

Super Tax in Pakistan

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The concept of super tax was reintroduced by the government on high-earning persons in tax year 2022. Slab-wise rates were prescribed for the tax year 2022 with a maximum rate of 4%. With regard to certain specified sectors, an enhanced rate of 10% was prescribed for tax year 2022 only and for banking companies, 10% super tax was to be applicable for tax year 2023.

In relation to the retrospective application of super tax for the tax year 2022 and the enhanced rate applicable for specified sectors causing ‘discrimination’, constitutional petitions were filed before higher courts in Pakistan. The matter is currently sub judice before the Supreme Court of Pakistan as the Lahore High Court has suspended the implementation of this tax.

Through the Finance Act, 2023 new slab rates for super tax have been introduced. As a result, the highest slab rate of 10% will be applicable to taxpayers from all sectors with income over Rs500 million, thus eliminating the element of discrimination.

The Federal Board of Revenue is considering applying Super Tax on a progressive tax basis instead of application of a certain percentage on the entire income in next year’s budget 2024-25.

The corporate sector has proposed to fix specified timelines for the applicability of super tax arguing that a mere levy of super tax without any specific timeline is simply an increase in the corporate tax rate from the current 29%.

In its tax proposals, the corporate sector suggested that it has become difficult for businesses to absorb an additional levy of super tax for an indefinite period with the recent unprecedented depreciation of Pakistani Rupee, import constraints, and an increase in interest rates.

The Supreme Court of Pakistan has ordered that high-earning persons pay super tax at the rate of 4%. This was a compromise decision, as the court had previously ruled that the 10% super tax imposed on high-earning persons in specified industries was discriminatory.

The government has said that it will maintain the 4% super tax on individuals and all companies for the upcoming fiscal year. However, it is considering withdrawing the 10% super tax imposed on the 13 specified sectors.

Here is a table of the current super tax rates in Pakistan:

Taxpayer Category	Income Threshold	Super Tax Rate
Individuals	150 million PKR	4%
Companies	300 million PKR	4%
Banking companies	300 million PKR	10%

The super tax has been met with mixed reactions. Some people believe that it is a necessary measure to raise revenue and reduce the budget deficit. Others say that it is unfair and will discourage investment.

The super tax is a recent addition to Pakistan's tax code, and it is likely to be a hotly debated topic for some time to come. It will be interesting to see how the government implements this new tax in the upcoming fiscal year.

This is the first time that under the IMF pressure, any Pakistan government has introduced this super tax, which it seems will meet the same fate of taxes on the rich: They will either delay or not pay this tax in final terms. International Monetary Fund (IMF) managing director Kristalina Georgieva commented on 18th February 2023 that her "heart goes out to the people of Pakistan" as the poor are being taxed and the rich given exemptions and subsidies. She stressed the need that the government of Pakistan should collect higher taxes by withdrawing subsidies to the rich. Pakistan agreed to implement the Memorandum of Economic and Financial Policies (MEFP), which contained policy suggestions by the IMF. There was a broad consensus with regard to leaving the rupee value to be determined by the market forces. Also the power tariff was to be increased and new taxes imposed to pave the way for the deal.

Emphasising that Pakistan should collect taxes from the rich and give benefits to the poor, Georgieva highlighted that the country did not need debt restructuring. "There is no debt restructuring for Pakistan. Rather, strict measures are needed to run the country."

Pakistan's 100 largest businesses have opposed the continuation of the super tax and voiced their concerns about the imposition of up to 7.5% income tax on their retained profits. They issued a stark warning to the government about the increasing default risks and its impact on the business environment.

Most of taxes imposed in Pakistan are either indirect taxation or on salaried classes. Here is a list of at least 37 taxes being collected from ordinary citizens of Pakistan.

(1). Income Tax, (2). General Sales Tax, (3). Capital Value Tax, (4). Value Added Tax, (5). Central Sales Tax, (6). Service Tax, (7). Fuel Adjustment Charges, (8). Petrol Levy, (9). Excise Duty, (10). Customs Duty, (11). Octroi (tax levied on entry of goods into a municipal area), (12). TDS Tax (tax deduction at source), (13). Employment Status Indicator Tax (ESI Tax), (14). Property Tax, (15). Government Stamp Duty, (16). Aabiyana (tax on water for agricultural lands), (17). Ushr, (18). Zakat (deducted on money deposited with banks on the first of Ramazan, fasting month, each year), (19). Dhal Tax, (20). Local Cess, (21). PTV License Fee, (22). Parking Fee (at least 5 times a day), (23). Capital Gains Tax (CGT), (24). Water Tax, (25). Flood Tax (for heaven's sake - there are no floods now), (26). Professional Tax, (27). Road Tax, (28). Toll Tax, (29). Securities Transaction Tax (STT), (30). Education Cess, (31). Wealth Tax, (32). Transient Occupancy Tax (TOT), (33). Congestion Levy Compulsory Deduction, (34). Super Tax (3 to 4%), (35). Withholding tax, (36). Education fee (5%), and (37). SECP levy.

The current tax system in Pakistan is based on the Income Tax Ordinance 1979. The law is divided into 11 parts and 245 sections. Taxation in Pakistan is a complex system of more than 70 unique taxes administered by at least 37 agencies of the government of Pakistan. The standard rate of sales tax is 18 percent, while it may range to 25% for luxury items, etc.

According to FBR, in 2021, the number of registered tax filers had grown to 7.1 million, out of which only 2.5 million were active tax filers. This much out of a total population of 240 million in Pakistan.

We demand to implement the super tax in its real term. Our slogan is "tax the rich and not the poor".

We also seek:

1. Make Taxes Work for People
2. Reclaim public services; increase and mobilize public funds for fulfilling peoples' rights and needs
3. Make MNCs Pay Their Share! Stop Corporate Tax Abuses and Other Illicit Financial Flows
4. Advance Tax Justice in the Extraction Industry
5. End Inequalities in global tax rules and rule-making! UN Tax Body Now!
6. System Change, Put People First Before Profit.

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