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TAX HIGHLIGHTS

FEDERAL BUDGET 2025-26



INCOME TAX ORDINANCE, 2001

CHANGES IN PERSONAL TAXATION

- 10% Surcharge reduced to 9% for salaried individuals only.
- Tax on annual Salary upto Rs. 3.2 million reduced marginally.
- 25% tax rebate for full time teachers and researchers has been abolished.
- Pension income received by an employee below the age of 70 years and over and above Rs. 10 million to be tax at flat rate of 5%.
- Pension is no longer exempt from tax.
- Tax exemption on withdrawal upto 50% from VPS has been done away with.
- Tax credit on interest payment on low cost house loans for a house upto 2,500 square feet and a flat upto 2,000 square feet.

CHANGES IN TAXATION OF CAPITAL GAIN

- 15% withholding on capital gain has been introduced on debt securities on their sale other than through stock exchange.



CHANGES IN BUSINESS INCOME

- Disallowance of expenses attributable to sales made to person not registered in sales tax has been done away with.
- Disallowance of expense upto 10% on attributable purchases made from person not having NTN number excluding agricultural produced purchased directly from grower.
- 50% of the expense related to sales will be disallowed in case payment is received in cash against a single invoice exceeding Rs 200,000.
- Depreciation on addition in capital asset would not be allowed, if withholding tax is not deducted on its payment.
- Maximum period to claim amortization on intangible to be reduced from 25 years to 15 years.
- Period of carry forward for adjustment of minimum tax on turnover has been reduced from 3 years to 2 years.
- The Board or chief commissioner has power to post an officer at taxpayer business premises for the purpose of monitoring production, supply of goods and services and closing stock.
- Group relief to be restricted to companies paying tax under normal tax regime.



CHANGES IN INCOME FROM PROPERTY

- Minimum rent on commercial property to be calculated at 4% of FBR value of property.
- Income from property cannot be adjusted from current year business loss.

CHANGES IN ASSESSMENT AND APPEALS

- Time Limitation of 180 days for completing amendment of assessment proceedings has been done away with.
- Recovery proceeding for immediate payment can be initiated if the issue has been decided by the high court against the taxpayer.
- Pecuniary limit for deciding the jurisdiction of appeal has been done away with and the taxpayer has an option to either file appeal with commissioner (Appeals) or directly file appeal with Tribunal.
- Appeal effect order is not required to initiate recovery proceeding in case where demand has been confirmed by appellate forums.
- Period to file appeal in High court has been extended from 30 days to 60 days.
- Exemption from income tax audit, if the person affairs has been audited previously, has been reduced from 4 years to 3 years.



CHANGES RELATED TO WITHHOLDING PROVISIONS

- Tax rate on profit on debt has been increased from 15% to 20%.
- Tax on dividend has been made proportionate to debt and equity income in the proportion of 25% and 15% from mutual funds.
- Withholding tax rate increase for specified services from 4% to 6% for resident person and 8% for non-resident person with the exception of IT and IT enabled Services.
- Withholding tax rate for all other than specified services increased to 15% for both resident and non-resident person and for both corporate and non-corporate taxpayers.
- Withholding tax rate increased from 10% to 15% on Sports person.
- Withholding tax on cash withdrawal on non-filers increased from 0.6% to 0.8%.
- Withholding Tax on fee for offshore digital services to be increased from 10% to 15%.
- Advance tax on sale of property has been increased to maximum 5.5% for filer, 9.5% for late-filer and 11.5% for non-filer.
- Advance tax on purchase of property has been reduced to maximum 2.5% for filer and 18.5% for late-filer.



CHANGES IN EXEMPTIONS

- Exemption from income tax has not been extended to venture capital company and venture capital fund.
- Income tax exemption for erstwhile FATA/PATA areas has been extended for one year.
- Exemption to Special Economic Zone (SEZ) and Special Technology Zone (STZ) has been restricted to earlier of TY 2035 or 10 years exemption period.

OTHER IMPORTANT CHANGES

- Final Tax on digital transaction through e-commerce platform of the seller at the slab rate ranging from 0.25% to 2% to be made by banks and courier companies.
- Person to be notified by the board and not having NTN is not allowed to purchase Vehicles, Property and units of mutual fund nor are they allowed to open a bank account.
- Super tax rates to be reduced by half a percentage point for each income slabs between Rs. 200 million to Rs. 500 million.
- All online marketplace, payment intermediary and courier service are required to file a statement to Commissioner sharing data of sellers involved in digital transaction of goods and services.



SALES TAX ACT, 1990

TAX FRAUD

- A new concept of “abettor” introduced for penalizing misuse of email-password, preparation of unauthorized invoices, and facilitating fraudulent transactions. Section 33 also amended to include penalties for abettor.
- Definition of term “Tax fraud” revamped again to further broadening of its scope.

E-COMMERCE & WITHHOLDING MECHANISM

- Liability shifted to payment intermediaries (banks, fintechs, payment gateways) and couriers (for COD orders) to withhold and remit tax on digital transactions. Tax withheld is deemed final; the seller can’t claim input tax credit under Section 3(7A).
- Non- residents selling goods online in Pakistan are now liable to obtain sales tax registration.

REGISTRATION, ENFORCEMENT & COERCIVE MEASURES

- Cargo tracking and e-bilty mechanisms (mirroring Customs) introduced to digitally track goods.
- Tax authorities can bar bank accounts operation, restrict property transfer, seal premises, or appoint a receiver for non-registered entities.
- Board empowered to restrict/defer the input tax adjustment based on automated risk management system.



- Timelines introduced for conclusion of suspension/blacklisting proceedings.
- Procedure for inquiry, investigation and prosecution of tax fraud has been revamped vesting vast powers with the tax officers in line with criminal offences.
- Penalties intensified under Section 33 (e.g., abettors, false Input tax adjustment) and Section 37A (power to arrest).

ASSESSMENT

- Time limitation to conclude assessment proceedings extended from 120 to 180 days.
- Enabling provision for best-judgment assessments in cases where wholesalers, distributors liable for registration on the basis of income tax withholding under Section 236G of the Income Tax Ordinance, 2001 fail to get registration and file sales tax return.
- Authorities are no more empowered to condone time limit beyond 2 years.

RETAIL PRICE / THIRD SCHEDULE

- The Board can now set minimum retail prices under the Third Schedule, including a floor pricing mechanism for imported goods ($\geq 130\%$ of customs value).



- Adjustments in retail price of beverages, mineral water, juices and aerated water on account of packaging/chilling charges capped at 5%.
- The scope of retail price-based taxation has been expanded to include imported coffee, pet food and chocolates sold in retail packing.

APPEALS

- Pecuniary limit for deciding the jurisdiction of appeal has been done away with and the taxpayer has an option to either file appeal with commissioner (Appeals) or directly file appeal with Tribunal.
- Period to file appeal in High court has been extended from 30 days to 60 days.

EXEMPTIONS / REDUCED RATES

- Exemptions of solar panels and supplies in tribal withdrawn.
- Supplies in erstwhile tribal areas (except for electricity) taxable @ 10%
- Reduced rate for cars under 850cc now taxable at standard rate
- Iron & Steel exemption rationalised.



FEDERAL EXCISE ACT 2005

- Excisable goods lacking valid stamps, barcodes, banderoles, stickers, or tax labels (or carrying counterfeit ones) can now be seized on the spot.
- Same non compliant or counterfeit goods are now confiscable and destroyable.
- FBR may notify any federal or provincial officer to use excise seizure/confiscation powers under Sections 26 & 27
- Duty on property transfers imposed by Finance Act 2024 now withdrawn; removing excise on residential/commercial allotment and transfer.

ICT (TAX ON SERVICES) ORDINANCE 2001

- A proviso added requiring service providers listed in Table 1 & 2 to integrate with the FBR's system for real-time reporting
- Enabling provision inserted to introduce negative list for exempt services.
- Exemption introduced for services rendered to united nations organisations and diplomats.



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