

# COMMENTS ON FINANCE ACT 2025-26

PREPARED BY:





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## **Prologue:**

- The National Assembly has passed the Finance Act 2025-2026 (“the Act” or “Amended Bill”) on 26th June 2025. Based on publicly available documents and information, we hereby offer our comments on the Act. Further, in this document we have enumerated the highlights on the amendments made in Income Tax Ordinance 2001 (“ITO”), Sales Tax Act 1990 (“STA”), Federal Excise Act 2005 (“FEA”). Our Comments are based on publicly available information and documents.
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Kind Regards,

**Tola Associates**  
**Tola & Tola**

June 27, 2025

# Amendments in Income Tax Ordinance, 2001

## 1. Definitions - Section 2

The Bill had proposed to amend the definition of a non-profit organization (“NPO”) u/s 2(36), whereby, they have excluded recreational clubs formed with a membership fee exceeding PKR 1 million for any class of new members from the ambit of being a NPO.

The Act has amended the said proposed definition, whereby, recreational clubs formed with *joining fee* for membership exceeding PKR 1 million shall be excluded.

### Comments:

This amendment clarifies that those recreational clubs that are formed with a joining fee for membership exceeding PKR 1 million, will not be categorized as a NGO under ITO. Previously, the definition just stated membership fee, which was vague and could have defeated the purpose of the amendment through the Bill.

## 2. Tax on payments for Digital Transactions In E-Commerce - Section 6A

The Bill had proposed to levy a tax 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 levied has been made final discharge of tax liability in terms of Section 8 of the ITO.

Now, the Act, has exempted from tax under this Section 6A on those export proceeds that have been subject to withholding tax under Section 154 as well, in addition to Section 154A.

### Comments:

This is a corresponding amendment, in order to avoid double taxation on the export of digitally ordered goods delivered from Pakistan meeting the aforesaid conditions. Further, the Act also brings such export of goods under the Minimum Tax Regime (MTR) as opposed to the Final Tax Regime (FTR), in line with export of other goods under Section 154, as had export of digitally ordered goods remained under the FTR u/s 6A, the same would have potentially been discriminatory and may have been subject to litigation.

## 3. Annuity and Salary - Section 12(2)(F) and Clause 2 of Division I, Part I of the First Schedule

The Bill had proposed to tax individuals in cases where they **earned income solely from pension**, annuity, supplement to the pension or annuity and commutation of pension from former employer for tax year at 0% upto PKR 10 million, and 5% of the amount exceeding PKR 10 million.

Now, the Act, has subjected to tax **any salary or annuity, or any supplement to a pension or annuity** to tax at 5% of the amount exceeding PKR 10 million.

**Comments:** We believe the word ‘salary’ is an anomaly and is a typographical mistake, as the amendment has been made in the definition of salary. The correct word instead should have been ‘pension’. This must be addressed by the FG.

The Act has also added a proviso, whereby, **any pension or annuity, or any supplement to a pension or annuity** of those individuals who are 70 years old and above, shall not be chargeable to tax u/s 12(2)(f).

There has also been a corresponding amendment in Clause 2 of Division I, Part I of the First Schedule, whereby, the Act has broadened the scope of tax on pension on individuals earning income from pension from previous employer. Previously, the Bill had only proposed to tax pension of those individuals who derived income solely from pensions.

### Comments:

It seems that the Act has broadened the scope of taxation of pension, annuity or any supplement to a

pension or annuity. The Bill had proposed to tax only those individuals whose income was solely **from pension**, annuity, supplement to the pension or annuity and commutation of pension from former employer for tax year. However, the Act has subjected to tax all pension, annuity or any supplement to a pension or annuity at 5% of the amount exceeding PKR 10 million.

**Example:**

**Position as of Bill**

- Mr. A earns PKR 15 million solely from pension or annuity. He shall be taxed at 5% of PKR 5 million.
- **Mr. A** earns PKR 15 million from pension, has capital gain on immoveable property of PKR 10 million and has dividend income worth PKR 5 million. His pension shall not be subject to tax

**Position after passing of Act**

- Mr. A earns PKR 15 million solely from pension or annuity. He shall be taxed at 5% of PKR 5 million.
- **Mr. A** earns PKR 15 million from pension, has capital gain on immoveable property of PKR 10 million and has dividend income worth PKR 5 million. His pension shall now be subject to tax at 5% of PKR 5 million.

This is also a corresponding amendment to the amendment proposed vide the Bill in Section 149.

**4. Minimum Annual Rental Value – Section 15(4) – Removed**

The Bill had proposed to add two provisos to Section 15, whereby, it had sought to fix the minimum annual rental value of commercial immoveable property at 4% of the Fair Market Value as per Section 68 of the ITO, unless it can be proved otherwise through evidence by the taxpayer to the satisfaction of the Commissioner.

Now, the Act has removed such proposal. Therefore, the position before the Bill stands restored and there is no fixed minimum annual rental value of commercial immoveable property at 4% of the FMV in terms of Section 68.

**5. Disallowance of Expenditure Attributable to purchases made from Persons that are Not NTN Holders – Section 21(Q)**

The Bill had proposed to substitute the current Section 21(q) of the ITO, whereby the Bill has sought to disallow 10% of the claimed expenditure made attributable to purchases made from persons who are not NTN holders.

The Bill had also proposed a proviso to exempt application of this sub-section to agricultural produce purchased directly from growers.

Now, the Act has amended the proviso, whereby, the said sub-section, shall only apply to purchase of agricultural produce made from the middle man.

**Comments:**

It will be difficult for the FBR to identify purchases from such middle men. However, this is a good and positive amendment.

**6. Tax Credit for Certain Persons – Section 65F(1)(A)**

Before the Bill, as per Section 65F(1)(a), only persons engaged in coal mining projects in Sindh supplying coals exclusively to power generation projects were entitled to a hundred percent tax credit of the tax payable under the ITO.

The Bill had proposed to remove the word “exclusively” from Section 65F(1)(a), thereby broadening the applicability of the aforesaid tax credit to persons that are engaged in coal mining projects in Sindh and may supply coal to others, including power generation projects as well.

Now, the Act has amended Section 65F(1)(a), whereby, the tax credit has been limited to the extent of income derived from supplying coal to power generation projects.

**Comments:**

This amendment is in line with the explanation mentioned in Section 65F.

## 7. Restrictions on Economic Transactions by Certain Persons – Section 114c

The Bill had proposed to cement Section 114C (added vide Tax Laws (Amendment) Bill 2024) in the ITO, albeit with a few changes.

The Bill had proposed under Section 114C(1)(b), to change the notifying authority for prescribing value of an immoveable property from the Board to the Federal Government.

The Bill had proposed to add a proviso in Section 114C(1)(b) that stated that the restriction on registering, recording or attesting transfer of immoveable property shall not come into effect or no person shall be considered as an ineligible person for the purposes of Section 114C(1)(b) till the time the value is notified by the Federal Government.

The Bill had proposed to exclude Pensioner accounts under Section 114(1)(c) from the restriction on a banking company to not open or maintain an already opened current or savings bank account, in addition to the exclusion of Aasan account.

Before the Bill, an ineligible person that filed its sources of investment and expenditure statement after filing of its return was previously excluded from the restrictions of Section 114C(1). However, the Bill had proposed to omit such persons from the said exclusion.

The Bill proposed to expand the definition of an eligible person by including person that has filed sources of investment and expenditure statement declaring sufficient resources and furnishing explanation thereof for a particular purchase or investment transaction covered in Section 114C(1)(a) to (c).

### **Now, the Act has amended Section 114C as follows:**

- a. The threshold that was previously to be notified by the FG, is now mentioned in the Fifteenth Schedule.
- b. Section 114C(1)(c) has been amended by the Act, whereby, similar investments to securities or units of mutual funds have also been brought within the ambit of the restrictions in Section 114C(1).

- c. Section 114C(1)(d)(i) has been amended by the Act whereby, now all accounts (except for Pension and Aasan accounts), not just **current accounts** of ineligible persons cannot be opened or maintained
- d. Section 114C(1)(d)(ii) has been amended by the Act, whereby, now **any person** cannot withdraw equal to or more than PKR 100 million in all bank accounts held by **an individual**.

### **Comment:**

As it seems, only individuals have been restricted from cash withdrawals, as of now. Accounts in names of AOPs may also be covered depending upon enforcement of the said provision, however, it is unclear, as definition of person differentiates individuals and AOPs u/s 80.

No restriction has been imposed on companies for now.

- e. Section 114C(3) has been omitted. Previously, the investment and expenditure statement filed by the person and sufficient resources as defined under sub-section (5) was not nature and source of income for Section 111.

What this meant was that if a non-filer filed a return and thereafter investment and expenditure statement for the purposes of a transaction specified under Sections 114C(1), were prone to enquiry under Section 111, and the said expenditure could have been taxed by the FBR.

Now, the Act, has omitted Section 114(C)(3), whereby, the intent of the legislature seems to be clear that the investment and expenditure statement filed and sufficient resources as defined in sub-section (5) shall be construed as nature and source of income for the purposes of Section 111, which means filing of expenditure and income statement shall not be a self-incriminating exercise now.

f. The Act has omitted the inapplicability of restrictions (except for opening or maintenance of current savings account of ineligible persons) on the following:

(a) purchase of all rikshaws, motorcycle and tractors;

(b) purchase of a pick-up vehicle having engine capacity up to 800 CC;

(c) purchase of such motor vehicles other than those mentioned in clauses (a) and (b), trucks and buses subject to restrictions and limitations as may be notified by the Board from time to time;

(d) investment in securities up to such limit as may be notified by the Board from time to time; and (e) transactions made by a non-resident person or a public company except that mentioned in sub-clause (ii) of clause (d) of sub-section (1).

***This means that now the aforesaid transactions shall only be conducted by eligible persons.***

g. A new **Fifteenth Schedule** has been added vide the Act, impact whereof is as under:

I. For restriction under Section 114(1)(a) pertaining to application for booking, purchase or registration of motor vehicle: The threshold limitation has been fixed at **more than PKR 7 million**. The transaction value taken shall be the invoice value for locally manufactured vehicles, or the import value assessed by Customs including all taxes, duties, levies and charges.

**Comment:** This means cars upto PKR 7 million can be purchased by persons, including non-filers, without obtaining a certificate of eligibility for such purchase. This may potentially increase the demand for used cars, and adversely affect the market for brand new cars.

II. For restriction under Section 114(1)(b) pertaining to application for registering recording or attesting transfer of any immoveable property: The threshold limitation has been fixed at **more than PKR 100 million** for commercial immoveable properties and **more than PKR 50 million** for residential immoveable properties. The transaction value taken shall be the fair market value as defined under Section 2(22AA) of the ITO.

III. For restriction under Section 114(1)(c) pertaining to investment in securities, debt securities, units of mutual funds or money market instruments: The threshold limitation has been fixed at **more than PKR 50 million**. The transaction value shall be the acquisition cost of securities or debt securities or unit of mutual funds or money market instruments.

This will only apply where the investment amount up to PKR 50 million shall be new investment in any financial year excluding reinvestment either by liquidation or similar type of securities and / or reinvestment of returns earned on already held securities.

IV. For restriction under Section 114C(1)(d)(i) with respect to opening or maintaining of bank account: The restriction has only been placed on opening or maintaining of bank accounts except savings accounts.

V. For restriction under Section 114C(1)(d)(ii) with respect to annual cash withdrawal limit: The threshold has been fixed for equal to or more than PKR 100 million in all bank accounts held by an individual.

### Comment on Section 114C:

The thresholds fixed seem to be arbitrary in nature, and will exclude majority of the ineligible persons that the Government should have sought to bring within the tax net. Overall, this provision will do only little to broaden the tax net, and will only add a bureaucratic hurdle for wealthy people to obtain eligibility certificates for specific transactions.

This section is also against the self-assessment scheme of the ITO, and may be subject to litigation on this ground.

### 8. Amendment of Assessments - Section 122

The Bill proposes to remove the following two provisos after Section 122(9):

i. Currently, the first proviso obliges the tax department amendment of to culminate assessment proceedings within 180 days of the issuance of the show-cause Notice or within an extended period of maximum 90 days. The Bill proposed to amend such proviso. The Hon'ble Supreme Court in **2025 SLD 1117** had confirmed the case of Super Asia, wherein, the Hon'ble Supreme Court had held that the time limit for adjudication at assessment level was mandatory in nature, and that breach of such time limit rendered the Order invalid. This proposal seemed to seek to nullify the effect of that judgment on the Income Tax laws.

ii. Before the Bill, the second proviso provided that any period during which proceedings are adjourned due to a stay order or ADRC proceedings or agreed assessment proceedings under Section 122D or adjournments taken by taxpayer shall be excluded in counting the 180 + 90 days time limit provided under the first proviso. The Bill proposed to remove the second proviso in line with the proposed removal of the first proviso.

Now, the Act, has increased the original timeframe of passing an order u/s 122(9) from 180 + 90 days, to 365 + 90 days.

The Act has restored the second proviso that was omitted by the Bill.

### 9. Sections 138 and 140 – Recovery Of Tax

The Bill proposed to cement amendments made by the Tax Laws (Amendment) Ordinance 2025 with respect to recovery of tax under the ITO. You can find our comments on the said amendments by clicking this [link](#). The Bill had proposed additional amendments in the shape of a proviso that states that where a High Court decides the Appeal in favor of the tax department, then the department can only affect recovery from a taxpayer after 7 days of the Order of the High Court.

**Now**, the Act has amended the captioned Sections, whereby, the tax will become immediately payable and recoverable once the case of the taxpayer has been decided in favor of the department at three appellate forums including the High Court, and that the recovery shall only be to the extent of the lowest amount of demand that has been modified / confirmed by any of the three appellate fora.

**The immediate payability and recoverability of the said tax has been made subject to the condition (in addition to the above) that the tax so exceeds PKR 200 million.**

#### Example 1:

If Co A loses a case before the Hon'ble High Court, and the demand is PKR 190 million, then the tax demand is not immediately payable or recoverable by the tax department. However, if the tax demand was PKR 200.1 million, then the Commissioner has been empowered to recover the said amount irrespective of time provided under any other provision or the said decision or judgment.

#### Example 2:

Co B loses a case before the Hon'ble High Court. The tax demand raised through the OIO was PKR 500 million, whereas, the tax demand was modified to PKR 250 million by the CIRA. Thereafter, the Hon'ble ATIR modifies the demand and increases the tax demand, **after following the due process**, to PKR 300 million.

The taxpayer Appeals to the High Court, and the Hon'ble High Court upholds the tax demand of PKR 300 million. Then **the** tax demand that is immediately payable and recoverable is PKR 250 million.

### **10. Section 148 – Imports**

The Act has amended section 148, whereby, the Collector of Customs shall not collect tax under Section 148, whereby the recipient of goods is also liable under the Digital Proceeds Levy Act 2025 and the same has been collected by the payment intermediary as defined in Section 153.

### **11. Section 149 – Salary**

The Bill had proposed to mandate former employers to withhold tax on payment of pensions, annuity, or any supplement to a pension or annuity vide introduction of Section 149(1A). The Act has amended this newly added sub-section, and has removed the obligation of withholding tax on pensions and any supplement to a pension or annuity.

### **12. Section 152(1d) –**

Banks or financial institutions maintaining SCRA of a non-resident company having no Permanent Establishment in Pakistan deduct tax from capital gains arising on the disposal of debt instruments and Government securities including treasury bills and Pakistan investment bonds invested through SCRA at the tax rate of 10% of the gross amount paid.

The Bill had proposed to mandate that banks and financial institutions shall only be withholding agents if they maintain such an account for not less than 12 months.

The Bill had also proposed that where the holding period of debt instruments and Government securities including treasury bills and Pakistan investment bonds is less than twelve months, the rate of tax deducted shall be 20% of the gross amount paid in terms of Paragraph 2 of Division II of Part III of the First Schedule.

**Now**, the Act has brought down the aforementioned period to 6 months from 12 months.

### **13. Section 153(2a) - Payment Intermediary and Courier Businesses Becoming Withholding Agents**

The Bill had proposed to add a new sub-section 2A, whereby every payment intermediary at the time of processing payment through digital means, on behalf of a seller of digitally ordered goods or services through locally operated e commerce platforms (including websites); and every courier business providing courier services collecting cash from a buyer under Cash on Delivery (CoD) payment terms on behalf of a seller for the supply of digitally ordered goods and services through e-commerce platforms (including websites) shall collect tax from the gross amount payable (including sales tax, if any) to the seller at the rate specified in Division IVA of Part I of the First Schedule to the Ordinance and deposit to government treasury. The Bill further proposes that where tax under sub-section 2A is deducted, no tax under sub section (1) shall be deducted. The Bill has proposed to add an payment intermediary for the purposes of sub-section 2A, and a courier service for the purposes of sub Section 2A in the definition of prescribed person u/s 153(7).

**Now**, the Act has omitted Section 153(2A), therefore, removing digitally ordered goods or services from the MTR u/s 153 as proposed to be added through the Bill.

### **14. Tax Exemption Certificates for Public Limited Companies – Section 153(4)**

The Act has amended Section 153(4), whereby the Commissioner is now empowered to issue a tax exemption certificate in case of public ltd companies subject to other conditions being met.

Previously, the Commissioner was only empowered to issue reduced rate certificates.

### **15. Section 175aa – Exchange of Banking and Tax Information Related to High Risk Persons**

The Bill had proposed to oblige Scheduled Banks to provide to the FBR particulars of high risk persons. Now, the Act has refined the said Section 175AA, whereby, the Board shall provide information obtained from tax declaration of the taxpayer, with scheduled banks in Pakistan, for the purposes of cross-matching with the bank data through data-

based algorithms, and the Scheduled Banks shall provide the final results where the banking data is at variance with the algorithms provided by the Board.

The confidentiality clause has been kept intact.

#### Comments:

This section will diminish the trust between the FG and the public at large, as now officers can have access to data of taxpayers based on arbitrary algorithms, which can give rise to fishing and roving enquiries.

#### 16. Section 175C - Posting of Officer of Inland Revenue

The Act has proposed to restrict the presence of the Officer to business premises only. Previously, the Bill had proposed that the Officer can be placed at the premises of the person.

#### Comments:

- A similar provision (Section 40B) is present in the Sales Tax Act 1990. However, that is restricted to registered persons and monitoring of taxable goods under the STA. This amendment in the ITO has given broad powers to the Board or Chief Commissioner to post any officer or other official on the premises of **any person** to monitor production, **supply of goods** (even those goods that are exempt from sales tax by operation of primary legislation (Section 13) or delegated legislation (SRO, Notification etc)).

Further, a similar provision (Section 54(1)) is present in the Sindh Sales Tax on Services Act 2011 ("SSTSA"), which allows the SRB Board to post an officer of the SRB to the premises of a registered person(s) or class of such persons to monitor the provision of services by such registered person(s). Again, compared to the SSTSA, the newly introduced Section 175A is broader in that it applies to any person(s).

- Now the officer posted shall also be at liberty to monitor production of all goods and services being provided even if they are not registered under the STA or SSTSA. This means that the FBR will now be empowered

with more information than before in conducting sales tax audits.

- The powers are against the foundational self-assessment scheme of the ITO and will be prone to litigation on the plea of discrimination.
- It seems that this amendment might have been introduced in light of the ad-interim Orders issued by the Hon'ble Islamabad High Court, in various cases, including the case of **Jadeed Feeds Industries v/s Federation of Pakistan and Others** in W.P No. 1426 of 2025, wherein the FBR has been barred to post officers to premises where the taxpayer does not produce taxable supplies, so that the power to post officers to premises even where no taxable supplies are being produced, can be exercised under the ITO as opposed to the STA.

#### 17. Section 181(1a) Omitted - Taxpayer Registration

The Bill had proposed that every online market place or courier service involved in e-commerce by supplying or delivering digitally ordered goods or services from within Pakistan, shall not allow any vendor to use its platform services to carry out e-commerce transactions unless such vendors have been registered under the STA and the ITO.

The Act has now omitted such proposal.

#### 18. Section 182 - (3b) - where online marketplace allows unregistered (non)resident vendor, involved in e-commerce business, supplying digitally ordered goods, that is required to be registered under the STA and ITO under Section 181(1a).

The Bill had proposed the afore stated offence. The proposed penalty was PKR 500,000/- on the first default and PKR 1 million on every subsequent default. The Act has now omitted the requirement of being subject to registration requirement under the STA, to impose penalty.

**19. SECTION 182(15A) – PENALTY on any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to registered under Sales Tax Act, 1990 and Income Tax Ordinance, 2001, fails to register.**

The Bill proposed a penalty of PKR 500,000/- on the first default and PKR 1 million on every subsequent default.

The Act has removed the requirement to be registered under the STA to be subject to penalty provisions.

**20. SECTION 214A - Condonation of Time Limit**

The Bill proposed a second proviso pursuant to which where there are reasons to believe that significant loss has occurred to the **exchequer** by an act of omission or commission by the person or Commissioner, then a Committee notified by the Board is enabled to further condone the time limit as it may deem fit after providing a reasonable opportunity of hearing to the concerned person.

The Act has amended the aforesaid section to include loss to the taxpayer as a enabling reason to further condone the time limit in terms of the above.

**First Schedule**

**Part I**

● **Division I**

Finance Act introduces a tax on pension income received from a former employer, applicable where the amount exceeds a certain threshold. Specifically, no tax will be charged on pension amounts up to Rs. 10 million, while a 5% tax will apply on the amount exceeding Rs. 10 million.

● **Division III**

Finance Act introduces a new proviso to the previously proposed Clause (ba) which introduced taxation on Mutual Funds: at the rate of 25% on income from debt securities and 15% on income from equities.

The proviso added by the Finance Act is reproduced hereunder:

*Provided that the rate of tax on dividend received by a company from a mutual fund deriving income from profit on debt shall be twenty-nine percent.*

This means that if a company receives dividends from a mutual fund and that mutual fund earns its income from profit on debt, then the rate of tax applicable on such dividend income for the company will be 29%.

● **Division IIIA**

After the sub-paragraph (a), following new paragraph (b), shall be inserted and thereafter the remaining paragraph shall be renumbered as (c);

“(b) 20 percent of the yield or profit on Government securities paid to any person other than an individual; and”

This means that when yield or profit on Government securities is paid to any person other than an individual (i.e., companies, AOPs, trusts, etc.), a tax of 20% shall be applicable.

● **Division IVA – Rate of Tax on Payments for Digital Transactions in E-commerce Platforms (Section 6A)**

The Finance Bill introduced a new Division IVA to the First Schedule, proposing tax rates on payments for digital transactions processed through e-commerce platforms, with separate rates for digital and cash-on-delivery transactions.

Under clause (i), the Finance Bill proposed the following tiered tax rates for digital payments made to intermediaries:

- Payments up to Rs. 10,000: 1%
- Payments between Rs. 10,001 and Rs. 20,000: 2%
- Payments above Rs. 20,001: 0.25%\*

The Finance Act, however, replaces this tiered structure. It amends the title in clause (i) by inserting the phrase:

“at the rate of 1% of gross amount paid or payable”

and omits the proposed table, thereby simplifying the regime to a flat 1% tax on digital payments made through intermediaries.

*For cash-on-delivery (COD) transactions, the Finance Bill had proposed varying tax rates:*

- Electronics and electric goods: 0.25%
- Clothing: 2%
- Other goods: 1%

*The Finance Act similarly amends clause (ii) by inserting:*

“at the rate of 2% of gross amount paid or payable”

and omits the table, resulting in a flat 2% tax rate on COD-based services, regardless of the product category.

### **Part III - Deduction of Tax at Source**

- **Division I**

Finance Act introduces a new proviso to the previously proposed Clause (ba) which introduced taxation on Mutual Funds: at the rate of 25% on income from debt securities and 15% on income from equities.

The proviso added by the Finance Act is reproduced hereunder:

Provided that the rate of tax on dividend received by a company from a mutual fund deriving income from profit on debt shall be twenty-nine percent.

This means that if a company receives dividends from a mutual fund and that mutual fund earns its income from profit on debt, then the rate of tax applicable on such dividend income for the company will be 29%.

- **Division IA**

Finance Act introduces new paragraph (b), shall be inserted and thereafter the remaining paragraph shall be renumbered as (c);

“(b) 20 percent of the yield or profit on Government securities paid to any person other than an individual; and”

This means that when yield or profit on Government securities is paid to any person other than an individual (i.e., companies, AOPs, trusts, etc.), a tax of 20% shall be applicable.

- **Division III (3A)**

The Finance Bill introduced a new sub-Division 3A to the First Schedule Part III, proposing tax rates on payments for digital transactions processed through e-commerce platforms, with separate rates for digital and cash-on-delivery transactions.

Under clause (i), the Finance Bill proposed the following tiered tax rates for digital payments made to intermediaries:

- Payments up to Rs. 10,000: 1%
- Payments between Rs. 10,001 and Rs. 20,000: 2%
- Payments above Rs. 20,001: 0.25%\*

The Finance Act, however, replaces this tiered structure. It amends the title in clause (i) by inserting the phrase:

“at the rate of 1% of gross amount paid or payable”

and omits the proposed table, thereby simplifying the regime to a flat 1% tax on digital payments made through intermediaries.

*For cash-on-delivery (COD) transactions, the Finance Bill had proposed varying tax rates:*

- Electronics and electric goods: 0.25%
- Clothing: 2%
- Other goods: 1%

The Finance Act similarly amends clause (ii) by inserting:

“at the rate of 2% of gross amount paid or payable”

and omits the table, resulting in a flat 2% tax rate on COD-based services, regardless of the product category.

## Second Schedule

### Part I

- Sub-clause (i) of the renumbered sub-clause (46), shall be substituted with the following, namely; -  
“(i) clauses (8) and (9) shall be omitted.”

Clause 8 provides an exemption on pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer.

Whereas Clause 9 provides an exemption from any pension received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government or granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service.

In the Finance Act, clauses (8) and (9) shall be omitted. Clause 12 which is :

(12) Any payment in the nature of commutation of pension received from Government or under any pension scheme approved by the 6 [Board] for the purpose of this clause.

Clause 12 shall be retained.

- Renumbered sub-clause (46); in paragraph (A), Clause (iii), was substituted which pertained to **omission of Clause 23A and 23C.**

**(23A)** offers partial exemption (up to 50%) on pension withdrawals upon retirement, disability, or death, with tax implications for excess or early withdrawals.

**(23C)** exempts withdrawals that originate from provident fund transfers into pension funds under VPS Rules, encouraging pension fund accumulation and portability of retirement savings.

**This shows that the exemption on Voluntary Pension Scheme shall be reinstated.**

The substituted clause is:

### **Subclause (4) of Clause 57,**

Whereby a new sub-clause (4) after sub-clause (3) of clause (57) in the Second Schedule, as follows:

“(4) Any income of the following funds, institutions, foundations and trusts, namely: -  
...”

This Clause provides tax exemption of any income for entities listed in the table below:

**TABLE**

Sr. No.	Name
<b>(1)</b>	<b>(2)</b>
<b>i.</b>	Pension of a former President of Pakistan and his widow.
<b>ii.</b>	State Bank of Pakistan and State Bank of Pakistan Banking Services Corporation.
<b>iii.</b>	Federal Board of Revenue Foundation.
<b>iv.</b>	Pakistan Council of Scientific and Industrial Research.
<b>v.</b>	The Pakistan Water and Power Development Authority established under the Pakistan Water and Power Development Authority Act, 1958 (W. P. Act XXXI of 1958).
<b>vi.</b>	Pakistan Agricultural Research Council.
<b>vii.</b>	The corporatized entities of Pakistan Water and Power Development Authority from the date of their creation upto the date of completion

	of the process of corporatization i.e. till the tariff is notified.
<b>viii.</b>	The Prime Minister's Special Fund for victims of terrorism.
<b>ix.</b>	Chief Minister's (Punjab) Relief Fund for Internally Displaced Persons (IDPs) of NWFP.
<b>x.</b>	Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund.
<b>xi.</b>	National Disaster Risk Management Fund.
<b>xii.</b>	The Prime Minister's COVID-19 Pandemic Relief Fund-2020.
<b>xiii.</b>	National Endowment Scholarship for Talent (NEST).
<b>xiv.</b>	Securities and Exchange Commission of Pakistan.
<b>xv.</b>	Privatisation Commission of Pakistan.
<b>xvi.</b>	Fauji Foundation.
<b>xvii.</b>	Audit Oversight Board.
<b>xviii.</b>	Supreme Court Water Conservation Account.
<b>xix.</b>	Baluchistan Education Endowment Fund (BEEF).
<b>xx.</b>	Army Welfare Trust.
<b>xxi.</b>	Public Private Partnership Authority for tax year 2022 and subsequent four tax years
<b>xxii.</b>	The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5th August, 2022.
<b>xxiii.</b>	Export-Import Bank of Pakistan
<b>xxiv.</b>	Deposit Protection Corporation established under sub-section (l) of section 3 of Deposit Protection Corporation Act, 2016 (XXXVII of 2016).
<b>xxv.</b>	WAPDA First Sukuk Company Limited.

<b>xxvi.</b>	Pakistan Domestic Sukuk Company Ltd.
<b>xxvii.</b>	WAPDA on issuance of twenty billion rupees TFC's/SUKUK certificates for consideration of Diamer Bhasha Dam Projects.
<b>xxviii.</b>	WAPDA Second Sukuk Company Limited.
<b>xxix.</b>	Pakistan International Sukuk Company Limited.
<b>xxx.</b>	Second Pakistan International Sukuk Company Limited.
<b>xxxi.</b>	Third Pakistan International Sukuk Company Limited.
<b>xxxii.</b>	Islamic Naya Pakistan Certificates Company Limited (INPCCL).
<b>xxxiii.</b>	Pakistan Mortgage Refinance Company Limited.;
<b>xxxiv.</b>	The Pakistan Global Sukuk Programme Company Limited.
<b>xxxv.</b>	Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi
<b>xxxvi.</b>	National Memorial Bab-e-Pakistan Trust.
<b>xxxvii.</b>	Pakistan Poverty Alleviation Fund.
<b>xxxviii.</b>	National Rural Support Programme.
<b>xxxix.</b>	Karandaaz Pakistan
<b>xl.</b>	The Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network.
<b>xli.</b>	International Finance Corporation established under the International Finance Corporation Act, 1956 (XXVIII of 1956) and provided in section 9 of Article VI of Articles of Agreement 1955 as amended through April 1993.
<b>xlii.</b>	Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the

	Articles of Agreement signed and ratified by Pakistan and entered into force on the 25th December, 2015.
<b>xl.iii.</b>	SAARC Energy Centre.
<b>xliv.</b>	The Asian Development Bank established under the Asian Development Bank Ordinance, 1971 (IX of 1971).
<b>xlv.</b>	International Islamic Trade Finance Corporation.
<b>xlvi.</b>	Islamic Corporation for Development of Private Sector.
<b>xlvii.</b>	ECO Trade and Development Bank.
<b>xlvi.iii.</b>	The Islamic Chamber of Commerce and Industry under the Organization of Islamic Conference (OIC).
<b>xl.lix.</b>	Commission on Science and Technology for Sustainable Development in the South (COMSATS) formed under International Agreement signed on 5th October, 1994.
<b>l.</b>	Saarc Arbitration Council (SARCO).
<b>li.</b>	International Parliamentarians' Congress.
<b>lii.</b>	Army Officers Benevolent Fund/Benevolent Fund/ Bereaved Family Scheme

- Sub-clause (ii) of the renumbered sub-clause (46) shall be omitted which pertained to the omission of the words “or commutation of pension” from Clause 13.
- **Clause 65B:**  
Finance Act introduces a new **clause 65B** has been inserted into the Second Schedule to exempt from tax any monetary award received by a sportsperson representing Pakistan in the international Olympic Games, provided the award is given by the Federal or Provincial Government or a Public Office holder. This exemption will apply from tax year 2025 onwards, offering a tax incentive for Olympic medalists.
- **Clause 66:**  
The Finance Act substitutes clause (66) of the Second Schedule with the following:

“(66) Subject to the provisions of section 100C, any income derived by the following institutions, foundations, societies, boards, trusts and funds, namely:–”

This substitution provides tax exemption for entities listed in the table below, provided they fulfill the conditions laid out in section 100C.

**TABLE**

<b>Sr. No.</b>	<b>Name</b>
<b>(1)</b>	<b>(2)</b>
(i)	Al-Shifa Trust.
(ii)	Fatimid Foundation.
(iii)	Pakistan Engineering Council.
(iv)	The Institution of Engineers.
(v)	Liaquat National Hospital Association.
(vi)	Greenstar Social Marketing Pakistan (Guarantee) Limited.
(vii)	Gulab Devi Chest Hospital.
(viii)	National Academy of Performing Arts.
(ix)	Pakistan Bar Council.
(x)	Pakistan Centre for Philanthropy.
(xi)	Aziz Tabba Foundation.
(xii)	The Kidney Centre Post Graduate Training Institute.
(xiii)	Pakistan Disabled Foundation.
(xiv)	Forman Christian College.
(xv)	Habib University Foundation.
(xvi)	Begum AkhtarRukhsana Memorial Trust Hospital.
(xvii)	Al-Khidmat Foundation.
(xviii)	Sardar Trust Eye Hospital, Lahore.
(xix)	Akhuwat.
(xx)	Al-Shifa Trust Eye Hospital.
(xxi)	Sarmaya-E-Pakistan Limited.
(xxii)	Lahore University of Management Sciences, Lahore.
(xxiii)	Ghulam Ishaq Khan Institute of Engineering Sciences and Technology.
(xxiv)	Society for the Promotion of Engineering Sciences and Technology in Pakistan (SOPREST).
(xxv)	Businessmen Hospital Trust.
(xxvi)	Baitussalam Welfare Trust.
(xxvii)	Alamgir Welfare Trust International.
(xxviii)	Foundation University.

(xxix)	Burhani Qarzan Hasnan Trust
(xxx)	Saifee Hospital Karachi
(xxxi)	Saifiyah Girls Taalim Trust]
(xxxii)	Balochistan Bar Council
(xxxiii)	Islamabad Bar Council
(xxxiv)	Khyber Pakhtunkhwa Bar Council
(xxxv)	Punjab Bar Council
(xxxvi)	Sindh Bar Council
(xxxvii)	Shaheed Zulfikar Ali Bhutto Foundation (SZABF)]
(xxxviii)	Pakistan Sweet Homes Angels and Fairies Place.
(xxxix)	Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT.
(xl)	Shaukat Khanum Memorial Trust.
(xli)	Abdul Sattar Edhi Foundation.
(xlii)	Patient's Aid Foundation.
(xliii)	Indus Hospital and Health Network.
(xliv)	Sundus Foundation.
(xlv)	Ali Zaib Foundation
(xlvi)	Layton Rahmatullah Benevolent Trust (LRBT).
(xlvii)	Dawat-e-Hadiya, Karachi.
(xlviii)	The Citizens Foundation.
(xlix)	Make a Wish Foundation
(l)	Saylani Welfare International Trust.
(li)	Dawat-e-Islami Trust
(lii)	Chiniot Anjuman Islamia.
(liii)	Hamdard Laboratories (Waqf) Pakistan
(liv)	Film and Drama Finance Fund
(lv)	Shaheed Zulfikar Ali Bhutto Institute of Science and Technology
(lvi)	Beaconhouse National University
(lvii)	Federal Ziauddin University.”
(lviii)	Punjab Police Welfare Organization, Lahore

## **Part II**

- The Finance Act omits Clause (9AC) and Clause (24CA) being already redundant.
- A new **Clause (24CB)** has been inserted which provides that the rate of tax under section 153(1)(b) and (c), and section 236A, in respect of payments made to the National Logistics Corporation (NLC), shall be 3% of the gross amount paid or the gross sale price of a lease of toll collection rights, respectively. The tax deducted and collected under this clause shall be treated as minimum tax. However, if the normal income tax, as calculated under Division II of Part I of the First Schedule, exceeds the amount paid under this clause, the taxpayer shall be liable to pay the normal income tax.

# Amendments in in Sales Tax Act, 1990

## 1. Definitions and New Terms (Section 2)

The subsequent amendments refine several key definitions and introduce more specific conditions for certain provisions.

- **"Abettor"**: The initial proposed definition of "abettor" included misusing credentials, preparing false invoices, allowing misuse of bank accounts, and obtaining sales tax registration for paper transactions.

The new amendment significantly narrows this definition and adds the crucial element of "intention," which may make it harder for the Inland Revenue to prove abetment, requiring a higher burden of proof. It also removes certain actions from the explicit definition, potentially requiring interpretation under the broader "intentionally abets" clause.

- **"Courier"**: The initial proposal included "logistic services, ride-hailing services, food delivery platforms and ecommerce delivery services."

The amended proposal removes "food delivery platforms and ecommerce delivery services" from the definition of "courier". This narrows the scope of entities considered "couriers," potentially impacting the tax liability and responsibilities of food delivery and e-commerce delivery platforms that were previously included.

- **"E-commerce"**: The initial definition covered both sale or purchase of goods and services.

The amendment restricts the definition of "e-commerce" to only cover the sale or purchase of goods, excluding services from its ambit.

- **"Online Marketplace"**: The initial definition covered both goods and services.

Similar to the change in "e-commerce," this amendment has also limited the scope of an "online marketplace" to facilitators of goods transactions only. This has implications for platforms that primarily facilitate services, as they may no longer fall under this specific definition for sales tax purposes.

- **"Payment Intermediary"**: The initial definition was broad, covering financial transactions with respect to both goods and services.

The amendment clarifies that the payment intermediary's role, for sales tax purposes, specifically relates to payments for goods only. This aligns with the changes in "e-commerce" and "online marketplace" definitions, focusing the e-commerce tax regime on goods rather than a broader range of financial transactions.

- **"Tax Fraud" (Section 2)**: The initial proposed definition of "tax fraud" had 11 specific scenarios. The amended definition reorders and renumbers these scenarios, now listing 11 points.

The reordering of clauses in "tax fraud" doesn't significantly alter the substance, but the simplification of the introductory phrase to abetting any action further emphasizes the link to the amended "abettor" definition.

## 2. Tax Liability for E-commerce (Section 3):

- a. In sub-section (3), clause (c), after "ordered," the expression "taxable" is inserted before "goods"<sup>19</sup>. This means the liability of payment intermediaries and couriers applies specifically to "taxable digitally ordered goods."
- b. For sub-section (7A), the new amendment substitutes the entire sub-section, stating that the tax withheld by payment intermediaries or couriers shall be a final discharge of tax liability for:
  - i. cottage industry; and
  - ii. retailers other than tier-I retailers.

The initial proposal stated final discharge for "online market place, vendors at online market place, websites, software application making those supplies".

- c. The original proposal to exclude sales under sub-section (7A) from chargeability under sub-section (9A) is now omitted. This omission means that the intermediaries, other than tier-I retailers or persons covered under cottage industry, will continue to be liable for their tax liability in normal manner despite discharging their roles as withholding agent.

## 3. Registration for E-commerce Participants (Section 14):

The bill proposed, inter-alia, following changes to Section 14 to introduce new sub-sections to address the growing e-commerce sector:

- a. **Sub-section (1A):** Mandates registration for every person, including non-residents, selling digitally ordered goods from within

Pakistan through online marketplaces, websites, or software applications. This broadens the scope to include digital transactions, ensuring non-residents operating in Pakistan are also taxed.

Now, "cottage industry and the retailers who are required to pay sales tax through electricity bills " are exempted mandatory registration for selling digitally ordered goods.

The exemption for cottage industries and certain retailers from mandatory registration provides relief for smaller businesses, aligning with existing tax policies for these segments.

- b. **Sub-section (1B):** Requires online marketplaces or couriers involved in e-commerce to ensure that only registered persons use their services for transactions. This places responsibility on platforms to enforce registration, aligning with global practices of intermediary liability in tax collection.

Now, the amended sub-section (2A) makes it compulsory for the Commissioner to provide an opportunity of being heard before compulsorily register a person.

## 4. Bar on Operations of Bank Accounts (New Section 14AC):

The initial proposal gave the Commissioner direct power to bar bank accounts upon failure to register<sup>28</sup>. The amended section introduces a more phased approach:

- a. This section now applies when the Commissioner has reason to believe a person is engaged in taxable supplies without registration, has provided three consecutive opportunities for

hearing, and the person has failed to obtain registration.

- b. The Commissioner can direct banks to intermittently suspend the operation of the bank account for three working days, to be repeated two more times with a one-week interval.
- c. Only after these intermittent suspensions can the Commissioner direct a permanent bar.
- d. Upon registration, or application under sub-section (4) of section 14AD, the bar is removed within two working days.

This revised procedure introduces a more structured and less immediate coercive mechanism. The requirement for multiple warnings and intermittent suspensions provides opportunities for the non-compliant person to rectify their status before a permanent bar is imposed. This makes the measure less drastic initially but still maintains the enforcement power.

**5. Bar on Transfer of Immovable Property (New Section 14AD):** The amended section replaces the Commissioner's direct power with a committee-based process:

- a. This action is now triggered if a person fails to obtain registration within fifteen days from the issuance of an order under sub-section (4) of section 14AC (permanent bank account bar).
- b. A committee (Chief Commissioner, Commissioner, and Chamber of Commerce/Trade Association member) is constituted.
- c. The committee issues a notice, prominently displayed at the business premises, and provides a personal hearing.

d. If the committee finds the person liable for registration, they are given a further fifteen days to register.

e. Only after these steps can the Commissioner direct the property registering authority to bar the transfer of immovable property.

This introduces a significant layer of due process and collective decision-making before the immovable property of a non-registered person can be barred from transfer. It ensures multiple opportunities for compliance and a hearing before such a drastic measure is taken, which should address concerns about fairness and potential misuse. The trigger being after the bank account bar (14AC) indicates a sequence of escalating enforcement actions.

**6. Other Coercive Actions for Non-Registration (New Section 14AE):** The amended section now explicitly states that the coercive actions (sealing premises, seizing movable property, appointing a receiver) are "Subject to prior action under section 14AC and 14AD". The requirements for public notice, committee hearing, and public disclosure remain.

This clarifies that these most intrusive coercive actions are a last resort, to be taken only after the measures under 14AC (bank account bar) and 14AD (immovable property bar) have been exhausted. This sequential approach makes the enforcement framework more structured and provides more safeguards for businesses.

**7. Revision of Returns (Section 26):** A new sub-section (3A) is inserted after sub-section (3). This allows for approval for revised returns to not be required if the revised return is filed within sixty days of the original return, and the tax payable is more or the refund claimed is less than the amount in the original return, unless restricted by the Board's compliance risk management system.

This is a positive change for taxpayers, simplifying the process for correcting returns that result in higher tax payments or lower refunds, thereby encouraging voluntary compliance and corrections. The "compliance risk management system" provides a control mechanism for the Board.

**8. Appointment of Auditors (Section 32B):**

The expression ", but not more than two thousand auditors," is omitted from the clause specifying the number of auditors the Board may appoint. The initial proposal limited the number to two thousand.

This removes the cap on the number of auditors the Board can appoint, providing more flexibility to scale up audit resources as needed, which could lead to more frequent and extensive audits.

**9. Penalties for Online Marketplaces/Couriers (Section 33):**

The penalties for failure to furnish prescribed monthly statements for online marketplaces, payment intermediaries, or couriers are revised. The initial proposal was five lac rupees for the first default and one million for subsequent defaults. The amended penalty states three lac rupees for the first default if they fail for two consecutive months, and one million rupees for each subsequent default within one year.

This change makes the initial penalty less immediate (requires two consecutive months of failure) and links subsequent higher penalties to defaults within a one-year period. While slightly less severe for a single, isolated failure, it still maintains significant financial consequences for persistent non-compliance.

**10. Power to Inquire, Investigate, and Arrest (Section 37A):**

This section is completely substituted. The new section integrates the powers of inquiry, investigation, and arrest into a single comprehensive section, providing

more detailed procedures and new conditions for arrest.

- a. The inquiry officer now has the powers of a civil court for summoning, examining on oath, and requiring production of documents. The inquiry must be completed within six months.
- b. Explicitly states that the officer shall give an opportunity of being heard to the person during inquiry.
- c. The inquiry report, including the amount of tax fraud, is submitted to the Commissioner, who can approve investigation, require more information, or close the inquiry<sup>54</sup>.
- d. Investigation must be completed within three months after approval.
- e. The arrest is explicitly prohibited before completion of the inquiry.
- f. The power to arrest is significantly tightened:
  - i. A three-member committee (notified by the Chairman) may authorize the Commissioner to issue a warrant of arrest if: (a) the tax fraud falls within specific clauses of section 2(37); (b) the amount involved exceeds fifty million rupees; AND (c) it's established the accused is intentionally not joining investigation after three notices, attempting to abscond, or likely to tamper with evidence.
  - ii. Alternatively, an Inland Revenue officer can arrest a person with an arrest warrant from the Special Judge for fraud under section 2(37) if the accused is not joining investigation, attempting to

abscond, or likely to tamper with evidence.

- g. For companies, directors or officers are personally responsible for tax fraud and are liable to arrest.
- h. The Commissioner may compound the offence either before or after inquiry or investigation if the person pays the evaded tax, default surcharge, and penalty. The initial proposal separated compounding into a new section (37BB) and had specific conditions for abettors.
- i. Any arrested person must be informed of the grounds of arrest in writing.

This comprehensive substitution of Section 37A is a major overhaul. It introduces specific timelines for inquiry and investigation (6 months and 3 months, respectively). The most critical change is the strict conditions and multi-level approval for arrest, especially the high monetary threshold (50 million rupees) and the requirement of a three-member committee's authorization for Commissioner-issued warrants. This is a significant safeguard against arbitrary arrests compared to the initial broad power to arrest with Commissioner's approval. The direct warrant from a Special Judge for specific conditions also provides a judicial oversight mechanism. The integration of compounding of offenses into this section (rather than a separate 37BB) and the ability to compound at any stage of inquiry or investigation simplifies the process for offenders to settle.

#### **11. Photovoltaic Cells (Eighth Schedule):**

Exemption available on import of Photovoltaic cells whether or not assembled in modules or made up into panels had been proposed to be withdrawn (Sixth Schedule Table 1 Serial 164)

Now, a new S. No. 90 is added to the Eighth Schedule, for "Photovoltaic cells whether or not assembled in modules or made up into panels", which will be charged sales tax at 10%.

#### **12. Exemption of aircraft parts**

The bill proposed to exempt the Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL) (Table 1 Serial 181). The amendment in the bill has now extended the scope of exemption to the parts of the aircrafts as well.

# AMENDMENTS TO FEDERAL EXCISE ACT, 2005

## 1. Section 3 – Duties Specified in the First Schedule to Be Levied:

- In subsection (5) of section 3, which deals with the liability to pay duty, a new clause (e) was proposed which is reproduced as under:

### Quote

(e) in any other case, of the person as may be specified under the provisions of this Act.”

### Unquote

The Finance Act has amended clause (e), whereby after the expression “**of the person**”, the words “**including any middleman**” shall be inserted, thereby expanding the scope to cover intermediaries where applicable.

## 2. Section 27 – Confiscation of Goods Subject to Federal Excise Duty

- The Finance Bill proposed amendments to strengthen enforcement under Section 27, which deals with the confiscation of goods liable to federal excise duty.

In sub-section (1), it is proposed that after the word “**counterfeiting**”, the following expression was proposed to be inserted:

*“or dutiable goods without affixing or affixing counterfeited tax stamps, banderoles, stickers, labels or barcodes, as required under section 45A for monitoring or tracking by electronic or other means”*

The Finance Act amended paragraph (a), where the word “**dutiable**” shall be replaced with “**such**”.

- Further, in section 27, the Finance Bill proposed that after sub-section (3), the following new sub-section (4) shall be added:

### Quote

*(4) Without prejudice to the foregoing provisions of this section, the Board in case of goods subject to monitoring under section 45A of this Act and counterfeited goods, may authorize any officer or employee of the Federal or Provincial Government to exercise the powers and perform the functions of the Officer of Inland Revenue under section 26 and sub-section (1) of section 27, by notification in the official Gazette subject to such conditions, if any, it may deem fit to be imposed.*

### Unquote

The Finance Act amends that in the **proposed sub-section (4)** of Section 27, the phrase “**or employee of the Federal or Provincial Government**” shall be substituted with:

### Quote

*“of revenue department, not below the rank of Naib Tehsildar or Excise and Taxation Officer not below the rank of BPS sixteen”*

### Unquote

## 3. First Schedule of the Federal Excise Act, 2005

The Finance Bill, proposed amendments to the First Schedule, wherein it was proposed that in Table III serial number 1 and the entries relating thereto in columns (2), (3), and (4) be omitted which specifies that FED on allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property by any developer or builder at the rate of 3%, 5%, and 7% in case of filers, late filers, and non-filers, respectively.

The Finance Act has retained the omission proposed in Table III.

Further, in **Table-I**, in column (1), **after S. No. 63**, the following new serial number and corresponding entries shall be added:

S. No.	Description of Items	Heading/subheading Number	Rate of Duty
64.	Day Old Chick (DOC)	Respective Heading	Rs.10 Per DOC

## THE PUBLIC FINANCE MANAGEMENT ACT, 2019

- The Finance Bill proposed certain amendments to the Public Finance Management Act, 2019.
- However, the Finance Act has now omitted the earlier proposed amendments, effectively retaining the original provisions of the Act without any changes.

## THE DIGITAL PRESENCE PROCEEDS TAX ACT, 2025

- The Finance Bill proposed the enactment of the Digital Presence Proceeds Tax Act, 2025. This new law aims to tax proceeds from cross-border digital transactions by foreign vendors with a significant digital presence in Pakistan, addressing revenue challenges posed by the digital economy.

### 1. Revised Threshold

- Finance Bill: A foreign vendor was considered to have *significant digital presence* in Pakistan if the number of transactions exceeded five in a financial year, along with other qualitative indicators.
- Finance Act: The criteria have been revised to a monetary threshold whereas a foreign

vendor is now considered to have significant digital presence if the aggregate amount exceeds Rs. 1 million in a financial year, along with at least one other qualitative indicators.

### 2. Terminology Changes

- In Section 3(3), the term “sufficient digital presence” has been replaced with “significant digital presence” for clarity and consistency.
- In Section 3(5), references to “permanent establishment” have been replaced with “branch office of the foreign vendor”, narrowing the scope.

### 3. Procedural Adjustments

- Section 5(4): The proviso allowing exceptions to tax collection by customs and intermediaries has been removed.
- Section 6(2): The requirement for both foreign vendor and payment intermediary to deposit tax was amended; now, only the foreign vendor bears this responsibility.
- Section 7(1): The liability for default in tax deduction or deposit now expressly extends to both payment intermediaries and foreign vendors, with default surcharge at KIBOR + 3% per annum.
- A new Section 15 has been inserted, empowering the Federal Government to grant exemptions from the application of this Act via notification.

# PETROLEUM PRODUCTS (PETROLEUM LEVY) ORDINANCE, 1961

- The Finance bill has proposed amendments to the *Petroleum Products (Petroleum Levy) Ordinance, 1961* introduces a new **Carbon Levy** alongside the existing Petroleum Levy, establishing it as a parallel charge.
- Finance Act replaces the term “Carbon Levy” wherever occurring, is replaced with “Climate Support Levy.”
- The change signifies a rebranding of the proposed levy, possibly to reflect a broader environmental and policy agenda beyond carbon emissions alone.

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# ANNEXURE-A

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# TAXPAYERS STRETCHED TO THEIR LIMITS

## BUDGET MEMORANDUM 2025-26



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## **Prologue:**

- The Finance Bill 2025-26 ("The Bill") for the Fiscal Year 2025-26 was tabled before the National Assembly on June 10, 2025. The Bill has proposed amendments in the Income Tax Ordinance, 2001 ("ITO"), Sales Tax Act, 1990 ("STA"), and Federal Excise Act, 2005 ("FEA") amongst other laws.
- We have prepared our comments on the significant amendments proposed in the ITO, STA and FEA. 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. Please note that we have already issued our brief Pre Budget estimates for FY26, Economic, Tax Measures.
- 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**

Wednesday, June 11, 2025

The Federal Government has announced the Federal Budget for the Fiscal Year 2025-26 (“FY26”), and attempted to address the Fiscal imbalances; however, the targeted figures lack achievability and are far from practical.

The table herein below highlights the Government’s targets for FY26 vs. the Tola Associates (“TA”) estimates published back on 22<sup>nd</sup> May 2025.

### FEDERAL GOVERNMENT ESTIMATES VS. TOLA ASSOCIATES ESTIMATES FISCAL YEAR 2025-26

<i>(PKR in Billion)</i>				
GOVERNMENT BUDGET FOR 2025-26				
<b>RECEIPTS</b>				
FBR Tax Revenue	14,131	13,447	684	5
Non Tax Revenue	5,147*	4,000	1,147	29
Gross Revenue Receipts	19,278	17,447	1,831	10
Less: Transfer to Provinces	8,206	7,712	494	6
Net Revenue Receipts - Federal Share	11,072	9,735	1,337	14
<b>EXPENDITURES</b>				
Total Expenditure	17,573	17,233	340	2
Current Expenditure	16,286	15,921	365	2
Markup on Debt	8,207	7,521	686	9
Pension	1,055	1,020	35	3
Defense Affairs & Services	2,550	2,800	(250)	(9)
Grants & transfers (Province + Others)	1,928	1,955	(27)	(1)
Subsidies	1,186	1,350	(164)	(12)
Running Civil Government	971	920	51	6
Provision for contingencies	389	355	34	10
Development Expenditure	1,287	1,312	(25)	(2)
Federal Budget Deficit	<b>(6,501)</b>	<b>(7,498)</b>	<b>997</b>	<b>(13)</b>
Primary Surplus	<b>1,706</b>	<b>23</b>	<b>1,683</b>	<b>7,317</b>
Projected Nominal GDP	<b>129,567</b>	<b>129,567</b>	-	-
Federal Budget Deficit (% of GDP)	<b>(5.0)</b>	<b>(7.20)</b>		
Primary Surplus (% of GDP)	<b>1.32</b>	<b>0.02</b>		

*\*It may be budgeted to Rs.4tr, However new carbon tax imposition may lead NTR above Rs.5tr*

The key highlights of the Federal Budget 2025-26 are as under:

### KEY HIGHLIGHTS OF THE BUDGET 2025-26:

- The Federal Government has projected Rs. 14,131 billion as the FBR tax revenue target in FY26, almost a 5.0% growth from the TA figures of Rs. 13,447 billion; note that TA estimates were based on nominal GDP. (*Note 1, Ref. Page 09*)
- 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. 11.9 trillion for FY25 well before the release of the Government's budget document. (*Note 1, Ref. Page 09*).
- The total outlay in the Federal Budget 2025–26 amounts to Rs. 19,278 billion, which is 10.0 percent higher than TA's 2024–25 budget estimate.
- The projected interest payment in the budget is estimated at Rs. 8,207 billion by the Federal Government, which is 9.0% lower than the figures of Rs. 7,521 billion in TA budget estimates for FY26. (*Note 4 & 5, Ref. Page 09 & 10*)
- Current expenditure of the country is estimated at Rs. 16,286 billion in 2025–26 vs. Rs. 15,921 billion in our (TA) estimation for FY25.
- The defense budget is estimated at Rs. 2,550 billion in 2025–26, which is 9.0% lesser than the TA estimated figures of Rs. 2,800 billion, due to regional uncertainty. (*Note 6, Ref. Page 10*)
- The divergence in allocation in subsidies between the Federal Government and TA estimates is Rs. 164 billion, where the Government allocated Rs. 1,186 billion and Rs. 1,350 billion was allocated in the TA document. (*Note 8, Ref. Page 11*)
- Provincial share in the NFC Award is estimated for 2024–25 at Rs. 8,206 billion, which is 58.0% of the FBR's revenue collection. That is 6.0% more than the TA estimates.
- The size of the total development expenses is estimated at Rs. 1,287 billion, which is lower than TA estimates of Rs. 1,312 billion. (*Note 11 & 12, Ref. Page 01*)
- Considering the 18.5% growth target set by the Government for FBR revenue, as against the nominal growth of 11.7%, the projected GDP growth of 4.2%, and the inflation projection of 7.5% during 2025–26 factoring in the same, the said growth target for FBR revenue seems unrealistic and unachievable, even if the Government introduces new tax measures.
- However, in our view, the Government may be able to collect a PKR 13.5 trillion 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 FY25 target of Rs.12.97 trillion set by the IMF.
- Furthermore, the situation worsened when the Government failed to achieve the IMF's revised tax revenue target of Rs.12.3 trillion. This clearly reflects how unrealistic the tax targets set for the FBR were in the previous Fiscal Year.
- For a brief overview of real estimates by TA and Tax Measures, please [click here](#).
- The *infra* table further demonstrates how closely TA's projections align with the Government's revised estimates for FY25.

The *infra* table further demonstrates how closely TA's projections align with the Government's revised estimates for FY25.

PKR Billion	Govt. Budget 2024-25 (Revised)	TA Budget Est. 2024-25	Govt. Budget 2024-25 (Provisional)
<b>RECEIPTS</b>			
FBR Tax Revenue	11,900	11,900*	12,970**
Non Tax Revenue	4,902	5,467	4,845
Gross Revenue Receipts	16,802	17,367	17,815
Less: Transfer to Provinces	6,997	6,824	7,438
Net Revenue Receipts - Federal Share	9,805	10,543	10,377
<b>EXPENDITURE</b>			
Total Expenditure	17,249	17,697	18,877
Current Expenditure	16,391	16,457	17,203
Markup on Debt	8,945	9,520	9,775
Pension	1,014	900	1,014
Defense Affairs & Services	2,182	2,400	2,122
Grants & transfers (Province + Others)	1,761	1,477	1,777
Subsidies	1,379	1,060	1,363
Running civil Government	886	900	839
Provision for contingencies	223	0	313
Statistical Discrepancy	0	200	0
Development Expenditure	858	1,240	1674
Federal Budget Deficit	(7,444)	(7,154)	(8,500)
Primary Balance	1,502	2,366	1,275
Nominal GDP***	114,692	114,692	114,692
Federal Budget Deficit (% of GDP)	(6.5)	(6.2)	(7.4)
Primary Balance (% of GDP)	1.31	2.06	1.11
* Tola Associates accurately projected FBR's FY25 tax collection at Rs. 11.9 trillion prior to the release of the Government's budget document.			
**IMF Projected Target			
***Nominal GDP extracted from the latest budget document 2025-26.			

Official figures show that from July to May of FY25, FBR's tax revenue stood at PKR 10.21tr – 28% or PKR 2.2tr higher than last year's collection of PKR 8.01tr. The FBR still needs PKR 2.12tr more to reach the revised tax revenue target for FY25. FBR is 8.24% short of IMF's original Tax revenue 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:

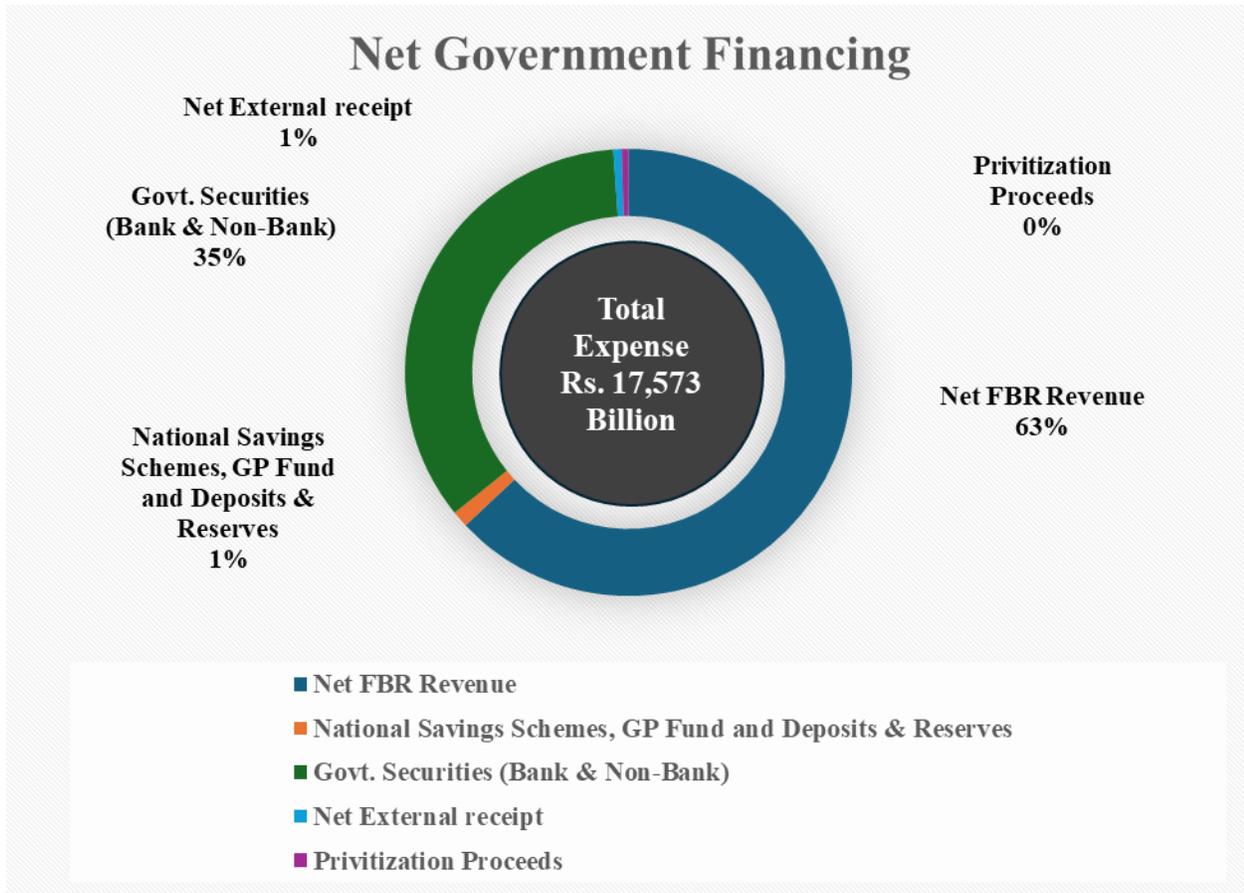
The Federal Government's fiscal deficit would be around Rs. 6,501 billion during 2025-26. However, if the Government incorporates the estimated provincial surplus of Rs. 1,464 billion, then the overall Fiscal deficit of the country would be Rs.5,037 billion during 2025-26. The breakdown thereof is as follows:

<i>(PKR Billion)</i>		
	<b>2025-26 (Provisional)</b>	<b>2024-25 (Revised)</b>
<b>FBR Taxes</b>	14,131	11,900
<b>Indirect Taxes</b>	7,229	6,074
<b>Direct Taxes</b>	6,902	5,826
<b>Non Tax Revenue</b>	5,147	4,902
<b>Gross Revenue Receipts</b>	19,278	16,802
<b>Less provincial Share</b>	8,206	6,997
<b>Net Revenue Receipts</b>	11,072	9,805

The Federal Government has had a high fiscal deficit of 5.6% (revised) of GDP in 2024-25. Whereas, the projected figure of fiscal deficit would be 3.9% in 2025-26 (Provincial surplus included). The next year's primary balance (after incorporating provincial surplus) is estimated at Rs. 3,170 billion which is 2.4% of the GDP for the Government.

<i>(PKR Billion)</i>		
	<b>2025-26 (Provisional)</b>	<b>2024-25 (Revised)</b>
<b>Net Federal Revenue</b>	11,072	9,805
<b>Total Federal Expenditure</b>	17,573	17,249
<b>Federal Budget Deficit</b>	(6,501)	(7,444)
<b>Estimated Provincial Surplus</b>	1,464	1,009
<b>Overall Fiscal Deficit</b>	(5,037)	(6,435)
<b>Primary Balance</b>	3,170	2,510
<b>Overall Fiscal Deficit as % of GDP</b>	(3.9)	(5.6)
<b>Primary Balance as % of GDP</b>	2.4	2.2

The chart herein below illustrates the financing of the Budget 2025-26:



### 1. DEFINITIONS – SECTION 2

- (17C) The Bill has proposed to define “digitally delivered services” as any service delivered over the internet or electronic networks, where the delivery is automated and require minimal or no human intervention including music, audio and video streaming services, cloud services, online software application services, services delivered through online inter-personal interaction i.e. tele medicines, e-learning etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility.
- (19AA) The Bill has proposed to define “e-commerce” as sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using either mobile phone, iPad, Tablet or automated computer-to-computer ordering system.
- (36)(a) The Bill has proposed to amend the definition of a non-profit organization (“NPO”), whereby, they have excluded recreational clubs formed with a membership fee exceeding PKR 1 million for any class of new members from the ambit of being a NPO.
- (36B) The Bill has proposed to amend the definition of an online marketplace and has sought to **include** “online interfaces” that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or providing or rendering the services that are

being sold, **within the ambit of an online market place.**

### 2. 4AB – Surcharge reduced

- The Bill has proposed to amend Section 4AB and reduce the surcharge applicable on individuals and Association of Persons (“AOPs”) whose taxable income exceed PKR 10 million from **10%** to **9%**.

### 3. 6A. Tax on payments for digital transactions in e-commerce

- A tax has 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 levied has been made final discharge of tax liability in terms of Section 8 of the ITO.

The applicable tax rates are as follows:

(i) Digital Means or banking channels by payment intermediary:

S. No.	Description	Tax Rates
1.	Where the amount paid does not exceed Rs.10,000	1% of the gross amount paid
2.	Where the amount paid exceeds Rs. 10,000 but does not exceed Rs. 20,000	2% of the gross amount paid
3.	Where the amount paid exceeds Rs.20,000	0.25% of the gross amount paid

### (ii) Cash on Delivery by courier service:

S. No.	Description	Tax Rates
1.	On supply of electronic and electrical goods	0.25% of the gross amount Paid
2.	Where the amount paid exceeds Rs. 10,000 but does not exceed Rs. 20,000	2% of the gross amount paid
3.	Where the amount paid exceeds Rs.20,000	1% of the gross amount paid

#### 4. Section 15 - Minimum annual rental value of commercial immovable property fixed

- The Bill has proposed to add two provisos to Section 15, whereby, it has sought to fix the minimum annual rental value of commercial immovable property at 4% of the Fair Market Value as per Section 68 of the ITO, unless it can be proved otherwise through evidence by the taxpayer to the satisfaction of the Commissioner.

#### 5. 18(1)(b) - Income of recreational clubs classified as Income from business

- The Bill has proposed to amend Section 18(1)(b) whereby they have classified income of recreational clubs as income from business and has deemed it to be classified as such retrospectively as well.

#### 6. Section 21 - Section 21(q) - Disallowance of expenditure attributable to purchases made from persons that are not NTN holders

- Section 21(q) currently disallows **any expenditure** attributable to sales made

by **an industrial undertaking** to persons that were required to be registered under the STA, but are not registered under the STA based on a specific formula.

- The Bill has proposed to substitute the current Section 21(q) of the ITO, whereby the Bill has sought to disallow 10% of the **claimed expenditure** made attributable to purchases made from persons who are not NTN holders.
- The said proposal seeks to enhance the scope of the disallowance by applying to all businesses, and not just industrial undertakings.
- Further, the said proposal has sought a simpliciter 10% disallowance of claimed expenses attributable to purchases made from non- NTN holders.
- A proviso has been proposed to exempt application of this sub-section to agricultural produce purchased directly from growers.
- Another proviso has been proposed that empowers the Board to exempt persons or classes thereof subject to conditions and limitations as may be specified, vide a notification in the official gazette.

#### Comments:

The proposed measure may have a counter effect as it may force business to not declare purchases from non-NTN holders. Therefore, this proposal may lead to a hinderance in the drive for documentation, as otherwise the FBR could have obtained data of the sale or purchase to unregistered persons / non-NTN holders from the taxpayer.

## 7. Section 21(s)

- The Bill has proposed to add a new-subsection (s), whereby it has sought to disallow 50% of the expenditure claimed against sale where the taxpayer received more than PKR 200,000/- through means other than banking channel or digital means against a single invoice for one or more than one transaction for sale of goods or services.

### Comments:

The proposed measure may have a counter effect as it may force businesses to conceal such sales. This may further the informal economy.

## 8. Section 22 – Depreciation expense disallowed in specific situations

- The Bill has proposed to disallow depreciation expense for amounts paid for addition of capital assets to a seller in all relevant tax years in situations where withholding tax under Sections 152 or 153 has not been deducted and deposited in the Government treasury, by not adding such amount paid for addition in capital assets in the assets for computation of tax depreciation.

## 9. Section 24 – Intangibles Assets

- The Bill has proposed to amend Section 24(4) and decrease the normal useful life of an intangible that does not have an ascertainable useful life from **25 years to 10 years**.

### Comments:

This seems to impact vested rights of a taxpayer, as it will directly impact the

amortization deductible by a person on such an intangible asset. The Government must clarify as to whether this will apply prospectively or retrospectively.

## 10. Section 39(3) – Income from other sources – Amounts received as a loan, advance, deposit for issuance of shares or a gift

- Currently, as per Section 39(3), if any amount is received as a loan, advance, deposit for issuance of shares or gift by a person in a tax year from another person (not being a banking company or financial institution) **otherwise than by a crossed cheque drawn on a bank or through a banking channel** shall be treated as income chargeable to tax from other sources.
- Now, the Bill has proposed to add “digital means” as a proper means of receiving the aforesaid payments, whereby, if the aforesaid payments are received through digital means, then the same (subject to other conditions being fulfilled) will not be added in the income from other sources of a taxpayer.

## 11. Section 56 – Set off business losses

- The Bill has proposed to add a new proviso whereby business loss arising in a tax year shall not be adjustable against income from property for the said tax year.

## 12. Section 59B (ba) – Group Relief

- The Bill has proposed to add a new subsection (ba), whereby, where a company’s or companies within the “group” income from business is not chargeable to tax under Division II of Part I of the First Schedule, i.e.

the Normal Tax Regime, the said company or companies shall not be entitled to group relief under Section 59B.

### 13. Section 63A – Tax Credit for interest paid on low-cost housing loan

- The Bill has proposed a tax credit for an individual for a tax year in respect of any profit on debt or share in rent or share in appreciation for value of house paid by the person in the year on a loan by a scheduled bank or any other financial institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the Local Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the person utilizes the loan for the construction (including land) or acquisition of one personal house having land area up to two thousand five hundred square feet or flat having total area up to two thousand square feet.
- The tax credit shall be computed as per the following formula:

$$(A/B) \times C$$

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person's taxable income for the tax year; and C is the lesser of — (a) (b) the total profit on debt referred to in sub-section (1) paid by the person in the year; thirty per cent of the person's taxable income for the year;

Moreover, the Bill has proposed that any individual that has availed tax credit under this Section, shall not be able to claim tax credit for another house or flat under this section for the subsequent fifteen tax years.

### 14. Section 65F (1)(a) – Tax credit for certain persons

Currently, as per Section 65F(1)(a), only persons engaged in coal mining projects in Sindh supplying coals exclusively to power generation projects are entitled to a hundred percent tax credit of the tax payable under the ITO.

The Bill has proposed to remove the word “exclusively” from Section 65F(1)(a), thereby broadening the applicability of the aforesaid tax credit to persons that are engaged in coal mining projects in Sindh and may supply coal to others, including power generation projects as well.

### 15. Section 75A – Purchase of assets through banking channel or digital means

The Bill has proposed to add purchase through digital means as a legitimate and recognized mode of payment for purchase of assets stipulated in Section 75A.

### 16. Section 100C – Tax credit for charitable organisations, and Clause 66 of Part I of the Second Schedule

Currently, a hundred percent tax credit is provided under Section 100C for, *inter-alia*, those persons that are specified in Table II of clause 66 of Part I of the Second Schedule.

The Bill has proposed to omit the reference to “Table II” wherever applicable in Section 100C. The Bill has also proposed to substitute clause 66, whereby it has merged table I and table II.

#### Comments:

The effect of this amendment is that as entities in both tables have been merged, now all entities previously mentioned in Table II shall be

required to obtain approval under Section 2(36)(c) for an exemption under Section 100C. The list of all entities / persons the Bill has proposed under Clause are enclosed herewith as **Annexure A**.

### **17. Section 113C(2)(c) – Second Proviso – Minimum tax on income of certain persons**

Currently, as per the second proviso to Section 113C(2)(c) of the ITO, a taxpayer can carry forward the excess minimum tax for a period of 3 tax years immediately succeeding the tax year for which the amount was paid.

Now, the Bill has proposed to reduce the carry forward to two years

#### **Comments:**

This may create issues for taxpayers that may carry forward and adjust the said excess minimum tax in their third year, as the said carry forward arose before the enactment / proposal of this reduction. Therefore, the Government must clarify whether this amendment will apply to only those taxpayers where the excess carry forward arises after this enactment or whether the same has retrospective effect, in which case there may be an issue of vested rights of the taxpayer.

### **18. Section 114C – Restriction on economic transactions by certain persons**

The Bill has proposed to cement Section 114C (added vide Tax Laws (Amendment) Bill 2024) in the ITO, albeit with a few changes. The Tax Laws Amendment Bill 2024 can be found [here](#). Our comments on the said amendments can be found [here](#).

- i. Under Section 114C(1)(b), the notifying authority for prescribing value of an immoveable property has been proposed to be changed from the Board to the Federal Government.
- ii. A proviso has been added in Section 114C(1)(b) that states that the restriction on registering, recording or attesting transfer of immoveable property shall not come into effect or no person shall be considered as an ineligible person for the purposes of Section 114C(1)(b) till the time the value is notified by the Federal Government.
- iii. In Section 114C(1)(d), Pensioner accounts have been excluded from the restriction on a banking company to not open or maintain an already opened current or savings bank account, in addition to the exclusion of Aasan account.
- iv. An ineligible person that filed its sources of investment and expenditure statement after filing of its return was previously excluded from the restrictions of Section 114C(1). However, the Bill has proposes to omit such persons from the said exclusion.
- v. The Bill proposes to expand the definition of an eligible person by including person that has filed sources of investment and expenditure statement declaring sufficient resources and furnishing explanation thereof for a particular purchase or investment transaction covered in Section 114C(1)(a) to (c).

#### **Comments:**

This means that a person shall become an eligible person upon filing of sources of investment and

expenditure statement declaring sufficient resource. Further, it is unclear as to whether a person can practically file such statement before or without filing of their return of income.

- vi. The Bill has omitted “special child” from the definition of immediate family members under Section 114C(5)(b). The Bill also proposes to remove the age restriction of 25 years for classification of a child as an immediately family member. This means that now, if a person is 26 years old but is still a dependent on his father, he will be classified as an immediate family member.
- vii. The definition of sufficient resources has been expanded to include cash denominated in local or foreign currency, fair market value of gold, net realizable value of stocks, bonds, receivables, or any other cash equivalent asset as may be prescribed, declared by a person either in his sources of investment and expenditure statement, or wealth statement filed for the latest tax year, and in the case of a company or an AOP, cash and equivalent assets, declared in the financial statements attached with the income tax return for the latest tax year.
- viii. The Bill has proposed to add a proviso in the definition of sufficient resources, whereby, where an asset mentioned in sub-section (1) other than sub-section 1(d), has been purchased by exchanging capital assets already declared in the wealth statement or financial statement or sources of investment and

expenditure statement, the disposal of such capital assets shall be treated to be part of cash equivalent assets to the extent of the value mentioned in the agreement.

**Comments:**

Capital assets have not been defined in section 114C. Therefore, in absence of a specific definition, the definition under Section 2(11) read with Section 37(5) of the ITO.

**19. Section 120 – Assessments**

The Bill proposes to amend Section 120(1)(a) and (b), whereby the deemed assessment Order is stated to include the amounts that have been adjusted under Section 120(2A). Section 120(2A) provides that the return of income shall go through an automated system to arrive at correct amounts of total income, taxable income and tax payable by making adjustments for:

- a. Any arithmetical error in the return;
- b. Any incorrect claim, if such incorrect claim is apparent from any information in the return;
- c. Disallowance of any loss, deductible allowance or tax credit under Parts VIII, IX, and X of Chapter III; and
- d. Disallowance of carry forward of any loss under clause (b) of sub-section(1) of Section 182A.

With respect to the amendment in Section 120(1)(b), it is unclear as to where exactly the amendment has been proposed.

### 20. Section 122 – Amendment of Assessments

The Bill proposes to remove the following two provisos after Section 122(9):

- i. Currently, the first proviso obliges the tax department to culminate amendment of assessment proceedings within 180 days of the issuance of the show-cause Notice or within an extended period of maximum 90 days. The Bill proposes to amend such proviso.

#### **Comments:**

The Hon'ble Supreme Court in **2025 SLD 1117** had confirmed the case of Super Asia, wherein, the Hon'ble Supreme Court had held that the timelimit for adjudication at assessment level was mandatory in nature, and that breach of such timelimit rendered the Order invalid. This proposal seems to nullify the effect of that judgment on the Income Tax laws.

- ii. Currently, the second proviso provides that any period during which proceedings are adjourned due to a stay order or ADRC proceedings or agreed assessment proceedings under Section 122D or adjournments taken by taxpayer shall be excluded in counting the 180 + 90 days timelimit provided under the first proviso. The Bill proposes to remove the second proviso in line with the proposed removal of the first proviso.

### 21. Section 124(4A) and (4B) – Assessment giving effect to an Order

The Bill proposes to add two new sub-sections 4A and 4B, whereby, where the Commissioner Appeals, ATIR, High Court or Supreme Court has confirmed the tax payable through their Order, then no appeal effect shall be necessary, and that the Commissioner can affect recovery accordingly.

Further, the Bill proposes under Section 124(4B) that where the aforesaid Appellate Fora, excluding the Commissioner Appeals, partly sets aside the impugned Order and confirmed or modified the Order on other issues due to which tax becomes payable, then the Commissioner shall issue an appeal effect determining the tax payable accordingly.

### 22. Section 126A – Pecuniary jurisdiction in Appeals

The Bill proposes to omit Section 126A that had set an arbitrary pecuniary jurisdiction determining the appellate forum for the taxpayer.

#### **Comments:**

It is not clear as to what the fate will be of the Appeals that were transferred to the Hon'ble ATIR from the forum of the Hon'ble Commissioner (Appeals). Further, it is also not clear as to whether the Appeals that were filed directly to the Hon'ble ATIR may now be transferred to the Hon'ble Commissioner Appeals. The Federal Government must issue a clarification.

### 23. Section 127 – Appeal to the Commissioner Appeals

- i. Section 127(1):
  - a. The Bill proposes to restrict the right of a State-Owned Enterprise to file an appeal before the Commissioner Appeals.
  - b. An aggrieved person now has the option to surrender his right to appeal before the Commissioner Appeals and file an appeal directly before the Hon’ble ATIR.

#### Comments:

The option proposed to the taxpayer to surrender his right to appeal seems like a redundant legislation as it is unclear as to why a taxpayer may skip a fact-finding forum.

### 24. Section 130 - Appellate Tribunal

The Bill proposes to amend the requirement of a chartered accountant being eligible for appointment as a Member of the Hon’ble ATIR as follows:

#### Quote

(b) has, for an aggregate period of not less than ten years, been- (i) (ii) in practice as a Chartered Accountant, either individually or in a firm of Chartered Accountants, within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961); or a Chartered Accountant, within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961), and has been in employment of a Chartered Accountant in practice as specified in sub-clause (i) above at least for a period of ten years

#### Unquote

#### Comments:

The proposed amendment will expand the choice of selection of a Chartered Accountant to be appointed by the Hon’ble ATIR. At present, a CA with 10 years of experience in practice is entitled to be selected as member ATIR.

### 25. Section 131(1) – Appeal to the Appellate Tribunal

The Bill has proposed a corresponding amendment to Section 131(1) in line with the proposed amendment in Section 127(1). The aggrieved person can now appeal the order of the Commissioner Appeals, or a taxpayer can file an appeal directly to the Hon’ble ATIR by and after surrendering his right to appeal before the Hon’ble CIRA.

### 26. Section 133 – Reference to the High Court

The Bill has proposed to increase the timelimit to file an appeal / reference before the High Court from 30 days to 60 days.

The Bill has further proposed to omit the clause pursuant to which an Appeal against the Order of the CIRA could directly be filed before the High Court.

The Bill has proposed a corresponding amendment, whereby, the Appellant’s right to state any mixed question of law and fact has been omitted.

#### Comments:

All of the amendments proposed by this Bill that pertain to the pecuniary jurisdiction u/s 127, 131 and 133 were much needed, as the previous imposition of pecuniary jurisdiction had caused undue hardship and severe confusion amongst the entire legal fraternity.

## 27. Section 134A - Alternate Dispute Resolution Committee

The Bill has proposed to amend sub-section 11, and add new sub-sections 11A and 11B thereby extending the timeframe of the ADRC deciding the dispute from 60 days to 120 days, effectively.

### Comments:

Currently, there is anxiety amongst SOEs where the ADRC constituted could not decide the dispute at hand within 60 days due to no fault of the SOE, as sub-section 11 mandated the Board to dissolve the ADRC and stated that the matter shall be decided by a court of law or appellate authority where the dispute was under litigation. This was severely disadvantageous to the SOE as the SOE would have revealed its arguments during the course of the hearing conducted by the ADRC, putting the ADRC at a disadvantage once the dispute stood pending before the court of law or appellate forum.

Further, there still exists an anomaly in the law as, pursuant to Section 134A(2), the SOE is obliged to withdraw any pending litigation and mention these details in the undertaking that it will submit. However, Section 134A(11) only applied, *per se*, where the dispute was pending before a court of law or Appellate forum.

Therefore, the aforesaid provisions of law and the stringent timeline had put the SOE at a clear disadvantage.

Now, the Bill has proposed that the application of sub-section 11 shall be subject to sub-section 11A. Further, the Bill has proposed the insertion of sub-section 11A, whereby if the Committee fails to decide the dispute within the initial 60 days, the Board shall reappoint a Committee that shall decide the case within a further 60 days.

As per the newly proposed sub-Section 11B, if the Committee fails to decide the dispute within the further extended 60 days, then the Board shall dissolve the Committee by an order in writing and the dispute shall be decided by a court of law or appellate authority where the dispute is pending.

## 28. Section 138 and 140 - Recovery of tax

The Bill proposes to cement amendments made by the Tax Laws (Amendment) Ordinance 2025 with respect to recovery of tax under the ITO. You can find our comments on the said amendments by clicking this [link](#). The Bill has proposed additional amendments in the shape of a proviso that states that where a High Court decides the Appeal in favor of the tax department, then the department can only affect recovery from a taxpayer after 7 days of the Order of the High Court.

### Comments:

It is unclear as to when the seven day limitation period begins from; whether it begins from the date of issuance of certified copy or pronouncement of judgment.

## 29. Section 149(1A) - Annuity and pension above PKR 10 million taxed

The Bill has proposed to tax annuity and pension earned above PKR 10 million at 5% of the amount exceeding PKR 10 million. Further, the surcharge u/s 4AB has also been levied on pension. However, the tax deduction has been made mandatory after making adjustment of tax withheld from former employee under other heads and tax credits admissible under Sections 61 and 63 during the year after obtaining documentary evidence as may be necessary.

### **30. Section 151A. Gain on disposal of certain debt securities**

The Bill has proposed and mandated every “custodian of debt securities” including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of a holder of debt security, to deduct tax at 15% of the gross amount of capital gains arising on disposal of such debt securities.

The Bill has proposed to apply this section to debt securities disposed of through other than registered stock exchanged and settled through other than NCCPL.

### **31. Section 152**

#### **i. (1C) – Payments to non-residents**

Currently, banks and financial institutions remitting outside Pakistan are obliged to deduct tax on amount of fee for offshore digital services that is chargeable to tax under Section 6 to a non-resident person on behalf of any resident or a permanent establishment at 15%.

The Bill has proposed to allow the Banks and financial institutions to not deduct the aforesaid tax where the recipient is also liable to the Digital Presence Proceeds Levy and the same has been collected.

#### **ii. (1D) – Capital gains arising from disposal of debt instruments and government securities**

Currently, banks or financial institutions maintaining SCRA of a non-resident company having no Permanent Establishment in Pakistan shall deduct tax from capital gains arising on the disposal of debt instruments and Government securities including treasury bills and Pakistan investment bonds invested through SCRA at the tax rate of 10% of the gross amount paid.

The Bill has proposed to mandate that banks and financial institutions shall only be withholding agents if they maintain such an account for not less than 12 months.

Further, the Bill has also proposed that where the holding period of debt instruments and Government securities including treasury bills and Pakistan investment bonds is less than twelve months, the rate of tax deducted shall be 20% of the gross amount paid in terms of Paragraph 2 of Division II of Part III of the First Schedule.

### **32. Section 153(1)(b) read with Division III of Part III of the First Schedule – Minimum withholding tax on professionals including lawyers, chartered accountants etc. increased.**

The Bill has proposed to increase the minimum withholding tax levied under Section 153(1)(b) read with Division III of Part III of the First Schedule from **11 percent to 15 percent**.

### **33. Section 153(2A) – Payment intermediary and courier businesses become withholding agents**

The Bill has proposed to add a new sub-section 2A, whereby every payment intermediary at the time of processing payment through digital means, on behalf of a seller of digitally ordered goods or services through locally operated e-commerce platforms (including websites); and every courier business providing courier services collecting cash from a buyer under Cash on Delivery (CoD) payment terms on behalf of a seller for the supply of digitally ordered goods and services through e-commerce platforms (including websites) shall collect tax from the gross amount payable (including sales tax, if any) to the seller at the rate specified in Division IVA

of Part I of the First Schedule to the Ordinance and deposit to government treasury.

The Bill further proposes that where tax under sub-section 2A is deducted, no tax under sub-section (1) shall be deducted.

The Bill has proposed to add an payment intermediary for the purposes of sub-section 2A, and a courier service for the purposes of sub-Section 2A in the definition of prescribed person u/s 153(7).

The Bill has proposed to define courier services and payment intermediary as follows:

### Quote

(iia) “courier service” means any specialized entity that provides fast, secure and often tracked transportation of documents, packages and small freight, typically offering door-to-door delivery solutions of goods within specific timeframes and in case of digitally ordered goods in e-commerce delivery and collection of cash (CoD) on behalf of the seller and such delivery service provider includes but not limited to – (a) (b) (c) (d) Logistics services; ride-hailing services; food delivery platforms; and e-commerce services

(iib) “payment intermediary” means any third part entity including a banking company, financial institution, a licensed foreign exchange company or payments gateways that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route or settle payments in a financial transaction, without being the ultimate source or recipient of the payment

**Unquote**

### 34. Section 165C – Furnishing of information by online market place, payment intermediary and courier service

The aforesated persons / entities have been mandated to file quarterly withholding tax statements in the prescribed format.

The Bill has proposed that online marketplaces shall submit a monthly statement containing the name, address, Sales Tax, and Income Tax registration number of every vendors registered on its platform supplying digitally ordered goods and services in e-commerce, transactional and aggregated quantum of seller’s monthly turnover and the amount deposited into the vendor’s bank account against such sale transactions.

The Bill has proposed to make provisions of Section 165, excluding Section 165(1), (1A), and (6) apply to the newly proposed Section 165C.

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

The Bill proposes to cement the provisions enacted by the Tax Laws (Amendment) Bill 2024. Our comments on the same can be accessed through this [link](#).

### 36. Section 175C – Posting of officer of Inland Revenue

The Bill proposes to cement the provisions enacted by the Tax Laws (Amendment) Bill 2024. Our comments on the same can be accessed through this [link](#).

### 37. Section 181 - Taxpayer’s registration

(1) The Bill has proposed to oblige a person selling digitally ordered goods or services from within Pakistan using online

marketplace or a courier service as the case may be, apply for registration in the prescribed form and manner as all other taxpayers.

(1A) A new sub-section 1A has been proposed whereby every online market place or courier service involved in e-commerce by supplying or delivering digitally ordered goods or services from within Pakistan, shall not allow any vendor to use its platform services to carry out e-commerce transactions unless such vendors have been registered under the STA and the ITO.

### 38. Section 182 – Penalty provisions

**i. (1A) – Penalty for failure to furnish withholding statement.**

The Bill has proposed a corresponding amendment, whereby it has added failure to file statement under the newly proposed Section 165C in the list of offences. Further, the Bill has proposed to increase the penalty in case where the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within ninety days from the due date for filing the statement, from **PKR 5,000** to **PKR 50,000**.

**ii. (3B) – Where online marketplace allows unregistered (non)resident vendor, involved in e-commerce business, supplying digitally ordered goods, that is required to be registered under the STA and ITO under Section 181(1A).**

The Bill proposes a new offence as aforesaid. The proposed penalty is PKR 500,000/- on the first default and

PKR 1 million on every subsequent default, to be imposed on such online marketplace or courier service.

**iii. (12B) - Where a banking company or payment gateway or a courier service provider, as the case may be, fails to deduct tax at the time of making payment to a seller, or fails to pay the tax deducted as required under section 160, with respect to digitally ordered goods or rendering or providing of digitally delivered services using e-commerce platform.**

The Bill proposes a penalty equal to the 100% of the amount of tax involved for a violation of Section 153(2A).

**iv. (15) – Violation of Section 153(2A) excluded from Serial 15**

The Bill proposes to exclude violation of Section 153(2A) from Serial No. 15 that provides a penalty of the higher of PKR 40,000/- or 10% of the tax amount for any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under Section 160.

**v. (15A) - Any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to registered under Sales Tax Act, 1990 and Income Tax Ordinance, 2001, fails to registered under the aforementioned statues.**

The proposed penalty is PKR 500,000/- on the first default and PKR 1 million on every subsequent default.

### **39. Section 207 – Income Tax Authorities**

The Bill has proposed to add the auditors appointed under Section 222 in the definition of “income tax authorities”.

### **40. Section 214A – Condonation of time limit**

The Bill proposes to add two new provisos to Section 214A. The first proviso restricts the condonation time limit to a maximum of two years in aggregate. The same also has proposed to be given an overriding effect pursuant to an extremely wide non-obstante clause.

The second proviso proposes that where there are reasons to believe that significant loss has occurred to the exchequer by an act of omission or commission by the person or Commissioner, then a Committee notified by the Board is enabled to further condone the time limit as it may deem fit after providing a reasonable opportunity of hearing to the concerned person.

### **41. Sections 216 and Section 222**

The Bill has proposed to amend Section 222 of the ITO, whereby the Board has been empowered to appoint auditors on a contractual basis or through a third-party arrangement as the Board deems fit for carrying out the purposes of this Ordinance.

A corresponding amendment has been proposed to be made under Section 207, whereby, the auditor appointed u/s 222(2) has been proposed to be given the status of an Income tax authority.

A corresponding amendment has been proposed to be made under Section 216, to allow disclosure of particulars mentioned in Section

216(1) to the auditor appointed by the board u/s 222(2) to assist any authority mentioned in Section 207(1)(b) to (g), after a non-disclosure agreement (“NDA”) is made with the auditor as may be prescribed. The said amendment fails to mention who the NDA shall be prescribed by.

Further, the Bill has proposed (Section 216(3)(kd) and (ke) to authorize such data obtained under Section 216 to to the Tax Policy Office for the purpose of processing and analyzing data for research and policy analysis; and to the recognized universities and international donor agencies subject to the conditions that before sharing, the taxpayer’s data shall be anonymized.

### **42. Section 218 – Service of notices and other documents**

The Bill has proposed to amend the word “individual” in Section 218(1)(d) to “person”.

### **43. Section 222(2) – Appointment of expert**

The bill proposes to add a new sub-section (2) to authorize the Board to appoint auditors, however, the number of auditors shall not exceed 2000.

### **44. Section 226 – Computation of limitation period**

The Bill has proposed to preclude the time spent before the ADRC from being counted in the period of limitation

### **45. Section 231AB – Advance tax on cash withdrawal**

The Bill has proposed to increase the adjustable advance tax rate from 0.6% to 0.8% on cash withdrawals from bank accounts made by persons that are not appearing in the ATL, where

the sum total of such cash withdrawals exceed PKR 50,000 in a day.

**Comments:**

This proposal is contradictory to the aim of documentation of the economy.

## First Schedule

### Part I – Rates of Tax

- **Division I – Tax Rates for Individuals and on Pension**  
(See Annexure A)
- **Division IIB – Super Tax (Section 4C)**  
(See Annexure A)
- **Division III – Tax on Dividends**

#### Clause (b):

- Proposed rate: **15%** for REITs and other cases.
- Existing rate: **15%** on dividends from mutual funds, REITs, **25% rate** for mutual funds deriving **50%** or more income from **profit on debt**.
- **Proposed New clause (ba)** inserted for taxation on Mutual Funds:
  - **25% on income from debt securities**
  - **15% on income from equities.**

- **Division IIIA – Profit on Debt under 7B**

- **Division replaced (Proposed):**

(a) **20% tax** applies to profit or yield paid by **banking companies or financial institutions** on deposits;

(b) A **15% tax** applies to **all other cases** e.g National Saving Scheme.

Existing tax rate is **15%**.

- **Division IV – Rate of Tax on Certain Payments**

- After the word “services”, the words “or fee of offshore digital services” shall be inserted.

- **New Division IVA – Rate of Tax on Payments for Digital Transactions in E-commerce Platforms (Section 6A)**

- Introduced **new tax rates on digital transactions:**

- **Digital Payments:**
  - ≤ Rs. 10,000: **1%**
  - Rs. 10,001 – 20,000: **2%**
  - Rs. 20,001: **0.25% \***
- **Cash on Delivery:**
  - Electronics and electric goods: **0.25%**
  - Clothing: **2%**
  - Other goods: **1%**

*\* It is peculiar that smaller digital payments are taxed at higher rates (1–2%) while payments above Rs. 20,000 are taxed at a lower rate of just 0.25%.*

### Part III – Deduction of Tax at Source

- **Division I – Tax on Dividends:**

- Proposed rate: **15%** for REITs and other cases.
- Existing rate: **15%** on dividends from mutual funds, REITs, **25% rate** for mutual funds deriving **50%** or more income from **profit on debt**.

- **New clause (ba)** inserted for taxation on Mutual Funds:

- For mutual funds, tax is 25% on income from debt securities, and 15% on income from equities.

➤ **Division IA – Profit on Debt (Section 151):**

➤ **Division replaced (Proposed):**

(a) **20% tax** applies to profit or yield paid by **banking companies or financial institutions** on deposits;

(b) A **15% tax** applies to **all other cases** e.g National Saving Scheme.

Existing tax rate is **15%**.

➤ **New Division IIIAA – Gain on Debt Securities (Section 151A)**

• **Inserted:**

The rate of tax to be deducted under section 151A shall be 15% of the gross amount of the capital gain.

**Division II – Payment to non-resident**

• **Paragraph (5) (The rate of tax to be deducted under Clause (b) of sub-section (2A) Section 152):**

- (i) Tax increased from **4% to 8%**
- **Proviso:** IT & IT-enabled services taxed at **4%**
- (ii) Other services: **15%**

• **Paragraph (6) (The rate of tax to be deducted under Clause (c) of sub-section (2A) Section 152):**

- (i) Rate increased from **10% to 15%**

**Division III – Payment for Goods and Services**

• **Paragraph (2) (The rate of tax to be deducted under Clause (b) of sub-section (1) Section 153):**

- (i) Rate increased from **4% to 6%**
- **Proviso:** IT & IT-enabled services remain at **4%**
- (ii) Other services: **15%**

- **1.5%** for advertising to print/digital media

• **Paragraph (3) (The rate of tax to be deducted under Clause (c) of sub-section (1) Section 153):**

- (i) Rate increased from **10% to 15%**

• **New Paragraph (3A) inserted:**

○ Tax on **digital goods/services (Section 153(2A)):**

▪ **Digital payments:**

- ≤ Rs. 10,000: **1%**
- Rs. 10,001 – 20,000: **2%**
- Rs. 20,001: **0.25% \***

▪ **Cash on Delivery:**

- Electronics: **0.25%**
- Clothing: **2%**
- Others: **1%**

*\* It is peculiar that smaller digital payments are taxed at higher rates (1-2%) while payments above Rs. 20,000 are taxed at a lower rate of just 0.25%.*

### Part IV – Deduction or Collection of Advance Tax

#### Division X – Sale of Immovable Property (Section 236C)

- **New table substituted:**
  - - Up to Rs. 50M: **4.5%** (Previously the tax rate was **3%**)
    - Rs. 50M – 100M: **5%** (Previously the tax rate was **3.5%**)
    - Over Rs. 100M: **5.5%** (Previously the tax rate was **4%**)

#### Division XVIII – Purchase of Immovable Property (Section 236K)

- **New table substituted:**
  - Up to Rs. 50M: **1.5%** (Previously the tax rate was **3%**)
  - Rs. 50M – 100M: **2%** (Previously the tax rate was **3.5%**)
  - Over Rs. 100M: **2.5%** (Previously the tax rate was **4%**)

### Second Schedule

- Exemptions on the following incomes have been proposed to be withdrawn:
  - Pension received by former employer
  - Pension received by members of armed forces
  - Any payment in nature of commutation of pension
  - 50% of of the accumulated balance from the voluntary pension system on the eligible person's retirement, disability, or death
  - Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005
- The bill proposes to exempt any income, subject to the provisions of section 100C, derived by the following entities:

Sr. No.	Name
1.	International Islamic Trade Finance Corporation.
2.	Islamic Corporation for Development of Private Sector.
3.	National Memorial Bab-e-Pakistan Trust.
4.	Pakistan Agricultural Research Council.
5.	The corporatized entities of Pakistan Water and Power Development Authority from the date of their creation up to the date of completion of the process of corporatization i.e. till the tariff is notified.
6.	The Prime Minister's Special Fund for victims of terrorism.
7.	Chief Minister's (Punjab) Relief Fund for Internally

	Displaced Persons (IDPs) of NWFP.
8.	The Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network.
9.	Pakistan Council of Scientific and Industrial Research.
10.	The Pakistan Water and Power Development Authority established under the Pakistan Water and Power Development Authority Act, 1958 (W. P. Act XXXI of 1958).
11.	WAPDA First Sukuk Company Limited.
12.	Pension of a former President of Pakistan and his widow.
13.	State Bank of Pakistan and State Bank of Pakistan Banking Services Corporation.
14.	International Finance Corporation established under the International Finance Corporation Act, 1956 (XXVIII of 1956) and provided in section 9 of Article VI of Articles of Agreement 1955 as amended through April 1993.
15.	Pakistan Domestic Sukuk Company Ltd.
16.	ECO Trade and Development Bank.
17.	The Islamic Chamber of Commerce and Industry under the Organization of Islamic Conference (OIC).
18.	Commission on Science and Technology for Sustainable Development in the South (COMSATS) formed under International Agreement signed on 5th October, 1994.
19.	WAPDA on issuance of twenty billion rupees TFC's/SUKUK certificates for consideration of Diamer Bhasha Dam Projects.
20.	Federal Board of Revenue Foundation.
21.	WAPDA Second Sukuk Company Limited.
22.	Pakistan International Sukuk Company Limited.
23.	Second Pakistan International Sukuk Company Limited.
24.	Third Pakistan International Sukuk Company Limited.

25.	Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on the 25th December, 2015.	50.	Supreme Court Water Conservation Account.
26.	Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams - Fund.	51.	Layton Rahmatullah Benevolent Trust (LRBT).
27.	National Disaster Risk Management Fund.	52.	Baluchistan Education Endowment Fund (BEEF).
28.	Deposit Protection Corporation established under sub-section (1) of section 3 of Deposit Protection Corporation Act, 2016 (XXXVII of 2016).	53.	Saylani Welfare International Trust.
29.	SAARC Energy Centre.	54.	Chiniot Anjuman Islamia.
30.	The Asian Development Bank established under the Asian Development Bank Ordinance, 1971 (IX of 1971).	55.	Army Welfare Trust.
31.	The Prime Minister's COVID-19 Pandemic Relief Fund-2020.	56.	Pakistan Mortgage Refinance Company Limited.
32.	Saarc Arbitration Council (SARCO).	57.	The Pakistan Global Sukuk Programme Company Limited.
33.	International Parliamentarians Congress.	58.	Karandaaz Pakistan from tax year 2015 onwards.
34.	Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT.	59.	Pakistan Sweet Homes Angels and Fairies Place.
35.	Shaukat Khanum Memorial Trust.	60.	Public Private Partnership Authority for tax year 2022 and subsequent four tax years.
36.	National Endowment Scholarship for Talent (NEST).	61.	Dawat-e-Islami Trust.
37.	Islamic Naya Pakistan Certificates Company Limited (INPCCL).	62.	Hamdard Laboratories (Waqf) Pakistan.
38.	Abdul Sattar Edhi Foundation.	63.	The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5th August, 2022.
39.	Patient's Aid Foundation.	64.	Film and Drama Finance Fund.
40.	Indus Hospital and Health Network.	65.	Export-Import Bank of Pakistan.
41.	Securities and Exchange Commission of Pakistan.	66.	Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi.
42.	Dawat-e-Hadiya, Karachi.	67.	Shaheed Zulfikar Ali Bhutto Institute of Science and Technology.
43.	Privatisation Commission of Pakistan.	68.	Al-Shifa Trust.
44.	The Citizens Foundation.	69.	Bilquis Edhi Foundation.
45.	Sundus Foundation.	70.	Fatimid Foundation.
46.	Ali Zaib Foundation.	71.	Pakistan Engineering Council.
47.	Fauji Foundation.	72.	The Institution of Engineers.
48.	Make a Wish Foundation.	73.	Liaquat National Hospital Association.
49.	Audit Oversight Board.	74.	Greenstar Social Marketing Pakistan (Guarantee) Limited.
		75.	Gulab Devi Chest Hospital.
		76.	Pakistan Poverty Alleviation Fund.

77.	National Academy of Performing Arts.	107.	Shaheed Zulfikar Ali Bhutto Foundation (SZABF).
78.	National Rural Support Programme.	108.	Beaconhouse National University.
79.	Pakistan Bar Council.	109.	Federal Ziauddin University.
80.	Pakistan Centre for Philanthropy.	110.	Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme.
81.	Aziz Tabba Foundation.	111.	Punjab Police Welfare Foundation Lahore.
82.	The Kidney Centre Post Graduate Training Institute.		
83.	Pakistan Disabled Foundation.		
84.	Forman Christian College.		
85.	Habib University Foundation.		
86.	Begum AkhtarRukhsana Memorial Trust Hospital.		
87.	Al-Khidmat Foundation.		
88.	Sardar Trust Eye Hospital, Lahore.		
89.	Akhuwat.		
90.	Al-Shifa Trust Eye Hospital.		
91.	SARMAYA-E-PAKISTAN LIMITED.		
92.	Lahore University of Management Sciences, Lahore.		
93.	Ghulam Ishaq Khan Institute of Engineering Sciences and Technology.		
94.	Society for the Promotion of Engineering Sciences and Technology in Pakistan (SOPREST).		
95.	Businessmen Hospital Trust.		
96.	Baitussalam Welfare Trust.		
97.	Alamgir Welfare Trust International.		
98.	Foundation University.		
99.	Burhani Qarzan Hasnan Trust.		
100.	Saifee Hospital Karachi.		
101.	Saifiyah Girls Taalim Trust.		
102.	Balochistan Bar Council.		
103.	Islamabad Bar Council.		
104.	Khyber Pakhtunkhwa Bar Council.		
105.	Punjab Bar Council.		
106.	Sindh Bar Council.		

- The bill also proposes to exempt any income derived by ICC Business Corporation (IBC) or International Cricket Council (ICC) or employees, officials, agents and representatives of IBC and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IBC partners and media representatives, other than persons who are resident of Pakistan, from ICC champions Trophy, 2025 hosted in Pakistan.
- Income and profits and gains derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 (XX of 2012) is exempt for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operations. The bill now proposes to restrict the exemption of income for periods till 30<sup>th</sup> June 2035 or 10 years from commencement of commercial operation, whichever is earlier.
- Any income which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018) of any individual domiciled or company and association of persons resident in the Tribal Areas forming

part of the Provinces of Khyber Pakhtunkhwa and Balochistan is currently exempt from tax till 30<sup>th</sup> June 2025. The bill now proposes to extend the exemption till 30<sup>th</sup> June 2035.

- Any income derived by a person from cinema operations is currently exempt for five years from the commencement of cinema operations. The bill now proposes to restrict the exemption till 30<sup>th</sup> June 2030 or 5 years from commencement of cinema operations, whichever is earlier.
- The bill proposes a 25% reduction of tax payable on salary income for a fulltime teacher and researcher. The bill proposes the reduction retrospectively and specifically for tax periods 2023, 2024, and 2025 only. However, another identical exemption is also available under clause (2) which renders the newly introduced exemption as redundant.
- The bill proposes to exempt application of section 148 (advance tax on import) on Import of Cystagon, Cysta drops and Trientine capsules.
- Clause (105A) provides that the provisions of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding four tax years. The bill now proposes to reduce the number of previous years window from 4 years to 3 years.
- The bill proposes to extend the withholding tax exemption to the persons domiciled in the tribal areas from 30<sup>th</sup> June 2025 to 30<sup>th</sup> June 2026.

### Seventh Schedule

- In the Seventh Schedule, new rules have been proposed to be added which clarify that leasehold improvements made by taxpayers must be capitalized and amortized at 10% per year, with the remaining balance deductible upon early lease termination.
- Additionally, deductions for depreciation and finance cost on right-of-use assets under IFRS 16 will no longer be allowed; instead, only actual rent expense will be deductible, provided it is certified by an external auditor.
- Any prior excess or shortfall in deductions will be adjusted in tax year 2025.
- Further the bill proposed a detailed format for external auditor certificates to ensure consistency between Prudential Regulations, IFRS 9, and financial statements, especially concerning provisions for non-performing advances.
- Only those classified as "loss" under SBP's Prudential Regulations will be deductible.

### Tenth Schedule

Rule 1 of the tenth Schedule provides higher rates for tax collection under section 236K on acquisition of immovable property by the persons not appearing in active taxpayers list. The bill proposes to reduce the rates as under:

S. No.	Fair Market Value of Immovable Property	Current Tax Rate	Proposed Tax Rates
1	Where the fair market value does not exceed Rs. 50 million	12%	10.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	16%	14.5%
3	Where the fair market value exceeds Rs. 100 million	20%	18.5%

- Rule 1 also specifies higher rates of tax deduction for persons not appearing in active taxpayers list and receiving monies on account of profit on debt under section 151. The bill proposes to abolish these higher rates which means these persons will be subject to normal tax withholding rates.
- Rule 1 also specifies higher rate of tax deduction (10%) for persons not appearing in active taxpayers list and receiving monies on account of sale or transfer of immovable property under section 236C. The bill proposes to further increase the rate from 10% to 11.5%.
- Rule 1A of the tenth Schedule provides higher rates for tax collection under section 236C on sale of immovable property by the persons appearing in active taxpayers list but who failed to file return of income within due date. The bill

proposes to further increase the rates as under:

S. No.	Fair Market Value of Immovable Property	Current Tax Rate	Proposed Tax Rates
1	Where the fair market value does not exceed Rs. 50 million	6%	7.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	8.5%
3	Where the fair market value exceeds Rs. 100 million	8%	9.5%

- Rule 1A of the tenth Schedule provides higher rates for tax collection under section 236K on sale of immovable property by the persons appearing in active taxpayers list but who failed to file return of income within due date. The bill proposes to reduce the rates as under:

S. No.	Fair Market Value of Immovable Property	Current Tax Rate	Proposed Tax Rates
1	Where the fair market value does not exceed Rs. 50 million	6%	4.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	5.5%
3	Where the fair market value exceeds Rs. 100 million	8%	6.5%

- Rule 10 of the tenth schedule also provides a list of instances where the provisions of tenth schedule (i.e. tax deduction rates for late or no filing) do not apply. One such instance is tax deduction on capital gains under section 37A. The bill now proposes to limit the benefit only in case of capital gains on disposal of securities acquired on or after first day of July 2025.

### 1. Definitions and New Terms (Section 2)

The bill introduces and refines several definitions in Section 2 to better align the provisions with contemporary business practices, particularly in the digital economy.

- **Abettor:** An “**abettor**” refers to any person who actively participates in, facilitates, or supports the commission of **tax fraud** or any other offence under the Sales Tax Act that could lead to prosecution. This definition not only includes those who directly engage in the fraudulent activity, but also those who **assist, connive, or enable** others to commit such acts. The law outlines specific scenarios to clarify what qualifies as abetment:

- Using another registered person’s login details (user ID and password) to file returns, annexures, or alter tax e-profiles without authorization.

For example a tax consultant accesses his client’s FBR profile using the client’s login credentials without permission and changes the business address or files false returns to reduce tax liability. Even if he doesn’t benefit directly, this makes him an abettor.

- Creating or helping to create invoices, whether the registered person knows about it or not, to fraudulently claim input tax adjustments.

For example a tax consultant generates fake purchase invoices to show that his client bought goods worth PKR 5 million, allowing it to falsely claim input tax refunds. Even if the company owner is unaware, the consultant becomes an abettor for initiating the fraud.

- Letting someone use your bank account to facilitate tax fraud or operating a bank account in another company’s name illegally.

For example a person lets a business associate use his personal bank account to receive payments from fake sales shown in dummy invoices. Alternatively, he opens a business bank account in someone else’s name and uses it to channel fictitious transactions. Both actions make him an abettor.

- Getting a sales tax registration number with the intention to issue fake invoices without actual business activity.

For example a group of individuals set up a company that exists only on paper, obtains an STRN (Sales Tax Registration Number), and starts issuing fake invoices to real businesses for input tax claims. All individuals involved in setting up this fake entity are abettors.

- **Cargo Tracking System:** “Cargo Tracking System” means a digital system notified by the Board for electronic monitoring and tracking of goods transported within or across the territory of Pakistan, for the purpose of tax enforcement, compliance and prevention of tax evasion.

For example, when a company transports a large consignment of imported electronics from Karachi Port to a warehouse in Lahore, the cargo is equipped with tracking devices linked to the digital system. This allows the FBR to monitor the route, detect any unauthorized stops or diversions, and ensure that the goods are not offloaded or sold without paying the applicable taxes.

If any irregular activity is detected, enforcement action can be taken in real time.

- **Courier:** “courier” means any entity engaged in the delivery of goods and collection of cash on behalf of a seller including logistic services, ride-hailing services, food delivery platforms and ecommerce delivery services.
- **E-bilty:** “e-bilty” means a digital transport document generated through the Cargo Tracking System as prescribed by the Board, to accompany goods during their movement.
- **E-commerce:** “e-commerce” means sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using mobile phones, automated computer-to-computer ordering system or any similar device.
- **Online Marketplace:** Redefined from its current form, an electronic interface facilitating sales by controlling terms, authorizing charges, or handling orders/deliveries, to platforms that facilitate direct buyer-seller interactions for a fee, with or without taking economic ownership. This broadens the scope to include more digital platforms.
- **Payment Intermediary:** Includes financial entities facilitating payments, integrating them into the tax collection process. The bill defines the term as a banking company, any financial institution including a licensed foreign exchange company or payment gateway that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route, or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.
- **Tax Fraud:** “tax fraud” means knowingly, intentionally or dishonestly doing any act or causing to do any act or omitting to take any action or causing the omission to take any action, to cause loss of tax or attempting to cause loss of tax under this Act, including-
  - using or preparing false, forged and fictitious documents including return, statements annexure and invoices;
  - suppression of supplies that are chargeable to tax under this Act;
  - false claim of input tax credit including based on fictitious transactions;
  - making taxable supplies of goods without issuing any tax invoice;
  - issuance of any tax invoice without supply of goods;
  - suppression and nonpayment of withholding tax in the prescribed manner beyond a period of three months from due date of payment of tax;
  - tampering with or destroying of any material evidence or documents required to be maintained under this Act or the rules made thereunder;
  - acquisition, possession, transportation, disposal or in any way removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner dealing with, any goods in respect of which there are reasons to believe that these are

liable to confiscation under this Act or the rules made thereunder;

- making of taxable supplies without getting registration under this Act;
- generating fake input through manipulation of return filing system of the Board and making fake entries in the sales tax returns or in the annexures; and
- making fictitious compliance of section 73, including routing of payments back to the registered person, or for the benefit of the registered person, through a bank account held by a supplier or a purported supplier.

The definition further explains that any act of commission mentioned in this clause shall be treated as intentional unless the person accused of tax fraud proves that he had no intention, motive, knowledge, or reason to believe that he was committing a tax fraud;

The definitions aim to close loopholes exploited in digital transactions and ensure that the tax system reflects the complexities of modern commerce.

### 2. Tax Liability for E-commerce (Section 3)

Significant amendments to Section 3 address tax collection in e-commerce transactions, reflecting the growing importance of online commerce.

- **Current Provision:** Section 3 of the Sales Tax Act, 1990, outlines that the person making the supply is liable for sales tax on goods, while the importer is liable for imported goods. It also includes provisions for withholding tax and special tax regimes for certain goods.

- **Proposed Changes:**

- A new clause (c) in sub-section (3) makes payment intermediaries (e.g., banks, financial institutions, payment gateways) and couriers responsible for collecting and paying sales tax on digitally ordered goods in e-commerce, whether payments are digital or on a Cash on Delivery (CoD) basis, at rates specified in the Eleventh Schedule (i.e. 2%)
- A new sub-section (7A) states that the tax collected by these intermediaries is the final discharge of tax liability for online marketplaces and vendors, with no input tax adjustments allowed.
- The proviso in sub-section (7) is omitted, potentially simplifying withholding tax provisions.
- The proviso in sub-section (9A) is substituted to exclude sales under sub-section (7A) from chargeability under that sub-section, avoiding overlap.
- These changes shift the tax collection burden to intermediaries, who are better positioned to ensure compliance due to their role in transaction processing. By deeming the tax collected as the final liability, the amendments prevent double taxation and simplify compliance for online sellers. However, intermediaries may face increased operational costs, which could impact service fees.
- For example a vendor places its product on its online store operated by an online Market place and a courier company picks the product from the vendor or online markets place's warehouse and delivers the product to the customer. The payment may be in form of cash on delivery or through digital means through bank's

debit/credit card or through any digital wallet. In case of cash on delivery, the courier company will be responsible to collect the 2% sales tax. While in case of payment through debit/credit cards or through digital wallet, the banks or institutions operating such wallets will be responsible for collecting the 2% sales tax. This 2% sales tax collection will discharge the sales tax liability of both the vendor and the online market place and the courier or the payment gateway providers will act only as the collection agent.

### 3. Registration (Section 14)

#### Current Provision:

Section 14 currently outlines the registration requirements for persons engaged in taxable supplies in Pakistan. It specifies:

- **Mandatory Registration Categories:** Includes manufacturers (excluding cottage industries), retailers liable for sales tax (excluding those paying through electricity bills under Section 3(9)), importers, exporters seeking refunds on zero-rated supplies, wholesalers, dealers, distributors, and persons required under other federal or provincial laws for taxes collected as sales tax.
- **Voluntary Registration:** Persons not making taxable supplies but required for imports, exports, or other provisions may apply for registration.

#### Proposed Amendments:

The proposed changes to Section 14 introduce new sub-sections to address the growing e-commerce sector:

- **Sub-section (1A):** Mandates registration for every person, including non-residents, selling digitally ordered goods from

within Pakistan through online marketplaces, websites, or software applications. This broadens the scope to include digital transactions, ensuring non-residents operating in Pakistan are also taxed.

- **Sub-section (1B):** Requires online marketplaces or couriers involved in e-commerce to ensure that only registered persons use their services for transactions. This places responsibility on platforms to enforce registration, aligning with global practices of intermediary liability in tax collection.
- **Sub-section (2A):** Empowers the Commissioner Inland Revenue or authorized officers to compulsorily register persons who are required to be registered but have not applied, after conducting an inquiry as deemed appropriate. This strengthens enforcement by allowing proactive registration of non-compliant entities.

These changes aim to capture revenue from the digital economy, ensuring that e-commerce businesses, often operating informally, are brought into the tax net. The inclusion of non-residents reflects the global nature of online trade, addressing cross-border tax challenges.

### 4. Bar on Operations of Bank Accounts (New Section 14AC)

Section 14AC introduces a financial enforcement mechanism for non-registration:

- Notwithstanding other laws, the Commissioner can direct banking companies, scheduled banks, and other financial institutions to bar the operation of bank accounts of non-registered persons through a written order. This leverages financial institutions to enforce

compliance, restricting access to banking services for non-compliant entities.

- Upon registration, the Commissioner must immediately lift the bar, ensuring that compliance restores normal operations.
- Aggrieved persons can appeal to the Chief Commissioner Inland Revenue within thirty days, providing a redressal mechanism.
- The provisions come into force on a date specified by the Board through notification, allowing phased implementation.

This section aims to create a strong incentive for registration by imposing financial restrictions, potentially affecting business operations significantly. It aligns with practices in other jurisdictions where financial tools are used for tax enforcement, such as freezing accounts for tax arrears.

### 5. Bar on Transfer of Immovable Property (New Section 14AD)

Section 14AD extends enforcement to property transactions:

- The Commissioner is empowered to direct property registering authorities to bar the transfer of immovable property of non-registered persons, impacting their ability to sell or transfer assets.
- The bar is removed upon registration, ensuring compliance restores rights.
- Appeals can be made to the Chief Commissioner Inland Revenue within thirty days, offering a legal recourse.
- Effective from a notified date by the Board, allowing for implementation planning.

This measure targets property owners, particularly businesses with significant assets, to compel registration. It may affect real estate transactions, potentially impacting economic activity, but aims to ensure tax compliance across all sectors.

### 6. Other Coercive Actions for Non-Registration (New Section 14AE)

Section 14AE introduces operational enforcement measures:

- The Chief Commissioner can seal business premises, seize movable property, or appoint a receiver for managing taxable activities of non-registered persons, significantly disrupting operations.
- Such actions require:
  - Public notice specifying the date of action.
  - A committee hearing, including the Chief Commissioner, concerned Commissioner, and a representative from Chambers of Commerce or Trade Bodies, ensuring due process.
  - Public disclosure on the Board's website and newspapers, enhancing transparency.
- Upon registration, any appointed receiver is removed within two working days, minimizing disruption post-compliance.
- Aggrieved persons can make representations to the Board within thirty days, providing an appeal mechanism.
- Effective from a notified date by the Board, allowing for phased implementation.

This section is the most intrusive, aiming to force registration through operational disruptions. The inclusion of a hearing process and public

disclosure aims to balance enforcement with fairness, but the impact on small businesses could be severe, potentially affecting livelihoods.

### 7. Enforcement, Penalties, and Arrests (Sections 33, 37, 37A, 37AA, 37B, 37BB, and 38B)

The amendments significantly enhance enforcement mechanisms and penalties to deter tax fraud.

- **Current Provision:** Sections 33, 37, 37A, and 37B outline penalties, investigations, and prosecutions for tax-related offenses.
- **Proposed Changes:**
  - Increased penalties, including imprisonment up to 10 years, fines up to 10 million rupees, and additional penalties equal to the tax loss.
  - New powers for Inland Revenue officers to investigate, arrest, and prosecute offenders, aligned with the Code of Criminal Procedure, 1898.
  - Introduction of compounding of offenses, allowing offenders (except abettors) to settle by paying the tax, penalty, and surcharge.
  - Sections 37AA and 37B outline the powers and procedures for arrest and post-arrest actions related to tax fraud or offences warranting prosecution. Inland Revenue officers, with the Commissioner's prior approval (or without it in urgent situations) may arrest individuals suspected of tax fraud. The Commissioner can order the

release of the accused if the arrest lacked sufficient evidence or was made in bad faith. If the offence involves a company, key personnel such as directors or CEOs may also be arrested without absolving the company of tax liabilities. Arrests must align with the Criminal Procedure Code. Following arrest, the person must be presented to a Special Judge or nearby Judicial Magistrate within 24 hours. These authorities may grant bail, remand the individual to Inland Revenue custody, or proceed with the trial based on investigation findings. Officers must maintain a detailed register of arrests and submit investigation reports to the Special Judge via the Commissioner. Statements may be recorded under section 164 of the Code of Criminal Procedure, and the Board may authorize additional officers to exercise these powers.

- These changes aim to deter tax evasion through stricter consequences and streamlined enforcement processes. The compounding option provides flexibility for resolution, but excluding abettors ensures accountability for facilitators of fraud.

### 8. Digital and Technological Measures (Section 23 and 40C)

To leverage technology for better tax administration, the amendments mandate:

- **Current Provision:** Section 23 requires tax invoices, and Section 40C addresses electronic monitoring.
- **Proposed Changes:**
  - Empowering the board for Real-time integration of electronic

invoicing systems with the Federal Board of Revenue's (FBR) computerized system with effect from a date notified by the Board.

- Introduction of e-bilty, a digital transport document linked to tax invoices for goods transportation, with penalties for non-compliance or tampering.

- These measures enhance transparency and enable real-time monitoring, reducing opportunities for tax evasion. They align with global trends toward digital tax administration but may require businesses to invest in compliant systems.

### 9. Reporting and Monitoring (Sections 26, 32B, and 38B)

New reporting requirements are introduced to improve oversight.

- **Current Provision:** Section 26 requires returns, and Section 38B allows access to records.
- **Proposed Changes:**
  - Online marketplaces, payment intermediaries, and couriers must submit monthly statements on taxable supplies of digitally ordered goods.
  - Authorities can require Internet Service Providers and telecommunication companies to provide subscriber information for tax fraud investigations.
  - The board or the Commissioner may appoint as many experts, or auditors (subject to limits), as it or the Commissioner considers necessary, including for the purposes of assistance in audit,

investigation, litigation or valuation.

- Increased reporting and data access enhance the FBR's ability to monitor compliance and detect irregularities, particularly in the digital economy.

### 10. Appeals and Administrative Changes (Sections 45B, 46, and 47)

The amendments revise appeal processes and introduce administrative enhancements.

- **Current Provision:** Sections 45B, 46, and 47 govern appeals and administrative procedures.
- **Proposed Changes:**
  - Revised appeal processes, allowing direct appeals to the Appellate Tribunal in some cases and extending time limits.
  - Appointment of experts and auditors to assist in audits, investigations, and litigation.
- These changes streamline the appeals process and improve the quality of tax administration, potentially reducing delays and enhancing expertise.

### 11. Inspection of Audit Firms (New Section 58C)

- The bill proposes that in case the Chief Commissioner Inland Revenue believes that a registered person's audited accounts under the Companies Act, 2017 do not present a true and fair view of their sales, purchases, or related sales tax liability, they may, with Board approval, refer the audit firm that issued the audit certificate to the Audit Oversight Board for inspection. However, the SECP Act

restricts the AOB to perform Audit Oversight of Public Interest Companies.

### 12. Supplies to unregistered persons (Section 73)

- Section 73 provides that in cases of supplies to unregistered persons exceeding one hundred million rupees in a year or ten million rupees in a month, the attributable input tax with respect to such supplies will not be allowed.
- The bill proposes to replace the above limits with the limits as may be prescribed by the Board with the approval of federal Minister-in-Charge.

### 13. Third Schedule

- Section 3(2)(a) provides that items listed under the Third Schedule are required to be charged sales tax at standard rate (18%) at the retail price and the amount of sales tax shall be legibly, prominently and indelibly printed or embossed by the manufacturer, or the importer, in case of imported goods on each article, packet, container, package, cover or label, as the case may be.
- The bill proposes to add the following items in the third schedule:

<b>52.</b>	<b>Import of pet food including of dogs and cats sold in retail packing</b>	<b>2309.1000</b>
53.	Import of coffee	0901.1100, 090 1.1200, 0901.2100, 090 1.2200, 0901.9000, 2101.1120
54	Import of chocolates sold in retail packing	1704.9010, 1806.2090,  1806.3100, 1806.3200, 1806.9000
55.	<b>Import of cereal bars sold in retail packing</b>	1904.1010, 190 4.1090,  1904.2000, 190 4.3000, 1904.9000.

### 14. Sixth Schedule

- Sixth schedule provides the list of items which are exempt from sales tax, subject to conditions mentioned therein.
- The bill proposes following amendments to the schedule:
  - Exemption available on supply and import of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas has been proposed to be withdrawn (Table 1 Serial 151)

- and has been proposed to be charged under Eighth Schedule.
- Exemption available on import of Photovoltaic cells whether or not assembled in modules or made up into panels has been proposed to be withdrawn (Table 1 Serial 164)
  - Exemption is available on supplies of electricity to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries till 30<sup>th</sup> June 2025 (Table 1 Serial 152). Such exemption has been proposed to be extended till 30<sup>th</sup> June 2026.
  - Currently, import of cystagon, cysta drops and trientine capsules is exempt if for personal use only (Table 1 Serial 179). The bill proposes to remove the condition of import for personal use.
  - The bill proposes to exempt the Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL) (Table 1 Serial 181).
  - Currently, iron and steel scrap excluding supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 (Table 2 Serial 57). The bill proposes to add following exclusions to the exemption:
    - supplied by manufacturer cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order; and
    - supplied directly by the importer (verifiable from the goods declaration form) to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order and

### 15. Eighth Schedule

- Eighth Schedule provides the list of goods on which sales tax is charged at the rates specified in the schedule instead of the standard 18%.
- The import of certain cinematographic equipment specified under the serial number 53 used to be charged at 5% till 30<sup>th</sup> June 2023. The bill proposes to remove this entry as the same had become redundant.
- Currently, the supply of Locally manufactured or assembled motorcars of cylinder capacity upto 850cc is charged sales tax at 12.5%. The bill proposes to withdraw the concessionary rate and proposes to charge supply of such cars at standard rate of 18%.

- Imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs and supplies within tribal areas by industries located in the tribal areas, which is currently exempt, have been proposed to be charged at following rates:
  - **10% for 2025-26**
  - **12% for 2026-27**
  - **14% for 2027-28**
  - **16% for 2028-29**

- The bill has proposed amendments in the appellate procedure in line with the proposals under the Sales Tax Act, 1990.
- Table III of the First Schedule specifies FED on allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property by any developer or builder at the rate of 3%, 5%, and 7% in case of filers, late filers, and non-filers, respectively. The bill proposes to abolish such duty.

The Finance bill has proposed amendments to the Petroleum Products (Petroleum Levy) Ordinance, 1961 introduces a new **Carbon Levy** alongside the existing Petroleum Levy, establishing it as a parallel charge. Following major changes are proposed

green policy framework. Further, these amendments may lead to a risk of litigation.

- A new sub-section (4) is added to impose the Carbon Levy at **Rs. 2.5 per liter** on **Motor Spirit, High-Speed Diesel, and Furnace Oil** for **FY 2025–26**, increasing to **Rs. 5 per liter** in **FY 2026–27**, in addition to the Petroleum Levy.
- For Furnace Oil, Carbon Levy at **Rs. 2.5 per liter** (Rs. 2,665/MT) for **FY 2025–26**, increasing to **Rs. 5 per liter** in **FY 2026–27**.
- **Furnace Oil Bunker 'C'** is added to the First Schedule which provides a list of Petroleum Product as S. No. 26.

The proposed amendments to the *Petroleum Products (Petroleum Levy) Ordinance, 1961* mark a significant policy shift, both in terms of fiscal strategy and environmental orientation. The introduction of a **Carbon Levy**, distinct yet parallel to the existing Petroleum Levy, shows an attempt by the government to take cognizance of the environmental cost of fossil fuel consumption. By setting a structured **rate increase** (from Rs. 2.5 to Rs. 5 per liter by FY 2026–27), the proposed amendment shows a clear intent of the Governments intent to gradually increase the cost on carbon-intensive fuels.

From a fiscal perspective, this proposal appears to have been introduced primarily as a revenue measure. However, these amendments lack accompanying framework for **carbon offsetting, emissions tracking, or green budgeting**, which weakens the environmental justification of the Carbon Levy. This proposal could be perceived as a **purely fiscal tool**, rather than part of a broader environmental strategy.

In conclusion, this amendment represents a **hybrid policy move** which is fiscally pragmatic, environmentally symbolic, but its long-term credibility will depend on how transparently the levy is used and whether it is embedded into a broader

- **The Finance Bill 2025** has proposed the enactment of the Digital Presence Proceeds Tax Act, 2025. This new law aims to tax proceeds from cross-border digital transactions by foreign vendors with a significant digital presence in Pakistan, addressing revenue challenges posed by the digital economy.
- The Act aims to plug a major revenue leakage by introducing a 5% tax on payments made to non-resident entities offering digitally ordered goods and services, including social media advertising, e-commerce sales etc.
- The Act applies to foreign digital vendors with a significant digital presence in Pakistan who earn from digitally ordered goods, services, or advertisements targeting Pakistani users. It imposes a 5% tax on such proceeds, to be collected and reported by payment intermediaries. Transactions tied to permanent establishments in Pakistan are excluded.
- Under the proposed Act, “digitally delivered services” is defined as any service delivered over the internet or electronic networks, where the delivery is automated and required minimal or no human intervention including music, audio and video streaming services, cloud services, online software application services, services delivered through online inter-personal interaction
- Tax liability arises when foreign vendors exceed five annual transactions and show digital presence indicators—such as local billing, user base, delivery, or marketing—while supplying to Pakistani users via online marketplaces or e-stores.
- A key operational feature is the imposition of withholding obligations on payment intermediaries, such as banking company, financial institution, a licensed foreign exchange company or payments gateway, requiring them to deduct tax at source and deposit it into the treasury. Additionally, customs authorities are barred from allowing delivery of consignments unless evidence of tax payment is provided. Under the proposed Act, non-filing attracts a penalty of PKR 1 million per default. Remittances to advertisers may be suspended if tax remains unpaid for 120 days.
- Any Order for recovery under this act can be appealed before ATIR within 30 days, and references on legal questions may be filed before the High Court within 60 days
- From a revenue standpoint, this proposal appears to be introduced as a clear revenue-generating measure, in line with global trends where countries like the UK have adopted a digital services taxation system. However, the enforcement regime, particularly the imposition of liability, recovery measures and penalties on intermediaries, could lead to increased litigation. Government may also face opposition from global tech companies as it places compliance burdens on them, raising concerns about its practicality.
- While the Digital Presence Proceeds Tax Act, 2025 aims to address tax losses from the digital economy, the proposed law may lead to increased litigation, adding pressure on the Appellate Tribunal and High Courts where appeals will be filed. Further, foreign governments, particularly those with Double Taxation Treaties (DTTs) with Pakistan, may oppose the unilateral imposition of this tax. The measure is also subject to scrutiny where such treaties define digital services and have different tax rates.

## 1. Introduction and Legislative Context

The New Energy Vehicles Adoption Levy Act, 2025, enacted through the proposed Finance Bill, 2025, marks a significant legislative effort by the Government of Pakistan to align fiscal measures with its environmental and climate objectives. By imposing a levy on internal combustion engine (ICE) motor vehicles, the Act seeks to disincentivize fossil fuel usage in the transport sector and promote the adoption of new energy vehicles (NEVs).

## 2. Scope and Applicability

This Act extends to the whole of Pakistan and becomes effective immediately upon enactment. This nationwide applicability underscores the federal government's intent to implement uniform environmental fiscal reforms across all provinces and territories.

## 3. Imposition and Structure of the Levy

The core of the Act by imposing a levy on:

- Every manufacturer of ICE motor vehicle manufactured or assembled.
- Every person on every ICE motor vehicle imported into Pakistan.

The levy is to be collected at rates specified in the First Schedule, with the Federal Government empowered to revise the rates or amend vehicle categories.

The levy shall not apply to any motor vehicle of the following categories:

- New Engine Vehicles (NEVs).
- ICE motor vehicle manufactured or imported intended exclusively for export.
- An ICE motor vehicle owned by diplomatic mission or consulate, and an international organization enjoying privileges under the Diplomatic and Consular Privileges Ordinance, 1972; and
- Any other ICE motor vehicle or category of ICE motor vehicle exempted by the Federal Government through Gazette notification.

## 4. Collection Mechanism

That the levy under this Act shall be imposed and collected:

- Imported ICE motor vehicle.
- Manufactured or assembled ICE motor vehicle.

## 5. Use of Levy Proceeds

The levy proceeds are earmarked exclusively for promoting NEV adoption. The exclusive earmarking aligns with the principle of environmental fiscal reform by ensuring that revenue generated from imposition of levy on ICE to promote the adoption of NEV.

First Schedule				
Rate of New Energy Vehicle Adoption Levy				
<i>(see section 3)</i>				
S No.	Motor vehicle category		Levy to be paid by	Rate of levy
(1)	(2)		(3)	(4)
1	All internal combustion engine motor vehicles assembled or manufactured in Pakistan with engine capacity less than thirteen hundred cubic centimeter		Manufacturer	One per centum <i>ad valorem</i> of invoice price inclusive of duties and taxes
2	All internal combustion engine motor vehicles imported in Pakistan with engine capacity less than thirteen hundred cubic centimeters		Person importing internal combustion engine motor vehicle	One per centum <i>ad valorem</i> of assessed value inclusive of duties and taxes
3	All internal combustion engine motor vehicles assembled or manufactured in Pakistan with engine capacity from thirteen hundred cubic centimeters to eighteen hundred		Manufacturer	Two per centum <i>ad valorem</i> of invoice price inclusive of duties

	cubic centimeters		and taxes
<b>4</b>	All internal combustion engine motor vehicles imported in Pakistan with engine capacity from thirteen hundred cubic centimeters to eighteen hundred cubic centimeters	Person importing internal combustion engine motor vehicle	Two per centum <i>ad valorem</i> of assessed value inclusive of duties and taxes
<b>5</b>	All internal combustion engine motor vehicles assembled or manufactured in Pakistan with engine capacity of more than eighteen hundred cubic centimeters	Manufacturer	Three per centum <i>ad valorem</i> of invoice price inclusive of duties and taxes
<b>6</b>	All internal combustion engine motor vehicles imported in Pakistan with engine capacity of more than eighteen hundred cubic centimeter	Person importing internal combustion engine motor vehicle	Three per centum <i>ad valorem</i> of assessed value inclusive of duties and taxes
<b>7</b>	A bus and truck with an internal combustion engine assembled or manufactured in Pakistan	Manufacturer	One per centum <i>ad valorem</i> of invoice price inclusive of duties and taxes
<b>8</b>	A bus and truck with an internal combustion engine imported in Pakistan	Person importing internal combustion engine motor vehicle	One per centum <i>ad valorem</i> of assessed value inclusive of duties

			and taxes
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Annexure-A

# Proposed Tax Amendments - Succinctly Recount

*Detail commentary will be released soon*

Prepared by:



## Income Tax:

- **Amendments in Part I, Division I of the First Schedule (Income Tax Ordinance, 2001) – Salaries Class Slab:**

The Government has provided relief to salaried individuals by revising the tax slab for those earning between PKR 600,000 and PKR 1,200,000, reducing the rate from 5% to 1%.

For those earning Rs. 1,200,000, the tax amount has been reduced from Rs. 30,000 to a minimum of Rs. 6,000.

For those earning up to Rs. 2,200,000, the proposed tax rate is reduced from 15% to 11%. For individuals earning more than Rs. 2,200,000 and up to Rs. 3,200,000, the proposed tax rate is reduced from 25% to 23%. These proposed reductions aim to lower the tax burden and provide relief to the salaried class.

The updated slab is reproduced below:

S.#	Taxable Income	Rate of Tax
1	Up to Rs. 600,000	0%
2	Rs. 600,001 – Rs. 1,200,000	1% of amount exceeding Rs. 600,000
3	Rs. 1,200,001 – Rs. 2,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
4	Rs. 2,200,001 – Rs. 3,200,000	Rs. 116,000 + 23% of amount exceeding Rs. 2,200,000
5	Rs. 3,200,001 – Rs. 4,100,000	Rs. 346,000 + 30% of amount exceeding Rs. 3,200,000
6	Above Rs. 4,100,000	Rs. 616,000 + 35% of amount exceeding Rs. 4,100,000

***(Detailed comparison of Income Tax for Salary Individuals Proposed for Tax Year - 2025 & 2026 is enclosed herewith as Annexure-A)***

- **Amendment in Section 4AB**

Section 4AB has been amended, thereby reducing the surcharge on individuals and associations of persons (AOPs) whose taxable income exceeds PKR 10 million in a tax year by 1% to 9% from the previous surcharge rate of 10%.

- **Amendment in Division IIB of the First Schedule - Super Tax Rates**

The existing **tax rate table** for **super tax on high-income persons** under **Section 4C** has been **replaced** with rates that are **slightly reduced** (by 0.5%) for most slabs starting from **tax year 2026**.

New Super Tax Rates under Section 4C		
S. No	Income Range (Rs.)	Tax Year 2026 & Onwards
1	Up to 150 million	0%
2	150M – 200M	1%
3	200M – 250M	1.50%
4	250M – 300M	2.50%
5	300M – 350M	3.50%
6	350M – 400M	5.50%
7	400M – 500M	7.50%
8	Above 500 million	10%

- **Amendment – Division IIIA of the First Schedule (Rate for Profit on Debt under Section 7B)**

The rate of tax for profit on debt imposed under section 7B has been proposed to be increased from 15% to 20%.

- **Amendment- Part I of the First Schedule (Division I)**

Pension and Annuity Tax: For individuals earning over Rs. 10,000,000 annually from pensions a proposal has been made to introduce a tax rate of 5%.

- **231AB - Advance tax on cash withdrawal.**

Advance tax rate on cash withdrawal on non-filers has been proposed to be increased from 0.6% to 0.8%

- For **commercial immovable properties**, the fair market rent shall be **at least 4% of the property's fair market value per annum**, as per Section 68.

This minimum threshold **will not apply** if the taxpayer **provides satisfactory evidence** to the Commissioner proving that the actual rent is lower.



- **Section 63A – Tax Credit for Interest on Low-Cost Housing Loan:**  
This section allows an individual to claim a tax credit on interest paid on a housing loan used for the purchase or construction of a single personal residence, with size caps of 2,500 sq. ft. for houses and 2,000 sq. ft. for flats. The loan must be obtained from a scheduled bank, financial institution regulated by SECP, a public sector entity, or a listed company, thereby encouraging formal sector borrowing.
- **Section 6A - Tax on payments for digital transactions in e-commerce platforms.**  
The finance bill has proposed a tax that shall be imposed on every person who receive payment for supply of digitally ordered goods or services which are delivered online platforms such as online marketplace or websites.
- **Tax on Mutual Funds**  
In Part I in Division III, new Clause (ba) shall be added that proposes tax on mutual funds at the rate of 25% for debt-based funds and 15% for equity-based funds.
- **Section 114C — Restriction on Economic Transactions by Certain Persons**  
The bill has proposed Section 114C introduces a framework to restrict high-value economic transactions—such as purchase of vehicles, immovable property, and securities—for individuals and entities who have not filed income tax returns or cannot justify their financial capacity through formally declared resources. By mandating that only "eligible persons" with sufficient declared assets can engage in such transactions.
- **Section 175AA: Exchange of banking and tax information related to high-risk persons**  
A new Section 175AA is proposed to be inserted into the Income Tax Ordinance, 2001, empowering the FBR to share tax-related information of high-risk persons with scheduled banks in Pakistan. This includes details such as turnover, income (including taxable income) for one or more tax years, identification data (including bank account numbers) declared in income tax returns, wealth statements, financial statements, or any other document submitted to the FBR, along with data-based algorithms as may be prescribed.

# Annexure-A



## Sales Tax:

- A proposal has been made to impose an 18% tax on the sales of Imported solar panels to ensure fair competition between imported and locally manufactured solar panels.
- To ensure competitive, fairness, and complete compliance with tax laws, it is proposed that E-commerce Platforms and entities providing Logistics services will collect and deposit sales tax at an 18% rate from the E-commerce Platforms.
- To standardize sales tax, it's proposed that hybrid cars will also be subject to an 18% sales tax, aligning them with petrol and diesel vehicles.
- 10% sales tax on goods will now be gradually imposed over the next five years in these sales tax exempt provinces i.e. Fata and Balochistan.

*Upon perusal of the above, it is unclear whether the afore-mentioned proposals shall be included in the Finance Bill, 2025-26.*

- **Section 14AC – Bar on operations of bank accounts**

Commissioner shall have the powers to direct banking companies to bar operation of the bank account of any person who fails to get registered under the tax laws.

## Customs Reforms and Modernization

The government is introducing significant customs reforms to enhance efficiency and bolster economic and industrial protection. Key initiatives include:

- **Intelligence Led System:** A new customs system, driven by intelligence and data, is being implemented to streamline tax policy and enforcement under "Border Enforcement." This expands border control beyond traditional surveillance to a new global system.
- **Pre-Arrival Clearance:** "Pre-Arrival Clearance" for goods at various ports is being promoted to expedite the clearance process.
- **Reduced Litigation:** Legal amendments are being introduced to significantly reduce the time containers spend awaiting clearance due to litigation.
- **Carbon Tax:**  
To promote green energy and support related programs, a new "Carbon Levy" will be introduced on furnace oil and high-speed diesel. Starting in fiscal year 2025-26, this levy will be Rs. 2.5 per liter, increasing to Rs. 5 per liter in fiscal year 2026-27. The Federal Government will also finalize an agreement on the "Petroleum Levy."

## Annexure-A

### Income Tax Comparison for Salary Individuals Tax Year - 2025 & 2026

S. No.	Salary Income Per Month	Annual Income	Tax Year - 2025		Tax Year - 2026 (Proposed)		Difference (Including Surcharge)
			Tax Payable	Surcharge @10% (Taxable Income exceeding 10 Million)	Tax Payable	Surcharge @9% (Taxable Income exceeding 10 Million)	
1	50,000	600,000	-	-	-	-	-
2	100,000	1,200,000	30,000	-	6,000	-	(24,000)
3	200,000	2,400,000	230,000	-	162,000	-	(68,000)
4	300,000	3,600,000	550,000	-	466,000	-	(84,000)
5	400,000	4,800,000	945,000	-	861,000	-	(84,000)
6	500,000	6,000,000	1,365,000	-	1,281,000	-	(84,000)
7	600,000	7,200,000	1,785,000	-	1,701,000	-	(84,000)
8	700,000	8,400,000	2,205,000	-	2,121,000	-	(84,000)
9	800,000	9,600,000	2,625,000	-	2,541,000	-	(84,000)
10	900,000	10,800,000	3,045,000	304,500	2,961,000	266,490	(122,010)
11	1,000,000	12,000,000	3,465,000	346,500	3,381,000	304,290	(126,210)

## Annexure-A

### Income Tax Comparison for Salary Individuals Tax Year - 2025 & 2026

Yearly Salary	Present Tax Liability	Proposed Tax Liability	%
Rs	Rs	Rs	
600,000	-	-	0%
1,000,000	20,000	4,000	-80%
1,500,000	75,000	39,000	-48%
2,000,000	150,000	94,000	-37%
2,500,000	255,000	185,000	-27%
3,000,000	380,000	300,000	-21%
3,500,000	520,000	436,000	-16%
4,000,000	670,000	586,000	-13%
4,500,000	840,000	756,000	-10%
5,000,000	1,015,000	931,000	-8%
5,500,000	1,190,000	1,106,000	-7%
6,000,000	1,365,000	1,281,000	-6%
6,500,000	1,540,000	1,456,000	-5%
7,000,000	1,715,000	1,631,000	-5%
7,500,000	1,890,000	1,806,000	-4%
8,000,000	2,065,000	1,981,000	-4%
8,500,000	2,240,000	2,156,000	-4%
9,000,000	2,415,000	2,331,000	-3%
10,000,000	2,765,000	2,681,000	-3%

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## OFFICES IN PAKISTAN

### Karachi

Suite # 408, 4th Floor, Continental Trade Center,  
Block 8th, Clifton, Karachi, Pakistan. 75500.

**Tel # +92 21 3530 3293-6**

### Islamabad

Suite # 144, 1st Floor, Street No.82, Sector E-11/2,  
FECHS, Islamabad, Pakistan. 44000

**Tel # +92 51-835 1551**

### Lahore

Suite # 202-E, 2nd Floor, Sadiq Plaza, 69-The Mall  
Road, Lahore , Pakistan.54000

