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Tax Alert

July 2026

Income Tax

Special Procedure for Small Shopkeepers

The Federal Board of Revenue (FBR), through S.R.O. 1166(I)/2026 dated 27 July 2026, has issued the Special Procedure for Small Shopkeepers under section 99B of the Income Tax Ordinance, 2001.

The scheme is voluntary open to individuals earning income mainly through retail shops with annual turnover up to PKR 200 million. Those exceeding this threshold in any of the preceding three years, multi-shop owners, Tier-1 retailers, jewellery sellers, and professional service providers (doctors, engineers, lawyers) stands excluded.

Eligible retailers register via IRIS, the mobile app, or a tax office, and pay 1% of gross turnover, subject to a minimum tax of PKR 25,000 in cash and withholding already deducted can be adjusted against this, but any excess withholding is not refundable.

Participants would be generally exempt from audit (except on specific third-party information). Section 153 withholding obligations, section 113 minimum tax and the 1.25% rate, and POS/digital invoicing requirements would not apply. They file a simplified return declaring sales, purchases, expenses, net profit and assets, and can claim credit for imputable income to support personal expenses/asset accretion.

Compliant shopkeepers get a QR-coded "Green Plate" barring FBR officials from entering the shop on tax matters. Non-filers who don't opt in face escalating surcharges of PKR 10,000 / 25,000 / 50,000 for successive defaults, at least a month apart.

Income Tax Surcharge and Penalty Exemption Finalized PIACL

The Federal Government, through S.R.O. 1129(I)/2026 dated 16 July 2026, issued under section 183 of the Income Tax Ordinance, 2001, and in supersession of its earlier Notification No. S.R.O. 799(I)/2026 dated 4 May 2026, has exempted Pakistan International Airlines Corporation Limited (PIACL) from default surcharge and penalties payable against its current income tax liabilities, pursuant to a Federal Cabinet decision dated 15 June 2026.

The exemption covers default surcharge and penalties on withholding tax (other than salary) for April to December 2024, amounting to Rs. 263,821,746, and advance income tax for May 2024 to June 2025, amounting to Rs. 4,028,821,290, aggregating Rs. 4,292,643,036. These liabilities remain subject to final determination.

The exemption is conditional on the underlying tax liabilities being paid to FBR within four years, following a one-year grace period, in equal annual installments, commencing after First Completion as defined in the Share Purchase and Subscription Agreement between the Government of Pakistan and the successful bidder.

Procedure for Claiming Credit Against Sales Tax Withheld by FTN Holders

The Federal Board of Revenue, through Circular No. 1(1)ST-L&P/2024/IRIS-Proc dated 20 July 2026, has introduced a new automated feature in the IRIS portal for taxpayers supplying goods to Filer Tax Number (FTN) holders i.e., Government Departments and Public Sector Organizations in order to streamline adjustment of sales tax withheld under the Eleventh Schedule of the Sales Tax Act, 1990. The measure responds to difficulties suppliers faced in claiming credit for tax withheld at source, which has caused reconciliation gaps and unnecessary accumulation of refunds.

Under the new procedure, taxpayers may file a formal "Application for Credit Against Sales Tax Withheld" through the IRIS dashboard, supported by the Computerized Payment Receipt (CPR) or the Withholding Tax Certificate issued by the FTN holder.

Once the tax deposit is electronically verified, the system automatically credits the amount to the taxpayer's Electronic Ledger, after which it becomes available for adjustment in the monthly Sales Tax Return (Annex-A). All Field Formations LTOs, MTOs, and RTOs are directed to process applications within statutory timelines to protect taxpayers' business liquidity.

Exporter Facilitation Committees Constituted by FBR

The Federal Board of Revenue (FBR), through Circular No. 1(500)SA-M(IR-Ops)/2026-27 dated 23 July 2026, has constituted five regional Exporter Facilitation Committees Central, Karachi, Lahore, Faisalabad, and Sialkot to serve as facilitation, mediation, and dispute resolution fora between exporters and the FBR, aimed at promoting voluntary compliance, reducing litigation, and preventing harassment of exporters by field officers. For this purpose, an exporter is defined as a person deriving 80% or more of its turnover from exports in a tax year.

Each committee, headed by a senior Chief Commissioner-IR (or, for the Central Committee, Member IR-Operations) and comprising representative exporters, industry chairmen, and an ex-officio chamber-of-commerce president, is to resolve procedural grievances in monthly review meetings and, where audit or other coercive action is contemplated, decide the case by majority vote (quorum of three), with the Chairman deciding by short order in the event of a tie, subject to periodic Board review. The Central Committee covers exporters with turnover above PKR 10 billion, while the Karachi, Lahore, Faisalabad, and Sialkot committees cover exporters falling within the jurisdiction of their respective LTOs, CTOs, and RTOs.

Overall, the circular formalizes a structured, jointly run channel for resolving field-level tax disputes affecting exporters, aimed at easing compliance friction and curbing harassment while retaining Board oversight over any coercive action.

Independent Case Scrutiny Committees

The Federal Board of Revenue (FBR) has finalized the framework for Independent Case Scrutiny Committees (ICSCs) across three federal tax laws, by issuing S.R.O. 1165(I)/2026 (Income Tax), dated 27 July 2026, inserting rule 231CB into the Income Tax Rules, 2002, and superseding the earlier draft S.R.O. 1138(I)/2026 dated 21 July 2026; S.R.O. 1168(I)/2026 (Federal Excise), dated 27 July 2026, inserting a new Chapter XVII into the Federal Excise Rules, 2005; and S.R.O. 1169(I)/2026 (Sales Tax), dated 27 July 2026, inserting a new Chapter IX-A into the Sales Tax Rules, 2006. All three notifications require pre-filing scrutiny before a reference is filed in the High Courts, or a petition is filed before the Supreme Court or Federal Constitutional Court, arising under any of the tax laws.

Under each notification, the Board will constitute three regional committees with defined territorial jurisdiction, each comprising a retired judge of the Supreme Court, the Federal Constitutional Court, or a High Court as Chairman; an advocate with at least 15 years' experience in tax and commercial litigation; and a senior serving or retired Inland Revenue officer of BS-20 or above. Each committee examines referred cases and recommends whether to file, periodically reviews pending references and petitions to assess whether continued litigation remains justified, maintains a database of settled legal questions and precedents to ensure consistency, and identifies systemic issues warranting legislative or administrative intervention.

Commissioners must refer eligible cases within ten days of the relevant order, and committees must decide within fifteen days, extendable but not beyond the statutory limitation period if no decision is issued in time, the case is deemed cleared for filing. Decisions are taken by majority vote, with a quorum of two members including the Chairman, and urgent cases nearing the limitation period may be cleared directly by the Chairman, subject to post-facto review within thirty days. Members serve renewable one-year terms and may be removed for cause, non-serving members are paid fixed monthly and per-case fees, and each committee must submit an annual report to the Board by 31 March covering caseload, outcomes, and recurring legal issues.

Sales Tax

Federal Government Grants Conditional Exemption from Default Surcharge and Penalty to PIACL

The Federal Government, through S.R.O. 1134(I)/2026 dated 17 July 2026 , issued in exercise of the powers conferred by section 34A of the Sales Tax Act, 1990 and sub-section (4) of section 16 of the Federal Excise Act, 2005, has granted a conditional exemption to M/s Pakistan International Airlines Corporation Limited (PIACL). The exemption follows the Federal Cabinet's decision dated 15 June 2026.

Under the S.R.O., the Federal Government has exempted the whole amount of default surcharge and penalty against the sales tax and federal excise duty liabilities of M/s PIACL. The exemption covers default surcharge and penalty against sales tax liability amounting to Rs. 1,003,836,617 and federal excise duty liability amounting to Rs. 3,469,492,347, pertaining to the tax periods of September, October, and December 2025. The exemption is subject to the condition that the aforesaid liabilities shall be paid within a period of four years, following a grace period of one year, in equal annual instalments after the First Completion as defined in the Share Purchase and Subscription Agreement between the Government of Pakistan and the successful bidders.

Extension for Time for Voluntary Corporatization of Iron and Manufacture

The Federal Board of Revenue, through a letter dated 29 July 2026 (C.No. 1(200)ST-L&P/2026/82342-R), addressed to Chief Commissioners at LTOs, CTOs, and RTOs, has extended the deadline for voluntary incorporation of business entities under Sales Tax General Order (STGO) No. 10/2026 dated 14 July 2026, from 31 July 2026 to 10 August 2026. All other terms and conditions of the original STGO remain unchanged. This is a final, operative communication, not a draft.

Removal of Difficulty for Voluntary Corporatization of Iron and Steel Manufacturers

The Federal Board of Revenue, through STGO No. 12 of 2026 dated 31 July 2026 (C.No. 1(200)ST-L&P/2026/83465-R), has added eight newly incorporated entities to the table of qualifying businesses under STGO No. 10/2026, after these entities fulfilled the SOPs prescribed in that order. The entities added are Karachi Steel Re-Rolling Mills, Faizan Steel, Aziz Re-Rolling Industries, Rasheed Steel, A-One Re Rolling, Ittehad Iron & Steel Industries, Union Steel, and Pak Iron & Steel Casting, each listed with their existing and new NTN/STRN registration details, factory addresses, and industrial electricity/gas connection numbers. This is a final general order, confirming registration status for these specific taxpayers rather than proposing new policy.

Sales Tax on Electricity Consumed by Steel Melters, Re-Rollers, and Composite Units

The Federal Board of Revenue (FBR), through S.R.O. 1245(I)/2026 dated 31 July 2026, issued under the provisos to sub-section (2) of section 6 of the Sales Tax Act, 1990, has prescribed a procedure for categorizing steel melters, re-rollers, and composite units of steel melting and re-rolling, and for collecting sales tax from them on the basis of per-unit electricity consumption, applicable regardless of the source of electricity (including self-generated and captive power) and effective from 1 July 2026.

Under the S.R.O., steel melters and composite units using remeltable iron and steel scrap must pay sales tax per electricity unit consumed, in addition to sales tax otherwise chargeable, at rates of Rs. 30 for local scrap, Rs. 5 for imported scrap or EFS-supplied scrap where such scrap exceeds 70% of the last twelve months' consumption (with the Rs. 5 rate available only where the manufacturer is integrated with the Board's Computerized System for real-time reporting), and Rs. 35 for captive/self-generated power; this tax is adjustable against output sales tax. Manufacturers consuming 500,000 or more electricity units per month on a single meter are categorized as steel melters/composite units, while those below this threshold are treated as re-rollers. DISCOs are required to apply these rates from 1 July 2026 and to disconnect electricity connections in case of non-payment by the due date, and the Board will periodically notify, and review every three months, the taxpayer/DISCO particulars of manufacturers using imported or EFS-supplied scrap. Overall, the notification embeds a fixed, electricity-based minimum sales tax collection mechanism for the steel sector, using DISCOs as an enforcement arm and incentivizing real-time system integration and local-scrap usage through differentiated per-unit rates.

Baluchistan:

Revised Rates of Baluchistan Sales Tax on Services (Effective 1 July 2026)

The Baluchistan Revenue Authority (BRA), through Circular No. BRA/COM/OPS/2026-27/25 dated 10 July 2026, has informed all registered taxpayers that the Baluchistan Provincial Assembly Secretariat, via its Notification dated 29 June 2026, has amended the Baluchistan Sales Tax on Services Act, 2015, revising rates in the Third Schedule. The revised rates took effect from 1 July 2026.

The revised structure covers six service categories. Restaurants, cafés, coffee houses, food huts, ice-cream shops, and eateries are chargeable at a standard 8% (no input tax credit), or a reduced 4% subject to POS integration with the BRA web portal, exclusive electronic invoicing, and no input tax credit and this reduced rate does not apply to restaurants within a hotel/motel/guest house/club or to franchise operations. Marriage halls, lawns, mandaps, and pandal/shamiana operators (including floral/decoration services) are charged PKR 10,000 per event or 4% of service fees, whichever is higher, with no input credit.(Restaurants and Marring halls were also earlier reported in Circular No. 01/U-02/2026 dated 6 July).Technical, scientific, and engineering consultants and commission agents are both charged 8%, with no input credit; for consultants, this applies where expenditure is paid from federal, provincial, local government, or Cantonment Board budgets. Cosmetic and plastic surgery/transplantation services are charged 6% or PKR 50,000 per month, whichever is higher. Hospitals, institutes, and clinics are charged 3%. Input tax credit/adjustment is disallowed across all six categories.

Registered taxpayers must update billing systems, accounting practices, and tax computations to comply from 1 July 2026. Taxpayers may opt for the standard 15% rate to claim input tax, but this requires prior permission from BRA under section 16D of the BSTS Act, 2015. Non-compliance attracts penalties and other legal consequences under the Act and its rules.

Khyber Pakhtunkhwa:

Food Delivery Platforms Declared as Collection Agents

The Khyber Pakhtunkhwa Revenue Authority, through Notification No. KPRA/ADMN/Regulation/2026/3073 dated 27 June 2026 (published in the KP Gazette on 2 July 2026), has declared food delivery platforms and third-party food delivery service providers as collection agents for sales tax on services rendered by local non-corporate restaurants, including homechefs. The applicable rate is 10% where payment is received in cash, and 6% where payment is made via debit/credit cards, mobile wallets, or QR scanning through banking channels. Collection agents must deposit the collected tax by the 15th of the following month and declare it in Annexure-C of the monthly sales tax return. The notification is final and takes immediate effect.

Clarification to Tribal Global Construction (Tehsil Sheva, North Waziristan)-23 July 2026

The taxpayer had applied for KPRA sales tax exemption on a construction contract (ADP No. 1601/250337, "Construction of BTR from main Road to Kotka Akbar Zaman," Wazir Sub-Division, Bannu), citing its location in the former FATA area. KPRA held that the FATA/PATA sales-tax-on-services exemption (per Notification No. KPRA/Exemption/2023/3677) expired on 31 October 2023, and since this contract was approved on 30 January 2026 after the cutoff it is not eligible for exemption

Clarification to M/S Best One Construction Company (District Kurram) -23 July 2026

The clarification is issued pursuant to a Peshawar High Court judgment in W.P. No. 5508-P/2025. The company sought exemption under Clause 14(i) of the Second Schedule (full exemption for construction under international tenders funded by foreign grants-in-aid) for a roads/drains/culverts project in Charsadda. KPRA found the project was not funded by any foreign grant-in-aid it was funded through the department's own sources ,so it does not qualify for the Clause 14(i) exemption, and is instead taxable at 4% as a government-funded project

Clarification to KP-TEVTA on 2% Sales Tax on Legal Services-28 July 2026

KP-TEVTA had complained about the “illegal deduction" of KPRA sales tax on legal services and sought reimbursement. KPRA held that under Serial No. 16(b) of the Second Schedule to the KP Sales Tax on Services Act, 2022, legal services provided by practitioners/professionals/consultants fall squarely within that entry and are taxable at 2%, with no input tax adjustment i.e., the deduction was correctly applied, not illegal.

Customs

Customs Marine Bunkering Rules, 2026

The FBR through S.R.O. 1082(I)/2026 dated 7 July 2026, has amended the Customs Rules, 2001 by inserting a new Chapter XLVIII ("Customs Marine Bunkering Rules") under section 219 of the Customs Act, 1969, read with section 50 of the Sales Tax Act, 1990, section 40 of the Federal Excise Act, 2005, and section 237 of the Income Tax Ordinance, 2001. The rules regulate marine bunkering operations at Karachi Port, Port Qasim, and Gwadar Port (including their outer anchorages), with all bunkering operations to be conducted electronically through the Port Community System (PCS) developed by Pakistan Single Window.

The rules establish a licensing regime for Authorized Bunker Operators (ABOs), who must register their bunker barges with Customs (valid for 36 months against a bank guarantee equal to the amount of duties ana taxes involved) and comply with detailed documentation requirements including flag state certificates, IOPP certificates, UTI calibration certificates, and crew competency certifications. Operational procedures cover Goods Declaration filing, mandatory Permit to Work (PTW) requests, issuance of Bunker Delivery Notes (BDN), and mandatory representative sampling (a minimum of three sealed samples per delivery, retained by the ABO, Customs, and the vessel master for twelve months). The rules also cover bunkering under international transshipment, bunkering from bonded storage facilities, and grant customs officers powers to board, inspect, and seal barges. Contraventions are penalized under section 156(1) of the Customs Act, and the

Directorate General of Post Clearance & Internal Audit will conduct annual audits of ABOs.

This new chapter creates a structured, fully digitized regulatory framework for marine bunkering that did not previously exist in dedicated form, improving traceability of fuel quality and quantity through mandatory sampling and BDNs, strengthening revenue safeguards via bank guarantees and audit powers, and aligning Pakistan's bunkering operations with international MARPOL standards, while giving legitimate operators a clear, single-window compliance pathway.

Application of Section 78 to Off-Dock Terminal (ICT Pakistan)

The FBR, through S.R.O. 1083(I)/2026 dated 7 July 2026, has declared under sub-section (1) of section 78 of the Customs Act, 1969 that section 78 shall apply to the Off-dock Terminal operated by M/s International Cargo Terminal Pakistan (Pvt) Ltd, Karachi, which was earlier notified as a customs station vide S.R.O. 914(I)/2026 dated 3 June 2026.

Section 78 of the Customs Act deals with the arrival, unloading, and clearance procedures applicable at notified customs stations; extending its application to this off-dock terminal formally brings it within the same statutory clearance regime as other designated customs stations.

In effect, this notification operationalizes the earlier designation of the ICT Pakistan off-dock terminal as a functioning customs station, enabling it to process cargo clearance under the standard legal framework, thereby supporting decongestion of port-side terminals and providing importers/exporters an additional off-dock facility for customs formalities.

Amendment to S.R.O. 678(I)/2004 – Omission of Condition (viii)

The Federal Government, through S.R.O. 1101(I)/2026 dated 13 July 2026, has amended Notification No. S.R.O. 678(I)/2004 dated 7 August 2004 (which grants customs duty and sales tax exemptions on machinery, equipment, vehicles, and materials imported by Exploration and Production (E&P) companies, their contractors, sub-contractors and service companies, and other petroleum sector entities). The amendment, issued under section 19 of the Customs Act, 1969 and clause (a) of sub-section (2) of section 3 of the Sales Tax Act, 1990, omits condition (viii) under the caption "Conditions with reference to Clauses (1), (2) and (2a)" in paragraph (5) of the original notification.

Condition (viii), as it stood, required that each importer or E&P company shall develop a software within a period of one year from the date of issuance of said Notification and shall establish an online connection with the customs authorities for regulating the imports made under this notification. By omitting this condition, importers and E&P companies availing exemptions under clauses (1), (2) and (2a) of S.R.O. 678(I)/2004 are no longer required to develop dedicated software or maintain a direct online connection with Customs specifically for regulating imports under this notification.

Amendments to Customs Rules, 2001 Transit/Transshipment Cargo (Rules 510A–510G)

The Federal Board of Revenue (FBR), through S.R.O. 1130(I)/2026 dated 17 July 2026, has notified further amendments to the Customs Rules, 2001, in exercise of powers under section 219 of the Customs Act, 1969, section 50 of the Sales Tax Act, 1990, section 40 of the Federal Excise Act, 2005 and section 237 of the Income Tax Ordinance, 2001, amending rules previously published vide S.R.O. 1066(I)/2026 dated 30 June 2026.

Under the amendments, rule 510A now confines the requirement of seal and container numbers to containerized cargo only. In rule 510B, port-of-destination declarations under clause (d) have been expanded to also cover the port or airport of arrival or any other port in Karachi, with port-to-port movement of IT cargo now required to be carried out through licensed bonded carriers under the Tracking and Monitoring of Cargo Rules, 2023, while clause (g) has been omitted altogether. Rule 510C now expressly allows packing of dry bulk cargo by the concerned Assistant or Deputy Collector of Customs, on request by the shipping line or its representative and under Customs supervision. Rule 510D has been revised to remove the Chief Collector's general power to extend timelines, replacing it with a fixed distinction of the applicable period for containerized versus bulk or LCL cargo, while allowing the Chief Collector to grant further extensions only in exceptional, case-by-case circumstances for recorded reasons; sub-rule (3) has been correspondingly aligned to reference the extended time under sub-rule (2) rather than a flat sixty-day period. Rule 510G now makes clear that System-based clearance is subject to scanning, as selected through the Risk Management System or as determined by the relevant Collector of Customs.

Overall, the amendments tighten and rationalize the transit/transshipment cargo framework narrowing blanket discretion previously vested in Chief Collectors, introducing differentiated timelines for containerized versus bulk cargo, formalizing dry-bulk packing and IT cargo movement procedures, and reinforcing risk-based scanning controls aimed at improving procedural clarity and oversight in cargo clearance while retaining limited, reasoned flexibility for genuine exceptional cases.

Declaration of Customs-Port for M/s Fast Track Projects & Logistics (Pvt.) Ltd.

The Federal Board of Revenue (FBR), through S.R.O. 1139(I)/2026 dated 20 July 2026, has declared the premises of M/s Fast Track Projects & Logistics (Pvt.) Ltd. to be a customs-port for the clearance of imported and exported goods, in exercise of powers under clause (a) of section 9 read with clauses (a) and (b) of section 10 of the Customs Act, 1969, and in supersession of its earlier Notification No. S.R.O. 1216(I)/2020 dated 13 November 2020.The notification is stated to remain valid for a period of five years from the date of its issuance.

Overall, the notification formalizes customs-port status for the facility, superseding the 2020 notification and enabling direct clearance of goods at the designated premises within Port Bin Qasim's industrial zone, while the five-year validity period introduces a time-bound element requiring renewal or review upon expiry.

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