

BUDGET 2026-27

A PATH TOWARDS RECOVERY

Navigating Stability, Reform and Growth

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Prologue:

- The Finance Bill 2026-27 ("The Bill") for the Fiscal Year 2026-27 was tabled before the National Assembly on June 12, 2026. The Bill has proposed amendments in the Income Tax Ordinance, 2001 ("ITO"), Sales Tax Act, 1990 ("STA"), Federal Excise Act, 2005 ("FEA"), The Finance Act, 2022 ("FA"), The West Pakistan Motor Vehicles Taxation Act, 1958 ("WPMVT"), and The Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961 ("PPL") amongst other laws.
- We have prepared our comments on the significant amendments proposed in the ITO, STA, FEA, FA, WPMVT, and PPL. Moreover, the comments presented in this document are not exhaustive and detailed comments will follow after the Bill is passed by the Parliament, along with the passing of the respective Provincial Finance Bills in the respective Provincial Assemblies.
- The interpretations of the amendments are based on our understanding of tax law and past practices. These comments are provided for general use of the public and should not be used for any specific transaction. We do not guarantee that these interpretations will be acceptable by the tax department, tax authorities, revenue authorities or any other authorities. Furthermore, these comments are prepared for general business understanding of the masses. This document, including any contents therein, shall not constitute any tax advice, investment advice, nor shall the same be used for tax planning purposes. Tola Associates does not assume any responsibility whatsoever arising out of the use of this document.
- Please feel free to provide your feedback for further improvements in this publication. In case of any technical query, kindly contact us.

Kind Regards,

Tola Associates
Tola & Tola

Saturday, June 13, 2026

BUDGET AT A GLANCE

GOVERNMENT ESTIMATED FEDERAL BUDGET FY2026-27

PKR IN BILLION



TA ESTIMATED FEDERAL BUDGET WITH IMF POLICIES FY2026-27

PKR IN BILLION



BUDGET BRIEF 2026-27:

The Federal Government has announced the Federal Budget for Fiscal Year 2026–27 ("FY27") and has attempted to address fiscal imbalances. This budget represents a step toward economic recovery and provides significant relief measures. The budget reflects a strategy focused on macroeconomic stability, export-led growth, industrial expansion, and fiscal consolidation.

The table herein below highlights the Government's targets for FY27 vs. the Tola Associates ("TA") estimates with IMF policies published back on 23rd May 2026

FEDERAL GOVERNMENT ESTIMATES VS. TOLA ASSOCIATES ESTIMATES FISCAL YEAR 2026-27

<i>(PKR in Billion)</i>				
GOVERNMENT BUDGET FOR 2026-27				
	Federal Govt. Budget	Tola Associates Budget	Difference	% Change
RECEIPTS				
FBR Tax Revenue	15,264	15,577	(313)	(2)
Non Tax Revenue	5,336	7,000	(1,664)	(24)
Gross Revenue Receipts	20,600	22,577	(1,977)	(9)
Less: Transfer to Provinces	8,848	8,933	(85)	(1)
Net Revenue Receipts - Federal Share	11,752	13,644	(1,892)	(14)
EXPENDITURE				
Total Expenditure	18,771	20,234	(1,463)	(7)
Current Expenditure	17,495	19,134	(1,639)	(9)
Markup on Debt	8,054	9,735	(1,681)	(17)
Domestic Debt	6,983	8,563	(1,580)	(18)
Foreign Debt	1,071	1,172	(101)	(9)
Pension	1,169	1,166	3	0
Defense Affairs & Services	3,000	3,000	-	-
Grants & transfers (Province + Others)	2,680	2,060	620	30
Subsidies	1,091	1,700	(609)	(36)
Running Civil Government	1,071	973	98	10
Provision for contingencies	430	500	(70)	(14)
Development Expenditure	1,276	1,100	176	16
	(7,019)	(6,590)	(429)	7
Primary Surplus	1,035	3,145	(2,110)	(67)
Projected Nominal GDP	143,604	150,294	(6,690)	(4)
Federal Budget Deficit (% of GDP)	(4.9)	(4.4)	-	-
Primary Surplus (% of GDP)	0.7	2.1	-	-

(Source: Budget Document, Ministry of Finance, Pakistan)

The key highlights of the Federal Budget 2026-27 are as under:

KEY HIGHLIGHTS:

(With the Reference of Document MODEL BUDGET 2026-27 [BIPOLAR PAKISTAN's ECONOMY: BOOMS AND BUSTS](#))

- The Federal Government has projected Rs. 15,264 billion as the FBR tax revenue target in FY26, almost a 2.0% contraction from the TA figures of Rs. 15,577 billion; note that TA estimates were based on nominal GDP. **(Note 1, Ref. Page 11).**
- Tola Associates has a deep understanding of the FBR's operational capacity and anticipated tax collection performance. Based on this insight, our team had projected a tax revenue of Rs. 15.577 trillion under a IMF policy framework for FY27 well before the release of the Government's budget document. **(Note 1, Ref. Page 11).**
- The total outlay in the Federal Budget 2026-27 amounts to Rs. 18,771 billion, which is 7.0 percent lower than TA's 2026-27 budget estimate.
- The projected interest payment in the budget is estimated at Rs. 8,054 billion by the Federal Government, which is 17.0% lower than the figures of Rs. 9,735 billion in TA budget estimates for FY27. **(Note 4 & 5, Ref. Page 11 & 12)**
- Current expenditure of the country is estimated at Rs. 17,495 billion in 2026-27 vs. Rs. 19,134 billion in our (TA) estimation for FY27.
- The defense budget is estimated at Rs. 3,000 billion in 2026-27, which is exact the same amount as the TA estimated figures of Rs. 3,000 billion for the upcoming Fiscal Year. **(Note 6, Ref. Page 12)**
- The divergence in allocation in subsidies between the Federal Government and TA estimates is Rs. 609 billion, where the Government allocated Rs. 1,091 billion and Rs. 1,700 billion was allocated in the TA document. **(Note 8, Ref. Page 13)**
- Provincial share in the NFC Award is estimated for 2026-27 at Rs. 8,848 billion, which is 57.0% of the FBR's revenue collection. That is only 1.0% less than the TA estimates.
- The size of the total development expenses is estimated at Rs. 1,276 billion, which is lower than TA estimates of Rs. 1,100 billion due to low spending in outgoing FY26. **(Note 11 & 12, Ref. Page 13 and 14)**
- Considering the 17.6% growth target set by the Government for FBR revenue, as against the nominal growth of 12.2%, the projected GDP growth of 4.0%, and the inflation projection of 8.2% during 2026-27 factoring in the same, the said growth target for FBR revenue seems realistic and achievable, even if the Government introduces new tax measures.
- However, in our view, the Government may be able to collect a Rs.15.26 trillion

BUDGET BRIEF

tax target, provided they introduce the remaining revenue measures mentioned in the RRMC interim report in the Finance Act 2024.

- The FBR has not been able to broaden the tax base in the outgoing Fiscal Year in terms of revenue generation, as it has struggled to meet the original FY26 target of Rs.14.13 trillion set by the IMF and even FBR failed to achieved its revised target of Rs.13.98 trillion.
- Furthermore, the situation worsened when the Government failed to achieve the IMF's revised tax target of Rs.13.98 trillion. This clearly reflects how unrealistic the tax targets set for the FBR were in the previous Fiscal Year. Last year TA proposed tax target to be Rs.13.5 trillion.
- For a brief overview of real estimates by TA under IMF scenario and without IMF Program, please [click here](#).
- The *infra* Sankey Matic diagram further demonstrates how closely TA's projections align with the Government's revised estimates for FY26.

BUDGET BRIEF

BUDGET AT A GLANCE

GOVERNMENT FEDERAL BUDGET REVISED ESTIMATES 2025-26



TA ESTIMATED FEDERAL BUDGET 2025-26



PKR Billion	Govt. Budget 2025-26 (Revised)	TA Budget Est. 2025-26	Govt. Budget 2025-26 (Provisional)
RECEIPTS			
FBR Tax Revenue	12,983	13,447*	14,131**
Non Tax Revenue	5,093	4,000	5,147
Gross Revenue Receipts	18,076	17,447	19,278
Less: Transfer to Provinces	7,592	7,712	8,206
Net Revenue Receipts - Federal Share	10,484	9,735	11,072
EXPENDITURE			
Total Expenditure	15,642	17,233	18,771
Current Expenditure	15,006	15,921	17,495
Markup on Debt	6,938	7,521	8,054
Domestic Debt	6,007	6,234	6,983
Foreign Debt	931	1,287	1,071
Pension	1,055	1,020	1,169
Defense Affairs & Services	2,588	2,800	3,000
Grants & transfers (Province + Others)	1,971	1,955	2,680
Subsidies	1,157	1,350	1,091
Running civil Government	1,021	920	1,071
Provision for contingencies	276	355	430
Development Expenditure	636	1,312	1,276
Federal Budget Deficit	(5,158)	(7,498)	(7,019)
Primary Balance	1,780	23	1,035
Nominal GDP	126,870	129,567	143,604
Federal Budget Deficit (% of GDP)	(4.1)	(5.8)	(4.9)
Primary Balance (% of GDP)	1.4	0.0	0.7
<i>* Tola Associates accurately projected FBR's FY26 tax collection at Rs. 13.5 trillion prior to the release of the Government's budget document.</i>			
<i>**IMF Projected Target</i>			

- Official figures show that from July to May of FY25, FBR's tax revenue stood at Rs.11.23tr – 10% or Rs.1.02tr higher than last year's collection of Rs.10.21tr. The FBR still needs Rs.2.75tr more to reach the revised tax revenue target for FY26. FBR needs to collect Rs.91.6 billion per day in the last month of June 2026 to achieve the revised target.
- Pakistan has a huge parallel base economy, as approximately 44% of the nominal GDP is not contributing significantly towards the direct tax collection, such as traders and agriculturalists. The Government has to urgently tap the potential of these sectors for their optimum contribution towards the National exchequer which will not only remove inequities in the tax regime, but will also provide much-needed additional revenue to the Government.
- The table infra shows the FBR's revenue collection and its distribution:

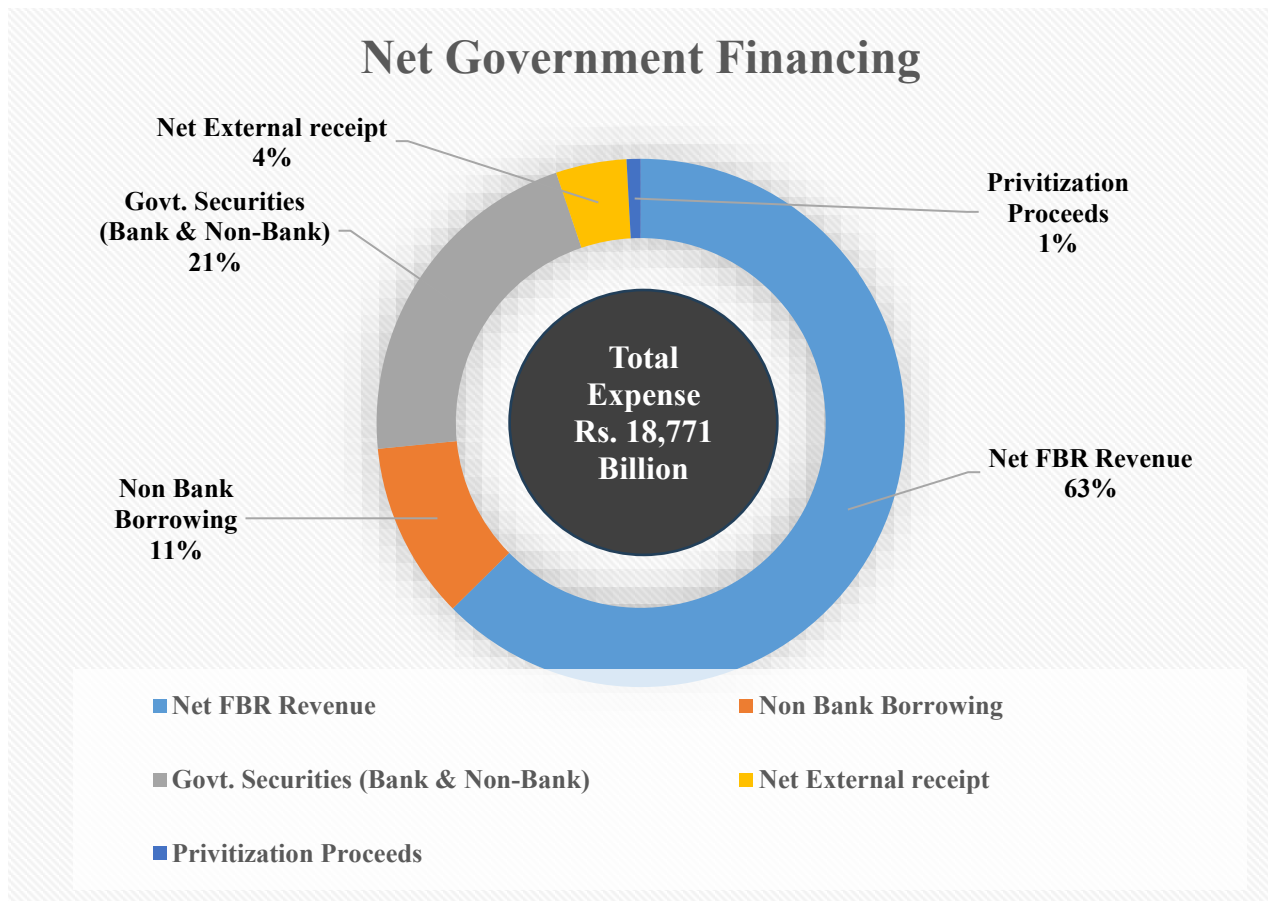
The Federal Government's fiscal deficit would be around Rs. 7,020 billion during 2026-27. However, if the Government incorporates the estimated provincial surplus of Rs. 1,794 billion, then the overall Fiscal deficit of the country would be Rs.5,226 billion during 2026-27. The breakdown thereof is as follows:

<i>(PKR Billion)</i>		
	2026-27 (Provisional)	2025-26 (Revised)
FBR Taxes	15,264	12,983
Indirect Taxes	7,651	6,551
Direct Taxes	7,613	6,432
Non Tax Revenue	5,336	5,093
Gross Revenue Receipts	20,600	18,076
Less provincial Share	8,848	7,592
Net Revenue Receipts	11,751	10,485

The Government has had a moderate fiscal deficit of 3.0% (revised) of GDP in 2025-26. Whereas, the projected figure of fiscal deficit would be 3.6% in 2026-27 (Provincial surplus included). The next year's primary balance (after incorporating provincial surplus) is estimated at Rs. 2,828 billion which is 2.0% of the GDP for the Government.

<i>(PKR Billion)</i>		
	2026-27 (Provisional)	2025-26 (Revised)
Net Federal Revenue	11,751	10,485
Total Federal Expenditure	18,771	15,642
Federal Budget Deficit	(7,020)	(5,158)
Estimated Provincial Surplus	1,794	1,379
Overall Fiscal Deficit	(5,226)	(3,778)
Primary Balance	2,828	3,159
Overall Fiscal Deficit as % of GDP	(3.6)	(3.0)
Primary Balance as % of GDP	2.0	2.5

The chart herein below illustrates the financing of the Budget 2026-27:



- The Federal Budget 2026–27 represents a transition from economic stabilization to sustainable growth. Unlike the previous two years, which focused primarily on restoring macroeconomic stability, controlling inflation, strengthening foreign reserves, and rebuilding investor confidence, this budget seeks to capitalize on those gains through investment, reform, digitalization, and development.
- The budget positions Pakistan as an economy moving beyond crisis management and entering a phase of structural transformation, emphasizing productivity, competitiveness, and long-term economic resilience.
- By focusing on domestic resource mobilization, improving tax administration, and expanding the formal economy, Pakistan can gradually strengthen fiscal self-reliance, reduce dependence on external financing and IMF-driven adjustments, and create a virtuous cycle of growth, revenue generation, and economic prosperity.

1. Section 2(1AA)

The Bill has proposed to add a new Section 2(1AA) whereby it has defined “algorithmic settlement mechanism” as algorithmic settlement mechanism provided under Section 134B of the ITO.

2. Section 2(5)

The Bill has proposed to amend the definition of assessment, whereby, a faceless assessment has been added into the definition of an assessment.

Comments:

This proposal signals the intent of the FG to move towards faceless assessment of the taxpayers

3. Section 2(6)

The Bill has proposed to define authorized shipping agent as a person in Pakistan who is authorized, expressly or impliedly, by a non-resident ship owner, charter or operator to act on its behalf in respect of a vessel, and who in relation to such vessel or voyage:

- (a) Is responsible for the receipt collection, control or accounting of total freight and any related amounts, and undertakes or is responsible for documentation, manifest filing, or reporting of cargo or total freight, including having, directly or indirectly, the control, custody or disposal of any freight or related receipts attributable to such vessel or voyage; **and**
- (b) Furnishes the return under Section 143 of the ITO, in respect of such vessel or voyage and such person shall, for the purposes of this Ordinance:

- (i) Be treated as the representative of the non-resident under Section 172;
- (ii) Be jointly and severally liable for payment of tax and all obligations, proceedings, assessments and recovery in respect of such vessel or voyage; and
- (iii) Be treated as such, and the provisions of Section 172(3) shall apply accordingly.

Comments:

This proposed amendment is aimed at creating an additional nexus for income tax purposes in Pakistan of non-resident ship owners. It ensures that persons who fall within the aforesaid definition are treated as representatives of non-residents u/s 172 and be jointly and severally liable for payment of tax and all obligations, proceedings, assessments and recovery in respect of such vessel or voyage.

4. Section 2(19DA)

The Bill has proposed to add Section 19(DA) and define “electronically readable format” as any digital format in which data is structured so that it can be automatically read, extracted, validated and processed by computer systems without human intervention, including spreadsheet formats (such as CSV or XLSX), XML, XBRL, JSON, and other structured or semi-structured data formats but excluding formats primarily designed for human readability, such as PDF, scanned images or photographs.

5. Section 2(22A) – Definition of Fast Moving Consumer Goods (“FMCG”) omitted

Section 2(22A) defined FMCG as consumer goods which are supplied in retail marketing as per the daily demand of a consumer. The Bill has proposed to

delete the definition of FMCG. This removal is in line with the removal of Distributors of FMCGs from the reduced rate (0.25%) of turnover tax u/s 113 read with Division IX, Part I, of the First Schedule to the ITO. Now, turnover of distributors of goods previously falling under the definition of FMCG, shall be subject to minimum turnover tax at the rate of 1.25%.

6. Section 2(30A)

The Bill has proposed to substitute the phrase “Board through approved fiscal electronic device and software” with “Board’s computerized system through a licensed integrator”.

Comments:

This amendment narrows the scope of an integrated enterprise to only those enterprises that have integrated in the Board’s computerized system through a **licensed integrator**. Section 2(30A) currently provides that integration through an approved fiscal electronic device and software would suffice.

7. Section 2(30D)

The Bill has proposed to define a licensed integrator as mentioned in Section 2(15A) of the STA.

8. Section 2(35)(1A)

The Bill has proposed to define “National faceless center” as defined under the newly proposed Section 227D of the ITO.

9. Section 2(42AA)

The Bill has proposed to define “PRAL” as Pakistan Revenue Automation (Pvt) Ltd, a State owned enterprise which has been assigned

functions related to software development and maintenance of the Board’s IT infrastructure

10. Section 2(60) – Definition of Special Purpose Vehicle (“SPV”) omitted

The Bill has proposed to omit / delete the definition of SPV. Previously, SPV was defined as a SPV as defined in the Asset Backed Securitization Rules 1999.

11. Section 4AB Surcharge

Section 4AB was introduced vide Finance Act 2024, through which a 10% surcharge was levied on the tax liability of individuals and AOPs whose taxable income exceeded PKR 10 million. Later, vide the Finance Act 2025, the said surcharge was reduced to 9% of the tax liability of a salaried individual where the taxable income of such salaried individual exceeds PKR 10 million.

Now, the Bill has proposed to omit the applicability of surcharge on the salaried class, thus, proposing to give relief to the salaried class.

Comments:

This is a positive measure and gives relief to the salaried class. However, such relief should also be extended to individuals whose taxable income is other than salary income, and AOPs too in order to ease the tax burden on business and increase investments in the economy.

12. Section 6A Tax on payment for digital transactions in e-commerce platform – new sub-section (3) to be added

Vide the Finance Act 2025-26, Section 6A was introduced and a tax was been levied on the gross amount of receipts of every person that receives payment for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms

including online marketplace or websites, except for the export proceeds that have been subjected to withholding tax under Section 154A. The said tax was final discharge of tax liability in terms of Section 8 of the ITO.

Now, the Bill has proposed to make the said withholding tax adjustable for those persons whose turnover in a tax year exceeds PKR 200 million.

13. Section 7E – Tax on Deemed Income – Omitted

Section 7E of the ITO was introduced vide Finance Act 2022 whereby an effective tax of 1% was levied on the FMV of an immovable property held by a resident person, subject to certain carve outs and exceptions. The said Section was challenged before the High Courts and the outcomes thereof were eventually appealed before the Hon'ble Supreme Court of Pakistan ("SCP") and such appeals were later on transferred to the Hon'ble Federal Constitutional Court. The Hon'ble FCC declared Section 7E as ultra vires the Constitution of the Islamic Republic of Pakistan 1973 ("Constitution") and void ab-initio. Consequently, the Bill has proposed to omit Section 7E of the ITO.

Short Order of the Hon'ble FCC

The Hon'ble FCC, headed by the Hon'ble Chief Justice, after hearing the parties at considerable length vide short order announced on 07.05.2026, has declared Section 7E of the Income Tax Ordinance, 2001 to be ultra vires of the Constitution, void ab initio, and consequently struck down the same. Relevant excerpt is produced hereunder:

Quote

2. Having heard the learned counsel for the parties at considerable length and upon due deliberation, we are persuaded to hold that Section 7E of the Income Tax Ordinance, 2001, is ultra vires the Constitution, and is accordingly struck down, being void ab initio.

Unquote

The Hon'ble FCC has further held that all proceedings, and notices initiated by the FBR under Section 7E are without lawful authority and liable to be set aside. Relevant excerpt is reproduced hereunder:

Quote

...Consequently, all actions, proceedings, and notices initiated or taken by the FBR/C.I.R under Section 7E are declared to be without lawful authority and are hereby set aside.

Unquote

Comments

The scheme introduced through Finance Act, 2022 was an attempt to tax deemed income on the basis of fair market value of immovable property. However, Entry 50, on its plain reading, stipulates that taxation of capital value of assets as a whole, and not a selective carving out of immovable property. This means that Entry 50 is inherently holistic in nature and presupposes consideration of the aggregate capital of a person's assets, rather than isolating immovable property as an asset class. Entry 50 of the Federal Legislative List is reproduced hereunder:

Quote

50. Taxes on the capital value of the assets, not including taxes on immovable property.

Unquote

This position has also been affirmed by the Hon'ble LHC in its single-member judgment on Section 7E (2023 PTCL 569), wherein it was held that Entry 50 does not envisage fragmentation of the asset base into selective components, but rather operates on the premise of taxing the collective capital worth of a person's assets as an inseparable whole. Further, the Hon'ble LHC in 2017 PTD 805 has held as follows:

Quote

20. Article 142 gives Provincial Legislature exclusive powers of legislation on the subjects which are not included in the Federal Legislative List. The language of Entry No.50 of the List gives the Parliament power to levy taxes on the capital value of the assets, and specifically excludes the Parliament to levy taxes on immovable property. It means Provincial Assembly is vested with exclusive power to levy taxes on immovable property. A combined study of Entry No.50 with clause (c) of Article 142 shows that Federal Legislature can tax only capital value of assets. However, a Provincial Legislature is made competent to tax remaining all aspects of immovable property as discussed supra. The tax in question is on residential houses comprising land and superstructure thereon as specified in the First Schedule. Language of Section 8 read with First Schedule of PFA, 2014 does not suggest that capital value of residential houses is being taxed. The argument of learned counsel in this regard is self contradictory when compared with their argument that properties of different value are being taxed similarly. Later part of Entry No.50 excludes taxation from immovable property from the ambit of Federal Legislature. The use of phrase in clause (c) of Article 142 i.e. "and Majlis-e-Shura/Parliament shall not" puts a clog on Federal legislative power to tax the matters, not enumerated in Federal Legislative List, including immovable property. The clause (c) of Article 142, read with latter portion of Entry No. 50 would show an emphasis regarding exclusion of Parliament's power to tax immovable property i.e., "not including taxes on immovable property". Since the tax in question is not being charged on value of residential houses, therefore, we have no doubt in our mind that only Provincial Legislature is competent, particularly after the 18th Amendment, to tax the residential houses consisting of more than specified land and superstructure thereon. It is emphasised that subsection (1) of the impugned Section 8 is levying tax on land and superstructure thereon and not the value thereof.

Unquote

Comments on Finance Bill 2026-27

The same principle has also been discussed in Indian jurisprudence, particularly in *Sudhir Chandra Nawn v. Wealth-Tax Officer*, reported as 1969 AIR 59, where the Supreme Court of India has held that a tax on capital value of assets is not a levy on any individual component of property such as land or buildings, but is instead imposed on the totality of the assessee's wealth as a whole. Relevant excerpt is reproduced hereunder:

Quote

...The tax which is imposed by entry 86 List I of the Seventh Schedule is not directly a tax on lands and buildings. It is a tax imposed on the capital value of the assets of individuals and companies, on the valuation date. The tax is not imposed on the components of the assets of the assessee : it is imposed on the total assets which the assessee owns, and in determining the net wealth not only the encumbrances specifically charged against...

Unquote

Further, it is important to mention that Entry 86 of the Indian Constitution is similar to the Entry 50 of the Constitution of Pakistan. Entry 86 is reproduced hereunder:

Quote

86. Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies.

Unquote

14. Section 7G – Tax on certain payments made by life insurance business

The Bill has proposed to add a new Section 7G, whereby, for the tax year 2026 and onwards, a tax shall be imposed at the rate specified in Division IC of Part III of the First Schedule on every individual who receives any payout, benefit, surrender value, maturity proceeds or similar payment (hereinafter referred to as payout) from a life insurance business on account of insurance policy, family takaful

certificate, plan or any similar arrangement. A corresponding amendment for withholding such tax has proposed to be made by adding a new Section 151B of ITO.

As per the newly proposed Section 7G(2), the amount liable to tax shall be the gross amount of payout reduced by aggregate amount of premiums or contributions paid by the policy holder or participant.

As per the proposed Section 7G(3), the provisions of sub-section (1) shall not apply where the payout or benefit is made:

- (a) On account of the death of the insured or participant;
- (b) On account of disability of the insured or participant; or
- (c) After completion of seven years from the date of issuance of the policy, certificate or plan.

As per the proposed Section 7G(4), the tax deducted under Section 7G shall be final tax on the income arising from such payout or benefit.

Comments:

Section 7G proposes to tax payouts, surrender value, benefit, maturity proceeds or similar payments from life insurance business on insurance policies, family takaful certificate plan or any similar arrangement, after reducing premiums or contributions paid by the policy holder or participant, which effectively makes it a tax on the net investment income of the policy holder or participant. Such tax is made final tax on the policy holder or participant's income. Three instances have been carved out on which this tax shall not apply; (i) Where the payout or benefit is made on account of death of the insured or participant; (ii) Where the payout or benefit is made on account of disability of the insured or participant; or (iii) where the payout or benefit is made after 7 years from the date of issuance of the policy, certificate or plan.

This will make insurance policies, takaful certificates and similar investments more expensive for the public at large. It will discourage the public to invest in such policies and certificates. Further, it effectively treats tax deducted on such receipts, other than the aforementioned exemptions, as final tax. The proposed amendment seeks to enhance revenue of the tax authorities while introducing a regime for insurance-related investment returns.

Further, there are judgments of the Hon'ble Tribunals and courts of law which discuss taxation on the investment income from such policies issued by life insurance companies. Consequently, this amendment has been introduced.

- Section 8 General provisions relating to taxes imposed under sections 5, 5A, 5AA, 6, 6A, 7, 7A, 7B and 7E.

The Bill has proposed to remove Section 7E from the heading and the language of Section 8 itself. It is a corresponding amendment to the proposed removal of Section 7E in its entirety.

15. Section 21(r) – Deductions not allowed

Previously, Section 21(r) disallowed maximum 8% of the expenses attributable to sales claimed by any person who is required to integrate but fails to integrate his business with the Board through approved fiscal electronic device and software.

Now, the Bill has proposed to substitute Section 21(r), whereby 5% of **expenditure claimed by any person** shall be disallowed if a person fails to install electronic resource or fails to act as an integrated enterprise as required by law, subject to the method, manner and procedure as may be prescribed.

Comments:

The Bill has proposed to broaden the disallowance to 5% of the expenditure claimed, instead of just expenses attributable to sales. This may have a broader impact even though the portion of expense disallowance has been reduced from 8% to 5%. Further, the Bill has proposed to include those who fail to install electronic resource under the purview of such disallowance. Electronic resource is defined under Section 2(19D) as including telecommunication systems, transmission devices, electronic video or audio equipment, encoding or decoding equipment, input, output or connecting devices, data processing or storage systems, computer systems, servers, network and related computer programs, applications and software including databases, data warehouses and web portals as may be prescribed by the Board from time to time for the purpose of creating electronic record. Therefore, if a person fails to install these electronic resources if required under the law, then 5% of the person's expenses shall be subject to disallowance

16. Section 53A - Rationalization of rates of withholding taxes in the nature of minimum tax

The Bill has proposed to add a new Section 53A, whereby the Federal Government may reduce the rate of any of the withholding taxes in the nature of minimum tax as given in First Schedule of this Ordinance, other than minimum tax chargeable under section 113 of this Ordinance, up to 1% on the basis of economic viability in cases of persons or class of persons, subject to such restrictions and limitations as the Federal Government may specify.

The Federal Government shall place before the National Assembly all amendments made in rates of withholding taxes in the First Schedule, in a financial year under this section

17. Section 64D - Tax for credit integration

Section 64D of the ITO provides for a tax credit on installation of the point-of-sale ("POS") machine in the tax year in which it is installed, integrated and configured with the Board's computerized system, for those who are required to integrate with the Board's computerized system for real time reporting of sale or receipt, **at the lesser of:**

- (i) The amount actually invested in purchase of the POS machine: or
- (ii) PKR 150,000 per machine.

Now, the Bill has proposed to substitute Section 64D, whereby the tax credit has now been made available for purchase, acquisition, installation or implementation of such equipment, hardware, software, or other electronic components that are directly and exclusively utilized for integration with the computerized system of the Board for real-time production monitoring, or for the recording or reporting of sales or receipt. The Bill has also proposed the following:

- (i) Tax credit has been restricted to 10% of the amount actually invested in the electronic resource;
- (ii) The said tax credit shall not be allowable against operation and maintenance expenses related to such electronic resource; and
- (iii) Such tax credit shall only be available against normal tax payable under Division I or Division II of Part I of the First Schedule.

Comments:

The Bill has proposed to widen the concept of tax credit from just a tax credit on purchase of POS machines to purchase, acquisition, installation or implementation of equipment, hardware, software or other electronic components that are directly and

exclusively utilized for the purposes of integration of POS machine or real time production monitoring.

However, the proposed sub-section (2) makes reference to amount actually invested in **electronic resource** which is not defined under the newly proposed Section 64D. Therefore, the definition provided under Section 2(19D) shall prevail. It would be better if sub-section (1) also makes reference to electronic resource to remove any anomaly or ambiguity that may arise.

Further, the Bill has also capped the tax credit to 10% of the amount actually invested in the electronic resource, and if the Minimum tax of a person is higher, then this tax credit shall not reduce the said minimum tax, nor be available for a refund if the minimum tax is higher than the normal tax under the schedules mentioned above.

18. Section 76(8A) - Cost

The Bill has proposed to add a new Section 76(8A), whereby where an immovable property is acquired by an individual through inheritance, the cost of such property in the hands of that individual shall be the fair market value of the property as provided under Section 68(5) of the ITO on the day of the death of the original owner.

Comments:

This is in contradiction of Section 79(1)(b) of the ITO, whereby no gain or loss shall be taken to arise on the disposal of an asset by reason of the transmission of the asset to an executor or beneficiary on the death of a person.

Further, the FBR in such cases usually requires the previous wealth statements of the deceased person / original owner to ascertain whether such property was included in the wealth of the original owner and if at what value. In these cases, there will be a value mismatch between the original owner's wealth and the beneficiary's wealth inflow, which will create

issues. Further, as per Section 79(3), where the person acquiring the asset acquires the same through transmission of the asset upon death of a person (i.e. succession), then the person acquires the asset with:

- (i) The same character as the person disposing the asset; and
- (ii) Cost equal to the cost of the asset for the person disposing of the asset at the time of the disposal.

The proposed amendment may create an anomaly and a potential conflict between 76(8A) and Section 79(3). Further, the proposed amendment may also be ineffective, as Section 76 starts with "**Except as otherwise provided in the Ordinance**, this section shall establish the cost of an asset for the purposes of this Ordinance".

Although, this amendment is beneficial for the person receiving the property vide inheritance, as his cost will be the FMV on the date of death of the original owner. This means that when the property is subsequently sold, the capital gain shall be lesser than if the cost would have been the historical cost. However, the FG must carefully make corresponding amendments to remove the abovesaid anomaly and conflict without actually making inheritance a taxable event.

19. Section 79(1) - Non-recognition rules

As explained above, Section 79(1)(b) provides that no gain or loss shall be taken to arise on the disposal of an asset by reason of transmission of the asset to an executor or beneficiary on the death of a person. The Bill proposes to add a clarification, whereby, transmission of assets to a beneficiary upon death of a person shall also include the transmission of assets in the nature of immovable property, by reason of family settlement amongst the family members consequent upon death of the person.

20. Section 80 – Persons

Section 80(2)(a) defines association of persons (AOPs”) as including a firm, a Hindu undivided family, any artificial juridical person and any body of persons formed under a foreign law, not including a company. The Bill has proposed to add Limited Liability Partnerships (LLPs) into the definition of AOPs.

21. Section 92 – Principles of taxation of association of persons

The Bill has proposed to add a new sub-section 4A in Section 92, whereby, if the income of a LLP is exempt from tax under the ITO, then the amount received by a member of the LLP in the capacity as a member of the LLP shall be taxable in the hands of the member of such LLP.

Comments:

This proposal seems discriminatory as on the one hand where income of AOPs (other than LLPs) is exempt, then the amount received by the member of the AOP is also exempt as per the explanation to Section 92(1), however, in the same situation for LLPs, the amount received is taxable in the hands of the member of the LLP. This may be subject to litigation on grounds of discrimination. Further, this will also discourage formation of LLPs.

22. Section 99B – Special procedure for small traders and shopkeepers

Section 99B of the ITO provides for powers of the Board, after approval of the Minister in charge, to prescribe special procedure for scope and payment of tax, filing of return and assessment of such small traders and shopkeepers, in such cities or such territories as may be specified therein.

Now the Bill has proposed to enhance powers of the Board (after approval of the said Minister) to prescribe special procedure for audit, and rate of tax and has proposed to include fixed tax within its purview.

Comments:

This is in line with the recent retailer tax scheme announced by the FG.

23. Section 100B – Special provisions relating to capital gain tax

- Section 100B provides that capital gains on listed securities and tax thereon shall be computed, determined, collected and deposited in accordance with the Eighth Schedule. Section 100B(2) excludes application of the Eighth Schedule on *amongst other persons*, a non-banking finance company, and a modaraba, and a company in respect of debt securities only.

The Bill proposes to remove the following persons from the exclusion:

- (i) A non-banking finance company;
 - (ii) A modaraba; and
 - (iii) A company in respect of debt securities only.
- The Bill proposes to add a new-subsection (2) in Section 100B, whereby, it has mandated and obliged the NCCPL to compute and determine capital gains as per the mechanism prescribed u/s 37A in cases of banking company, insurance company and mutual funds. However, it has also added that these persons shall continue to deposit tax on amount of capital gain as per the applicable provisions of this Ordinance.

Comments:

The amendment in Section 100B means that a non-banking finance company, a modaraba and a company in respect of debt security shall now be governed by the Eighth Schedule with respect to capital gains and tax thereon with respect to listed securities.

Section 100B(2) empowers the NCCPL to determine capital gains as per Section 37A, but the special regimes of the taxpayers, where applicable, have been kept intact for the purposes of taxability of such capital gains.

the taxpayer may revise his return and the taxpayer shall not be required to seek Commissioner's approval to file revised return, and the taxpayer shall pay the amount of tax determined by the mechanism and no separate penalty or default surcharge shall be payable, and the return so filed shall be accompanied by such documents as required under sub-section (6) and shall be treated as a return under this sub-section. The said sub-section (6B) also starts with a non-obstante clause as it states "notwithstanding anything contained sub-sections (6) and (6A) of this section".

24. Section 114 – Return of income

- **(2A)** The Bill has proposed to amend Section 114(2A), whereby now the sub-section makes specific reference to the IRIS portal only with respect to returns of income being filed only constituting a deemed return for the purposes of sub-section 1 and 1A. Further, the Bill has added a proviso, whereby, for Tax year 2026 and onwards, the financial statements accompanying the return shall only be filed in the electronically readable file format.
- **(6)** Section 114(6A) provides for situations under which the taxpayer can revise its return of income subject to certain conditions. The Bill proposes that a taxpayer may also file a revised return subject to conditions mentioned in Section 114(6)(a), (b), (ba), (c), where the taxpayer has availed a settlement offered by algorithmic settlement mechanism.
- **(6B)** The Bill has proposed to add a new sub-section 6B, whereby, where the taxpayer has availed a settlement offered by the algorithmic settlement mechanism,

Comments:

The drafting is confusing. It will be better if there is only one amendment / sub-section governing revision of return in cases where the taxpayer avails a settlement offered by the algorithmic settlement mechanism, that spells out the exact conditions that must be met and the documents that are required.

25. Section 122E – Faceless audit and assessment

- The Bill has proposed to add faceless audit and assessment with respect to persons or class of persons or incomes or class of incomes, or cases or class of cases that the Board may specify. This Section has been given an overriding effect over the rest of the ITO to the extent of any conflict.
- The provisions of audit (Section 177) have been made applicable to the faceless audit regime.
- The hearing shall be done through E-hearing as defined under Section 227-E.

- The identity of the officer, including facial and voice identity, conducting the E-hearing shall be confidential.
- For detailed comments regarding Faceless audit and assessment, please see the sales tax section.

26. Section 129A – Faceless Appeals

The Bill has proposed to empower the National faceless center to process faceless appeals. Procedures governing appeals to the Commissioner Appeals u/s 127 to 129 of the ITO have been made applicable to faceless appeals as well.

27. Section 133A – Independent case scrutiny committee

- (1) The Bill has proposed to empower the Board to establish an independent case scrutiny committee, that shall review cases and approve filing of reference before the High Court, and appeal or review before the FCC or Supreme Court (SCP).
- Board is proposed to be empowered to establish one or more committees in this regard.
- The Committee is proposed to comprise the following Members:
 - Chairman, who will either be a retired judge of the SCP, FCC, or any of the High Courts of Pakistan;
 - Advocate with at least 15 years of experience in tax and commercial litigation before the High Court or SCP, to be nominated from a panel notified by the Board from time to time; and
 - A senior serving or retired officer of the FBR (BS 20 or above).
- Recommendations of the Committee shall be binding on the Commissioner Inland Revenue having jurisdiction over the case.

- No suit, prosecution or other legal proceedings shall lie against the Members of the Committee and the Commissioner Inland Revenue having jurisdiction over the case.
- The Committee will exercise its powers and functions from the date of its constitution as notified by the Board

This is a good measure that will stop frivolous appeals from being filed and will lessen the burden of the Courts.

28. Section 134A – Alternative Dispute Resolution

- **(10A)** The Order of the Alternative Dispute Resolution Committee (“ADRC”) can only be appealed by the aggrieved party before the Hon’ble FCC or SCP. The ADRC has no powers to rectify its own Order. Further, the law of the ADRC has been in continuous evolvement as it is a relatively recent concept introduced in the ITO, and therefore, the substantive and procedural law relating to the same will take some time to finalize. The Bill has proposed to add a new sub-section 10A and empower the Committee to rectify any mistake apparent from the record on its own motion or any mistake brought to its notice by the taxpayer or the Commissioner, within thirty days of the receipt of decision of the Committee by the taxpayer. The Committee is proposed to have such powers to rectify even after its dissolution, provided the rectification is done through an order in writing which is passed within 30 days of the receipt of the initial order of the committee by the Commissioner or the taxpayer.
- The ADRC consists of a taxpayer nominee nominated by the taxpayer from a list notified by the Board, a retired judge of the FCC, SCP or the High Court that has

adequate experience in dealing with tax or commercial matter, and an officer of the Inland Revenue not below BS 21 other than the Chief Commissioner having jurisdiction over the case. Further, the ADRC currently has 90 days from the date of its constitution to decide the matter, failing which the Committee shall be dissolved by an Order of dissolution in writing passed by the Chairman of the Board.

- **(11)** Now, the Bill has proposed a proviso to add sub-section 11, and has empowered the Chairman of the Board to replace any member of the ADRC in accordance with Section 134A(3) that is not available or is unable to perform its functions for any reason whatsoever, at any stage of the proceedings. The Committee shall stand reconstituted, and will be allowed a further period of 60 days to conclude the proceedings. The total period available to the ADRC shall not be less than 90 days from the date of its original constitution.

29. Section 134B - Algorithmic settlement mechanism

The Bill has proposed to introduce the mechanism of algorithmic settlement in the ITO. The basis on which the system generated settlement offer shall be calculated on the basis, but not limited to

- (a) the stage of proceedings at which settlement is offered;
- (b) the taxpayer's compliance history, as maintained in FBR's data;
- (c) the nature and character of the discrepancy, including whether it involves a valuation or legal interpretation dispute, unexplained income or assets, or concealment; and
- (d) any other basis the Board may consider relevant to ensure revenue adequacy and equitable treatment of taxpayers.

Where the system generated settlement offer for voluntary revision of return is provided by the system as per the criteria based above, a taxpayer that opts to avail the mechanism shall within 10 days of the receipt of the said offer:

- (a) accept the settlement offer on IRIS;
- (b) deposit the settlement offer amount along with revised return; and
- (c) revise the relevant return of income to incorporate the settled amount.

Further, issues confronted to taxpayer through notice of selection of audit, a notice under Section 111 an audit report under Section 177(6), a show cause notice u/s 122(9), shall stand abated, if the taxpayer revises its return by accepting the system generated settlement offer as described above u/s 134B(4).

The revision of return pursuant to acceptance of settlement offer generated by system will not preclude proceedings for other issues or discrepancy not covered by the settlement offer, and it shall also not affect proceedings for any other tax year.

30. Section 143. Non-resident ship owner or charterer

The Finance Bill has proposed to amend section 143, which pertains to taxation and compliance procedure for non-resident ship owners.

It is proposed that the that an **authorised shipping agent**, as defined in section 2(6A)(b), may furnish the return under section 143, in addition to the master of the ship. whereby the scope of section 143 has been proposed to recognize the role of authorised shipping agents in the filing of returns and discharge of tax obligations relating to vessels operated by non-resident ship owners or charterers.

Key Amendments

1. Sub-section (1)

It has been proposed that an authorised shipping agent may also furnish the return under section 143.

2. New Sub-section (1A)

It has been proposed that only one return shall be filed for each vessel or voyage, covering total freight and related amounts.

3. New Sub-section (1B)

It has been proposed that only the master of the ship or the authorised shipping agent may furnish the return.

Comments:

This entails that authorised shipping agents have now been brought directly within the compliance framework of section 143, with responsibility for return filing, joint liability for tax payment, and verification of tax payment for obtaining port clearance. The amendment is aimed at strengthening enforcement by recognizing the role of authorised shipping agents in respect of vessels operated by non-resident ship owners or charterers. The most significant impact is the imposition of joint and several liability on shipping agents, thereby increasing their exposure to tax recovery, making it commercially more burdensome for such authorized agents.

deduct 1% advance income tax at the time of realization of export proceeds or related payments, has been withdrawn.

This entails that the layer of advance tax on export-related transactions under section 147(6C) will no longer apply. Overall, it seems the proposed amendment simplifies the export tax collection mechanism and it may ease liquidity pressure on exporters.

32. Section 151B. Certain payments by life insurance companies and takaful operators

The Finance Bill has proposed that after section 151A, a new section 151B shall be inserted namely "*Certain payments by life insurance companies and takaful operators*" whereby the Bill has proposed to bring payouts, surrender value, maturity proceeds or similar payments by life insurance companies including family and window takaful operators, to an individual, within the withholding tax regime. This is a corresponding amendment to the newly proposed Section 7G.

This entails that tax shall be deducted at the time of making any payout, maturity proceeds, surrender value or similar benefit to individuals, with the taxable amount **computed as the gross payout reduced by the aggregate premiums or contributions paid**, thereby taxing the net investment income of the beneficiary individual. However, exemptions have been provided for payouts on death, disability, or where the policy has completed seven years, The deducted tax shall be final tax on such income.

This amendment significantly broadens the withholding tax net by bringing life insurance

31. Section 147. Advance tax paid by the taxpayer

The Finance Bill has proposed an amendment in section 147, to where sub-section (6C) of section 147 shall be omitted, whereby the requirement on persons specified in section 154(1), (3), (3A), (3B) and (3C) to collect or

and takaful payouts within a tax withholding mechanism. While it provides relief through exemptions for death, disability, and long-term policies (beyond seven years). Further, it effectively treats tax deducted on such receipts, other than the aforementioned exemptions, as final tax. The proposed amendment seeks to enhance revenue of the tax authorities while introducing a regime for insurance-related investment returns.

Further, there are judgments of the Hon'ble Tribunals and courts of law which discuss taxation on the investment income from such policies issued by life insurance companies. Consequently, this amendment has been introduced. The measure may increase the cost of insurance products and discourage participation in insurance schemes.

33. Section 152. Payments to non-residents

Section 152(1DA) provides that every banking company maintaining a foreign currency value account (FCVA) or a non-resident Pakistani Rupee Value Account (NRVA) of a non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or CNIC shall deduct tax from capital gains arising on the disposal of debt instruments and government securities and certificates (including shariah compliant variant) invested through the aforesaid accounts.

The Finance Bill has proposed that the existing scope of withholding on capital gains be expanded by substituting sub-section (1DA) of section 152 which only included FCVA to now include Foreign Currency Business Value Account (FCBVA) and a Non-Resident Rupee Business Value Account (NRBVA).

This entails that banking companies maintaining such accounts shall now deduct tax on capital gains arising from disposal of debt instruments, Government securities and certificates (including Shariah-compliant instruments) invested through these accounts at the applicable rate. It appears that the proposed amendment seeks to broaden the withholding regime to cover additional foreign currency and non-resident investment channels. Further, the requirements that the non-resident accounts shall be of a non-resident individual holding POC, NICOP or CNIC have also been omitted.

34. Section 154B. Withholding tax on revenues Received from social media platforms.

The Finance Bill has proposed that a new section 154B shall be inserted to introduce a withholding tax regime on revenues received from social media platforms, whereby, every banking and non-banking financial institution shall deduct tax at the time of credit or receipt of any amount in a person's account where such amount represents revenue received from digital platforms such as YouTube, Facebook, Instagram, TikTok or similar platforms.

The proposed amendment has defined "digital content creator" and "payment" being broadly defined to include monetized content income and all forms of inward remittances through banking channels.

Division IIIAB provides that the rate of tax to be deducted under Section 154B shall be 5% in case of resident persons whose name appears on the Active Taxpayers' List, and 5% in case of non-resident persons not having a Permanent Establishment, with a proviso which states that the tax collected from non-

resident persons shall be treated as final tax. The Board may prescribe by a notification in the official gazette rules for implementation, including identification and reporting mechanisms.

However, previously, FBR had issued draft amendments through SRO 545(I)/2026 and SRO 546(I)/2026 whereby a detailed computation framework was proposed based on Revenue per Mille (“RPM”), fixed at PKR 195 per 1,000 YouTube views, along with thresholds of 50,000 subscribers annually or 12,250 per quarter to determine systemic and continuous digital engagement. The said SRO’s sought to insert new Chapters VA and IIA into the Income Tax Rules, 2002, thereby introducing a special procedure for taxation of income from remunerative social media content for both resident and non-resident persons.

Under the proposed framework, the computation of income was to be carried out in two stages:

Firstly, the total remuneration was to be determined as the higher of (i) RPM multiplied by average views per content and total number of posts during the year, or (ii) actual receipts in cash or kind. Further, taxable income was to be computed by deducting expenses capped at 30% of total revenue. The rules further proposed, inter alia, quarterly advance tax liability, mandatory disclosure in a special segment of the income tax return.

However, it is important to note that these SROs were issued as a draft amendment. Therefore, their status is unclear as to whether the said SRO’s translated into

permanent features of the Income Tax Rules, 2002.

Further, the previous SRO issued was based on an assumption of revenue per mille, whereas, the newly proposed Section 154B is based on revenue receipts. Considering the newly proposed withholding tax is minimum tax for residents and final tax on non-residents, the treatment of advance tax that was proposed to be submitted as per Rules 13ZL and 190 introduced vide the Draft SROs remains unclear.

Further, the tax deducted under this it as minimum tax for residents and final tax for non-residents without a permanent establishment in Pakistan.

While it appears that the proposed amendment may improve documentation and revenue collection, it increases compliance burden and reduces net receipts for the digital content creators, particularly for small and emerging content creators.

This will promote payment through unregulated foreign digital banks.

35. Section 159. Exemption or lower rate certificate

The Finance Bill has proposed amendment in section 159, which pertains to issuance of exemption or lower rate certificates, whereby it is proposed that after sub-section (1B), new sub-sections (1C) and (1D) shall be inserted.

For subsection (1C), it is proposed that where a person has distributed 90% or more of its accounting income among unit or certificate holders or shareholders, in accordance with the provisions of clause (99) of Part I of the

Second Schedule, for the last three years, such person shall be eligible for issuance of an exemption certificate under sub-section (1), and the certificate shall be issued for the subsequent whole tax year. This amendment is applicable to Collective Investment Scheme, a REIT Scheme including Special Purpose Vehicle.

For subsection (1D), it is proposed that where a person has been granted approval under section 2(36)(c) for a tax year, such person shall be eligible for issuance of an exemption certificate under sub-section (1), and the certificate shall be issued for that whole tax year.

The amendment facilitates ease of doing business by reducing procedural delays and extending exemption certification for a whole tax year.

information shall be routed through the Compliance Risk Management (“CRM”) system for proceedings through the National Faceless Centre.

It is also proposed that strict confidentiality safeguards shall apply to such data. The proposed section also provides detailed definitions for reporting period, accounts, peak credits, Central Data Hub, and CRM system.

The amendment significantly expands financial surveillance and reporting obligations on banking institutions and large account holders, which may raise serious concerns regarding data privacy and over-monitoring. It may also result in heightened compliance costs and greater scrutiny of legitimate high-value transactions.

36. Section 165AB. Reporting of financial transaction data by banking companies and financial institutions

The Finance Bill has proposed that a new section 165B shall be inserted whereby it is proposed that banking companies and Electronic Money Institutions (“EMIs”) shall electronically upload financial transaction data of account holders having deposits or withdrawals exceeding one hundred million Rupees during a reporting period to a Central Data Hub for algorithmic cross-matching of tax and banking information, including details of deposits, withdrawals, balances, and peak credits.

It is further proposed that such data shall be digitally processed without any visibility to Income Tax authorities at the initial stage, and in case of significant mismatch, the

37. Section 169. Tax collected or deducted as a final tax

The Finance Bill has proposed amendment in section 169, which pertains to treatment of tax collected or deducted as final tax, whereby it is proposed that in clause (b) of sub-section (1), mention of clause (b) of sub-section (3) of section 154B (withholding tax on social media revenues in the case non-resident person not having a permanent establishment) shall be included within the final tax regime.

This entails that tax deducted under the newly introduced section 154B on revenues from social media platforms in the case of non-resident person not having a permanent establishment shall be treated as final tax.

38. Section 174. Records.

The Finance Bill has proposed amendment in section 174, which pertains to maintenance of records and tax documentation by taxpayers, whereby it is proposed that sub-section (5) shall be substituted to expand the Board's powers to mandate electronic systems and integrated compliance mechanisms. Previously, the Commissioner was empowered to require any person to install and use an Electronic Tax Register for recording transaction-level tax information. Now, this power has been vested in the Board.

Following the proposed amendment, the Board may require any person or class of persons to install electronic systems or operate as an integrated enterprise for receiving, storing, matching, and accessing transaction data relevant to tax liability.

The proposed amendment centralizes such enforcement powers at the Board level.

39. Section 175AA. Exchange of banking and tax information related to high-risk persons

The Finance Bill has proposed amendment in section 175AA, which pertains to exchange of banking and tax information for high-risk persons for cross-matching purposes, whereby it is proposed that the scope of data sharing and institutional coordination mechanism be significantly expanded to include the State Bank of Pakistan ("SBP"), microfinance banks, and EMIs, and further the SBP is to establish a centralized banking data repository. to facilitate automated collection, matching, and transmission of financial information.

The amendment expands financial surveillance and data sharing. This may raise concerns regarding data privacy and significantly enhance compliance and reporting obligations across the financial sector.

40. Section 177. Audit

The Finance Bill has proposed amendment in section 177, which pertains to audit of income tax affairs and powers of the Commissioner to examine records and determine taxable income, whereby it is proposed that a new sub-section (6B) shall be inserted empowering the Commissioner to mandate re-audit and specialist valuation in complex cases.

It is proposed that where, during audit proceedings, the Commissioner is of the opinion, based on complexity or volume of accounts, doubts regarding correctness, multiplicity of transactions, or specialised nature of business, **and** in the interest of revenue, that it is necessary, he may, after giving an opportunity of being heard and with prior approval of the Chief Commissioner, direct the taxpayer to obtain either or all of the following:

- (i) re-audit of accounts by an accountant;
- (ii) re-valuation of inventory by a cost accountant; and / or
- (iii) actuarial valuation of accounts by an actuary,

The accountant, cost accountant, or actuary duly certified furnish reports along with responses to specific queries of the Commissioner.

It is further proposed that the accountant, cost accountant, or actuary shall be nominated by the Commissioner from a panel notified by the Board.

Comments:

The term “accountant” has not been defined under the ITO. Therefore, it is not clear as to who will be construed as an accountant for the purposes of this section.

Further, the amendment expands the Commissioner’s audit powers by introducing mandatory re-audit and specialised valuations where the Commissioner deems fit, thereby increasing compliance cost and procedural burden on taxpayers. Further, the power of the Commissioner to nominate accountants, cost accountants, and actuaries from a panel notified by the Board raises concerns regarding impartiality and independence of the process, as the taxpayer has no role in the selection / nomination mechanism. This framework may create an appearance of lack of neutrality, further may tilt the process in favour of the tax administration.

41. Section 182. Offences and penalties.

The Finance Bill has proposed amendment in section 182, whereby it is proposed that the Explanation to S. No. 1, which pertains to penalties for failure to furnish return of income under section 114 within the due date in the penalty table, shall be substituted to redefine the expression “tax payable”, as the penalty is on the higher of 0.1% of the tax payable in respect of that tax year for each day of default or rupees one thousand for each day of default.

It is proposed that “tax payable” shall mean the higher of:

- (i) tax chargeable on the taxable income based on assessment made or treated to have been made under sections 120, 121, 122, 122D or 122E; or
- (ii) the highest tax payable by the person in any of the three immediately preceding tax years for which returns were duly filed.

The proposed amendment enhances the penalty base by linking it to the higher of current assessed tax or historical tax liability, thereby increasing exposure for taxpayers and making penalty for non-filing significantly harsh, particularly. On the upside, this proposed shall encourage people who were previously non-filers to diligently file their return.

Further, the following amendments in section 182 have been proposed:

- S. No. 8: It is proposed that penalties for failure to produce records during audit proceedings shall be increased from Rs. 25,000, Rs. 50,000 and Rs. 100,000 to Rs. 100,000, Rs. 200,000 and Rs. 300,000 respectively.
- S. No. 10: It is proposed that the penalty for making false or misleading statements shall be increased from Rs. 25,000 or 100% of tax shortfall (whichever is higher) to Rs. 500,000 or 100% of tax shortfall (whichever is higher).
- S. No. 12: It is proposed that the fixed penalty for concealment of income or furnishing inaccurate particulars shall be increased from Rs. 100,000 to Rs. 1 million, while the alternative penalty equal to the tax sought to be evaded shall continue to apply.

- S. No. 15: It is proposed that the fixed penalty for failure to deduct or collect withholding tax shall be increased from Rs. 40,000 to Rs. 500,000, and where the defaulter is a company, its principal officer shall be personally liable for an additional penalty of Rs. 500,000.
- S. No. 35: It is proposed that the failure to fully disclose required particulars in the return of income or furnishing blank, incomplete, or irrelevant annexures, statements, or document shall apply to all persons, including companies. It is further proposed that audited financial statements furnished in the form of image files, scanned documents, password-protected files, or otherwise inaccessible documents shall be deemed to be blank or incomplete documents for the purposes of this penalty provision.
- New S. No. 36 (Section 168): It is proposed that where a person claims withholding tax credit in excess of the amount verifiably deducted and deposited, a penalty equal to the amount of excess credit claimed shall be imposed.

The proposed amendment has increased the quantum of the penalty quite substantially, even more than 100% in some cases. The proposed amended penalty provisions expose the taxpayers to substantial minimum amounts of penalties even for deficiencies in document accessibility or formatting. A question arises that if the penalty provisions have been proposed to be amended to generate revenue, going against the well settled principle that penalty provision cannot be used to generate revenue.

42. Section 182A. Return not filed within due date

The Finance Bill has proposed amendment in section 182A, which pertains to exclusion from the Active Taxpayers' List ("ATL") for failure to file a return of income within the prescribed due date and the surcharge levied thereon for restoration of status to the ATL, whereby it is proposed that the surcharge payable for inclusion in the ATL after late filing shall be substantially increased.

It is proposed that the surcharge for restoration to the ATL shall be increased from Rs. 20,000 to Rs. 100,000 in the case of a company, from Rs. 10,000 to Rs. 50,000 in the case of an association of persons, and from Rs. 1,000 to Rs. 25,000 in the case of an individual.

The amendment significantly increases the financial cost of late filing and restoration to the ATL, particularly for individuals where the surcharge is proposed to increase substantially. While it is intended to encourage timely compliance, the measure may be viewed as disproportionately punitive, especially for small taxpayers and scenarios where the default is inadvertent.

43. Section 209A. Uniform

The Finance Bill has proposed amendment in section 209A, which pertains to the power of the Board to prescribe uniforms for officers and staff of the Inland Revenue Service of Pakistan, whereby it is proposed that the said section shall be omitted.

The omission removes the statutory authority of the Board to prescribe rules regarding uniforms for officers and staff of the Inland Revenue Service.

The amendment appears to be administrative in nature and does not have impact on taxpayers, tax administration, or revenue collection. However, it may indicate a shift away from maintaining a formal uniform within the Inland Revenue Service.

44. Section 209B. Faceless jurisdiction of income-tax authorities

The Finance Bill has proposed insertion of a new section 209B, which pertains to the Faceless jurisdiction of Income Tax Authorities, whereby it is proposed to establish a National Faceless Centre and empower Inland Revenue authorities posted therein to perform functions and exercise powers through algorithm-based allocation of cases.

In Sub-section (1), it is proposed that Inland Revenue authorities posted in the National Faceless Centre shall perform such functions and exercise such powers as may be assigned by the Board through algorithms in respect of specified persons, classes of persons, or tax years.

In Sub-section (2), it is proposed that the jurisdiction assigned to the National Faceless Centre may be exclusive or concurrent, with unassigned functions remaining with the jurisdictional Commissioner.

In Sub-section (3), it is proposed that the Board may transfer a case from the National Faceless Centre back to the jurisdictional Commissioner, either on the recommendation of the Chief Commissioner or on its own motion.

In Sub-section (4), it is proposed that the Chief Commissioner of the National Faceless Centre may request physical verification through the jurisdictional Commissioner or any other Income Tax Authority, and such verification may also be allocated through an algorithm-based system.

In Sub-section (5), it is proposed that the identity of the tax authority exercising jurisdiction through the National Faceless Centre shall remain confidential from the taxpayer and the taxpayer's representative.

In Sub-section (6), it is proposed that notices, orders, demands, or assessments issued by the National Faceless Centre shall not be challenged merely on the grounds of jurisdiction, delegation of powers, or confidentiality of the officer's identity.

The proposed amendment seems to be aimed at reducing direct interaction between taxpayers and tax officers, promoting uniformity, transparency, and automated case allocation through a centralized faceless system.

45. Section 216. Disclosure of information by a public servant

The Finance Bill has proposed amendment in section 216, which pertains to disclosure of information by a public servant, whereby it is proposed to expand the categories of persons and institutions to whom taxpayer information may be disclosed under prescribed safeguards.

Clause (ba) is proposed to be substituted wherein it is proposed that, in addition to auditors engaged on a contractual basis or through third parties, audit mentors and

sectoral experts may also be engaged subject to execution of a non-disclosure agreement, for assisting the authorities specified in section 207.

In Clause (ke), it is proposed that taxpayer data, after anonymization, may also be shared with international research institutions, in addition to recognized universities and international donor agencies.

The amendment may enhance the FBR's audit capacity by allowing the engagement of specialized experts and may facilitate tax policy research and data-driven analysis through collaboration with research institutions. However, confidentiality safeguards and anonymization requirements have been retained, the expansion of persons and institutions having access to taxpayer information may raise concerns regarding data privacy, confidentiality, and the potential risk of unauthorized disclosure or misuse of sensitive taxpayer information.

46. Section 222. Appointment of expert

The Finance Bill has proposed amendment in section 222, which pertains to the appointment of experts by the Commissioner and appointment of auditors by the Board for carrying out functions under the ITO, whereby it is proposed that the scope of engagement under this section be expanded through enhanced reliance on external professionals such as audit mentors and sectoral experts.

It is important to note that increased reliance on externally appointed experts and auditors may raise concerns regarding accountability

47. Section 227D. National faceless centre

The Finance Bill has proposed substitution of section 227D, which previously pertained to an automated impersonal taxation regime aimed at minimizing direct interaction between taxpayers and tax authorities, whereby now it is proposed that a comprehensive National Faceless Centre be established to conduct tax proceedings through an algorithm-driven and fully digital framework.

In sub-section (1), it is proposed that the Board may establish a National Faceless Centre to conduct proceedings under the ITO in a faceless manner and assign its jurisdiction, powers, and functions.

In sub-section (2), it is proposed that the Centre shall consist of a Director General and a broad range of Inland Revenue officers such as many Chief Commissioners, Commissioners, Additional Commissioners, Deputy Commissioners, Assistant Commissioners, along with support staff as determined by the Board.

In sub-section (3), it is proposed that the Board may design algorithms for allocation of jurisdiction and assignment of functions to officers within the Centre.

In sub-section (4), it is proposed that the Centre may be structured into multiple wings and units as prescribed by the Board.

In sub-section (5), it is proposed that audit, assessment, and quality control functions in a given case shall be segregated and performed by separate officers.

In sub-section (6), it is proposed that all communications between tax authorities, taxpayers, and representatives shall be conducted exclusively through electronic means.

The amendment proposes a technology-driven faceless tax administration system, which may enhance efficiency, reduce human discretion, and promote uniformity and transparency in tax proceedings.

However, the extensive reliance on technology and lack of human oversight in complex or sensitive tax matters may cause issues.

48. Section 228A. Directorate General (Field Compliance), Inland Revenue

The Finance Bill has proposed insertion of a new section 228A, which pertains to the establishment of the Directorate General (Field Compliance), Inland Revenue for monitoring and enforcement of tax compliance, whereby it is proposed to create a structured field compliance directorate with defined staffing and delegated powers.

The amendment strengthens field-level enforcement by establishing a dedicated compliance directorate. However, this delegation of jurisdiction and powers may raise concerns regarding overlapping authority, potential jurisdictional ambiguity.

49. Section 231B. Advance tax on motor vehicles

The Finance Bill has proposed amendment in section 231B, which pertains to advance tax on motor vehicles, specifically in subsection (6) which defines the expression date of first registration for the purposes of levy of such

tax. It is proposed that clause (c), which provided that the “date of first registration” in case of unregistered vehicles acquired from the Federal or Provincial Government shall be the last day of the year of manufacture, shall be omitted.

50. Section 237C. Uniform

The Finance Bill has proposed insertion of section 237C, which pertains to whereby it is proposed that the Board may notify rules for wearing of uniform by officers and staff of the Inland Revenue Service of Pakistan. through the official Gazette.

It is pertinent to note that the earlier provision on the same subject, i.e. section 209A, which empowered the Board to prescribe uniforms for Inland Revenue officers, has simultaneously been omitted through the same Finance Bill, while a verbatim similar provision has now been reintroduced as section 237C, thereby retaining the substance of the earlier law under a different section number.

1. Definitions | Section 2

A. The Bill has proposed to introduce following **new definitions** in the Act:

- a) “Advance receipt Invoice” is proposed to mean an invoice in the format as notified by the Board (see point 5)
- b) “Algorithmic Settlement Mechanism” is proposed to mean the mechanism as provided under section 26AAA of the Act. However, the mechanism has been provided under newly introduced section 47AA instead of section 26AA (see point 14).
- c) “Electronic invoicing system” is proposed to mean such electronic system or mechanism as may be prescribed or approved by the Board for issuance and recording of sales tax invoices in electronic form.
- d) “National faceless centre” is proposed to mean National faceless centre as defined in section 32C of the Act (see point 9).
- e) “Production monitoring system” is proposed to mean any system or technology, used for the purposes of monitoring production and sale of goods, whether in real-time or otherwise, including such systems or technologies as may be prescribed by the Board from time to time (see point 11 also).

B. The bill further proposes the following amendments in the definition of “Tier-1 retailer” as under:

- a) Currently, a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the

consumers is treated to be a Tier-1 retailer. Now the bill has proposed to restrict the definition to only those wholesaler-cum-retailer having turnover more than 200 million.

- b) Currently, a retailer who has acquired point of sale for accepting payment through debit or credit cards from banking companies or any digital payment service provider authorized by State Bank of Pakistan is treated to be a Tier-1 retailer. Now the bill proposes to remove such retailer from the definition of Tier-1 retailer.
- c) Currently, a retailer is treated to be a Tier-1 retailer whose deductible withholding tax under sections 236G or 236H of the ITO during the immediately preceding twelve consecutive months has exceeded the threshold as may be specified by the Board through notification in the official Gazette. The bill now proposes to amend the condition, whereby, a retailer having turnover exceeding two hundred million rupees either by way of declaration or from worked back value of turnover from tax deduction under section 236G or 236H of the ITO during the immediately preceding twelve consecutive months will be treated to be a Tier-1 retailer. In short, the bill proposes to introduce the threshold of 200 million rupees to be treated as the Tier-1 retailer.
- d) Currently, the Board is empowered to include any other person or class of persons in the definition. The bill now proposes to empower the Board to exclude any person or class of person through a notification.

- C. Currently, the term “Time of supply” means the time at which the goods are delivered or made available to the recipient of the supply or the time when any payment is received by the supplier in respect of that supply, whichever is earlier

The bill now proposes to explain the term “goods are delivered or made available” as the time when the goods become ready for dispatch from the business premises including but not limited to factory, warehouse, godown or branch.

- D. Under the definition of “Value of supply”, the bill proposes to extend powers of the Board and proposes that the Board may use the valuation of such goods as notified by Pakistan Bureau of Statistics immediately before the start of tax period. The Board may also where deems fit outsource the functions of valuation of goods to third party in the mode and manner as may be prescribed.

2. Time and manner of payment | Steel melters, steel re-rollers and composite units | Section 6

The bill proposes that the case of steel melters, steel re-rollers and composite units, the tax shall be collected on the basis of per unit electricity consumption at the rate as prescribe by the Board, through notification in the official Gazette. The tax so collected shall be adjustable and the excess amount, if any, shall be refunded on monthly basis through Board’s automated refund system to those registered persons who integrate with the Board’s prescribed production monitoring and digital invoicing systems.

For example the notified rate is 1,000 per unit of electricity consumed and the taxpayer consumes 1,500 units during the month. The Board shall collect Rs. 1,500,000 (1,000 x 1,500). This tax so collected will be adjustable and if the sales tax liability for the month is Rs. 1,200,000, the excess Rs. 300,000 will be refunded to the taxpayer through Board’s automated refund system.

3. 90% Limit of Input Adjustment | Section 8B

Currently, a registered person is not allowed to adjust input tax in excess of ninety per cent of the output tax for that tax period. The Bill now proposes to empower the Board to reduce or enhance the limit of 90% for any registered person on the basis of compliance or non-compliance with the production monitoring, digital invoicing, e-bility, POS, or any other electronic system prescribed by the Board for digital integration of data.

4. Faceless Audit and Assessment | Section 11H

The proposed section 11H introduces the concept of faceless audit and assessment under the Sales Tax Act, 1990. It empowers the FBR to conduct audits under sections 25 and 72B, pass orders under section 11E, and carry out rectification proceedings under section 57 through an electronic and faceless mechanism, as prescribed by the Board.

The Board will specify the persons, classes of persons, incomes, or cases to which the faceless regime will apply. The existing provisions of section 25 relating to audits will continue to apply to such proceedings.

Where a hearing or recording of statement under oath is required under section 37, the same will be conducted through E-hearing. The proposed section also provides confidentiality to the officer conducting the E-hearing by keeping their facial and voice identity undisclosed.

5. Tax Invoices | Section 23

Currently, section 23 provides for issuance of Tax Invoices in case of Taxable supplies only. The bill now proposes the invoice shall be issued in case of Exempt supplies also.

The bill also proposes to mandate the issue of an advance receipt invoice. The board is also proposed to be empowered any person or class of persons who may be allowed to issue an advance receipt invoice within the notified system. The bill also provides that the condition of verifiable and unique FBR invoice number shall be applicable from a time as notified by the Board

6. Audit of Sales Tax Affairs | Section 25

The proposed amendments to section 25 of the Act introduce additional powers and procedural changes in audit proceedings.

A new sub-section 8A empowers the Commissioner, with prior approval of the Chief Commissioner, to direct a registered person to have accounts re-audited by an accountant or inventory re-valued by a cost accountant in cases involving complex accounts, high transaction volumes, doubts regarding correctness of records, multiplicity of transactions, or specialized business activities. The accountant or cost accountant

will be nominated by the Commissioner from a panel approved by the Board.

New sub-section 8B requires the Inland Revenue officer to issue a formal audit report after completion of the audit and after obtaining the taxpayer's explanation on all audit issues. The report will contain audit observations and findings.

Consequential amendments have also been proposed in sub-sections (9) and (11). The reference to "completion of audit" has been replaced with "issuing the audit report". Further, the wording relating to payment of tax during audit proceedings has been revised, and the requirement under the second proviso has been relaxed from payment of the full amount to payment of fifty percent of the amount involved.

The term "Accountant" has not been defined in the bill as the term may create ambiguity. It is also worthwhile to consider whether the "accountant" referred in the proposal is allowed to perform a re-audit as per their by-laws or regulations.

7. Faceless Jurisdiction | Section 30AA

The proposed section 30AA introduces the concept of faceless jurisdiction through the establishment of a National Faceless Centre.

Under this framework, Inland Revenue authorities working in the National Faceless Centre will perform functions and exercise powers assigned through algorithm-based allocation systems developed by the Board. Such jurisdiction may be exclusive or concurrent with existing field formations.

The Board will have the authority to transfer cases from the National Faceless Centre to the jurisdictional Inland Revenue officer for a specific tax period, either on its own motion or upon recommendation of the Chief Commissioner.

The proposed section also allows the Chief Commissioner of the National Faceless Centre to seek physical verification from jurisdictional officers or other authorities regarding business activities, assets, investments, expenditures, or other matters relevant to proceedings being conducted facelessly. Allocation of such verification may also be made through algorithms.

A key feature of the proposed regime is confidentiality of the identity of officers working in the National Faceless Centre. Their identity will remain undisclosed to taxpayers, authorized representatives, and other persons.

The proposal further provides legal protection to notices, orders, and communications issued under the faceless regime by stating that such actions will not be invalid merely because the issuing authority lacked territorial jurisdiction under section 30, lacked delegated powers under section 32, or because the identity of the officer was kept confidential.

It should also be noted here that the Faceless Jurisdiction concept is similar to the Functional Jurisdiction framework introduced in around 2001. The 2001 functional jurisdiction framework shifted the tax administration structure away from purely territorial jurisdiction toward function-based administration. Different officers or units were assigned separate

functions such as audit, enforcement, refund processing, and assessment, regardless of geographical location.

8. Directorate General (Field Compliance) Inland Revenue | Section 30DDDB

The proposed section 30DDDB establishes the Directorate General (Field Compliance) Inland Revenue under the Sales Tax Act, 1990.

It provides for a formal structure headed by a Director General, supported by Directors, Additional Directors, Deputy Directors, Assistant Directors, and other officers as notified by the Board in the official gazette.

The Board will define the functions and jurisdiction of the Directorate General and its officers through notification. It will also assign and delegate powers of Inland Revenue authorities under section 30 to this Directorate and its officers.

9. National Faceless Centre | Section 32C

The proposed section 32C establishes a National Faceless Centre under the Sales Tax Act, 1990 to handle tax proceedings through a digital, algorithm-driven system.

It authorizes the Board to set up the Centre, define its jurisdiction, and assign its powers and functions. The Centre will consist of a Director General, Inland Revenue officers, and support staff as notified by the Board.

Work allocation within the Centre will be managed through Board-designed algorithms, which will assign functions and jurisdiction to officers. The Centre may also

be organized into multiple wings and units as prescribed.

A separation of roles is required, meaning audit, assessment, and quality control for a single case and tax period will be handled by different officers to ensure functional independence.

All communication within the Centre, between its units, and with taxpayers or their representatives will take place exclusively through electronic systems.

10. Penalties | Section 33

The bill proposes to amend the penalties and significantly increases the financial consequences for non-compliance and introduce new penalties relating to invoice fraud and unmatched input tax claims.

Key proposed changes include:

- The fixed penalty is proposed to increase from Rs. 10,000 to Rs. 50,000. For returns filed within ten days after the due date, the daily penalty is proposed to increase from Rs. 200 per day to Rs. 2,000 per day.
 - The penalty is proposed to increase from Rs. 5,000 or 3% of tax involved to Rs. 25,000 or 5% of tax involved, whichever is higher.
 - The penalty is proposed to increase from Rs. 10,000 or 5% of tax involved to Rs. 50,000 or 10% of tax involved, whichever is higher.
 - The fixed penalty is proposed to increase from Rs. 10,000 to Rs. 50,000, while the daily default penalty within ten days is proposed to increase from Rs. 500 per day to Rs. 5,000 per day.
- The penalty is proposed to increase from Rs. 10,000 to Rs. 50,000 or 5% of tax involved, whichever is higher.
 - The penalty is proposed to increase from Rs. 10,000 to Rs. 50,000 or 5% of tax involved, whichever is higher.
 - Existing law provides for a penalty up to Rs. 1 million and possible sealing after two months of continued default. The proposal introduces a second penalty up to Rs. 5 million after one month of continued default and permits sealing of business premises with or without prior penalty.
 - New penalties are proposed where a registered person issues fake invoices without actual supply of goods or services. The person will be liable to penalty equal to the face value of the fictitious invoices. The Board will also publish the taxpayer's name and registration number on a public "simulated invoice issuers register." Input tax claimed by counterparties on the basis of such invoices will automatically become inadmissible.
 - A new penalty of 20% of unmatched input tax is proposed where the Board's computerized system identifies input tax claims that do not match the supplier's declared output tax.
 - Failure to reverse inadmissible input tax linked to fake invoice issuers: A further penalty of 20% of unreversed input tax is proposed where a taxpayer fails to reverse input tax within sixty days after the supplier is placed on the simulated invoice issuers register.

11. Monitoring or tracking by electronic or other means | Section 40C

The proposed amendments to Section 40C aim to modernize and strictly enforce the tax monitoring framework for taxable goods.

The primary change to sub-sections (2) and (3) serves to refine the language regarding the mandatory affixation of tax stamps and the implementation of monitoring systems. The Board clarifies that taxable goods must either bear physical identifiers like tax stamps and labels or be subjected to digital oversight mechanisms such as video analytics or a Production Monitoring System. Additionally, the amendment to sub-section (3) streamlines the procurement process by establishing that registered persons must acquire the necessary monitoring equipment and identifiers from a Board-appointed licensee, while notably removing the explicit reference to the "price approved by the Board." This could signal a shift in how these costs are regulated or contracted between the licensee and the manufacturer.

The most significant and punitive addition is the new sub-section (6). This provision introduces a clear legal basis for the seizure and confiscation of any taxable goods that fail to comply with the prescribed monitoring, tracking, or identification requirements. This enforcement power extends beyond the goods themselves to include the conveyance used to transport the non-compliant items. By explicitly linking the physical movement of goods to the mandatory monitoring systems, this amendment significantly increases the risk profile for non-compliance, aiming to curb tax evasion and the circulation of illicit goods within the market.

12. Sale of confiscated goods by auction | Section 40F

The proposed section 40F introduces rules for sale of confiscated goods under the Sales Tax Act, 1990.

It requires that goods confiscated under the Act be sold through public auction. The Board may conduct these auctions through electronic systems as well. The process must follow Public Procurement Regulatory Authority Rules, 2014.

The proceeds from the sale will be distributed in a set order. First, expenses of the sale will be deducted. Next, all applicable taxes, duties, penalties, and surcharges owed to the Federal Government in relation to the goods will be paid. Any remaining balance will be given to the owner of the goods, provided the owner applies within six months of the sale. If no claim is made within this period, the balance will go into the government treasury. In cases involving declared goods, the importer's share in the proceeds will not exceed the declared value of the goods.

13. Faceless Appeals | Section 45C

The proposed section 45C introduces faceless appeals.

It allows appeals filed under section 45B to be processed through the National Faceless Centre as prescribed by the Board. The existing legal framework of section 45B will continue to apply to these appeals, even when handled in the faceless system.

14. Algorithmic Settlement Mechanism | Section 47AA

The proposed section 47AA introduces an algorithmic settlement mechanism.

It allows the Board to create a digital system that offers settlement of tax disputes before issuance of final orders under sections 11D or 11E. The system will generate settlement offers based on factors such as the stage of proceedings, taxpayer compliance history, nature of discrepancies, and other criteria defined by the Board.

A registered person may accept the settlement offer through the IRIS system and must deposit the amount within ten days. Once payment is made, the related issues raised in notices or audit reports will be treated as settled and will no longer proceed.

The settlement will only apply to the specific issues covered in the offer. It will not prevent action on other unrelated issues or on different tax periods.

15. Independent Case Scrutiny Committee | Section 47AAA

The proposed section 47AAA introduces an independent case scrutiny committee.

It requires that any reference before the High Court, or appeal or review before higher courts, can only be filed by the Commissioner Inland Revenue after approval from this committee. The Board will form one or more committees and assign them tax litigation cases or classes of cases decided by the Appellate Tribunal or High Court.

Each committee will include a retired judge of the Supreme Court, Federal Constitutional Court, or a High Court as chairperson, an experienced tax and commercial litigation lawyer from a Board-notified panel, and a senior serving or retired FBR officer of grade BS-20 or above.

The committee will operate under procedures and remuneration rules prescribed by the Board. Its recommendations will be binding on the Commissioner Inland Revenue handling the case.

Members of the committee and the Commissioner will have legal protection, shielding them from lawsuits, prosecution, or legal proceedings for actions taken under this section. The committee's powers will apply from the date of its official notification.

16. Disclosure of Information by a Public Servant | Section 56B

The proposed amendment to section 56B of the Act introduces a limited exception to the existing confidentiality framework for tax information.

It allows the Board to share data from sales tax returns of registered persons within the same sector among other registered persons of that sector. This sharing is intended to improve market fairness and strengthen tax compliance.

The disclosure will remain subject to strict non-disclosure agreements. The Board will also set conditions, limits, and restrictions for such data sharing.

17. Third Schedule

The following new items have been proposed to be added to the Third Schedule:

S. No.	Description	PCT / Heading
56	Vegetable and animal fats and oils, sold in retail packing.	Respective headings
57	Sugar confectionery, sold in retail packing.	Respective headings
58	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing.	19.02
59	Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing.	Respective headings
60	Fermented beverages, sold in retail packing.	Respective headings
61	Petroleum jelly, paraffin wax, micro-crystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not coloured, sold in retail packing.	27.12

62	Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale.	38.08
63	Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing.	39.19, 39.20, 39.21
64	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing.	Chapter 39
65	Trunks, suit-cases, vanity-cases, executive-cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping-bags, wallets, purses, map-cases, cigarette-cases, tobacco-pouches, tool bags, sports bags, bottle-cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or composition leather, sheeting of plastics, textile materials, vulcanised fibre or paperboard, or wholly or mainly covered with such	42.02

	materials or paper, put up for retail sale.	
66	Footwear (all types).	Respective headings
67	Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing.	Respective headings
68	Crockery items, sold in retail packing.	Respective headings
69	Car and automobile accessories, sold in retail packing.	Respective headings
70	Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing.	Respective headings
71	Preparations for use on the hair, sold in retail packing.	33.05
72	Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties, sold in retail packing.	33.07
73	Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding	4803.0000, 48.18

	and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface-coloured, surface-decorated or printed, in rolls or sheets, put up for retail sale.	
74	Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter; other fruit and vegetable preparations, sold in retail packing.	20.07, 20.08
75	Household utensils, including stainless steel, aluminum, melamine and other utensils and tableware.	Respective headings
76	Ceramic products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale.	69.10

18. Sixth Schedule

The bill proposes following amendments in the Sixth Schedule (exempt items):

- Magazines and items corresponding to the tariff headings 4902.1000, and have been added to the list of exempt items.
- Currently, Import of CKD (in kit form) of electric 4 wheeler vehicles (Small cars/SUVs with 50 Kwh battery or below; and Light commercial vehicles (LCVs) with 150 kwh battery or below) by local

manufacturers is exempt till 30th June, 2026. The bill proposes to extend the exemption till 30th June, 2027.

- Currently, Import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL) is exempt from sales tax. The bill now proposes subject such exemption to the condition that the custom authorities shall ensure that the quantities of things imported are limited to the requirements of materials and articles to be used in operations and maintenance of the aircrafts operated by the airline. The bill also proposes that the ground handling equipment, service and operation vehicles, catering equipment and fuel trucks, not manufactured locally, and imported shall be used within airport premises as aforesaid.
- The bill proposes to add the following items to the list of exempt products:

	- Other vessels for the transportation of goods Excluding Cruise ships, excursion boats and similar vessels principally designed for the transport of persons; ferry-boats of all kinds Provided that the quantity of imported goods under this entry shall be approved by Ministry of Maritime Affairs	
185.	Import of bullet proof vehicles by the: (i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control (ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government.	Respective heading.

Serial No.	Description / Category	HS Code
182	Contraceptives	3926.9020 and 4014.1000
183	Female Sanitary Pads / Tampons	9619.0030
184	Import of: - Tankers, - Dredgers, - Floating or submersible drilling, or production platforms, - Others floating structures and vessels.	8901.2000, 8905.1000, 8905.2000, 8905.9000, 8901.9000

- The bill proposes to add the following items to the list of exempt products in Table-3:

		Column (3)
23	Import of following machinery/ equipment for upgradation of existing refineries: 1. Reactors, 2. Shell and Tube Exchangers, 3. Vessels (Strippers/ Separators/ K.O. Drums) 4. Trim Coolers, 5. Air Coolers (Condensers),	8419.8990, 8419.5000, 8419.8990, 8418.6990, 8419.8990, 8417.8000 8413.7090 8413.5000 8414.8090 8414.8090 8417.8000,

	6. Fired Heaters, 7. Centrifugal Pumps, 8. Reciprocating Pumps, 9. Centrifugal Compressors, 10. Reciprocating Compressors, 11. Steam Reformer Furnaces, 12. Filters, Provided that all such imports shall be essentially made for expansion of balancing, modernization, and rehabilitation of existing refineries and the quantity imported by each refinery shall be approved by Ministry of Petroleum and Natural Resources.	8421.3990
24	Import of machinery, equipment, raw materials, and components other capital goods, by Karachi Shipyard Engineering and Works Limited	Respective headings as approved by the concerned Division.

19. Eighth Schedule

The bill proposes the following amendments in the Eighth Schedule:

- Currently, following locally manufactured or assembled electric vehicle (4 wheelers) are subject to reduced rate of 1% till 30th June, 2026: (i) Small cars/ SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below. The bill now proposes to extend the expiry of the relief to 30th June 2027.
- Currently, supply of EV transport buses of 25 seats or more in CBU condition is subject to 1% reduced rate. The bill now proposes to also include Electric Trucks in the list.

20. Eleventh Schedule

The bill proposes following amendments to the Eleventh Schedule:

- Currently, in case of supplies from Persons other than Active Taxpayers to a Company, the sales tax is required to be withheld at 5% of the gross value of supply. The bill now proposes to also make Individuals and Association of persons liable to withhold sales tax in the same manner.
- In case of supplies of toll manufacturing services by an unregistered person to a registered person, the bill proposes that the registered person is required to withhold sales tax at the rate of 4 times of the tax charged on conversion charges.

21. Twelfth Schedule

- Currently, raw materials and intermediary goods imported by a manufacturer for in-house consumption (except certain exclusions) are not liable to be charged 3% value addition tax. The bill now proposes that the manufacturer shall be liable to pay 3% value addition tax on ad valorem basis, along with default surcharge in case the imported goods are supplied in the same state whether in the same packing, repacked, or in bulk
- The bill also proposes the prosecution of such person in the following case:
 - Benefit of waiver of 3% value addition tax is availed, declaring that the goods are imported for

- in-house consumption in manufacturing process;
- such imported goods are not used for in-house consumption:
 - imported goods are supplied in the same state whether in the same packing, repacked, or in bulk; and
 - such supply exceeds 50% of total imports in a financial year.

1. Special Excise Duty on Motor Vehicles | Section 3 | Table IA

S. No.	Description of goods	Heading/sub heading Number
	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2027 electric vehicles (4 wheelers) including station wagons, double cabin (4x4) pickup vehicles and racing cars:	87.03
		8704.2190
		8704.3190
	(a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc	40% ad val
	(b) of cylinder capacity exceeding 3000cc	41% ad val

2. First Schedule | Excisable Goods

The bill proposes to amend the First Schedule as under:

- The duty on Acetate tow is proposed to be reduced from 44,000 per kg to 10,000 per kg.
- The duty on E-liquids by whatsoever name called, for electric cigarette kits has been proposed to be increased from 10,000 per kg or 65% of retail price, whichever is higher to 16,500 per kg.

- The bill proposes to extend the duties on Imported and locally manufactured electric vehicles (4 wheelers), from 30th June 2026 to 30th June 2027.
- The bill proposes to impose duty on Electric cars, electric, SUVs, and electric pickup vehicles, imported for personal use in CBU condition as under:

import value including Custom Duty	Duty Rate
Not exceeding PKR 20 million	0%
Exceeding PKR 20 million and upto PKR 30 million	30%
Exceeding PKR 30 million	40%

- Currently, sugary fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral and aerated waters is subject to a duty of 20% of Retail price. The bill proposes to also exclude hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener from levy of such duty.
- The bill proposes to impose a 5% duty on base lubricating oil.
- The bill proposes to impose a duty of Rs. 80/Liter on Petroleum top Naphtha, White Spirit/Mineral Turpentine Oil (MTT), and Solvent Oil. The bill also proposes that the duty is collectible under sales tax mode with entitlement for adjustment with sales tax and vice versa.

3. First Schedule | Excisable Services

In case of services provided or rendered in respect of travel by air of passengers embarking on international journey from Pakistan, the bill proposes to reduce the duty as under:

Club, business and first class air tickets issued on or after the 1st day of July, 2026	Existing Duty Rate	Proposed Duty Rate
IATA Traffic Conference Area 1 (North, Central, South America and Environs)	250,000	50,000
IATA Traffic Conference Area 2 - Middle East and Africa	105,000	25,000
IATA Traffic Conference Area 2 - Europe	210,000	40,000
IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)	210,000	40,000

4. Second Schedule | Taxable Goods in Sales Tax Mode

The bill proposes to impose a duty of Rs. 80/Liter on Petroleum top Naphtha, White Spirit/Mineral Turpentine Oil (MTT), and Solvent Oil. The bill also proposes that the duty is collectible under sales tax mode with entitlement for adjustment with sales tax and vice versa.

5. Third Schedule | Conditional Exemptions

The bill proposes to exempt the excise duty on import of bullet proof vehicles by the:

- Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control
- By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government.

The Finance Act, 2022 through section 8, introduced Capital Value Tax (“CVT”) by prescribing the scope, valuation methodology, collection mechanism, and applicable rate structure in respect of foreign assets. The Finance Bill 2026 has proposed the abolishment of CVT on foreign assets. The following changes have been proposed.

1. Sub-section (2)(b) – Scope of taxable assets

Law before amendment:

Section 8(2)(b) provided that CVT was chargeable foreign assets of resident individuals exceeding Rs. 100 million.

Change proposed:

The Finance Bill 2026 has proposed omission of sub-section (2) and by omitting clause (b), thereby removing foreign assets of resident individuals from the scope of CVT.

2. Sub-section (3) – Valuation mechanism

Law before amendment:

Section 8(3)(c) prescribed valuation mechanism for foreign assets, including total cost of asset on the last day of tax year conversion of foreign currency assets into PKR.

Change proposed:

The Finance Bill 2026 has proposed omission of clause (c) of sub-section (3), thereby removing valuation provisions relating to foreign assets.

3. Sub-section (4) – Collection mechanism

Law before amendment:

Section 8(4)(g) required payment of CVT on foreign assets at the time of filing income tax return under prescribed manner.

Change proposed:

The expression referencing clauses “(ab), (ac) and (b)” was substituted to reflect omission of clause (b), restricting the collection mechanism to remaining asset categories.

4. Sub-section (13)(c) – Definitions

Law before amendment:

Clause (c) defined “foreign assets” in an expansive manner including immovable and movable assets held outside Pakistan.

Change proposed:

The Finance Bill 2026 has proposed omission of Clause (c) defining “foreign assets” was omitted in entirety.

5. First Schedule – Rate structure

Law before amendment:

The First Schedule prescribed CVT rates including:

- 1% on foreign assets

Change proposed:

S. No. 4 prescribing rates for foreign were omitted from the First Schedule.

Effect of Amendments

The Proposed Bill has curtailed the scope of CVT by removing foreign assets of resident individuals from both the chargeability and valuation framework.

The Bill proposes to amend section 3 of the Act by amending the Schedule and substituting Tables 2, 3, 4 and 5 with the following Tables, namely:-

Table 2 - Token Tax on Motor Vehicles

S.No	Category	Tax Rates for ICT
1	Engine capacity upto 1000 CC	20,000
2	Engine capacity from 1001 to 1300 cc	0.25 % of Invoice Value
3	Engine capacity from 1301 to 1500 cc	0.25 % of Invoice Value
4	Engine capacity from 1501 to 2000 cc	0.25% of Invoice Value
5	Engine capacity from 2001 to 2500 cc	0.35% of invoice Value
6	Engine capacity from 2501 and above	0.35% of invoice Value

Table 3 - Motor Cabs

S.No (1)	Category (2)	Tax Rates for ICT (3)
1	Engine capacity upto 1000 CC	600
2	Exceeding 1000cc but not more than 1300cc	1,000
3	Exceeding 1300cc but not more than 1500cc	1,700
4	Exceeding 1500cc but not more than 2000cc	2,500
5	Exceeding 2000cc but not more than 2500cc	3,400
6	Exceeding 2500cc	4,200

Table 4 - Public Service Vehicle

S.No (1)	Category (2)	Tax Rates in ICT Per seat per annum (3)
1	Vehicle (8 seater)	350
2	Vehicle (13 seater)	400
3	Vehicle (15 seater)	500
4	Vehicle (16 seater)	600
5	Vehicle (42 seater)	700
6	Vehicle (52 seater)	850

Table 5 - Commercial Vehicle/Loading Vehicles

S.No (1)	Category (2)	Proposed Rates (3)
1	Vehicles not exceeding 1250 KG in laden weight	500
2	Vehicles with maximum laden capacity exceeding 1250 KG but not exceeding 2030 KG	1,000
3	Vehicles with maximum laden capacity exceeding 2030 KG but not exceeding 4060 KG	1,000
4	Vehicles with maximum laden capacity exceeding 4060 KG but not exceeding 6090 KG	6,600
5	Vehicles with maximum laden capacity exceeding 6090 KG but not exceeding 8120 KG	6,600
6	Vehicles with maximum laden capacity exceeding 8120 KG	12,000
7	Vehicles with maximum laden capacity exceeding 8120 Kg, but not exceeding 12000 Kg	12,000
8	Vehicles with long trailers or other vehicles	18,000

	with maximum laden capacity exceeding 12000 Kg, but not exceeding 16000 Kg	
9	Vehicles with long trailers or other vehicles with maximum laden capacity exceeding 16000 Kg	24,000
10	Tractor (With trolley)	2,600
11	Tractor (Without trolley)	2,600."



Amendments in Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961



The Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961 (“the 1961 Ordinance”) provides the framework for levy, collection, exemption, and enforcement of Petroleum Levy on petroleum products through refineries, oil marketing companies, and licensees. The Finance Bill, 2026 has proposed significant structural amendments by introducing the concept of Climate Support Levy, redefining key terms, strengthening recovery mechanisms, and enhancing compliance and reporting obligations. The following amendments have been proposed.

1. Section 2 – Definitions (Company and Refinery)

Law before amendment:

Section 2(1) defined “company” as entities specified in the Second Schedule, including persons engaged in manufacturing, refining, or reclaiming lubricating oil. “Refinery” under clause (7) referred to refineries listed in the Fourth Schedule in a restrictive list-based manner.

Change proposed:

The Finance Bill, 2026 has proposed substitution of clause (1), whereby “company” is redefined to mean an oil marketing company and includes licensed persons engaged in manufacturing, refining, or reclaiming lubricating oil under OGRA licensing.

Further, new clauses (4E) and (4F) have been inserted introducing the definitions of “Oil Marketing Company” and “OGRA”. Clause (7) defining “refinery” has been substituted to mean a facility or industrial plant where crude oil is refined into petroleum products.

Subsequently, due to proposed change of definition of company and refinery in section 2(1) and 2(7) respectively, the Second Schedule (List of Companies) and the Fourth Schedule (List of Refineries) has been omitted

2. Section 3 – Levy framework and charging mechanism

Law before amendment:

Section 3(1) imposed Petroleum Levy on companies, refineries, and licensees at rates notified by the Federal Government. Sub-section (3) provided recovery of unpaid levy as arrears of land revenue.

Change proposed:

Section 3(1) has been substituted to provide that payment of Petroleum Levy and Climate Support Levy shall be deemed a condition of license issued by OGRA, and such entities shall be liable to pay levy at notified rates. Sub-section (3) has been omitted.

3. Insertion of new Section 3B and 3C – Late payment surcharge and recovery mechanism

The Finance Bill has proposed two sections 3B and 3C:

In newly proposed Section 3B, where Petroleum Levy and Climate Support Levy have not been paid by the prescribed date, such company shall also pay late payment surcharge calculated in the manner specified under Section 40D Public Finance Management Act, 2019, which provides that an amount equivalent to the monthly weighted average financing cost of the Federal Government’s domestic borrowings shall be payable during the period of default, where such amount is not paid within the stipulated time.

In newly proposed Section 3C, a dedicated recovery mechanism empowering Inland Revenue to recover outstanding levies, including strict limitations on instalment facilitation and mandatory reporting requirements.

4. Insertion of Section 4A – Mandatory reporting mechanism

A new section 4A has been inserted requiring monthly statement regarding levy payment supported by documentary evidence, along with an annual audited certificate from an Authorized Audit Firm registered with Audit Oversight Board under the SECP Act, 1997.



Amendments in Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961



Overall Effect of Amendments

The Finance Bill, 2026 has restructured the Petroleum Levy regime by (i) introducing Climate Support Levy as an additional fiscal instrument, (ii) shifting regulatory control towards OGRA-based licensing compliance, (iii) strengthening enforcement through Inland Revenue recovery mechanisms, and (iv) introducing mandatory reporting and audit certification requirements.

ANNEXURES

The following amendments have been proposed in the Schedules of the ITO:

1. In the tax slab for salaried individuals:
 - a. For the salary income range exceeding PKR 2.2 million but less than or equal to PKR 3.2 million the rate of tax has been proposed to be reduced from 23% to 20%. (Reduced by 3%)
 - b. For the salary income range exceeding PKR 3.2 million but less than or equal to PKR 4.1 million the rate of tax has been proposed to be reduced from 30% to 25%. (Reduced by 5%)
 - c. For the salary income range exceeding 4.1 million but less than or equal to PKR 5.6 million the rate of tax has been proposed to be reduced from 35% to 29%. (Reduced 6%)
 - d. The following two Income ranges have also been proposed to be added in Salary tax slab;
 - i. Salary income range of more than 5.6 million but less than or equal to PKR 7 million (Fixed tax of PKR 976,000 plus 32% of the amount exceeding Rs. 5.6 million).
 - ii. Salary income above PKR 7 million (Fixed tax of PKR 1,424,000 plus 32% of amount exceeding Rs. 7 million)

N.B: Where the income of an individual chargeable under the head "salary" exceeds seventy-five percent of his taxable income, then the Salary Slab shall be applied.

2. The following amendments have been proposed to be made in case of Super tax;
 - a. On the income of banking companies exceeding Rs. 150 million, the super tax under section 4C has been proposed to be applied at the rate 10% of the income.
 - b. Super tax under section 4C has been proposed to be applied at the rate 10% of the profit and gains from the exploration and production of petroleum exceeding Rs.150 million so far as it does not exceed the limit specified in Rule 4 of Part I of the Fifth Schedule.
 - c. Super tax under section 4C has been proposed to be at the rate 10% of the income of a person engaging in deriving income from sale of any kind of fertilizer, exceeding Rs. 150 million.
 - d. Super tax under section 4C has been proposed to be at the rate 8% of the income exceeding Rs. 500 million of persons other than those mentioned above.
3. The tax under Section 7E (deemed income from property) and Division VIIC has been proposed to be omitted.

4. The reduced rate (0.25%) of Turnover tax under section 113 read with Division IX of Part I of the First Schedule on distributor of pharmaceutical products, fast moving consumer goods and cigarettes has been omitted. Therefore, in our humble view, the same has been proposed to be increased from 0.25% to 1.25%.
5. In Division IVA, Part I of the First Schedule, the word digitally “delivered” services has been replaced with digitally “ordered” services.
6. The following rates on the payments by life insurance companies and takaful operators have been proposed;
 - a. Withholding Tax rate of 15% has been proposed to be applied if the payout or benefit is made within one year from date of issuance of policy.
 - b. Withholding Tax rate of 10% has been proposed to be applied if the payout or benefit is made after one year and before completion of 7 Years from date of issuance of policy.
7. The Bill has proposed to amend Division VII of Part I of First Schedule, whereby, Mutual fund, collective investment scheme, or a REIT Scheme shall deduct **and charge** capital gain tax at the rates specified as under on redemption of securities as prescribed:

Individual and AOPs: 15% for stock funds; and 15% for other funds
Company: 15% for stock funds; and 15% for other funds
8. The rate of tax under section 153(1)(b) (payment for specified services under paragraph 2(i) of Division III of Part III of the First Schedule) has been proposed to be increased from 6% to 7%.
9. The tax under section 153(1)(b) has been proposed to be applied at rate of 15% on the independent professional services such as doctors, accountant, lawyers, architect, software engineers or developers working independently.
10. The tax rate other than those covered in point 8 & 9 above is proposed to be 14% of the gross amount in case of services as per newly proposed paragraph 2(ii), Division III, Part III of the First Schedule. Previously, it was 15%.
11. The Gain on Disposal of Certain Debt Securities has been proposed to be increased from 15% to 20%
12. The withholding on the revenue from Social Media Platforms has been proposed at the rate 5% in case of resident person, who are in the ATL list.
13. The withholding on the revenue from Social Media Platforms has been proposed at the rate 5% in case of non-resident person.
14. The withholding tax rate on Exports has been proposed to be increased from 1% to 1.25%. Whereas, the additional advance tax on exports levied at 1% has been proposed to be omitted.
15. Under section 236C on purchase of immovable property, a flat rate of 1.25 % on the fair market value of property has been proposed for persons appearing in ATL. For persons not appearing in the ATL list, the same will be increased to 2.5%.

16. Under section 236K on sale or transfer of immovable property, flat rate of 2.75 % on the value of property has been proposed for persons appearing in ATL. For persons not appearing in the ATL list, the same will be increased to 5.5%.
 17. Advance tax under section 236Y on amount remitted abroad through credit, debit or prepaid has been proposed to be reduced from 5% to 0.5%
 18. In Second Schedule, Part II following amendments have been proposed;
 - a. Tax under section 153(1)(b) on terminal operators was 15% now it has been proposed to be at the rate of 12% of the gross amount of payment.
 - b. The rate of minimum tax under sub section (1) of section 113, in case of distributors, dealers, sub-dealers, wholesalers of packaged good, fertilizers, locally manufactured mobile phones, sugar and electronics has been proposed to be increased from 0.25% to 0.5%.
 - c. Currently tax on any payments received by manufacturer of iron or steel products relating to sale of goods manufactured by them is adjustable. The Bill has proposed to make such deduction as minimum tax.
 - d. The exemption from withholding tax under section 153 on Companies operating Trading Houses has been proposed to be revoked.
 - e. The rates of taxes on sale or transfer or purchase of immovable for **late filers** have been proposed to be omitted.
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The proposed amendments are highlighted in red font.

Tax rates for salaried individuals u/s - 149 (First Sch. Div I of Part I)	
Particulars	Tax Rates
Up to Rs 600,000	0%
Rs 600,001 to Rs 1,200,000	1% of the amount exceeding 600,000
Rs 1,200,001 to Rs 2,200,000	Rs 6,000 + 11% of the amount exceeding 1,200,000
Rs 2,200,001 to Rs 3,200,000	Rs 116,000 + 20% of the amount exceeding 2,200,000
Rs 3,200,001 to Rs 4,100,000	Rs 316,000 + 25% of the amount exceeding 3,200,000
Rs 4,100,001 to 5,600,000	Rs 541,000 + 29% of the amount exceeding 4,100,000
Rs 5,600,001 to 7,000,000	Rs 976,000 + 32% of the amount exceeding 5,600,000
Above Rs 7,000,000	Rs 1,424,000 + 35% of the amount exceeding 7,000,000

Tax rate for Pensioners receiving (Age below 70 years) - Proviso to Clause (2) First Sch. Div I of Part I	
Particulars	Tax Rates
Where the amount of pension received does not exceed rupees ten million	0% of the amount
Where the amount of pension received exceed rupees ten million	5% of the amount exceeding ten million

Tax rates for AOPs and Non-Salaried Individuals (First Sch. Div I of Part I)	
Particulars	Tax Rates
Up to Rs 600,000	0%
Rs 600,001 to Rs 1,200,000	15% of the amount exceeding 600,000
Rs 1,200,001 to Rs 1,600,000	Rs 90,000 + 20% of the amount exceeding 1,200,000
Rs 1,600,001 to Rs 3,200,000	Rs 170,000 + 30% of the amount exceeding 1,600,000
Rs 3,200,001 to Rs 5,600,000	Rs 650,000 + 40% of the amount exceeding 3,200,000
Above Rs 5,600,000	Rs 1,610,000 + 45% of the amount exceeding 5,600,000

Income from property - Individual, AOP and Company Sec.155 (First Sch. Div V of Part III)		
Particulars	Person in ATL	Person not in ATL
Up to 300,000	Nil	Nil
300,001 to 600,000	5% exceeding 300,000	Increased by 100%
600,001 to 2,000,000	Rs 15,000 + 10% of the amount exceeding 600,000	
Above 2,000,000	Rs 155,000 + 25% of the amount exceeding 2,000,000	
Tax Rates for rent of immovable property- Companies	15%	30%

Companies- General rates

Particulars	Tax Rates
Small Company	20%
Banking Company	43%
All other Companies	29%
Alternate Corporate Tax (ACT) - u/s 113C	17%

Minimum Tax Section-113 (First Sch. Div. IX of Part I)

Particulars	Tax Rates
In all other cases	1.25%
a. SNGPL and SSGCL (where annual turnover exceeds Rs. 1.billion)	0.75
b. PIA	0.75%
c. Poultry Industry	0.75
a. Oil Refineries	0.5%
b. Motorcycle Dealer (Sales Tax Registered)	0.5%
c. Oil Marketing Companies	0.5%
a. Distributors of pharmaceutical products, FMCG and cigarettes	1.25%
b. Petroleum agents and distributors (Sales Tax Registered)	0.25%
c. Rice mills and dealers;	0.25
d. Tier 1- Retailers of FMCG (Integrated with FBR'S for real time reporting)	0.25%
e. Person's turnover from supplies through e commerce including running online market place.	0.25%
f. Persons engaged in trading of used vehicles; and	0.25%
g. Flour mills.	0.25%

Small & Medium Enterprise (Fourteen Schedule)

Option of Normal Tax Regime	
Taxable income	Tax Rates
Where annual business turnover does not exceed Rs 100 million	7.5% of taxable income
Where annual business turnover exceeds 100 million but does not exceed Rs 250 million	15% of taxable income
Option of Final Tax Regime	
Turnover	Tax Rates
Where annual business turnover does not exceed Rs 100 million	0.25% of gross turnover
Where annual business turnover exceed 100 million but does not exceed Rs 250 Million	0.5% of gross turnover

Capital Gains on Disposal of Immoveable Property (First Sch. Div. VIII Part I)			
Capital Gains on Disposal of Immoveable Property	Tax rates on capital gain on disposal of properties which were acquired before 01 July 2024		
	Tax Rates		
	Open Plots	Constructed Property	Flats
Where the holding period does not exceed 1 Year	15%	15%	15%
Where the holding period exceeds 1 Year but does not exceeds 2 Years	12.50%	10%	7.50%
Where the holding period exceeds 2 Years but does not exceeds 3 Years	10%	7.50%	0%
Where the holding period exceeds 3 Years but does not exceeds 4 Years	7.50%	5%	
Where the holding period exceeds 4 Years but does not exceeds 5 Years	5%	0%	
Where the holding period exceeds 5 Years but does not exceeds 6 Years	2.50%		
Where the holding period exceeds 6 Years	0%		
Disposal of Immoveable Property acquired on or after 1st day of July, 2024	15% on Filer irrespective of holding period Normal Tax Regime in case of Non-Filer with the cap rate of 15%.		

Profit on Debt Sec 151 - Sch. 1 Part 1 Division IIIA		
Particulars	Person in ATL	Person not in ATL
Profit from a banking company or financial institution	20%	40%
Profit on government securities	20%	40%
In other cases	15%	30%
If profit exceed 5 Million	Normal Tax Regime	

Profit on Disposal of Debt Securities Sec 151A (First Sch. Div IIIAA Part III)		
Particulars	Person in ATL	Person not in ATL
Profit on disposal of debt securities	20%	40%

Withholding tax on revenue received from social media platforms Sec 151B* is mentioned in Schedule 1 it appears to be drafting mistake. We assumed it would be section 154B instead of 151B (First Sch. Div IIIAB Part III)		
Particulars	Person in ATL	Person not in ATL
Withholding tax on revenue received from social media platforms	5%	10%

Certain payments by life insurance Companies and Takaful operators. Sec 151B		
Description	Person in ATL	Person not in ATL
Where payout or benefit is made within one year from the date of issuance insurance policy, family Takaful certificate or plan	15%	30%
Where payout or benefit is made after one year but before completion of seven years from the date of issuance of insurance policy, family Takaful certificate or plan	10%	20%

Electricity Consumption Sec.235 (First Sch. Div. IV of Part IV)

Electricity Consumption	Tax Rates
Commercial & Industrial Consumer	
Where the amount does not exceed Rs 500/-	0%
Where the amount exceeds Rs 500/-but does not exceeds Rs. 20,000/-	10% of Amount
Where the amount exceeds Rs 20,000/-	1) Rs. 1950 plus 12% of the amount exceeding Rs.20,000 for commercial consumers 2) Rs. 1950 plus 5% of the amount exceeding Rs.20,000 for industrial consumers
Domestic Consumer	
Where the amount does not exceed Rs 25,000/-	0%
Where the amount of Rs 25,000 or more	7.5% of Amount

Tax on Telephone/Internet users Sec. 236 (First Sch. Div. V Part IV)

Particulars	Person in ATL	Person appearing in Income Tax General order issued under Section 114B
Telephone Subscriber - If Amount of bill > Rs. 1000	10%	75%
Internet, Mobile Telephone, Pre-paid internet or telephone card	15%	

Super Tax on High earning persons-Section 4C (First Sch. Div. IIB Part I)

Taxable income	Tax Rates
Income does not exceed Rs 150 M	0% of the Income
Income of banking company exceeding Rs 150 M	10% of the Income
Income of a person whose income is computed as per Part I of fifth schedule, exceeding Rs 150 M, so far as it does not exceed the limit specified in rule 4 of that part	10% of the Income
Income of person engaged in deriving income from sale of any kind of fertilizer exceeding Rs 150 M.	10% of the Income
Income of person other than those mentioned in serial 1, 2 and 3, exceeding Rs 500 M	8% of the Income

Advance tax- Section 147 (5C)			
Rate of Advance Tax Sub Sec (5C) of Section 147	Karachi Lahore & Islamabad	Hyderabad, Sukkar, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Sialkot, Bahawalpur, Peshawar, Mardan, Abbottabad, Quetta	Urban Areas not specified in columns (2) and (3)
Tax on persons falling under section 147 (5C) (i) for Commercial Buildings			
Any Size (Sq Ft)	Rs 250 per sq ft	Rs 230 per sq ft	Rs 210 per sq ft
Tax on persons falling under section 147 (5C) (i) for Residential Buildings			
Upto 3000 (Sq Ft)	Rs 80 per sq ft	Rs 65 per sq ft	Rs 50 per sq ft
3000 & Above	Rs 125 per sq ft	Rs 110 per sq ft	Rs 100 per sq ft
Tax on persons falling under section 147 (5C) (ii)			
Any Size (Sq Yd)	Rs 150 per sq yd	Rs 130 per sq yd	Rs 100 per sq yd
Tax on persons falling under section 147 (5C) (iii) for development of industrial area			
Any Size (Sq Yd)	Rs 20 per sq yd	Rs 20 per sq yd	Rs 10 per sq yd

Tax on return on investment in sukuks		
Particulars	Person in ATL	Person not in ATL
Received by an individual or an AOP, if the Return on Investment is less than Rs. 1 Million	10%	20%
Received by an individual or an AOP, if the Return on Investment is more than Rs. 1 Million	12.50%	25%
Received by company	25%	50%

Withholding tax under section 153 (First Sch. Div III of Part III)		
Sale of goods under section 153(1)(a) > 75k	Person in ATL	Person not in ATL
By company	5%	10%
By Individual and AOP	5.50%	11%
By company-Toll Manufacturing	9%	18%
By Individual and AOP-Toll Manufacturing	11%	22%
Fast moving consumer goods (FMCG)		
Rice, cotton seed & Edible oil	1.50%	3%
Services Sec 153(1)(b)	Person in ATL	Person not in ATL
Services (If Annual Services >30K)		
In case of independent professional services such as Doctors, Lawyers Architects, Accountants, Software Engineers or Developers working undependably	15%	30%
In case of Advertising services (Electronic/print media)	1.5%	3%
Other than those (Electronic/print media, Advertising services)	14%	28%

Transport services		
Freight forwarding services		
Air cargo services		
Courier services		
Manpower outsourcing services		
Hotel services		
Security guard services		
Software development services		
Tracking services		
Share registered services		
Engineering Services Including architectural services, warehousing services		
Service rendered by Asset Management Companies		
Data Services provided under license issued by the Pakistan Telecommunication Authority		
Telecom Infrastructure (Tower) Services		
Car rental services	7%	14%
Building maintenance services		
Services rendered by Pakistan Stock Exchange and Pakistan Mercantile Exchange Limited		
Inspection services		
Certification services		
Testing & Training services		
Oilfield services		
Telecommunication Services		
Collateral Management Services		
REIT management services		
Services rendered by National Clearing Company of Pakistan Limited		
Travel and Tour Services		
IT services and IT enabled services	4%	8%
Contracts under section 153(1)(c)	Person in ATL	Person not in ATL
By Company	7.50%	15%
By Individual and AOP	8%	16%
Sports person	15%	30%

Clause 24 CC Part II of the Second Schedule

Particulars	Tax Rates
The rate of tax under clause (b) of sub-section (1) of section 153 to be deducted from a person rendering terminal or port services shall be twelve percent of the gross amount of payment	12%

Clause 24 D Part II of the Second Schedule

Particulars	Tax Rates
The rate of minimum tax under sub-section (1) of section 113 in the case of distributors, dealers, wholesalers of packaged food, fertilizer, locally manufactured mobile phones, sugar and electronics, subject to the conditions that beneficiaries of reduced rate are appearing on the active taxpayers' lists issued under the provisions of the STA, and ITO.	0.5%

Tax on Payments for Digital Transactions in e-commerce Platforms under Section 6A (First Sch. Div. IVA of Part I)

Particulars	Tax Rates
Digital Means or banking channels by payment intermediary	1% of the gross amount paid or payable
Cash on delivery by courier service	2% of the gross amount paid or payable

Brokerage and Commission Section-233 (First Shce.Div.II of Part IV)

Particulars	Person in ATL	Person not in ATL
Advertisement agents	10%	20%
Life insurance agents (Less than 0.5 M)	8%	16%
Other cases	12%	24%

Tax on Builders and Developers - 7F

Particulars	Tax Rate
Construction and sale of residential, commercial or other buildings	10% of gross receipt
Development and sale of residential commercial or other plots; or	15% of gross receipt
Activities of the above	12% of gross receipt

Tax on Import- Section 148

Particulars	Person in ATL	Person not in ATL
Persons falling under Part I of 12th Schedule	1%	2%
Persons falling under Part II of 12th Schedule	2%	4%
Persons falling under Part II of 12th Schedule "Commercial Import"	3.5%	7%
Persons falling under Part III of 12th Schedule	5.5%	11%
Persons falling under Part III of 12th Schedule "Commercial Import"	6%	12%
Manufacturer covered under SRO 1125(i)/2011	1%	2%
Pharmaceutical Imported-Finished Goods	4%	8%
Importer of CKD kits of electric vehicles for small cars SUVs with 50 kwh battery and LCVs with 150 kwh battery or below	1%	2%

Payment to Non- Resident - Sec 152		
Rate of Tax on Certain Payment Sec-6 (First Sch. Div. IV of Part I)	Person in ATL	Person not in ATL
Royalty, fee for technical services, fee for off-shore digital services or in any other case [Gross amount]	15%	30%
Withholding tax on certain type of payment to PE of non-resident section 152 (2A) (First Sch. Div. II of Part III)		
PE of a non-resident person - Companies - Sale of goods	5%	10%
PE of a non-resident person - Other than companies - Sale of goods	5.50%	11%
PE of a non-resident person - Companies & other than Companies providing following services		
IT services and IT, enabled services	8%	16%
IT services and IT, enabled services	4%	8%
PE of a non-resident person - Other than above services For Companies and other than companies	15%	30%
PE of a non-resident person -Contracts	8%	16%
Non-resident Sports person - Contracts	15%	30%
For a execution of contract (construction and advertisement	7%	14%
Insurance premium	5%	10%
Other cases	20%	40%
Advertisement services to a NR media person	10%	20%
Under Subsection 1D and IDA	10%	20%

Advance Tax on Purchase of Immovable Property-Sec 236C (First Sch. Div XVIII of Part IV)			
Fair Market Value	Person in ATL	Person not in ATL	Person in ATL who filed return after due date
The rate of tax to be collected under section 236C shall be of the fair gross amount of consideration received	2.75%	5.5%	-

Advance Tax on Purchase of Immovable Property-Sec 236K (First Sch. Div XVIII of Part IV)			
Fair Market Value	Person in ATL	Person not in ATL	Person in ATL who filed return after due date
The rate of tax to be collected under section 236K shall be of the fair market value of the immovable property	1.25%	2.5%	-

Capital Gains on Disposal of Securities-Section 37A (First Sch. Div. VII of Part I)		
Holding Period	Disposal of Securities Acquired between 1 Jul 2022 to 30 Jun 2025	Disposal of Securities Acquired between July, 2024 to June 2025
	Tax Rates	Tax Rate on Disposal of Securities: 15% for individuals and AOPs appearing on the ATL on both the acquisition and disposal dates. For non-ATL persons, the applicable rate under the Ordinance shall apply, subject to a minimum rate of 15%.
Where the holding period does not exceeds 1 Year	15%	
Where the holding period exceeds 1 Year but does not exceed 2 years	12.5%	
Where the holding period exceeds 2 Years but does not exceeds 3 Years	10%	
Where the holding period exceeds 3 Years but does not exceeds 4 Years	7.50%	
Where the holding period exceeds 4 Years but does not exceeds 5 Years	5%	
Where the holding period exceeds 5 Years but does not exceeds 6 Years	2.5%	
Where the holding period exceeds 6 Years	0%	
Future commodity contracts entered into by member of PME (Pakistan Mercantile Exchange)	5%	
Capital gain arising on disposal where the securities are acquired on or after 01 July 2013 but on or before 30 June 2022	12.5% of the income	
Capital gain arising on disposal where the securities are acquired on or before 01 July 2013	0% of the income	
Capital Gains on Disposal of Securities (First Sch. Part I Div. VII)		
Particulars	Ind & AOP	Company
Mutual fund or a collective investment scheme or a REIT scheme (Stock Fund)	15%	15%
Mutual fund or a collective investment scheme or a REIT scheme (Other Fund)	15%	25%
If Dividend receipts of the fund are less than capital gain	15%	

Export of Services-Section 154A	
Particulars	Tax Rates
Exports Proceeds of Computer Software or IT services or IT enabled services by persons registered with Pakistan Software Export Board	0.25% of proceed
Other cases	1%

Export-Section 154

Particulars	Tax Rates
Export of Goods by exporter	1.25%

Dividend - Section 150

Particulars	Person in ATL	Person not in ATL
Received from Power Generation Independent Power Producers	7.50%	15%
Received from mutual Funds to the extent of income derived from average annual investment in debt securities	25%	50%
Received from mutual Funds to the extent of income derived from average annual investment in equities	15%	30%
Received from Real Estate Investment trust	15%	30%
Received from companies where no tax payable by such company, due to exemption carry forward of business losses or claim of tax credits	25%	50%
Dividend received by a REIT scheme from Special Purpose Vehicle	0%	
Dividend received by others from Special Purpose Vehicle	35%	70%
Other cases	15%	

Other Withholding taxes

Particulars	Person in ATL	Person not in ATL
Cash withdrawal 231AB [Withdrawal Rs.50,000 per day]	0%	0.80%
Remitted aboard through Debit, Credit or prepaid cards 236Y	0.5%	1%
Petrol & Petroleum Products 156A	12%	24%
On sale by Other auctions Sec-236A	10%	20%
Every Company issuing bonus shares - Sec 236Z	10%	20%
Immovable Property Sold by auctions Sec-236A	5%	10%
On Prize bonds and winnings Sec-156	15%	30%
On Prize, Winnings, Lottery & Raffles Sec-156	20%	40%

Advance tax on sales to distributors, dealers and wholesalers Other than Fertilizer-Sec 236G	0.10%	2%
Advance tax on sales to Fertilizer -Sec 236G	0.70%	1.40%
Advance tax on sales to retailers-Sec 236H	0.50%	2.50%

Advance Tax on Purchase, Registration and Transfer of Motor Vehicles (First Sch. Part IV Div. VII)		
Engine Capacity	Person in ATL	Person not in ATL
upto 850cc	0.5% of the value	1.5% of the value
851cc to 1000cc	1% of the value	3% of the value
1001cc to 1300cc	1.5% of the value	4.5% of the value
1301cc to 1600cc	2% of the value	6% of the value
1601cc to 1800cc	3% of the value	9% of the value
1801cc to 2000cc	5% of the value	15% of the value
2001cc to 2500cc	7% of the value	21% of the value
2501cc to 3000cc	9% of the value	27% of the value
Above 3000cc	12% of the value	36% of the value

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