

Tax Memorandum 2026

Comments on changes in
Fiscal Laws

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THE FINANCE BILL 2026

This Memorandum summarizes an overview of economy for the year 2026-2027 and the important changes proposed through the Finance Bill 2026. The Memorandum contains comments on the budget and the Finance Bill 2027, including highlights of the changes in the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, the Federal Excise Act, 2005, the Customs Act, 1969 and other laws. The amendments proposed through the Income Tax Ordinance, 2001 and through other laws are intended to be effective once the Parliament and the President of Pakistan have accorded their assent and thereafter, would be effective from July 01, 2026 i.e. the tax year 2027 unless otherwise indicated.

This Memorandum is intended to provide general guidance to the readers on the important changes proposed through the bill and should not be considered as a substitute for specific advice relating to a particular enactment. For considering the precise effect of a proposed change, reference should be made to the appropriate wordings in the relevant statutes and the notifications issued where relevant.

The Memorandum has been prepared exclusively for the use of our clients and staff, based on information available with us till the time of release. Printing of this Memorandum, in any manner, is strictly prohibited without seeking a written permission from the Firm.

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June 13, 2026

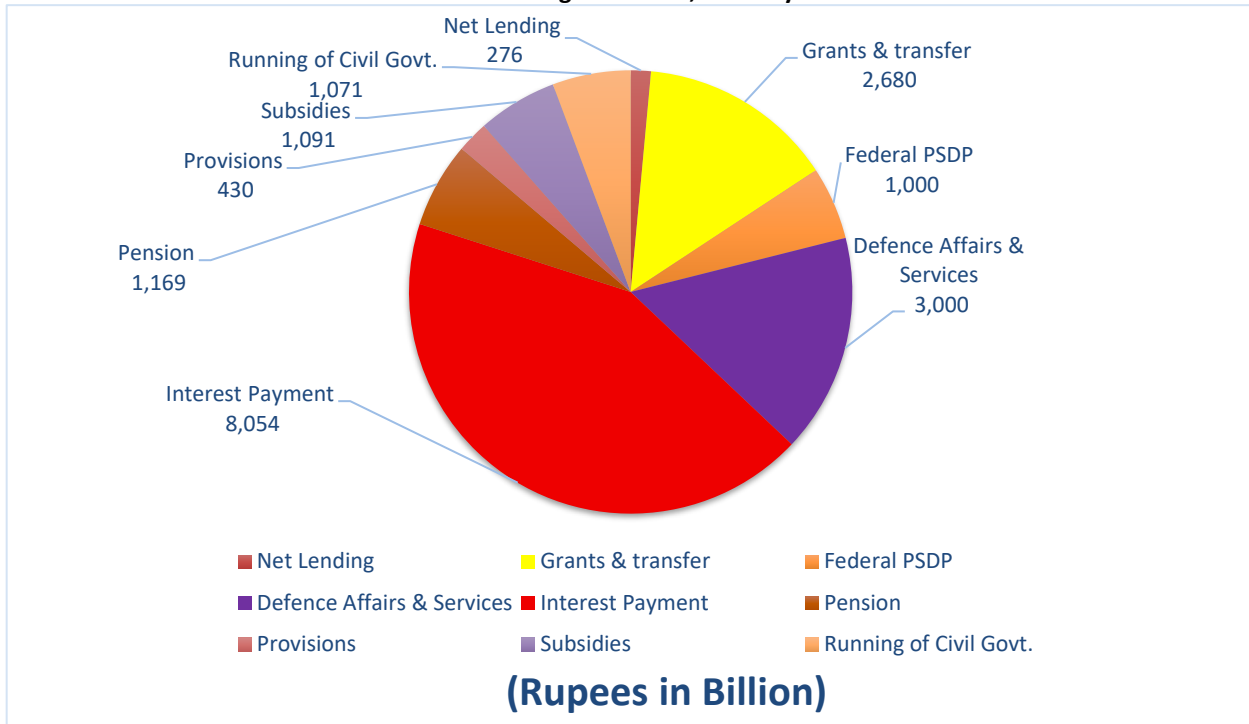
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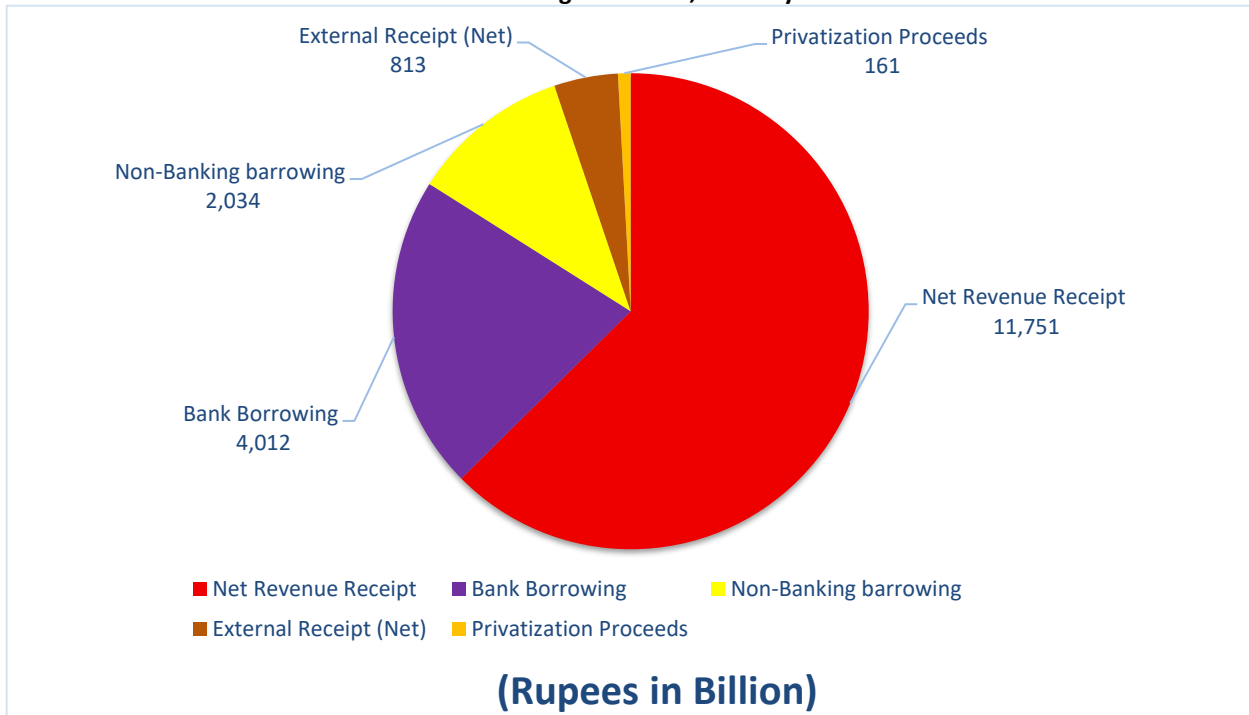
BUDGET AT A GLANCE

	2025- 2026		2026-2027	
	Rupees. In Billion	%	Rupees. In Billion	%
Sources (A+B+C+D)	17,573	100	18,771	100
A – Net Revenue Receipts	11,072	63.00	11,751	62.60
Tax Revenue (Direct & Indirect taxes)	14,131	80.41	15,263	81.31
Non-Tax Revenue	5,147	29.29	5,336	28.43
Provincial Share	-8,206	-46.69	-8,848	-47.14
B – Net External Receipt	106	0.60	813	4.33
C – Privatization Proceeds	87	0.50	161	0.86
D – Bank Borrowings	3,435	19.55	4,012	21.37
E – Non-Bank Borrowing	2,874	16.35	2,034	10.84
Expenditures (A+B)	17,574	100	18,771	100
A – Current Expenditures	16,286	92.68	17,495	93.20
Interest payment	8,207	46.70	8,054	42.91
Pension	1,055	6.00	1,169	6.23
Defense Affairs and Services	2,550	14.51	3,000	15.98
Grants and Transfers to Provinces & Others	1,928	10.97	2,680	14.28
Subsidies	1,186	6.75	1,091	5.81
Provisions	389	2.21	430	2.29
Running of Civil Government	971	5.53	1,071	5.71
B - Development Expenditures	1,287	7.32	1,276	6.80
Federal PSDP	1,000	5.69	1,000	5.33
Net Lending	287	1.63	276	1.47

Source: Federal Budget 2026-27, Ministry of Finance.



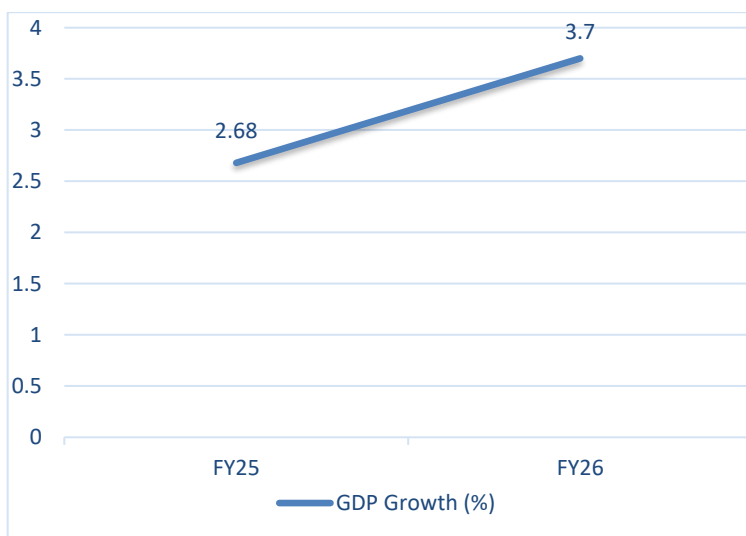
Source: Federal Budget 2026-27, Ministry of Finance.



ECONOMIC REVIEW

Overview

The fiscal year 2025–26 marked a year of gradual economic stabilization and recovery amid persistent global uncertainty, including geopolitical tensions and volatile energy prices. GDP growth improved to 3.70%, up from 2.68% in FY25, reflecting a broad-based but moderate expansion. All major sectors contributed to growth. Macroeconomic stability strengthened due to fiscal consolidation, a relatively stable exchange rate and continued reforms under the IMF Extended Fund Facility. Overall, FY26 reflects a steady consolidation phase, with early signs of a more balanced recovery emerging across the economy.



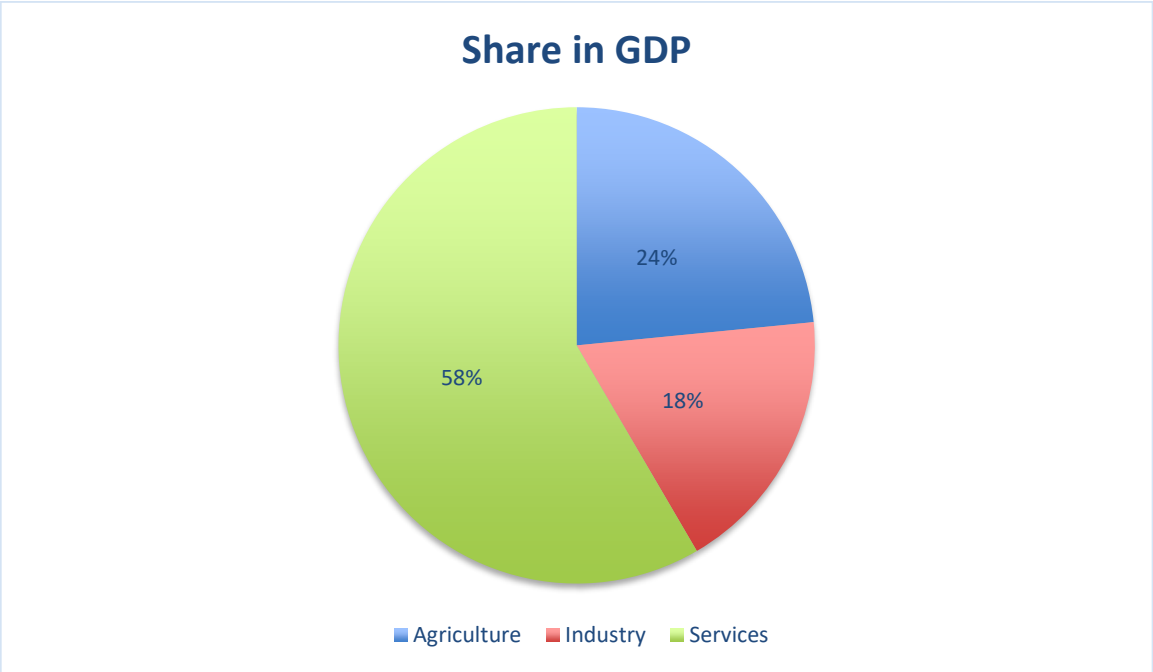
The key highlights of Pakistan’s economy during FY26 are as follows:

Key Economic Indicators

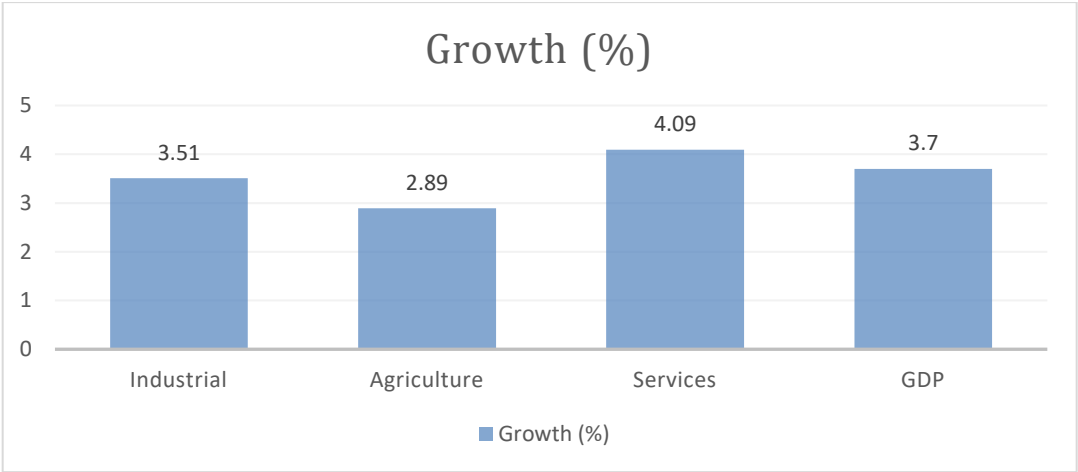
Indicator	Period	FY2026	FY2025	Change
Tax Collection (Rs. billion)	Jul-March	10,166.6	9,132.9	↑ 11.3%
Exports (USD billion)	Jul-Apr	24.7	26.8	↓ 8.0%
Imports (USD billion)	Jul-Apr	52.6	49.2	↑ 6.9%
Current Account Surplus / (Deficit) (USD billion)	Jul-Apr	0.07	(1.34)	Improved
Foreign Exchange Reserves (USD billion)	Jul-Apr	21.8	16.4	↑ 32.9%
Remittances (USD billion)	Jul-May	30.3	28.0	↑ 8.2%
Net Foreign Direct Investment (USD million)	Jul-Apr	1,406	1,182	↑ 19.0%
Policy Rate (%)	May	11.5	20.5	↓ 9.0 pp
KSE-100 Index (Points)	Jul-March	148,743	125,627	↑ 18.3%

GDP Analysis

Services remained the largest contributor to GDP with a share of approximately 58%, followed by agriculture and industry. Economic growth was broad-based across all major sectors.



Agriculture grew by 2.89% as important crops returned to growth and livestock expanded by 3.75%. Industry grew by 3.51%, driven by a strong recovery in Large Scale Manufacturing (6.11%) and construction (5.73%). Services expanded by 4.09%, supported by information and communication services (7.52%), trade and public services.



Agriculture – gradual improvement

Improved agriculture output

Agriculture grew by **2.9%**, reflecting a recovery in overall agricultural activity and stronger sectoral performance compared to the previous year.

Livestock-Led Growth

Livestock remained the primary driver of agricultural growth, supported by increased production and its significant share in the sector.

Better Crop Performance

Improved performance of important crops contributed to higher agricultural output and supported rural economic activity.

Industry – moderate expansion

Industrial Recovery

Industry expanded by **3.5%**, benefiting from improved macroeconomic stability and a more supportive business environment.

Manufacturing Rebound

Large-scale manufacturing recorded strong growth, driven by improved performance in automobiles, textiles, pharmaceuticals, and food processing.

Growth in Construction and Mining

Construction and mining activities strengthened during FY26, contributing positively to overall industrial sector growth.

Service – largest contributor to growth

Largest Contributor to GDP

Services grew by **4.1%**, maintaining its position as the largest contributor to Pakistan's GDP.

Digital Economy Expansion

Information and Communication services led growth within the sector, supported by rising ICT exports and increased digital adoption.

Strong Domestic Activity

Trade, transport, and other private services benefited from higher economic activity, improving consumer demand, and increased business confidence.

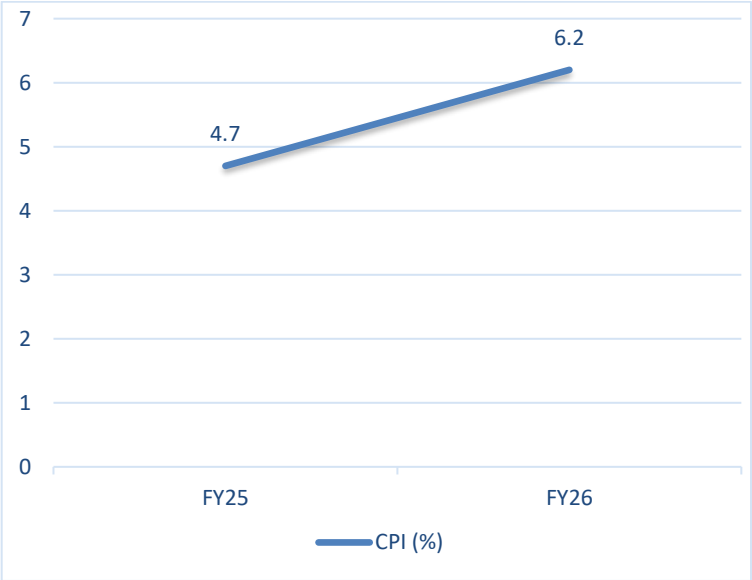
Fiscal Development & Capital Markets

Fiscal consolidation remained firmly on track. During Jul–Mar FY26, the fiscal deficit narrowed to 0.7% of GDP from 2.6% in the corresponding period last year, while the primary surplus improved to 3.2% of GDP. Total revenue increased by 10.7% to Rs 14.8 trillion, supported by higher tax and non-tax collections.

Pakistan’s capital market remained resilient. The KSE-100 Index gained 18.4% during Jul–Mar FY26, supported by strong corporate earnings, easing inflation, lower policy rates and continued IMF programme implementation.

Inflation

Average CPI inflation during Jul–Apr FY26 stood at 6.2%, compared with 4.7% during the corresponding period of FY25. Inflation remained largely contained during most of the year due to exchange-rate stability and improved supply conditions, although geopolitical tensions and higher oil prices increased inflationary pressures toward the end of the period.



Trade and Payments

Pakistan’s external sector remained resilient despite a challenging global environment. The current account recorded a surplus of US\$72 million during Jul–Mar FY26. Workers’ remittances increased by 8.2% to US\$30.3 billion, while foreign exchange reserves reached US\$21.8 billion by end-March 2026. The merchandise trade deficit widened to US\$27.9 billion, reflecting higher imports associated with improving domestic economic activity.

Future Economic Outlook

Pakistan's economic outlook for FY2027 appears increasingly favorable as the economy transitions from a phase of stabilization to one of gradual and sustainable growth. The improvement in macroeconomic indicators during FY2026—including higher GDP growth, stronger foreign exchange reserves, a current account surplus, increased remittance inflows, and contained inflation—has laid a stronger foundation for future economic expansion. Economic growth is expected to be supported by continued recovery in the agriculture sector, improved industrial

activity, and sustained momentum in the services sector, particularly information technology and digital services. Ongoing fiscal consolidation efforts and structural reforms under the IMF-supported programme are likely to enhance investor confidence, attract foreign investment, and strengthen public finances. Additionally, lower inflation and a more stable interest rate environment are expected to encourage private-sector investment and consumer spending. The external sector is also expected to remain resilient, supported by growing remittances, export promotion initiatives, and improved foreign exchange reserves. However, the economic outlook remains subject to risks arising from global economic uncertainty, geopolitical tensions, commodity price fluctuations, energy sector challenges, and climate-related shocks. Overall, Pakistan enters FY2027 with stronger economic fundamentals and improved policy credibility. Continued commitment to reform implementation, fiscal discipline, and investment-friendly policies will be critical to sustaining growth, enhancing economic resilience, and achieving long-term sustainable development.

Recommendations

- Continue broadening the tax base and improving documentation of the economy.
- Accelerate energy-sector reforms to reduce circular debt and improve efficiency.
- Promote export diversification, particularly in IT and value-added manufacturing.
- Encourage private investment through regulatory simplification and lower financing costs.
- Negotiate longer maturities and concessional terms with creditors.
- Implementing an exchange rate regime that aligns with economic fundamentals to stabilize the value of the Pakistani Rupee and foster confidence in the currency's stability.

SUMMARY OF CHANGES IN THE INCOME TAX ORDINANCE, 2001

Section

2(6A) and 143 **Authorised shipping agent**

The bill seeks to insert a new definition of “authorised shipping agent” to mean a person in Pakistan who whether or not formally engaged as an agent but through the conduct acts as an agent of a non-resident ship owner, charterer or operator in respect of a vessel or voyage.

The definition covers a person responsible for receipt, collection, control or accounting of freight, documentation, manifest filing, cargo reporting, or having control over freight receipts, and includes a person responsible for furnishing the return under section 143 of the Income Tax Ordinance, 2001. Such agent shall be treated as representative of the non-resident under section 172 of the Ordinance and shall be jointly and severally liable for tax payment and all related obligations, including assessment and recovery proceedings.

2(19DA) **Electronically readable format**

The bill proposes to insert a new clause to define the term “electronically readable format.” The term refers to any digital format in which data is structured in a manner that enables automatic reading, extraction, validation, and processing by computer systems without human intervention.

The definition specifically includes structured and semi-structured formats such as CSV, XLSX, XML, XBRL, JSON, and similar machine-readable formats, formats primarily designed for human viewing or interpretation, including PDF documents, scanned images, and photographs, are expressly excluded from the definition. The amendment is intended to facilitate digital tax administration, automated data analysis, and electronic compliance reporting by requiring taxpayers to maintain and furnish information in formats that can be directly processed by FBR's information systems.

2(22A), 113, Clause (24D), Part II, Second Schedule **Fast moving consumer goods**

The definition of fast-moving consumer goods as provided in section 2(22A) of the Ordinance was not specific and was worded in a generalised manner. Various judicial pronouncements extended the scope of the definition to a greater extent. Currently, the rate of minimum tax for specified persons engaged in the distribution of “Fast Moving Consumer Goods” is 0.25%. To nullify the impact of the said judicial decisions, the bill proposes to omit the definition of “Fast Moving Consumer Goods”.

Section

Consequently, the reduced rate provided under Section 113 of the Ordinance and as per clause 24D of Part III of the Second Schedule would not be available to FMGC. The omission will enhance the rate applicable on FMGC 1.25%.

2(30A) Electronic invoice

The bill proposes an amendment whereby the expression “Board through approved fiscal electronic device and software” is proposed to be substituted with “Board’s computerized system through a licensed integrator.”

The amendment reflects a shift from the existing framework based on approved fiscal electronic devices and software to a more centralized digital reporting mechanism integrated directly with the FBR’s computerized system through licensed integrators. The proposed change is intended to facilitate real-time transmission of transaction data, enhance standardization of electronic invoicing, improve monitoring capabilities, and support the government’s broader objective of digitizing tax administration and strengthening documentation of the economy.

2(30D) Licensed integrator

The bill proposes the insertion of a new clause to define the term “Licensed Integrator.” The proposed definition provides that the term shall have the same meaning as assigned to it under clause (15A) of Section 2 of the Sales Tax Act, 1990.

The amendment seeks to harmonize the terminology used under the direct and indirect tax laws and establish a consistent legal framework for electronic invoicing, data integration, and digital reporting. By referencing the definition contained in the Sales Tax Act, 1990, the proposal facilitates the use of licensed third-party service providers for integration of taxpayers’ systems with the FBR’s computerized platform, thereby supporting automation, real-time data transmission, and enhanced tax compliance.

2(42AA) PRAL (Pakistan Revenue Automation (Private) Limited)

The bill proposes to insert a new clause to define “PRAL” as Pakistan Revenue Automation (Private) Limited, a State-Owned Enterprise assigned responsibility for software development and maintenance of FBR’s IT infrastructure.

The insertion of this definition provides statutory recognition to PRAL’s role in supporting the Board’s digital and technological functions. The amendment is intended to facilitate the implementation of various technology-based compliance, reporting,

Section

data management, and system integration initiatives envisaged under the Ordinance and administered through the FBR's computerized infrastructure.

4AB Exclusion of salaried individuals from surcharge

Section 4AB of the Ordinance was inserted through the Finance Act, 2024 to impose a surcharge on individuals and association of persons where taxable income exceeds Rs. 10 million in a tax year at the rate of 10% of income tax.

Subsequently, through the Finance Act, 2025, a proviso was inserted to reduce to 9% in case of individuals deriving income under the head "Salary".

The proposed amendment substitutes the said proviso by providing that no surcharge shall be payable by salaried class of taxpayers.

6A Tax on payments for digital transactions in e-commerce platforms

The bill proposes to introduce amendments to section 6A of the Ordinance, originally inserted through the Finance Act 2025, to govern the taxation of persons receiving payments for the supply of digitally ordered goods or services through locally operated online platforms, including websites and online marketplaces, where such supplies are made within Pakistan.

However, this section excludes export proceeds from its' ambit that are already subject to withholding tax under section 154 and 154A, of the Ordinance.

The tax under this section is calculated on the basis of gross receipts, without allowing any deduction for expenses and is charged at the rates specified in Division IVA of Part I of the First Schedule to the Ordinance. The change inserts threshold-based distinction by providing that, notwithstanding section 8 of the Ordinance, the tax shall be adjustable where the taxpayer's annual turnover exceeds Rs. 200 million. This provision will create dual regimes in which smaller e-commerce operators are subject to a simplified final tax regime, while the larger entities are provided with the eligibility to adjust such tax against their overall tax liability on net income basis.

The proposed amendment reflects a deliberate policy approach aimed at broadening the tax base in the digital sector while ensuring equitable treatment for larger and more formalized businesses.

Section

7E and 8 Abolishment of tax on deemed income from capital assets

Section 7E of the Ordinance was introduced through the Finance Act 2022 and became effective from the tax year 2023. The provision deemed a resident person to derive income equal to 5% of the fair market value of specified capital assets, immovable properties, irrespective of the fact that no actual income was earned.

The constitutional validity of section 7E was challenged before various High Courts and was ultimately decided by the Federal Constitutional Court (FCC) in *Sher Muhammad Mughari v. Federation of Pakistan through Secretary Finance, Islamabad & others* (C.P.L.A. No. 1442-K/2022 and connected cases) dated 7 May 2026. The outcome of which being that section 7E of the Ordinance was declared ultra vires the Constitution and void ab initio. The Court had also set aside all proceedings and actions initiated.

In line with the above the bill proposes to omit section 7E of the Ordinance from the statute book. Consequently, the deemed income regime applicable to specified capital assets would cease to apply.

The proposed omission removes a highly litigated provision and restores the principle that income tax should be levied on actual income rather than notional income arising from ownership of assets.

7G, 8, 151B & Division IC of Part III, First Schedule Tax on certain payments by life insurance business

The bill proposes the introduction of section 7G along with section 151B of the Ordinance, supported by applicable rates under Division-IC of Part-III of the First Schedule to the Ordinance, to bring into the tax net specified payments arising from life insurance policies and family takaful arrangements. A consequential amendment has also been made in section 8 of the Ordinance. Under these provisions, tax is imposed on amounts received by individuals in the form of payouts, surrender values, maturity proceeds, or similar benefits. The taxable amount is computed as the difference between the gross amount received and the total premiums or contributions paid by the policyholder. Tax shall be deducted at source at the following rates:

- 15% where payout or benefit is made within one year from the date of issuance of the life insurance policy or family takaful certificate/plan.
- 10% where payout or benefit is made after one year but before completion of seven years from the date of issuance.

Section

- To preserve the protective and long-term savings nature of these instruments, no tax shall apply where:
 - The payment is made on account of death or disability of the insured or participant or
 - The proceeds are received after completion of a minimum holding period of seven years

The proposed change establishes a withholding tax mechanism, requiring life insurance companies, including family and window takaful operators, to deduct tax at source on such payments. This ensures effective taxation of the investment component embedded in these products while safeguarding genuine risk coverage and long-term savings.

Tax deducted under these provisions shall be treated as final tax, thereby fully discharging the recipient's tax liability on such income.

21(r) Deductions not allowed

The bill proposes to substitute the existing clause whereby the disallowance of expenditure on account of failure to install electronic resource or to act as an integrated enterprise would be upto five percent instead of existing eight percent.

53A Rationalization of rates of withholding taxes in the nature of minimum tax

The proposed insertion through the bill empowers the Federal Government to rationalize withholding tax rates that are in the nature of minimum tax as prescribed in the First Schedule to the Ordinance. Under the proposed provision, the Government may reduce such rates up to a maximum of one percent, based on considerations of economic viability and for specified classes of taxpayers.

However, this authority is expressly limited and does not extend to the minimum tax imposed under section 113 of the Ordinance.

152(1DA) Computation of withholding tax on capital gains of non-resident investors

Division II

Part III

First

Schedule

The bill proposes significant amendments to section 152(1DA), originally inserted through the Finance Act 2021, to broaden and clarify the withholding tax regime applicable to capital gains derived by non-resident investors through various value accounts, including:

Section

- Foreign Currency Value Accounts (FCVA)
- Foreign Currency Business Value Accounts (FCBVA)
- Non-Resident Rupee Value Accounts (NRVA)
- Non-Resident Rupee Business Value Accounts (NRBVA)

The proposed amendments seeks to make responsible banking companies maintaining such accounts to deduct tax at source on capital gains arising from the disposal of debt instruments, government securities, and certificates, including Shariah-compliant instruments at the rate of ten percent as specified in Division II of Part III of the First Schedule.

This proposed change brings uniformity in tax treatment across both conventional and Islamic financial instruments, while also strengthening compliance by assigning withholding responsibility to banking institutions. The amendment is expected to enhance documentation and transparency in foreign portfolio investments.

64D Tax credit for integration

The existing section 64D of the Ordinance provides a tax credit for the purchase of Point of Sale (POS) machines by persons required to integrate with the Board's computerized system for real-time reporting of sales or receipts. Under the current provision, the tax credit is available in the tax year in which the POS machine is installed, integrated, and configured with the Board's computerized system. The amount of credit is restricted to the lower of the actual investment made in the POS machine or Rs. 150,000 per machine.

The term "Point of Sale Machine" refers to a machine used for processing and recording sales transactions for goods or services through cash, cards, or online payment methods in an internet-enabled environment.

The bill proposes substitution of section 64D of the Ordinance relating to tax credit for Integration. The revised provision extends the availability of tax credit (to persons who integrate their system with the Board's computerized system for real-time production monitoring or for recording and reporting sales or receipts), equal to ten percent of the actual amount invested in equipment, hardware, software, or other electronic components that are purchased, acquired, installed, and exclusively utilised for integration with the FBR's computerised system. The tax credit will be available in the tax year in which the relevant electronic resources are installed, integrated, and configured with the Board's system.

Section

However, tax credit shall not be available for operational, or maintenance expenses incurred after installation. In addition, the Board has been empowered to prescribe conditions, limitations, and restrictions for claiming the credit. The credit will be adjustable only against tax payable under the normal tax regime and shall not be available against tax liability arising under final tax, minimum tax, or other special tax regime.

76 Cost of inherited immovable property at FMV after death

Currently, the contents of section 76 of the Ordinance provide the mechanism for determining the cost of an asset for tax purposes, generally based on acquisition cost, incidental expenses, improvements, and other specified adjustments, with special rules for different modes of acquisition.

The bill seeks to insert a new sub-section (8A) to provide that where an immovable property is acquired by an individual through inheritance, the cost of such property shall be taken as the fair market value (FMV) on the date of death of the original owner, as determined under sub-section (5) of section 68 of the Ordinance.

79 Extension of no gain/loss recognition treatment to family settlement in inherited property transfers

The provisions of section 79 of the Ordinance provide for certain transfers of assets where no gain or loss is recognised, including transfers between spouses, inheritance, gifts, liquidation, and dissolution of associations, subject to specified conditions.

The bill seeks to insert an “Explanation” in clause (b) clarifying that the transmission of an immovable property to a beneficiary upon death of a person shall also include cases where such property is transferred through a family settlement amongst legal heirs consequent upon the death.

This clarification is a beneficial change which ensures that post-death redistribution of immovable property among family members is also treated as part of the inheritance transmission mechanism, and such transfers continue to fall within the non-recognition regime under the Ordinance.

80 and 92 Limited liability partnership

The bill seeks to insert words “Limited Liability Partnership” under the definition of Association of Persons as laid down under section 80 of the Ordinance.

Section

Currently an explanation which is part of section 92 of the Ordinance, provides that the share of partners out of exempt income of Association of Persons is tax exempt in the hands of partner.

The bill now seeks to propose that the said explanation be omitted and a new sub-section 4A is proposed to be inserted which provides that where income of a limited liability partnership is tax exempt, the share of income in hands of a partner would be taxable.

100B Rationalization of capital gains tax framework for institutional investors

Section 100B of the Ordinance prescribes a special mechanism for the computation, determination, collection and deposit of Capital Gains Tax (CGT) on disposal of listed securities through the National Clearing Company of Pakistan Limited (NCCPL).

Under sub-section (2), certain categories of taxpayers are excluded from this mechanism, including mutual funds, banking companies, non-banking finance companies (NBFCs), insurance companies, Modarabas and companies dealing exclusively in debt securities. The bill seeks to omit:

- The expression “a non-banking finance company” from clause (b) of sub-section (2), whereas.
- Clauses (c) and (d) relating to Modarabas and companies dealing exclusively in debt securities, respectively.
- A new sub-section (3) is proposed to be inserted, whereby NCCPL shall compute and determine capital gains of banking companies, insurance companies and mutual funds in accordance with the mechanism prescribed under section 37A. However, these entities shall continue to discharge their tax liability in accordance with the applicable provisions of the Ordinance.

The amendment reduces the categories of taxpayers excluded from the CGT regime under section 100B. In particular, the exclusion previously available to NBFCs, Modarabas and companies dealing exclusively in debt securities has been withdrawn. At the same time, a separate mechanism has been introduced for banking companies, insurance companies and mutual funds, under which NCCPL will now compute and determine capital gains, while the responsibility for payment of tax will remain with the respective entities.

114 Filling of return of income

Section 114(2A) of the Ordinance requires electronic filing of return of income on IRIS as prescribed by the Board and empowers the Board to make rules regarding

Section

verification, digital signatures and other matters relating to electronic filing of returns, statements or documents. Section 114(6) and (6A) of the Ordinance provide the procedure and conditions for filing a revised return, including Commissioner's approval, payment of tax short paid along with default surcharge, and payment of penalties in certain cases. However, currently there is no specific provision which governs the filing of a revised return where a taxpayer has availed a settlement offered by an algorithmic settlement mechanism and also there is no express requirement mandating the format of financial statements accompanying the return.

The bill now seeks to substitute sub-section (2A) by inserting a new proviso thereto, adding a requirement for companies from tax year 2026 and onwards to file financial statements in an electronically readable file format the return.

New sub-section (6B) is proposed to be inserted, providing that if a taxpayer avails an algorithmic settlement, he may file a revised return with the following conditions:—

- (i) approval of the Commissioner is not needed;
- (ii) the taxpayer shall pay the amount of tax determined by the mechanism, and no separate penalty or default surcharge shall be payable; and
- (iii) the return shall be accompanied by documents as required under sub-section (6) and shall be treated as a valid revised return.

The bill also seeks to make a consequential amendment for algorithms under sub-section (6) to modernize tax compliance through automation and technology-driven dispute resolution. The mandate for electronically readable financial statements for companies from tax year 2026 onwards will enhance standardization, data interoperability, and efficient processing, analytics, cross-verification, and audit selection, thereby reducing manual intervention and errors.

Collectively, these amendments reduce litigation, enhance taxpayer confidence, provide legal certainty, and promote efficient and expeditious resolution of tax disputes through modern technological means.

FACELESS AUDITS AND ASSESSMENTS SCHEME

Earlier only the concept of physical hearing was in place, however the bill proposes to introduce a new concept of faceless assessment and audit. This initiative aims to enhance transparency and reduce human interaction in the tax assessment process. This is a digitized approach to conduct audits, allowing taxpayers to interact with the tax authority through a centralized platform without direct contact with revenue officers.

Section

Under the scheme, several overriding provisions have been proposed to be inserted in the statute book, each of them is described briefly below:

122E Faceless audit and assessment

Through the application of this new section, certain classes of persons or cases or certain types of income as prescribed by the Board would be subject to faceless hearings.

It has been proposed that any audit under section 177 or 214C of the Ordinance, or any order in respect of unexplained income or assets made under section 111 of the Ordinance, any assessment or rectification may be made in a faceless manner as may be prescribed by the Board.

It has further been proposed that where an opportunity of being heard is to be provided to the taxpayer during the course of audit or a statement under oath is required to be obtained from a taxpayer or any other person under section 176 of the Ordinance, the same shall be done through e-hearing under section 227E of the Ordinance.

It has been further proposed that the identity of the officer including facial and voice identity, conducting such e-hearing shall be kept confidential.

129A Faceless appeals

Similar to the above concept of faceless audits and assessments, a concept of faceless appeals has also been proposed to be introduced whereby any appeal filed under section 127 of the Ordinance may be processed through the National Faceless Centre as may be prescribed by the Board.

It is further proposed that the provision of faceless scheme would apply to and attract in similar manner for the appellate proceedings before the Commissioner Inland Revenue Appeals under Section 127, 128 and 129 of the Ordinance.

209B Faceless jurisdiction of income-tax authorities

It is proposed that the Inland Revenue authorities appointed in National faceless centre would perform all or such functions and exercise all or such powers under this Ordinance as may be assigned to them in respect of such persons, classes of person for such tax years of a person through algorithm developed by the Board.

Section

The jurisdiction so assigned under the Ordinance may be exclusive or concurrent. In case of concurrent jurisdiction, the powers and functions not assigned to the National faceless centre would remain with the Commissioner having jurisdiction under section 209 of the Ordinance.

The Chief Commissioner appointed in the National faceless center may request the Board to direct the Commissioner having jurisdiction under section 209 or any other income tax authority, as it may deem fit to conduct physical verification for conducting any proceedings assigned to the National faceless centre.

It has also been proposed that the Board may exercise its power of allocation of verification through an algorithm-based system.

The identity of the authority exercising jurisdiction in the National faceless centre would be kept confidential from the taxpayer and authorized representative of the taxpayer and any unauthorized person.

No objection can be raised on the point of jurisdiction under sections 209 and 210 of the Ordinance.

227B National faceless centre

For the purpose of proceedings under this Ordinance in faceless manner, the Board may establish a National faceless centre and specify its jurisdiction powers and functions and may appoint special wings or any authorities for the purpose. The function of audit, assessment and quality control in a specific case shall be performed by separate officers and all communication with the taxpayer or authorized representative of the taxpayer as may be necessary shall be through electronic means.

The bill in consequence has also proposed inclusion of referral definitions of National faceless centre under section 2 of the Ordinance and certain consequential amendments.

133A Introduction of independent case scrutiny committee

Currently section 133 of the Ordinance empowers the Commissioner Inland Revenue (CIR) to file a reference before the High Court against an order of the Appellate Tribunal Inland Revenue involving a question of law. Similarly, appeals and review petitions before the Federal Constitutional Court (FCC) and the Supreme Court may be pursued by the tax authorities in accordance with the applicable legal framework.

Section

Under the existing regime, the decision to initiate such proceedings rests primarily with the tax authorities, without any statutory requirement for independent scrutiny prior to filing.

The bill proposes the insertion of a new section 133A to establish an Independent Case Scrutiny Committee. Under the proposed provision:

- A reference under section 133 before the High Court, or an appeal or review before the FCC or Supreme Court, may only be filed after obtaining approval from the Committee.
- The Board may constitute one or more Committees and assign cases or classes of cases for review.
- The Committee shall comprise:
 - A retired Judge of the Supreme Court, Federal Constitutional Court or a High Court as Chairman;
 - An advocate having at least fifteen years' experience in tax and commercial litigation; and
 - A serving or retired FBR officer of BS-20 or above.
- The recommendations of the Committee shall be binding upon the Commissioner Inland Revenue.

The proposed insertion introduces an independent review mechanism for tax litigation before higher judicial forums. The requirement to obtain prior approval from the Committee before filing a reference, appeal or review petition is intended to ensure that only cases involving substantial legal merit or significant revenue implications are pursued.

By involving experienced judicial, legal and tax professionals in the decision-making process, the amendment seeks to improve the quality of tax litigation, reduce unnecessary appeals and promote a more consistent litigation strategy across the tax administration.

134A Alternative dispute resolution

The section 134A of the Ordinance provides for the establishment of an Alternative Dispute Resolution Committee (hereinafter referred to as "the committee") for resolution of tax disputes outside the conventional appellate forum. Sub-section (10) thereof deals with the dissolution of the Committee in case of failure to decide a dispute

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within the stipulated period of sixty days. However, currently there is no express provision enabling the committee to rectify mistakes apparent from the record after its dissolution, which may cause hardship to taxpayers or the Commissioner in cases where an apparent error on record remains uncorrected despite the Committee having rendered its decision.

The bill seeks to insert a new sub-section (10A) after sub-section (10) of section 134A whereby, notwithstanding the dissolution of the Committee, the Committee may, by an order in writing, rectify any mistake apparent from the record on its own motion or any mistake brought to its notice by the taxpayer or the Commissioner, within thirty days of the receipt of decision of the Committee by the taxpayer or the Commissioner, as the case may be.

The proposed amendment seeks to confer post-dissolution rectification powers upon the Alternative Dispute Resolution Committee to correct apparent errors on record. This is a salutary procedural safeguard aimed at ensuring that mistakes, whether noticed by the Committee itself or brought to its attention by the parties, can be rectified without requiring fresh dispute resolution proceedings or approaching a higher appellate forum. The thirty-day timeframe from the receipt of decision strikes a balance between finality of dispute resolution and the need for correction of bona fide errors.

The existing sub-section (11) of section 134A provides that upon dissolution of the Committee, the matter shall be decided by the court of law or the appellate authority where the dispute is pending under litigation. However, the current provision does not adequately address the situation where a member of the Committee becomes unavailable or unable to perform his functions during the pendency of proceedings, which may lead to stalemate, delay, or premature dissolution of the Committee.

The bill by way of proposed insertion of sub-section 10A and proviso, provides that where at any stage of the proceedings any member of the Committee becomes unavailable or is unable to perform his functions for any reason whatsoever, the Chairman of the Board shall, within fifteen days of the occurrence of such vacancy, appoint another person in accordance with the provisions of sub-section (3) of this section to fill such vacancy. The Committee so reconstituted shall continue to function subject to the same terms, conditions and limitations as were applicable to the original Committee. Upon such reconstitution, the Committee shall be allowed a further period of sixty days to conclude the proceedings and perform its functions under this section. However, the total period available to the Committee, including the period already consumed prior to such reconstitution, shall in no case be less than ninety days from the date of its original constitution.

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The intention behind these proposed insertions is to provide a clear statutory mechanism for reconstitution of the Alternative Dispute Resolution Committee in case of vacancy arising from unavailability or inability of any member to perform functions, thereby preventing abatement, stalemate, or indefinite delay of proceedings. The fifteen-day timeline for appointment by the Chairman of the Board ensures administrative efficiency and continuity. The further period of sixty days provides a reasonable opportunity to the reconstituted Committee to familiarize itself with the record and conclude the proceedings. The minimum guaranteed period of ninety days from the date of original constitution protects the interests of taxpayers who should not suffer prejudice due to circumstances beyond their control. This is a pragmatic step towards ensuring continuity, efficiency, and timely disposal of alternative dispute resolution proceedings under section 134A of the Ordinance.

134B Algorithm settlement mechanism:

The bill proposes to introduce through insertion of an overriding provision, a new concept of algorithm settlement mechanism whose objective for tax purposes is to enhance the efficiency, transparency, and automation of tax processes and collection. This includes providing faster, more secure, and highly interoperable transaction settlements between FBR and the taxpayers.

This mechanism would perform the settlement of tax proceedings at any stage before any assessment or amendment of assessment order under section 121, 122 or 122E of the Ordinance through revision of return of income under sub section 6 of section 114 of the Ordinance in certain cases.

It is proposed that through this mechanism, taxpayer would be provided a settlement offer for voluntary revision of return of income and taxpayer may or may not avail the same.

The system generated settlement offer would be calculated based on following factors:

- The stage of proceedings;
- The taxpayers' compliance history as maintained in FBR records;
- The nature and character of the discrepancy including whether it involves a valuation or legal interpretation dispute, unexplained income or assets, or concealment; and

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- Any other basis the Board may consider relevant to ensure adequacy and equitable treatment of taxpayers.

A taxpayer who opts to avail this mechanism shall within ten days from the date of settlement offer to:

- Accept the settlement offer on IRIS;
- Deposit the settlement offer amount along with the revised return of income; and
- Revise the relevant return of income to incorporate the settled amount.

The issues confronted to the taxpayer through notice of selection of audit, a notice of unexplained income or assets under section 111 of the Ordinance, an audit report under sub-section 6 of section 177 of the Ordinance, a notice of amendment of assessment under sub-section 9 of section 122 of the Ordinance as the case may be shall stand abated, if the taxpayer revises the return of income by accepting the settlement offer.

Revision of return consequent upon acceptance of offer shall not preclude proceedings in respect of any other issue or discrepancy not covered by the settlement of offer nor shall it affect proceedings for any other tax year.

The bill in consequence to the above has also proposed inclusion of referral definitions of Algorithm Settlement Mechanism under section 2 of the Ordinance.

147(6C), 154 **Abolition of 1% advance tax on export proceeds and increase in minimum tax**

Section 147 of the Ordinance deals with the payment and collection of advance income tax on various transactions, including export proceeds, where tax was previously also collected through withholding mechanism linked with section 154 of the Ordinance.

Sub-section (6C) provided for an additional 1% advance income tax on export proceeds and related export transactions, to be collected or deducted at the time of realization of foreign exchange, sale of goods, export of goods, payment to indirect exporters, or clearance of exported goods, in addition to tax collected under section 154 of the Ordinance.

This sub-section has now been omitted due to which the 1% advance tax on export proceeds is proposed to be withdrawn.

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However, in line with the policy change, the minimum tax regime on exporters has been enhanced from 1% to 1.25%, meaning exporters will continue to be subject to minimum tax at the revised rate despite the withdrawal of the additional advance tax mechanism.

152(1DA) Withholding tax on capital gains of non-resident investors

Division II

Part III The bill proposed significant amendments to section 152(1DA), originally inserted
first through the Finance Act 2021, to broaden and clarify the withholding tax regime
schedule applicable to capital gains derived by non-resident investors through various value accounts, including:

- Foreign Currency Value Accounts (FCVA)
- Foreign Currency Business Value Accounts (FCBVA)
- Non-Resident Rupee Value Accounts (NRVA)
- Non-Resident Rupee Business Value Accounts (NRBVA)

Under the revised provision, banking companies maintaining such accounts are required to deduct tax on capital gains arising from the disposal of debt instruments, government securities, and certificates, including Shariah-compliant instruments, at rate of 10% as specified in Division II of Part III of the First Schedule.

This expansion ensures uniform tax treatment across both conventional and Islamic financial instruments, while also strengthening compliance by assigning withholding responsibility to banking institutions. The amendment is expected to enhance documentation and transparency in foreign portfolio investments.

154B Withholding tax on revenues received from social media platforms

Income earned by digital content creators and social media influencers has witnessed significant growth in recent years, however, such income is generally received through foreign digital platforms and online payment intermediaries, making it difficult for tax authorities to effectively monitor and collect taxes at source. The existing tax framework does not contain a specific provision governing payments received from social media platforms, resulting in compliance and documentation challenges in the rapidly expanding digital economy.

The bill proposes the insertion of a new section 154B to introduce a withholding tax regime on revenues received from social media platforms. Under the proposed provision, every banking company and non-banking financial institution shall be

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required to deduct tax at the prescribed rate at the time of credit or receipt of any amount in an account where such amount represents revenues received from social media platforms.

The proposed section defines a digital content creator or social media influencer as any individual or entity deriving income from the creation, publication, or monetization of content on digital platforms, including YouTube, Facebook, Instagram, TikTok, and other similar platforms. The term payment has been broadly defined to include inward remittances, transfers, or credits received through banking channels, online payment service providers, or digital financial platforms.

The tax deducted under this section shall constitute minimum tax in the case of resident persons, while it shall be treated as final tax for non-resident persons not having a permanent establishment in Pakistan. The Board has also been empowered to prescribe rules regarding implementation, identification, and reporting mechanisms through notification in the official Gazette.

The proposed amendment introduces a dedicated withholding tax mechanism for income generated through digital platforms and social media activities. The measure is intended to improve documentation of the digital economy, enhance tax collection from content monetization activities, and bring social media influencers and digital content creators within the formal tax framework. The amendment is expected to strengthen FBR's ability to track and tax income earned through foreign digital platforms.

159 Exemption or lower rate certificate

Income derived by a Collective Investment Scheme or a REIT Scheme including Special Purpose Vehicle is exempt from tax in terms of Clause (99) of Part I of the Second Schedule if it distributes ninety percent or more of its accounting income amongst the unit/certificate holders or shareholders.

1C The bill seeks to insert a new sub-section (1C) where the aforesaid persons have distributed their income in accordance with the provisions of Clause (99) for the last three years shall be issued exemption certificate for the subsequent whole tax year.

1D The bill further seeks to insert a new sub-section (1D) entitling the eligible non-profit organizations approved by the Commissioner under sub-clause (c) of Clause (36) of section 2 for a tax year shall be issued exemption certificate for the whole tax year.

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165AB Reporting of financial transaction data by banking companies and financial institutions

The bill seeks insertion of a non obstante provision obligating every banking company and electronic money institution to upload information on Central Data Hub regarding opening and closing balances, peak credits, total credits of account holder where deposits or withdrawals during the reporting period of six months exceeds rupees 100 million in any or all of the bank accounts including all types of deposits i.e. current, call, saving, fix, term or any other deposits by whatever name called.

This digital information shall not be visible to any of the Income Tax Authorities and shall be used for algorithmic cross-matching of tax and bank information. In case of gross mismatch, the system shall feed the information into Compliance Risk Management (CRM) for further processing by the National Faceless Centre. The term CRM means a computer program for identification and communication of compliance risk, including understatement of sales, overstatement of expenses, non-reporting or under-reporting of incomes, assets and transactions.

The timeline to upload information under this section is prescribed as January 31st and July 31st and for the reporting period covering transaction from July to December and from January to July respectively.

The term gross mismatch has not been defined in the provision.

174 Records

The bill proposes to substitute the existing provision to authorize the Board to prescribe any person or class of persons to install electronic resource or to act as an integrated enterprise for the purposes of receiving, storing and accessing information regarding any transaction that has bearing on the tax liability.

175AA Exchange of banking and tax information related to high-risk persons

Previously, the Board was empowered to share information to the scheduled banks for the purposes of cross-matching with the bank data through data-based algorithms. Scheduled banks on the other hand were empowered to share the final result containing variances with the aforesaid algorithms to the Board.

The bill proposes to enlarge the scope by including the State Bank of Pakistan, Microfinance Banks and Electronic Money Institutions in the process of sharing taxpayer's information for cross-matching and its final result with the Board. For the purposes of

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carrying out exchange of information under this section, the State Bank may establish, operate and maintain a secure centralized virtual repository of banking data comprising information, record and financial transaction of the persons on the basis of unique identifiers, maintained by the scheduled banks as prescribed by the Board.

177 Audit

The bill proposes to further empower the Commissioner subject to approval of the Chief Commissioner, require the taxpayer to get re-audit of accounts by an accountant, revaluation of inventory by a cost accountant and/or actuarial values determined by an actuary and furnish duly signed and verified reports of such audit, inventory valuation or actuarial valuation covering answers to any specific queries raised by the Commissioner.

The accountant, cost accountant or actuary shall be nominated by the Commissioner from the penal nominated by the Board.

The Commissioner may exercise the powers at any stage of the proceedings in the following scenarios:

- nature and complexity of the accounts; or
- volume of the accounts; or
- doubts about the correctness of the accounts; or
- multiplicity of transactions in the accounts; or
- specialized nature of business activity of the taxpayer and interest of the revenue.

182 Offences and penalties

The bill proposes to insert certain new penalties as under:

S No.	Offense	Penalty	Section
2A	Where any person, having been required by the Board under sub-section (5) of section 174 to install and use an electronic resource of the type and description prescribed for the purpose of storing and accessing information regarding any transaction that has a bearing on the tax liability of such person, fails to install such electronic	One million rupees for the first default, and two million rupees for each subsequent default.	174(5)

S No.	Offense	Penalty	Section
	<p>resource within the time specified, or having installed it, fails to use, maintain, or operate it in the prescribed manner, or tampers with, disables, or circumvents such electronic resource.</p>		
2B	<p>Where any agency, authority, institution, or organisation that is an integrated organisation within the meaning of section 175A, or has been notified as such by the Board, fails without reasonable cause to</p> <ul style="list-style-type: none"> (a) integrate its IT platform such data interface as notified by the Board within the time specified; or (b) share data of the categories and in the manner required under section 175A or the rules made thereunder; or (c) provide complete, accurate, and timely data as required; or (d) designate a focal person as required; or (e) remedy a deficiency or noncompliance within thirty days of a written notice by the Board identifying the deficiency. 	<p>A penalty of five hundred thousand rupees for the first default and one million rupees for each subsequent default shall be imposed on the principal officer of the integrated organisation. "principal officer" for this purpose, means the person who, at the time of the default or during the period of continuing default, holds overall executive responsibility for the administration and functioning of the integrated organisation, by whatever title or designation that person may be referred to under this ordinance, rules, or instrument constituting or governing that organisation, including but not limited to the Governor, Chairman, Chief Executive Officer, Director General, Managing Director, Secretary, or Principal Accounting Officer, as the case may be; where executive responsibility is shared between two or more persons by virtue of a collegiate body or board structure, the "principal officer" shall be the person who, within that body, holds specific responsibility for regulatory compliance, data governance, or information technology; and the absence of a formal designation, or a vacancy in the office, shall</p>	175A

S No.	Offense	Penalty	Section
		not relieve the person actually exercising the functions of the principal officer from liability under this section.	
36	Where a person claims a credit in respect of tax withheld at source under any provision of this Ordinance in excess of the amount verifiably deducted and deposited by the withholding agent, as confirmed through the Board's computerized system or otherwise.	Such person shall pay a penalty equal to the amount of excess credit claimed.	168

Proposed substitutions in existing penalties are listed below:

S No.	Offense	Penalty	Section
1	Where any person fails to furnish a return of income as required under section 114 within the due date.	Such person shall pay a penalty equal to higher of – (a) 0.1% of the tax payable in respect of that tax year for each day of default; or (b) rupees one thousand for each day of default: Provided that minimum penalty shall be – (i) rupees ten thousand in case of individual having seventy-five percent or more income from salary; or (ii) rupees fifty thousand in all other cases: Provided further that maximum penalty shall not exceed two hundred percent of tax payable by the person in a tax year:	114 and 118

S No.	Offense	Penalty	Section
8	Where a taxpayer who, without any reasonable cause, in noncompliance with provisions of section 177—	<p>Provided also that the amount of penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law;</p> <p>Explanation. — <u>For the purposes of this entry, it is declared that the expression "tax payable" means the higher of —</u></p> <p>(i) <u>tax chargeable on the taxable income on the basis of assessment made or treated to have been made under section 120, 121, 122, 122D, or 122E; or</u></p> <p>(ii) <u>the highest tax payable by the person in any of the three immediately preceding tax years for which returns of income were duly filed.</u>”;</p>	177
	(a) fails to produce the record of documents on receipt of first notice	Such person shall pay a penalty of one hundred thousand rupees;	
	(b) fails to produce the record or documents on receipt of second notice;	Such person shall pay a penalty of two hundred thousand rupees;	

S No.	Offense	Penalty	Section
	(c) Fails to produce the record or documents on receipt of third notice.	Such person shall pay a penalty of three hundred thousand rupees.	
10	Any person who— (a) makes a false or misleading statement to an Inland Revenue Authority either in writing or orally or electronically including a statement in an application, certificate, declaration, notification, return, objection or other document including books of accounts made, prepared, given, filed or furnished under this Ordinance; (b) furnishes or files a false or misleading information or document or statement to an Income Tax Authority either in writing or orally or electronically; (c) omits from a statement made or information furnished to an Income Tax Authority any matter or thing without which the statement or the information is false or misleading in a material particular.	Such person shall pay a penalty of five hundred thousand rupees or 100% of the amount of tax shortfall whichever is higher: Provided that in case of an assessment order deemed under section 120, no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayers' position.	114, 116, 174, 176, 177
12	Where a person has concealed income or furnished inaccurate particulars of such income, including but not limited to the suppression of any income or amount chargeable to tax, the claiming of any deduction for any expenditure not actually incurred or any act referred to in subsection (1) of section 111, in the course of	Such person shall pay a penalty of one million rupees or an amount equal to the tax which the person sought to evade whichever is higher. However, no penalty shall be payable on mere disallowance of a claim of exemption from tax of any	20, 111 and General

S No.	Offense	Penalty	Section
	any proceeding under this Ordinance before any Income Tax authority or the appellate tribunal.	income or amount declared by a person or mere disallowance of any expenditure declared by a person to be deductible, unless it is proved that the person made the claim knowing it to be wrong.	
15	Any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under section 160.	Such person shall pay a penalty of <u>five hundred</u> thousand rupees or the 10% of the amount of tax which-ever is higher; <u>Provided that where the defaulter in such case is a company, its Principal Officer shall be personally liable to pay an additional penalty of five hundred thousand rupees for such offense.</u>	Division II or Division III, excluding subsection (2A) of section 153, of Part V of Chapter X or Chapter XII
35	Any <u>person, including a company</u> and an association of persons who - (a) fails to fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer; (b) furnishes any annexure, statement or document specified in the return of income as blank or with incomplete or irrelevant particulars; or (c) attaches blank or incomplete annexures, statements or documents where such annexures, statements or records were required to be filed.	Such company, including a banking company and an association of persons shall pay a penalty of Rs.500,000 or 10% of the tax chargeable on the taxable income, whichever is higher.	114(2)

S No.	Offense	Penalty	Section
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Explanation. — For the purposes of this entry, audited financial statements furnished in the form of image files, scanned documents, or password-protected files that are illegible or otherwise inaccessible to the concerned Inland Revenue authority shall be deemed to have been furnished as blank or incomplete documents.

Section

182A Return not filed within due date

The bill proposes to increase the surcharge for inclusion in active taxpayers’ list in the following manner:

Sr. No.	Category of Person	Existing Surcharge	Proposed Surcharge
1	Company	20,000/-	100,000/-
2	AOP	10,000/-	50,000/-
3	Individual	1,000/-	25,000/-

216 & 222 Disclosure of information by a public servant/appointment of expert

Board is empowered to appoint auditors. The bill proposes to empower Board to also appoint audit mentors and sectoral experts after signing a non-disclosure agreement with the Board under the provisions of section 216.

228A Directorate General (Field Compliance), Inland Revenue

The bill proposes to empower Board to appoint Directorate General (Field Compliance), Inland Revenue consisting of a Director General, Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers to perform functions and jurisdiction as may be notified.

236CA Advance tax on TV plays and advertisements

The bill proposes to omit collection of advance tax on foreign TV drama serial or a play dubbed in Urdu or any other language for screening and viewing on any landing rights channel and commercials starring foreign actor for screening and viewing on any landing rights channel.

**FIRST
SCHEDULE**

**Part I
Division-I
Clause (2)**

The bill substitutes income tax slabs for salaried class of taxpayers as follows:

S.No.	Taxable Income	Rate of Tax
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs. 600,000/-	0%
2.	Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000	1% of the amount exceeding Rs. 600,000/-
3.	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000	Rs. 6,000 + 11% of the amount exceeding Rs. 1,200,000/-
4.	Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000	Rs. 116,000 + 20% of the amount exceeding Rs. 2,200,000/-
5.	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000	316,000 + 25% of the amount exceeding Rs. 3,200,000/-
6.	Where taxable income exceeds Rs. 4,100,000/- but does not exceed Rs. 5,600,000	Rs. 541,000 + 29% of the amount exceeding Rs. 4,100,000/-
7.	Where taxable income exceeds Rs. 5,600,000/- but does not exceed Rs. 7,000,000	Rs. 976,000 + 32% of the amount exceeding Rs. 5,600,000/-
8.	Where taxable income exceeds Rs. 7,000,000/-	Rs. 1,424,000 + 35% of the amount exceeding Rs. 7,000,000/-

The impacts on tax relief for salaried individuals as a result of proposed changes are:

Sr. No.	Taxable income Rupees	Tax liability		Increase/(Decrease) in Tax Liability	
		Existing Rupees	Proposed Rupees	Rupees	%
1.	600,000	-	-	-	0%
2.	1,200,000	6,000	6,000	-	0%
3.	22,00,000	116,000	116,000	-	0%
4.	3,200,000	346,000	316,000	(30,000)	8.67%
5.	4,100,000	616,000	541,000	(75,000)	12.18%
6.	5,600,000	1,141,000	976,000	(165,000)	14.46%
7.	7,000,000	1,631,000	1,424,000	(207,000)	12.69%
8.	8,000,000	1,981,000	1,774,000	(207,000)	10.45%
9.	10,000,000	2,681,000	2,474,000	(207,000)	7.72%

Super tax on high earning persons

Part I
Division-
IIB
Under
section 4C

The bill proposes a positive change under the super tax regime contained in section 4C. Under the existing provisions, super tax is levied on a progressive basis, with rates ranging from 1% to 10% on income exceeding Rs. 150 million.

The proposed change enhances the threshold of income from existing Rs 150 million to Rs 500 million to be taxed at flat rate of 8%, however, for banking companies, persons whose income is computed under Part I of the Fifth Schedule (including exploration and production companies within the prescribed limits), and persons engaged in the sale of fertilizer will continue to be subject to tax in the following manner:

S. No.	Income under section 4C and person	Rate of Tax
1.	Income of a banking company exceeding Rs. 150 million	10% of the income
2.	Income of a person, whose income is computed as per Part I of the Fifth Schedule, exceeding Rs. 150 million, so far as it does not exceed the limit specified in rule 4 of that Part	10% of the income
3.	Income of a person, engaged in deriving income from sale of any kind of fertilizer, exceeding Rs. 150 million.	10% of the income
4.	Income of a person other than those mentioned in S. No. 1, 2 and 3, exceeding Rs. 500 million	8% of the income

Part I
Division IVA
Under
section 6A

Rate of tax on payments for digital transmissions in e-commerce platform

The bill proposes to amend Division IVA by substituting the word “delivered” with “ordered.” This amendment broadens the scope of the provision by shifting the relevant point of charge or tax from the delivery of goods to the placement of an order.

Part I
Division
VII
Under
section
37A

Capital gain on disposal of securities

The bill proposes to amend the third proviso to Division VII by inserting the words “charge and” after the word “shall”, thereby clarifying that the prescribed person is required not only to collect but also charge the relevant amount under the provision.

Part I
Division-IX **Minimum tax**
Under
section
113

The bill proposes to omit entry (a) of column (2) against serial number 3 of the Table in Division IX. Consequently, the specific concessionary tax rate of 0.25% previously applicable to distributors of pharmaceutical products, fast-moving consumer goods, and cigarettes will no longer be governed under the said entry. Such transactions will now fall under the residual category of “all other cases” under serial number 4 of the Table and will accordingly be subject to minimum tax at the rate of 1.25%.

Part III **Payment for goods and services**
Division III

The bill proposes to increase the rate of tax deduction from 6% to 7% on the specific sectors mentioned in paragraph 2. This represents an increase of 1 percent of withholding tax burden applicable to the said sectors.

Sub-paragraph (ii) is proposed to be substituted to provide a withholding tax rate of 15% in case of independent professional services including doctors, lawyers, architects, accountants, software engineers or developers working independently.

It also proposed a new sub-paragraph (iii) to be inserted to prescribe a withholding tax rate of 1.5% of the gross amount payable to electronic and print media in respect of advertising services and

Sub-paragraph (iv) is proposed to be inserted to prescribe a withholding tax rate of 14% of the gross amount for services other than those covered under sub-paragraphs (i), (ii), and (iii).

Part III **Gain arising on disposal on certain debt security**
Division
IIIAA
Under
section
151A

The bill proposes to increase the rate of tax deductible under section 151A on gains arising from the disposal of certain debt securities from 15% to 20%. Consequently, gains derived from the disposal of such securities will be subject to a higher withholding tax burden, resulting in an increase of 5 percent in the applicable tax rate.

Part III **Withholding tax on revenues received from social media platforms.**
Division
IIIAB
Under
section
151B

The bill proposes to prescribe rate of tax for deduction under section 151B of the Income Tax Ordinance 2001:

- 5% in case of resident persons whose name appearing in the active taxpayer list.
- 5% in case of non-residents.

The tax collected under the clause shall be the final tax.

Part-III
Division-
IVA
Under
section
154A

The bill proposes to extend the exemption period from June 30, 2026 to June 30, 2029 in respect of export proceeds of computer software, IT services, and IT-enabled services by persons registered with the Pakistan Software Export Board.

Part IV
Division X
Under
section
236C

Advance tax on sale or transfer of immovable property

The bill proposes to substitute the existing slab-based/tailed mechanism with a flat rate of 2.75% of the gross amount of consideration received. This is a positive change which will reduce the cost of doing business in real estate sector

Part-IV
Division-
XVIII
Under
section
236K

Advance tax on purchase of immovable property

The bill also proposes to substitute the existing slab-based/tailed mechanism with a flat rate of 1.25% of the fair market value of the immovable property.

This is also a positive change which will reduce the cost of doing business in real estate sector

Part-IV
Division-
XXVII
Under
section
236Y

Advance tax on amount remitted abroad through credit, debit or pre-paid cards

The bill proposes to reduce the rate of withholding tax from 5% to 0.5% on the gross amount remitted abroad. This reduction been proposed to enhance documentation of the economy.

SECOND SCHEDULE

The bill proposes the following measures:

Second Schedule Exemptions and tax concessions

Part 1 Exemptions from total income

Clause (57)(4) Exempt income of specified funds, institutions, foundations and trusts

Under Clause 57(4) of Part I of the Second Schedule, income derived by specified funds, institutions, foundations, trusts, and other approved entities is exempt from income tax. The existing list includes various governmental, educational, welfare, and charitable organizations, including the Pakistan Education

Endowment Fund (formerly known as the National Endowment Scholarship for Talent (NEST)), the Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme, and several other public-sector and non-profit institutions.

The bill proposes expanding the list of exempt entities by including the following organizations:

- Pakistan Red Crescent Society
- Shaheen Foundation
- Dawat-e-Hadiya
- Bahria Foundation
- Sindh Institute of Urology and Transplantation

The replacement of the reference to NEST with the Pakistan Education Endowment Fund aligns the statutory framework with the current structure of the government's educational scholarship initiatives. Furthermore, the inclusion of welfare organizations associated with the armed forces, as well as prominent charitable and healthcare institutions such as SIUT and the Pakistan Red Crescent Society, reflects the government's policy objective of extending fiscal support to organizations engaged in public welfare, healthcare, humanitarian assistance, and educational development.

Clause (78) Exemption for income from foreign currency account schemes

Clause (78) of Part I of the Second Schedule provides exemption from income tax in respect of income derived from investments under the Foreign Currency Account Scheme.

The bill proposes to substitute the expression "Foreign Currency Account Scheme" with "any foreign currency account scheme(s)".

The amendment broadens the scope of the exemption by extending its applicability to all foreign currency account schemes introduced or approved by the State Bank of Pakistan, rather than limiting the concession to a specific scheme. The proposed change provides greater legislative flexibility and ensures that the exemption remains available for future foreign currency products and account schemes without the need for further amendments to the Ordinance. This measure is expected to facilitate foreign currency investments and support the inflow of foreign exchange through the formal banking channel.

Clause (79) Exemption for profit on debt from specified non-resident accounts

Under the existing provisions of Clause (79) of Part I of the Second Schedule, the exemption is available to a non-resident individual holding a:

- Pakistan Origin Card (POC);
- National Identity Card for Overseas Pakistanis (NICOP); or
- Computerized National Identity Card (CNIC).

The bill proposes to substitute the existing eligibility criteria and extend the exemption to persons maintaining under the scheme introduced by the State Bank of Pakistan:

- Non-Resident Rupee Value Account (NRVA); or
- Non-Resident Business Value Account (NRBVA),

The proposed amendment shifts the basis of eligibility from nationality-based documentation to account-based qualification. The focus is now on investments routed through designated banking channels recognized by the State Bank of Pakistan, rather than the residency status or identification documents of the account holder. The proposed change is intended to facilitate overseas Pakistanis and foreign investors utilizing NRVA and NRBVA structures, to promote investment through formal banking channels, and align the tax exemption framework with the State Bank of Pakistan's foreign investment and remittance initiatives.

Part II

Clause (5AA) Reduced tax rate on profit from specified value accounts

Under the existing provisions of Clause (5AA) of Part II of the Second Schedule, a reduced rate of tax is available on profit derived by an individual maintaining a foreign currency account.

The bill proposes to replace the term “individual” with “person” and expand the scope of the concession to cover profit derived from the following accounts:

- Foreign Currency Value Account (FCVA);
- Foreign Currency Business Value Account (FCBVA);
- Non-Resident Rupee Value Account (NRVA); and
- Non-Resident Business Value Account (NRBVA).

The proposed amendment significantly broadens the scope of the concession in two important respects. Firstly, it extends eligibility from individuals to all persons, thereby allowing a wider range of taxpayers to benefit from the reduced tax treatment. Secondly, it incorporates various value account products introduced under the State Bank of Pakistan's foreign investment and remittance framework.

The proposed amendment is intended to promote investment through designated banking channels, encourage foreign exchange inflows, and support the State Bank of Pakistan's initiatives aimed at facilitating overseas investments and attracting foreign capital through the formal financial system.

Clause (24CC) Terminal and port services

The bill proposes insertion of a new Clause (24CC) in Part II of the Second Schedule to prescribe a specific withholding tax rate for persons rendering terminal or port services. Under the proposed provision, tax under section 153(1)(b) shall be deducted at the rate of 12% of the gross amount of payment made to such service providers.

The proposed amendment introduces a separate withholding tax regime for the terminal and port services sector, which was previously subject to the general withholding tax provisions applicable to services.

Clause (24D) Reduced minimum tax on active taxpayers

The bill proposes to extend reduced minimum tax rate under section 113 to distributors, dealers, sub-dealers, and wholesalers of packaged food, fertilizer, locally manufactured mobile phones, sugar, and electronics. Under the proposed amendment, minimum tax shall be charged at 0.5% of turnover, subject to the condition that the taxpayer appears on the Active Taxpayers List maintained under both the Income Tax Ordinance 2001 and the Sales Tax Act, 1990.

The amendment links the availability of the concession to compliance with both direct and indirect tax laws, thereby encouraging registration, filing and documentation across the tax system. The measure reflects the government's policy of using targeted tax incentives to promote tax compliance while providing relief to businesses operating in specified sectors.

Part IV

Clause (46A) Manufacturer of iron and steel products under minimum tax regime

Presently, tax deductible under section 153(1) of the Ordinance for manufacturer of iron and steel products is adjustable tax. The proposed omission of Clause (46A) would result in the withdrawal of concession of adjustable tax and as a consequence tax deductible under section 153 (1) of the Ordinance would become minimum tax

Clause (57) Companies operating trading houses

The clause provides for exemption from provision of section 153 of the Ordinance to the companies operating trading houses that meet the condition as specified in the Clause. After omission of this Clause the contents of section 153 would be attracted on companies operating trading houses.

Clause (111AB) Non-resident individual not appearing on active taxpayers list

Under the existing provisions of Clause (111AB) of Part IV of the Second Schedule, Section 100BA and Rule 1 of the Tenth Schedule to the Ordinance has no application which provide for consequences on persons not appearing in active taxpayers list.

The bill proposes to replace the term “individual” with “person” and expand the scope of the concession to cover profit derived from the following accounts:

- Foreign Currency Value Account (FCVA);
- Foreign Currency Business Value Account (FCBVA);
- Non-Resident Rupee Value Account (NRVA); and
- Non-Resident Business Value Account (NRBVA).

The proposed amendment significantly broadens the scope of the concession in two important respects. Firstly, it extends eligibility from individuals to all persons, thereby allowing a wider range of taxpayers to benefit. Secondly, it incorporates various value account products introduced under the State Bank of Pakistan's foreign investment and remittance framework.

The amendment is intended to promote investment through designated banking channels, encourage foreign exchange inflows and support the State Bank of Pakistan's initiatives aimed at facilitating overseas investments and attracting foreign capital through the formal financial system.

Clause (114A) Relaxation in Registration and Return Filing Requirements

Under the existing provisions of Clause (114A) of Part IV of the Second Schedule, the relaxation in registration and return filing requirement is available to a non-resident individual holding a:

- Pakistan Origin Card (POC);
- National Identity Card for Overseas Pakistanis (NICOP); or
- Computerized National Identity Card (CNIC).

The bill proposes to replace the term “individual” with “person” and expand the scope of the concession to cover persons maintaining the following accounts:

- Foreign Currency Value Account (FCVA);
- Foreign Currency Business Value Account (FCBVA);
- Non-Resident Rupee Value Account (NRVA); and
- Non-Resident Business Value Account (NRBVA).

The proposed amendment significantly broadens the scope of the concession in two important respects. Firstly, it extends eligibility from individuals to all persons, thereby allowing a wider range of taxpayers to benefit. Secondly, it incorporates various value account products introduced under the State Bank of Pakistan's foreign investment and remittance framework.

Provided that this clause shall not apply if the person referred in this clause has Pakistan-source taxable income other than the following; namely:—

- (a) profit on debt on FCVA, FCBVA, NRVA, or NRBVA;
- (b) profit on debt earned on Government of Pakistan (GOP) securities either conventional or Shariah Compliant where investment has been made from proceeds of FCVA, FCBVA, NRVA, or NRBVA;
- (c) capital gain on disposal of immovable property acquired from proceeds of FCVA or NRVA;
- (d) capital gain on disposal of securities traded on Pakistan Stock Exchange and units of mutual funds that are acquired from proceeds of FCVA, FCBVA, NRVA, or NRBVA; or

- (e) dividend income from securities traded on Pakistan Stock Exchange and mutual funds that are acquired from proceeds of FCVA, FCBVA, NRVA, or NRBVA

Clause 115 Individual traders with small turnover

The bill proposes to amend Clause (115) of Part IV of the Second Schedule by increasing the turnover threshold from Rs. 100 million to Rs. 200 million through the substitution of the words “one hundred million” with “two hundred million.”

The amendment effectively doubles the turnover limit specified under the clause, thereby extending the benefit of the concession to a wider range of taxpayers and transactions. The increase in the threshold is expected to provide relief to smaller businesses and reduce compliance obligations for taxpayers whose turnover falls within the revised limit.

EIGHTH SCHEDULE

Eighth Schedule Rules for the Computation of Capital Gains on Listed Securities

Rule 5 Persons to whom this Schedule shall not apply

Previously, a person after obtaining prior approval of the Commissioner could opt out from determination and payment of tax by NCCPL by filing an irrevocable option to NCCPL. The bill proposes to withdraw the aforesaid option given to the taxpayers.

TENTH SCHEDULE

Tenth Schedule Rules for Persons not Appearing in the Active Taxpayers’ List

Rule 1A Rate for deduction or collection of tax from persons who are appearing on active taxpayers’ list but have not filed return by the due date

The bill proposes to omit the concept of late filers along with the higher rates prescribed on sale and purchase of immoveable property in order to facilitate the transactions in the real estate sector.

Rule 10
Clause (y)

Non-applicability of Tenth Schedule on certain transactions

Under the existing provisions, collection of advance tax on higher tax rates in case of non-filers was not applicable on capital gains arising on disposal of securities acquired on and from 01-07-2025.

The bill proposes to omit the said clause resulting in applicability of 100% increased tax withholding rates on capital gains arising on disposal of securities by non-filers.

SUMMARY OF CHANGES IN THE SALES TAX ACT, 1990

Section

2 (1AA), (9AB) Amendments in advance receipt & electronic invoicing requirements & 23

The proposed amendment represents a comprehensive shift toward real-time and system-validated invoicing, significantly expanding the scope of documentation requirements. By including exempt supplies within invoicing obligations, the proposal aims to ensure complete visibility over commercial transactions, thereby strengthening audit trails and reducing opportunities for misreporting.

The introduction of advance receipt invoices and unique FBR invoice numbers reflect a move towards centralized digital verification, enabling the authorities to capture transactions at an earlier stage and improve monitoring of the supply chain. However, this is expected to increase compliance burden, particularly for businesses with high transaction volumes.

Taxpayers will need to upgrade systems and processes to ensure real-time integration and compliance with prescribed formats. The phased implementation provides some flexibility; however, once enforced, non-compliance may lead to input tax disallowances and increased audit scrutiny, making system readiness and data accuracy critical.

2 (1AAA) & 47AA Algorithmic settlement mechanism

The proposed insertion introduces a digitally operated, algorithm-based mechanism enabling the FBR to offer taxpayers a time-bound settlement of disputes at any stage prior to final orders. The system-generated settlement offer is based on objective criteria such as the taxpayer's compliance history, nature of discrepancy and stage of proceedings, reflecting a shift towards data-driven tax administration.

The mechanism allows taxpayers to voluntarily opt for settlement by accepting the offer through IRIS and making payment within a prescribed timeframe, upon which the issues raised through notices or audit reports stand abated. This provides certainty, speed, and reduced litigation, particularly in routine or low-risk disputes.

Section

2(17A), 11H, 30AA & 32C National faceless tax administration framework

The proposed amendments collectively establish a centralized, technology-driven faceless tax administration system covering audit, assessment, appeals jurisdiction, and compliance functions. The framework differs from traditional jurisdiction-based and face-to-face interactions with a fully digital model using centralized processing algorithm-based allocation and electronic communication.

The reform aims to enhance transparency, uniformity, efficiency and objectivity while reducing discretionary powers and physical interaction between taxpayers and tax authorities. Functional separation of audit, assessment and quality control is intended to strengthen internal checks and improve administrative governance.

However, the transition raises concerns regarding procedural fairness, accountability and effective handling of complex or fact-intensive cases in a fully faceless environment. The issues such as clarity of procedures responsiveness and taxpayer representation remain critical.

From a compliance perspective, taxpayers will need strong digital readiness, structured documentation, and timely electronic response systems. The success of the framework will depend on robust IT infrastructure, clear operational guidelines and effective grievance redress mechanisms to balance efficiency with protection of taxpayer rights.

2 (22) (1A) & 40C (1), (2) Production monitoring system

The proposed amendments in section 40C significantly expand the scope of electronic monitoring by mandating that, from a notified date, no taxable goods shall be removed or sold unless they are either affixed with prescribed tax stamps, banderols, stickers, labels or are monitored through a production monitoring system, video analytics or any other mechanism as prescribed by the Board. This indicates a shift towards stronger control over both production and supply stages, ensuring that goods are properly documented and traceable before entering the market.

Furthermore, the requirement that such tax stamps and monitoring equipment must be procured from board-appointed licensee reflects an intent to standardise the system and ensure centralized control over authentication mechanism. This reduces the risk of counterfeit stamps and strengthens the reliability of monitoring framework.

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The proposed insertion also, introduces strict enforcement by providing that any taxable goods not compliant with prescribed monitoring or identification requirements shall be liable to seizure and confiscation, along with the conveyance used for transportation. This highlights a zero-tolerance approach towards non-compliance and aims to deter undocumented production and movement of goods.

While the amendments strengthen transparency, documentation and enforcement, their effectiveness will depend on the practical implementation of monitoring systems, cost implications for businesses, and availability of infrastructure. Clear procedural guidelines and phased implementation may be necessary to ensure that business entities are able to comply without undue operational disruption.

2 (43A) (d) Amendments in definition of Tier-1 retailer (gb)

The proposed amendment seeks to restrict Tier-1 applicability to wholesaler-cum-retailers with an annual turnover exceeding Rs. 200 million. This effectively excludes smaller businesses from the provision, thereby targeting larger entities for compliance and regulatory purposes.

The provision seeks to place determined criteria for classifying retailer as a Tier-1 retailer if falling within the specified threshold by allowing turnover to be determined either through declared figures or by reconstructing turnover based on tax deductions under section 236G and 236H. Furthermore, retailers accepting payments through debit/credit cards are proposed to be excluded from category of Tier-1 Retailer. This strengthens enforcement by minimizing under-reporting and bringing un-documented or partially documented retailers having turnover exceeding Rs. 200 million into the tax net.

2(44) Clarification in time of supply

The proposed clarification seeks to remove ambiguity in determining the time of supply, effectively advancing the tax point to the stage where goods become ready for dispatch, rather than actual physical delivery. This represents a shift toward a more objective and through electronic monitoring system.

From a practical perspective, this classification mitigating risk of sale tax payment deferred to next tax period in some cases. Taxpayers will need to realign their accounting and inventory processes to ensure timely reporting.

Section

2 (46) (j) Amendments in value of supply

The proposed amendment seeks to strengthen the valuation mechanism by introducing objective, data-driven benchmarks, thereby reducing reliance on subjective assessments. The use of PBS data may enhance consistency and transparency in valuation, particularly in sectors prone to under-invoicing.

The proposal to allow outsourcing of valuation functions reflects a move toward leveraging external expertise to improve accuracy and administrative efficiency. However, it also raises concerns regarding standardization of methodologies, accountability, and potential disputes arising from third-party determinations.

From a practical standpoint, taxpayers may face increased scrutiny and reduced flexibility in declaring transaction values, particularly where such values deviate from prescribed benchmarks.

6 (2) Amendment in time and manner of payment

The proposed amendment introduces a taxation mechanism for steel melters, steel re-rollers linking tax liability to electricity consumption as a measure of production. This reflects a targeted approach to address under-reporting and documentation gaps in the steel sector.

By allowing adjustment and automated refunds, the regime attempts to balance enforcement with cash flow neutrality for compliant taxpayers. However, the requirement of integration with production monitoring and digital invoicing systems effectively ties tax benefits to digital compliance, reinforcing the broader policy objective of documentation.

8B Amendment in adjustable input tax limit

The proposed amendment introduces a dynamic and behaviour-based input tax adjustment mechanism, linking tax benefit directly with the level of digital compliance. This marks a significant shift from a uniform restriction to a risk-based and data-driven approach, enabling the authorities to incentivize compliant taxpayers while restricting benefits for non-compliant entities.

From a practical perspective, this effectively transforms input tax a core entitlement into a conditional benefit tied to system integration and real-time reporting. Fully compliant taxpayers may benefit from enhanced liquidity through higher adjustment limits, whereas non-compliant businesses could face cash flow constraints and increased tax cost.

Section

9 **Amendment in debit and credit note mechanism**

The proposed amendment indicates a shift toward system-driven control over post-supply adjustments, bringing debit and credit note mechanism within the broader digital compliance framework. This is expected to enhance transparency and reduce misuse of such instruments for artificial tax adjustments or manipulation of input/output tax positions.

From a practical perspective, taxpayers will be required to align their systems with FBR-prescribed electronic adjustment mechanisms, ensuring that all post-supply changes are recorded and validated digitally.

21 **Amendment in de-registration, blacklisting and suspension framework**

The proposed amendment reflects a policy shift toward integrating digital compliance within the enforcement framework, making adherence to electronic invoicing and monitoring systems a critical condition for continued registration status. By linking non-compliance of section relating to e-invoicing and tracking systems with punitive consequences, the authorities aim to strengthen documentation and real-time reporting discipline.

From a practical perspective, this significantly raises the compliance threshold, as failures relating to system integration or procedural lapses in digital reporting may now expose taxpayers to severe consequences such as suspension or blacklisting. This underscores the importance of maintaining robust system controls, timely reporting, and full digital alignment with FBR requirements. This measure will enhance enforcement and curb undocumented activity.

25 **Amendments in audit and access to records**

The proposed insertion of sub-section (8A) and (8B) significantly expands the Commissioner's authority to order re-audit of accounts or re-valuation of inventory where factors such as complexity, volume, or doubts about correctness exist. While the requirement for prior approval and an opportunity of being heard provides procedural safeguards, the grounds remain broad and subjective, potentially leading to inconsistent application and increased compliance burden. The nomination of auditors by the tax authorities may also raise concerns regarding independence, though the requirement to issue a formal audit report after considering the taxpayer's explanation enhances transparency and procedural clarity. Amendments in sub-section (9) and (11) further streamline the framework by linking completion to issuance of the audit report and easing the penalty payment condition to fifty percent instead of hundred percent, thereby balancing enforcement with relief.

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On merits, the re-auditing provision can be justified in cases involving complex or high-risk transactions, serving as a tool to protect revenue and ensure accuracy of financial reporting. However, its wide discretionary scope, coupled with potential duplication of audit efforts and increased costs for taxpayers, may lead to avoidable disputes if not exercised judiciously. Clear administrative guidelines and safeguards around its invocation would be essential to ensure that the provision remains an exception rather than a routine enforcement measure.

30DDDB Directorate General (Field Compliance) Inland Revenue

The bill proposes to empower Board to appoint Directorate General (Field Compliance), Inland Revenue consisting of a Director General, Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers to perform functions and jurisdiction as may be notified

33 Proposed amendments in offences, fines and penalties

The proposed amendments reflect a shift toward a stricter and technology-driven enforcement regime. The increase in penalties across existing offences indicates an intent to enhance deterrence, while new provisions target key areas of tax evasion such as fake invoicing and input tax mismatches. The summary is presented below:

Offence	Existing Penalty	Proposed Penalty
1. Where any person fails to furnish a return within the due date.	<ul style="list-style-type: none"> ▪ Penalty of Rs. 10,000, or ▪ Rs. 200 per day if filed within 10 days 	<ul style="list-style-type: none"> ▪ Penalty of Rs. 50,000, or ▪ Rs. 2,000 per day if filed within 10 days
2. Any person who fails to issue an invoice when required under this Act.	<ul style="list-style-type: none"> ▪ Penalty of Rs. 5,000 or 3% of tax, whichever higher 	<ul style="list-style-type: none"> ▪ Penalty of Rs. 25,000 or 5% of tax, whichever higher
3. Any person who unauthorized issues an invoice in which an amount of tax is specified.	<ul style="list-style-type: none"> ▪ Penalty of Rs. 10,000 or 5% of tax, whichever higher 	<ul style="list-style-type: none"> ▪ Penalty of Rs. 50,000 or 10% of tax, whichever higher
5. Any person who fails to deposit the amount of tax due or any part thereof in the time or manner laid down under this Act or rules or orders made there under.	<ul style="list-style-type: none"> ▪ Penalty of Rs. 10,000 or 5% of tax, whichever higher; OR ▪ Rs. 500 per day if paid within 10 days 	<ul style="list-style-type: none"> ▪ Penalty of Rs. 50,000 or 5% of tax, whichever higher; or ▪ Rs. 5,000 per day if paid within 10 days

Offence	Existing Penalty	Proposed Penalty
7. Any person who is required to apply for registration under this Act fails to make an application for registration before making taxable supplies	<ul style="list-style-type: none"> ▪ Penalty of Rs. 10,000 or 5% of tax, whichever higher 	<ul style="list-style-type: none"> ▪ Penalty of Rs. 50,000 or 5% of tax, whichever higher
8. Any person who fails to maintain records required under this Act or the rules made there under.	<ul style="list-style-type: none"> ▪ Penalty of Rs. 10,000 or 5% of tax, whichever higher 	<ul style="list-style-type: none"> ▪ Penalty of Rs. 50,000 or 5% of tax, whichever higher
25. Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under the Act, and if registered, fails to integrate in the manner as required under law within the stipulated time as notified by the board.	<ul style="list-style-type: none"> ▪ Penalty up to Rs. 1,000,000; sealing business premises after 2 months 	<ul style="list-style-type: none"> ▪ Penalty up to Rs. 1,000,000, extended up to Rs. 5,000,000 for continued default; sealing business premises with or without imposition of penalty
29. Where any registered person issues a tax invoice for a transaction which is simulated or fictitious, or for which no actual supply of goods or services has taken place, as established after notice and adjudication.		<p>Such person shall pay a penalty equal to the face value of the simulated or fictitious invoice or invoices.</p> <p>(ii) the Board shall, after issuance of a show cause notice and an opportunity of being heard, place the name and registration number of such person on a publicly accessible simulated issuers register maintained on the Board's Computerized System.</p>

Offence	Existing Penalty	Proposed Penalty
		<p>(iii). Any input tax credit claimed by a counterparty on the basis of invoices issued by a person on the simulated invoice issuers register shall be reversed automatically and treated as inadmissible with effect from the date of listing.</p> <p>(iv) Listing on the register shall be removed upon full payment of the penalty and default surcharge, upon satisfactory demonstration of compliance.</p>
<p>30. Where the Board's computerized system identifies that input tax credit claimed by a registered person in respect of any tax period cannot be matched to corresponding output tax declared by the supplier for the same or proximate tax period, and such mismatch is confirmed after issuance of notice and provision of opportunity of being heard.</p>		<p>Such person shall pay a penalty of twenty per cent of the unmatched input tax amount, in addition to reversal of the inadmissible credit and payment of default surcharge under section 34.</p>
<p>31. Where a registered person has claimed input tax credit on the basis of invoices issued by a person who is subsequently placed on the simulated invoice issuers register under S. No. 29, and such registered person fails to reverse the inadmissible input tax credit within sixty days of the listing of the invoice issuer on the register.</p>		<p>Such person shall pay a penalty of twenty per cent of the unreversed input tax credit, in addition to the reversal of such credit and default surcharge under section 34.</p>

Section

40F (2), (3), (4) Sale of confiscated goods by auction

The proposed section 40F provides a structured legal framework for the disposal of goods confiscated under the Sales Tax Act, 1990 by mandating their sale through public auction. The option to conduct such auctions through electronic means reflects a move towards transparency, efficiency

Section

and wider participation, while also aligning the process with modern procurement practices.

The requirement to follow Public Procurement Regulatory Authority (PPRA) Rules, 2014 ensures that the auction process remains standardized, transparent and governed by established procedures, thereby minimizing the risk of misuse or arbitrary disposal of confiscated goods.

The provision further lays down a clear priority mechanism for application of sale proceeds, whereby expenses of sale are settled first, followed by recovery of outstanding sales tax, other taxes, penalties and surcharge due to the Federal Government. Any residual amount, in cases not involving outright confiscation, is refundable to the owner subject to a prescribed time limit, failing which it is deposited into the government treasury.

Additionally, the restriction that the importer's share shall not exceed the declared value of goods (where a goods declaration exists) reflects an intent to prevent undue benefit arising from undervaluation or post-confiscation gains. Overall, the section proposed to introduce clarity, procedural discipline and fairness in the disposal and settlement mechanism of confiscated goods.

47AAA Independent case scrutiny committee

The proposed insertion mandates that any reference or appeal to higher courts by the Commissioner Inland Revenue must first obtain approval from an independent case scrutiny committee, thereby introducing a structured pre-litigation filter. The committee, comprising a retired judge, an experienced tax advocate, and a senior FBR officer, reflects a balanced mix of judicial, professional, and administrative expertise.

This mechanism aims to curb unnecessary or weak litigation by subjecting cases to independent review, ensuring that only legally sustainable matters proceed to higher forums. The binding nature of the committee's recommendations strengthens accountability and promotes consistency in litigation strategy across tax administration.

Additionally, the provision offers legal protection to committee members and tax officials, enabling decisions to be made without fear of personal liability.

However, the requirement of prior approval may lead to procedural delays, reduced field-level discretion, and concerns regarding independence and

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accountability, particularly given the inclusion of FBR representation and absence of clearly defined approval criteria.

Overall, the measure is designed to enhance quality of litigation, reduce court burden, and improve institutional discipline, though its effectiveness will depend on transparent processes and efficient implementation.

56B (3) Disclosure of information by a public servant

The proposed amendment introduces an exception to the strict confidentiality regime by empowering the FBR to share sector-wise sales tax return data among registered persons within the same sector, subject to non-disclosure agreements and prescribed safeguards. This marks a policy shift from absolute confidentiality towards controlled data transparency, aimed at promoting market equity and encouraging voluntary compliance through peer comparison.

Schedules

Third Schedule Taxable Supplies

The bill proposes to insert the following items in the retail price regime:

<u>Serial No.</u>	<u>List of items with broad detail</u>	<u>Respective Heading No.</u>
56.	Vegetable and animal fats and oils, sold in retail packing.	Respective Headings
56.	Sugar Confectionary, sold in retail packing.	Respective Headings
57	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing.	19.02
58	Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing.	Respective Headings

<u>Serial No.</u>	<u>List of items with broad detail</u>	<u>Respective Heading No.</u>
59	Fermented beverages, sold in retail packing.	Respective Headings
60	Petroleum jelly, paraffin wax, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not coloured, sold in retail packing.	27.12
61	Insecticides, rodenticides, fungicides, herbicides, anti- sprouting products and plant- growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale	38.08
62	Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing.	39.19, 39.20, 39.21
63	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing.	Chapter 39
64	Trunks, suit- cases, vanity- cases, executive- cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling- bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping- bags, wallets, purses, map- cases, cigarette- cases, tobacco- pouches, tool bags, sports bags, bottle- cases, jewellery boxes, powder boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly	42.02

<u>Serial No.</u>	<u>List of items with broad detail</u>	<u>Respective Heading No.</u>
	or mainly covered with such materials or with paper, put up for retail sale.	
65	Footwear (all types)	Respective Headings
66	Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing.	Respective Headings
67	Crockery Items, sold in retail packing	Respective Headings
68	Car and automobile accessories, sold in retail packing	Respective Headings
69	Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing	Respective Headings
70	Preparations for use on the hair, sold in retail packing.	33.05
71	Pre- shave, shaving or after- shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties, sold in retail packing	33.07
72	Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface- coloured, surface decorated or printed, in rolls or sheets, put up for retail sale.	4803.0000 48.18

<u>Serial No.</u>	<u>List of items with broad detail</u>	<u>Respective Heading No.</u>
73	Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations, sold in retail packing.	20.07, 20.08
74	Household utensils, including Stainless steel, aluminium, melamine and other utensils and tableware.	Respective Headings
75	Ceramic Products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale.	69.10

Sixth Schedule – Table-1: exemption on local supply or import of goods

The bill proposes to amend the Sixth Schedule to the Sales Tax Act, 1990 as follows:

Serial No. Proposed

- 32** The amendment proposes to include **magazines** within the exemption, along with books and newsprint, while maintaining exclusion of brochures, leaflets, and directories.
- 157** The bill extends the concession for import of CKD electric vehicles (specified small cars/SUVs with 50Kwh battery or below and LCVs with 150Kwh battery or below) by local manufacturers from 30 June 2026 to 30 June 2027.
- 181** The amendment introduces safeguards for Import or lease of aircraft and parts thereof by Pakistan International Airlines Corporation Limited (PIACL) by requiring customs authorities to ensure that imports are limited to quantities necessary for aircraft operations and maintenance, and permits specified non-locally manufactured ground handling and operational equipment to be used strictly within airport premises, thereby preventing misuse while supporting operational efficiency.

Proposed new addition in the Schedule

Serial No.	List of items with broad detail
182 & 183	The bill proposes to exempt contraceptives and female sanitary pads/tampons to promote public health, ensure affordability of essential hygiene products, and support women's wellbeing.
184	The bill seeks to propose exemption on the import of tankers, dredgers, floating or submersible drilling or production platforms, and other floating structures and vessels, other goods-transport vessels (excluding cruise ships, excursion boats and similar vessels principally designed for the transport of persons and ferries), subject to approval of the imported quantity by the Ministry of Maritime Affairs, thereby facilitating maritime and industrial development.
185	<p>The proposed bill seeks to provide exemption on Import of bullet proof vehicles by the:</p> <ul style="list-style-type: none">(i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control.(ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government.

Sixth Schedule – Table-3: Exemption on specific conditions

The bill proposes to insert the following items in the Sixth Schedule to the Sales Tax Act, 1990 as follows:

Serial No.	List of items with broad detail
23	The bill proposes exemption on the import of specified machinery and equipment for the upgradation of existing petroleum refineries, subject to approval by the concerned Division and the Ministry of Petroleum and Natural Resources. The concession is limited to imports meant for expansion, balancing, modernization, or rehabilitation, with quantities approved by the Ministry, thereby ensuring controlled utilization of the exemption while supporting refinery modernization and enhanced fuel production capacity.

Serial No.

- 24 The bill proposes exemption on the import of machinery, equipment, raw materials, components, and other capital goods by Karachi Shipyard and Engineering Works Limited, subject to certification by the relevant Division confirming that the imports are genuine requirements, along with mandatory online reporting to the Pakistan Customs Computerized System, thereby ensuring transparency and proper utilization of the exemption.

Eighth Schedule – Table-1:

Proposed substitution in existing headings

Serial No.	Description
71	The proposed bill extends the concessional sales tax regime for supply of locally manufactured or assembled electric vehicles from 30 June 2026 to 30 June 2027, thereby continuing incentives for small EVs and light commercial vehicles.
80	The bill seeks to expand the concessional regime by extending the 1% reduced sales tax rate to include electric trucks (CBU) alongside EV transport buses (25 seats or more), with specific PCT headings 8702.4090 and 8704.6030.

Eleventh Schedule – Table

Proposed substitution in existing headings

Serial No.	Description
4	The proposed bill seeks to broaden the scope of withholding from persons other than Active Taxpayers by extending it from companies to include Associations of Persons (AOPs) and individuals, thereby expanding the withholding tax base.

Proposed new addition in the schedule

Serial No.	Description
14	The proposed bill introduces a new stringent provision for toll manufacturing, under which transactions with unregistered persons attract a deduction of four times the tax on conversion charges, thereby enhancing enforcement as well as encouraging unregistered customers to seek registration.

Twelfth Schedule – Procedure and Conditions:

Proposed new addition in the existing headings

Clause No.	Description
(2)	The proposed bill seeks to impose 3% value addition tax on ad valorem, along with default surcharge, on manufacturer on imported goods supplied in the same state. Further the proposed bill seeks to initiate prosecution proceedings where goods imported under the in-house consumption concession are supplied in the same state and such supplies exceed 50% of total imports in a financial year.

SUMMARY OF CHANGES IN THE FEDERAL EXCISE ACT, 2005

Section

2 Definitions

- 2(2A)** The bill proposed to insert a new clause (2A) in section 2 of the Act to define the term “algorithmic settlement mechanism” as mechanism provided under section 26AAA (apparently 47AA) of the Sales Tax Act, 1990.
- 2(9B)** The bill proposed to insert a new clause (9B) defining “electronic invoicing system” as any electronic system or mechanism prescribed or approved by the Board for the issuance, generation, and recording of sales tax invoices in electronic form.
- 2(16A1) & 7A** The bill proposed to insert a new section 2(16A1) defining “National Faceless Centre” to mean the National Faceless Centre established and defined under section 32C of the Sales Tax Act, 1990 alongside new Section 7A for application of the provisions of Sales Tax Act with respect thereto.

The amendments proposed in Federal Excise Act 2005 as well as in Sales Tax Act, 1990 collectively establish a centralized, technology-driven faceless tax administration system covering audit, assessment, appeals jurisdiction, and compliance functions. The framework differs from traditional jurisdiction-based and face-to-face interactions with a fully digital model using centralized processing, algorithm-based allocation, and electronic communication.

Section

The reform aims to enhance transparency, uniformity, efficiency, and objectivity while reducing discretionary powers and physical interaction between taxpayers and tax authorities. Functional separation of audit, assessment, and quality control is intended to strengthen internal checks and improve administrative governance.

However, the transition raises concerns regarding procedural fairness, accountability, and effective handling of complex or fact-intensive cases in a fully faceless environment. The issues such as clarity of procedures, responsiveness, and taxpayer representation remain critical.

From a compliance perspective, taxpayers will need strong digital readiness, structured documentation, and timely electronic response systems. The success of the framework will depend on robust IT infrastructure, clear operational guidelines, and effective grievance redress mechanisms to balance efficiency with protection of taxpayer rights

2(19B) The bill proposed to insert a new clause (19B) defining “production monitoring system” as any system or technology, used for monitoring the production and sale of goods, whether in real time or otherwise, including such systems or technologies as may be prescribed by the Board from time to time.

3(3B) Special Excise Duty

The bill proposed to insert a new sub-section (3B) after sub-section (3A) providing that, in addition to the duty chargeable under sub-section (1), a Special Excise Duty shall be levied and collected on such goods and at such rates as specified in Table-IA of the First Schedule to the Act. The Board shall prescribe the time, manner, procedure, mechanism, and mode for collection of such Special Excise Duty.

18(1) Invoices

The bill proposes to substitute section 18(1) relating to the issuance of invoices. The key changes are as follows:

The existing requirement for issuance of a “serially numbered invoice” is proposed to be expanded to include an “invoice, including an advance receipt invoice”, thereby formally recognizing advance receipt invoices within the statutory invoicing framework.

A new requirement is introduced mandating that every invoice shall bear a verifiable and unique FBR invoice number, in such manner as may be prescribed.

Section

The amendment further requires that the particulars contained in the invoice shall be stated in Urdu or English, thereby standardizing the language of invoicing documentation. In addition, the following provisos are proposed to be inserted:

The Board may, by notification in the official Gazette, specify the persons or classes of persons who may issue an advance receipt invoice under such system and subject to such conditions as may be prescribed.

The requirement relating to the verifiable and unique FBR invoice number shall take effect from such date as may be notified by the Board.

19 Offences, penalties, fines and allied matters

19(2) The bill proposed to replace the word “Federal excise officer” with the word “Officer of Inland Revenue”.

19(4) The bill proposes to substitute section 19(4) to broaden the scope of the offence prescribed thereunder.

In addition to the existing prohibitions, proposal adds explicit reference to destruction and manipulation etc. of the data stored in equipment or systems used for electronic monitoring (e.g. production monitoring systems, video analytics systems) etc. to reduce duties etc. would be guilty of offense liable to fine extendable to 75,000 Rupees or 10 times of duty whichever is higher and imprisonment upto 5 years or both.

26(1) Power to seize

The bill proposes to substitute section 26(1) by primarily extending the power of seizure to the counterfeited cigarettes or beverages manufactured or product illegally without affixing counterfeit tax stamp bar code etc. or which require monitoring through a production monitoring system. The proposed amendment also specifies additional actions beyond movement/ carriage i.e. manufacturing, production, removal or otherwise dealing with or without such monitoring in the prescribed manner.

27(1) Confiscation of goods subject to federal excise duty

The bill proposes to substitute section 27(1) on the similar lines as per the aforementioned section 26(1) by extending the power of confiscation of seized goods. The proposed amendment also specifies additional actions i.e. manufacturing, production, removal or otherwise dealing with or without such monitoring in the prescribed manner for confiscation/ destruction.

Section

33(1) Appeals to Commissioner (Appeals)

The bill proposes to replace the word “Federal Excise officer” with “officer of Inland Revenue”

34AA Independent case scrutiny committee

The proposed insertion mandates that any reference or appeal to higher courts by the Commissioner Inland Revenue must first obtain approval from an independent case scrutiny committee, thereby introducing a structured pre-litigation filter. The committee, comprising a retired judge, an experienced tax advocate, and a senior FBR officer, reflects a balanced mix of judicial, professional, and administrative expertise.

This mechanism aims to curb unnecessary or weak litigation by subjecting cases to independent review, ensuring that only legally sustainable matters proceed to higher forums. The binding nature of the committee’s recommendations strengthens accountability and promotes consistency in litigation strategy across tax administration.

Additionally, the provision offers legal protection to committee members and tax officials, enabling decisions to be made without fear of personal liability.

However, the requirement of prior approval may lead to procedural delays, reduced field-level discretion, and concerns regarding independence and accountability, particularly given the inclusion of FBR representation and absence of clearly defined approval criteria.

Overall, the measure is designed to enhance quality of litigation, reduce court burden, and improve institutional discipline, though its effectiveness will depend on transparent processes and efficient implementation.

43(A) Issuance of Duplicate of (Federal Excise) documents

The bill proposed to replace the word “Federal Excise” with “Inland Revenue”

44(3) Refund of Duty

The bill proposed to replace the word “Federal Excise Officer” with the words “Officer of Inland Revenue”

Section

45(A) Monitoring or tracking by electronic or other means

The bill proposes substantial amendments to section 45A to strengthen the technology-based monitoring and enforcement regime.

The scope of the section is proposed to be expanded beyond goods to also cover services and classes of services, thereby enabling the Board to implement electronic monitoring and tracking mechanisms across a broader range of taxable activities.

In sub-section (2), the existing list of monitoring and identification mechanism is proposed to be expanded to include production monitoring systems and video analytics systems, in addition to tax stamps, banderoles, stickers, labels, barcodes, and other prescribed markings.

In sub-section (3), production monitoring equipment is proposed to be added to the list of equipment that may be acquired only from a licensee appointed by the Board. Simultaneously, the existing reference empowering the Board to approve the price and cost of equipment installed by such licensees is proposed to be omitted.

These amendments are intended to facilitate real-time monitoring, improve compliance, and strengthen the Board's capacity to detect and prevent tax evasion through the use of advanced technological solutions.

46 Audit

46(1) The bill proposes to remove the restriction of conducting audit once in a year, thereby allowing the officer of Inland Revenue authorized by the Board or the Commissioner to conduct audit of records and documents of any registered person without any annual limitation.

46(2) The bill proposes to replace the term "Federal Excise Officer" with "officer of Inland Revenue" while keeping all other conditions and requirements unchanged.

46(2A) The bill proposes to substitute the existing requirement of passing an order under section 14 immediately upon completion of an audit. Under the proposed amendment, the audit process shall culminate in the issuance of a formal audit report setting out the audit observations, findings, and discrepancies identified during the audit. The registered person shall continue to be afforded an opportunity to furnish explanations and supporting evidence in respect of all issues raised in the audit report.

Section

46(2B) The bill proposes to insert a new provision empowering the Commissioner to conduct audit proceedings electronically through video links or any other facility as prescribed by the Board.

46(2C) The bill proposes to insert a new sub-section (2C) providing that, following the issuance of an audit report and consideration of the taxpayer's response, the Officer of Inland Revenue may, where warranted, pass an order under section 14(2) determining and recovering any duty short-paid or unpaid, default surcharge, penalty, or erroneously refunded amount. Such order may only be passed after providing the registered person with an opportunity of being heard in accordance with section 14(1).

The bill proposes to substitute the existing proviso to section 46(3) with two separate provisos introducing a graduated penalty regime for voluntary compliance. Under the proposed framework.

46(3) Where a registered person deposits the amount of duty evaded or short-paid before the issuance of a show cause notice, together with a penalty equal to twenty-five per cent of the duty involved, the matter may be resolved without further escalation.

Where such deposit is made after the issuance of a show cause notice but before the conclusion of adjudication proceedings, the applicable penalty shall be increased to fifty per cent of the duty involved. Upon such payment, further proceedings in respect of the matter shall abate.

The amendment seeks to encourage early voluntary compliance while imposing a higher cost for delayed settlement.

46(3A) It is proposed to insert a new sub-section (3A) empowering the Commissioner to direct a registered person to obtain a **special audit** of accounts by an accountant or a **reevaluation of inventory** by a cost accountant in specified circumstances. Such direction may be issued where, in the opinion of the Commissioner, the nature and complexity of the business, the volume of transactions, the multiplicity of operations, the specialized character of the business, or doubts regarding the correctness of the accounts justify independent verification.

Any such direction shall be subject to prior approval of the Chief Commissioner; and Provision of a reasonable opportunity of being heard to the registered person.

The accountant or cost accountant shall be nominated by the Commissioner from a panel notified by the Board. The proposed amendment is intended to strengthen audit effectiveness in complex or high-risk cases and to facilitate independent verification of financial records and inventories.

Schedules

First Schedule Table-I

Serial No.

- 7(a)** The bill proposes to reduce the duty on Acetate tow from Rupees forty four thousand per KG to Rupee Ten thousand per KG
- 8(a)** The bill proposes to amend the rate of duty on E-liquids for electric cigarette kits as Rs. Sixteen thousand five hundred per KG
- 55 & 55B** The bill proposes to extend the existing exclusion available to certain vehicles till 30th day of June 2027.
- 55A** The bill proposes to introduce the following new Serial No. 55A to the Table-I of First Schedule. The proposal intends to levy duty as follows:

Description of Goods	Heading/ Number	sub-heading	Rate of Duty
Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of import value including Custom Duty:-	Respective heading		
(a) Not exceeding PKR 20 million			0%
(b) exceeding PKR 20 million and up to PKR 30 million			30%
(c) exceeding PKR 30 million			40%

- 59** The bill proposes to replace the expression “excluding mineral and aerated waters” with “excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolyte replenishment not containing sugar **exceeding** 5g/100ml or artificial sweetener”

Serial No.

- 63** The bill proposes to amend the serial No. 63 by introducing duty on base lubricating oils as follows:

Description of Goods	Heading/ sub-heading Number	Rate of Duty
Lubricating oil and base lubricating oils	2710.1951 2710.1952 2710.1953 2710.1993	Five percent ad volorem

- 65** The bill proposes to introduce the following new serial No. 65 to the Table-I of the First Schedule. The proposal intends to levy duty on petroleum top naphtha, white spirit/mineral turpentine oil (MTT) and Solvent oil as follows.

Description of Goods	Heading/ sub-heading Number	Rate of Duty
(1) Petroleum top naphtha	2710.1942	Rs. 80 per liter
(2) White spirit/mineral turpentine oil (MTT)	2710.1240	Rs. 80 per liter
(3) Solvent Oil	2710.1250	Rs. 80 per liter

- Restriction-2** The bill proposes to substitute the Restriction-2 to the Table-I to the First Schedule with the new following restriction;

(2) **Restriction-2 – Brand variants at different price points.**– No manufacturer or importer of cigarette can introduce or sell a new variant of the existing brand at a price lower than the lowest actual price of the existing brand. For the purposes of this restriction, current minimum price of existing brand means the lowest price of an existing brand on the day of announcement of Budget of the current financial year.

Explanation.– For the purpose of this restriction, brand variant means any cigarette brand with identical name, trademark, design, pattern or any unique distinguishing mark associated with an existing brand.

- Table IA & section 3(3B)** The bill proposes to introduce Table-IA to the First Schedule with the intention to impose Special Excise Duty in terms of section 3(3B) on goods specified therein as follows:

S No.	Description of Goods	Heading/ sub-heading Number	Rate of Duty
1.	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of	87.03 8704.2190 8704.3190	

	persons (other than those of headings 87.02), and till the 30th day of June, 2027 electric vehicles 4 wheelers) including station wagons, double cabin (4x4) pickup vehicles and racing cars:		
	(a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc		40% ad Val
	(b) of cylinder capacity exceeding 3000cc		41% ad Val

Table II

3 The bill proposed to amend the sub-clause (ii) of clause (b) with the following expression:

Description of Goods	Heading/ Number	sub-heading	Rate of Duty
(ii) Club, business and first class air tickets issued on or after the 1st day of July, 2026:			
(a) IATA Traffic Conference Area 1 (North, Central, South America and Environs)			(a) Fifty Thousand rupees
(b) IATA Traffic Conference Area 2			(b)(I) Twenty-Five Thousands rupees
(I) Middle East and Africa			
(II) Europe			(b)(II) Forty thousand rupees
(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)			(c) Forty thousand rupees

Second Schedule

5 The bill proposes to introduce the following new serial No. 5 to the Second Schedule. The proposal intends to grant exemption from duty on Petroleum Top Naphtha, White Spirit/ Mineral Turpentine Oil and Solvent Oil.

S No.	Description of Goods	Heading/ sub-heading Number
5	Imported and locally produced: (i) Petroleum top Naphtha (ii) White Spirit/Mineral Turpentine Oil (MTT) (iii) Solvent Oil";	2710.1942 2710.1240 2710.1250 and

SUMMARY OF CHANGES IN THE CUSTOMS ACT, 1969

Section

2 Definitions

2(sssa) State warehouse

The bill seeks to insert a new definition in the Act, for authorizing Collector of Customs to prescribe state warehouse for secure storage of detained, seized, or confiscated goods as:

“State warehouse” means any place authorized by the Collector of Customs to store the detained, seized or confiscated goods, as the case may be.

19 General power to exempt from custom duties

The bill proposes to extend the life of all Notifications issued and placed before National Assembly on or after the first day of July, 2016 till **30 June 2027**.

32 Recovery of tax not levied / short levied or erroneously refunded

Currently, customs authorities cannot initiate show cause proceedings if the recoverable amount in a case is below specified monetary thresholds i.e. twenty thousand rupees under sub-section (3) and one hundred thousand rupees under sub-section (3A). Phrase “in a case” has created a legal lacuna, allowing taxpayers to avoid scrutiny by splitting a single revenue shortfall across multiple Goods Declarations, each falling below the threshold.

The bill through the proposed omission of the words “in a case” to address the aforesaid issue, thus the threshold of exemption for framing a misdeclaration case shall be determined solely by the amount of revenue involved, irrespective of the number of Goods Declarations.

80(4) Inspection of goods declaration

The proposed insertion aims to provide legal cover for examination of cargo by means of scanning.

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

Section

The bill proposes to transfer the power from Federal Government to Board to levy penalties for delayed clearance of goods.

The bill through insertion also seeks to empower the Board to rationalize penalties, prescribe an appeal mechanism, and exempt specified classes of goods or Customs stations from such penalties through rules.

Presently, the Collector of Customs can only waive the penalty imposed under this Section under unavoidable circumstances, the bill also proposes to empower the Collector of Customs to reduce such penalties.

Furthermore, the bill through insertion of explanation seeks to empower the Board to authorize any person to conduct auctions of auctionable goods in the manner to be notified by the Board.

156 Offences and penalties

Proposed substitutions in existing fines and penalties are listed below by highlighting and underling:

Sr No.	Description	Penalty	
		Existing	Proposed
7A	If any agency or person including port authorities managing or owning a customs port, customs airport or a land customs station or a container freight station, fails to entertain a delay and detention certificate issued by the officer of Customs	Such agency or person or port authority shall be liable to a penalty not exceeding <u>five hundred thousand Rupees</u>	Such agency or person or port authority shall be liable to a penalty not exceeding <u>ten million Rupees</u>

Sr No.	Description		Penalty
	Existing	Proposed	
83	If any police-officer, whose duty it is, under section 170, to send a written notice or cause goods to be conveyed to a custom-house, neglects so to do,	<u>If an officer of any authority who is duty bound under section 170 to deposit the impugned goods with customs, neglects so to do.</u>	Such officer shall, on conviction before Special Judge, be liable to a penalty not exceeding, fifty thousand rupees.

Proposed addition to fines & penalties is listed below:

Sr No.	Offence	Penalty	Section of this Act to which offence has reference.
62A	If any person is found to be involved or abetting in the removal, substitution, damage or otherwise tempering with any goods, whether or not confiscated, at any such place as authorized by the Collector as a State Warehouse.	such person shall be liable to a penalty not exceeding two times the value of the goods involved; and upon conviction by a Special Judge, shall further be liable to imprisonment for a period not exceeding five years, or fine or the both.	General

Section

157 Extent of confiscation

The bill proposes to insert an explanation to clarify that "removal" includes every act of carrying, transporting, depositing, harboring, keeping, concealing, retailing or any other act facilitating movement or possession of smuggled goods ensuring that all movement or possession of contraband is punishable.

170 Procedure in respect of goods seized or detained other authorities

The Bill proposes to substitute the existing section, which currently deals with the procedure for things seized on suspicion by the police, with a new section titled "Procedure in respect of goods seized or detained by other authorities."

The existing section only addressed seizure by police officers on suspicion of theft and required such officers to carry the seized items to a police station or court, detain them pending complaint or inquiry, and thereafter deposit them at the nearest custom-house.

The proposed substitution enhances the scope by requiring any authority to hand over goods liable to confiscation under the Customs Act to the Customs authorities for processing, without waiting for the conclusion of any pending proceedings under any other law.

Section

179(6) Faceless adjudication

The proposed insertion seeks to empower the Board to notify procedure for faceless adjudication, which shall be conducted without any face-to-face interaction between the adjudicating officer and the respondent.

185A(6) Cognizance of offences by special judges

The proposed insertion seeks to empower Special Judges to freeze the assets of an accused, whether in the accused's possession or in the possession of any other person on his behalf, during trial if it is believed that the accused is involved in illegal transfer of money into or out of Pakistan.

196JJ Independent case scrutiny committee

The proposed insertion introduces independent committees to examine and decide matters relating to the filing of appeals, thereby avoiding frivolous litigation.

Under the proposed section, any civil petition, reference, civil petition for leave to appeal, or review petition before the High Court, the Federal Constitutional Court, or the Supreme Court of Pakistan shall only be filed by the Collector or Director of Customs, or an authorized officer not below the rank of Deputy Collector or Deputy Director, subject to approval by an independent case scrutiny committee constituted by the Board.

The Board may constitute one or more such committees and assign them jurisdiction. Each committee shall comprise of a retired judge of the superior judiciary as Chairman, an advocate with not less than fifteen years of experience in customs and commercial litigation before the High Court or Supreme Court, and a serving or retired officer not below the rank of Director or Collector of Customs.

Recommendations of the committee shall be binding upon the concerned Collector or Director of Customs, and members of the committee shall be immune from any suit, prosecution, or other legal proceedings in relation to their decisions.

215 Service of order, decision, etc.

The proposed insertion allows for the service of summons/notices/orders by any method prescribed under the Code of Civil Procedure, 1908 including through newspaper publication.

Schedule Following amendments to regulatory structure have been announced through the Salient Features of the Budget Speech.

**First
Schedule** **Proposed changes in custom duty**

Reduction of Customs Duty across 92 tariff lines for industrial input goods decreasing rates from 20% to 15% and 10%, 15% to 10% and 5%, and 5% to 0%

**Fifth
Schedule** **Exemptions through amendments in Fifth Schedule**

- Reduction of CD from 20% to 10% on specialized construction-related vehicles for the construction sector.
- Full exemption of CD, ACD, and RD on the import of agricultural machinery.
- CD Exemption proposed on import of bulletproof vehicles for the Shanghai Cooperation Organization Summit and by Federal and Provincial Governments.
- Exemption of CD on critical cancer-related Active Pharmaceutical Ingredients (APIs) and defense imports.

**RD
& ACD** **Proposed changes in Additional Custom Duty and Regulatory Duty**

Regulatory Duty (RD):

- RD rates exceeding 20% are now capped at 20% for 359 tariff lines.
- RD rates between 1% and 20% across 1,555 tariff lines either reduced by 20% or eliminated.

Additional Customs Duty (ACD):

- Reduction of ACD from 6% to 4% on 449 Tariff Lines.
- Reduction of ACD from 4% to 2% on 2,107 Tariff Lines.
- Elimination of ACD from 2% to 0% on 569 Tariff Lines

**SUMMARY OF CHANGES IN THE
OTHER LAWS**

WEST PAKISTAN MOTOR VEHICLES TAXATION ACT, 1958

Schedule	Token tax regime
Tables 2,3,4 & 5	The proposed amendments seek to update the token tax regime under the West Pakistan Motor Vehicles Taxation Act, 1958, as applicable in the Islamabad Capital Territory, through substitution of Tables 2 to 5 of the Schedule. The upwards revisions primarily relate to motor vehicles, motor cabs, public service vehicles, and commercial or loading vehicles.

**PETROLEUM PRODUCTS (PETROLEUM LEVY AND CLIMATE SUPPORT LEVY) ORDINANCE, 1961
(XXV OF 1961)**

Section	
2	Definitions
2(1)	<p>The bill seeks to substitute the definition of “ company” and ‘refinery’ which currently refers to entities enlisted in the Second Schedule and Fourth Schedule as follows:</p> <p>“company” means an oil marketing company and includes a person engaged in the manufacturing, refining or reclaiming of lubricating oil from used lubricating oil under a license granted by OGRA”; and</p> <p>“refinery” means a facility or industrial plant where crude oil is refined to produce petroleum products.”;</p>
2(4E) (4F)	<p>The terms “Oil Marketing Company” and “ OGRA” are proposed to be defined as follows:</p> <p>“Oil Marketing Company” means a company, other than lubricant marketing company, engaged in purchasing or obtaining of petroleum products from refineries or blending plants or through sources abroad for selling, distributing or marketing, directly through his agents or dealers at his dispensing outlets or filling stations;</p> <p>“OGRA” means the Oil and Gas Regulatory Authority of Pakistan established under the under the Oil and Gas</p>

Section

Therefore, the Second and fourth Schedule is proposed to be omitted.

3. **Payment of Petroleum Levy and Climate Support Levy as License Condition**

The proposed clause makes payment of Petroleum Levy and Climate Support Levy a mandatory condition of the OGRA licence for every company, refinery or licensee at the rates that may be notified by Federal Government in the official gazette from time to time

3B and 3C The following new section are proposed to be inserted

Late payment surcharge

It is also proposed that where any amount of the Petroleum Levy and Climate Support Levy are not paid within the prescribed due date i.e. the date of filing of Sales Tax or Federal Excise Returns in case of local production and date of payment of custom duty in case of imported products, the defaulting company, refinery or licensee shall, in addition to the amounts due, be liable to pay late payment surcharge calculated in the manner as specified in sub-section (1) of section 40D of the Public Finance Management Act, 2019, which provides for an amount equal to monthly weighted financing cost of unpaid amount.

Recovery of amount due

It is proposed that if the Petroleum Levy and Climate Support Levy due or the late payment surcharge are not paid within ninety days, the relevant department responsible for collecting the Petroleum Levy and Climate Support Levy under subsection (2) of section 3A of this Act, may request the Commissioner (Inland Revenue) to exercise powers of recovery in the same manner as income tax arrears under Part IV of Chapter X of the Income Tax Ordinance, 2001 (XLIX of 2001) or rules made thereunder in this behalf: Provided that the Commissioner (Inland Revenue) shall have no authority to grant extension of time to the notice of recovery or allow payments of outstanding levies under this Ordinance including late payment surcharge in instalments of equal or varying amounts.

The relevant department under sub-section (2) of section 3A of this Act, as it deems fit and proper, may either, separately or simultaneously, initiate recovery of the Petroleum Levy and Climate Support Levy, or, the late payment surcharge, as the case may be.

Section

Any irregularity or infirmity in the recovery proceedings under this section shall not be grounds of challenge before a tribunal or courts of law.

The Commissioner (Inland Revenue) shall be bound to submit a report every fortnight to the divisions concerned to whom subjects of finance and petroleum are allocated under the Rules of Business, 1973

4A Mandatory reporting mechanism for petroleum levy and climate support levy

The bill seeks to insert the new section 4A as follows:

“Every company, refinery or licensee under this Ordinance shall submit monthly statement regarding the payment of the Petroleum Levy and Climate Support Levy on sale of petroleum products. The statement shall be supported by documentary evidence including monthly sales invoice submitted to the Federal Board of Revenue established under the Federal Board of Revenue Act, 2007 (Act No. IV of 2007) including any other document required by the relevant department from time to time”.

Every company, refinery or licensee under this Ordinance shall furnish an annual audited certificate to the Petroleum Division, issued by the Authorized Audit Firm, certifying the accuracy of the levy and or levies accrued and paid under this Ordinance.

Authorized Audit Firm means an audit firm registered with the Audit Oversight Board under the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997). The costs and expenses of such audit shall be borne solely by the relevant company.

CAPITAL VALUE TAX ACT, 2022

Section

8 of the Finance Act, 2022 Abolition of capital value tax (CVT) on foreign assets

The Capital Value Tax (CVT) on foreign assets was introduced through section 8 of the Finance Act, 2022. Under the existing provisions, CVT is levied at the rate of 1% on the value of foreign assets held by a resident individual where the aggregate value of such assets exceeds Rs. 100 million at the end of the tax year.

The bill proposes amendments to section 8 of the Finance Act, 2022 by omitting various provisions, including clause (b) of sub-section (2), clause (c) of sub-section (3), clause (c) of sub-section (13), and Serial No. 4 of the First Schedule, which collectively govern the levy of CVT on foreign assets.

The proposed amendments effectively abolish the Capital Value Tax on foreign assets of resident individuals. As a result, resident individuals holding foreign assets will no longer be subject to the 1% CVT on assets exceeding the prescribed threshold, thereby reducing the tax burden on overseas investments and simplifying compliance requirements relating to the declaration and taxation of foreign assets.

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