

Pakistan Federal Budget

Finance Act 2024: Budget FY25 approved by the Parliament

- Finance Bill was approved in the parliament with some amendments on Friday, 28th June 2024, with the bill signed by the president the finance act 2024 is now officially approved and is applicable from Monday, 1st July 2024.
- The PSDP target has been revised downward from the initial proposed target in the finance bill 2024. The sales tax on Hybrid Electric Vehicles is not approved as per the initially proposed rates. Mutual Fund tax for stock funds has been revised.
- FED on cement in an unexpected move was revised upward from previous proposed of PKR 3/kg to PKR 4/kg. Exporters will be subject to normal tax instead of the final tax they used to pay. Petroleum Development Levy was revised downward from the previously proposed PKR 80/ltr to PKR 70/ltr. A 10% surcharge over and above the previously proposed tax rate would be imposed on the individuals/AOPs earning more than PKR 10mn per annum. Sales tax exemption for FATA/PATA region has been extended by 1 year.

Federal Budget 2024-25

The parliament has approved the FY25 budget, incorporating several amendments to the measures proposed in the Budget 2025 on June 12, 2024. Below are the measures as per the approved Finance Act:

1. **Exporters will now be subject to the standard corporate tax rate rather than the previous 1% turnover tax:** The government has upheld its earlier decision to tax export income at the corporate tax rate of 29%, plus any applicable super tax. Previously, exporters paid a final tax of 1% on their export turnover.
2. **FED on cement raised to Rs4/kg:** Contrary to the proposal of increasing the FED by PKR 1/kg, the government in an expected move has instead proposed an additional hike, raising the FED from Rs3 per kg to Rs4 per kg. Cement manufacturers are likely to increase the price by PKR 100-120/bag to pass on the impact to consumers.
3. **Tax on hybrid vehicles:** The reduced tax rates of 8.5% for hybrids with engine capacities up to 1800cc and 12.75% for those between 1801cc and 2500cc will remain in effect. However, this benefit would end by June 30, 2026. This would be positive for local assemblers of HEV.

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4. **One-year extension to FATA/PATA on sales tax:** Although it was proposed in Finance Bill that the exemption for FATA/PATA would be withdrawn, the Government has decided to extend the sales tax benefits for FATA PATA by another year, until June 30, 2025.
5. **Additional surcharge on salaried/AoPs:** The approved Finance Act has also imposed a 10% surcharge on income of salaried/AoP individuals deriving income of more than PKR 10mn per year.
6. **No revision in Advances to Deposit Ratio (ADR) taxation for Banks:** The Government has not revised the ADR taxation and thus tax on ADR related income is likely to be applicable on Banks.
7. **Petroleum Development Levy (PDL):** It was initially proposed that PDL would be increased from PKR 60/ltr to PKR 80/ltr, but as per the approved budget the PDL has been increased by PKR 10/ltr to PKR 70/ltr.
8. **Capital Gain Tax (CGT) on stock funds:** CGT on Stock Mutual Funds has been revised to 15% from 20% if dividends are less than the capital gains.
9. **FED on air tickets:** Additional Taxes in the form of FED have been imposed on economy, club, business and first class tickets. Economy class tickets have been increased by PKR 7,500, while club, business and first class tickets have been raised by PKR 30,000, PKR 60,000 and PKR 100,000 depending on region.
10. **FED on oil lubricants:** A 5% FED would be imposed on lubricants.
11. **PSDP revised down:** Federal PSDP target has been revised down from initial PKR 1.4tn to PKR 1.15tn.
12. **GST on milk:** Milk sold by brands or corporate dairy farms would be subject to an 18% GST.
13. New Taxation measures have been introduced for the individuals/entities engaged in the construction and sale of real estate.

For details related to the initial proposals as per the Finance Bill 2024 please [refer to our detailed report](#).

The approval of budget with additional tax measures is likely to pave way for successful negotiations with IMF for new EFF program. IMF team is likely to visit by mid of Jul-24. However, IMF demands additional measures such as timely notification of electricity and gas prices.

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