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Preamble

The Finance Bill, 2026 was presented in the National Assembly on Friday evening i.e. 12 June 2026 amidst continuing signs of economic stabilization in Pakistan. The recovery is largely attributable to prudent macroeconomic management, continued engagement with the International Monetary Fund, disciplined fiscal consolidation, cautious monetary policy, contained inflation, exchange-rate stability, improved foreign exchange reserves and renewed investor confidence reflected in the capital markets.

Nevertheless, the underlying economic structure continues to face pressure from weak export competitiveness, import dependence, external-sector vulnerability, limited productive investment and rising employment challenges. These factors indicate that while stability has improved, the transition towards broad-based and sustainable growth has yet to fully materialize.

The Finance Bill does introduce some positive measures, including relief for salaried individuals, rationalization of Super Tax for certain businesses, reduced withholding tax on immovable property transactions, continued support for IT and IT-enabled services, faceless regime and measures aimed at bringing online marketplaces, digital transactions and emerging sources of income into the documented economy.

The Finance Bill also continues to place significant reliance on documentation, withholding and reporting-based mechanisms. While these measures may improve visibility of transactions, they may also increase compliance obligations for businesses, banks, retailers, digital platforms and taxpayers already operating within the formal economy.

The Finance Bill also aims to address immediate revenue needs while concurrently laying the groundwork for broadening the tax base. Measures directed at digital activity, retail documentation, financial reporting and undertaxed segments suggest a policy intent to move towards a more formal and transparent tax environment.

The long-term impact of these measures may remain limited unless supported by structural reforms implementation. Policy consistency, regulatory certainty, energy-sector reform, improved investment conditions, export competitiveness, efficient public spending and a fairer distribution of the tax burden will be essential to convert fiscal measures into sustainable economic progress.

This analysis represents our interpretation of the proposed Finance Bill, 2026. For specific applications or decisions, we strongly advise consulting the final, enacted version of the relevant statutes to ensure complete accuracy.

Income Tax

- It is proposed to reduce the income tax burden on salaried individuals through a restructuring of the applicable tax slabs. Under the proposed changes, the income threshold for the maximum tax rate of 35% has been increased from Rs. 4.1 million to Rs. 7 million, along with the introduction of additional intermediate tax brackets to provide gradual reduction in tax rates.
- Surcharge applicable on salaried individuals is also proposed to be withdrawn, consequently, reducing the overall tax burden for high-income salaried individuals. However, surcharge applicable to other individuals and association of persons remains unchanged.
- Tax collected on payments for digitally ordered goods or services through locally operated e-commerce platforms is proposed to be made adjustable for persons having turnover exceeding Rs. 200 million in a tax year.
- Tax on deemed income from capital assets under section 7E is proposed to be omitted.
- Any payouts, surrender values and maturity proceeds received under life insurance policies, family takaful certificates and similar arrangements, are proposed to be taxed with corresponding withholding obligation on life insurance companies, family takaful operators and window takaful operators. However, payouts arising on death, disability or after completion of seven years from the date of issuance of the policy or plan shall remain excluded. The tax deducted shall be treated as final tax.
- Disallowance relating to failure to integrate with Board's system is proposed to be rationalized. The proposed amendment seeks to restrict disallowance to 5% of expenditure claimed by a person failing to install electronic resources or act as an integrated enterprise as required by law, subject to prescribed procedures.
- The Federal Government is proposed to be empowered to reduce withholding tax rates having the nature of minimum tax, other than minimum tax under section 113, up to 1% on the basis of economic viability for specified persons or classes of persons. Any such amendments made during a financial year shall be placed before the National Assembly.
- Tax credit of ten percent of amount invested is proposed on integration with Board's system by the persons required to integrate under the Ordinance 2001, Act 1990 or Act 2005 for real-time production monitoring or reporting of sales or receipts, .
- The definition of cost in case of immovable property acquired through inheritance by an individual, is proposed to be the fair market value under section 68(5) (i.e. being the value notified by the Board or, where not notified, the value fixed by the relevant authority for stamp duty purposes), as on the date of death of the original owner.
- Transmission of immovable property to a beneficiary on death is proposed to include transfer of property through family settlement amongst family members consequent upon death of a person. This amendment is expected to provide certainty regarding tax neutrality of family settlement arrangements in inheritance cases.
- The definition of "association of persons" is proposed to be expanded to specifically include limited liability partnerships within its ambit.
- Income received by a member of a limited liability partnership is proposed to be made taxable, if the income of such partnership is exempt from tax. However, the existing *Explanation* that exempt income of an association of persons shall remain exempt in the hands of members is proposed to be omitted.

- The scope of powers of the Board is proposed to be widened whereby, with the approval of the Minister-in-Charge and through notification in the official Gazette, the Board may prescribe special procedure for small traders and shopkeepers relating to rate and payment of tax including fixed tax, filing of return and audit.
- Non-banking finance companies, modarabas and companies dealing in debt securities currently excluded from capital gain tax mechanism under section 100B read with the Eighth Schedule, are proposed to be brought into this regime. Further, the NCCPL, in the case of banking company, insurance company and mutual funds is proposed to compute and determine capital gain in accordance with section 37A, while tax on such gains shall continue to be deposited by these entities in accordance with applicable provisions of the Ordinance 2001.
- The procedure relating to electronic filing of returns is proposed to be streamlined by requiring filing of return of income through IRIS in the prescribed manner, along with rules for verification and digital signatures. Additionally, companies are required to file financial statements in electronically readable file format from tax year 2026 onwards. The proposed definition of 'electronically readable format' is also introduced.
- A faceless audit and assessment mechanism is proposed to be introduced for specified persons, incomes or cases. Hearings and recording of statements, where required, shall be conducted through E-hearing, while identity of the officer conducting such proceedings shall remain confidential.
- A faceless appeal mechanism is proposed to be introduced whereby appeals before Commissioner Appeals may be processed through the National Faceless Centre in the prescribed manner.
- A mechanism is proposed for scrutiny of departmental litigation, though an independent case scrutiny committee for approval of references before the High Court and appeals or reviews before the Federal Constitutional Court or Supreme Court of Pakistan. The recommendations of the committee shall be binding upon the Commissioner Inland Revenue. Members of the committee are also provided with protection from any suit, prosecution or other legal proceedings.
- The powers of the committee under Alternative Dispute Resolution are proposed to be expanded to allow rectification of mistakes apparent from record (either on its own motion or brought to notice by the taxpayer) within thirty days of receipt of decision by the taxpayer or Commissioner. Further, it is also proposed that in case of vacancy or unavailability of any committee member, the Chairman FBR may fill such vacancy for continuity of committee, with an extended timeline to conclude proceedings.
- An algorithmic settlement mechanism is proposed to be introduced for digital settlement of tax proceedings through revision of return before assessment or amendment of assessment. Taxpayers may accept a system-generated settlement offer and file revised return without approval of the Commissioner by payment of determined tax, without any separate penalty or default surcharge.
- Authorized shipping agents are proposed to be included for filing of return in respect of non-resident ship owners or charterers, by making them jointly and severally liable. It is proposed that only one return for each vessel or voyage shall be furnished by the master of ship or authorized shipping agent covering shipping income.
- The additional advance tax at the rate of 1% collected or deducted under section 147(6C) from exporters, indirect exporters and related persons at the time of realization of foreign exchange proceeds, export proceeds or export of goods is proposed to be omitted to facilitate their cashflows. However, tax deducted under section 154 currently at 1% as minimum tax has been increased to 1.25%.
- The scope of withholding tax on capital gain arising from disposal of debt instruments and Government securities is proposed to be expanded on investment by all persons (currently non-resident persons) maintaining Foreign Currency Value Account (FCVA), Foreign Currency Business Value Account (FCBVA), Non-Resident Rupee Value Account (NRVA), or Non-resident Rupee Business Value Account (NRBVA). Corresponding amendments are also proposed in the second schedule.

- The definitions of “algorithmic settlement mechanism”, “authorized shipping agent”, “electronically readable format”, “licensed integrator”, “national faceless center” and “PRAL” are proposed to be introduced in Ordinance 2001.
- A withholding tax regime is proposed for amounts credited or received as revenue from social media platforms, with tax to be deducted at a rate of 5% (minimum for resident persons and final tax for non-resident person). Under the proposed provisions, banking companies and non-banking financial institutions will act as withholding agents responsible for deducting and remitting the tax.
- An enabling provision is proposed to allow the issuance of exemption certificate under section 159 of Ordinance 2001 on annual basis to a collective investment scheme or a REIT scheme that has distributed at least 90% of its accounting income to its unit holders, certificate holders, or shareholders during each of the preceding three years. A similar facility for obtaining exemption certificate is also proposed for NPOs holding approval under section 2(36)(c).
- Through the proposed insertion of section 165AB, a framework has been introduced requiring banking companies and financial institutions to electronically report financial transactions to the Central Data Hub. The reported information will be used for algorithmic cross-matching of tax and banking data in cases where deposits or withdrawals exceed Rs. 100 million during a reporting period (specified six months).
- A proposal has been made to expand the Commissioner’s powers relating to audits under section 177 that in specified circumstances, the Commissioner may direct a taxpayer to have its accounts re-audited by an accountant, its inventory revalued by a cost accountant, and actuarial values determined by an actuary, from the panel nominated by the Board.
- Penalties for non-compliance, including failure to furnish statements, integration failures and incorrect withholding tax claims etc., have been proposed to be enhanced exponentially.
- It is proposed to substantially increase surcharge payable for inclusion in the Active Taxpayers List (ATL) after the due date for filing the tax return. Under the proposed amendments, the surcharge shall be:
 - One hundred thousand in case of company;
 - Fifty thousand in case of an AOP; and
 - Twenty-Five thousand in case of an individual.
- A proposal has been made to establish the Directorate General (Field Compliance) Inland Revenue, through the insertion of section 228A. The proposed provision is intended to provide the legal framework for the constitution, powers, and functions of the Directorate.
- Proposal is made to abolish the advance tax currently applicable to foreign TV plays and advertisements, thereby removing the withholding tax requirement on such payments.
- It is proposed to provide relief from super tax under section 4C by exempting income up to Rs. 500 million from its scope. Furthermore, the super tax rate applicable to income exceeding Rs. 500 million is proposed to be reduced from 10% to 8%. However, this concession will not be available to banking companies, ENP and fertilizer sectors having income exceeding Rs. 150 million.
- Withdrawal of the reduced minimum tax rate of 0.25% under section 113 currently available to distributors of pharmaceutical products, fast-moving consumer goods (FMCGs), and cigarettes is proposed. Consequently, such distributors will become subject to the applicable standard minimum tax rate of 1.25% under the law.
- It is proposed to increase the reduced withholding tax rate under section applicable to specified services from 6% to 7%. At the same time, the general withholding tax rate on services is proposed to be reduced from 15% to 14%, except in the case of independent professional services, including those rendered by

doctors, lawyers, architects, accountants, and software engineers or developers operating independently, for whom the existing tax rate of 15% will continue to apply.

- Increase in the withholding tax rate on capital gains arising from the disposal of certain debt securities under section 151A is proposed from 15% to 20%, thereby increasing the tax burden on such gains.
- The applicability of reduced tax rate of 0.25% on export of IT and IT-enabled services is proposed to be extended from tax year 2026 to tax year 2029.
- It is proposed to significantly reduce the advance tax rates applicable to transactions involving immovable property. The advance tax on the sale or transfer of immovable property, currently ranging from 4.5% to 5.5%, is proposed to be reduced to a flat rate of 2.75%. Similarly, the advance tax on the purchase of immovable property, presently ranging from 1.5% to 2.5%, is proposed to be reduced to a flat rate of 1.25%. Furthermore, the related enhanced tax rates applicable to the late filers, have also been proposed to be withdrawn.
- Substantial reduction is proposed on the applicability of advance tax on amounts remitted abroad through credit, debit, or prepaid cards, by lowering the rate from 5% to 0.5%. This measure is intended to ease the tax burden on individuals making foreign payments through such payment instruments.
- Proposal includes the introduction of a reduced withholding tax rate of 12% under section 153(1)(b) for persons engaged in providing terminal or port services, thereby offering tax relief to entities operating in this sector (general rate 15%).
- It is proposed to increase the reduced minimum tax rate under section 113 applicable to distributors, dealers, sub-dealers, wholesalers of specified products from 0.25% to 0.5%, thereby doubling the minimum tax burden on such businesses.
- The exemption from withholding tax under section 153 currently available to companies operating as Trading Houses, is proposed to be withdrawn, even where they meet the prescribed conditions.
- It is proposed to raise the minimum threshold from Rs. 100 million to Rs. 200 million for individual traders to become prescribed withholding agents under section 153.
- Option for opting out of the determination and payment of tax on capital gain on listed securities under Eighth Schedule is proposed to be withdrawn, thereby making the settlement of listed securities from NCCPL CGT system mandatory even on taxpayers whose income is otherwise exempt from tax.
- Currently capital gain tax under section 37A on disposal of securities acquired on and from 01 July 2025 is excluded from applicability of double tax rate under the Tenth Schedule in the case of those not appearing in ATL. This exclusion is proposed to be withdrawn.

Sales Tax

- The Bill proposes to insert new faceless system (National Faceless Centre), for audits, assessments and appeals mechanism.
- The Bill proposes rationalization of the definition of Tier-1 Retailers by excluding certain categories that were previously captured on a broader basis.
- The Bill proposes to introduce electronic system for adjustment of Debit / Credit notes, as prescribed by the Board.
- The Bill proposes to broaden the scope of section 21 of Act 1990 to allow the Board or its officers to de-register, suspend, or blacklist registered person for failure to integrate e-invoicing systems or comply with monitoring and tracking provisions under section 40C.
- The Bill proposes to require registered persons engaged in both taxable and exempt supplies to issue invoices for exempt supplies. It also introduces a mechanism for advance invoicing with particulars as prescribed by the Board.
- The Bill proposes empowering the Commissioner to enforce re-audit of accounts or re-valuation of inventory leading to audit observations.
- The Bill proposes to introduce section 47AA to enable the Board to issue algorithm-based settlement offers before issuance of orders under sections 11D or 11E. Registered person will have an option to avail such offer with payment required within ten days.
- The Bill proposes to include various items in the Third Schedule for collection of taxes on retail price.
- The Bill proposes to introduce certain new exemptions and amendments in existing exemptions in Sixth Schedule.
- The Bill proposes to amend Eighth Schedule to extend reduced tax rate of 1% for locally assembled electric vehicles until 30 June 2027 and to introduce 1% reduced rate for electric trucks in CBU condition.
- The Bill proposes to extend withholding tax obligations to individuals, associations of persons, and registered persons engaged in toll manufacturing on purchases from persons other than active taxpayers and registered persons.
- The Bill proposes to recover 3% value addition tax, along with default surcharge, from manufacturers where imported goods are supplied in the same state. It further provides for prosecution where goods supplied in the same state exceeds 50% of total imports during a financial year.

Federal Excise Duty

- Proposal to introduce definitions of the following terms;
 - Algorithmic settlement mechanism
 - Electronic invoicing system
 - National faceless centre
 - Production monitoring system
- Proposal to levy a Special Excise Duty of 40% to 41%, in addition to the existing FED, on imported luxury vehicles with an engine capacity exceeding 2,000cc except four-wheeler electric vehicles till 30 June 2027.
- Proposal to introduce a new section for faceless proceedings and algorithmic settlement mechanism.
- Proposal to extend the digital invoicing scheme to “advance receipts” and requiring the issuance of invoices bearing a verifiable and unique FBR invoice number.
- Proposal to penalize any attempt to damage, destroy, erase or otherwise manipulate with the production monitoring or video analytics system implemented under Act 2005 without approval of Commissioner.
- Proposal to enhance power to seize and/or confiscate dutiable goods produced or processed without the required electronic monitoring or tracking, along with the conveyance used for their transportation.
- Proposal to introduce Independent Case Scrutiny Committee to examine and decide matters relating to filing of appeals by the department before various courts.
- Proposal to make production monitoring system and video analytics part of monitoring and tracking scheme.
- Proposal to empower Commissioners to conduct audit more than once in a year and/or direct registered person to get their accounts re-audited or inventory revalued, if they deem so fit. It is also proposed that registered person may voluntarily deposit duty due after issuance of show cause alongwith default surcharge and fifty percent of penalty prescribed under Act 2005.
- Proposal to reduce FED on import of acetate tow from Rs.44,000 per Kg to Rs.10,000 per Kg.
- Proposal to reduce FED on e-liquids for electronic cigarettes at Rs.16,500 per Kg.
- Proposal to extend exemption on import of CKD kits for electric vehicles till 30th June 2027
- Proposal to introduce FED of 30% to 40% on luxury imported electric vehicles having import value exceeding Rs.20 million.
- Proposal to exclude hydration drinks and WHO standard compliant sports/ electrolytes beverages from imposition of FED.
- Proposal to impose FED on base oil and base lubricating oil at 5% ad valorem.

- Proposal to impose FED under sales tax mode on Naphtha, solvent oil and turpentine etc. at Rs.80 per Liter.
- Proposal to substantially reduce FED on air tickets of foreign travels.
- Proposal to exempt import of bullet proof vehicles for specific purpose by federal or provincial government subject to prior approval by federal government.

Customs

Following changes in rates proposed:

- Reduction of Customs Duty (CD) on input goods of different industrial sectors on 92 tariff lines

Existing rate	Proposed rate
20%	15% 10%
15%	10%
10%	5%
5%	0%

- Reduction/Elimination in the Additional Customs Duty (ACD) (to be covered under separate SRO)

Existing rate	Proposed rate	Tariff Lines
6%	4%	449
4%	2%	2,107
2%	0%	569

- Reduction/elimination in the Regulatory Duty (RD) (to be covered under separate SRO)
 - RD greater than 20% to be capped at 20% on 359 Tariff Lines.
 - 20% reduction on all RD rates between 2.5% and 20% on 1,347 Tariff lines.
 - RD rates of 2.5%, 2% and 1% to be reduced by 20% or eliminated on 208 Tariff lines.
- Rationalization in the Fifth Schedule meant for reduced rates.
 - Deletion of entries from the Fifth Schedule where concessionary CD equals or exceeds the First Schedule general tariff.
 - Exemption of CD on critical cancer-related Active Pharmaceutical Ingredients (APIs)
 - Reduction of Customs Duty from 20% to 10% on specialized construction related vehicles for construction section.
 - Exemption of CD on import related to Defense.
- Exemption of CD, ACD and RD on import of Agricultural Machinery.
- Exemption of CD on import of bullet proof vehicles for Shanghai Cooperation Organization Summit and for the import of bullet proof vehicles by Federal or Provincial government, for the on-going war against terrorism.
- Proposal to define 'State Warehouse' to bring legal clarity in the type of warehouses.

- Proposal to give legal coverage to 'scanning' during process of assessment.
- Proposal to empower the Board to regulate process of appeal against penalties and the customs stations, goods or class of goods.
- Proposal to empower the Board to authorize any person to auction any auctionable goods.
- Proposal to introduce and enhance certain penalties.
- Proposal to introduce Explanation under section 57 whereby the word 'removal' includes all types of illegal movement of smuggled goods.
- Proposal to empower Customs Authorities to require any other authority to hand over the goods liable for confiscation to Customs without waiting for conclusion of the proceedings of the case.
- Proposal to introduce faceless adjudication to avoid face-to-face interaction between adjudicating officer and the respondents through virtual proceedings to enhance transparency, efficiency and quick disposal of cases.
- Proposal to empower Special Judges to freeze assets of accused persons involving illegal transfer of funds into or out of Pakistan.
- Proposal to introduce Independent Case Scrutiny Committee to examine and decide matters relating to filing of appeals by the department before various Courts.
- Proposal to introduce a clause prescribing service of summons through newspaper publication where the accused person is not traceable.

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