SALIENT FEATURES

BUDGET 2024-25

CUSTOMS ACT 1969

GUIDING PRINCIPLES:

- No increase of duties on import of essential items.
- Providing relief for common man.
- Promote and protect domestic industry and enhance import-substitution.
- Tariff rationalization to reduce the cost of exemption.
- Promotion of Energy efficiency & Conservation.
- Incentives for agriculture sector.
- Facilitate the exports.

RELIEF MEASURE:

1. Exemption of ACD on raw materials of Fluids and Powders for use in Hemodialyzers.
2. Exemption of Customs duties on Bovine lipid extract surfactant.

REVIEW OF REGULATORY (RD)REGIME:

3. Levy / increase of RD on certain items to encouraging local manufacturing.
4. Rationalization of RD on import of new and used vehicles.
5. Increase / levy of RD on flat rolled products of iron and non-alloy steel.
6. Withdrawal of exemption of RD on import of ground nuts and margarine imported by Food Confectionary.
7. Continuation of RD on import of Chloroparafins liquid.
8. Withdrawal of RD on import of Sliver cans and Lollipop sticks.

REVIEW OF EXEMPTION REGIME:

9. Withdrawal of concession of customs duties on import of fresh & dry fruits.
10. Review exemption of duties on import of inputs for Home Appliances.
11. Withdrawal of concessions of duties on import of Hybrid Vehicles.

12. Reduction in concession of customs duties on import of Electric vehicles having value above US$ 50,000.
13. Incentives for manufacturing of Solar Panels and Allied Equipment.
14. Extension in scope of exemptions on import of machinery and equipment for farming and processing of Fish/Shrimp and Seafood.

TARIFF RATIONALIZATION:

15. Increase of Customs duty on Import of Containers for Aerosol Products.
16. Rationalization of Customs duty on import of parts of submersible pumps.
17. Rationalization of Customs duties on import of Wheat, Sugar, HSD, LNG.
18. Streamlining the imports of Aviation Related Good.

MISCELLANEOUS:

19. Levy of Additional Customs Duty on localized auto parts to incentivize local manufacturing sector.
20. Creation of new PCT codes for Rice Flour, Night vision goggles, Blood Collection Tubes, Solar Cable, Tyre Tube Valves to facilitate trade.

LEGISLATIVE CHANGES:

21. Definitions of “Nuclear Material” and “Radioactive Material” included, for implementation of National Nuclear Detection Architecture (NNDA) regime.
22. Establishment of Directorate General of National Targeting Centre (NTC), as a national single window of enforcement for all LEAs and Directorate General of Trade Based Money Laundering for cognizance of offences related to trade-based money laundering.
23. Officers of National Command Authority (NCA) and Pakistan Nuclear Regulatory Authority (PNRA) empowered to implement and enforce Customs Act.
24. Intelligence Bureau (IB) added in the list of Government agencies mandated to assist Customs in investigations.
25. Power for extension of detention period assigned to Additional Collector or Additional Director for smooth functioning.

26. Two new penal clauses are proposed to take cognizance of offences related to nuclear and radioactive material.
27. Rationalization of pitch of penalty for the importers seeking clearance of declared confiscated goods against payment of redemption fine.
28. Enhanced prescribed penalty against a police officer who having seized goods fails to deliver such goods to custom house.
29. Penalties enhanced to deter smugglers and miscreants from attacking Customs personnel, in view of recent attacks on Customs staff.
30. To deter the possibility of illegal removal and pilferage of smuggled goods liable to confiscation placed in the custody of owner, penal provision is proposed.
31. Changes are made with the objective of making the system more efficient by accelerating the disposal of pending cases in the Customs Appellate Tribunal.
32. Changes are made with a view to ensure that the cases are swiftly decided in the High Courts and also to meet the principles of natural justice and fair trial.
33. Strengthening the provision of Alternate Dispute Resolution mechanism.

SALIENT FEATURES

BUDGET 2024-25

SALES TAX ACT 1990

The proposed budgetary measures pertaining to Sales Tax for FY 2024-25 are:

1. Withdrawal of various exemptions/zero rating and reduced/fixed rates.
2. Mobile phones to be taxed at standard rate (other than mobile phones valuing exceeding US$ 500 which will remain chargeable to existing rate of 25%).
3. Enhancement in reduced rate of sales tax from 15% to 18% on supplies made by the POS retailers dealing in leather and textile products.
4. withholding regime for lead, coal, scrap of paper and plastic, silica etc.
5. Iron and steel scrap to be exempted from levy of sales tax.
6. A phased withdrawal of exemption granted to ex-FATA/PATA.
7. Board empowered to fix minimum price of the goods falling under Third Schedule.
8. Streamlining and strengthening the provisions related to tax fraud.
9. Changes in the legal provisions related to assessment and audit.
10. Zero-rating of petroleum products is being converted into exemption.
11. Rate of default surcharge is to be aligned with the SBP's policy rate of KIBOR plus 3%.

SALIENT FEATURES

BUDGET 2024-25

INCOME TAX ORDINANCE 2001

REVENUE MEASURES:

1. **Personal Income Tax**

The tax rates for non-salaried individuals and associations of persons and salaried individuals have changed. There is no income if annual income is up to Rs.600,000. Beyond this threshold, tax rates for non-salaried individuals have five taxable slabs with progressive tax rates ranging from 15% to 45%. For salaried individuals, beyond the threshold of Rs.600,000 per annum, there are five taxable slabs ranging from 5% to 35%.

2. **Higher Tax Rates for Late Filers**

At present, non-filers are subjected to higher tax rates to make their cost of doing business higher as well as to compel them to file their returns. Now a new tax rate for a new category of persons who are late filers i.e. they become filers after the due date of filing of return only for the sake of a specific transaction to avoid higher rates for non-filers. For such late filers a new tax rate is being introduced which is higher rate as compared to filers but lower than the non-filers.

3. **Income Tax on Immovable Properties**

Progressive tax rates on purchases and sales of properties, categorized into three categories, namely, one, filers, two, late-filers, and three, non-filers.

a. On purchase of property by filers, the rates of tax would be 3% for values of properties up to 50 million, 3.5% for values of properties between 50 million and 100 million, and 4% for value of properties above 100 million. Late-filers would face slightly higher rates: 6%, 7%, and 8% respectively for the same property value brackets. Non-filers would experience significantly higher rates, set at 12% for properties up to 50 million, 16% for 50-100 million, and 20% for properties exceeding 100 million.

b. The proposed progressive advance tax rates at source for filers on sale of immovable property are 3% for properties valued up to 50 million. For properties valued between 50 million and 100 million, the withholding tax rate is 4%, and for properties valued above 100 million, the rate is 5%. For non-filers, the rate is 10% for properties of any value. Further, for late filers, the rate of tax will be 6%,7% and 8% respectively depending on the value of property.

c. A flat 15% rate of tax on gains from the disposal of immovable property acquired on or after 01st July, 2024 by filers regardless of the holding period is proposed, and for non- filers, progressive tax rates based on the prescribed slab rates in Division I of Part I of the First Schedule, with a minimum tax rate of 15% is proposed.

4. **Capital Gains on Sale of Securities**

At present, capital gains on sale of securities is taxed on the basis of holding period with maximum rate at 15% and no tax if the holding period exceeds 06 years. Now, for the securities acquired on or after 01 July, 2024, the capital gain on sale of such securities will be taxed at flat rate of 15% for filers, and for non-filers, the gain will be taxed at normal rates with minimum rate of 15% and maximum rate of 45%. Further capital gains income from mutual funds and collective investment schemes is also enhanced from 10% to 15%.

5. **Dividend Income from Mutual Funds**

Dividend income from mutual funds is taxed @ 15% at present. However, in order to reduce the arbitrage between individual persons deriving income from profit on debt and persons earning dividend income from mutual funds deriving income from profit on debt, it is proposed that rate of dividend derived from a mutual fund which earns 50% or more of its income from profit on debt be enhanced from 15% to 25%.

6. **Normal Income Tax on Export Income**

At present, persons deriving income from exports have to pay 1% tax on their export proceeds which is final tax. On the principle of horizontal equity that taxpayers with equal income should pay equal tax, it is proposed income from exports be subjected to normal rates with one percent tax collection on their export proceeds be treated as minimum tax.

7. **Strengthening Enforcement for Non-Filers**

At present, persons who do not file return even in response to notice and their names are included in the income tax general order have to face blocking of their sims and disconnection of their utility connections. Now it has been proposed to bar exit from Pakistan of such persons with exceptions for Hajj and Umrah travelers, minors, students, overseas Pakistanis and such other classes of persons as notified by the Board. In case the implementing agencies do not block sims or disconnect utility connections or not comply with bar on foreign travel, penalty of Rs.100 million will be imposed upon the implementing agency for first default and Rs.200 million for each subsequent default. Penalties and prosecutions are proposed for entities failing to fully disclose relevant particulars or submitting incomplete information in their tax returns or failure to file return on discontinuation of their business. Further, penalty of sealing of shop is being proposed for traders and shopkeepers who fail to register under a scheme such as Tajir Dost Scheme. Further, failure to register by a shopkeeper or trader is proposed to be made an offence punishable on conviction with imprisonment for six months or with fine, or both.

8. **Reduced Rate Certificate in Lieu of Exemption Certificate**

The facility of exemption from withholding tax by issuing an exemption certificate on supply of goods and for certain other transactions is being converted into a reduced rate certificate for ensuring documentation of the value chain.

9. **Higher Tax Rates for Non-Filers Earning Income from Profit on Debt**

Advance tax rate on profit on debt for non-filers is being enhanced from 30% to 35% to increase cost of non-compliance.

10. **<u>Broadening the Scope of Withholding Tax on Supply Chain and Substantially Enhancing Non-Filer Rates for Distributors, Dealers, Wholesalers and Retailers</u>**

At present, advance tax is collected on sale to dealers, distributors, wholesalers and retailers of certain specified sectors. Now it is proposed that such tax will be collected from all sectors of the economy so that it is expanded to the entire supply chain comprising all distributors, wholesalers, dealers and retailers with the aim to document the traders. Further, the rate for non-filers for dealers, distributors, wholesalers is being enhanced from 0.2% to 2% and for retailer non-filers from 1% to 2.5% so that with the purpose of documentation of traders and to discourage non-filing.

11. **<u>Minimum Value for Income Tax at Import Stage</u>**

In order to tap the true potential of income tax at import stage and to check under-declaration by importers, the Board is proposed to be empowered to notify minimum value for calculation of tax at import stage.

12. **<u>Higher Withholding Tax on Registration of Vehicles</u>**

The prices of motor vehicles have substantially increased, therefore in order to capture true potential of tax it is proposed that basis of tax collection may be changed from engine capacity to percentage of value in cases of all motor vehicles. Moreover, it is also proposed that percentage of tax collection may also be increased in cases of vehicles having engine capacity of more than 2000cc.

13. **<u>Withdrawal of Exemption of Income from Subsidy</u>**

a. Federal Government subsidize certain utilities for the consumers and pay to the utility companies and other companies certain amount of revenue in lieu of subsidy to the consumers. As the subsidy is income in the hands of such companies, the exemption to receipts from subsidies is proposed to be withdrawn on the principle of horizontal equity.

b. On the principle of horizontal equity, it is proposed that the reduced rate of 1% on supply of cigarettes by distributors may be enhanced to 2.5%.

14. **Allocation of Advertisement Expense for Brand to a Non-Resident Associate Claiming Royalty**

The expense equal to 25% of the total advertisement expense of the locally incorporated subsidiary is proposed to be shared with the non-resident associate who is also receiving royalty payment from Pakistan.

15. **Increase in Rate of Default Surcharge Due to Late Payment**

At present the default surcharge rate is 12% per annum which is significantly lower than the interbank rate and the low rate is a hindrance in recovery of tax arrears. It is therefore proposed that the default surcharge rate be increased to KIBOR rate plus 3% per annum.

RELIEF MEASURES:

16. **Exemption to Erstwhile FATA/PATA Regions**

a. Five years exemption from tax on income and from withholding taxes with effect from 1st day of July, 2018 was provided to FATA/PATA up to 30th day of June, 2023 which was extended for one year up to 30th day of June, 2024. It is proposed that further exemption from income and withholding taxes may be extended for another one year up to 30th day of June, 2025.

b. Extension in the period for adjusting unadjusted business losses from six to ten years for Pakistan International Airlines Corporation Limited (PIACL) to support its privatization.

STREAMLINING MEASURES:

a. Tax credit under section 65F applies solely to revenue derived from coal mining activities, preventing coalminers from claiming it on their entire income, including interest income.

b. AOPs with turnovers of Rs. 300 million or more would need to submit audited financial statements to discourage misuse and promote transparency and non-compliance would render members' share income taxable.

c. The proposal requires persons paying advance tax to substantiate their estimates of income with documentary evidence to avoid rejection of their advance tax estimates.

d. An explanation is added to the effect that super tax is leviable on banking companies for tax year 2023 and for subsequent years.

e. The provisions pertaining to income of banks is clarified so that tax treatment for banks remain the same and the deductions allowed from income remain the same as before this bill.

f. A saving clause is promulgated to ensure that appeals, references, or revisions initiated before the enactment of the Tax Laws Amendment Act, 2024 are adjudicated based on the legal framework existing prior to the said Act.

SALIENT FEATURES

<u>BUDGET 2024-25</u>

FEDERAL EXCISE ACT 2005

The proposed budgetary measures pertaining to Federal Excise Duty (FED) for FY 2024-25 are:

1. Imposition of FED on acetate tow @ Rs. 44,000 is proposed.
2. Imposition of FED on nicotine pouches @ Rs. 1200 per kg.
3. enhancement of FED on e-liquids is also proposed.
4. FED @ Rs. 15 per kg on supply of sugar to manufacturers.
5. The rate of FED on cement is being enhanced from Rs. 2 per kg to Rs. 3 per kg.
6. FED on commercial properties and first sale of residential properties @ 5%.
7. Rate of FED on filter rod to be enhanced from Rs.1500 per kg to Rs.80,000 per kg.
8. power to seal business premises of retailers selling illicit cigarettes.
9. Exemption from FED to diplomats and diplomatic mission.
10. Price threshold for local manufactured cigarettes increased from Rs. 9,000 to Rs.12,500.