ANOMALIES IN FEDERAL BUDGET 2024-25

S. No.	ANOMALY	IMPACT OF ANOMALY	PROPOSAL TO RECTIFY ANOMALY
1	The Finance Bill 2024 introduces significant amendments, shifting certain taxpayers from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR). Furthermore, it proposes that taxpayers previously under the FTR will now be required to pay the super tax as well.	The proposed shift from a 1% turnover-based Final Tax Regime (FTR) to the standard taxation at 29% of taxable profit would disastrously affect exports. Historically, the FTR has provided a transparent mechanism for taxing export proceeds, and its removal might result in exporters being subjected to the super tax, which was previously inapplicable under the FTR.	The shift from FTR to the normal tax regime should be removed from the Finance Bill 2024 to maintain the current transparent and beneficial taxation mechanism for exporters.
2	The Finance Bill 2024 proposes significant changes to the Export Facilitation Scheme (EFS) by removing the zero-rating on local supplies. Specifically, an amendment in the Fifth Schedule of the Sales Tax Act,1990 seeks to eliminate the provision allowing zero-rated local supplies of raw materials, components, parts, and machinery to registered exporters under the EFS.	Eliminating zero-rating on local supplies under the EFS will significantly adversely affect exporters. Removing zero-rating on local supplies to registered exporters will compel them to claim refunds of Sales Tax from FBR, which is a lengthy process contrary to the spirit of EFS.	Zero-rating for local supplies to registered exporters should be retained to maintain the efficiency of the EFS.
3	The Finance Bill 2024 proposes a significant modification to the definition of "fraud" in clause 37 under Section 2 of the Sales Tax Act, 1990.	The definition of fraud has been changed, enabling officials to seek records up to 15 years to prove innocence in cases of alleged fraud. Taxpayers have been maintaining records for a maximum of 6 years, making it impossible to produce records older than this period.	The new definition of fraud should be withdrawn, and officials should be restricted to seeking explanations or taking actions based on the previous definition, which limits record-keeping to 6 years.
4	Under Section 148 (6A), FBR is empowered to declare a minimum value of certain imported goods for the purpose of computation of advance tax collection at import stage.	The empowerment of the FBR to declare a minimum value of certain imported goods for advance tax computation at the import stage is likely to increase the cost of imports, strain cash flows, and potentially lead to disputes over valuation.	Power for FBR to set minimum values must be withdrawn. Instead, comprehensive cost analysis to understand the impact of the increased import taxes should be conducted. Collaborating with industry associations, ensuring compliance, and diversifying supply chains can also help mitigate risks and maintain market competitiveness.

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5	The Finance Bill 2024 proposes an increase in tax rates for non-salaried individuals and AOPs. There is no income tax if annual income is up to Rs.600,000. Beyond this threshold, tax rates for non-salaried individuals have five taxable slabs with progressive tax rates ranging from 15% to 45%. However, the tax rate for salaried individuals remains capped at 35% which introduces a horizontal inequity, as it places a disproportionate tax burden on non-salaried individuals compared to their salaried counterparts.	The maximum tax rate for non-salaried individuals and Associations of Persons (AOPs) has increased from 35% to 45%. This decision could encourage many individuals and AOPs to exit the tax net. The current threshold of Rs. 600,000 affects non-salaried individuals such as small shopkeepers, traders, and SMEs, forcing them to become non-filers.	The threshold of taxable income should be raised from Rs. 600,000 to Rs. 1.0 million in view of high inflation and increased cost of living. The maximum tax rate for non-salaried individuals should be reduced to maintain horizontal equity.
6	The Finance Bill 2024 introduces the concept of "Investigative Audits" through an amendment in Section 25 of the Sales Tax Act, 1990. This new provision empowers tax authorities to conduct detailed investigations and audits of taxpayers' records to ensure compliance and detect tax evasion.	A newly added concept of 'Investigative Audit' under Section 25 of the Sales Tax Act, 1990, allows FBR to conduct investigative audits if it suspects a taxpayer of tax fraud, even with the assistant commissioner's approval. This can subject taxpayers to fraud charges for unintentional errors.	Investigative audits should be limited to instances of proven fraud, with stricter oversight and safeguards against misuse.
7	The Finance Bill 2024 includes an increase in the Federal Excise Duty (FED) on cement, as specified in the First Schedule (under Section 3). The duty has been raised from PKR 1.50 per kilogram to PKR 2.00 per kilogram. The increased FED is expected to result in higher cement prices, potentially impacting the cost of construction projects across the country.	The increase in FED from Rs. 2 per kg to Rs. 3 per kg on cement will negatively impact the construction industry, leading to higher costs and affecting growth.	The increase in FED on cement should be reconsidered to support the construction industry and maintain affordable construction costs.
8	The Finance Bill 2024 proposes a significant increase in the Petroleum Development Levy (PDL) as per Section 3(1). The maximum PDL on high-speed diesel oil and petrol has been increased from Rs 60 to Rs 80 per liter. This increase aims to generate additional revenue to address fiscal challenges and meet IMF requirements however it will trigger the inflation.	A 33% hike in the PDL from Rs. 60 to Rs. 80, along with other levy increases, will intensify inflationary pressures, reduce savings, deter investment, and dampen economic activity.	PDL should be stabilized or reduced to control inflation and support economic activity and investment.

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9	The Finance Bill 2024 proposes changes in the General Sales Tax (GST) structure on essential food items as outlined in Section 4 of the Sales Tax Act, 1990. The increased GST is expected to impact both businesses and consumers.	Imposing an 18% GST on milk and fat-filled milk, currently zero-rated, will fuel inflation as these are basic consumable items.	The zero-rating on essential food items like milk should be maintained to prevent further inflationary pressure on consumers.
10	The Finance Bill 2024 proposes a flat 15% Capital Gains Tax (CGT) on securities for filers and a progressive rate up to 45% for non-filers. Additionally, the CGT on mutual funds and collective investment schemes will increase from 10% to 15%.	The capital gains tax on securities will be 15% for filers and up to 45% for non-filers, irrespective of the holding period. This will harm the capital market and foreign portfolio investment.	The holding periods for capital gains tax should be reintroduced to encourage investment in the capital market.
11	The Finance Bill 2024 proposes an increase in import duties on paper products through amendment in Customs Act, 1969. This adjustment aims to protect and support the local paper industry by making imported paper products more expensive and less competitive compared to domestically produced alternatives.	Increasing import duties on paper products will burden the local printing industry, leading to higher consumer costs and reliance on imported materials.	Import duties on paper products should be reduced to support the local printing industry and keep consumer costs manageable.
12	The Finance Bill 2024 proposes shifting local mobile phone assembling from reduced rates to the standard General Sales Tax (GST) rate of 18% through amendment in Ninth Schedule (Section 3) of the Sales Tax Act, 1990. This change aims to standardize taxation on mobile phone assembly, aligning it with other sectors and potentially increasing government revenue.	Removing the fixed sales tax on locally assembled mobile phones and applying an 18% standard tax will negatively impact the local mobile phone industry.	Reduced tax rates for locally assembled mobile phones should be maintained to support industry growth and competitiveness.
13	The Finance Bill 2024 proposes the removal of surgical and medical equipment from the Sixth Schedule (under Section 13) of the Sales Tax Act, 1990. This means that these items, previously exempt from sales tax, will now be subject to the standard General Sales Tax (GST) rate of 18%.	Surgical instruments and tools for critical surgeries have been moved from the 6th to the 8th Schedule, subjecting them to standard rates of Customs Duty, Sales Tax, and WHT, increasing the cost of medical treatment.	Surgical and medical equipment should be retained in the 6th Schedule to keep medical treatment affordable.

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14	The Finance Bill 2024 proposes the removal of medical supplies to charitable hospitals from the Sixth Schedule (under Section 13) of the Sales Tax Act, 1990. This means that these supplies, previously exempt from sales tax, will now be subject to the standard sales tax rate of 18%.	Goods used in medical treatment supplied to charitable hospitals have been removed from the 6th Schedule and added to the 8th Schedule, making essential medical supplies costly.	Medical supplies to charitable hospitals should be retained in the 6th Schedule to support their noble cause and provide affordable treatment.
15	The Finance Bill 2024 introduces a concession on the sales tax for imported waste and scrap of plastics under 11th Schedule of the Sales Tax Act, 1990. The sales tax rate on these materials has been reduced from 18% to 14%.	Including Waste and Scrap of Plastics in the 11th Schedule, while provincial governments restrict plastic production to protect the environment, allows a massive plastic waste influx.	The Finance Bill should align with provincial environmental policies and restrict concessions on plastic waste imports.
16	The Finance Bill 2024 increases the General Sales Tax (GST) rate for Tier-I textile and leather retailers from the previous rate to 15%. This change aims to enhance tax collection and ensure better compliance among major retailers. The updated rate requires these businesses to adjust their financial strategies and tax reporting mechanisms to comply with the new regulations and avoid penalties.	Raising GST from 15% to 18% for Tier-I retailers in the textile and leather sectors could exacerbate industry struggles, increase inflation, and reduce competitiveness.	The current GST rate should be maintained to support the textile and leather sectors and ensure their competitiveness.
17	The Finance Bill 2024 proposes the removal of the exemption on vegetable imports from the Sixth Schedule (under Section 13) of the Sales Tax Act, 1990.	Removing vegetable imports from Afghanistan from the 6th Schedule could increase prices by 20-30%, affecting sensitive consumer items.	The removal of vegetable imports from the 6th Schedule should be reversed to stabilize prices.
18	The Finance Bill 2024 proposes an increase in the withholding tax rate for retailers and wholesalers under Section 236H of the Income Tax Ordinance, 2001. The new rate will be 2.5% on the amount of sales made by retailers and wholesalers, up from the previous rate of 0.5%.	Increasing the advance withholding tax rate from 1% to 2.5% will raise compliance costs for small businesses, potentially increasing prices and reducing competitiveness.	The current withholding tax rate should be maintained to support small retailers and wholesalers.
19	The Finance Bill 2024 introduces withholding sales tax on key raw materials under sub-section (7) of Section 3 of the Sales Tax Act, 1990. This means that businesses purchasing these raw materials will be required to withhold a portion of the sales tax at the time of purchase and remit it directly to the tax authorities.	Imposing withholding sales tax on scrap of copper, coal, and plastic will adversely impact the industry.	Key raw materials should be exempted from withholding sales tax to support industrial growth.

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20	The Finance Bill 2024 proposes the withdrawal of zero-rating and various concessions under Section 4 and Section 13 of the Sales Tax Act, 1990. This means that previously zero-rated or concessionally taxed goods and services will now be subject to the standard sales tax rate.	The withdrawal of zero-rating, exemptions, and concessions on various items and industries will adversely impact the economy and businesses without proper stakeholder consultation.	Zero-rating, exemptions, and concessions should be retained until thorough consultations with industry stakeholders are conducted.
21	The Finance Bill 2024 proposes the imposition of a non-refundable excise tax on sugar by amending Section 3 of the First Schedule of the Federal Excise Act, 2005.	The imposition of a Rs. 15/kg non-refundable excise tax on sugar, applicable only if sold to manufacturers, puts compliant manufacturers at a disadvantage while benefiting non-compliant entities.	The excise tax on sugar should either be made refundable or applied uniformly across all buyers to ensure fairness and compliance.
22	The Finance Bill 2024 addresses concerns about the disproportionate impact on lower-income salaried individuals under Section 4 (First Schedule). This vertical inequity arises because lower-income individuals are more significantly affected by tax increases compared to higher-income earners, potentially exacerbating income inequality.	The tax structure disproportionately impacts lower-income salaried individuals, with no change in the Rs. 600,000 exemption threshold despite inflation, eroding real income levels.	The tax exemption threshold should be adjusted to reflect current economic conditions and protect lower-income individuals from disproportionate tax burdens.
23	The Finance Bill's selective approach to tax exemptions for FATA and PATA falls short of creating a truly equitable tax system.	By maintaining exemptions for items like tea and other sectors, the bill perpetuates an uneven playing field, favoring certain regions and sectors over others. This partial withdrawal undermines efforts to integrate these areas into the national tax framework fully and hampers revenue generation crucial for national development.	To ensure fairness and economic stability, it is imperative to support the total withdrawal of all exemptions, thereby fostering a uniform tax system that promotes equal opportunities and contributions from all regions.
24	Removal of exemptions previously granted under SRO 760(1)/2013, which exempted the sector from duties and taxes. The Federal Board of Revenue (FBR) removed these exemptions abruptly in February 2024. This exemption removal has led to the imposition of an 18% sales tax on the import of gold, which was previously exempted, putting the gold export sector at a standstill for the last five months.	The withdrawal of the SRO 760 exemption has caused significant disruption in the gold export sector, leading to halted economic activities and financial strain on businesses within the sector. The imposition of the 18% sales tax on temporarily imported gold has resulted in unfair and unjust financial burdens, particularly affecting small and medium enterprises (SMEs) in the industry.	Reinstate PCT 99.29 under Clause 167 of the Sixth Schedule of the Sales Tax Act for temporary imports of gold for subsequent exports. Amend the sales tax entry from 17% to 0% in the WeBOC system, ensuring the continuation of exemptions in line with previous practices. This amendment should be included in the Finance Bill 2024-25 to correct this oversight.

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