

Pakistan

Government Passes Finance Act 2023, Defines Virtual Business Presence as Permanent Establishment and Increases Individual Tax Rates

28 June 2023

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On 26 June 2023, the government gazetted the Finance Act 2023 with amendments to some measures proposed in the Budget announcement on 9 June 2023 (see [Budget 2023/24: Pakistan Budget Focuses on Growth Sectors \(13 June 2023\)](#)). The legislative changes generally apply from 1 July 2023, unless stated otherwise.

The major changes apart from those presented in the Budget are highlighted below:

- a virtual business presence in Pakistan has been included in the definition of permanent establishment (virtual business presence is defined as "including any business where transactions are conducted through internet or any other electronic medium, with or without having any physical presence");
- the additional tax on windfall income, profit or gains has been restricted to companies (instead of all persons), and is levied for the 3 tax years (instead of 5 tax years) preceding the tax year 2023 and onwards;
- adjustable advance tax is payable on income from a business of construction and disposal of residential, commercial or other buildings, or of development and sale of residential, commercial or other plots for itself or otherwise, on a project-by-project basis, at tax rates that vary depending on the size and location of the property;
- the rate of advance tax on sale/purchase of immovable property is increased from 2% to 3%;
- the transfer of any immoveable property will not be registered, recorded or attested, unless the seller or transferor has discharged their section 7E liability of tax on "deemed income" on capital assets and provided evidence to this effect;
- a disposal of shares through an initial public offering during the listing process will not be eligible for separate taxation under section 37A of the Income Tax Ordinance, except where details of the disposal are provided to the NCCPL for computation of capital gains and tax thereon under section 37A;
- the tax rate on capital gains on securities acquired before 1 July 2013 is reduced to zero;
- the tax rates for non-salaried individuals and associations of persons are increased by 2.5 percentage points for each income slab exceeding PKR 600,000 up to a top rate of 35% for income exceeding PKR 4 million, while for salaried individuals, the tax rates are increased by 2.5 percentage points for each income slab exceeding PKR 2.4 million up to a top rate of 35% for income exceeding PKR 6 million; and
- the rate of further sales tax (which is charged on the value of taxable supplies made by a registered person to a person who is not registered for sales tax or not an active taxpayer) is increased from 3% to 4%.

The following measures presented in the Budget were not passed:

- the proposal to extend the concessionary tax regime for small and medium-sized enterprises to include the provision of IT or IT-enabled services, and to increase the qualifying annual revenue threshold under the regime from PKR 250 million to PKR 800 million was not passed;
- the proposed new tax credit for individuals for the construction of a new residential house was not passed;
- the exemption from 2% advance tax on purchases of immovable property by overseas Pakistanis was not passed; and
- the sales tax exemption for contraceptives, plant saplings, combine harvesters, dryers for agricultural products, no-till-direct seeders, planters, trans-planters, other planters and bovine semen has been withdrawn.

