

Government of Pakistan
Revenue Division
Federal Board of Revenue

Islamabad, the 29th July, 2024

Circular No. 01 of 2024-25
(Income Tax)

Subject: Finance Act, 2024 – Explanation regarding Important Amendments made in the Income Tax Ordinance, 2001

Important amendments made in Income Tax Ordinance, 2001 (“the Ordinance”) through Finance Act, 2024 are explained in the subsequent paragraphs.

2. Tax rates on taxable income for individuals and association of persons

The rates of tax imposed on taxable income of individuals and associations of persons [AOPs] have been changed through the Finance Act, 2024. The rates of tax for individuals and AOPs except a salaried individual are as under: -

S#	Taxable Income	Rate of Tax
(1)	(2)	(3)
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

However, in case of an AOP that is a professional firm prohibited from incorporating by any law or the rules of the body regulating their profession, the

maximum rate in respect of taxable income exceeding Rs. 5,600,000 shall be 40% instead of 45%.

The rates of tax on taxable income of an individual deriving more than 75% of his income from salary have been amended as under: -

S#	Taxable Income	Rate of Tax
(1)	(2)	(3)
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. 2,200,000	Rs. 30,000 + 15% of the amount 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

3. Surcharge on tax where taxable income exceeds Ten million rupees
[Section 4AB]

Through a newly inserted section 4AB, a surcharge has been levied on chargeable tax of individuals and associations of persons (AOPs) if their taxable income exceeds ten million rupees. The surcharge is levied at a rate of ten percent of income tax charged under clause (1) and clause (2) of the Division I of Part I of the First Schedule for non-salaried as well as salaried persons. In order to ensure that tax on salary is deducted at an average rate by including the amount of surcharge, similar changes have been made in the formula of average rate of tax specified in sub-section (2) of section 149. An illustration is given below to describe the computation of tax and tax-deductible u/s 149 of the Ordinance:

Illustration:

Annual salary income: Rs. 13,000,000

Tax on salary income for the year as provided under Division I of Part I of First Schedule:	Rs. 3,815,000
Surcharge @ 10% on tax payable:	Rs. 381,500
Total annual tax liability:	Rs. 4,196,500

Average rate of tax = A/B

where –

A is the tax that would be payable if the amount referred to in component B of the formula were the employee's taxable income for that year plus tax chargeable under section 4AB; and

B is the employee's estimated income under the head "Salary" for that year.

Hence in the above illustration–

$$A = 3,815,500 + 381,500 = 4,196,500$$

$$B = 13,000,000$$

$$\text{Average rate of tax} = 4,196,500/13,000,000 = 32.28\%$$

$$\text{Tax for the year} = 4,196,491$$

$$\text{Tax deductible per month} = \text{Rs. } 349,708$$

4. Tax on Builders and Developers [Section 7F]

Section 7F has been introduced regarding taxation of builders and developers. The taxable profit shall be 10 percent of the gross receipts from activities of construction and sale of residential, commercial or other buildings, 15 percent of the gross receipts from activities of development and sale of residential, commercial or other plots and 12 percent of the gross receipts in case both the activities above are involved. Tax shall be imposed on the taxable profit as per rates specified in Division I or Division II, as the case may be, for such persons.

Through an explanation, it has been clarified that the provisions of section 7F shall only apply to activities from construction and sale of residential commercial or other buildings and activities from development and sale of

residential, commercial or other plots. Any other head of income or income from any other source is excluded from the purview of this section.

Such builders and developers while explaining the nature and source of any amount credited or investment made, money or valuable article owned or funds from which the expenditure was made, shall be allowed to take credit up to the amount of taxable profit under this section. Credit of amount in excess of taxable profit can only be taken if taxable income under section 9 is more than the taxable profit and tax has been paid on such taxable income at the rate specified in Division I or II of Part I of the First Schedule.

Builders and developers established by an Act of the Parliament or a Provincial Assembly or by a Presidential Order for benefit of their employees or specific housing projects are excluded from the purview of section 7F.

As per sub-section (1) of section 147, persons deriving incomes subject to tax under sections 5, 6 and 7, salary income subject to deduction of tax at source and incomes subject to final tax are not liable to pay advance tax. Section 7F has not been mentioned in exclusions from payment of advance tax in sub-section (1) of section 147. Therefore, builders and developers falling under the purview of section 7F shall discharge their advance tax liability on taxable profit for a tax year in four quarterly advance tax instalments. As the advance tax liability for the tax year 2025 is likely to be more than the advance tax liability computed under sub-section (4), builders and developers shall estimate their advance tax liability as per provisions of sub-section (4A) of section 147. The advance tax for a quarter will be computed by applying the rates specified in Division I or II of Part-I of the First Schedule to quarterly taxable profit computed as a percentage of gross receipts i.e., 10 % of the gross receipts from activities of construction and sale of residential, commercial or other buildings, 15 % of the gross receipts from activities of development and sale of residential, commercial or other plots and 12 % of the gross receipts in case both the activities above are involved. The due dates for payment of quarterly advance tax for individuals and AOPs/companies will be same as specified in sub-sections (5) and (5A) of section 147 of the Ordinance respectively. Moreover, provisions of sub-sections (7) to (10) of

section 147 will apply mutatis mutandis on quarterly advance tax payable under this section.

A statement of computation will be submitted by a builder or a developer on each due date for the quarters specifying computation of advance tax on the basis of taxable profit for each quarter, gross amount of receipts either in cash or deposited in bank and business bank accounts detail duly certified by a Chartered Accountant or a Cost and Management Accountant.

5. Amendment in Taxation of Capital gains [Section 37]

Prior to the Finance Act, 2024, a person acquiring shares of a company was required to deduct tax at the rate of ten percent of the fair market value of shares from the gross amount paid. Through the Finance Act, 2024, the person acquiring the shares is required to deduct tax from the gross amount paid or payable at the time of payment or at the time of registration of shares, whichever is earlier. Hence, 10% of the fair market value of shares will be deposited by the acquirer even if payment for shares has not been made, if the shares stand registered in the name of the acquirer of shares.

6. Tax credit for Persons engaged in Coal Mining [Section 65F]

Hundred percent tax credit under section 65F is allowed to persons engaged in coal mining projects in Sindh, and supplying coal exclusively to power generation projects in Sindh. An explanation has been added to section 65F to clarify that hundred percent tax is available exclusively to their income derived from coal mining operations in Sindh supplying coal exclusively to power generation projects and thus the provisions of section 65F has not allowed the tax credit to any other income or incomes under any heads other than from supplying coal exclusively to power generation projects in Sindh.

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Principles of Taxation of Associations of Persons [Section 92]

Prior to the Finance Act, 2024, share of a member of an association of persons [AOP] was exempt from tax where the AOP has paid tax on its income. Through the Finance Act, 2024, a second proviso has been added in sub-section (1) of section 92, to provide that share of a member of an AOP shall not be exempt where the turnover of the AOP is three hundred million rupees or more and the

AOP has not filed with the return, financial statements duly audited by a firm of Chartered Accountants as defined under the Chartered Accountants Ordinance, 1961 or audited by a firm of Cost and Management Accountants as defined under the Cost and Management Accountants Act, 1966.

8. Special provisions relating to persons not appearing in active taxpayers' list [Section 100BA]

Prior to the Finance Act, 2024, section 100BA provided for higher rates of withholding taxes as specified in the Tenth Schedule for persons not appearing in the active taxpayers' list. Through the Finance Act, 2024, section 100BA has been amended and scope of the Tenth Schedule has been broadened by including persons who although are appearing in the active taxpayers' list but have filed return after the due date specified in section 118 or by the due date as extended under section 119 or 214A. After this amendment in section 100BA and insertion of rule 1A in the Tenth Schedule, there are now two categories of higher rates: one for persons not appearing in the ATL at the time of transaction and the other for persons appearing in the ATL at the time of transaction but who have not filed return within the due date. Tax rates for persons appearing in ATL but have filed return after the due date have been explained in paragraph 38 of this Circular.

9. Geographical source of income [Section 101]

As per sub-section (6) of section 11, the income of a non-resident person under a head of income shall be computed by taking into account only amounts that are Pakistan-source income. Sub-section (3) of section 101 stipulates Pakistan-source business income of a non-resident person. As per clause (d) of sub-section (3) of section 101, business income of a non-resident person shall be Pakistan-source income to the extent to which it is directly or indirectly attributable to any business connection in Pakistan. The expression "business connection in Pakistan" has now been defined by insertion of sub-sections (3A) and (3B) in section 101. The expression "business connection in Pakistan" shall include significant economic presence in Pakistan of a non-resident person. The term, "significant economic presence in Pakistan" means transaction in respect of goods, services, or property carried out by a non-resident with any person in Pakistan including provision of download of data or software in Pakistan, if the

aggregate of payments arising from such transaction or transactions during the tax year exceeds such amount as may be prescribed. Further, it means systematic and continuous soliciting of business activities or engaging in interaction through digital means with such number of users in Pakistan as may be prescribed irrespective of whether or not—

- (i) the agreement for such transactions or activities is signed in Pakistan;
- (ii) the non-resident has a residence or place of business in Pakistan; or
- (iii) the non-resident renders services in Pakistan.

10. Transactions between Associates [Section 108]

Section 108 pertains to transactions between associates and sub-section (1) of it empowers the Commissioner to distribute, apportion or allocate income, deductions or tax credits between persons who are associates as is necessary to reflect the income that the associates would have realized in an arm's length transaction. A new sub-section (6) has been added in section 108 as per which, notwithstanding the provisions of sub-section (1), for the tax year 2024 and onwards, where a taxpayer has claimed any amount 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, the taxpayer upon notice by the Commissioner shall furnish explanation or evidence in respect of sales promotion, advertisement and publicity expenses incurred that no benefit has been conferred from such expenses on the associate to which such royalty was paid or payable. Where the taxpayer fails to furnish explanation or evidence that no benefit has been conferred on the associate, twenty five percent of the total expenditure for the tax year in respect of sales promotion, advertisement and publicity shall be disallowed to the taxpayer and allocated to the said associate.


11. Unexplained Income or Assets [Section 111]

Amendment in clause (ii) of sub-section (2) of section 111 has been made by defining year of discovery of foreign assets or expenditure or concealed income. After the amendment, year of discovery of foreign assets or expenditure or concealed income is the year in which the Commissioner has issued a notice to the taxpayer requiring an explanation of the nature and source of these foreign assets, expenditures, or concealed income.

12. Powers to Enforce Filing of Returns [Section 114B]

Where a person fails to file return even in response to notice issued under sub-section (4) of section 114 for filing of return, the Board has the power to issue income tax general order in respect of such persons. Prior to the Finance Act, 2024, issuance of income tax general order against such persons entailed disabling of their mobile phones or mobile phone SIMS or discontinuation of electricity or gas connections. Through Finance Act, 2024, such persons whose names are included in the income tax general order i.e. persons, to whom notice for filing of return was issued and they still failed to file their return of income, will face restriction on foreign travel from Pakistan. This restriction shall apply to a citizen of Pakistan but shall not apply to a person holding National Identity Card for Overseas Pakistanis [NICOP], minors, students, persons proceeding abroad for Hajj or Umrah and such other classes of persons as notified by the Board.

13. Advance tax rate in the case of subscriber of internet, mobile telephone and pre-paid internet or telephone card

The rate of tax collection shall be 75% of the amount of bill or sale price of internet pre-paid card or prepaid telephone card or sale of units to any  electronic medium or whatever form for persons who have failed to file return of income in response to notice to file return, and their names have consequently been included in the income tax general order issued under section 114B.

14. Amendment on enforcement of Wealth Statement [Section 116]

As per sub-section (2) of section 116, every resident person, being an individual, filing a return of income for any tax year shall furnish a wealth statement and wealth reconciliation statement for that year along with such return.

As per clauses (a) and (b) of sub-section (1) of section 116, the Commissioner may, by a notice in writing, require any person being an individual to furnish a wealth statement in the prescribed form and verified in the prescribed manner giving particulars of the person's total assets and liabilities and the total assets and liabilities of the person's spouse, minor children and other dependents. Through the Finance Act, 2024, a person shall be required to furnish particulars of total assets including foreign assets and total liabilities including foreign liabilities. Further, an explanation has been inserted after clause (b) of sub-section (1) that assets of the spouse shall only be included in the wealth statement of the person if the spouse is dependent on the person.

15. Best judgement assessment [Section 121]

As per sub-section (1) of section 117, a person discontinuing business shall give a notice in writing to the Commissioner to that effect within fifteen days of the discontinuance. Sub-section (3) of section 117 authorizes the Commissioner to call for return of income where no notice has been given by the person to the Commissioner under sub-section (1). In order to streamline the mechanism of assessment in cases where the person fails to file return in response to notice under sub-section (3) of section 117, a new clause (ac) has been inserted in sub-section (1) of section 121 enabling best judgment assessment in such cases.

A new sub section (1A) has been introduced in section 121 whereby the Commissioner may also make best judgment assessment on the basis of sectoral benchmark ratios. Through an explanation in this sub-section, sectoral benchmark ratios have been defined similar to the definition in the explanation in sub-section (2AA) of section 177.

16. Pecuniary Jurisdiction [Section 126A]

As per section 126A, an appeal to the Commissioner (Appeals) shall lie where the value of assessment of tax, or refund of tax, as the case may be, does not exceed twenty million rupees and an appeal to the Appellate Tribunal Inland Revenue shall lie where the value of assessment of tax, or refund of tax, as the case may be, exceeds twenty million rupees. An explanation has been added to sub-section (1) of section 126A in order to explain the term "value of assessment

of tax". The term "value of assessment of tax" refers to the net increase in tax liability resulting from the order being challenged, while "value of refund" denotes the net reduction in refund due to the order being contested.

Further, sub-section (1) of section 126A has been made non-obstante with reference to other provisions of this Ordinance so its provisions will prevail in case of anything to the contrary in any other provision of the Ordinance. Sub-section (1) of section 127 has been made subservient to section 126A which clarifies the existing position of law that no order having the value of assessment or net reduction in refund exceeding twenty million shall lie before the Commissioner (Appeals) and that such first appeals shall lie before the Appellate Tribunal.

Moreover, amendments in sub-sections (4) and (5) of section 126A have been made to the effect that all cases pending before the Commissioner (Appeals) having value of assessment of tax or, as the case may be, refund of tax exceeding twenty million rupees, shall on or before the 31st day of December, 2024 stand transferred to the Appellate Tribunal Inland Revenue. All cases transferred to the Appellate Tribunal shall be decided within the period provided for under section 132 which period shall commence from the date of transfer of such cases from the Commissioner (Appeals).

17. Appeal to the Appellate Tribunal [Section 131] and Reference to the Honourable High Court [Section 133]

A. After introduction of section 126A and substitution of section 133 through the Tax Laws (Amendment) Act, 2024, appeals against those orders could be filed with the Commissioner (Appeals) where the value of assessment or as the case may be, refund of tax does not exceed twenty million rupees. Sub-section (1) of section 133 stipulated that within thirty days of the communication of the order of the Appellate Tribunal or, as the case may be, the Commissioner (Appeals), the aggrieved person or the Commissioner may file a reference before the High Court. Hence, appeal against the order of the Commissioner (Appeal) would lie before the High Court. However, the existence of the words, "Commissioner (Appeals)" in sub-section (1) of section 131, indicated that appeal against the order of the Commissioner (Appeals) could also lie before the Appellate Tribunal.

In order to remove this anomaly, the expression “or Commissioner (Appeals)” has been omitted from sub-section (1) of section 131 which made it clear that all appeals decided by the Commissioner (Appeals) or the Appellate Tribunal shall lie before the High Court. There cannot be a situation where second appeal against the decision of the Commissioner (Appeals) is filed before the Appellate Tribunal.

Regarding cases which were pending with the Commissioner (Appeals) at the time of commencement of the Tax Laws (Amendment) Act, 2024 and which were subsequently decided by the Commissioner (Appeals), the issue requiring attention was what would be the appellate authority where the impugned order of the Commissioner (Appeals) is contested in case where such order was communicated after the date of commencement of the Tax Laws (Amendment) Act, 2024. In this regard, an explanation has been added in sub-section (1) of section 133 to clarify that references against order of the Commissioner (Appeals) communicated after the commencement of the Tax Laws (Amendment) Act, 2024, will lie before the High Court, even if proceedings were pending before the Commissioner (Appeals) prior to the commencement of the Tax Laws (Amendment) Act, 2024.

A new sub-section (18) has been inserted in section 239 which states that for decisions, received prior to the commencement of the Tax Laws (Amendment) Act, 2024, the period of limitation for filing of appeals before the Appellate Tribunal or the High Court shall be the same as it existed prior to the commencement of the said Act.

a. **18. Payment of Advance Tax [Section 147]**

Advance tax for a company or an association of persons is computed as per formula contained in sub-section (4) of section 147 subject to computation of higher advance tax under sub-section (4A) and lower under sub-section (6) of section 147. As per formula contained in sub-section (4), advance tax is computed by multiplying turnover for the quarter with ratio of tax assessed for the latest tax year with the turnover for the latest tax year. The resultant amount can be reduced by the tax paid in the quarter for which credit is available under section 168. In

cases where, turnover for the quarter is not known or the taxpayer fails to provide turnover for the quarter, one-fourth of one hundred and ten percent of the turnover of the latest tax year for which a return has been filed is taken. Through the Finance Act, 2024, where turnover for the quarter is not known or not furnished by the taxpayer, it shall be taken to be one-fourth of one hundred and twenty percent of the turnover for the latest tax year for which return has been filed.

A new sub-section (6B) has been introduced in section 147 to provide that where a taxpayer has filed estimate under sub-section (6) that the tax payable by him is likely to be less than the amount he is required to pay, the taxpayer shall furnish estimate containing 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. Where the Commissioner is not satisfied with the documentary evidence provided or where an estimate of tax payable is not accompanied by details mentioned in the said sub-section, the Commissioner may reject the estimate after providing an opportunity of being heard and the taxpayer shall pay advance tax according to the formula contained in sub-section (4) or (4B), as the case may be.

Further, through Finance Act, 2024 a new non-obstante provision namely sub-section (6C) has been introduced in section 147 as per which the withholding agents specified in sub-sections (1), (3), (3B) and (3C) of section 154 shall, at the time of realization of foreign exchange proceeds, or realization of the proceeds on account of sale of goods or export of goods or at the time of making payment to an indirect exporter, or clearing of goods respectively, deduct or collect tax at the rate of one percent of such foreign exchange proceeds, or exports, or payment, in addition to tax collectible or deductible under section 154. Hence, the withholding agents will collect two percent tax on export proceeds [one percent minimum tax under section 154 and one percent adjustable advance tax under sub-section (6C) of section 147.

19. Imports [Section 148]

As per sub-section (1) of section 148, the Collector of Customs shall collect advance tax from every importer of goods on the value of goods at the rate specified in Part II of the First Schedule. As per sub-section (6), the provisions of the Customs Act, 1969, in so far as relevant, shall apply to collection of tax under section 148. The value of goods was defined in sub-section (9) to mean value of goods as determined under the Custom Act 1969, as if such goods were subject to ad valorem duty increased by the custom-duty, federal excise duty and sales tax, if any, payable in respect of import of the goods. However, in case of goods chargeable to tax at retail price under the Third Schedule of the Sales Tax Act, 1990, the value of goods means retail price of such goods increased by the sales tax payable in respect of the import and taxable supply of such goods.

Through the Finance Act, 2024, a new sub-section (6A) has been inserted in section 148 which empowers the Board to determine the minimum value of goods for the purpose of collection of advance tax under section 148 through notification in the official Gazette. Clause (c) has been added in sub-section (9) whereby value of goods means minimum value as notified by the Board under sub-section (6A) as if such goods were subject to ad valorem duty as increased by the custom-duty, federal excise duty and sales tax payable in respect of the import of goods.

20. Payments to Non-Residents [Section 152]

Q. Under sub-section (4A) of Section 152, the Commissioner, on application by a recipient of payment referred to in sub-section (1A) of section 152 having P.E in Pakistan or by a recipient of payment referred to in sub-section (2A), where tax deductible is not minimum, could allow any person to make payment without deduction of tax or with deduction of tax at a reduced rate. After amendment made through the Finance Act, 2024, the Commissioner cannot issue a 100% exemption certificate and can only issue a reduced rate certificate but such reduction shall not exceed 80% of the rate specified in Division II of Part III of the First Schedule.

21. Payments for goods, services, and contracts [Section 153]

Under, subsection (4) of section 153, the Commissioner on an application by a recipient of payment referred to in sub-section (1) of section 153, where tax deductible was not minimum, could issue a certificate without deduction of tax or deduction of tax at reduced rate. Through the Finance Act, 2024, sub-section (4) of section 153 has been substituted and now the Commissioner cannot issue a certificate without deduction of tax. Instead, the Commissioner can only issue a reduced rate certificate but such reduction shall not exceed 80% of the rate specified in Division III of Part III of the First Schedule.

22. Amendments related to Exports [Section 154]

Prior to the Finance Act, 2024, tax collected under section 154 at the rate of one percent of export proceeds constituted final tax of exporters on the income arising from exports. Through the Finance Act, 2024, tax collected under section 154 shall be minimum tax.

23. Penalty [Section 182]

23.1 At present, no penalty or prosecution is provided in law where a person discontinues business and fails to file a return even in response to notice issued by the Commissioner concerned. Serial, 1B has been inserted in section 182 which states that in cases where business has been discontinued and the taxpayer fails to file return even in response to notice, penalty of the higher of 0.1% of the tax payable for the tax year for each day of default or Rs.1,000 per day of default subject to a minimum penalty of Rs. 10,000/- or Rs. 50,000/- respectively for individual or other persons, has been provided in law.

23.2 Another insertion in the table under section 182 (serial 3A) prescribes the penalty for non-compliance of section 99B. If a trader fails to register or fails to pay advance tax under Tajir Dost Special Procedure, 2024, his shop is liable to be sealed for seven days on first default and for twenty-one days for each subsequent default.

23.3 A new penalty (serial 10A) has been introduced for noncompliance of section 114B. If any person who fails to comply with income tax general order issued by the Board within 15 days, such person shall pay a penalty of fifty

million rupees for the first default and one hundred million rupees for each subsequent default. The penalty is applicable from the date to be notified by the Board.

23.4 To address non-compliance of section 37(6), serial 12A has been introduced for any person who fails to pay tax at the time of making payment as consideration of shares or at the time of registration of shares by the Securities and Exchange Commission of Pakistan or by the State Bank of Pakistan, whichever is earlier, such person shall pay a penalty equal to fifty percent of the amount of tax involved.

23.5 In order to address filing of blank documents or annexures along with return, or attaching annexure, statement or document in the return form as blank or failing to fully state all relevant particulars or information in return form which are otherwise required as per sub-section (2) of section 114, penalty for a company including a banking company and an AOP has been provided through insertion of serial 35 in section 182, which is Rs.500,000 or 10% of the tax chargeable on the taxable income, whichever is higher.

24. Prosecution for non-compliance of notice under section 117(3)

Section 191 has been amended so that any person who, without reasonable excuse, fails to file return, in response to notice under sub-section (3) of section 117 i.e., where the Commissioner has issued notice for filing of return to a person where the Commissioner has reason to believe that a person has discontinued business or is likely to discontinue, such person shall be treated to have committed an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year, or both.

25. Prosecution for Failure to Furnish Information in Return of Income

A new section 191A has been inserted whereby any company including a banking company and an AOP, filing blank documents or annexures along with return, or attaching annexure, statement or document in the return form as blank or failing to fully state all relevant particulars or information in return form which are otherwise required as per sub-section (2) of section 114, shall commit

an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year or both.

26. Prosecution for Non-Registration

Section 191B has been introduced according to which 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 a fine or imprisonment for a term not exceeding one year or both.

27. Default Surcharge [Section 205]

After amendment in section 205, the rate of default surcharge is 12 percent or KIBOR plus 3 percent, whichever is higher, in order to make the default surcharge comparable to the policy rate.

28. Information sharing with NADRA [Section 216]

For the purposes of broadening of tax base, clause (kc) has been added to sub-section (3) of section 216 to enable FBR to share data with National Database and Registration Authority (NADRA).

29. Tax Fraud Investigation Wing Inland Revenue

Through insertion of section 230K, the Tax Fraud Investigation Wing Inland Revenue has been established to detect, analyse, investigate, combat, and prevent tax evasion and fraud.

a.
30. Advance Tax on sale or transfer of immovable Property

Exemption on advance tax under section 236C has been extended to a war wounded person while in service of Pakistan Armed Forces or Federal or Provincial Government or an ex-serviceman and serving personnel of armed forces or ex-employees or serving personnel of Federal or Provincial Government, on first sale of immovable property allotted or acquired from the Government.

The rates of tax collection under section 236C have been made progressive and specified in the Division X of Part IV of First Schedule as under:

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

31. Advance Tax on Purchase or Transfer of Immovable Property

The rates of tax collection under section 236K have been made progressive and specified in the Division XVIII of Part IV of the First Schedule as under:

S. No.	Fair Market Value of Immovable Property	Tax Rate
(1)	(2)	(3)
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%

32. Advance Tax on Sales to Distributors, Dealers and Wholesalers and Advance Tax on Sales to Retailers

Application of sections 236G and 236H has been extended to all sectors of economy at the rates specified in the Division XIV of Part IV of the First Schedule, and Division XV of Part IV of the First Schedule at the rate of 0.1 percent and 0.5 percent respectively for filers. For non-filers rates of 2 percent and 2.5 percent have been prescribed under sections 236G and 236 H respectively.

33. Tax rate on dividend received from mutual funds deriving 50% or more income from profit on debt

The tax rate on dividend received from a mutual fund is 15%. Through the Finance Act, 2024, in the First Schedule, a proviso has been added in clause (b) of Division III of Part I and in clause (b) of Division I of Part I whereby the rate of tax on dividend received from a mutual fund and the rate of tax to be deducted on dividend received from a mutual fund which derives 50% or more of its income from profit on debt has been enhanced to 25%.

34. Tax rate on toll manufacturing

As per section 153 read with sub-clause (b) of clause (1) of Division III of Part III of the First Schedule, every prescribed person making a payment for the sale of goods including toll manufacturing was required to deduct tax at the rate of 5% of the gross amount payable in the case of a company and at the rate of 5.5% in other cases. The rate of toll manufacturing has now been enhanced to 9% of the gross amount payable in the case of a company and 11% in other cases.

35. Insertion of Exemption in Second Schedule [Clause (99B)]

The income of a Special Purpose Vehicle (SPV) from purchasing Diversified Payment Rights through Authorized Dealers in Pakistan has been exempted from tax under clause (99B) of Part I of the Second Schedule. This exemption applies under the definitions provided in the State Bank of Pakistan's Circular(s) or Regulations in respect of Diversified Payment Rights.

36. Extension of Exemption available to the erstwhile Tribal Areas

A. The exemption, available under clause (145A) of Part I of the Second Schedule to the Ordinance to any income of any individual domiciled or company and association of persons resident in the erstwhile Tribal Areas forming part of the provinces of the Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution, has been extended up to the 30th June, 2025.

37. Rationalising Tax Rate for Cigarettes given in Clause (24A) of Part II of Second Schedule

The rate of tax under clause (a) of sub-section (1) of section 153, from distributors of cigarette has been increased to 2.5 percent of the gross amount of payments. Before the Finance Act, 2024, this rate of tax was 1 percent.

38. Tax rates for capital gains on securities

Prior to the Finance Act, 2024, capital gain on disposal of securities was taxed at different rates on the basis of holding period. For the securities acquired on or after the first day of July, 2022 the rate of capital gains on disposal was 15% where the holding period does not exceed one year and the rate was progressively lower on the basis of holding period and the same was to be zero where the holding period was beyond six years. For the securities acquired on or after the first day of July, 2013 but on or before the thirtieth day of June, 2022, the rate was 12.5%. The rate was zero where securities were acquired before the first day of July, 2013.

Finance Act, 2024 has not brought any change in tax rates on capital gains on disposal of securities which were acquired prior to the first day of July, 2024. The rate on disposal of securities remains 12.5% for securities acquired between 01.07.2013 to 30.06.2022 (both dates inclusive). The rate on disposal is zero where security was acquired prior to 01.07.2013. For securities acquired from 01.07.2022 to 30.06.2024, the rate of capital gains on disposal remains the same on the basis of holding period i.e., 15% where holding period is less than one year, 12.5% where holding period exceeds one year but does not exceed two years, 10% where holding period exceeds two years but does not exceed three years, 7.5% where holding period exceeds three years but does not exceed four years, 5% where holding period exceeds four years but does not exceed five years, 2.5% where holding period exceeds five years but does not exceed six years and 0% where the holding period exceeds six years.

a. Finance Act, 2024 has amended the rate of tax to be paid under section 37A on disposal of securities acquired on or after the 1st July, 2024. The rate of

tax on capital gain on disposal of such securities is 15% irrespective of the holding period for persons who were present on the ATL on the date of acquisition as well as on the date of disposal of securities. For individuals and AOPs who were not on the ATL on the date of acquisition and on the date of disposal of securities, the rate shall be as provided in Division I, Part I of the First Schedule provided that such rate shall not be less than 15% in any case. For companies not on ATL on the date of acquisition and date of disposal, the rate shall be as provided in Division II of Part I of the First Schedule which is 29%.

The rate of deduction of capital gains by a mutual fund or a collective investment scheme or a REIT scheme on redemption of securities for individuals and AOPs for stock funds and other funds was 10% and the same has been increased to 15%. Similarly, the 10% rate for stock fund for a company has also been increased to 15%. In the case of a stock fund where dividend receipts of the fund were less than capital gains, the rate of tax deduction was 12.5% which has now been increased to 15%.

39. Tax rates on capital gains from immovable property

As per sub-section (1A) of section 37, gain arising on disposal of immovable property situated in Pakistan, to a person in a tax year shall be chargeable to tax under the head capital gains at the rates specified in Division VIII of Part I of the First Schedule. Prior to the Finance Act, 2024, the gain was taxed on the basis of holding period with maximum rate of 15% where holding period was less than a year for open plots, constructed properties and flats. The rate decreased as the holding period increased so that the rate was 0% for plots where holding period was more than six years, 0% for constructed properties where holding period was more than four years and 0% for flats where holding period was more than two years.

Through the Finance Act, 2024, the concept of holding period has been done away with for properties acquired on or after the 1st day of July, 2024. The gain arising on disposal of properties which are acquired on or after the 1st day of

July, 2024 will be taxed at the rate of 15% for persons appearing on the ATL on the date of disposal of property and at the rate specified in Division I of Part I of the First Schedule for individuals and AOPs not appearing on the ATL on the date of disposal of property and at the rate specified in Division II of Part I of the First Schedule for companies not appearing on the ATL on the date of disposal of property. However, for individuals and AOPs the rate shall not be less than 15% in any case.

For the properties acquired on or before the 30th day of June, 2024, the law as it existed prior to the Finance Act, 2024 will continue to apply i.e., gain on disposal of such properties will be taxed on the basis of holding period at the same rates as existed prior to commencement of the Finance Act, 2024.

40. Amendments in the Seventh Schedule

Q. Prior to the Finance Act, 2024 rule 1(d) of the Seventh Schedule stated that the amount of “bad debts” classified as “substandard” or “doubtful” under the Prudential Regulations issued by the State Bank of Pakistan shall not be allowed as expense. This meant that only the amount of bad debt classified as “loss” under the prudential regulations was allowed subject to restrictions imposed under rule 1(c). Through the Finance Act, 2024, sub-rule (d) of rule 1 has been substituted and it states that the amount of bad debts classified as “substandard” 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 shall not be allowed as expense. 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.

A new sub-rule (da) has been inserted in rule 1 which states that 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 shall not be allowed as an expense or deduction.

Prior to the Finance Act, 2024, sub-rule (g) of rule 1 stated that adjustments made in the annual accounts, on account of application of international accounting standards 39 and 40 shall be excluded in arriving at taxable income. Sub-rule (g) has been amended to mean that adjustments made in the annual accounts, on account of any applicable accounting standard or policy or any guidelines or instructions of State Bank of Pakistan shall be excluded in arriving at taxable income.

a. As per rule (7CA), the provisions of section 4C shall apply to the taxpayers under this schedule and shall be taxed at the rates specified in Division IIB of Part I of the First Schedule from tax year 2023 onwards. Through the Finance Act, 2024, an explanation has been inserted which clarifies that the expression "tax year 2023 onwards" means that the provisions of section 4C are applicable for the tax year 2023 and for all the subsequent tax years.

41. Amendment in the Tenth Schedule to the Ordinance

41.1 Rates of tax under section 236K given in rule 1 of the Tenth schedule have been amended vide Finance Act, 2024 as tabulated below:

S. No.	Fair Market Value of Immovable Property	Tax Rate
(1)	(2)	(3)
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%

41.2 Rates of tax for different sections for the non-filers are given as under:

S. No.	Section	Description	Tax Rate
(1)	(2)	(3)	(4)
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%

41.3 Rule 1A of the Tenth Schedule has been inserted for the enhanced rates of tax for such filers who have filed return for the current tax year after the due date. However, this enhanced rate of tax is not applicable for a person who has filed return within the due date specified in section 118 or by the due date as extended under sections 119 or 214A for all of the last tax years preceding the tax year for which the return has not been filed within the due date specified in section 118 or within the due date extended by sections 119 or 214A.

41.4 Withholding tax rates under rule 1A for sections 236C and 236K are given as under:

a.

Table for section 236C

S. No.	Gross Amount of Consideration Received	Tax Rate
(1)	(2)	(3)
1.	Where the gross amount of 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 of consideration received exceeds Rs. 100 million	8%

Table for 236K

S. No.	Fair Market Value of Immovable Property	Tax Rate
(1)	(2)	(3)

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%

41.5 New sub-rule (y) in rule 10 of the Tenth Schedule to provide that the provisions of increased tax rates for non-filers will not apply to the tax collected under section 37A of the Ordinance.

42. Amendments in the Section 8 of the Finance Act, 2022

Finance Act, 2024 has enhanced the scope of capital value tax (CVT), imposed under section 8 of the Finance Act, 2022, to levy CVT on farmhouses and residential houses located within the territorial limits of Islamabad Capital Territory. New proviso to sub-section (1) of section 8 has been inserted to provide that CVT on farmhouses and residential houses located within the territorial limits of the Islamabad Capital Territory shall be levied, charged, collected, and paid on the basis of the area of the farmhouse and residential house irrespective of their value.


Two clauses (ab) and (ac) have been inserted in sub-section (2) of section 8 whereby scope of CVT has been increased to include farmhouses and residential houses within the territorial limits of Islamabad Capital Territory as assets, whereon CVT has been levied.

Sub-section (4) of section 8 provides for the manner in which the CVT shall be collected or paid. Amendments have been made in clause (g) of sub-section (4) to provide that the persons holding the farmhouses and residential houses within the Territorial Limits of Islamabad Capital Territory shall pay CVT at the time the income tax return for the tax year is due.

Amendments have been made in the First Schedule to section 8 of the Finance Act, 2022 to provide for the rate of CVT on farmhouses and residential houses, which are as under:

Table

S. No.	Assets Description	Rate
(1)	(2)	(3)
1.	Assets mentioned in clause (ab) of sub-section (1)	500,000 rupees, for the farmhouse with an area between 2,000 square yards and 4,000 square yards and 1,000,000 rupees if the area exceeds 4,000 square yards
2.	Assets mentioned in clause (ac) of sub-section (1)	1,000,000 rupees, for the residential house with an area between 1,000 square yards to 2,000 square yards, and 1,500,000 rupees if the area exceeds 2,000 square yards


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