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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 immoveable 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.

Contents

Highlights

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.

Custom

- 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.

Sectoral analysis

Manufacturing

Manufacturing industry is a cornerstone of Pakistan's economy and plays a pivotal role in areas of export, employment, and industrial development. The manufacturing sector contributes significantly to Pakistan's GDP with exports of goods accounting for about 71% of total exports besides employing approximately 15% of the labor force, making it a key source of jobs.

The manufacturing industry of Pakistan has faced challenges in terms of tariff barriers, import dependency, and setbacks in Large Scale Manufacturing (LSM) which contracted by 1.47% in the first eight months of financial year 2024 - 25 due to rising input costs, structural challenges, global volatility, and downturns in critical sectors including food, chemicals, iron and steel and electrical equipment. Despite the uninspiring performance, it is worthy to note that half of the LSM sectors demonstrated positive growth including significant industries such as earing apparel, textiles, coke, petroleum products, pharmaceuticals, and automobiles.

As a major shift in policy with respect to raw materials used in manufacturing industry, The Finance Bill proposes to introduce some relief measures in terms of reduction in customs duty that inter alia includes the following:

- Cement clinkers - Reduced from 11% to 10%
- Coal - Reduced from 5% to 3%
- Fabrics of noil silk and other fabrics - Reduced from 16% to 5%
- Un-manufactured tobacco - Reduced from 11% to 10%
- Hydraulic lime - Reduced from 16% to 5%
- Cocoa butter, cocoa powder, chocolate and other food preparations including cocoa – reductions ranging from 3% to 0%, 11% to 5% and 11% to 10%
- Cotton - Reduced from 16%/ 20% to 5%
- Cotton yarn - Reduced from 11% to 5%

The Finance Bill proposes to withdraw reduced rate of sales tax of 12.5% on locally manufactured or assembled motor cars of cylinder capacity up to 850cc and proposes levy of sales tax at 18%. In addition to above, The Finance Bill proposes to withdraw the exemption from sales tax on photovoltaic cells whether or not assembled in modules or made up into panels.

E-commerce

Pakistan is at a critical juncture where digital transformation, if strategically executed, can become a catalyst for sustainable and inclusive economic growth.

While Pakistan's e-Commerce sector is evolving rapidly, driven by mobile commerce, social media integration, AI-powered shopping, and digital payments, it is equally important to hold that countries equipped with strong digital infrastructure, a digitally skilled workforce, and institutional readiness are better placed to leverage AI technologies for structural transformation and long-term productivity gains.

In the year 2025, Pakistan's e-Commerce market has experienced steady growth with a rate of 3.23%. Despite the challenges being faced by Pakistan's e-Commerce sector and its progress towards achieving stability and growth that could lead to long term productivity gains for the country, the Finance Bill, as a revenue measure, has proposed to introduce a new "Digital Transactions Proceeds Levy" along with necessary changes in the Ordinance.

These changes have been proposed to cover domestic vendors supplying digitally ordered goods and digitally delivered services while treating payment intermediary and courier service providers as withholding agents to capture the entire payment chain. To give effect to revenue collection measures, provisions relating to **"tax on payments for digital transactions in e-commerce platform",** inclusion of payment intermediary and courier service provider within the scope of **"withholding agent",** and changes in **"scope of sales tax"** have been introduced in the Ordinance as well as the ST Act, 1990. These changes are backed up by the introduction of proposed terms as **"digitally delivered services", "payment intermediary", "courier"** and **"e-Commerce"**.

Having said that, The Finance Bill proposes to require payment intermediary and courier companies to collect or withhold income tax at rates ranging from 0.25% to 2% of the gross amount paid in case of payments through digital means and cash on delivery. The tax so collected by the payment intermediary, and the courier service is proposed to be considered as final tax for persons supplying digitally ordered goods and services from within Pakistan though locally operated platforms including online marketplace or website. To document the economy, requirements have also been proposed as regards to filing of monthly/ quarterly statements and any failure to deposit the deducted amount would lead to imposition of penalty.

To further broaden the tax base in context of sales tax, The Finance Bill proposes to enhance withholding tax rate from 1% to 2% of gross value of goods / services to be supplied irrespective of active status with FBR. To this effect, the scope of withholding agent is proposed to be changed from "online marketplace" to "payment intermediary" and "courier" in respect of digitally ordered goods / services from within Pakistan through online marketplace, website, and software applications. The Finance Bill further proposes that such tax collected by payment intermediary, and courier shall be deemed as final tax liability for online marketplace, vendors at online marketplace, websites, software applications making supplies and that no input tax adjustment would be available in respect of such supplies. Likewise, The Finance Bill proposes changes in the Ordinance as regards to filing of declaration. The payment intermediary and the couriers are now required to file monthly statement, failure to do so would give rise of imposition of penalty.

Banking Sector

The banking sector in Pakistan continues to shoulder increasing fiscal pressure amid challenging macroeconomic conditions. Despite strong profitability, driven primarily by high interest rates and heavy investments in government securities, The Finance Bill extends the Government's policy of extracting additional tax revenue from this sector without offering corresponding reliefs.

The latest notable measure in this regard was the enhancement of the corporate tax rate for banking companies from 39% to 44% for Tax Year 2025, 43% for Tax Year 2026 and 42% for Tax Year 2027 and onwards. This change eliminated the previous ADR-based taxation on income from government securities and replaced it with a direct increase in the tax rate applicable to banking companies' total income. This resulted in corporate tax rate as stated supra, excluding any further liability under Section 99D (windfall profit) or under section 4C (super tax).

The Finance Bill reaffirms the exclusion of the impact of IFRS 9 (made applicable by SBP from 1 January 2024) from taxable income. This continues the trend from the previous year of disallowing notional or fair-value-based losses or gains, ensuring tax liability is based on realized or reasonably ascertainable figures. The Finance Bill restricts exclusion of notional losses or gains pertaining to adjustments recorded under IFRS 9 which was previously applicable to all the adjustments recorded under accounting standards.

The Finance Bill also proposes to amortize lease hold improvements over a period of ten (10) years and eliminates impact of leased (RoU) assets recorded on account of adoption of IFRS-16, thereby allowing actual rentals paid by the banking companies.

To improve accuracy and transparency in tax assessments, The Finance Bill proposes that provisions for non-performing loans (NPLs) and actual rentals paid shall be allowed as deductions only if verified by an external auditor's certificate, issued in a prescribed format.

Banks remain pivotal as collection agents under the withholding regime, despite repeated industry appeals for simplification.

The Finance Bill proposes increased utilization of banks as administrative and monitoring entities. The banks have been proposed as payment intermediaries / withholding agents in case of ecommerce transactions (digitally order goods), disposal of debt securities, etc. This is meant to identify previously untaxed or under-documented revenue streams, such as high-volume transactions by non-filers, high risk persons or informal sector actors.

Real Estate Sector

The Finance Bill reinforces the Government's longstanding agenda to formalize and tax the real estate sector, traditionally viewed as under-documented and undertaxed.

In a pivotal shift last year, capital gains on disposal of immovable properties (acquired on or after 1 July 2024) by persons not appearing on the ATL at the time of disposal was made taxable as normal business income with minimum tax not less than 15% in case of individuals and AoPs.

The Finance Act, 2024 imposed significantly higher advance tax rates on property transactions for non-filers and delayed filers, with the aim of incentivizing timely and accurate tax filings. Conversely, compliant taxpayers were offered lower tax rates and comparatively favorable treatment.

The Finance Bill now proposes, in the case of filers, non-filers as well as delayed filers, to reduce the rates of advance taxes collected from purchaser at the time of purchase of immovable properties with a corresponding increase in rates of advances taxes collected from sellers at the time of sale.

The Finance Bill also proposes bar on non-filers from entering large financial transactions including property purchases, the implementation of which has to be notified by the Board. This provides temporary leeway to non-compliant participants, though it signals possible future enforcement.

In addition, in the case of taxpayers deriving rental income, The Finance Bill proposes to deem 4% of the fair market value (FMV) of an immovable property as the minimum rental income, unless the taxpayer can justify a lower amount. This effectively limits the tax authority's discretion to assess or impute a higher fair market rent for such property.

This move will complicate the rental market with challenges in FMV calculation as well as alignment of actual rents with the deemed rent.

Automobiles

With the introduction of 'Carbon Levy' and 'New Energy Vehicle Levy', the Federal Government intends to emphasize on environmental stability, curbing fossil fuel consumption and promoting cleaner energy sources. These changes will not only increase the price of petroleum products but also, increase the cost of conventional fossil fuel-based vehicles. These key initiatives may not only reshape the Pakistan's energy and automotive landscape in the future but also may significantly reduce the country's reliance on imported fuel. However, the effectiveness of these initiatives of the Government will hinge upon the usage of funds collected through these levies and the introduction and enforcement of policies and frameworks to reduce carbon emissions and combat climate change.

Further, currently, reduced sales tax rate of 12.5% is charged on the supply of locally manufactured or assembled motor cars of cylinder capacity up to 850 CC. The Finance Bill proposes to withdraw the reduced rate and proposes to charge sales tax at standard rate of 18% on such cars. If implemented, this change will increase the cost of such vehicles.

Income tax

Significant Amendments

Banking Company definition redefined

The Finance Bill proposes to limit definition of banking company to those companies only as defined under the Banking Companies Ordinance 1962.

Body corporates which transact the business of banking as currently included in this definition are proposed to be omitted therefrom.

Digitally delivered services defined

The Finance Bill proposes to define ‘digitally delivered services’ as

“services 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 applications 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”

This amendment is aimed at broadening tax base by capturing online platforms and websites that provides such services.

E-Commerce defined

The Finance Bill proposes 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”.

This amendment is also aimed at broadening tax base by capturing transactions conducted digitally through e-commerce.

Exclusion of recreational clubs from Non-profit organization status

The Finance Bill proposes to exclude recreational clubs charging a membership fee exceeding one million rupees for new members from ambit of activities otherwise qualifying for NPO approvals.

The proposed amendment can otherwise be taken as re-enforcing such entitlement in the case of recreational clubs charging a membership fee up to one million rupees for new members.

Online Market Place definition broadened

The Finance Bill proposes to broaden the definition of an online marketplace to include digital interfaces that facilitate transactions between multiple buyers and sellers, regardless of whether the platform assumes economic ownership of the goods or directly provides the services.

This amendment forms part of a broader strategy to expand the tax base by bringing transactions conducted through digital platforms within the tax net.

Reduction in surcharge on salaried individuals where taxable income exceeds rupees ten million

Surcharge at the rate of 10% was introduced through the Finance Act 2024 on individuals and association of persons (AOP) where the taxable income exceeds rupees ten million. The said amendment has impacted significantly particularly the salaried class which widely represent compliant taxpayer community.

Considering the representations made through concerted efforts, the Finance Bill has proposed to reduce such rate to 9% for salaried person where taxable income exceeds rupees ten million in a tax year. This is in addition to general reduction in tax slab rates brought in the case of such salaried taxpayers.

Tax on payments for digital transactions in e-commerce platforms brought under final tax regime

The Finance Bill proposes to introduce final tax regime [FTR] for every person who receive payments for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplace or websites.

This amendment as well as definitions of 'digitally delivered services' and 'e-commerce' are aimed at taxation of digitally delivered services and supply of goods through electronic platforms.

Tax shall be levied on the gross receipts at following rates:

Payments through digital means or banking channels by payment intermediaries

S. No.	Description	Tax Rate
1	Amount paid does not exceed rupees ten thousand	1% of the gross amount paid
2	Amount exceeds rupees ten thousand but does not exceed rupees twenty thousand	2% of the gross amount paid
3	Amount exceeds rupees twenty thousand	0.25% of the gross amount paid

Cash on Delivery by courier Service

S. No.	Type of Goods Supplied	Tax Rate
1	Electronic and electrical goods	0.25% of the gross amount paid
2	Clothing articles, apparels, garments	2% of the gross amount paid
3	All other goods not mentioned above	1% of the gross amount paid

A proviso has been proposed to exclude proceeds offered to tax as export of services under section 154A. A clarity is however required in the case of export of goods ordered through online portals.

Similar amendments has also been made so as to enable banks and courier service providers to carry out necessary withholding as per rates mentioned above.

Minimum Fair Market Rent for Commercial Properties introduced

The Finance Bill proposes to introduce a minimum fair market rent for commercial properties to address the issue of underreporting of rental income.

The amendment proposes a deemed rental value equivalent to 4% of the property's fair market value, as determined under Section 68, thereby linking minimum rent to the property's assessed market value.

To ensure fairness, the Commissioner if satisfied may accept a lower rental value where the taxpayer can provide adequate supporting evidence.

Income from business - Recreational Clubs

Income derived by any trade, professional or similar association from sale of goods or provision of services is classified as 'income from business'.

An explanation was inserted through Finance Act, 2021 to clarify that income derived by co-operative societies from the sale of goods, immoveable property or provision of services to its members is and has always been chargeable to tax under the provisions of this Ordinance.

This explanation was apparently inserted to nullify the effect of doctrine of mutuality as enunciated and held by the courts in various pronouncements holding that one cannot earn income from oneself.

Recreational clubs have been proposed to be included in this explanation in an attempt to reinforce taxability in such cases.

Disallowance of Deductions revamped

Purchases from persons not holding NTN

Section 21(q) disallows expenditure attributable to sales in proportion to the sales made to persons required to be registered but not registered under the Sales Tax Act 1990.

The Finance Bill proposes to substitute this clause to disallow 10% of the claimed expenditure on account of purchases made from persons who are not NTN holders.

This disallowance is proposed not to apply on agricultural produce purchased directly from growers or from persons specifically exempted by the FBR through a notification.

Disallowance of expenditure in case receipt of payment is other than banking channels

The Finance Bill proposes to insert a new clause whereby 50% of the expenditure claimed in respect of sales shall be disallowed, where taxpayer receives payment exceeding more than two hundred thousand rupees against single invoice otherwise than through banking or digital channels. Single invoice may contain one or more than one transactions of supply of goods or provision of services.

This proposed amendment is aimed at greater documentation of economy by discouraging payments outside banking channels.

Restriction on depreciation allowance

The Finance Bill proposes to restrict the depreciation allowance on capital assets acquired, where the person has failed to deduct or deposit tax under sections 152 or 153 of the Ordinance, as applicable, on the payments made to the seller.

Curtailment of amortization period in case of intangibles

As per section 24(4) of the Ordinance, where an intangible asset does not have an ascertainable useful life, it is deemed to have a useful life of twenty-five years.

The Finance Bill proposes to reduce this deemed useful life to fifteen years for the purpose of calculating amortization expense.

Loans, deposits, gifts received through digital means also excluded from being ‘Income from other source’

In terms of section 39(3) of the Ordinance, loans, advances, deposits for issuance of shares, or gifts received through crossed cheques or banking channels are excluded from the ambit of income from other sources.

The Finance Bill proposes that such gifts etc. received through ‘digital means’ shall also remain outside the ambit of taxation.

Restriction on set off of “income from property” against business loss brought back

Prior to the Finance Act, 2021, a person was not allowed to set off a loss sustained under any head of income against the income from property.

Vide the Finance Act, 2021, law was amended allowing business losses to be set off against the Income from Property.

The Finance Bill now again proposes to restrict setting-off the business losses against income from property for the year.

Benefit of group relief restricted to group entities taxed under corporate rate of tax

Section 59A of the Ordinance prescribes provisions for availing group relief.

The Finance bill proposes a restriction on availing benefit of group relief under section 59B of the Ordinance in case of a company or companies within the group whose business income is not chargeable to tax at the corporate rate of tax under Division II of Part I of the First Schedule to the Ordinance.

Clarificatory amendment on tax credit for coal mining operations

Section 65F was introduced through the Finance Act, 2021, allowing a tax credit equal to 100% of the tax payable including minimum tax, alternate corporate tax, and final taxes of the following persons, subject to fulfillment of certain conditions:

- Persons engaged in coal mining projects in Sindh, supplying coal exclusively to power generation projects; and
- Startups certified by the Pakistan Software Export Board.

The Finance Act 2024 inserted an explanation clarifying that, in the case of persons engaged in coal mining projects, the tax credit shall apply only to income derived from coal mining operations.

The Finance Bill now proposes to omit the word 'exclusively' from the first condition. This would mean that such entities not supplying exclusively to power generation projects shall still remain eligible to tax credit but to the extent of income derived from coal mining operations in Sindh supplying coal to power generation projects.

Tax credit allowed for interest paid on Low cost Housing Loan

The Finance Bill proposes to insert a new section 63A whereby an individual can claim a tax credit for a tax year on the any profit on debt or share in rent or share in appreciation made on a loan (other than deductible under section 15A), where:

a) loan should be used for constructing or purchasing one personal house (having land area of up to 2500 square feet) or flat (having total area of up to 2000 square feet),

b) loan obtained from scheduled bank or any other financial institution regulated by the SECP or advanced by Government or the Local Government or a statutory body or a public company listed on a registered stock exchange in Pakistan.

Tax credit under section 63A cannot be claimed for any other house or flat for the next fifteen tax years.

Tax Credit is to be computed on average rate of tax on the lesser of —

- 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.

Allowability of depreciation or cost in case assets even purchased through digital means

Section 75A of the Ordinance prescribes that the assets must be purchased through cross cheques, banking instruments to remain eligible for claim of depreciation etc. or allowability of cost.

The Finance Bill proposes to include 'digital means' in the above allowable mode for purchasing assets.

Replacement of tax exemption tables with unified tax credit table for charitable organizations

Prior to the proposed amendment, clause 66 of Part I of the Second Schedule contained two separate tables:

- One listing persons whose income was fully exempt from tax, and
- Another listing persons whose income was exempt, subject to the provisions of Section 100C.

The Finance Bill now proposes to streamline this structure by deleting both tables and inserting a single unified table.

As per this proposal, a specified non-profit and charitable entities will be eligible for a tax credit, subject to the fulfillment of conditions laid out in section 100C of the Ordinance.

This amendment aims to simplify the regime and ensure consistent treatment to enforce compliance through tax credits instead of outright exemptions.

Entitlement to carry forward minimum tax reduced

Minimum tax paid on turnover in excess of normal tax liability is available for adjustment against normal tax of subsequent three tax years (previously five years before amendment through Finance Act, 2022).

Through Finance Bill time limit for carry forward is now proposed to be reduced to two years.

Consistent pattern of amendments to reduce this carry forward period is a matter of concern for entities and sectors in struggling phases.

Restrictions on Economic Transactions by Ineligible Persons

The Finance Bill proposes to insert a new Section 114C to restrict the following economic transactions for ineligible persons:

- Booking, purchase, or registration of motor vehicles;
- Purchase or transfer of immovable property exceeding a threshold to be notified by the Federal Government;

- Investment in securities or mutual funds, and maintenance of related accounts;
- Opening or maintaining current, savings, or investor portfolio accounts (excluding Asaan and Pensioner accounts); and
- Cash withdrawals exceeding prescribed limits.

A person will be treated as eligible if it has:

- Filed a return for the tax year immediately preceding the year of the transaction; and
- Declared sufficient resources in its wealth statement (in the case of an individual) or financial statements (in the case of a company or AOP).

Alternatively, a person may file a Sources of Investment and Expenditure Statement on the FBR portal, explaining the source of funds for the relevant transaction.

The term “sufficient resources” is defined as 130% of the transaction value, represented by cash and cash-equivalent assets such as local or foreign currency, gold, stocks, receivables, or any other prescribed asset. Where an asset is acquired in exchange for previously declared capital assets, the declared value of such disposed assets will be considered as part of the cash-equivalent resources.

Exemptions apply to low-value transactions such as the purchase of motorcycles, rickshaws, tractors, and certain other categories of motor vehicles and securities, as may be notified. Transactions by non-residents and public companies are also excluded (except in respect of the cash withdrawal cap).

Importantly, filing a ‘Sources of Investment and Expenditure Statement’ or declaring sufficient resources will not be treated as disclosure of income for the purposes of Section 111 (unexplained income/assets).

Deemed assessment subject to automated adjustments

Vide Finance Act 2020, concept of automated assessment was introduced and deemed assessment was subject to prescribed automated adjustment on assessment.

The Finance Bill proposes that the assessment of taxable income and deemed assessment by the Commissioner thereon shall be subject to such automated adjustments.

This appears an attempt to synchronize the overall scheme once the provisions for automated adjustments are made applicable by the Board through notification in the Official Gazette.

Time limit to complete amendment proceedings proposed to be doner away with

Vide Finance Act 2021 a time limitation of 180 days for issuing the amended assessment order under section 122(5) or 122(5A) of the Ordinance from the date of issuance of the show-cause notice under the relevant sub-sections was provided.

The Finance Bill seeks to remove this time limitation.

This time limit was inserted upon recommendation by various bodies to curtail protracted proceedings and hence this omission should be reconsidered.

Proposed amendments in the mechanism related to appeal effect orders

Currently, the law is silent on requirement of the appeal effect order for recovery of the tax demand in case the order appealed against / tax demand is confirmed by the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court [appellate authorities].

The Finance Bill proposes to insert new sub-section whereby appeal effect order shall not be required to be passed where the tax payable as determined in the order appealed against is confirmed by the abovementioned appellate authorities.

It has also been proposed that in case of partial modification i.e. set aside, confirmed or remand back of the order subject to appeal before Appellate Tribunal, High Court or Supreme Court, the appeal effect shall be given on the issues and tax payable confirmed or modified by the Appellate Tribunal, High Court or Supreme Court excluding the issues and tax payable that have been set aside or remanded back and recovery shall be enforced accordingly.

This proposed amendment is sharply in contrast with the concept of composite assessment of income for the complete fiscal year. Appeal effect orders in such cases should only be issued once proceedings on all issues [including those remanded back] is complete.

The concept of pecuniary jurisdictions proposed to be omitted

The Finance Act 2024 introduced the pecuniary jurisdiction of appeals under section 126A of the Ordinance whereby right to appeal to the taxpayers was effectively reduced from two to one forum and the High Court was empowered to decide the reference on the basis of both question of facts and question of law. This was an ambitious attempt for speedy disposal of the tax litigation however was widely assailed by the tax bars cautioning that this may but in effect result in further staggering of litigations as against its conceived objectives of efficient disposal of litigations.

The Finance Bill now proposes to omit this section.

Alike its introduction, it is recommendable that this proposed omission should entail a proper transitional/ sunset clause.

Alternative dispute resolution mandated for SOEs

Section 134A of the Ordinance relating to Alternative Dispute Resolution mandate exclusion of SOE from appellate forums compelling them to apply for Alternative Dispute Resolution.

Section 127 of the Ordinance is however currently silent on this. The Finance Bill proposes to explicitly exclude SOEs from filing appeal before the Commissioner (Appeals).

Whilst the Finance Bill proposes to omit section 126A of the Ordinance, an option is proposed to the aggrieved person to prefer an appeal either before the Commissioner (Appeals) or avail the next appellate forum directly i.e. Appellate Tribunal Inland Revenue.

Eligibility for appointment as member of the Tribunal

Presently, one of the eligibility criteria for a person to be appointed as member of Appellate Tribunal is that the person has a practice of 10 years as a chartered accountant.

The Finance Bill proposes to provide that the person for an aggregate period of not less than 10 years has been:

i. In practice as a Chartered Accountant, either individually or in a firm of Chartered Accountants; or

ii. A Chartered Accountant and has been in employment of a Chartered Accountant in practice for at least for a period of 10 years.

Filing of appeal before the Appellate tribunal

In view of proposed omission of section 126A and changes suggested in section 127 by the Finance Bill, sub-section (1) of section 131 is being proposed to be substituted to:

- Provide for filing the appeal before the Appellate Tribunal Inland Revenue within 30 days of receipt of the order passed by the Commissioner (Appeals);
- Provide an option to the taxpayer for direct filing of appeal against the order of the Officer Inland Revenue before the Appellate Tribunal.
- The law as amended in 2024 bestowed right for appeal to ‘persons’ only which does not include Commissioner. Hence in a certain case court the Tribunal held that Commissioners now have no right to file appeal at Tribunal. This is proposed to be addressed by providing specific right of appeal to the Commissioners.

The proposed substitution may restrict right of appeal in following cases:

i. Presently orders passed by the Chief Commissioner (i.e. under section 122B) are also challengeable before the Tribunal. This was made applicable in year 2024 but is now proposed to be done away with to restore to historic position that such orders are to be assailed only before the High Courts.

   It is suggested that this appeal mechanism should be kept intact in an attempt to address such matters through hierarchy of appellate forums before being escalated to the High Courts through reference.

ii. Presently, under the proviso annexed to sub-section (1) provides an SOE to file the appeal before the Appellate Tribunal Inland Revenue in case the matter is referred to ADRC who fails to decide the matter within 60 days of its constitution leading to its dissolution and the matter shall be decided by the court or the appellate authority where the dispute is pending litigation.

This is not embodied in the newly proposed modus. This may cause SOEs being defied appellate rights even if the ADRCs fails to decide the matter.

A proper amendment is needed on this through necessary curative legislation and to bring this section in line with section 134A(11).

Reference before the High Court

In view of proposed omission of section 126A and changes suggested in section 127 by the Finance Bill, certain editorial changes in sub-section (1) of section 133 have been proposed whereby amongst others, the filing of reference before High Court is being limited to question of law only.

Alternative Dispute resolution beefed up in the case of SOEs

As mentioned above, presently if ADRC fails to decide the matter referred to it within 60 days of its constitution the committee stands dissolved and the matter is required to be decided by the court of law or the appellate authority wherein it is pending under litigation.

The Finance Bill in case of SOE proposed to extend the limit of 60 days and after 60 days the Board shall reappoint the committee to decide the dispute within further 60 days in accordance with procedure laid down under section 134A of the Ordinance.

Enhanced recovery powers

The Finance Bill seeks to ratify the changes brought through Tax Laws Amendment Ordinance 2025 in section 138 and 140 that provide for recovery and attachment of the assets of the taxpayer.

By virtue of proposed changes tax payable under any provision of the Ordinance or any assessment order shall become immediately payable or within the time specified in the notice issued by the income tax authority, irrespective of the time provided under any other provision of the Ordinance or any decision or judgment, in case the issue giving rise to the tax payable is decided by a High Court or the Supreme Court of Pakistan.

However, in case, the High Court decides the appeal filed by the Commissioner in favor of the department, the recovery shall be made after 7 days from the date of the order of High Court.

These proposed changes will lead to certain interpretation issues including:

i. It is not clear as to whether the issue giving rise to the tax payable decided by a High Court or Supreme Court in the taxpayer's own case or in general.

ii. Tax authorities may attempt to invoke this even in the cases where appeal is filed against the order and a stay is in field or not.

However, we would like to highlight that when such provisions are introduced with respect to recovery measures or to curtail powers of the court in respect of stay of demand, they usually have to undergo the litmus test for conformity to article 199 of the Constitution. Therefore, we believe that this newly introduced provision may also have to go through such litmus test in the court of law.

Tax deduction from pension and annuity

The Finance Bill proposes the insertion of a new sub-section (1A) in section 149 of the Ordinance requiring the person, responsible for making payment of pension or annuity or any supplement to a pension or annuity or commutation of pension to a former employee below the age of seventy (70) years deriving pension income during a tax year, to deduct tax from such payment exceeding Rs. 10 million in that tax year at the applicable rates provided under Division I of Part I of the First Schedule to the Ordinance, i.e. 5% of the amount exceeding Rs. 10 million.

The applicable rate structure under Division I of Part I has been separately prescribed for persons deriving pension income including surcharge payable under section 4AB of the Ordinance. Deduction of tax is to be made after allowing adjustment for tax already withheld under other heads and admissible tax credits under sections 61 and 63 of the Ordinance.

Pension or annuity income is covered under sections 12(f) and 39(g) of the Ordinance. Furthermore, a new proviso is proposed to be inserted in Clause (1) of Division I, Part I of the First Schedule, which provides that where an individual derives income under the head "Income from Other Sources" on account of pension or annuity at zero percent if the pension or annuity does not exceed Rs. 10 million and at 5 percent if it exceeds Rs. 10 million as provided in proviso to Clause (2) of Division I.

The proposed proviso to Clause (2) inter alia states that in case of an individual deriving income solely from pension, annuity, supplement to pension or annuity, or commutation of pension from a former employer for the relevant tax year, the same above rate structure shall apply.

We understand that where pension, annuity, supplement to pension or annuity, or commutation of pension is received from a former employer, such income shall be taxed under the head "Salary" and tax shall be withheld under the aforesaid proposed sub-section. Consequently, the surcharge under section 4AB shall be applicable at the rate of 9 percent. We further understand that the term “solely,” as used in the proposed provision, refers to a situation where the individual derives income only from pension-related sources. However, if the individual earns salary income from current employer and pension income from former employer, then pension may be taxed under the head “Salary” and shall be subject to tax at the applicable rates for salary income as prescribed under Division I of Part I of the First Schedule to the Ordinance and not the proposed separate tax structure.

On the other hand, where pension or annuity is received from a source other than a former employer, such as under a voluntary pension scheme, it shall be taxable under the head "Income from Other Sources". In such a case, if the income exceeds Rs. 10 million, the surcharge under section 4AB of the Ordinance shall be applicable at the rate of 10 percent, not at 9 percent.

Since no withholding mechanism has been prescribed for pension or annuity income taxable under the head "Income from Other Sources", the tax and applicable surcharge shall be paid by the recipient at the time of filing the return of income.

Gain arising on disposal of certain debt securities

The Finance Bill proposes insertion of a new section 151A of the Ordinance which provides that every custodian of debt securities including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of the holder of a debt security shall at the time of disposal of debt securities including government securities deduct tax at the rate of 15 percent of the gross amount of capital gain arising to such holder of debt securities.

However, the proposed provisions shall not apply on gain on disposal of debt securities made through registered stock exchange and which are settled through NCCPL.

The capital gain is to be computed by subtracting cost from the proceeds.

It is important to mention that the capital gain arising on debt securities in case of companies shall be chargeable at the applicable corporate tax rates based on the proviso to Division VII of Part I of First Schedule to the Ordinance. Whereas, in case of individuals, at 15 percent where the security was acquired on or after 1 July 2024.

Payment to Non-resident under section 152 of the Ordinance

The Finance Bill proposes certain changes in section 152 of the Ordinance relating to payments made to non-residents.

Under the existing provision, when a banking company or financial institution remits any fee for offshore digital services outside Pakistan on behalf of a resident person or the permanent establishment of a non-resident, it is required to deduct tax at the time of remittance.

A new proviso is proposed to be added under sub-section (1C) proposing that no tax will be deducted under this sub-section if the recipient is also liable Digital Presence Proceeds Levy and tax under the same has been collected. This is meant to avoid duplication of tax.

Further, at present, the law requires that where a banking company or financial institution maintains a Special Convertible Rupee Account (SCRA) for a non-resident company that has no permanent establishment in Pakistan, tax at the rate of 10 percent is to be deducted on capital gains arising from the sale of debt instruments and government securities including Treasury Bills and Pakistan Investment Bonds. The Finance Bill proposes to insert the words in sub-section (1D) “for a period not less than twelve months”. This means that the rate of 10 percent will only apply if the SCRA has been maintained for at least twelve months.

Further, a new proviso is proposed to be added in sub-section (1D), requiring that if the holding period of these securities is less than twelve months, then the capital gains will be taxed at the higher rate of 20 percent instead of 10 percent.

Payment for goods, services and contracts under section 153 of the Ordinance

The Finance Bill proposes to insert new sub-section (2A) to section 153 of Ordinance according to which tax shall be collected at the time of payment in cases where goods or services are ordered through local operated e-commerce platforms, including websites. In such cases, two types of persons will be responsible for collecting the tax:

i. A payment intermediary who processes digital payments on behalf of the seller; and

ii. A courier service that collects cash from the buyer under Cash on Delivery (CoD) terms on behalf of the seller.

Both the payment intermediary and the courier service will collect tax from the gross amount payable to the seller (including sales tax, if any) and deposit the same into the government treasury. The tax rates have been proposed in Division IVA of Part I of the First Schedule to the Ordinance.

A new sub-section (2B) has also been proposed requiring that if tax is collected under sub-section (2A) by the payment intermediary or courier service, then no tax shall be deducted again under sub-section (1) of section 153 by the payer. This is to avoid duplication of tax deduction on one and the same transaction.

In addition, amendments have been proposed in sub-section (7) of section 153 of the Ordinance by inserting definitions of “payment intermediary” and “courier service” being ‘prescribed person’ for clarity and legal recognition.

The term “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) Logistics services;
b) ride-haling services;
c) food delivery platforms; and
d) e-commerce services.

The term “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;”

Furnishing of information by online marketplace, payment intermediary and courier service

The Finance Bill proposes insertion of a new section 165C in the Ordinance, which provides as follows:

(1) Every payment intermediary and courier service responsible for collecting tax under sub-section (2A) of section 153 of the Ordinance shall be required to file a quarterly withholding statement with the Commissioner, in the prescribed manner, in respect of the sale of digitally ordered goods and services. The statement shall include the following particulars:

   a) Name, National Tax Number (NTN) or Computerized National Identity Card (CNIC) number, and address of the seller;

   b) Date of transaction, unique transaction identifier (such as invoice number), and total transaction value;

   c) Total amount of tax deducted at the time of payment to the seller; and

   d) Any other particulars as may be prescribed.

(2) Every online marketplace operating in Pakistan shall be required to submit a monthly statement containing the following details:

   a) Name, address, sales tax registration number, and income tax registration number of each vendor registered on its platform and engaged in the supply of digitally ordered goods or services through e-commerce;

   b) Transaction-wise and aggregated monthly turnover of each vendor; and

c) The amount deposited into each vendor's bank account against such sale transactions.

(3) The provisions of section 165 of the Ordinance, other than sub-sections (1), (1A), and (6), shall apply mutatis mutandis to the statements required under this section. This shall include the due date for filing of withholding statements, revision of statements, powers of the Commissioner to call for statements, extension of time for filing, powers of the Board, filing of annual withholding statements, and reconciliation of withholding statements with the annual income tax return.

Exchange of banking and tax information related to high-risk persons

The Finance Bill proposes insertion of a new section 175AA in the Ordinance. This section begins with a non-obstante clause, overriding any other law in force, including the Banking Companies Ordinance, 1962, section 216 of the Ordinance, and any relevant regulations issued under the State Bank of Pakistan Act, 1956.

Under the proposed section:

(a) The FBR may share the information relating to turnover, income including taxable income, and identification particulars such as bank account numbers declared in income tax returns, wealth statements, financial statements, or any other documents submitted to the Board, in respect of persons or classes of persons, with scheduled banks in Pakistan. Such sharing may also include data-driven algorithms or risk models as may be prescribed by the Board.

(b) In response, scheduled banks shall be required to furnish to the FBR details, including name and account numbers, of such persons whose banking data appears to be inconsistent with the information or algorithms provided under clause (a) above.

Furthermore, the proposed provision mandates that all such information exchanged shall be utilized strictly for tax related purposes and they shall be kept confidential.

Posting of officer of Inland Revenue

The Finance Bill proposes insertion of a new section 175C which empowers the FBR or the Chief Commissioner, subject to such conditions and restrictions as deemed fit to be imposed, to post an officer of Inland Revenue or such other officials with any designation working under the control of the FBR or the Chief Commissioner, to the premises of any person or class of such persons to monitor production, supply of goods or rendering or providing of services and the stock of goods not sold at any time.

Enforcing Tax Registration for e-Commerce and Courier Services

The Finance Bill proposes to amend section 181(1) which encompasses the expression "including a person selling digitally ordered goods or services from within Pakistan using online marketplace or a courier service, as the case may be" after the word "taxpayer", thereby aiming to mandate tax registration for persons selling goods and services through digital platforms.

The Finance Bill proposes insertion of a new sub-section (1A) to Section 181, requiring online marketplaces and courier services engaged in e-commerce to restrict platform access only to vendors registered under the Sales Tax Act, 1990 and the Income Tax Ordinance.

Insertion of new penalties and increase in penalties

The salient features of the proposed new penalties are as follows:

Sr. No.	Description	Penalty	Relevant section
3B	Where an online marketplace allows an unregistered vendor, whether resident or non-resident involved in e- commerce business supplying digitally ordered goods or services, who is required to register under Sales Tax Act 1990 and Income Tax Ordinance, 2001, under section 181 before using the platform.	Such online marketplace or a courier service provider shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default.	181(1A)
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	Such person shall pay a penalty equal to hundred percent of the amount of tax involved.	153(2A)

Sr. No.	Description	Penalty	Relevant section
	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.		
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.	Such seller shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default.	181

The salient features of the proposed amendment in penalties are as follows:

Sr. No.	Description	Change in Penalty	Relevant section
1A	Where any person fails to furnish a statement as required under section 165,165A, 165B or 165C within the due date.	Increase in the penalty from Rs. 5,000 to Rs. 50,000. However, the increased penalty is restricted to cases where the statement under Section 165 is not filed despite timely withholding and payment of tax and where information under Sections 165A and 165B is submitted within 90 days of the due date. While the penalties under the clause for all other cases are intact.	165, 165A, 165B and 165C

Authorizing auditor appointed by commissioner as tax authority

The Finance Bill proposes to authorize the auditor appointed by the Commissioner under section 222 as income tax authority.

Limitation on Commissioner's condonation powers and introduction of respective Committee

The Finance Bill proposes to insert two further provisos to Section 214A, restricting the Board or the Commissioner's power to grant condonation of time limitations to a maximum of two years and to empower a committee notified by the Board to condone delays beyond this period, where there is reason to believe that a significant loss to the exchequer has occurred due to an act of omission or commission by the taxpayer or the Commissioner. This power is subject to the condition that the taxpayer is given a reasonable opportunity of being heard.

Expanded Scope for Disclosure of Taxpayer Information to Contractual Auditors and Other Specified Authorities

The Finance Bill proposes to expand the scope of permissible disclosures of taxpayer information such as returns, accounts, and other evidentiary materials to auditors appointed on a contractual basis or engaged through third parties (e.g., payroll firms) by the Federal Board of Revenue through inclusion of clause 3(ba) to section 216. However, such disclosure will be allowed after execution of a prescribed non-disclosure agreement, for the purpose of assisting FBR and relevant Inland Revenue authorities in discharging of their functions.

The Finance Bill also seeks to expand the scope of permissible disclosures under clauses 3(kd) and 3(ke), allowing taxpayer information to be shared with the Tax Policy Office for research and policy analysis, and with recognized universities and international donor agencies. However, only anonymized data may be shared with universities and international donor agencies to ensure confidentiality.

Clarification on Electronic Service of Notices to Representatives

The Finance Bill proposes to amend clause 2(d) of section 218 by replacing the term 'Individual' with 'Person', to clarify that electronic service of notices and orders on any person (other than a resident individual) shall be treated as valid service.

Explicit power to appoint auditors

The Finance Bill proposes to insert an additional sub-section in section 222, granting the FBR explicit authority to appoint as many auditors, on a contractual basis or through third party arrangements, as deemed necessary for the purposes of the Ordinance not exceeding two thousand auditors. While Commissioners previously held the power to appoint experts, this amendment broadens the scope by empowering the Board specifically to appoint auditors.

Exclusion of ADRC proceeding period from computation of period of limitation

The Finance Bill proposes to amend Section 226(b)(ii) to exclude, for the purpose of computing the limitation period, the time during which proceedings remain pending before the Alternate Dispute Resolution Committee (ADRC). Currently, the exclusion applies only to proceedings pending before a court, Appellate Tribunal, or other authority which was very broad and explicitly included ADRC.

Proposed Increase in Advance Tax on Cash Withdrawals by Non-Active Taxpayers

Section 231AB currently provides that if a person who is not an active taxpayer makes a cash withdrawal exceeding fifty thousand rupees in a single day, the bank shall deduct advance adjustable tax at the rate of 0.6% of the withdrawn amount. The Finance Bill now proposes to increase this rate to 0.8%.

First Schedule

The Finance Bill proposes to reduce the tax rates for salaried individuals. The comparison of existing and proposed rates are as follows:

Taxable income (Rs.)	Existing Rate	Proposed Rate
Upto 600,000	0%	0%
600,001 to 1,200,000	5% of the amount exceeding Rs. 600,000	*1% of the amount exceeding Rs. 600,000
1,200,001 to 2,200,000	30,000 + 15% of the amount exceeding Rs. 1,200,000	6,000 + 11% of the amount exceeding Rs. 1,200,000
2,200,001 to 3,200,000	180,000 + 25% of the amount exceeding Rs. 2,200,000	116,000 + 23% of the amount exceeding Rs. 2,200,000
3,200,001 to 4,100,000	430,000 + 30% of the amount exceeding Rs. 3,200,000	346,000 + 30% of the amount exceeding Rs. 3,200,000
4,100,001 and above	700,000 + 35% of the amount exceeding Rs. 4,100,000	616,000 + 35% of the amount exceeding Rs. 4,100,000

* As per budget speech, the proposed rate is 2.5% instead of 1%. However, this needs clarification.

An analysis of impact of above change in tax rates is given below:

Annual Salary (Rs.)	Tax Liability		Tax incidence	
	Existing (Rs.)	Proposed (Rs.)	(reduction) (Rs.)	(reduction)
600,000	-	-	-	-
1,200,000	30,000	6,000	(24,000)	80%
2,200,000	180,000	116,000	(64,000)	36%
3,200,000	430,000	346,000	(84,000)	20%
4,100,000	700,000	616,000	(84,000)	12%
10,000,000	2,765,000	2,681,000	(84,000)	3%

Tax rates on pension

The Finance Bill proposes to prescribe tax rates on individuals deriving income solely from pension, annuity, supplement to the pension or annuity and commutation of pension from former employer for tax year as follows:

S. No.	Description	Rate of Tax
1.	Where the amount of pension received does not exceed rupees ten million	0% of the amount
2.	Where the amount of pension received exceeds rupees ten million	5% of the amount exceeding rupees ten million

(Division IIB, Part I, First Schedule)

Rate of super tax

Without changing the existing position for tax years 2022-2025, the Finance Bill proposes reduction in rates of super tax for tax year 2026 and onwards as provided in comparison with tax years 2022-2025 by replacing the table as under:

S. No.	Income under section 4C	Rate of tax		
		For tax year 2022	For tax year 2023, 2024 and 2025	For tax year 2026 and onwards
1.	Where income does not exceed Rs. 150 million	0% of the income	0% of the income	0% of the income
2.	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income	1% of the income	1% of the income
3.	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income	2% of the income	1.5% of the income
4.	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income	3% of the income	2.5% of the income
5.	Where income exceeds Rs. 300 million but does not exceed Rs. 350 million	4% of the income	4% of the income	3.5% of the income
6.	Where income exceeds Rs. 350 million but does not exceed Rs. 400 million		6% of the income	5.5% of the income
7.	Where income exceeds Rs. 400 million but does not exceed Rs. 500 million		8% of the income	7.5% of the income
8.	Where income exceeds Rs. 500		10% of the income	10% of the income

(Division III, Part I, First Schedule)

Tax on dividend on mutual funds

Through Finance Act, 2024, dividend on mutual funds deriving 50% or more of their income from profit on debt was chargeable to tax @ 25%, whereas, in case of other mutual funds, dividend was chargeable to tax @ 15%.

Now, the Finance Bill proposes to charge tax at the rate of 25% and 15% on dividend in case of all mutual funds in proportion to income derived from average annual investments in debt securities and equities respectively. Accordingly, corresponding change has also been proposed for withholding of tax under section 150 under Division I of Part III to the First Schedule.

(Division IIIA, Part I, First Schedule)

Rate for Profit on Debt

The Finance Bill proposes to revise the tax rate for profit on debt under section 7B as follows:

Profit on debt paid under section 7B	Existing	Proposed
By banking company / financial institution	15%	20%
Other than by banking company / financial institution	15%	15%

Accordingly, change has also been proposed for withholding of tax under section 151 under Division IA of Part III to the First Schedule.

(Division IV, Part I, First Schedule)

Tax rate on fee for Offshore Digital Services

The Finance Bill proposes to enhance tax rate on fee for offshore digital services from 10% to 15%.

(Division IVA, Part I, First Schedule)

Tax on payments for digital transactions in e-commerce platforms

The Finance Bill proposes to prescribe progressive tax rates for payment through digital means / banking channel by payment intermediary and payment through cash on delivery by courier services, which have been given at page No. 12 of this Budget Brief.

Accordingly, corresponding change has also been proposed for withholding of tax under section 153(2A) under Division IIII of Part III to the First Schedule.

(Division IAA, Part III, First Schedule)

Withholding tax on capital gain on disposal of certain debt securities

The Finance Bill proposes to prescribe 15% withholding tax rate on gross amount of capital gain on disposal of debt securities specified under section 151A of the Ordinance.

(Division II, Part III, First Schedule)

Increase in tax rate on payments to non-residents having Permanent Establishment

The Finance Bill proposes to increase rate of withholding tax applicable on payment on account of services including specified services and execution of contract by non-resident persons having permanent establishment. The proposed changes in tax rates are summarized in Table below:

Nature	Person	Existing tax rate	Proposed tax rate
IT services and IT enabled services	Company / other than company	4%	4%
Specified services other than IT services and IT enabled services	Company / other than company	4%	8%
Other than specified services	Company	9%	15%
Other than specified services	Other than company	11%	15%
Execution of contract	Sports person	10%	15%

(Division III, Part III, First Schedule)

Increase in tax rates on payments to resident persons

The Finance Bill proposes to increase rate of withholding tax applicable on payment on account of services including specified services and execution of contract by resident persons. The proposed changes in tax rates are summarized in table below:

Nature	Person	Existing tax rate	Proposed tax rate
IT services and IT enabled services	Company / other than company	4%	4%
Electronic and print media for advertising services	Company / other than company	1.5%	1.5%
Specified services other than mentioned above	Company / other than company	4%	6%
Other than specified services	Company	9%	15%
Other than specified services	Other than company	11%	15%
Execution of contract	Sports person	10%	15%

(Division X, Part IV, First Schedule)

Advance tax on sale / transfer of immoveable property increased

The Finance Bill proposes to enhance tax rate for sale or transfer of immoveable property. The proposed rates in comparison to existing tax rates are as follows:

S. No.	Amount	Existing tax rates	Current tax rates
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	4.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	5.5%

(Division XVIII, Part IV, First Schedule)

Advance tax on purchase of immoveable property reduced

The Finance Bill proposes to reduce tax rate for purchase or transfer of immoveable property. The proposed rates in comparison to existing tax rates are as follows:

S. No.	Amount	Existing tax rates	Current tax rates
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	1.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but	3.5%	2%

S. No.	Amount	Existing tax rates	Current tax rates
	does not exceed Rs. 100 million		
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	2.5%

Second Schedule

Part I – Exemption from total Income

Exemptions withdrawn

The Finance Bill proposes to withdraw following exemptions:

- Any Pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer). [Clause 8]

- Any pension received in respect of service rendered by a member of Armed forces of Pakistan or federal government or a Provincial Government and to the families and dependents of the public servants or members of the Armed forces of Pakistan who die during service. [Clause 9]

- Any payment in the nature of commutation of pension received from government or under any pension scheme approved by the board for the purpose of this clause. [Clause 12]

- Any income representing any payment received by way of commutation of pension by an employee on his retirement or, in the event of his death, by his heirs as does not exceeds the specified limits. [Clause 13]

- Accumulated balance up to 50% received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person's retirement, or disability rendering him unable to work; or death by his nominated survivors. [Clause 23A]

- 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. [Clause 23C]

- Profits and gains derived between the first day of July 2022 and the thirtieth day of June, 2025 both days inclusive, by a venture capital company and venture capital fund registered under relevant Venture Capital Companies and Funds Management Rules issued by Securities and Exchange Commission of Pakistan. [Clause 152]

New exemptions introduced

The Finance Bill proposes to introduce following new amendments:

- 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 members countries, IBC partner and media representatives, other than persons who are resident of Pakistan, from ICC champions trophy, 2025 hosted in Pakistan, shall be exempt from tax. [Clause 98AA]

Amendments in conditions of exemptions

- Clause (66) provides for exemption from tax on income earned by various institutions, foundations, societies, boards, trusts, and funds listed under Table-1 and Table-2. Entities listed in Table-1 are granted a straight exemption, whereas those in Table 2 are eligible for exemption only upon fulfillment of conditions specified in Section 100C.

  Now, the Finance Bill proposes to merge Table-1 and Table-2, and all entities listed therein that currently listed under Table-1 will also be required to fulfill the conditions laid down in section 100C to claim exemption.

  Further, the Finance Bill proposes to add the following Non-Profit Organizations (NPOs) in the proposed merged Table, which will also be eligible to claim exemption subject to fulfillment of conditions specified in section 100C.

  - Beaconhouse National University
  - Federal Ziauddin University
  - Army officers Benevolent fund / Benevolent Fund/ Benevolent Family Scheme
  - Punjab Police Welfare Foundation Lahore.

- Clause (126E) provides exemption to income derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operations.

  Now, the Finance Bill proposes to restrict the above exemption for the period of ten years starts from the date the developers certifies that the Zone enterprise has commenced commercial operation or up to the 30th day of June 2035, whichever is earlier.

- Clause (126EA)(b) provides exemption to profits and gains derived by zone Enterprise as defined in the Special Technology Zones Authority Act, 2021 for a period of ten years from the date of issuance of license by the Special Technology Zone Authority.

  Now, the Finance Bill proposes to restrict the above exemption for the period of ten years from the date issuance of license by the special Technology Zone Authority or up to the 30th day of June 2035, whichever is earlier.

- Clause (145A) provide exemption to income as was exempt under the constitution prior to the (Twenty Fifth Amendments) Act, 2018 for individual domiciled or company and association of persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan, up to 30 June 2023 extended for one year up to 30 June 2024 and then up to 30 June 2025.

  Now the Finance Bill proposes to further extend this exemption for one year up to 30 June 2026.

- Clause (151) provides exemption from tax to any income derived by a person from cinema operations for five years from the commencement of cinema operation.

  Now, the Finance Bill proposes to restrict the above exemption shall be available to a person till 30th June 2030 or five years from commencement of cinema operations whichever is earlier.

Part II – Reduction in Tax rates

Reduction withdrawn

The Finance Bill proposes to withdraw the reduction in tax rates on the following being redundant clauses:

- Subject to quota allotment by Commerce Division, tax under section 148, collected at the rate of 0.25% on import of raw sugar imported by sugar mills from the 26th day of January 2021 to the 30th day of June 2021 both days inclusive provided that such imports shall not exceed fifty thousand metric tons per sugar mill and three hundred thousand metric tons in aggregate by the sugar industry.

- The rate of tax under clause (a) of sub-section (1) of section 153 in case of a person, other than a company, as a recipient of payment for goods supplied to Utility Stores Corporation of Pakistan shall be 1.5% of the gross amount of payment in respect of supply of tea, spices, salt, dry milk, sugar, pulses wheat flour and ghee for the period commencing from the 7th day of April, 2020 and ending on 30th day of September, 2020.

Part III – Reduction in Tax Liability

Restoration of Tax Credit For full Time Teachers and Researchers

Though, in view of FBR, tax credit of 25% for full time teachers and researchers was withdrawn, however, there was a persistent view of taxpayers and FTO regarding the availability of such tax rebate after enactment of Finance Act, 2022.

Now, the Finance Bill removes the ambiguity by restoring such tax rebate with effect from 1 July 2022. However, such rebate shall not be available for tax year 2026 and onwards.

Part IV – Exemption from Specific provisions

Exemptions withdrawn

- The provision of section 148 shall not apply on import of 1.5 million tons of wheat having PCT Heading 1001.1900 and 1001.9900 in pursuance of Cabinet Decision in case No.399/23/2020 dated the 16th June, 2020; *[Clause 12F]*

- The provisions of section 148 shall, in pursuance of the Cabinet Decision in case No. 541/30/2020 dated the 4th August, 2020, not apply on import by the Trading Corporation of Pakistan of 300,000 metric tons of white sugar having PCT heading 1701.9910,1701.9920, specification B; *[Clause 12G]*

- The provisions of section 148 shall, in pursuance of the Cabinet Decision in case No. 34/02/2021, dated the 12th January, 2021, not apply on import of three hundred thousand metric tons of wheat through tendering process by the Trading Corporation of Pakistan. *[Clause 12J]*

New exemptions introduced

The Finance Bill proposes to exempt withholding tax under section 148 on import of Cystagon, Cysta drops and Trientine capsules. *[Clause 56(xx)]*

Amendments in exemptions

- Currently, a person cannot be subject to audit under section 177 and 214C of the Income Tax Ordinance 2001 if the income tax affairs of the person have been audited in any of the preceding 4 tax years.

  The Finance Bill proposes to amend this exemption to the effect that provisions of section 177 and 214C for selection of a person for audit shall not apply (to a person) whose income tax affairs have been selected for audit in any of the preceding 3 tax years. *[Clause 105A]*

- Currently, exemption from withholding taxes under the constitution prior to the (Twenty-Fifth Amendment) Act, 2018 for individual domiciled or company and association of persons resident in the Tribal area forming part of provinces of Khyber Pakhtunkhwa and Baluchistan, is valid up to 30 June 2024, extended up to 30 June 2025

  Now, the Finance Bill proposes to further extend this exemption for one year up to 30 June 2026. *[Clauses 109A and 110].*

Seventh Schedule - [Banking Sector]

Significant amendments have been proposed to the Seventh Schedule, primarily affecting the tax treatment of leasehold improvements, right-of-use assets under IFRS 16, provisioning for non-performing loans and accounting adjustments under IFRS 9. The key proposed changes are summarized below:

Leasehold Improvements

Expenditure on leasehold improvements in respect of leased or rented properties shall be capitalized and amortized at 10% per annum, starting from the date the asset is first put to use. In case of early lease termination, the unamortized balance (after adjusting for any proceeds) will be allowed as a deduction in the year of termination.

This was previously the subject of litigation, primarily due to the nature of rented (not owned) premises, where the allowability of such expenditure was decided through court proceedings. While the proposed amendment may still give rise to disputes, particularly regarding its interpretation and application in specific cases.

Right-of-Use Assets (IFRS 16)

Depreciation on right-of-use assets and related finance costs will no longer be tax-deductible, regardless of accounting treatment. Instead, the actual rent expense incurred during the year will be allowed, subject to certification by the external auditor.

Adjustments for prior years (from tax year 2020 onward) will be made in tax year 2025 as follows:

- Excess deductions over actual rent will be added back to income.
- Short deductions will be allowed as expense.

Provisioning for Non-Performing Loans

The Finance Bill proposes enhanced requirements for the external auditor’s certificate in respect of provisions for non-performing loans and their reversals; including:

- Allowed under SBP Prudential Regulations
- Recognised under IFRS 9
- Disclosed in the audited financial statements
- Eligible for tax deduction under the Seventh Schedule

Failure to furnish this certificate at the time of return filing will render the related deduction inadmissible for tax year 2025.

The form of the certificate is appended at the end.

Restriction on Deductible Provisions

Seventh Schedule already restricts the deductibility of provisions to those classified as "Loss" under the SBP Prudential Regulations.

The proposed amendment reinforces this position by clarifying that only "Loss" provisions are admissible under Rule 1(c), while all other provisions including general provisions not aligned with the Prudential Regulations shall be disallowed.

IFRS 9 Adjustments

Currently, adjustments made in a banking company's financial statements under applicable accounting standards, policies, or SBP guidelines are excluded when computing taxable income.

The Finance Bill proposes to restrict this exclusion specifically to adjustments arising under IFRS 9 and related SBP guidelines. This exclusion will operate subject to other provisions of Rule 1, including the limitation on deduction of provisions under Rule 1(c) and will apply from tax year 2025 onwards.

Form of auditor certificate

On the Letterhead of the External Auditor-Chartered Accountant Firm]

CERTIFICATE UNDER RULE 1(C) OF THE SEVENTH SCHEDULE TO THE INCOME TAX ORDINANCE, 2001 FOR TAX YEAR 2025

To:

The Commissioner Inland Revenue, Zone-,
Federal Board of Revenue,

I, the undersigned statutory auditor of **[Name of Banking Company],** having conducted the audit of the annual financial statements for the year ended [insert date], in accordance with the applicable auditing standards and the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP), the International Financial Reporting Standard (IFRS) 9, and the Seventh Schedule to the Income Tax Ordinance, 2001, hereby certify the following:

Table-1	Category wise Gross Provisions "In Rupees"			
Particulars	Allowed under SBP Prudential Regulations	Recognized under IFRS 9	Disclosed in Annual Accounts	Eligible for Deduction under Rule 1(c), 1(d) & 1(e)
Substandard	(xxxx)		(xxxx)	(xxxx)
Doubtful	(xxxx)		(xxxx)	(xxxx)
Loss	(xxxx)		(xxxx)	(xxxx)
General Provision	(xxxx)		(xxxx)	(xxxx)
Specific			(xxxx)	(xxxx)
Stage 1		(xxxx)	(xxxx)	(xxxx)
Stage 2		(xxxx)	(xxxx)	(xxxx)
Stage 3		(xxxx)	(xxxx)	(xxxx)
Others (if any)	(xxxx)	(xxxx)	(xxxx)	(xxxx)
Total	**(xxxx)**	**(xxxx)**	**(xxxx)**	**(xxxx)**

Table-2	Category wise Reversal against Provisions "In Rupees"			
Particulars	Under SBP Prudential Regulations	Recognized under IFRS 9	Disclosed in Annual Accounts	Taxable under Rule 1(c), 1(d) & 1(e)
Substandard	(xxxx)		(xxxx)	(xxxx)
Doubtful	(xxxx)		(xxxx)	(xxxx)
Loss	(xxxx)		(xxxx)	(xxxx)
General Provision	(xxxx)		(xxxx)	(xxxx)
Specific			(xxxx)	(xxxx)
Stage 1		(xxxx)	(xxxx)	(xxxx)
Stage 2		(xxxx)	(xxxx)	(xxxx)
Stage 3		(xxxx)	(xxxx)	(xxxx)
Others	(xxxx)	(xxxx)	(xxxx)	(xxxx)
Total	**(xxxx)**	**(xxxx)**	**(xxxx)**	**(xxxx)**

We further certify that the above amounts have been derived from and are consistent with:

i. The relevant provisions of the Prudential Regulations of SBP;

ii. IFRS 9 and applicable financial reporting frameworks;

iii. The disclosures made in the audited financial statements of the banking company; and

iv. The eligibility criteria specified in clause (c), (d) and (e) of Rule 1 of the Seventh Schedule to the Income Tax Ordinance, 2001.

This certificate is issued specifically for the purpose of compliance with the proviso to Rule

1(c) of the Seventh Schedule to the Income Tax Ordinance, 2001, as applicable for the tax year 2025 and onwards.

For and on behalf of

[Name of Audit Firm and Signing Partner]
Chartered Accountants

Tenth Schedule

Reduction in Rates prescribed for certain non-filers

The Finance Bill proposes to reduce withholding tax rates for certain non-filers:

S. No.	Description	Existing		Proposed
		Value of property	Rate	Rate
1	Section 236K on purchase of immovable property	up to 50 million rupees	12%	10.5%
		between 50 to 100 million rupees	16%	14.5%
		value above 100 million rupees	20%	18.5%
2	Section 151 for profit on debt	35%		Omitted
3	Section 236C on sale or transfer of immovable property	10%		11.5%
4	Section 236G for dealers, distributors, wholesalers, other than fertilizer	2%		2%
5	Section 236H for retailer	2.5%		2.5%

Change In Tax Rate for the Category of Late Filers

Enhancement of withholding tax under section 236C for late filers on purchase of immovable property is prosposed as under:

Value of property	Existing Rate	Proposed Rate
Up to 50 million rupees	6%	7.5%
Between 50 to 100 million rupees	7%	8.5%
Value above 100 million rupees	8%	9.5%

Reduction in withholding tax under section 236K for late filers on sale or transfer of immovable property is proposed as under:

Value of property	Existing Rate	Proposed Rate
Up to 50 million rupees	6%	4.5%
Between 50 to 100 million rupees	7%	5.5%
Value above 100 million rupees	8%	6.5%

Change in scope of Progressive tax rates for non-filers on disposal of securities

The Finance Bill proposes to amend sub-rule (y) to Rule 10 thereby to exclude “tax collected under section 37A only on disposal of securities acquired on and from 1st day of July, 2025 from application of the Tenth Schedule.

Sales tax

Insertion of new definitions

The Finance Bill proposes insertion of following new definitions into Section 2 of the Sales Tax Act, 1990.

Abettor

An abettor is any person who “abets or connives in tax fraud” (as defined in section 2(37) of the STA, 1990) or any other prosecutable offence and includes following:

- Misuse of another registered person’s login credentials to file declarations or any unauthorized change in e-profile;
- Preparation of invoices aimed at false input-tax claims;
- Facilitating fraud through provision or misuse of bank accounts, including those illegally maintained in another's name; and
- Sales-tax registration solely for paper transactions without underlying taxable activity.

Cargo tracking system

Cargo Tracking System means the digital system to be notified by the Board that will electronically monitor, and track goods transported across or within Pakistan for the purpose of tax enforcement, compliance and prevention of tax evasion.

Courier

It covers any entity engaged in the delivery of goods and collection of cash on behalf of a seller and includes logistic services, ride-hailing services, food delivery platforms and e-commerce delivery services.

e-bilty

e-bilty is a digital transport document generated through the Cargo Tracking System as prescribed by the Board, to accompany goods during their movement.

e-Commerce

Sale or purchase of goods and services conducted over computer networks, specifically including orders placed via digital platforms (e.g. websites, mobile applications, online marketplaces etc.).

Payment intermediaries

This broadly covers banking companies, financial institutions (including licensed foreign exchange companies), and payment gateways which facilitate transfer of funds or payment instructions between parties in a financial transaction, without being ultimate source or recipient of the payment.

Amendment in existing definitions

Online marketplace

The Finance Bill proposes to broaden the definition of "online marketplace" to cover online interfaces that, for a fee, facilitate direct interaction between multiple buyers and sellers for goods and services regardless of economic ownership.

The previous definition of “online marketplace” focused on electronic platforms that facilitate the sale of goods by controlling sale terms, processing payments, or managing delivery indicating active involvement in transactions.

Retail price

Following new provisos are proposed to be inserted in the definition of retail price with reference to the Third Schedule to the STA, 1990:

- For aerated water, beverages, mineral water, or fruit juices, any reduction on account of chilling or similar charges will be restricted to a maximum of 5% of the price, inclusive of sales tax and federal excise duty.
- The Board is proposed to be empowered with the authority to fix retail prices for Third Schedule goods through an official notification.
- For imported Third Schedule goods, a minimum retail price is proposed to be set at

not less than 130% of their customs assessed value, including customs duty and FED.

Tax fraud

The definition of "tax fraud" has proposed to be broadened to encompass knowingly, intentionally, or dishonestly doing or omitting any act that causes, or attempts to cause, a loss of tax.

In addition to current, following further instances have also been proposed to be included in the definition of tax fraud:

- Suppression and non-payment of withholding tax beyond a period of three months from due date of payment of tax.
- Generating fake input through manipulation of return filing system and making fake entries in sales tax returns or annexures.
- Fictitious compliance with Section 73, including routing payments back to the registered person through a supplier's account.

Sales tax on online marketplace and e-commerce

The Finance Bill proposes to bring e-commerce into the sales tax net. It proposes to assign primary tax-collection responsibility to banks, digital wallets, payment gateways and courier companies. Whenever a customer places an online order, these intermediaries must deduct and deposit a 2% sales tax whether the payment is made online or collected as cash on delivery, as the case may be.

Further, the said deduction of 2% will be final discharge of sales tax liability for both the vendor and the online marketplace, and it restricts any input tax credit on the same transaction.

The Finance Bill requires intermediaries and marketplaces to register for sales and income tax and file a monthly e-statement of all digitally ordered supplies, with heavy fines for non-compliance.

Adjustable input tax

Under the proposed amendment to Section 8B(4) of the STA, 1990, the Board may use data based automated risk management system, enabling deferment of input tax or fix limits of input tax allowed (either higher or lower) for registered persons.

However, the registered person may contest the action taken under proposed amendment by filing an application with the Commissioner, who shall be required to decide the case within 30 days.

Best judgement assessment in case of distributors, dealers or wholesalers

The Finance Bill proposes to introduce a new sub-section (5) in section 11D, authorizing tax authorities to issue a best-judgement assessment, where a person is liable to be registered, based on tax withheld under section 236G of the ITO, 2001, but fails to file sales tax return despite notice. In doing so, the tax authorities may assess tax liability, on any reasonable basis, including purchase data under section 236G ibid.

Assessment of tax

Section 11E(1) is proposed to be marginally amended and will continue to address recovery of tax not / short levied. However, cases initiated for criminal prosecution under the proposed section 37A of the STA, 1990 would fall outside the ambit of section 11E.

Limitation for assessment

The proposed amendment in section 11G(2) will extend the timeframe for tax authorities to pass assessment orders under sections 11D, 11E and 11F of the STA, 1990 from 120 to 180 days following the date of issuance of show cause notice. The power of the Commissioner to extend such period, subject to reasons to be recorded in writing, has been retained.

Registration requirement

The proposed amendments to Section 14 significantly expand the sales tax registration net. New sub-sections (1A) and (1B) will require registration for all persons, including non-resident persons, selling digitally ordered goods from within Pakistan via online marketplaces, websites or software applications. Further, an online marketplace / courier will be allowed to provide their services, to carry out e-commerce transactions, only to persons registered for both income and sales tax.

Additionally, a new sub-section (2A) has been proposed to be added which empowers the Commissioner to compulsorily register persons who are liable for sales tax registration but have failed to do so.

Coercive measures for unregistered persons

The Finance Bill proposes insertion of new sections 14AC, 14AD and 14AE which states as follows:

- Section 14AC empowers the Commissioner to bar bank account operations, while Section 14AD enables barring of immovable property transfers. Persons aggrieved will have thirty days to appeal before the Chief Commissioner. In both the cases, the restriction will be immediately lifted upon registration, and

- The proposed section 14AE empowers Chief Commissioner with additional coercive measures, including sealing business premises, seizing movable property, and appointing a receiver for management of taxable activities.

  These actions are subject to strict safeguards:

  - Public notice specifying the date from which the premises shall be sealed, or moveable property is attached, or a receiver is appointed, as the case may be;

  - An opportunity of being heard in front of the Committee comprising of the Chief Commissioner, concerned Commissioner and a representative Chamber of Commerce / Trade Body representative; and

  - Public disclosure of the decision.

  Upon registration, any appointed receiver must be removed within 2 days. Further, aggrieved persons have 30 days to file representation before the Board.

The provisions of sections 14AC, 14AD and 14AE shall come into force upon notification by the Board in the official Gazette.

Streamlining suspension and blacklisting process

The proposed amendments to section 21 introduces a new sub-section (2A), prescribing a timeline for the Commissioner to process suspension and blacklisting cases. A show cause notice must be issued within 15 days of provisional suspension. Thereafter, the Commissioner may either revoke the suspension or issue an appealable speaking order for blacklisting the registered person. The same is required to be issued within 30 days of receiving a reply to the show cause notice.

The powers of the Chief Commissioner to modify a suspension / blacklisting order, is proposed to be withdrawn. Hence, the aggrieved person will prefer an appeal before appellate forum.

Tax invoices

The proposed amendment to section 23, introduces a new proviso in sub-section (1)(g) requiring linkage of tax invoices for goods transported or supplied with e-bilties generated under section 40C and section 83C of the Act, 1969.

The provisions governing the integration of e-invoicing with the Board’s computerized systems are proposed to be consolidated into new sub-sections (5) and (6) of Section 23, with similar existing provisions concurrently omitted from sections 3(9A), 40C(4) and 40C(5) of the STA, 1990.

Filing of return and statements

The proposed amendments in section 26 are as follows:

- The provisos proposed in section 26(1) impose a monthly reporting obligation on online marketplaces, payment intermediaries, and couriers. They are now required to furnish comprehensive, supplier-wise statements detailing amounts paid and tax due on taxable supplies of digitally ordered goods from within Pakistan, irrespective of economic ownership.

- The proposed omission of the proviso to section 26(3) will change the process for sales tax return revision. Previously, registered persons could revise their returns within sixty days without the Commissioner’s approval, provided the revision resulted in a higher tax payable or a lower refund claim. Consequently, the Commissioner’s approval for the revision of return will be required in all cases.

Appointment of authorities

The Finance Bill proposes to substitute sub-clause (j) of section 30(1) by stating that the officers of any designation including Directorates General may be appointed by the Board as authorities under the said section. Further, an explanation is proposed to be introduced which clarifies that officers of Directorates General shall always have been authorities under section 30(1).

Appointment of experts and auditors

The Finance Bill proposed to insert a new Section 32B which empowers the Board or the Commissioner to appoint experts for audit, investigation, litigation, and valuation assistance.

The Board may also engage up to 2,000 auditors, through direct engagement or third parties to assist tax authorities.

Amendments in sales tax penalties

The proposed amendments to Section 33 introduce changes to the sales tax penalty regime, explicitly incorporating "Punishment" alongside "Penalties".

The amendments in penalties proposed to be levied are as follows:

Offence description	Existing penalty	Proposed penalty
Online marketplace, payment intermediary or courier fails to file the prescribed monthly statement by the due date	Not applicable (new entry)	PKR 500,000 for the first default; PKR 1,000,000 for every subsequent default
Online marketplace or courier allow use of its services for e-commerce supplies by unregistered persons	Not applicable (new entry)	PKR 500,000 for the first default; PKR 1,000,000 for every subsequent default
Failure to generate an e-bilty or tampering with, misusing, or forging the document in breach of section 40C(6)	Not applicable (new entry)	PKR 50,000 and recovery of any tax evaded through the contravention
Abetting or conniving in tax fraud, or in any other offence that is subject to prosecution under the Act	Not applicable (new entry)	On conviction by a Special Judge: imprisonment up to ten years or a fine up to PKR 10 million, or both
Committing, attempting, or causing tax fraud as defined in proposed amended section 2(37)	Same penalty as above	On conviction by a Special Judge: imprisonment up to ten years or a fine up to PKR 10 million, or both, plus (i) repayment of the tax loss confirmed by the court, (ii) an additional penalty equal to one hundred per cent of that loss, and (iii) default surcharge under section 34
Gaining unauthorized access to, or tampering with, the FBR computerized system; misuse of user identifiers; or other IT-related breaches.	PKR 25,000 or one hundred per cent of the tax involved (whichever is higher). In addition, on conviction: imprisonment up to one year or a fine up to the amount of tax evaded, or both.	Omitted
Submitting forged or false documents, destroying or altering sales-tax records (including invoices), or making false statements, declarations or representations	PKR 25,000 or one hundred per cent of the tax evaded (whichever is higher). In addition, on conviction: imprisonment up to five years where the tax evaded is below PKR 1 billion, or up to ten years and a fine up to the amount of tax evaded where the tax evaded is PKR 1 billion or more	Omitted

Enhanced powers for inquiry

The proposed Section 37(4) significantly strengthens the powers of Inland Revenue officers for the purposes of inquiry, by vesting them with powers of a civil court. This includes the authority to summon and examine persons on oath, and to compel the discovery and production of documents, and the receiving of evidence through affidavits.

Revised framework for inquiry and investigation

Section 37A has been entirely substituted which provides that an officer not bellow the rank of Assistant Commissioner or any other officer authorized by the Board may initiate an inquiry based on material evidence of tax fraud or an offence warranting prosecution, upon Commissioner's approval. The inquiring officer may exercise powers under relevant sections including sections 37, 38, 38A, 38B, and 40.

Upon completing the inquiry, the officer may afford the accused an opportunity of being heard, confronting them with the particulars of the alleged tax fraud or prosecutable offence. Where the accused fails to comply or provides an unsatisfactory response, and the officer has reason to believe, based on the evidence, that tax fraud or a similar offence has been committed or attempted, the officer shall submit the inquiry findings, including the quantified tax loss, to the Commissioner for prior approval to initiate investigation.

The Commissioner, after reviewing inquiry findings, may either approve the investigation, request further information, or reject the initiation of the investigation.

Once approved, the inquiry officer gains powers akin to a police station in-charge under the Code of Criminal Procedure, 1898, subject to the provisions STA, 1990.

Powers to arrest

The proposed Section 37AA provides explicit powers of Inland revenue officers to arrest, aligned with the new inquiry and investigation framework established in Section 37A. During an investigation, officers may arrest individuals suspected of tax fraud or prosecutable offenses, with prior Commissioner approval.

Where immediate arrest is necessary to prevent an accused from evading the process of law or prior approval is impracticable, the officer may arrest without prior approval and promptly report to the Commissioner with a summary of material facts and grounds of arrest.

If the Commissioner finds the arrest under subsection (2) was without sufficient evidence or made with mala fide intent, he may order the immediate release of the accused and refer the matter to the Chief Commissioner for a fact-finding inquiry.

Where tax fraud involves a company: directors, CEO, CFO or by whatever name called, that are personally responsible may be arrested, without absolving the company’s liability. All arrests must follow the Code of Criminal Procedure, 1898 unless inconsistent with the Act, 1990 and abettors may also be arrested with the Commissioner's approval.

Procedure on arrest of a person

The proposed substitution of Section 37B streamlines the procedure to be followed upon arrest for tax offences, aligning it with the "investigation" phase defined in the new sections 37A and 37AA.

Key provisions include:

- **24-hour Production:** Retains the requirement to produce an arrested person before a Special Judge or Judicial Magistrate within 24 hours excluding time necessary for the journey from place of arrest to the special judge/ judicial magistrate.
- **Remand:** Clarifies that remand to Inland Revenue custody for *investigation* purposes is permissible, with a 14-day aggregate limit.
- **Investigation-Centric Reporting:** Officers, after *investigation*, can release on bond if insufficient evidence, reporting to the Special Judge for discharge and to the Commissioner.
- **Formalized Final Report:** Upon completing the *investigation*, a detailed report, *including the total amount of tax loss caused*, must be submitted to the Special Judge *through the Commissioner*, mirroring police station reports.

Compounding of offences

Through the proposed insertion of section 37BB, the Commissioner may compound an offence, except under section 33(13A), if the accused deposits the tax determined through inquiry or investigation along with applicable penalty and default surcharge under sections 33 and 34.

Compounding results in the acquittal of the accused; however, it does not preclude investigation or prosecution of individuals or entities who abetted or connived in the offence. Where a conviction has occurred and an appeal is pending before the High Court under section 37I, compounding shall only be permitted with the leave of the Court.

Access to digital data

A new sub-section (5) is proposed to be added in Section 38B empowering the Commissioner to require telecommunication companies, internet service providers and Pakistan Telecommunication Authority to furnish subscriber IP (internet protocol) information for inquiries or investigations into tax fraud cases.

Enhanced digital monitoring and tracking

Under the proposed amendments to section 40C(2) is expanded to include "production monitoring, video analytics" alongside existing tracking methods. Further, sub-section (4) is substituted to directly incorporate the provisions of section 83C of the Act, 1969, thereby harmonizing and extending its electronic tracking and monitoring mechanisms (such as e-bilties and cargo tracking) to the Act, 1990.

Omission of pecuniary jurisdiction in appeals

The proposed omission of section 43A eliminates the monetary threshold previously governing appellate jurisdiction. Currently, appeals involving amounts up to PKR 10 million lay before the Commissioner (Appeals), while those exceeding that limit were to be filed before the Appellate Tribunal. With proposed deletion of this provision, appellate jurisdiction is no longer contingent upon the quantum of tax assessed or refunded.

Furthermore, the newly substituted Section 45B(1) introduces a dual appellate route. It permits any person, other than a State-Owned Enterprise, to prefer an appeal before the Commissioner Inland Revenue (Appeals). Concurrently, a significant proviso allows registered persons the discretion to bypass the Commissioner (Appeals) and directly file an appeal before the Appellate Tribunal Inland Revenue.

Finally, Section 46(1) is now proposed to be substituted to align with these changes, explicitly stating that appeals to the Appellate Tribunal can now originate either from orders of the Commissioner (Appeals) or, for non-SOE persons, directly from Inland Revenue officer orders where the direct appeal option (under the new 45B proviso) is exercised. Specific provisions are also included for SOEs to prefer appeals under certain conditions.

Reference before High Court

The proposed amendment to Section 47(1) extends the date for filing of references to the High Court from 30 to 60 days from the Appellate Tribunal's order. It removes the option to file a direct reference from the Commissioner (Appeals) to the High Court in line with the omission of the provisions of pecuniary jurisdiction. Consequently, only decisions of the Appellate Tribunal can be referred to the High Court only on questions of law.

Disclosure of information

The proposed amendment to Section 56B(1) expands the confidentiality obligation to include experts or auditors appointed under Section 32B.

Enhanced audit oversight and accountability

The proposed section 58C empowers the Chief Commissioner Inland Revenue, with Board approval, to refer audit firms to the Audit Oversight Board if there is reason to believe certified accounts of the registered persons do not accurately reflect true sales, purchases, and related sales tax liability.

Input tax restriction on supplies to unregistered persons

The proposed amendment to Section 73(4) replaces the existing fixed monetary thresholds of sales made to unregistered persons of PKR 100 million annually or PKR 10 million per tax period for disallowing input tax with the thresholds to be prescribed by the Board, subject to the approval of the Federal Minister in Charge.

Restriction on condonation of time limit

The proposed amendments to Section 74, concerning time limits, introduce two significant provisos, as follows:

- Firstly, a new proviso imposes a strict maximum aggregate extension period of **two years** that can be granted by the Board or the

Commissioner, irrespective of other legal provisions or court judgments.

- Secondly, another proviso creates an exception: where there are reasons to believe that a significant loss to the exchequer has been caused by a registered person or a tax authority, a Board-notified committee may further condone the limitation period as deemed fit, after providing a reasonable opportunity of being heard to the concerned registered person.

Third Schedule

Sales tax on retail price – new additions

The Finance Bill proposes to insert following items in Third Schedule.

Entry No.	Description of Goods
52.	Import of pet food including of dogs and cats sold in retail packing
53.	Import of coffee sold in retail packing
54.	Import of chocolates sold in retail packing
55.	Import of cereal bars sold in retail packing

Sixth Schedule

Table I

New exemptions proposed

The Finance Bill proposes to introduce exemption on following item in Table-I of Sixth Schedule of Act, 1990:

Entry No.	Description of Goods	Tariff Heading
180	Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL).	8802.1200 8802.3000 8802.4000

Exemption proposed to be withdrawn

The Finance Bill proposes to withdraw following exemption through omission in Table-I of Sixth Schedule.

Entry No.	Description of Goods
151*	(a) Supplies; and (b) imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan, as made till 30th June 2025, to which the provisions of the Act or the notifications issued thereunder, would have not applied had Article 247 of the Constitution not been omitted under the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018): Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities on presentation of a pay order for the amount of sales tax payable under the Sales Tax Act, 1990, and the same shall be returned to the importer after presentation, within six months of a consumption or installation certificate, as the case may be, in respect of goods imported as issued by the Commissioner Inland Revenue having jurisdiction: Provided further that if plant, machinery and equipment, on which exemption is availed under this serial number, is transferred or supplied outside the tribal areas, the tax exempted shall be paid at applicable rate on residual value
164	Photovoltaic cells whether or not assembled in modules or made up into panels

*The same has been inserted in eighth schedule subject to reduced rate and discussed in changes relevant to Eighth Schedule.

Exemption proposed to be substituted and rationalized

The Finance Bill proposes following amendments in Table-I of the Sixth Schedule as following

- Exemption related to supply of electricity to all residential, commercial consumers and specified industries of tribal areas is proposed to be extended for further one year i.e., till 30th June 2026.
- Exemption related to import of cystagon, cysta drops and trientine capsules is proposed to be extended by elimination of the phrase “for personal use only”.

Table 2

The Finance Bill proposes following amendment in Table-II of Sixth Schedule.

Entry No.	Existing	Proposed
77.	**Description**	
	Iron and steel scrap excluding supplied by manufacturer cum exporter of recycled copper, authorized	Iron and steel scrap excluding:– a) supplied by manufacturer cum-exporter of

Entry No.	Existing	Proposed
	under Export Facilitation Scheme, 2021.	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 b) 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

Eighth Schedule

Reduced rate withdrawn

The Finance Bill proposes to withdraw reduced rate of sales tax currently available on following items under Table-I of Eight schedule.

Entry No.	Description of goods	Existing Reduced Rate of Sales Tax
53.	The following cinematographic equipment imported during the period commencing on the 1st day of July 2018 and ending on the 30th day of June 2023.	5%
	(i) Projector	
	(ii) Parts and accessories for projector	
	(iii) Other instruments and apparatus for cinema	
	(iv) Screen	
	(v) Cinematographic parts and accessories	
	(vi) 3D Glasses	
	(vii) Digital Loudspeakers	
	(viii) Digital Processor	
	(ix) Sub-woofer and Surround Speakers	
	(x) Amplifiers	
	(xi) Audio rack and termination board	
	(xii) Music Distribution System	
	(xiii) Seats	
	(xiv) Recliners	
	(xv) Wall Panels and metal profiles	
	(xvi) Step Lights	
	(xvii)Illuminated Signs	
	(xviii) Dry Walls	
	(xix) Ready Gips	
72.	Motorcars - Locally manufactured or assembled motorcars of cylinder capacity up to 850cc (PCT code 87.03)	12.5%

Reduced rate introduced

The Finance Bill proposes to insert following item in Table-I of Eighth Schedule for application of reduced rate of sales tax:

Entry No.	Description	Proposed reduced rate
89.	(i) imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan; and (ii) and supplies within the tribal areas Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO. Provided further that if plant, machinery and equipment, on which reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas, the differential amount of tax shall be paid at applicable rate.	10% (for 2025- 26) 12% (for 2026- 27) 14% (for 2027- 28) 16% (for 2028- 29)

Federal excise

- The Finance Bill proposes to withdraw FED on allotment or transfer of commercial property and first allotment or transfer of residential property.

- Illicit cigarettes, beverages and other dutiable goods that are subject to electronic monitoring or tracking, if manufactured or produced without affixing or affixing counterfeited tax stamps, barcodes, banderoles, stickers, labels are proposed to be liable to seizure along with conveyance used for movement of such goods and/or outright confiscation.

- The Finance Bill also proposes to empower designated federal or provincial officials from other departments, through Gazette notification, to enforce such seizure and confiscation measures.

- The Finance Bill proposes for omission of jurisdiction in appeals based on value of assessment of tax or refund and hence, the taxpayer can now file appeal before the Commissioner (Appeals) and the Appellate Tribunal, as per the provisions prior to enactment of Tax Laws (Amendment) Act, 2024.

- The Finance Bill further proposes to provide an option to the registered persons, to file appeal directly to the Appellate Tribunal against an order of adjudicating officer.

- The Finance Bill proposes to extend time limitation from 30 days to 60 days of the order of Appellate Tribunal, to file appeal before the High Court, and limiting the scope of reference before the High Court to the question of law only.

Customs

Fifth Schedule (Reduced Rate)

Proposed insertion in the Schedule

Part-III

Description	H.S Code	Proposed Duty Rate
Raw Materials/Inputs for Poultry and Textile Sector; Other Goods.		
Live (baby / brood stock) fish and shrimp/prawns for breeding and production in commercial farms and hatcheries	0301.9100 0301.9300 0301.9900 0306.3600	0%
Unmanufactured tobacco; tobacco refuse	2401.0000	5%

Proposed omissions from the Schedule. Consequently, standard rate of Customs Duty and other duties, if any, shall be levied.

Part-I

Description	H.S Code	Current Duty Rate
1. Agricultural Machinery		
A) Tillage and seed bed preparation equipment.		
Rotavator.	8432.8010	0%
Cultivator.	8432.2910	0%
Ridger.	8432.8090	0%
Sub soiler.	8432.3900	0%
Rotary slasher.	8432.8090	0%
Chisel plough	8432.1010	0%
Ditcher.	8432.1090	0%
Border disc.	8432.2990	0%
Disc harrow.	8432.2100	0%
Bar harrow	8432.2990	0%
Mould board plow.	8432.1090	0%
Tractor rear or front blade.	8430.6900	0%
Land leveler or land planer.	8430.6900	0%
Rotary tiller.	8432.8090	0%
Disc plow.	8432.8090	0%
K.R. Karundi.	8432.8090	0%
Land leveler.	8430.6900	0%
B) Seeding or Planting Equipment.		
Seed-cum-fertilizer drill (wheat, rice barley, etc).	**8432.3100**	0%
Cotton or maize planter with fertilizer attachment	**8432.3900**	0%
Potato planter.	**8432.3900**	0%
Fertilizer or manure spreader or broadcaster.	**8432.4100** **8432.4200**	0%
Rice transplanter.	**8432.3900**	0%
Canola or sunflower drill.	**8432.3100**	0%
Sugar cane planter	**8432.3900**	0%
C) Irrigation, Drainage and Agro-Chemical Application Equipment		
Sprinklers including high and low pressure (center pivotal), system, conventional sprinkler equipment, water reel traveling sprinkler, drip or trickle irrigation equipment, mint irrigation sprinkler system.	**8424.8200** **8424.2010**	0%
Knapsack sprayers.	**8424.2010**	0%
Granular applicator.	**8424.2010**	0%
Boom or field sprayers.	**8424.2010**	0%
Self-propelled sprayers.	**8424.2010**	0%
Orchard sprayers.	**8424.2010**	0%
(D) Harvesting, Threshing and Storage Equipment.		
Wheat thresher	**8433.5200**	0%
Maize or groundnut thresher or Sheller.	**8433.5200**	0%
Groundnut digger.	**8433.5900**	0%
Potato digger or harvester.	**8433.5300**	0%
Sunflower thrasher.	**8433.5200**	0%
Post hole digger.	**8433.5900**	0%
Straw balers.	**8433.4000**	0%
Wheat or rice reaper.	**8201.3000**	0%
Chaff or fodder cutter.	**8433.5900**	0%
Cotton picker.	**8433.5900**	0%
Onion or garlic harvester.	**8433.5200**	0%
Sugar harvester.	**8433.5200**	0%
Reaping machines.	**8433.5900**	0%
Combined harvesters (Upto ten years old).	**8433.5100**	0%
Pruner/sheers.	**8433.5900**	0%
F) Dairy, Livestock and poultry, machinery		
Incubators, brooders and other poultry equipment	**8436.2100** **8436.2900**	0%
(G) Post-harvest Handling and Processing and Miscellaneous Machinery.		
Vegetable and fruits cleaning and sorting or grading equipment	**8437.1000**	0%
Fodder and feed cube maker equipment	**8433.4000**	0%
Milking machines	**8434.1000**	0%
Grain storage silos duly fitted with mechanical systems i.e.	**8479.8990**	0%

Description	H.S Code	Current Duty Rate
sweep auger system, temperature control system, aeration system and roof exhaust system etc., imported during the period commencing on the 1st July, 2021 and ending on the 30th June, 2026.		
H) Green House Farming and Other Green House Equipment.		
Anti-insect net.	**5608.1900**	0%
Shade net.	**5608.9000**	0%
5.Following machinery, equipment, apparatus, and medical, surgical, dental and veterinary furniture, materials, fixtures and fittings imported by hospitals and medical or diagnostic institutes		
A. Medical Equipment.		
Dentist chairs	**9402.1010**	5%
13. Following machinery, equipment and other education and research related items imported by technical institutes, training institutes, research institutes, schools, colleges and universities		
Quartz reactor tubes and holders designed for insertion into diffusion and oxidation furnaces for production of semiconductor wafers.	7017.1010	0%
Other dryers.	8419.3900	0%
Personal weighing machines, including baby scales; household scales.	8423.1000	0%
Scales for continuous weighing of goods on conveyors.	8423.2000	0%
Constant weighing scales and scales for discharging a predetermined weight of material into a bag or container, including hopper scales.	8423.3000	0%
Other weighing machinery having a maximum weighing capacity not exceeding 30 kg.	8423.8100	0%
Other weighing machinery having a maximum weighing capacity exceeding 30 kg but not exceeding 5,000kg.	8423.8200	0%
Other weighing machinery	8423.8900	0%
Weighing machine weights of all kinds; parts of weighing machinery of machines of heading 8423.2000 & 8423.3000.	8423.9000	0%
Other weighing machine weights of all kinds; parts of weighing machinery of machines of heading 8423.2000 & 8423.3000.	8423.9000	0%
Networking equipment like routers, LAN bridges, hubs excluding switches and repeaters.	8517.6970	0%
Other furnaces and ovens.	8514.3900	0%
Electronic balances of a sensitivity of 5 cg or better, with or without weights.	9016.0010	0%
Other balances of a sensitivity	9016.0090	0%

Description	H.S Code	Current Duty Rate
of 5 cg or better, with or without weights.		
Thermostats of a kind used in refrigerators and air-conditioners.	9032.1010	0%
Manostats.	9032.2000	0%
Other instruments and apparatus hydraulic or pneumatic.	9032.8100	0%
Other instruments and apparatus.	9032.8990	0%
Parts and accessories of automatic regulating or controlling instruments and apparatus.	9032.9000	0%
17. Following machinery and equipment for marble, granite and gem stone extraction and processing industries.		
Integral drilling steel for horizontal and vertical drilling, extension thread rods for pneumatic super long drills, tools and accessories for rock drills.	8466.9100	0%
20. Following items for use with solar energy:		
PV Module.	8541.4200 8541.4300 8541.4900	0%
Charge controller.	9032.8990	0%
21. Following systems and items for dedicated use with renewable source of energy like solar, wind, geothermal etc.		
Solar Parabolic Trough Power Plants.	8502.3900	0%
Parabolic Trough collectors modules.	8503.0010	0%
Steam turbine of an output exceeding 40MW.	8406.8100	0%
Steam turbine of an output not exceeding 40MW.	8406.8200	0%
Sun tracking control system	8543.7090	0%
Solar Dish Stirling Engine.	8412.8090	0%
Solar concentrating dish	8543.7090	0%
Sterling engine	8543.7090	0%
Sun tracking control system	8543.7090	0%
Control panel with accessories	8537.1090 8537.2000	0%
Stirling Engine Generator	8501.6100	0%
Charging & testing equipment	9031.8000	0%
Solar photo voltaic panels.	8541.4200 8541.4300 8541.4900	0%
Charge controllers	9032.8990	0%
Solar Thermal Power Plants with accessories.	8502.3900	0%
PV Modules	8541.4200 8541.4300 8541.4900	0%
Solar cells.	8541.4200 8541.4300	0%

Description	H.S Code	Current Duty Rate
	8541.4900	
Flux and preparations for metal surfaces	3810.1000	0%
Bypass diodes	8541.1000	0%
Crystal (Grower) Puller (if machine).	8479.8990	0%
Diffusion furnace.	8514.3900	0%
Oven	8514.3900	0%
Wafering machine	8486.1000	0%
Cutting and shaping machines for silicon ingot	8461.9000	0%
Solar grade polysilicon material	3824.9999	0%
Phosphene Gas	2853.9000	0%
Pyranometers and accessories for solar data collection	9030.8900	0%
Remote control for solar charge controller	8543.7010	3%
Wind Turbines for grid connected solution above 200 KW (complete system)	8412.8090	0%
Wind Turbines upto 200 KW for off-grid solutions comprising of:	8412.8090	0%
Dehumidification equipment	8479.6000	0%
Wind turbines including alternators and mast	8502.3100	0%
Sun Tracking Control System Solar air water generator	8543.7090 8479.8990	0%
Charge controller/ Current controller	9032.8990	0%
Micro feeder equipment for food fortification	8437.8000	0%
Parts and accessories for projector	9007.9200	0%
Other instruments and apparatus for cinema	9032.8990	0%
Screen	9010.6000	0%
Cinematographic parts and accessories	9010.9000	0%
39. Following items for Tourism Projects		
Paragliders, parachutes, Hot Air Balloons	8804.0000	50%
Balloons and dirigibles; gliders, hang gliders and other non-powered aircraft.	8801.0000	50%
Parachutes (including dirigible parachutes and paragliders) and rotochutes; parts thereof and accessories thereto	8804.0000	50%

Part-III

Description	H.S Code	Current Duty Rate
Raw Materials/Inputs for Poultry and Textile Sector; Other Goods.		
PTA	2917.3610	5%
Poly back sheet	3920.1000 3920.9900	16%
Plastic Film (Medical grade)	3920.2040 3921.9090	10%
Perforated Poly Film	3920.9900	16%
Waist Band Barrier	3921.9090	16%
Raw Hides & Skins	41.01	0%
Raw Skins	41.02	0%
Other Raw Hides and Skins	41.03	0%
In the wet state (including wet-blue)	4105.1000 4106.2100	0%
Yarn of nylon or other polyamides	5402.4500	7%
Yarn of viscose rayon, untwisted or with a twist not exceeding 120 turns per meter	5403.3100	5%
Of polyesters	5501.2000	6.5%
Acrylic or modacrylic	5501.3000	6.5%
Of polypropylene	5501.4000	6.5%
Filament tow of other polymers	5501.9000	6.5%
Artificial filament tow	5502.9090	6.5%
Of polyesters not exceeding 2.22 decitex	5503.2010	7%
Of other polyester	5503.2090	6%
Acrylic or modacrylic	5503.3000	6.5%
Of polypropylene	5503.4000	6.5%
Other synthetic staple fibre	5503.9000	6.5%
Of synthetic fibers	5505.1000	6.5%
Of artificial fibers	5505.2000	6.5%
Of polyesters	5506.2000	6.5%
Acrylic or modacrylic	5506.3000	6.5%
Other synthetic staple fibre	5506.9000	6.5%
Non-wovens, whether or not impregnated, coated, covered or laminated for man-made filaments.	5603.1100 5603.1200	11%
Acquisition layer	5603.9200	11%
Loop pile fabric	6001.2210 6001.2290	16%
Silver	71.06	0%
Gold	71.08	0%
Bicycle Chain Parts	7315.1990	15%
Permanent magnets of metal	8505.1100	0%
(i) Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus. (ii) Refrigerated out door cabinet designed for insertion of electric and electronic apparatus	8517.6210 8517.6220 8517.6230 8517.6240 8517.6250 8517.6260 8517.6290 8418.6940	0%
Ships and other floating crafts including tugs, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistani entity and flying Pakistani flag.	8901.1000 8901.2000 8901.3000 8901.9000 8902.0000 8904.0000	0%

Description	H.S Code	Current Duty Rate
	8905.1000 8905.2000 8905.9000 8906.1000 8906.9000 8907.9000	
(i) Other craft paper (ii) multi-ply (clay coated paper and paper board excluding 80 mN and 150 mN (iii) Aluminum foil (rolled but not further worked)	4804.3900 4810.9200 7607.1100	10%
Aluminum sheets & Coils	7606.1100 7606.9190 7606.9290	5%
Aluminum foil	7607.1990	5%
Other uncoated paper and paperboard and	4805.9390	0%
Vegetable parchment	4806.1000	0%
Chain parts	7315.1990	15%
Carbon black other than rubber grade	2803.0020	5%
Of circular cross-section measuring less than 7 mm in diameter	7213.9191 7227.9010	10%
Flavouring powders for food preparation	2106.9030	3%

Part-VII

Proposed omission of whole of Part-VII covering miscellaneous items under Table A and B consisting of 43 & 195 items respectively.

Legislative Changes

Definition

The Finance Bill proposes to introduce following two definitions:

- “cargo tracking system” means a digital system notified by the Board for electronic monitoring and tracking of import, export, transit and transshipment goods transported within or across the territory of Pakistan for the purpose of enforcement, compliance and prevention of smuggling.

- “e-bilty” means the digital document generated through cargo tracking system to be accompanied with the transport carrying import, export, transit and transshipment goods transported within or across the territory of Pakistan as per the format prescribed by the Board.

Directorate General of Customs Auction

In order to streamlines the auction of goods, the Finance Bill seeks to substitute section 3B introducing Directorate General of Customs Auction. The Directorate would consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

Director General of Communication and Public Relations, Customs

In order to effective dissemination of Customs related information for trade facilitation and stakeholder engagement, the Finance Bill seeks to substitute section 3BBB introducing Directorate General of Communication and Public Relation, Customs. The Directorate would consist of Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

Hiring of technology specialists, auditors, accountants and goods evaluators on short term contract

The Finance Bill proposes to empower Board to hire services of technology specialists, auditors, accountants and goods evaluators on short term contract not exceeding two years which may be re-hired subject to satisfactory achievement of key performance benchmarks.

General power to exempt from customs duties

The Finance Bill proposes to extend the general power of Federal Government to allow exemption of customs duties till 30 June 2026 through amendment in the second proviso of sub-section (5) of section 19.

Allowing mutilation or scrapping of goods

The Finance Bill proposes to insert second proviso in section 27A by restricting scrapping and mutilation of goods upto 10% of the imported goods.

Untrue statement, error, etc.

In order to reduce litigation, the Finance Bill proposes to enhance existing limit for initiating contravention proceedings from Rs. 20,000/- to Rs. 100,000/- subject to the payment of recoverable amount.

Declaration of assessment for home consumption or warehousing

Currently, pre-payment of duties/taxes is mandatory on filing of GDs prior to berthing of vessels. The Finance Bill proposes payment of duties, taxes and other charges to be paid on completion of assessment in case of GDs filed prior to berthing of vessel.

Checking of goods declaration by the Customs

The Finance Bill proposes to empower Board 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. The Board may prescribe any manner or conditions for assessment or examination of goods through Centralized Assessment Unit and Centralized Examination Unit.

Procedure in case of goods not cleared or warehoused or transshipped or exported or removed from the port after unloading or filing of declaration

In order to reduce port congestion and dwell time for unclaimed/uncleared cargo beyond specified time limit, penalties and other consequences like auction, confiscation and directions for re-export, etc. are proposed.

The Finance Bill also proposes procedure for confiscation, auction and re-export of the goods.

Cargo Tracking System and e-Bilty Mechanism

The Finance Bill proposes new section 83C whereby any person being a consignor, transporter, shipping agent, freight forwarder, consignee, supplier or recipient of goods and causing movement of goods from and to a seaport, land border station, inland dry-port or inland movement, shall be required to electronically generate, carry, display or validate an e-bilty through the Cargo Tracking System.

The Finance Bill also proposes to empower Board to prescribe the manner and procedure to implement e-bilty mechanism and employ any technological means for tracking, identifying en route and digital record keeping and in case of any violation, the goods, conveyance, owner of goods and master of conveyance, as the case may be, shall be liable to fine, penalty, detention, seizure and confiscation.

Extent of confiscation

The Finance Bill proposes to omit proviso of sub-section (2) in section 157 which allows release of vehicles liable to be confiscated against bank guarantee.

Things seized how dealt with Procedure for sale of goods and application of sale proceeds

The Finance Bill proposes 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.

Power of adjudication

The Finance Bill proposes to enhance the time period for adjudication of smuggled goods from 30 days to 45 days.

The Finance Bill also proposes to enhance the time period for adjudication from 30 days to 45 days where goods are lying at sea-port, airport or dryport.

Presumption as to legal character of vehicle

The Finance Bill proposes introduction of new section 187A explaining that upon forensic examination in case a vehicle is found to be having a tampered chassis number or weld chassis, etc. such vehicle shall be presumed to be a smuggled vehicle and shall be liable to confiscation irrespectively such vehicle has already been registered with any Motor Registration Authority.

Appeal to Collector (Appeals) Appeals to the Appellate Tribunal

The Finance Bill proposes 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.

Such proposed amendment would create dispute on account of non-receipt of any Hearing Notice. Secondly, barring from appeal of any order against the principle of natural justice.

Appeals to the Appellate Tribunal

The Finance Bill proposes to enhance the time limit for filing of appeal before Appellate Tribunal from 30 days to 45 days.

The Finance Bill also proposes 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.

Reference to High Court

The Finance Bill proposes 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.

Establishment of Customs Command Fund

The Finance Bill proposes 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.

The Finance Bill also proposes to empower Board to prescribe the manner for utilization of the funds received in the Customs Command Fund and impose any conditions, limitations or restrictions as it may deems necessary.

Digital Enforcement Station(s)

The Finance Bill proposes to empower Board to declare places to be Digital Enforcement Stations at such locations as deemed appropriate for the prevention of smuggling and illicit trade through notification in the official Gazette.

The Finance Bill also proposes to empower Board to make rules for staffing, operations and technological enablement of Digital Enforcement Station through a notification in the official Gazette.

Tax on services (Islamabad Capital Territory)

Integration with Board computerized system

The Finance Bill proposes to integrate business of any service providers listed in Table-1 and Table-2 of the Schedule with the Board's computerized system for real-time reporting of services, from such date and is such mode and manner as may be prescribed by the general order to be issued by the Board.

Insertion of serial Nos. 147 and 163 of Table-1 of the Sixth Schedule to the Act, 1990

The Finance Bill proposes to exempt services acquired by the German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit) GIZ, various agencies of the United Nations, Diplomats, Diplomatic missions, privileged persons, and privileged organizations which are covered under various Acts, Orders, rules, regulations made thereunder, and agreements by the Federal Government. This change is proposed to align the sales tax exemption available to these organizations under the Act, 1990.

Introduction of Negative List

The Finance Bill proposes to empower the Board to notify Negative List of services exempt from tax under Table-3 of the Schedule to the ICT Ordinance, 2001, whenever deemed necessary, subject to such conditions, restrictions, and limitations by issuance of notification in Official Gazette.

Petroleum Products (Petroleum Levy)

Introduction of Carbon Levy

A key proposal in the Finance Bill is the implementation of a ‘Carbon Levy’ on fossil fuels to discourage their usage, combat climate change and to fund Green Energy Programs. Once enacted, it will increase the cost of petroleum products in the country for the common man. Carbon Levy is proposed at the rate of Rs. 2.5 per liter on Motor Spirit and High-Speed Diesel for financial year 2025-26, that will be enhanced to Rs. 5 per liter for financial year 2026-27.

Further, Carbon Levy on Furnace Oil is also proposed at the rate of Rs. 2.5 per liter (Rs. 2,665/MT) for financial year 2025-26, that will also be enhanced to Rs. 5 per liter for financial year 2026-27. It is noteworthy that this is in addition to the Petroleum Levy, as notified by the Federal Government from time to time.

Addition of Furnace Oil

Moreover, in the First Schedule pertaining to list of petroleum products, an additional entry of ‘Furnace Oil’ is proposed to be inserted.

Omission of the Fifth Schedule

Furthermore, Fifth Schedule prescribing maximum Petroleum Levy rates is proposed to be omitted. This essentially removes the ceiling on the levy giving Government the right to impose levy at any rate without any maximum prescribed limit in the law.

Digital presence proceeds tax

Introduction

The rapid digitization of Pakistan's economy has enabled multinational digital enterprises to generate substantial revenue in jurisdictions where they have little or no physical presence. However, the outdated international tax framework, designed in the early 20th century, fails to capture value created through digital interactions, user data, and intangible assets. This misalignment has led to tax base erosion as profits are shifted to low-tax jurisdictions, undermining fiscal sovereignty.

The Finance Bill therefore proposes to establish a more equitable tax framework for the digital economy by introducing "Digital Presence Proceeds Tax Act, 2025" **[DPPT]**.

Administration of DPPT

The administration of DPPT will be with the Inland Revenue Department of the FBR and its subordinate offices. FBR will prescribe rules for giving effect to the provisions of the said Act.

Charge of DPPT

In context of charge of DPPT**,** every foreign vendor having significant digital presence in Pakistan is proposed to be charged to DPPT on proceeds of every supply of digitally ordered goods or services either digitally or physically from outside Pakistan.

Proceeds subject to DPPT

The proceeds of foreign vendors having significant digital presence as attributable to Pakistani users are proposed to be subject to DPPT provided that:

a. The transaction is conducted through a foreign online marketplace or e-store;

b. Proceeds arise from digitally ordered goods or services; and

c. Pakistani user is a party to the transaction, who in case of an individual is a resident of Pakistan or in case of a company has a permanent establishment in Pakistan. Besides this, payments for digitally ordered goods or services is made electronically from within Pakistan.

Rates of DPPT

The rates of DPPT are tabulated below:

Description	Rate of Tax
Services	5% of the payment including advertisement on social media platforms
Goods	5% of the payment to foreign provider

Exceptions from levy of DPPT

The exceptions to charge of DPPT are the payments for digitally ordered goods connected to a non-resident's permanent establishment in Pakistan, when the goods are supplied within Pakistan and digitally delivered services received in Pakistan but rendered through a non-resident's permanent establishment in Pakistan.

Significant digital presence in Pakistan

A foreign vendor is proposed to be considered as having significant digital presence in Pakistan if he is supplying digitally ordered goods and services from outside Pakistan to users within Pakistan subject to a threshold of more than five (5) transactions in the current financial year, along with fulfilment of **at least one** of the following factors:

a. Maintaining a user base and associated data input.

b. Billing or collecting payments in local currency.

c. Overseeing final delivery to Pakistani consumers.

d. Assistance in providing aftersales support by the foreign vendors.

e. Actively engaging in marketing and promotional activities to attract customers.

Responsibility for deducting and depositing tax

Every payment intermediary including banks, financial institutions, licensed exchange companies or payment gateways are proposed to be responsible for deducting tax from payments remitted outside Pakistan for digitally ordered goods and services at the prescribed rates. The Finance Bill further proposes for payment intermediary not to maintain a bank account for foreign vendors and remit funds outside Pakistan unless tax has been deducted and deposited in the government treasury except when the tax is collected and deposited at the time of remittance.

The deducted tax must be deposited before 7th of immediately succeeding month. Additionally, customs will ensure that no courier delivers consignments without proof of tax payment, though they are not responsible for collecting sales or income tax on consignments where tax under DPPT Act, 2025 has already been paid.

Responsibility for deducting and depositing tax in case of social media and online platform advertisements

In case of social media or other online platforms for advertisements, foreign vendors with a digital presence in Pakistan must deduct tax from payments at the prescribed rates. The deducted tax amount is required to be deposited before 7th of immediately succeeding month.

Failure to collect or deposit DPPT

In case of failure to deposit DPPT in the government treasury within specified time will render the persons responsible for collection and deposit of DPPT personally liable for the unpaid amount along with a default surcharge of KIBOR +3% per annum for the days of default. The Authority may pass an order for recovery of principal amount as well default surcharge. However, no recovery action will be taken without granting an opportunity to be heard to that person. The provisions of Part IV of Chapter X of the Ordinance in case of recovery of tax demand will apply mutatis mutandis.

Reporting requirements of DPPT

As regards reporting requirements, every payment intermediary is proposed to file quarterly statement with the Commissioner Inland Revenue **[CIR]**, detailing tax collection on payments made to foreign vendors for e-commerce transactions including purchaser's name, CNIC, vendor details, transaction date, invoice number, value of goods/ services, tax collected, or any additional prescribed particulars required. Further, the payment intermediary maintaining bank account for foreign vendors with digital presence in Pakistan will also be required to file quarterly withholding statement with CIR containing credit amount in bank account during the period and amount remitted outside Pakistan.

Every social media and online platforms operating in Pakistan will require to file quarterly statement detailing client wise information of local as well as foreign vendors with or without permanent establishment whose advertisements relayed in Pakistan through its platform and the amount received.

Failure to submit the statement

Failure to submit the statement by the payment intermediary and social media platform with respect to digitally ordered services or goods or advertisements relayed in Pakistan is proposed to be liable to penalty of Rs. 1 million for each default.

Suspension of remittances to a foreign advertiser

The payment intermediary shall suspend the remittances of proceeds of foreign vendors on the instruction of the Commissioner if such vendors are advertising continuously for 120 days without payment of DPPT.

Appeal

Any person dissatisfied with the recovery order under DPPT Act, 2025 can file **appeal before ATIR** within 30 days of receipt of recovery order. The aggrieved person or the Commissioner may file reference application before High Court against order of ATIR within 60 days of its receipt.

New energy vehicles adoption levy

New Energy Vehicle Levy

To promote adoption of 'New Energy Motor Vehicles', a new bill has been proposed for imposition and collection of 'New Energy Vehicle Levy' on 'Internal Combustion Engine Motor Vehicles'.

'Internal Combustion Engine Motor Vehicle' means a motor vehicle powered wholly or partially by fossil fuels including petrol, diesel, compressed natural gas or liquefied petroleum gas.

'New Energy Motor Vehicle' means a motor vehicle that is powered –

i. exclusively by an electric motor run on a rechargeable battery; or

ii. by both an electric motor run on a rechargeable battery and an internal combustion engine, capable of achieving a range of no less than fifty kilometers under normal conditions exclusively running on electric motor by a single battery charge; or

iii. hydrogen fuel cells or any other technology that produces zero tailpipe emission.

Said levy is proposed to be imposed on:

a. every manufacturer of every internal combustion engine motor vehicle, manufactured or assembled and supplied by him; and

b. every person on every internal combustion engine motor vehicle imported by him into Pakistan.

It is proposed that all proceeds from said levy shall be used for promoting the adoption of new energy vehicles and matters ancillary thereto as determined by the Federal Government from time to time.

Rate of New Energy Vehicle Levy

Varying rates of levy are proposed ranging from 1% to 3% ad valorem of invoice price or assessed value, as the case may be, inclusive of duties and taxes, depending upon engine capacity and nature of vehicle. The Federal Government is empowered to amend the rates or amend vehicle categories.

Regulation of generation, transmission and distribution of electric power

Enhancement of the Power to Impose Surcharge

For timely fulfilment of any financial obligations of the Federal Government or any public sector entity nominated by the Federal Government with respect to electric power services as well as to ensure sustainability and financial viability of the electric power sector, an amendment has been proposed in section 31 of the Act to allow the Federal Government:

a. on a case-to-case basis; and

b. for a fixed period,

to increase the aggregate amount of surcharges charged under the said Act up to the requisite extent required to meet financial obligations, which include obligations of the Federal Government to make payments in respect of purchase of electric power as well as obligations related to electric power services secured through issuance of sovereign guarantee.

This will give the Federal Government more leverage to impose surcharge on electricity consumers to recover principal as well as interest with respect to the financial obligations of the Government.

Stamp duty

The Finance Bill proposes to amend article 23, of Schedule-I appended to Stamp Act, 1899, applicable only to Islamabad Capital Territory.

Article 23 dealing with “conveyance”, has been proposed to be substituted, the substituted proposal re-categorizes the description of instrument (“conveyance”) by bifurcating it in two categories, namely, filer and non-filer of tax return, the stamp duty to be charged for the proposed two categories are:

Filer of tax return	1% of the immovable property
Non-filer of tax return	2% of the immovable property

In the existing article 23 there were no categories, and the stamp duty was charged at a flat rate of 4% of the value of property.

Tax registration

The Finance Bill proposes to omit the words “not exceeding one percent of the value of the property conveyed”.

In clause (a) of section 78 of the Registration Act 1908, the Government was empowered to levy fee on “registration of documents”, however, with a capping that such levy not to exceed one percent of the value of property conveyed.

With this proposal the capping of “one percent” has been proposed to be omitted.

Public finance management

The Finance Bill proposes substantive amendments to the Public Finance Management Act, 2019. The aim is to streamline and regulate management of finances by public entities.

The salient changes are briefed below.

Expanded Definition of "Public Entity"

The scope of the term *public entity* is proposed to be significantly broadened. Under the proposed amendments, it will include any agency, statutory body, authority, or council that is,

Established under any law; and

Funded through the Federal Consolidated Fund or revenues derived from taxes, levies, duties, or other similar public sources.

any entity other than a state enterprise which is established by or under any law, and its activities may result in a financial commitment or other liability being incurred by the Government.

Strengthening the Cash Management System

The amendments seek to extend the current budgetary, accounting, and cash management frameworks beyond autonomous bodies to *all* declared public entities. Key aspects include:

- Formulation of new policies to ensure standardized budgeting and cash utilization practices.
- Mechanisms to regulate and utilize idle cash held by public entities more effectively.

Dissolution of Special Funds

The responsibility for initiating the dissolution of special purpose funds will be devolved to the respective line Divisions (ministries), rather than being centrally managed by the Finance Division. Further:

A comprehensive evaluation report must be submitted to the Finance Division within three months of such dissolution.

Management of Self-Generated Revenues

Public entities that generate revenues under any law must now:

- Manage such revenues in accordance with the relevant legal framework, and in consultation with the Finance Division.
- Review any existing laws or regulations not previously aligned with the Finance Division's oversight within six months.
- Submit approved budgetary documents to the Finance Division and make them publicly available.

Enhanced Accounting and Financial Reporting

The Controller General of Accounts (CGA) will be empowered to:

- Develop and enforce accounting frameworks for public entities in alignment with international public sector accounting standards (IPSAS);
- Oversee transitional compliance, including mandatory publication of audited financial statements for the past three fiscal years within six months.

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