Tax Year 2023	Tax Year 2024
< 600,000	0%	0%
600,000 - 1,200,000	2.5% above 600,000.	2.5% above 600,000.
1,200,000 - 2,400,000	15,000 + 12.5% above 1,200,000.	15,000 + 12.5% above 1,200,000.
2,400,000 - 3,600,000	165,000 + 20% above 2,400,000.	165,000 + 22.5% above 2,400,000.
3,600,000 - 6,000,000	405,000 + 25% above 3,600,000.	435,000 + 27.5% above 3,600,000.
6,000,000 - 12,000,000	1,005,000 + 32.5% above 6,000,000.	1,095,000 + 35% above 6,000,000.
> 12,000,000	2,955,000 + 35% above 12,000,000.	

OUR COMMENTS

The Act has introduced an increase in 'normal tax rates' for all persons except companies. This results in increased taxation on income from salary, business, rent and other sources not subject to 'final taxation'. The impact of increase on different levels of income can be illustrated as follows:

Salaried Individuals

Monthly Salary (PKR)	Annual Salary (PKR)	Annual Tax (PKR)		Change	
		Tax Year 2023	Tax Year 2024		
50,000	600,000	-	-	-	—
100,000	1,200,000	15,000	15,000	-	—
200,000	2,400,000	165,000	165,000	-	—
300,000	3,600,000	405,000	435,000	30,000	▲
400,000	4,800,000	705,000	765,000	60,000	▲
500,000	6,000,000	1,005,000	1,095,000	90,000	▲
600,000	7,200,000	1,395,000	1,515,000	120,000	▲
700,000	8,400,000	1,785,000	1,935,000	150,000	▲
800,000	9,600,000	2,175,000	2,355,000	180,000	▲
900,000	10,800,000	2,565,000	2,775,000	210,000	▲
1,000,000	12,000,000	2,955,000	3,195,000	240,000	▲

Individuals (other than salaried) and AOPs

Annual Income (PKR)	Annual Tax (PKR)		Change	
	Tax Year 2023	Tax Year 2024		
600,000	-	-	-	—
700,000	5,000	7,500	2,500	▲
1,000,000	35,000	45,000	10,000	▲
1,500,000	112,500	135,000	22,500	▲
2,000,000	200,000	235,000	35,000	▲
2,500,000	292,500	340,000	47,500	▲
3,000,000	405,000	465,000	60,000	▲
3,500,000	542,500	615,000	72,500	▲
4,000,000	680,000	765,000	85,000	▲
5,000,000	1,005,000	1,115,000	110,000	▲
6,000,000	1,330,000	1,465,000	135,000	▲
7,000,000	1,680,000	1,815,000	135,000	▲

2. INCREASE IN WITHHOLDING TAXES

INCREASE IN TAX RATES

A number of existing withholding tax rates have been **increased** by **1%**, as follows:

Payments to Permanent Establishments of non-resident persons (Section 152)

Description of payment	Legal status of payee	Tax Rate		Change
		Tax Year 2023	Tax Year 2024	
Purchase of goods	Company	4%	5%	▲ 1%
	Other than Company	4.5%	5.5%	▲ 1%
Purchase of specified services	All	3%	4%	▲ 1%
Purchase of other services	Company	8%	9%	▲ 1%
	Other than company	10%	11%	▲ 1%
Execution of contracts	Other than Sportspersons	7%	8%	▲ 1%

Payments to resident persons (Section 153)

Description of payment	Legal status of payee	Tax Rate		Change
		Tax Year 2023	Tax Year 2024	
Purchase of Goods	Company	4%	5%	▲ 1%
	Other than company	4.5%	5.5%	▲ 1%
Purchase of specified services	All	3%	4%	▲ 1%
Purchase of other Services	Company	8%	9%	▲ 1%
	Other than company	10%	11%	▲ 1%
Execution of contracts	Company	6.5%	7.5%	▲ 1%
	Other than company	7%	8%	▲ 1%

Advance tax on immovable property

Description	Tax Rate		Change
	Tax Year 2023	Tax Year 2024	
Purchase of immovable property	2%	3%	▲ 1%
Sale of immovable property	2%	3%	▲ 1%

OUR COMMENTS

Increasing reliance on withholding agents is seen once again in the Act, with increase in WHT rates across the board, increasing burden of existing taxpayers. The burden of this increase is likely to be most faced by business persons mainly companies who deduct taxes from their vendors at time of payment.

IMPOSITION OF ADDITIONAL WITHHOLDING TAXES

Bonus shares

Bonus shares have become **taxable** again with **10% final tax on market value of the shares** being imposed. This tax shall be collected from the shareholders and for this purpose companies are entitled to withhold 10% of the bonus shares to be issued to the shareholders. Companies can dispose these withheld shares in case of non-payment of tax by shareholders.

Bonus shares have been included within the head of '**Income from Other Sources**' meaning that in case of failure to withhold tax in respect of bonus shares, the value of bonus shares received by shareholders shall be treated as taxable income to be taxed under Normal Tax Rates.

Cash withdrawal by non-filers

Advance tax at **0.6%** is re-introduced in case of **cash withdrawals** by non-filers, exceeding Rs. 50,000 in aggregate in a day.

Issuance of visa for foreign domestic workers

Advance tax of PKR 200,000 in case of issuance of **visa for foreign domestic workers**, has also been introduced by the Act.

OUR COMMENTS

Withholding tax on bonus shares has been re-introduced via the Act which was previously abolished in 2018. In previous years there had been criticism in regards to bonus shares in regards to the legality of its taxation as income. It has been argued that this should not be treated as income as it does not increase resources of shareholders. The taxable event should rather be the sale of such shares which may be taxed as capital gains. Furthermore, the taxability of the bonus shares at their **market value** rather than **face value** could also be criticized as this would involve taxation of unrealized gains.

3. QUARTERLY ADVANCE TAX FOR BUILDERS AND CONSTRUCTION PROVIDERS

Section 147 of Income Tax Ordinance 2001 requiring payment of annual tax liability in advance on quarterly basis has been expanded to include persons involved in construction of residential and commercial buildings, as well as developers and sellers of plots as well. These persons are required to pay tax on a 'project-by-project' basis based on area of the project and its location.

The total tax for a project for the tax year shall be calculated as per the following table, to be paid in equal quarterly installments:

Area	Karachi, Lahore and Islamabad	Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Sialkot, Bahawalpur, Peshawar, Mardan, Abbottabad, Quetta	Other urban areas
Construction and sale of buildings - Commercial			
Any size	Rs. 250 per sq. ft.	Rs. 230 per sq. ft.	Rs. 210 per sq. ft.
Construction and sale of buildings - Residential			
< 3,000 sq. ft.	Rs. 80 per sq. ft.	Rs. 65 per sq. ft.	Rs. 50 per sq. ft.
> 3,000 sq. ft.	Rs. 125 per sq. ft.	Rs. 110 per sq. ft.	Rs. 100 per sq. ft.
Development and sale of plots - Industrial Area			
Any size	Rs. 20 per sq. yd	Rs. 20 per sq. yd	Rs. 10 per sq. yd
Development and sale of plots - Others			
Any Size	Rs. 150 per sq. yd.	Rs. 130 per sq. yd	Rs. 100 per sq. yd

OUR COMMENTS

Presently section 100D of the ITO 2001 allows builders to pay tax liability on a project-by-project basis. Separate tax rates are also provided for these persons based on location and project area, which are required to be paid in advance on quarterly basis. However this section only applies to projects completed/to be completed before September 2023.

The Act has now aligned the tax rates u/s 100D to other builders as well, to the extent of advance quarterly tax. However, this would not be the full discharge of tax liability for such persons as the normal tax provisions will also apply at time of filing of returns at year end of the tax year.

4. TAXATION ON 'WINDFALL INCOME' FOR COMPANIES

Additional taxation has been applied **retrospectively** from preceding 3 tax years onwards, in case of '**unexpected profits or gains**' of companies.

Federal government has been empowered to define the scope, timing, mode and extent of tax applicable under this section, with a restriction of tax rate not to be more than 50%.

OUR COMMENTS

Windfall income refers to sudden and unexpected spikes in income due to unexpected circumstances, usually macroeconomic factors. This section has been added to tax windfall income earned due to macroeconomic factors, with retrospective application. While the specific extent of this taxation remains to be expanded on by the government, it mainly relates to unexpected gain earned in past few years due to significant price fluctuations and changes in exchange rates.

Implementation of this amendment may be difficult due to the retrospective nature and the fact that inclusion of such unrealized gains as 'income' may be challenged under constitutional grounds.

5. INCREASE IN SUPER TAX ON 'HIGH INCOME EARNERS'

The maximum rate of super tax on **high income earners** has been increased with introduction of three new slab rates, as follows:

Annual Income (PKR)	Tax Rate	
	Tax Year 2023	Tax Year 2024
< 150 Million	0%	— 0%
150 – 200 Million	1%	— 1%
200 – 250 Million	2%	— 2%
250 – 300 Million	3%	— 3%
300 – 350 Million	4%	— 4%
350 – 400 Million		▲ 6%
400 – 500 Million		▲ 8%
> 500 Million		▲ 10%

The super tax under this section applies to **capital gain on securities** as well. Accordingly NCCPL has been empowered under the Act to collect super tax as well in addition to capital gains.

Furthermore, super tax under this section has also been included for calculation of **advance quarterly tax u/s 147** as well.

OUR COMMENTS

At time of introduction of super tax in Finance Act 2022, in addition to the tax slabs prescribed, a one-time higher rate of 10% was imposed on specific sectors for tax year 2022 only. However, through the Finance Bill 2023 the maximum rate has been increased to 10% from tax year 2023 onwards. This means that the effective tax rate has increased by 10% for most blue chip companies as all of these enjoy profitability of more than Rs. 500 Million.

6. CHANGE IN ADVANCE TAX ON REGISTRATION OF MOTOR VEHICLES

Engine capacity	Amount of Tax	
	Tax Year 2023	Tax Year 2024
< 850 cc	PKR 10,000	— PKR 10,000
850 cc – 1000 cc	PKR 20,000	— PKR 20,000
1000 - 1300	PKR 25,000	— PKR 25,000
1300 - 1600	PKR 50,000	— PKR 50,000
1600 - 1800	PKR 150,000	— PKR 150,000
1800 - 2000	PKR 200,000	— PKR 200,000
2000 - 2500	PKR 300,000	▲ 6% of the value
2500 - 3000	PKR 400,000	▲ 8% of the value
> 3000	PKR 500,000	▲ 10% of the value

OUR COMMENTS

Advance tax on registration of motor vehicle has been amended for vehicles having engine capacity of 2,000 cc or more. Instead of a fixed amount, these are to be taxed in accordance with their value as mentioned in the table above.

7. ALTERNATIVE DESPUTE RESOLUTION ('ADR') REVAMPING

The procedure for ADR has been revamped under the Act, as follows:

- ADR committee now would be composed of 3 persons i.e. a retired judge (not below rank of High Court judge), chief commissioner In Land Revenue, and a person nominated by the taxpayer from the approved panel.
- The requirement for withdrawal of any appeal pending before a court of law or appellate authority, before commencement of ADR proceedings has been abolished.

- Time period for deciding on the matter has been reduced from 120 days to 45 days extendable by further 15 days.
- Taxpayer is now required to withdraw any appeal made before any court of law or appellate authority within 60 days of the decision being made by the committee. The commissioner is also required to withdraw any appeal made with any court of law or appellate authority within 30 days of being communicated of withdrawal of appeal by taxpayer.

OUR COMMENTS

Alternative Dispute Resolution (ADR) mechanisms are in place to avoid delays in settlement of disputes due to lengthy procedures of litigations and appeals. To make this forum more effective, a number of amendments have been made by the Act.

The main change is the amendment of requirement for **withdrawal of appeal**. Previously, a taxpayer wishing to avail relief from ADR was required to withdraw any appeal he/she may have made in court of law or appellate authorities **before** commencement of ADR proceedings. Under the amendment by the Act, the withdrawal is now only required upon **decision** being made by the ADR committee. Upon satisfaction with the decision, the taxpayer would be required to withdraw appeals in order for the decision to become binding.

8. OTHER AMENDMENTS (INCOME TAX)

In addition to the amendments described above, the following amendments have also been made:

- Expansion of definition of '**Associates**' and '**Relatives**' to include persons entering into transactions with other persons who are residents of '**zero taxation regimes**'.
- Clarification regarding carry forward of minimum tax adjustment to only be applicable on normal tax liability.
- Expansion of definition of '**Permanent Establishment**' to also include **virtual business presence** in Pakistan irrespective of physical presence.
- Restriction of exemptions on deemed rental income u/s 7E for these to only be applicable on filers.
- Inclusion of exemptions provided by The Foreign Investment (Promotion and Protection) Act, 2022 for Reko Diq project in Balochistan to give legal effect.
- Increase in limit for payment of cash salaries from Rs. 25,000 per month to Rs. 32,000 per month.
- Increase in advance tax on **remittances abroad through debit/credit card and prepaid cards**, from 1% to **5%**.
- Restriction from transfer of immovable property, unless seller provides evidence of discharge of tax on deemed income u/s 7E
- Applicability of reduced tax rate of **0.25%** in case of **exporters registered with PSEB** restricted till tax year 2026.

SALES TAX AMENDMENTS

1. REDUCED SALES TAX ON RESTAURANTS IN CASE OF PAYMENTS THROUGH BANKING TRANSACTIONS

In case of payment through **debit cards, credit cards or QR scanning** in restaurants, cafes, coffee shops or similar establishments, sales tax is reduced from 15% to **5%**.

In case of cash payments rate shall remain at 15%.

OUR COMMENTS

Measure to increase payments through debit/credit cards, instead of cash payments can be seen through this amendment, in order to increase transactions flow through banking channels.

2. INCREASE IN FURTHER TAX

Further tax is required to be charged by providers of taxable supplies in case the purchaser is not registered for sales tax or is an inactive taxpayer, subject to conditions. The tax rate of further tax has been increased from 3% to **4%**.

OUR COMMENTS

Increase in further tax is seen via the Act in order to promote sales tax registrations of providers of taxable supplies.

3. SALES TAX ON IT SERVICES AND IT ENABLED SERVICES (ICT)

The sales tax on providers of **IT services and IT enabled services** in Islamabad Capital Territory has been increased to **15%**. This includes providers of the following services:

IT Services include but not limited to software development, software maintenance, system integration, web design, web development, web hosting, and network design.

IT Enabled Services include but not limited to inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, human resources (HR) services, telemedicine centers, data entry operations, cloud computing services, data storage services, locally television programs and insurance claims processing.

OUR COMMENTS

Previously, the Finance (Supplementary) Act 2022 allowed a reduced sales tax on IT services and IT enabled services of 5%. Thereafter this was removed via the Finance Act 2022.

Now, through the Finance Act 2023, sales tax has been applied to these services again at the standard rate of **15%**.

4. WITHDRAWAL OF EXEMPTION FOR ITEMS SOLD UNDER BRAND NAMES AND TRADEMARKS

Currently exemption provided to a number of items is restricted in case of those that are imported or supplied in **retail packing bearing brand names and trademarks**. The Act has amended this restriction such that exemption is not provided to any import or supply of items bearing brand name and trademarks, irrespective of whether these are sold in retail packing or not.

The list of such items is as follows:

- Red chilies
- Ginger
- Turmeric
- Yogurt (Local supplies only)
- Butter (Local supplies only)
- Desi Ghee (Local supplies only)
- Cheese, including processed not grated or powdered (Local supplies only)
- Products of meat or meat offal (Local supplies only)
- Meat of bovine animals, sheep, goat, and uncooked poultry (Local supplies only)
- Fish and crustaceans (Local supplies only)

5. OTHER AMENDMENTS (SALES TAX)

In addition to the amendments described above, the following amendments have also been made by the Act:

- Shifting of electric power transmission services from Federal level to Provincial level.
- Withdrawal of criteria of shop area for classification as Tier-1 retailer.
- Increase in sales tax on POS integrated retailers of leather and textile goods, from 12% to 15%.
- Withdrawal of exemption for DAP, and taxability at reduced rate of 5%.

PROPOSALS MADE IN THE FINANCE BILL NOT ADOPTED

The following proposals were made in the Finance Bill 2023 but have not been adopted in the Finance Act 2023, and therefore are **not** applicable:

- Tax credit to individuals for construction of new residential house.
- Tax credit on 'Youth Enterprises'.
- Tax credit on new projects by builders.
- Enhancement of definition and scope of 'SMEs' to include providers of IT services.
- Enhancement of limit for non-applicability of section 111 on foreign remittance to USD 100,000.
- Exemption of advance tax on purchase of immovable property by non-residents.
- Lower minimum turnover tax rate for listed companies.
- Extension of exemption of profit on sale of immovable property to REIT scheme for another year till tax year 2024.
- Tax exemption for newly set up agro based SME set up in rural areas, for a period of 5 years.
- A reduced tax rate for banking companies in case of specified services, for the tax years 2024 and 2025.