

Budget

Finance (Supplementary) Bill 2023 To Address Tax Shortcomings

- The government of Pakistan has recently made amendments to Finance Bill 2022 with the goal of raising taxes by PKR 170bn
- The government's primary goal was to increase taxes without causing significant inflationary effects on the lower segment of the economy. To this end, they implemented a sales tax rate increase from 17% to 18%, which excludes essential daily use items.

We highlight key tax measures taken by recently introduce Finance Bill 2023 (Supplementary).

Supplementary finance bill 2023 to address tax shortcomings

The government of Pakistan has recently made amendments to Finance Bill 2022 with the goal of raising taxes by PKR 170bn. This move comes amidst the ongoing 9th review of the US\$ 6.5bn Extended Fund Facility (EFF) Program with the International Monetary Fund (IMF). ([link](#)).

Government's Main Focus on Taxation of Non-Essential and Luxury Items

The government's primary goal was to increase taxes without causing significant inflationary effects on the lower segment of the economy. To this end, they implemented a sales tax rate increase from 17% to 18%, which excludes essential daily use items like wheat, milk, pulses, rice, and meat. As a result, the overall impact on inflation is expected to be less significant than initially anticipated.

Sector wise, increase in sales tax on local coal and Federal Excise Duty (FED) on cement sector will be passed on to end consumer, resulting in a cumulative increase of PKR 30-35/bag. For other sectors, increase in FED on tobacco, and sugary drinks will also be passed on to end-consumers.

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Below is a list of key tax measures undertaken are;

Exhibit: Tax measures under Finance (supplementary) Bill 2023

Sales Tax

- Sales tax charged at the rate of 17% will now be charged at 18% excluding daily use items such wheat, milk, pulses, rice and meat etc.
- Cellular mobile phones in CKD/CBU: Mobile Phones exceeding US\$ 200 to US\$ 500 will be charged at 18% as against 17% previously. For mobile phone exceeding US\$ 500 will be charged 25% sales tax from previous 17%. For mobile phones under US\$ 200 tax rate remain unchanged.
- Locally produced coal: Sales tax charged at the rate of 17% will now be charged at 18%
- Potassium Chlorate: Sales tax charged at the rate of 17% will now be charged at 18%

Income Tax

- Functions and Gathering: 10% Advance tax now applicable on total amount of bill (including food, service or facility) from a person arranging or holding a function (includes wedding, seminar, workshop, session, exhibition, concert, show) in a marriage hall, marque, hotel, restaurants, commercial lawn, club a community place or any other place used for such purposes.

Federal Excise Duty

- Cement: Federal Excise Duty on increased from PKR 1.5/kg (PKR 75/bag) to PKR 2.0/kg (PKR 100/bag)
- International Air Travels (Club, Business and First Class): Federal Excise Duty 20% of the gross amount of ticket or PKR 50,000 per ticket, whichever is higher
- Sugary Drinks (Fruit juices, Syrups and Squashes, aerated waters): Federal Excise Duty increased by 10%
- Aerated waters, containing added sugar or other sweetening matter or flavored: Federal Excise Duty increased from 13% to now 20%
- Tobacco: Locally produced cigarettes threshold has been increased from PKR 6,660 to PKR 9,000 per 1,000 cigarettes. Along with this, Federal Excise Duty for cigarettes where retail price printed on the pack exceeds PKR 9,000/thrs (or PKR 180/pack) cigarettes the new rate will be PKR 16,500/thrs (or PKR 330/pack). For retailed price below PKR 9,000/thrs (or PKR 180/pack) the new rate will be PKR 5,500/thrs (or PKR 110/pack).

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