

FEDERAL BUDGET 2024-25

**SINGNIFICANT AMENDMENTS
@ INDIRECT TAX LAWS**

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Context

Highly polarized political environment;
'Coalition Government'

Economic distress, Debt & Fiscal deficit
structural issues, interest rates, energy sector
problems

IMF program – Constraints on policy options

The Big Picture

Too aggressive and harsh approach for enforcement of tax laws; all focus is on tightening the neck and removing concessions

@ Automation Drive - capacity, enabling environment and onboarding of stakeholders is missing. Integration of FMCGs ? Tangible results of such long drawn exercises are also awaited. Disharmony between economic survey & FM's presser.

Budget Target enhanced from 9.2 T to Rs. 12.9 T. Concessions largely removed. How long this will work with no corresponding ground work on bridging trust deficit, reducing government expenses / corruption and improving governance.

The Big Picture

Is there any alternative ? What we can learn from global experiences ?

Studies by organizations like World Bank, ADB etc. are widely available on recent successful tax reforms

Recipe for successful reforms widely agreed is political consensus, broad tax base, simplifying tax law, lower tax rates, modernization of tax administration, increase in taxpayer morale, compliance norm.

(Ref: Success Tax Reforms in Recent International Experience: Lessons in Political Economy and the Nuts and Bolts of Increasing Country Tax Revenue Effort by Jorge Martineze- Vazquez)

Amendments @ Indirect Tax Laws

Tax Fraud, Investigative Audit & Best Judgment Assessment

Sales suppression, false claim of input / refund claims, non-deposition of due tax, tempering of records, dealing in confiscated goods, etc. is tax fraud

Onus to prove innocence is upon the taxpayer; conflicting with Qanoon-e-Shahadat Ordinance 1984.

Unbridled powers to tax officer in investigative audits resulting in passing an order, issuing best judgment assessment, blacklisting, imposing penalties and initiating prosecution

Amendments @ Indirect Tax Laws

Tax Fraud & Investigative Audit & Best Judgment Assessment

'Reasons to believe' replaced with *'Balance of Probabilities'*

Non-production of records under Section 25 or 38A or failure to provide tax invoice or other related evidences against claim of input tax may be dealt under Section 11D.

Both amendments self-contradicting and conflicting with Sections 7, 22 and 73 of the Act

Instead of Tax Officer, Investigative Audit should be undertaken by Special Auditors under Section 32B

Tax Audits

Currently, the Commissioner calls for records; then decides whether audit necessary

Now audit possible even without calling records

Scope is detailed audit, including gathering information from third parties and conducting investigative audits if there's suspicion of tax fraud.

Previously audit could have been conducted only once in a financial year. Such barrier removed; the taxpayer may face multiple years audit being conducted simultaneously.

Amendments @ Indirect Tax Laws

Revenue & Enforcement Measures

Sales Tax on Advances; decades old confusion still persists. It is considered as a revenue tool backed by no substantial inflows except hassles

Enhanced Valuation of 3rd Schedule Goods. Distortion accelerated. Historically consumers were eased out. Retail Price, Trade Price & FBR Price. Practical Issues in Offing

In case of (*suspected*) tax fraud, tax officer may demand tax returns for the last 15 years; 5 years time frame fixed under Section 11G for SCN.

Imposition of Sales Tax on Health Sector

Tax on Medicaments enhanced from 1% to 18%

Import of goods by hospitals run by the non-profit institutions

Goods supplied to hospitals run by the charitable hospitals

Disposables and other equipment used in cardiology and other surgeries, diagnostic kits

These last 3 exemptions were in the statute since a decade. Cost of healthcare to increase manifold.

Significant Tax Measures

Tax imposed on local supplies of commodities, raw materials and other input goods to registered exporters authorized under EFS

Tax on supplies made from Integrated retail outlets enhanced from 15% to 18%. Original rate was 12%; it was enhanced to 14% and 15% in recent year.

Locally Manufactured Hybrid Electric Vehicles enhanced from 8.5% and 12.75% to 18% or 25%.

Significant Tax Measures

Sugar supplied by any person to a manufacture to attract FED @ Rs. 15 per kg. CD exemption also removed on White Crystalline beet sugar and White Crystalline cane sugar. Sugar is already under Reduced Value Tax.

Mobile Phones to be taxed @ 18% & 25%

POL products exempted; input tax debarred for Oil Companies. Looks an accounting gimmick between Tax & Non Tax Revenue.

Amendments @ Indirect Tax Laws

Significant Tax Measures

WHT enhanced / imposed on few products, whether procured from registered or unregistered supplier

E-invoicing made mandatory across the board. Previously it was optional for transactions between registered persons.

Monetary limit of Rs. 50,000 for any single transaction, for which banking settlement is not mandatory, shall now be in aggregate, i.e., inclusive of sales tax. Confusion exists whether it means from same supplier or for same tax period.

Amendments @ Indirect Tax Laws

Allotment / Transfer of Commercial Property and 1st allotment / transfer of residential property

5% FED imposed on allotment or transfer of immovable property

Federal Government had tactfully added a provision in Section 3(1)(e) through Finance Act, 2023 to make any other class, which is neither goods or services, subject to FED. Now such clause (e) brought into play to impose such levy.

Preamble of both FED Act 2005 as well as Entry No. 44 and 50 of the Constitution of Pakistan is likely to be debated and undergo test of judicial review before we may conclude whether the proposed measure will sustain or not.



Thank You