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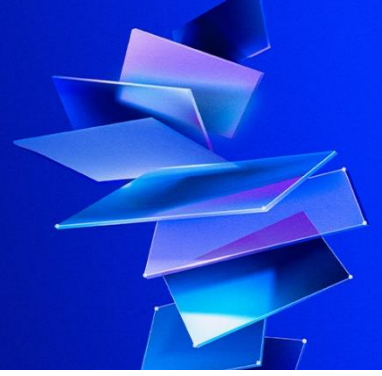
Budget Red-Eye 2025

June 2025

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Preamble



The Finance Bill, 2025 has been presented in the National Assembly amidst encouraging signs of economic recovery in Pakistan during the fiscal year 2025. This rebound is largely attributable to prudent macroeconomic management, a renewal of investor confidence, and sustained support from the International Monetary Fund's (IMF) Extended Fund Facility. The economic turnaround has been anchored by disciplined fiscal consolidation and the lagged effects of a tight monetary policy, which have been instrumental in containing inflation and stabilizing the exchange rate.

The Finance Bill does introduce some positive measures, including tax relief for salaried individuals by lowering the slab rates coupled with a 1% reduction in surcharge tax for high salary earners, a 0.5% reduction in Super Tax for businesses with income up to Rs. 500 million and reduced withholding taxes on purchase of immovable property. The Finance Bill also proposed to address the previously unregulated online marketplace segment by introducing targeted tax measures aimed at integrating e-commerce platforms into the documented economy. These targeted provisions could help mitigate some economic pressures, though their impact may be limited without broader structural reforms.

The Finance Bill aims to address immediate revenue needs while concurrently laying the groundwork for expanding the tax base. Although measures targeting the e-commerce sector signal a significant move towards economic formalization, the bill also relies on conventional approaches, such as increased withholding tax rates across certain segments. The long-term impact of these provisions may be limited without the implementation of more comprehensive structural reforms.

This analysis represents our interpretation of the proposed Finance Bill, 2025. For specific applications or decisions, we strongly advise consulting the final, enacted version of the relevant statutes to ensure complete accuracy.

Income Tax



- Definition of banking company proposed to be restricted to as defined in the Banking Companies Ordinance, 1962 thus any “body corporate transacting the business of banking in Pakistan” excluded from its ambit.
- Recreational clubs proposed to be excluded from the definition of non-profit organization as are formed with membership fee exceeding one million for any class of new members. Further, it is proposed to include income of recreational clubs as business income.
- Reduction proposed in the rate of surcharge on tax payable by salaried individual from 10% to 9%.
- Taxing the gross receipts from supply of digitally ordered goods or services under FTR proposed as are delivered from within Pakistan using locally operated online platforms including online marketplace or websites.
- Minimum value of fair market rent (@4% of FMV i.e. FBR value as annual rental value) proposed to be introduced for taxation of rental income from commercial property unless actual rent declared is justified through evidence.
- Disallowance of expenditure (10% of claim) attributable to sales made to persons not registered under the Sales Tax Act 1990 proposed to be substituted to purchases from those not NTN holders, however, this disallowance not to apply on agricultural produce directly purchased from the growers.
- Disallowance proposed of 50% of the expenditure claimed in respect of sale where the payment is received otherwise than through banking channel or digital means, against a single invoiced sale transaction exceeding rupee two hundred thousand.
- Disallowance proposed for depreciation expense on addition of capital assets if tax is not deducted under sections 152 or 153 on payment to seller in all relevant tax years.
- Period for amortization of intangible asset with undeterminable useful life proposed to be reduced from 25 years to 15 years.
- Payment through digital means proposed to fall in acceptable means of fund transfer for purchase of assets and also for not to be taxed as other source of income.
- Set off of business loss proposed not to be allowed for adjustment against income from property for the tax year.
- To avail group relief, it has been proposed that the companies within the group should be deriving business income chargeable to tax at corporate tax rate under Division II of Part I of First Schedule.
- Introduction of tax credit proposed for individuals on profit on debt paid in the year on loan obtained for construction or acquisition of one personal house or flat having area up to 2500 sq. ft. or 2000 sq ft. respectively.
- Enhancement in the scope of person engaged in coal mining project in Sindh for hundred percent tax credit proposed. Such person can now supply coal to any sector of economy yet can avail one hundred percent tax credit in relation to supply to power generation projects.
- List of charitable institutions under Clause 66 of Part I of Second Schedule proposed to mandatorily obtain approval under section 100C in order to be recognized as NPO for availing 100% tax credit instead of exemption of income.
- Period for carry forward and adjustment of minimum tax under section 113 proposed to be reduced from 3 years to 2 years.
- For documentation of economy proposal not to allow economic transactions (including purchase of motor vehicles, immovable property, securities and banking transactions) to ineligible persons subject to notification by the Board.

- The limitation period of 180 days provided for completing proceedings for amendment of assessment after issuance of show-cause notice proposed to be withdrawn.
- Proposal to empower the Commissioner to effect recovery without issuance of appeal effect order where the order appealed against has been confirmed by the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court.
- Proposal to empower the Commissioner to pass appeal effect order only on the matters confirmed by the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court and effect recovery with respect to tax payable in such appeal effect order without considering matters set-aside/ remanded back.
- Appeal process proposed to majorly revert to what was in place prior to Tax Laws (Amendment) Act 2024, however, aggrieved person proposed to be provided the option to forego right of appeal before Commissioner Appeals and directly approach the Appellate Tribunal Inland Revenue.
- Time limit of thirty days proposed to be extended to sixty days for filing of appeal before High Court where only question of law to be decided instead of mixed question of law and facts.
- Reconstitution of ADRC Committee proposed in the case of SOEs if the Committee fails to decide within given time period of sixty days.
- Authority to immediately recover tax by authorities proposed if the issue giving rise to tax payable is already decided by the High Court of Supreme Court of Pakistan. If appeal filed by the department is decided in favour of the department by the High Court then recovery proposed to be made after seven days from the date of order by the High Court.
- Withdrawal of exemption of pension in Second Schedule (for civilian & armed forces) proposed and such payment of over and above ten million to the individual below the age of 70 years is to be subjected to withholding tax provision at flat rate of 5%.
- Tax withholding proposed to be introduced on capital gain at the rate of 15% by every custodian of debt securities including a banking company at the time of disposal of certain debt securities including government securities other than disposal of securities made through registered stock exchange and settled through NCCPL.
- Non-deduction of tax by banking company or financial institutions proposed to be introduced from remittance on account of fee for offshore digital services if the recipient is also liable to Digital Presence Proceeds Levy and the same has been collected.
- Rate of withholding tax under section 152(1D) proposed to be enhanced from 10% to 20%, on capital gain arising on disposal of debt instruments and Government securities including treasury bills and Pakistan investment bonds to the non-resident person where the holding period of such securities is less than twelve months.
- Withholding tax provisions proposed to be introduced for every payment to the seller through e-intermediary or courier service at the rates ranging from 0.25% to 2%, facilitated through digital means or cash on delivery, for local e-commerce platforms. These payers proposed to file withholding statements in prescribed manner. These sellers are also proposed to obtain NTN and sales tax registration under Sales Tax Act 1990.
- Provisions proposed to be introduced with respect to sharing of information in the case high risk persons by the Board to the scheduled banks for confirmation and any variances by the banks to the Board.
- Provision introduced through Tax Laws (Amendment) Ordinance 2025 with regard to allowing FBR or Chief Commissioner to post FBR officials to the premises of any person for

the purpose of monitoring and determining the tax payable by such persons proposed to be made part of this Finance Bill.

- Proposal to imposed penalty on:
 - Such online marketplace or a courier service which allows the vendors to use their platforms without registrations under the Ordinance 2001 and the Sales Tax Act 1990.
 - Any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is without registration under the Act 1990 and the Ordinance 2001.
- Enhancement of penalty proposed for failure to furnish withholding tax statements required under section 165C within ninety days.
- Imposition of penalty proposed on banking company or payment gateway or courier service provider if it fails to deduct tax at the time of payment to seller in respect of digitally ordered goods or services.
- Proposal made to limit the condonation of time period by the Board up to two years except in the cases of significant loss to the exchequer a committee of members notified by the Board may further condone the limitation as deemed fit but after providing opportunity of hearing to person concerned.
- Proposal made to provide legal cover to the sharing of taxpayers' information with the auditors appointed by the Board upon signing of NDA, recognized universities, and international donor agencies after anonymizing the data.
- Proposal made to treat the electronic service of notice as valid mode of service for persons other than resident individuals.
- Withholding tax rate on cash withdrawal by taxpayers not on ATL proposed to be
 - increased from 0.6% to 0.8% if withdrawal exceed Rs. 50,000 per day.
- Reduction of tax slab rates proposed for salaried persons.
- Rates of super tax proposed to be changed for tax year 2026 and onwards by reducing rate by 0.5% on income ranging between Rupees 200 million to 500 million.
- Rate of withholding tax proposed to be increased from 15% to 20% on profit paid by a banking company or financial institution on an account or deposit.
- Increase in tax (under FTR) from 10% to 15% proposed on fee for offshore digital services.
- Increase in rate of tax proposed on specified services, subject to reduced rate from 4% to 8% by PE of non-resident service providers except for the IT and IT enabled services.
- Increase in general rate of tax proposed on services by PE of non-resident, other than those subject to reduced rate, to 15% including sportspersons.
- Increase in rate of tax proposed on specified services under section 153 subject to reduced rate from 4% to 6% except for the IT and IT enabled services.
- Increase in withholding tax rate proposed on services obtained from local service providers including sportspersons to 15% except for payments to electronic and print media for advertising services which shall be subject to 1.5%.
- Increase in advance tax proposed on sale or transfer of immovable property:
 - From 3% to 4.5% where the gross amount of the consideration received does not exceed Rs. 50 million.
 - From 3.5% to 5% where the gross amount of the consideration received exceeds Rs.

50 million but does not exceed Rs. 100 million 5%.

- From 4% to 5.5% to Where the gross amount of the consideration received exceeds Rs. 100 million.
- Reduction in advance tax proposed on purchase of immovable property:
 - From 3% to 1.5% where the fair market value does not exceed Rs. 50 million.
 - From 3.5% to 2% where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million.
 - From 4% to 2.5% to where the fair market value exceeds Rs. 100 million.
- Proposal to withdraw exemption from income tax on withdrawal of accumulated balance from approved pension fund and voluntary pension fund.
- Proposal to provide income tax exemption for non-resident individuals and entities associated with the ICC Champions Trophy 2025 held in Pakistan.
- Proposal to limit income tax exemption for zone enterprises for ten years (from commencement of commercial operations) and developers (from the date of development agreement) under the SEZ Act, 2012 or 30 June 2035 whichever is earlier.
- Proposal to limit the exemption to zone enterprises licensed under the STZA Act, 2021 for ten year or 30 June 2035 whichever is earlier.
- Proposal to extend exemption from income tax earned by individuals and entities resident in Tribal Areas of KP and Baluchistan, which was not taxable before the 25th Constitutional Amendment till 30 June 2026.
- Proposal to limit the exemption from income tax on income earned by cinema operations to

the earlier of five years from commencement or 30 June 2030.

- Proposal to withdraw the exemption on profits and gains of venture capital companies and funds.
- Proposal to reduce income tax rate by 25% for full-time teachers and researchers at recognized non-profit educational or research institutions excluding medical teachers with private practice income. The proposed amendment shall apply with effect from 01 July 2022 and ends after the tax year 2025.
- Withdrawal of exemptions proposed from tax under section 148 on imports of wheat (1.5 million and 300,000 metric tons through tender by TCP) and 300,000 metric tons of white sugar by the TCP.
- Proposal for new exemption of withholding tax u/s 148 on import of Cystagon, Cysta drops and Trientine capsules.
- Proposal to amend clause 105A of Part IV of Second Schedule for no selection for audit if case was selected for audit in any of the preceding three tax years.
- Proposal to extend the exemptions from withholding tax under various provision of the Ordinance 2001 for residents of Tribal Areas in KP and Balochistan for one more year till 30 June 2026.
- Proposal for amendments in Seventh Schedule to make provisions regarding assessment of banking companies a more disclosure oriented to determine true and fair income of the banking companies and tax payable thereon.

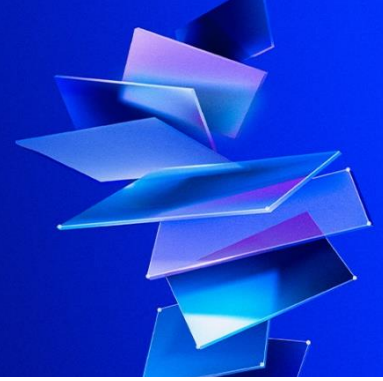
Sales Tax



- Proposal to insert definition of 'abettor' being persons facilitating tax fraud including persons involved in misuse of login credentials, forged invoices, false claim of input or unauthorized use of bank accounts.
 - Proposal to insert definitions of 'Cargo Tracking System' and 'e-bilty,' as notified by Board, for electronic monitoring and tracking of goods transported within or across Pakistan.
 - Proposal to redefine scope of 'tax fraud' by including specific illustrative acts that may constitute tax fraud.
 - Proposal to introduce definitions of courier, payment intermediaries, e-commerce and to redefine the concept of online marketplace to improve tax framework in case of digitally supplied goods.
 - Proposal to hold payment intermediaries and couriers responsible for collection and payment of tax in respect of digitally ordered goods transacted through online marketplaces, websites, or software applications. A prescribed rate of 2% shall constitute final discharge of tax liability for the marketplace, vendors, websites, or software applications.
 - Proposal to restrict reduction in price due to any charges including chilling charges at 5% of price inclusive of sales tax and FED, in case of aerated water, beverages, mineral water or fruit juices supplied to end consumers.
 - Proposal to prescribe minimum retail price in case of imported goods specified in Third Schedule at 130% of value (including custom duty and FED) determined under section 25 of Act, 1969.
 - Proposal to mandate sales tax registration for all persons, including non-residents, selling digitally ordered goods within Pakistan via online marketplace, websites or software applications. Further, it is proposed for online marketplaces and courier to restrict unregistered persons, to utilize their services.
- Non-compliance may result in exposure to penalties.
- Proposal to mandate online marketplaces, payment intermediaries, and courier services to submit monthly, supplier-wise statements containing details of digitally ordered goods. Non-compliance may result in exposure to penalties.
 - Proposal to empower tax authorities to take coercive measures against unregistered persons including bar on operations of bank accounts, restricting property transfers, sealing business premises, seizing movable properties, or appointing a receiver for the management of taxable activity.
 - Proposal to extend the prescribed time limit for issuing orders under sections 11E, 11D, and 11F from 120 to 180 days from the date of issuance of the show cause notice, while retaining flexibility for further extension by reasons to be recorded in writing.
 - Proposal to omit the provision allowing revision of return within sixty days without approval, where such revision results in higher tax payable or a lower refund claim.
 - Proposal to omit the pecuniary limits of value of tax assessment or refunds to prefer an appeal before Commissioner (Appeals) or Tribunal, thereby restoring the original right of appeal against orders of the Commissioner (Appeals). It is also proposed to allow registered persons with an option to file appeals directly before the Tribunal.
 - Proposal to insert various sections to empower tax authorities to arrest persons including company's officers involved in tax fraud or prosecutable offences without prior approval in urgent cases.
 - Proposal to introduce a maximum aggregate period of condonation of two years, whether granted by the Board or the Commissioner.

- Proposal to include certain items, i.e., dog and cat food, chocolate, coffee and cereal bars sold in retail packing under Third Schedule to be taxed at retail price.
- Proposal to withdraw exemption on import of plant and machinery and supplies in tribal areas by reclassifying them under the Eighth Schedule, with a gradual increase in tax rate from 10% in 2026 to 16% by 2029.
- Proposal to extend exemption on supply of electricity in tribal areas till 30 June 2026.
- Proposal to withdraw exemption on photovoltaic cells.
- Proposal to apply standard rate of sales tax on locally manufactured or assembled motorcars of cylindrical capacity up to 850cc.

Federal Excise Duty



- Proposal to withdraw FED on allotment or transfer of commercial and residential property.
- Proposal to enhance power to seize and/or confiscate dutiable goods without affixing or affixing counterfeited tax stamps, banderoles, stickers, labels or barcodes or goods subjected to electronic monitoring or tracking along with the conveyance used for movement of such goods. Also, proposal to empower designated federal or provincial officials, through Gazette notification, to enforce such measures.
- Proposal to majorly revert the Appeal procedures before appellate fora to the provisions which were in place prior to Tax Laws (Amendment) Act, 2024. However, it is now proposed to provide an option to the registered person to file appeal directly to the Appellate Tribunal against an order of adjudicating officer.
- Proposal to extend time limitation from 30 days to 60 days to file appeal before High Court and limiting the scope of reference before the High Court to the question of law only.

Customs



- Following changes in rates proposed:
 - Introduction of new Customs Duty (CD) tariff slabs of 5%, 10% and 15%.
 - Existing CD tariff slabs of 3%, 11% and 16% abolished.
 - 0% CD tariff slabs extended to 916 tariff codes.
 - CD reduced on goods falling under 2624 tariff codes.
 - Reduction in the Additional Customs Duty (ACD) (to be covered under separate SRO):
 - ACD from 2% to 0% on CD tariff slabs of 0%, 5% and 10% consisting of 4,383 CD tariff lines, except 95 CD tariff lines chargeable to ACD at the rate of 2%.
 - ACD from 4% to 2% on 518 CD tariff lines under CD tariff slab of 15%.
 - ACD from 6% to 4% on 2166 CD tariff lines under CD tariff slab of 20%.
 - ACD from 7% to 6% on 468 CD tariff lines under CD tariff slab of above 20%.
 - Reduction/removal of Regulatory Duty (RD) (to be covered under separate SRO):
 - Removal of RD on goods falling under 554 Pakistan Customs Tariff (PCT) Codes.
 - Reduction of RD on goods falling under 595 PCT codes.
 - Reduction of maximum rate of RD from 90% to 50%.
 - Removal of CD provided in 479 entries of Part-I, Part-III and Part-VII of Fifth Schedule to the Customs Act, 1969.
- Proposal to define “cargo tracking system” and “e-bilty”.
- Proposal to insert new section 3F to provide for short-term hiring of technology specialists, auditors, accountants and goods evaluators.
- Proposal to restrict scrapping and mutilation of goods up to 10% of the imported goods.
- To reduce litigation, the existing limit for initiating contravention proceedings proposed to be enhanced from Rs. 20,000/- to Rs. 100,000/-.
- In case of GDs filed prior to berthing of vessel, payment of duties, taxes and other charges proposed to be paid on completion of assessment. Currently, pre-payment of duties/taxes is mandatory on filing of GDs prior to berthing of vessels.
- Proposal for establishment of Centralized Assessment Units and Centralized Examination Units for assessment of import, export and transit consignments at any customs port, customs station or airport.
- Penalties and other consequences like auction, confiscation and directions for re-export etc. proposed to reduce port congestion and dwell time for unclaimed/uncleared cargo beyond specified time limit.
- Proposal for introduction of cargo tracking system and e-bilty mechanism for movement of goods.
- Proposal for new penal provisions for contravention of certain provisions relating to transit trade and provisions relating to e-bilty and tracking devices.
- Proposal for omission of proviso to section 157(1) which allows release of vehicles liable to be confiscated against bank guarantee.
- Proposal for introduction of new sub-section (6) in section 169 and new sub-section (4) in the section 201 whereby no stay in the case of

auction proceedings will be allowed unless the person obtaining stay order furnishes pay order or bank guarantee not less than 50% of the reserve price of the goods before nazir of the Court.

- Proposal to enhance the time period for adjudication of smuggled goods from 30 days to 45 days.
- Proposal for introduction of new section 187A explaining that a tampered chassis shall be presumed to be a smuggled vehicle and shall be liable to confiscation.
- Proposal to insert a proviso in section 193 and 194A(6) barring appeal to Collector (Appeals) and Appellate Tribunal, if aggrieved person did not appear before adjudicating authority despite sufficient opportunity of hearing.
- Proposal to enhance the time limit for filing of appeal before Appellate Tribunal from 30 days to 45 days.
- Proposal for introduction of new proviso in section 194A(5) whereby stay order of recovery shall only be made by the Appellate Tribunal on furnishing pay order or bank guarantee not less than 50% of the recoverable amount.
- Proposal for introduction of new proviso in section 196(6) whereby stay order of recovery shall only be made by the High Court on furnishing pay order or bank guarantee not less than 50% of the recoverable amount.
- Proposal for establishment of Customs Command Fund for supporting anti-smuggling activities. Allocation for this Fund shall be made from the sale proceeds of auction of smuggled goods, as per the share notified by the Board with the concurrence of the Finance Division.
- Proposal for establishment of Digital Enforcement Station(s) at such locations, as notified by the Board, for the prevention of smuggling and illicit trade.

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