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**FINANCE ACT 2024  
COMMENTARY ON  
INCOME TAX**

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# SURCHARGE:



- For every individual (including salaried individuals) and Association of Persons (AOP), whose taxable income for the year exceeds Rs 10 million, a surcharge shall be payable at the rate of 10% of the income tax on their taxable income. For example, if a person's taxable income is Rs 12 million, normal income tax thereon is worked out at Rs 2,765,000. Accordingly, he will also be liable to pay a Surcharge at the rate of 10% thereon (i.e., Rs 276,500).

# SURCHARGE FOR EMPLOYER...



- Corresponding amendment has also been made in withholding tax provisions to require employers to withhold the above amount of surcharge from payments of salaries to the respective employees. For example an employee who is getting monthly salary above Rs. 833,333 then employer will withheld this surcharge.
- This surcharge shall not be applicable on incomes falling within the purview of FTR or for which special tax rates are prescribed, such as capital gains on listed securities, immovable properties, etc.

# FOR SALARIED INDIVIDUAL:

Annual taxable income (Rupees)	Tax Year 2024			Tax Year 2025		Increase in tax	
	Income Tax	Effective Tax Rate	Income Tax	Surcharge U/S 4AB	Effective Tax Rate	(Rupees)	Effective Tax Rate
<b>600,000</b>	-	-	-	-	-	-	-
<b>1,200,000</b>	15,000	1.25%	30,000	-	2.50%	15,000	<b>1.25%</b>
<b>2,200,000</b>	140,000	6.36%	180,000	-	8.18%	40,000	<b>1.82%</b>
<b>2,400,000</b>	165,000	6.88%	230,000	-	9.58%	65,000	<b>2.71%</b>
<b>3,200,000</b>	345,000	10.78%	430,000	-	13.44%	85,000	<b>2.66%</b>
<b>3,600,000</b>	435,000	12.08%	550,000	-	15.28%	115,000	<b>3.19%</b>
<b>4,100,000</b>	572,500	13.96%	700,000	-	17.07%	127,500	<b>3.11%</b>
<b>6,000,000</b>	1,095,000	18.25%	1,365,000	-	22.75%	270,000	<b>4.50%</b>
<b>8,000,000</b>	1,795,000	22.44%	2,065,000	-	25.81%	270,000	<b>3.38%</b>
<b>10,000,000</b>	2,495,000	24.95%	2,765,000	-	27.65%	270,000	<b>2.70%</b>
<b>12,000,000</b>	3,195,000	26.63%	3,465,000	356,500	31.76%	616,500	<b>5.14%</b>
<b>15,000,000</b>	<b>4,245,000</b>	<b>28.30%</b>	<b>4,515,000</b>	<b>451,500</b>	<b>33.11%</b>	<b>721,500</b>	<b>4.81%</b>

# NON-SALARIED INDIVIDUAL AND AOP....



There are no changes in the tax rates that were proposed through Finance Bill 2024 except that in case of professional firms which are prohibited from incorporation under any law or rules promulgated by the relevant regulatory body, Finance Act 2024 has reduced the maximum rate of 45% to 40%.



# TAX ON EXPORTS.....

- The FB proposed to convert the FTR of exporters of goods, Export Processing Zone (EPZ) entities, indirect exporters, etc. into minimum tax regime besides prescribing collection of an additional advance tax at the rate of 1% for direct exporters of goods.
- A new provision has now been added in section 147 (Advance Tax) whereby specified withholding agents are now required to collect 1% advance income tax from the exporters of goods (whether direct or indirect) at the time of realisation of export proceeds, etc. Consequent to this amendment, collection of advance tax under section 154 proposed through the FB on direct exporters of goods has been withdrawn.

# REVISED TAX IMPACT:



Nature of transaction	Withholding Agent	Prior to FA	Subsequent to FA	
		Final tax	Minimum tax	Advance tax (under section 147)
Export of goods	Banks	1%	1%	1%
Indirect exporter under inland back-to-back L/C arrangements	Banks	1%	1%	1%
Exports by EPZ entities	EPZA	1%	1%	1%
Sale of goods by an indirect exporter to certain direct exporters and export houses, etc.	Exporters / Export house	1%	1%	1%
Clearance of certain exported goods	Collector of Customs	1%	1%	1%





# TAX ON BUILDERS & DEVELOPERS (SEC. 7F)

- A special tax regime for 'Builders' and 'Developers' is prescribed whereby applicable tax will be payable on their taxable profits from aforesaid activities to be computed as under:

Sr. No.	Nature of activities	Taxable profits as a percentage of gross receipts
<b>1</b>	Construction and sale of residential, commercial or other buildings	<b>10%</b>
<b>2</b>	Development and sale of residential commercial or other plots	<b>15%</b>
<b>3</b>	<b>Income derived from both the above activities together</b>	<b>12%</b>

- A builder or developer established by an Act of the Parliament or a Provincial Assembly or by a Presidential Order and who is engaged in activities for the benefit of its employees or otherwise (including activities for the planning and development of and for providing and regulating housing and ancillary facilities in a specified or notified area) are not covered by this regime.

# ADV. TAX ON PURCHASE OF SHARES (SEC.37(6))



- The person acquiring capital assets being the shares of the company, is required to deduct advance adjustable tax from the gross amount paid as a consideration for the share @ 10% of FMV of the shares which shall be paid to the commissioner by way of credit to federal government within 15 days of payment.
- Moreover the timing for the advance tax have also been enacted which shall be earlier of at the time of payment or at the time of registration of shares by the SECP/SBP.



## SPECIAL PROVISION FOR NON ACTIVE TAX PAYERS (SEC. 100BA)

- The scope of Non-filer persons has been extended to include Late filer of tax return. Such late filer shall also have to suffer the same consequences as non-filer and enhanced withholding tax rates have been imposed on non-filer and late filer as per detail given at the end



# SALES PROMOTION EXPENDITURES (SEC. 108 (6))

- The FB proposed an amendment whereby in case of royalty payable to an associate on account of certain specified intangibles allowed to a taxpayer could result in disallowance of 25% of sales promotion, advertisement and publicity expenditure to such taxpayer.
- The aforesaid disallowance will now only be made upon a notice issued by the Commissioner, where the taxpayer fails to furnish any explanation or evidence that no benefit has been discussed on the associate, as a result of incurring such expenditure.
- In other words, the effect of amendment proposed by the FB has effectively been narrowed down by restricting the disallowance or allocation of 25% expense in only those cases where the taxpayer fails to substantiate that as a result of such incurred expenditure, no benefit has accrued or conferred to the associate owning specified intangibles.

# TAX ON DIVIDEND (INCOME FROM STOCK FUNDS)



- The Bill had proposed to increase the dividend withholding rates if the dividend receipts of the fund are less than capital gains, from 12.5% to 20%.
- The Amended Bill has proposed to reduce the proposed tax from 20% to 15%.

# ADV. TAX ON SALE OR TRANSFER OF IMMOVEABLE PROPERTY(236C):



- Advance Tax on sale or transfer of immovable Property is collected from the seller @ 3% to 10% (depending upon ATL status of tax payer)at the time of registering, recording or attesting the transfer for local authority, housing authority, housing society, co-operative society , public and private real estate projects registered/governed under any law, joint ventures, private commercial concerns] and registrar of properties.

Following persons being sellers have been exempted from this tax:

- a) the dependent of a Shaheed belonging to Pakistan Armed Forces or
- b) a person who dies while in the service of the Pakistan Armed Forces or the service of Federal or Provincial Government or
- c) a war wounded person while in service of Pakistan Armed Forces or Federal or Provincial Government or
- d) an ex-serviceman and serving personnel of armed forces or
- e) ex-employees or serving personnel of Federal and Provincial Government

This exemption shall be in respect of **first sale of immovable property** acquired from or allotted by the FG or PG or specified authority

# ADVANCE TAX ON SALE OF IMMOVABLE PROPERTY [236C]

DESCRIPTION	PROPOSED RATE OF TAX		
	ACTIVE FILERS	NON-FILERS	ACTIVE BUT LATE FILERS**
Where gross consideration does not exceed Rs. 50 Million	3%	10%	6%
Where gross consideration exceeds Rs. 50 Million but does not exceed Rs. 100 Million	3.5%		7%
Where gross consideration does exceeds Rs. 100 Million	4%		8%
** If a taxpayer files tax return after due date but pays ATL surcharge			





## ADV. TAX ON PURCHASE OF IMMOVEABLE PROPERTY (SEC. 236K)

- The Bill had proposed to specify tax rates for advance tax u/s 236K for late filers, i.e. where names of persons are appearing on the ATL, but they have not filed their return of income by the due date specified in. The Amended Bill has proposed to carve-out persons who have filed their return of income as per the due date in Section 118, or as extended under Section 119 or 214A for all of the last three tax years preceding the tax year for which the return has not been filed by the due date specified in Section 118, or as extended under Section 119 or 214A

# ADVANCE TAX ON PURCHASE OF IMMOVABLE PROPERTY [236K]

DESCRIPTION	PROPOSED RATE OF TAX		
	ACTIVE FILERS	NON-FILERS	ACTIVE BUT LATE FILERS**
Where fair market value of property does not exceed Rs. 50 Million	3%	12%	6%
Where fair market value of property exceeds Rs. 50 Million but does not exceed Rs. 100 Million	3.5%	16%	7%
Where fair market value of property does exceeds Rs. 100 Million	4%	20%	8%
** If a taxpayer files tax return after due date but pays ATL surcharge			

# POWER TO ISSUE EXEMPTION CERTIFICATE:



- The proposal in the FB to withdraw powers of the Commissioner to issue a tax withholding exemption certificate in cases where income was exempt from tax or subject to 100% tax credit (e.g., NPOs) has been dropped.
- However, with regard to payments to resident and non-resident persons (not subject to minimum tax) such as sale of goods by manufacturers, etc., the power to issue exemption certificate has not been restored instead the reduction allowed through a lower rate certificate will now be restricted upto 80% of the normal rate.
- For example, in case of a corporate manufacturer of goods whose normal withholding tax rate on payment against sale of such goods is 5%, he would now be able to obtain a reduced rate certificate of upto 1% (i.e., maximum reduction of 4% being 80% of 5% is allowed).

# MINIMUM TAX ON SPECIAL ECONOMIC ENTITIES:

- A specific clause has been re-inserted to exempt Special Economic Zone entities from the purview of minimum tax regime based on turnover (section 113). Such entities are even otherwise exempt from tax for specified periods. In the past, there has remained a controversy as to whether minimum tax provisions are applicable to such entities. The amendment has now set the controversy at rest.



## SIGNIFICANT ECONOMIC PRESENCE FOR NON RESIDENTS:

- Business income of a non-resident is inter alia considered to be Pakistan sourced income to the extent to which it is directly or indirectly attributable to a 'Business connection' in Pakistan. The concept of 'Business Connection' has been expanded to include 'significant economic presence in Pakistan' of a non-resident.

# SIGNIFICANT ECONOMIC PRESENCE IN PAKISTAN:



Significant economic presence in Pakistan is defined as:

- (a) transaction in respect of any 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 aggregate of payments arising from such transactions during a tax year exceeds such amount as may be prescribed;
- (b) 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; or
  - ii. the non-resident has a residence place or place of business in Pakistan; or
  - iii. the non-resident renders services in Pakistan.

Non-resident persons covered by an applicable double tax treaty shall not be affected by the above amendment as the provisions of the double tax treaty override domestic tax legislation, subject to certain general anti-avoidance provisions.

# YEAR OF DISCOVERY OF CONCEALED ASSET:



- Prior to the amendments made through the FA 2018, additions on account of both local and foreign concealed assets / income / expenditure were made for the tax year to which such items pertained. After the amendments made through the FA 2018, an addition on account of concealed foreign assets or expenditure or income was to be made in the tax year immediately preceding the tax year in which such amounts were discovered by the Commissioner.
- In certain cases, there was a dispute as to which was the particular tax year in which such amounts were considered as discovered by the Commissioner or the tax year in which Commissioner has issued the notice.
- Through an amendment made by the FA, the 'year of discovery of foreign assets or concealed income or expenditure' is being defined as the year in which the Commissioner issued a notice requiring the person to explain the nature and source of such foreign assets or concealed income. For example, if the information was received in tax year 2019 and the Commissioner issues a notice in tax year 2024, the addition shall be made in the immediately preceding tax year (i.e., tax year 2023).



## ASSET OF SPOUSE FOR WEALTH STATEMENT:

- By way of an explanation added through the FA, it is clarified that for the purpose of Commissioner's power to require any person to file a wealth statement, assets of spouse shall be included in such wealth statement only if the spouse is dependent.



# TAX CREDIT AVAILABLE TO FULL TIME TEACHERS & RESEARCHERS:



- Through the FB, it was proposed to withdraw the 25% tax credit available to certain full-time teachers or researchers, employed in a non-profit education or research institution duly recognized by HEC, a Board of Education or a University recognized by the Higher Education Commission, including government research institution.
- The above proposal to withdraw such tax credit has not been made part of the FA. As a result, tax credit of 25% presently available would **continue**.

# TAX FRAUD INVESTIGATION WING (TFIW):



- Through the FA, provisions have been introduced in Income Tax, Sales Tax and Federal Excise Laws to establish TFIW to detect, analyze, investigate, combat and prevent tax fraud.

The TFIW shall comprise of:

- ❖ Fraud Intelligence and Analysis Unit
- ❖ Fraud Investigation Unit
- ❖ Legal Unit
- ❖ Accountants' Unit
- ❖ Digital Forensic and Scene of Crime Unit
- ❖ Administrative Unit
- ❖ any other Unit as may be notified by the Board by notification in the official Gazette.
- The functions, jurisdiction and powers of TFIW and its officers will be notified by FBR in official gazette.

## RATE OF DEFAULT SURCHARGE:



- Through the FB, the rate of default surcharge was proposed to be enhanced from 12% per annum to KIBOR plus 3%. Similar amendments were also proposed in Sales tax and Federal Excise laws.
- Through the FA, the rate of default surcharge has been amended to 12% per annum or KIBOR plus 3%, whichever is higher. Similar amendments have also been made in Sales tax and Federal Excise laws.



**THANK  
YOU  
VERY MUCH  
FOR  
LISTENING**