

A Brief on Income Tax Ordinance (Third Amendment) Act, 2026

February 2026

The National Assembly passed the Income Tax Ordinance (Third Amendment) Act, 2026 [Third Amendment Act, 2026/ Amendment Act] which substitutes the Alternative Dispute Resolution [ADR] scheme at section 134A of the Income Tax Ordinance, 2001 [2001 Ordinance]. The legislative intent appears to streamline the ADR mechanism.

Major changes brought in the ADR mechanism are summarized below:

Constitution of the ADR Committee

Previously, ADR Committee was formed by the Federal Board of Revenue (the Board/FBR). Such power is now vested with the Chairman of the Board.

Composition of ADR Committee

The Committee composition has been revamped. It shall now be composed of members as follows:

- The Chairperson of the Committee shall be a retired Judge of the High Court, Federal Constitutional Court or Supreme Court with adequate experience in handling tax and commercial matters. Previously, the Chairperson was appointed by the Board from a panel notified by the Law and Justice Division. Under the new mechanism, the Chairperson shall be nominated by the Chairman FBR from three (3) names proposed by the taxpayer's nominee. If the Chairman disagrees with the proposed names, he shall request the taxpayer's nominee and the second member of the Committee, being an Officer of Inland Revenue, to propose one name each. The Chairperson shall then refer those names to the Federal Minister for Law and Justice for selection.
- An Inland Revenue officer of BS-21 or above, not having jurisdiction over the case.

- A nominee of the taxpayer from amongst Chartered Accountants, Cost and Management Accountants, Advocates having a minimum of fifteen years of relevant experience, retired Officers of Inland Revenue (BS-21 or above), or businessmen from a list notified by the Board as recommended by the Federation of Pakistan Chamber of Commerce and Industry.

Timeline for Decision and Post-Failure Forum

The amended provision extends the Committee's decision-making timeframe from 60 days to 90 days. Upon expiration of this 90-day period, the Chairman FBR will dissolve the Committee and thereupon the dispute will automatically revert to the regular adjudication process before the courts of law or the relevant appellate authorities.

Right of appeal to SOEs (except SOEs directly or indirectly wholly owned by the Federal Government)

The amendment Act introduces a new option in the case of SOEs (except SOEs directly or indirectly wholly owned by the Federal Government), granting either party the right to approach the Federal Constitutional Court or the Supreme Court against a Committee decision, or upon Committee's failure to reach a decision in the stipulated time.

Abatement of pending petitions of SOE

The amendment Act mandates that, for SOEs that are wholly owned (directly or indirectly) by the Federal Government, all petitions filed prior to the Third Amendment Act, 2025*, against ADR Committee decisions and pending before the Federal Constitutional Court, Supreme Court, or any High Court, shall automatically abate.

For SOEs that are not wholly Federal-owned, their pending High Court petitions shall also abate, but they have been granted a right of appeal to the Federal Constitutional Court or the Supreme Court within sixty days of commencement of the Third Amendment Act, 2025*.

Enablement for Court-driven references

The substituted section as per the Amendment Act embeds ADR within the judicial process by empowering the Federal Constitutional Court, Supreme Court, or a High Court, either on its own motion or upon the application of either party, to refer pending tax disputes to the Board for resolution through an ADR Committee.

Provided that, with the consent of both parties, the court of law, appellate tribunal or tax authority seized with the matter, shall refer the matter to the Board for constitution of ADRC. The Board shall be required to constitute the committee within fifteen days of dispute being referred to it.

Automatic transfer of disputes

Most significantly, substituted section mandates that all disputes involving SOEs that are pending before any court or appellate authority shall stand automatically transferred to the Board for resolution through an ADR Committee upon commencement of the Third Amendment Act, 2025*.

Renumeration of the chairperson and the taxpayer's nominated ADRC member

As per the substituted section The remuneration of the Chairperson to be borne equally by the taxpayer and the Board and the remuneration of the member appointed as per the taxpayer's nomination shall be borne by the applicant taxpayer.

The position of substituted section 134A of the Ordinance is appended at the end of the brief for comprehension.

**** The reference to Income Tax (Third Amendment) Act, 2025 appears erroneous. It may prima-facie be read as Income Tax (Third Amendment) Act, 2026 as per the section 1 of the Gazette notification.***

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Annexure

The amended section 134A

“134A. Alternative Dispute Resolution. - (1) Notwithstanding anything contained in this Ordinance, or the rules made thereunder, an aggrieved person in connection with any dispute pertaining to-

- (a) the liability of tax of fifty million rupees or above or admissibility of refund, as the case may be;
- (b) the extent of waiver of default surcharge and penalty; or
- (c) other specific relief required to resolve the dispute, may apply, except where criminal proceedings have been initiated, to the Board for the appointment of an alternative dispute resolution committee “Committee” under this section for the resolution of any dispute:

Provided that where the aggrieved person is a state-owned enterprise “SOE”, the limit of tax liability mentioned in clause (a) of sub-section (1) shall not apply and it shall be mandatory for such aggrieved SOE to apply to the Board for the appointment of a committee for the resolution of any dispute under this section:

Provided further that no suit prosecution, or other legal proceedings shall lie against the SOE or the Committee in relation to the dispute resolved under this section.

Explanation. – State-owned enterprise shall have the same meaning as assigned thereto in the State-Owned Enterprises (Governance and Operations) Act- 2023 (VII of 2023).

(2) The application for alternative dispute resolution under sub-section (1) shall be accompanied by -

- (a) initial proposition for resolution of the dispute; and
- (b) an undertaking that if the applicant accepts the decision of the Committee, it shall be binding on him in all respects and shall on receipt of the decision within fifteen days withdraw any and all pending cases of any kind in respect of the dispute, mentioning details thereof:

Provided that in case of SOE which is, directly or indirectly, wholly owned by the Federal Government, the decision of the Committee shall be final and binding on the Commissioner and the SOE.

(3) The Chairman of the Board, after examination of the application or an aggrieved person, appoint a committee, within fifteen days of receipt of such application by the Board, comprising, -

- (a) a retired judge of a High Court, Federal Constitutional Court or the Supreme Court having adequate experience in dealing with tax or commercial matters, who shall also be the Chairperson of the Committee, to be nominated by the Chairman of the Board from a panel of three names proposed by the nominee of the taxpayer under clause (c) of this sub-section. In case the Chairman disagrees with the names proposed by the persons nominated by the taxpayer in terms of clause (c), the Chairman of the Board shall require the nominees appointed under clause (b) and (c) to propose one name each of a retired judge of a High Court, the Federal Constitutional Court or the Supreme Court having adequate experience in dealing with tax or commercial matters, whereupon the Chairman shall forward such names to the Federal Minister for Law and Justice for nomination of one of such person as Chairperson of the Committee;

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- (b) an officer of the Inland Revenue not below BS 21, other than, the Chief Commissioner Inland Revenue having jurisdiction over the case; and
- (c) a person to be nominated by the taxpayers from amongst --
 - (i) accountants within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961); or
 - (ii) cost and management accountants within the meaning of the Cost and Management Accountant Act, 1966 (Act No. XIV of 1966); or
 - (iii) advocates having a minimum of fifteen years' experience in the field of taxation or commercial matters; or
 - (iv) officers of the Inland Revenue who retired in BS 21 or above; or
 - (v) businessmen from a list notified by the Board as recommended by the Federation of Pakistan Chamber of Commerce and Industry:

Provided that the taxpayer shall not nominate a chartered accountant or an advocate if the said chartered accountant or the advocate is or has been an auditor or an authorized representative of the taxpayer.

(4) The chairman of the Board shall communicate the order of appointment of Committee to the aggrieved person, court of law or Appellate Tribunal or tax authority where dispute is pending and to the Commissioner concerned.

(5) the Committee appointed under sub-section (3) shall examine the issue and may, if it deems necessary. conduct inquiry, seek expert opinion, direct any officer of the Inland Revenue or any other person to conduct an audit and shall decide the dispute by majority, within ninety days of its appointment.

(6) the decision by the committee under sub-section (5) shall not be cited or taken as a precedent in any other case or in the same case for a different tax year.

(7) The recovery of tax payable by a taxpayer in connection with any dispute for which a Committee has been appointed under sub-section (3) shall be deemed to have been stayed on the constitution of Committee till the final decision or dissolution of the Committee, whichever is earlier.

(8) the decision of the Committee under sub-section (5) shall be binding on the commissioner when the aggrieved person being satisfied with the decision has withdrawn the appeal pending before the court of law or Appellate Tribunal or tax authority in respect of dispute as mentioned in sub-section (1) and has communicated the order of withdrawal to the Commissioner:

Provided that if the order of withdrawal is not communicated to the Commissioner within sixty days of the service of decision of the Committee upon the aggrieved person, the decision of the Committee shall not be binding on the Commissioner.

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(9) Subject to sub-section (10), the Commissioner shall also withdraw the appeal, if any, pending before any court of law or Appellate Tribunal or tax authority in respect of dispute as mentioned in sub-section (1) within thirty days of the communication of the order of withdrawal by the aggrieved person to the Commissioner.

(10) The aggrieved person shall make the payment of income tax and other taxes and within such time as decided by the Committee under sec-section (5) and all decisions and orders made or passed shall stand modified to that extent.

(11) If the Committee fails to decide within the period of ninety days under sub-section (5), the Chairman of the Board shall dissolve the Committee by an order in writing and the matter shall be decided by the court of law or Appellate Tribunal or tax authority, as the case may be:

Provided that in case of SOE, except an SOE, which is directly or indirectly, wholly owned by the Federal Government, either party may prefer an appeal to the Federal Constitutional Court or the supreme court, as the case may be, within a period of sixty days against a decision of the Committee or where no decision is made, upon receiving order of dissolution of the Committee.

(12) All petitions filed by the SOEs, directly or indirectly, wholly owned by the Federal Government, against the decision of the Committee made prior to commencement of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025) and pending before the Federal constitutional Court, the Supreme Court or a High Court shall, upon commencement of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025), abate.

(13) Notwithstanding anything contained in sub-section (12), petitions filed by SOEs, which are not wholly owned by the Federal Government, against the decision of the Committee made prior to commencement of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025) and pending before a High Court, shall upon commencement of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025) abate:

Provided that such SOEs may prefer an appeal to the Federal Constitutional Court or the Supreme Court, as the case may be, against the decision of the Committee, within a period of sixty days from commencement of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025).

(14) The Chairman of the Board shall communicate the order of dissolution of the committee to the aggrieved person, the Commissioner concerned and the court of law or Appellate Tribunal or tax authority, where the case was previously pending.

(15) On receipt of the order of dissolution, the court of law or Appellate Tribunal or tax authority, as the case may be, shall decide the case within ninety days of the communication of the said order.

(16) The Board may, from time to time, prescribe the amount to be paid as remuneration to the Chairperson of the Committee, which remuneration shall be paid by the Board and the taxpayer equally within a period of fifteen days from the constitution of the Committee under sub-section (3).

(17) The taxpayer shall be responsible for remuneration of a nominee under clause (c) of sub-section (3).

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(18) Notwithstanding anything contained in this section: -

- (a) the Federal Constitutional Court, the Supreme Court or a High Court on its own motion or on the application of either party, may refer the dispute pending before it to the Board for resolution by the Committee to be appointed under sub-section (3):

Provided that where both parties agree to refer the dispute for resolution by the Committee, the court of law or Appellate Tribunal or tax authorities seized of the dispute shall record the consent of both the parties and shall refer the dispute to the Board for appointment of the Committee under sub-section (3):

Provided further that all disputes of SOEs pending before any court of law or Appellate Tribunal or tax authority shall stand transferred to the Board for resolution by the Committee to be appointed under sub-section (3) upon commencement of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025); and

- (b) whenever any dispute is referred or transferred under clause (a) for resolution by the Committee, the Board shall within fifteen days from the date of such order or transfer, appoint the Committee under sub-section (3).

(19) the provisions of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025) shall be subject to the provisions of section 6 of the General Clauses Act, 1897 (X of 1897) provided that the applicant including a SOE may make a fresh application for reconstitution of the Committee in accordance with the provisions of the Income Tax (Third Amendment) Act, 2025 (Act No. of 2025), if the Committee has not rendered its decision prior to its enactment.

(20) The Board may, by notification in the official Gazette, make rules for carrying out the purposes of this section.