GREENWOOD CONSULTANTS

FINANCE BILL 2023

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AUTHORS NOTE

Economic Brief 2023 is a publication prepared by GWC to provide information and commentary on the performance of Pakistan's economy during Financial Year 2023-24.

"We are pleased to bring to you this explicit explanation of the Finance Bill, 2023 **['Bill'].** This document will enlighten the readers about the aspects of this budget in its entirety. It will scrutinize the salient features of the said Bill and its implications on the macro as well as micro economy of Pakistan. The following document is an explanation of the measures proposed in the Bill in the light of interpretation of relevant laws and the provisions therein. The proposed measures would take effect once bill gets passed by the National Assembly and gets its assent from the President of Pakistan.

This document will elaborate on the effects of the changes in laws and the new policies enforced by the Federal Government. It will illuminate the effects of the changes in laws on the overall business environment. It will apprise you of the particular changes in laws in comparison to the previous laws."

HIGHLIGHTS OF FINANCE BILL 2023

OVERVIEW OF THE ECONOMY

During the outgoing fiscal year 2022-23 Pakistan has faced unprecedented challenges as a result of the previous administration's bad demand-driven policies, devastating floods, and political unrest. In addition, the Russia-Ukraine war drastically upset the world's supply-demand balance, causing a super-cycle in commodities that slowed down global economic growth from 6.2 percent in 2021 to 2.8 percent this year.

GROWTH AND INVESTMENT

Growth and Investment The real GDP posted a growth of 0.29% in FY-2023. Economy faced tremendous challenges of macroeconomic imbalances, supply shocks, and international economic slowdown which has reduced economic growth. During first quarter of FY-2023, Large areas of agricultural land were submerged by floods, which also affected the domestic supply. Flood damages, GDP loss, and rehabilitation expenditures were Rs. 3.2 trillion (US$ 14.9 billion), Rs. 3.3 trillion (US$ 15.2 billion), and Rs. 3.5 trillion (US$ 16.3 billion), respectively. The overall demand in FY-2023 has decreased, as a result of rising international prices and currency devaluation that raised domestic commodity prices.

TAX EXPENDITURE

Tax expenditure is revenue foregone because of selective provisions in the tax code.

KEY FINDINGS

The total Federal Taxes' expenditure based on the data relating to FY2021-22 is estimated at Rs. 2,239.63 billion with a tax-wise breakdown as follows:

Tax Head	Amount
Income Tax	Rs. 423.89
Sales Tax	Rs. 1,294.04
Customs Duty	Rs. 521.70

The total expenditures are 36.43 % of total FBR tax collection in FY 2021-22. The tax revenue foregone constitutes approximately 3.36% of total GDP in FY 2021-22 as against 2.69% in FY 2020-21.

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HIGHLIGHTS OF FINANCE BILL 2023

BUDGET CALCULATIONS

Receipts	PKR (Billion)	Expenditures	PKR (Billion)
Tax Revenue	9,200	Interest Payments	7,303
Non-Tax Revenue	2,963	Pension	761
Provincial Share	(5,276)	Defense Affairs & Services	1,804
Net Revenue Receipt	**6,887**	Grants and Transfers to Provinces & Others	1,464
Non-Bank Borrowing – Public Account	1,906	Subsidies	1,074
Net External Receipts	2,527	Running of Civil Govt.	714
Bank Borrowing	3,124	PSDP and Others	1,340
Privatization Proceeds	15		
Total Receipts	**14,460**	**Total Expenditures**	**14,460**

INCOME TAX ORDINANCE, 2001

HIGHLIGHTS OF FINANCE BILL 2023

INCOME (Section 2(29))

10% amount of the tax deducted by the companies issuing bonus shares has been added to the definition of income.

PERMANENT ESTABLISHMENT (Section 2(41))

The scope of definition of Permanent Establishment in Pakistan of a non-resident person has been broadened by removing the condition of fixed place of business. Service providing entities are also specifically included in the definition.

SMALL & MEDIUM ENTERPRISE (Section 2(59A))

The limit on turnover for entities qualifying as a small and medium enterprise ['SME'] has been increased to 800 million rupees from 250 million rupees. Further, the scope of small and medium enterprises has been enhanced to include persons engaged in provision of IT and IT Enabled Services.

Now, with this enhanced limit of 800 million rupees, two new slabs have been introduced whereby SME's profits can be taxed at the rate of 20% of taxable income or for final tax at the rate of 0.75% of turnover.

SUPER TAX ON HIGH EARNING PERSONS (Section 4C)

Super tax shall be considered in the calculation of advance tax under section 147 of the Ordinance, 2001. Rates of Super Tax have been rationalized. Super Tax under section 4C to apply on all persons across the board on income above Rs. 150 (m). Three new rate slabs have been inserted as below:

Sr.	INCOME SLAB	TAX RATE
1	Rs.0 to 150 million	0%
2	Rs. 150 million to Rs. 200 million	1%
3	Rs. 200 million to Rs. 250 million	2%
4	Rs. 250 million to Rs. 300 million	3%
5	Rs. 300 million to Rs. 350 million	4%
6	Rs. 350 million to Rs. 400 million	6%
7	Rs. 400 million to Rs. 500 million	8%
8	Above Rs. 500 million	10%

The 10% rate imposed on specific sectors for tax year 2022 has been abolished retrospectively.

HIGHLIGHTS OF FINANCE BILL 2023

BONUS SHARES (Section 236Z)

The Bill proposes to include bonus shares issued by a company in the definition of income under section 2(29) of the Ordinance. The Bill also proposes to insert a new section 236Z in the Ordinance which requires every company to withhold 10% amount of the bonus shares, at the time of issuance of bonus shares. Tax on bonus shares have been re-imposed after omission vide Finance Act, 2018 with a 10% final withholding tax on issuance of bonus shares by a company (20% for persons not appearing on ATL, however the additional 10% would be adjustable upon becoming filer). Also, the issuance of bonus shares has been made part of the respective head of income by insertion of clause (lb) under section 39 Income from other Source of the Income Tax Ordinance, 2001.

EXEMPTION UNDER FOREIGN INVESTMENT (Section 44A)

Taxes on income, withholding taxes, minimum and final taxes shall be exempt in respect of investments as specified in First Schedule of Foreign Investment (promotion and Protection) Act, 2022. All investors, shareholders, their associates and companies including third party lenders on account of any loan shall be exempt from taxes. Anti Avoidances clauses of the Ordinance shall not apply to them. Rates of depreciation, Initial allowance and pre-commencement expenditure shall continue to be applicable for 30 years.

TAX CREDITS FOR CONSTRUCTION OF HOUSE (Section 65I)

The Bill also proposes to insert a new section 65I in the Ordinance which pertains to tax credit for construction of house. In order to support the Construction Sector, a tax credit equivalent to 10% of the tax assessed for the tax year *or* 1 million rupees, whichever is lower, would be allowed to individuals constructing a new house subject to the following conditions:

i) Layout plan of which is approved by the concerned authorities after 1st July 2023; and
ii) Construction is completed during the said tax year and completion certificate is filed along with return.

The said tax credit would be available for tax years 2024 – 2026

ASSOCIATES (Section 85(1))

The definition of Associates is streamlined to provide more clarity on the subject. Now, such persons would also be held to be associates where one person, either along or together with other associates, sufficiently influences the other person. Sufficient influence would arise where one or both persons are directly or indirectly, are economically and financially dependent on each other and, decisions are made in accordance with the directions, instructions or wishes of each other for common economic goal.

It has further been laid down that two persons would be held 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. The expression zero taxation regime is not defined anywhere in the Ordinance and it is anticipated that such expression would be assigned a meaning in the rules by issuance of an SRO / Notification.

ADDITIONAL TAX ON CERTAIN INCOME, PROFITS & GAINS (Section 99D)

An additional tax is to be levied ranging from 0% to 50% on certain incomes, profits and gains that would incidentally arise due to certain economic factor(s). Such tax would be levied on all businesses including Insurance Businesses, E & P Sectors and Banking Companies. Such tax would be levied for any of the preceding five years, starting from tax year 2023 and onwards.

The identification of economic factors along with the scope, timing, exemption, and payment of tax would be determined by Federal Government through notification in the official gazette.

UNEXPLAINED INCOME OR ASSETS (Section 111)

In an order to stabilize the declining foreign reserves, the legislature has enhanced the monetary cap of foreign remittance remitted from outside Pakistan from five million rupees to rupee equivalent of USD 100,000 (PKR 28 million approx.) for the purpose of section 111(4), which prohibits questioning nature and source of unexplained income/assets.

RECOVERY OF LIABILITY OUTSTANDING UNDER OTHER LAWS (Section 146D)

The Bill also proposes to insert a new section 146D in the Ordinance addressing "Recovery of liability outstanding under other laws". This section states that, if there is any outstanding liability under any other statute or law, which is treated as Income Tax arrears or required to be recovered by the Commissioner (Inland Revenue) or referred to the Commissioner (Inland Revenue) for recovery, the Commissioner (Inland Revenue) is responsible for recovering the liability and depositing the received amounts into the specified account mentioned in that particular law.

ADVANCE TAX (Section 147)

During the last tax year, a controversy aroused on the application of advance tax collection on tax liability under Section 4C. Now, vide insertion of enabling provisions for computation, collection and payment of super tax under section 4C in the corresponding provisions of Section 147, such inconsistency would be resolved.

HIGHLIGHTS OF FINANCE BILL 2023

PAYMENTS TO NON-RESIDENTS (Section 152)

In a good move, a similar automation mechanism that is already available for local payments has been introduced for payments to non-residents. The issuance of exemption certificate has been automated for payment to a non-resident person upon expiry of 30 days of the application. However, the Commissioner may modify or cancel the said certificate on the basis of reasons to be recorded in writing after providing with an opportunity of being heard to the payer.

EXPORT OF SERVICES (Section 154A)

To benefit the IT Service Exporters opting final tax regime, the condition of mandatory filing of sales tax returns by exporters of IT and IT Enabled Services have been withdrawn. The concessionary fixed tax rate of 0.25% for IT & IT enabled services exports would be available till tax year 2026.

ADVANCE TAX ON CASH WITHDRAWAL (Section 231AB)

Advance adjustable withholding tax has been re-imposed on cash withdrawal by non-ATL persons at the rate of 0.6%. Such tax would be levied on withdrawals exceeding Rs.50,000 in aggregate from all accounts maintained by the person.

ADVANCE TAX ON FOREIGN DOMESTIC WORKERS (Section 231C)

An adjustable advance tax is imposed at the rate of Rs. 200,000 at the time of issuance of work permit/visa on employment of a foreign domestic helper.

ADVANCE TAX ON PURCHASE OR TRANSFER OF IMMOVEABLE PROPERTY (Section 236K)

In an order to encourage the overseas Pakistanis to invest in the real estate sector, the 2% final withholding tax has been proposed on purchase of immovable property for non-resident individual holding CNIC / POC / NICOP where an immovable property is acquired through a foreign currency value account (FCVA) or NRP Rupee Value Account maintained with authorized banks in Pakistan under the Foreign Exchange Regulations issued by the State Bank of Pakistan, upon submission of certificate as may be prescribed.

MINIMUM TAX (Section 113)

Reduced rate of 1% introduced for listed companies subject to tax rate of 1.25%. Listed companies subject to tax at the rate less than 1% would continue to pay at such reduced rate.

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MINIMUM TAX ON IMPORTS (Section 148)

Previously, the highest slab of tax in respect of imports was 5.5% percent of the specified value in respect of imports made by manufacturers and commercial importers. Now, the rate of tax for commercial importers would be 6% of the specified value.

INCREASE IN WITHHOLDING TAX ON GOODS, SERVICES AND CONTRACTS (NON – RESIDENTS) (Section 152)

- 1% increase in withholding tax rates on supply of goods;
- 1% increase on rendering of services including services subject to concessionary tax rate of 3%.
- 1% increase on execution of contracts excluding sportsperson

PAYMENT THROUGH DEBIT / CREDIT CARDS (Section 236Y)

- Increase in advance tax rate from 1% to 5% on payment to non-resident through debit/credit or prepaid cards. (2% to 10% for non-ATL person).

SECOND SCHEDULE

PART I - EXEMPTION FROM TOTAL INCOME

The incomes of following institutions have been exempted after incorporation of their names under Table 1 of Clause 66;

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

EXTENSION IN THE EXEMPTION OF FOLLOWING INCOMES

The exemption granted in respect of the following incomes have been extended for another year. Earlier, exemption was available for tax year 2023, now the same is extended for tax year 2024 as well;

- Profits and gains on the sale of immoveable property *or* shares of Special Purpose Vehicle to any type of REIT scheme.
- Any income of individual, company and association of persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018)

HIGHLIGHTS OF FINANCE BILL 2023

RELIEF GRANTED TO AGRO BASED INDUSTRY

Clause 154 has been inserted in the Second Schedule vide which tax relief has been granted to small and medium enterprise operating Agro based setup in a rural area for a period of five years, commencing from tax year 2024.

Moreover, only such enterprise will be eligible for tax relief that is setup on or after 1st day of July, 2023 and is not formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

PART III - REDUCTION IN TAX LIABILITY

INCOME FROM BUSINESS EARNED BY BUILDERS

The legislature has provided a great relief to the construction sector by reducing tax chargeable under the head income from business earned by builders. Tax shall be reduced by ten percent *or* Rs. Five million, whichever is lower, subject to the following conditions;

- Builder is registered with Directorate General of Designated Non-Financial Business and Professions (DNFBP);
- Exemption will be available only for the tax year in which the builder furnishes the completion certificate issued by the concerned regulatory authority, along with the return.

For the purpose of this clause, new building project has been defined as "a project for the construction of building excluding a land development project, layout plan of which is approved by the authority concerned on or after the 1st day of July, 2023".

INCOME FROM BUSINESS EARNED BY YOUTH ENTERPRISES

In order to encourage startups by Youth, significant reduction in tax liability is being introduced by the legislature for youth enterprises.

For the purpose of this clause –

(i) **Youth enterprise** means a startup established on or after first day of July, 2023 as sole proprietorship concern owned by a youth individual or an AOP all of whose members are youth or a company whose hundred percent shareholding is held or owned by youth individual;

(ii) **"Youth individual** means a natural person up to the age of thirty years as on first day of the commencement of the relevant tax year"

The reduction in tax liability would be availed as per the following;

- In case of an individual or an association of person by fifty percent or rupees two million whichever is lower; and
- In case of a company, by fifty percent or rupees five million whichever is lower;

However, this clause shall not apply where the startup is formed by transfer, reconstitution, reconstruction or splitting of existing business and startups already established by women enterprises covered under clause (19) of Part III of the Second Schedule.

PART IV - EXEMPTION FROM SPECIFIC PROVISIONS

The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities will be exempt from following provisions with effect on and from the 5th August, 2022;

- Section 113 - Minimum tax on the income of certain persons.
- Section 151 - Profit on debt
- Section 236 - Telephone and internet users

SEVENTH SCHEDULE – BANKING COMPANIES

- A time extension for two years has been given for the purpose of concessionary tax rate of 20% for banking company's income from additional advances to low-cost housing, agri based entities and SME's.
- Concessionary tax rate of 20% on income of banking company would be levied on income arising out of additional advances to IT & IT Enabled sector instead of standard rate of 39%.

The term additional advance along with the mode and manner of calculation of income have been specified.

EIGHT SCHEDULE – COMPUTATION OF CAPITAL GAIN

NCCPL would now also collect super tax under Section 4C in addition to capital gains tax on the amount of capital gains computed under the Eighth Schedule.

SALE TAX ACT, 1990

PRODUCTION, TRANSMISSION AND DISTRIBUTION OF ELECTRICITY (Section 2 (12 & 33))

Through the Bill, the production, transmission and distribution of electricity is proposed to be excluded from the definition of Goods and Supply.

TIER-1 RETAILER SCOPE RESTRICTION (Section 2(43A))

This bill restricts the scope of Tier-1 Retailer by omitting the Shop Area criterion from the definition. It has also been proposed to exclude the persons engaged in the supply of Articles of Jewelry and Precious Metals from the scope of Tier-1 Retailers which was included through Finance Act, 2022. However, if such person still meets any other criteria for qualification, he would be classified as Tier-1 Retailer.

OFFENCES AND PENALTIES (Section 33(23))

Through this Finance Bill, the penalty under clause 23 of section 33 is levied, where any person who manufactures, possesses, transports, distributes, stores or sells sugar, cement, fertilizer and beverages with counterfeited tax stamps, banderoles, stickers, labels or barcodes or without tax stamps, banderoles, stickers, labels or barcodes. Currently, this clause is applicable only to the tobacco industry.

AMENDMENTS IN FIFTH SCHEDULE

Following addition in the Fifth Schedule through this Finance Bill.

Sr.	Description
8A.	Imports or supplies made by, for or to a qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for the period as specified in the Second Schedule to the said Act.”

Updates in the following clauses of the Fifth Schedule through this Finance Bill.

Sr.	Description
12(xxv).	Previously only geometry boxes were included under this schedule. Now, other drawing, marking out or mathematical calculating instruments (geometry box) are also included.
21.	The scope of local supplies to exporters under Export Facilitation Scheme, 2021, is

	proposed to enlarge by including Commodities.

AMENDMENT IN SIXTH SCHEDULE

Updates in the following clauses of Table-1 of Sixth Schedule through this Finance Bill.

No.	Description	HS Code
16, 17, 18.	Red chilies, Ginger and Turmeric shall be exempt excluding that sold under a brand name or trade mark.	0904.2110, 0904.2210, 09.10, 0910.3000
151, 152.	Exemption period is extended from June 30, 2023 to June 30, 2024 in case of supplies mentioned in the said serials in the Tribal Areas.	Respective headings

Following serials are omitted from Table-1 of the Sixth Schedule through this Finance Bill.

Sr No.	Description	HS Code
159.	Import of auto disable Syringes till 31st December, 2021 (i) with needles (ii) without needles	9018.3110, 9018.3120
160.	Import of following raw materials for the manufacturers of auto disable syringes till 31st December, 2021 (i) Tubular metal needles (ii) Rubber Gaskets	9018.3200, 4016.9310

Following additions are made in the Table-1 of Sixth Schedule inserted via this Finance Bill.

No.	Description	HS Code
175.	Contraceptive and accessories thereof	3926.9020 and 4014.1000
176.	Bovine semen	0511.1000
177.	Saplings	Respective heading
178.	Combined Harvester – Thresher	8433.5100

179.	Dryer for agricultural products	8419.3400
180.	No-till-direct seeder, planters, trans-planters and other planters	8432.3100 and 8432.3900
181.	Import of goods as mentioned under S. No. 159 of Part III of Fifth Schedule to the Customs Act, 1969 (IV of 1969) chargeable to customs duty at the rate of zero percent, subject to the conditions, restrictions and limitations mentioned therein (assessed value of the imported goods equivalent to 1% of their export proceeds), by the software exporters registered with the Pakistan Software Export Board.	7471.3010*, 8471.3020, 8471.3090, 8471.4110, 8471.6010, 8471.6020, 8471.6090, 8471.7040, 8471.9020, 8471.7020, 8471.5000 and 8517.6270.”

*HS Code 7471.3010 does not exist, so apparently seems a typo error, as meant to include 8471.3010.

Following amendments are made in Table-II of the Sixth Schedule through this Finance Bill.

Sr No.	Description	HS Code
32, 34, 35, 36, 37, 39, 41, 42.	Yogurt, Butter, Desi Ghee, Processed Cheese, Products of meat and meat offal, meat of bovine animals, sheep, goat and uncooked poultry, fish and crustaceans shall be exempt excluding that sold under a brand name or trade mark.	Respective Headings

HIGHLIGHTS OF FINANCE BILL 2023

AMENDMENT IN EIGHTH SCHEDULE

Following amendments are made in the Eighth Schedule through this Finance Bill.

Sr No.	Description	HS Code
66.	Finished fabric and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales are proposed to be charged at the rate of 15% as against the current rate of 12%.	Respective Headings

Following serials are substituted in Eighth Schedule through this Finance Bill.

Sr No.	Description	HS Code	Rate	Condition
81.	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:-	Respective Headings	1%	Subject to the conditions that: (i) Tax charged and deposited by the manufacturer or importer, as the case may be, shall be final discharge of tax in the supply chain (ii) No input tax shall be adjusted by the manufacturer or importer

	(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. This substitution shall be deemed to have been made from the 1st day of July, 2022.			
82.	Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products,	Respective Headings	1%	Subject to the conditions that: (i) DRAP shall certify item-wise requirement of manufacturers of drugs and APIs and in

	provided that in case of import, only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding eleven per cent ad valorem, either under the First			case of import shall furnish all relevant information to Pakistan Customs

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001 (XLII OF 2001)

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HIGHLIGHTS OF FINANCE BILL 2023

INCLUSION OF COTTAGE INDUSTRY

"A freelance exporter exclusively dealing in export of IT and IT enabled services" shall be deemed as a cottage industry for the purposes of application this Ordinance.

A freelance exporter will be defined as:
"a person who works on per job and on self-employed basis without being attached to or under employment of any other person, having the liberty to work on various tasks simultaneously."

This will exempt the freelancers from provisions of the Ordinance including filing of sales tax return. This is a much-needed relief for individual freelancers who were unduly subject to stringent requirements of sales tax filing.

REDUCTION IN SALES TAX IF PAYMENT MADE THROUGH CREDIT CARD.

Similar to Punjab Sales Tax provisions, sales tax on following services shall be reduced to 5% if payment is made through debit or credit cards, mobile wallets or QR scanning subject to the condition that no input tax adjustment or refund shall be admissible:

- Services provided or rendered by hotels, motels, guest houses, farmhouses, marriage halls, lawns, clubs, and caterers.
- Serviced provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc.

The rate of sales tax shall remain 15% where payment is made in cash.

RATE OF SALES TAX ON SERVICES PROVIDED BY SOFTWARE OR IT-BASED SYSTEM DEVELOPMENT CONSULTANTS.

The rate of sales tax is proposed to be reduced from 16% to 15%.

INCLUSION OF ELECTRIC POWER TRANSMISSION SERVICES

Electric power transmission services are proposed to be taxed at 15% since they were excluded from Federal Sales Tax provision as discussed above.

REDUCTION IN SALES TAX ON IT SERVICES AND IT-ENABLED SERVICES

IT services and IT-enabled services shall be taxed at 5% (without any input adjustment of refund availability).

"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.

FEDERAL EXCISE ACT, 2005

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OVERHAULING OF THE ACT

Certain amendments have been proposed to rationalize the wording of the Act, thus leaving little room for loopholes and subjective interpretation. For example, the First Schedule of the Act was not included in the section empowering the Federal Government to levy Federal Excise Duty on such items. Now the definition has been corrected accordingly.

Addition of items subject to Federal Excise Duty

REFERENCE	ITEM	NEW TAX RATE
S. No. 60	Energy inefficient fans both locally manufactured and imported which do not comply with the MEPS, notified by PSQCA	PKR 2,000 per fan
S. No. 61	Incandescent bulbs both locally manufactured and imported	20% ad valorem

CUSTOM ACT, 1969

HIGHLIGHTS OF FINANCE BILL 2023

MEASURES TO PREVENT SMUGGLING (Section 2, clause (s) & Section 7)

Government has empowered Customs to conduct anti-smuggling operations within territorial limits of Pakistan and Provincial Levies, and Khasadar Force have been added in the list of Government agencies mandated to assist Customs in anti-smuggling operations in Khyber Pakhtunkhwa and Baluchistan.

These measures will help Government to control the smuggling of essential items and demand push inflation by making available adequate supply of essential commodities and leakages of revenue. Penal provisions for the offence of smuggling of banned and contra-banned goods are also being made more stringent.

FACILITATION MEASURES

Government has introduced following facilitative measures;

- Warehousing period for perishable items has been proposed to be enhanced from one month to three months. ***(Reference to Section 98)***
- Penalty on documents not found inside the consignment abolished. ***(Reference to Section 156)***
- To reduce the clearance time and eliminate human interaction, option is being provided to the respondent to go for adjudication through Customs Computerized System. ***(Reference to Section 179)***
- To facilitate the passengers travelling as a group who cannot file their own baggage declarations, the representative of the group of passengers is being allowed to file baggage declaration on behalf of the group members. ***(Reference to Section 139)***
- Concessionary rate of 1% Custom duty is imposed on import of Hybrid Electric Vehicles **(HEV) (CBU)** for manufactures only subject to certification and quota determined by EDB. ***(Fifth Schedule Part-V(B) Table-I)***
- Concessionary rate of 15% of custom duty is imposed on Agricultural Tractors, having an engine capacity exceeding 26kW but not exceeding 75kW and 10% for others. ***(Fifth Schedule Part-V(C))***

ZERO RATED CUSTOMS DUTY

The rate of Customs Duty (CD) leviable on the import of many categories of items / sectors is made zero rated to incentivize the respective sectors. Some of the most significant ones are enlisted as below;

- Manufacturing of Solar Panels and related equipment are encouraged by zero rating customs duties on import of machinery, equipment and inputs for manufacturing of solar panels, inverters and batteries.

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Incentive for exporters of Information Technology (IT) and IT enabled services by allowing duty free import of IT related equipment equivalent to 1% value of their export proceeds.

Zero rate of Customs duty on import of seeds for sowing to promote growth in agricultural sector.

- Withdrawal of capping of the fixed duties and taxes on the import of old and used vehicles of Asian Makes above 1300 CC under SRO 577(I)/2005 by omitting serial number 4,5 and 6 of the said SRO.

REDUCTION / CONCESSIONS IN CUSTOMS DUTY

Customs Duty (CD) leviable on the import of many categories of items / sectors is reduced for incentivizing the respective sectors. Some of the most significant ones are enlisted as below;

- Reduction of Customs duty from 10% to 5% on non-localized (CKD) of Heavy Commercial Vehicles (HCVs).
- Continuation of concession to 3% on import of Flavorings powders for food preparation for manufacturers of snacks till June, 2024.

REDUCTION / CONCESSIONS IN REGULATORY DUTY

Regulatory Duty (RD) leviable on the import of many categories of items / sectors is reduced or exempted to incentivize the respective sectors. Some of the most significant ones are enlisted as below;

- Removal of regulatory duty on second hand clothing to provide relief to the poor segment of the society.
- Removal of regulatory duty on IT related equipment to encourage Information Technology sector.