

Finance Bill 2022

National Assembly approves the amendments

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With the National Assembly approving the amendments in the Finance Bill for 2022, we list down some of the key changes starting with the corporate and super tax regime.

1. Under Division IIB of Part I of the First Schedule, industries generating income of over PKR 300mn will pay super tax at 10% for tax year 2022 including Airlines, Automobile, Beverages, Cement, Chemical, Cigarette, Fertilizer, Iron and Steel, LNG terminals, Oil marketing, Oil refining, Oil and gas exploration and production, Pharmaceutical, Sugar and Textile. Therefore, total tax levy will be 39% (29% corporate tax rate + 10% super tax).
2. Meanwhile for Banks, the levy of 10% will be applicable for tax year 2023 (CY22) which signals erosion of CY22 earnings. Additionally, corporate tax rate on banks has been reduced from 42% to 39%, which appears positive compared to earlier proposal. Hence, total tax will be 49% (39% corporate tax + 10% super tax) for CY22.
3. Apart from the specified sectors above and banks, all other corporates will bear the brunt of a 4% additional levy if their profitability exceeds PKR 300mn, 3% if earnings exceed PKR 250mn up to PKR 300mn, 2% if income exceeds PKR 200mn up to PKR 250mn, and 1% if bottom-line exceeds PKR 150mn up to PKR 200mn.
4. Moreover, super tax imposed under Division IIB of Part I of the First Schedule will be carried forward for tax year 2022 and onwards. Which signals that super tax slabs applicable in point 3 above will be levied on all sectors, including banks, in the following years (CY23 / FY23 and onwards).
5. As a result, cumulative impact of super tax on specified sectors and banks remains the same i.e. 18% till tax year 2024, regardless of whether they report profits on a fiscal year or calendar year basis. Whereas sectors not aforementioned will be subjected to a super tax of 12% during the same period, regardless of whether they report profits on a fiscal year or calendar year basis.

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Exhibit: Taxation Summary and Treatment

Banks	TY22	TY23	TY24	Bank's tax on income from Govt. securities	Tax rate
	CY21	CY22	CY23		
Corporate tax	35%	39%	39%	ADR < 40%	55%
Super tax	4%	10%	4%	40% < ADR < 50%	49%
Total tax	39%	49%	43%	ADR > 50%	39%

Specific Industries with CY year end	TY22	TY23	TY24	Other Industries with CY year end	TY22	TY23	TY24
Profit above 300mn	CY21	CY22	CY23	Profit above 300mn	CY21	CY22	CY23
Corporate tax	29%	29%	29%	Corporate tax	29%	29%	29%
Super tax*	0%	14%	4%	Super tax*	0%	8%	4%
Total tax	29%	43%	33%	Total tax	29%	37%	33%

*10% super tax on TY22 (CY21) PBT will be provided in CY22 financial statement alongside 4% super tax on TY23 (CY22)

*4% super tax on TY22 (CY21) PBT will be provided in CY22 financial statement in addition to 4% super tax on TY23 (CY22)

Specific Industries with FY year end	TY22	TY23	TY24	Other Industries with FY year end	TY22	TY23	TY24
Profit above 300mn	FY22	FY23	FY24	Profit above 300mn	FY22	FY23	FY24
Corporate tax	29%	29%	29%	Corporate tax	29%	29%	29%
Super tax	10%	4%	4%	Super tax	4%	4%	4%
Total tax	39%	33%	33%	Total tax	33%	33%	33%

Source (s): Finance Bill 2022, AHL Research

Exhibit: Super Tax

Slab	Tax Rate
Taxable Income < PKR 150mn	0%
PKR 150mn < Taxable Income < PKR 200mn	1%
PKR 200mn < Taxable Income < PKR 250mn	2%
PKR 250mn < Taxable Income < PKR 300mn	3%
Taxable Income > PKR 300mn	4%

Source (s): Finance Bill 2022, AHL Research

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Exhibit: Amendments under the Finance Bill

Sr. No	Sector	Comment
1	Banks	CY21 Taxable income attributed to investment in federal government securities shall be taxed as follows i. 55% if ADR is up to 40%, ii. 49% if ADR falls in the 40-50% bracket, and iii. at corporate tax rate of 39% if ADR exceeds 50%.
2	Stock market – Capital gains tax	The revised rates of CGT will be applicable prospectively (where the securities are acquired on or after 01 July 2022).
3	Fertilizer	Fertilizer products have been moved to the sixth schedule and output tax has been made tax exempt. The input tax will become part of cost whereby urea manufacturers are expected to pass on the impact (PKR 76/bag).
4	Automobile	CVT (capital value tax) will now apply on cars with engine capacity of above 1300cc and battery power above 50 kwh as compared to PKR 50mn value proposed in Finance Bill. Rate of CVT on cars reduced to 1% as compared to 2% earlier.
5	Oil marketing	The rate of Petroleum levy under the fifth schedule has been changed and increased to maximum PKR 50/litre from PKR 30/litre. Whereas turnover tax on OMCs has been reduced to 0.50% from 0.75% previously.
6	Pharmaceutical	GST on output set at 1% with no adjustment against input tax, while sales tax on import of API's has been reduced to 1%.
7	Tax on salaries	Income tax exemption limit has been reduced to PKR 0.6mn per annum in contrast to PKR 1.2mn per annum before.
8	Deemed income	Exclusions have been allowed to the following: 1. Capital owned asset by resident, 2. Self owned business premises with a person on active taxpayer list, 3. Self owned agriculture land with agriculture activities being carried out except farmhouse, 4. Shaeed, Armed forces, Federal and provincial government employees, 5. Capital asset within the first year of acquisition where tax has been paid under section 236k, 6. Any property where income is chargeable to tax and tax has been paid on, and 7. Capital asset owned by provincial or local governments.
9	Voluntary pension scheme	Section 63 has been reinstated as compared to deletion proposed in the Finance Bill and tax credit to be available for voluntary pension scheme.
10	Industries – Minimum tax	The minimum tax paid on turnover in excess of normal tax liability was available for adjustment against normal tax for the subsequent five years. The bill earlier proposed to be omitted the said clause which has now been proposed to be adjusted in next three years

Source (s): Finance Bill 2022, AHL Research

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Exhibit: Income Tax on Salary

S.No.	Monthly Taxable Income	Amended Rate of Tax	Yearly Tax Expense
1	50,000	0.0%	-
2	100,000	2.5% of the amount exceeding PKR 600,000	15,000
3	200,000	PKR 15,000 + 12.5% of the amount exceeding PKR 1,200,000	165,000
4	300,000	PKR 165,000 + 20.0% of the amount exceeding PKR 2,400,000	405,000
5	500,000	PKR 405,000 + 25.0% of the amount exceeding PKR 3,600,000	1,005,000
6	1,000,000	PKR 1,005,000 + 32.5% of the amount exceeding PKR 6,000,000	2,955,000
7	2,000,000	PKR 2,955,000 + 35.0% of the amount exceeding PKR 12,000,000	7,155,000

Source (s): Finance Bill, AHL Research

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- Justified Price to Book (JPTB)
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