



MOORE Shekha Mufti
Chartered Accountants



TAX MEMORANDUM

FEDERAL BUDGET 2025-26



PREFACE

This Tax Memorandum summarizes crucial changes in the Income Tax Ordinance 2001, Sales Tax Act 1990, Federal Excise Act 2005, & Customs Act 1969 through Finance Bill 2025.

The Tax Memorandum contains the comments which represent our interpretation of the legislation. We, therefore, recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statute(s).

The memorandum can also be accessed on our website www.mooreshekhamufti.com

12 June 2025



TABLE OF CONTENTS		PAGE
(1)	SALIENT FEATURES	04 - 09
(2)	INCOME TAX ORDINANCE, 2001	
	(a) Changes in Personal Taxation	10 - 11
	(b) Road to Digitalization – Taxing the Untaxed	12 - 15
	(c) Changes in Property Income	15 - 16
	(d) Changes in Business Income	16 - 20
	(e) Changes in NPO	20
	(f) Non-Filers and Economic Transactions	21 – 23
	(g) Changes in Assessment and Audit	23 – 25
	(h) Changes in Appeals	25 – 27
	(i) Changes in Recovery	27
	(j) Changes in Taxation of Capital Gain	28
	(k) Changes in Withholding Tax Rates	28 – 29
	(l) Other Important Changes	29 – 31
(3)	SALES TAX ACT, 1990	32 – 44
(4)	ICT (TAX ON SERVICES) ORDINANCE 2001	45
(5)	FEDERAL EXCISE DUTY ACT, 2005	46 – 48
(6)	CUSTOMS ACT, 1969	49 - 55

SALIENT FEATURES

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.

SALIENT FEATURES

- 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.

SALIENT FEATURES

- 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.

SALIENT FEATURES

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).

SALIENT FEATURES

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.



SALIENT FEATURES

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.

AMENDMENTS IN INCOME TAX ORDINANCE, 2001

CHANGES IN PERSONAL TAXATION

1% Reduction in Surcharge for Salaried Individual to 9%

Section 4AB

The Finance Bill 2025-26 seeks to amend the provisions of Section 4AB of the Income Tax Ordinance, 2001 by reducing the rate of surcharge from 10% to 9% in case of *salaried individuals*, whose taxable income exceeds Rs.10 million per annum, effective from 1st July 2025.

Under the existing provisions of Section 4AB of the Ordinance, surcharge at the rate of 10% is levied on the amount of Income tax payable by Salaried Individual, Business Individual and Association of Persons (AOP) where the taxable income exceeds of Rs.10 million

Through this Finance Bill 2025-26 it has been proposed that only salaried individuals falling within the aforesaid income threshold shall be subject to a reduced surcharge at the rate of 9% of the income tax payable on their taxable income. The surcharge rates for business individuals and AOPs shall remain unchanged at 10%.

Description	Taxable Income	Rate	Tax Surcharge Amount
Salaried Individual	10,000,000	9%	900,000
Business Individual	10,000,000	10%	1,000,000
Association of Persons (AOP)	10,000,000	10%	1,000,000

Furthermore, the Employers shall remain responsible for deducting the surcharge in addition to the normal tax deductions under the applicable salary tax slabs.

Marginal Reduction in Tax Rates of Salary Income

Section 149, Clause-2, Division-I, Part-1 of 1st Schedule

The Finance Bill 2025–26 proposes to revise the existing tax rate for salaried individuals by amending Clause (2), Division I of Part I of the First Schedule, read with Section 149 of the Ordinance. The revised structure introduces reduced marginal rates and recalibrated fixed tax amounts.

The proposed changes are intended to benefit both lower and higher income earners.

Comparison of Existing and Proposed Salary Tax Slabs:

S. No.	Annual Salary Income	Salary Slabs	Existing Salary Slabs		Proposed Salary Slabs	
			Rate on Exceeding Amount	Fixed Tax	Rate on Exceeding Amount	Fixed Tax
1	600,000	Up to 600,000	Nil	Nil	Nil	Nil
2	1,200,000	600,001 to 1,200,000	5%	Nil	1%	Nil

S. No.	Annual Salary Income	Salary Slabs	Existing Salary Slabs		Proposed Salary Slabs	
			Rate on Exceeding Amount	Fixed Tax	Rate on Exceeding Amount	Fixed Tax
3	2,200,000	1,200,001 to 2,200,000	15%	30,000	11%	6,000
4	3,200,000	2,200,001 to 3,200,000	25%	180,000	23%	116,000
5	4,100,000	3,200,001 to 4,100,000	30%	430,000	30%	346,000
6	4,100,001 and above		35%	700,000	35%	616,000

A Comparison of Salary tax between the existing and the proposed Slab is being tabulated as under for ease of understanding.

COMPARISON BETWEEN EXISTING & PROPOSED SALARY SLABS				
S. No	Annual Salary Income	Tax Year 2025	Tax Year 2026	Annual Decreased
1	600,000	-	-	-
2	1,200,000	30,000	6,000	(24,000)
3	2,200,000	180,000	116,000	(64,000)
4	3,200,000	430,000	346,000	(84,000)
5	4,100,000	700,000	616,000	(84,000)
6	5,100,000	1,050,000	966,000	(84,000)

Pensioner up to the Age of 70 Years with Annual Pension Income over Rs. 10M

Section 149

The Finance Bill 2025 – 26 proposes the insertion of a new deduction and taxation regime for individuals below the age of 70 years who solely derive income from pension, annuity, or commutation of pension received from a former employer during a tax year.

The proposed regime provides for the following: -

- Where the total pension or annuity income does not exceed Rs. 10 million during the tax year, such income shall be exempt from income tax, i.e., 0% tax deduction shall apply.
- Where the total pension or annuity income exceeds Rs. 10 million, such excess shall be subject to a flat deduction of income tax at the rate of 5%, in accordance with the provisions of Division I of Part I of the First Schedule to the Ordinance.

S. No.	Description	Rate of Tax on Pension Income
1	Where amount of Pension Received does not exceeds of Rs.10 million	0%
2.	Where amount of Pension Received exceeds of Rs.10 million	5%

Moreover, in cases where a person derives salary income in addition to pension/annuity income, and the total taxable income exceeds Rs. 10 million, a surcharge at the rate of 9% shall be applicable in accordance with Section 4AB of the Ordinance.

It is further clarified that tax credits under Section 61 (charitable donations) and Section 63 (contributions to approved pension funds) of the Ordinance, shall be available to such individuals against salary tax deductions.

25% Tax Rebate to Full-Time Teachers & Researchers

Clause 3A, Part III, 2nd Schedule

The Finance Bill 2025–26 proposes to provide a 25% tax credit on tax payable by full-time teachers and researchers, if, the individual is employed full-time as a teacher or researcher by a non-profit educational institution, or a research institution, which is duly recognized by:

- The Higher Education Commission (HEC),
- A Board of Education, or
- A University recognized by HEC,
- Including government research institutions.

The benefit, however, shall not be available to teachers of the medical profession who derive income from private medical practice or who receive a share in the fees paid by patients.

Furthermore, it is proposed that this clause shall be deemed to have been in force with effect from July 1, 2022, and shall remain effective up to and including the tax year 2025. Thereafter, the provision shall cease to have effect.

ROAD TO DIGITALIZATION – TAXING THE UNTAXED

Tax on Payments for Digital Transactions in E-Commerce Platforms

The Federal Board of Revenue (FBR) has been putting its efforts to use Information Technology in business and digitalized the economy. FBR has taken significant steps towards its aim to digitalized economic transactions. Recently, FBR has implemented Real Time Digital Invoicing System, whereby all registered person under the Sales Tax Act, 1990 are required to get integrated with FBR.

Through the Finance Bill, 2025-26, FBR has marked another significant step through introducing tax on payments for digital transactions in e-commerce platforms under proposed Section 6A of the Ordinance in order to capture entire supply chain.

Under the above proposed provision, a tax shall be imposed on every person who receive payment from the supply of digitally ordered goods or services which are delivered within the territory of Pakistan using online platforms including online marketplace or website.

The rate of tax imposed under this Section shall be collected in accordance with the following table;

Digital Means or banking channels by payment

S. No.	Description	Tax Rates
1	Where the amount does not exceed Rupees. 10,000/-	1% of the gross amount paid
2	Where the amount exceeds Rupees. 10,000/- but does not exceed Rupees. 20,000/-	2% of the gross amount paid
3	Where the amount exceeds Rupees. 20,000/-	0.25% of the gross amount paid

Cash on Delivery by courier service:

S. No.	Description	Tax Rates
1	Supply of electronic and electrical goods	0.25% of the gross amount
2	Supply of clothing articles, apparels, garments etc.	2% of the gross amount
3	Supply of goods other than mentioned above	1% of the gross amount

The tax collected from the seller at the time of processing payment digitally shall be final tax under the proposed Section 6A of the Ordinance against the income derived from the supply of digitally ordered goods or services.

It remains important to mention here that the seller at the time of filing its Annual Tax Return, will be required to prorate its expenditures between the sales made through the supply of digitally ordered goods or services or otherwise under Section 67 of the Ordinance.

Moreover, the sales made from the supply of digitally ordered goods or services will also be excluded from the definition of Turnover as defined under Section 113 of the Ordinance.

Immunity from Withholding by Payer under Section 153

Through the Finance Bill 2025-26, it has been proposed to provide immunity from the payment of withholding of income tax under Section 153 of the Ordinance, if the tax has been collected by intermediary or a courier service under the proposed Section 153(2A) of the Ordinance.

However, it seems impractical to absolve the liability of withholding agent under Section 153 of the Ordinance as the intermediary or a courier service shall be discharging its liability for collecting and



depositing tax at the time of processing payment to the Seller, while the purchaser (the original withholding agent) would have already made payment to the intermediary or courier company.

The above lacuna may create uncertainty as to whether the purchaser has met its withholding obligation at the time of payment, especially in case where the intermediary or courier company fails to deposit the tax into the Government treasury.

In view of the above, it appears that the purchaser may face risk exposure for non-compliance under Section 153 of the Ordinance. We understand that the procedural / proper guidelines, is necessary to effectively operationalize in practical manner.

Submission of Monthly / Quarterly Statement

Through the Finance Bill 2025-26, every intermediary or courier company is proposed to submit a quarterly withholding statement to the Tax Commissioner in respect of tax deduction details against the sale of digitally ordered goods and services in the prescribed manner as defined under the proposed Section 165C of the Ordinance.

Apart from the above, every online marketplace shall also submit a monthly statement containing the relevant information of every vendor registered on its platform supplying digitally ordered goods or services.

The date for submission of above quarterly statement will remain the same with respect to the due date of the filling of the withholding statement as defined under Section 165 of the Ordinance, however, in case of monthly statement, which is proposed to be submitted by every online marketplace, no specific due date has been provided under the aforesaid Finance Bill.

Restriction impose to use Platform without Sales Tax Registration

Through the Finance Bill 2025-26, FBR has made responsible every online marketplace or courier service provider who are involved in supplying or delivering digitally ordered goods or services to ensure that their vendors are registered under the Sales Tax Act, 1990.

The above amendment may help FBR to significantly increase the numbers of Sales Tax Registered Person and also brought them into tax net who were using the aforesaid platform without getting the registration under the Sales Tax Act, 1990.

Vendors using Online Platform is required to register

Through the Finance Bill 2025-26, it has been proposed that every taxpayer including a person engaged in selling digitally ordered goods or services within Pakistan using online marketplace or a courier service, is required to get registration under Section 181 of the Ordinance.

Penalty Provision for Digitally Ordered

Through the Finance Bill 2025-26, the following penalties have been introduced as under;



(I) Allowing Unregistered Vendor to Use Online platform

If an online marketplace allows an unregistered vendor whether resident or non-resident involved in e-commerce business, to supply digitally ordered goods or services who is required to register under the Sales Tax Act, 1990, shall be liable to pay penalty of 500,000/- Rupees for the first default and 1,000,000/- Rupees for every subsequent default.

(II) Fails to deduct tax by intermediary or a courier service

In case a banking company or intermediary or a courier service fails to deduct tax at the time of making payment to Seller or fails to deposit the deducted tax in the Government treasury shall be liable to pay a penalty equal to 100% of the amount of tax involved.

(III) Fails to obtain Registration

If a seller engaged in supplying digitally ordered goods and services through online marketplace, fails to obtain registration under the Sales Tax Act, 1990 and Income Tax Ordinance, 2001, he shall be liable to pay a penalty of 500,000/- Rupees for the first default and 1,000,000/- Rupees for every subsequent default.

No Bar to Purchase Assets through Digital Means

Through the Finance Bill 2025-26, FBR has proposed to include the provision of "Digital Means" under Section 75A of the Ordinance.

Through the above amendment, a person would be able to acquire any assets not only through crossed cheque or crossed demand draft or crossed pay order but by digital means as well.

CHANGES IN PROPERTY INCOME

Deemed Rental Income from a Commercial Property

Section 15

The Finance Bill 2025-26 proposes to insert a new proviso to sub-section (4) of Section 15 of the Income Tax Ordinance, 2001, relating to income from property whereby a minimum annual rental income equivalent to 4% of the fair market value (FMV) of a commercial property, as determined under Section 68 of the Ordinance, shall be deemed to be the income from property.

The said deemed minimum rental income shall apply irrespective of the actual rent declared, unless the taxpayer is able to satisfy the Commissioner that the declared rent reflects the fair market rate based on valid documentary evidence or market practice.

The insertion seeks to curb underreporting of rental income and ensure a minimum threshold of taxation on commercial properties, particularly flats and shops, that are rented at nominal or suppressed values.

It is further clarified that income under the head "Income from Property" shall not be adjustable against a person's business loss of the current tax year, thereby ring-fencing rental income for independent taxation and preventing erosion of the tax base.

CHANGES IN BUSINESS INCOME

Disallowance of Expenditure Attributable to Purchases from Non NTN Holders

Section 21(q)

The Finance Bill-2025 introduces a significant compliance-driven amendment aimed at enhancing documentation and transparency in the economy. The proposed provision seeks to disallow 10% of the total claimed expenditure related to purchases made from suppliers who do not possess a National Tax Number (NTN). This disallowance would apply while computing income under the head of "Income from Business".

This amendment appears to be aligned with the government's broader agenda of expanding the tax base and formalizing the supply chain. By discouraging business transactions with non-NTN holders, the measure intends to push more entities towards registration with the tax authorities.

The proposed amendment provides two important exemptions to the following;

1. Agricultural Produce Purchased Directly from Growers

A specific carve-out is provided for direct purchases of agricultural produce from growers. This acknowledges the predominantly informal nature of the agriculture sector, where most small-scale farmers are not part of the formal tax net and may not possess NTNs. Imposing a disallowance in such cases would have been impractical and potentially inflationary.

2. Discretionary Exemption by the FBR

The proposed amendments empowers the FBR to exempt any person or class of persons from the applicability of this disallowance through a notification in the official Gazette. Such exemptions may be subject to conditions and limitations as specified therein.

3. Practical Challenges faced by the Taxpayers

- Businesses will now be under greater pressure to verify the NTN status of their vendors before making purchases.
- Maintaining documentary evidence of vendors' NTN status will be critical during assessments or audits.

Disallowance of Expenditure for Non-Banked Receipts Exceeding Rs.200,000/-

Section 21(s)

As part of its continued efforts to discourage cash-based transactions, the Finance Bill proposes a new provision whereby 50% of the expenditure claimed in respect of a sale transaction will be disallowed if the taxpayer receives payment exceeding Rs.200,000/- against a single invoice other than through banking channels or digital modes.



The provision applies where the aggregate payment against a single invoice (even if consisting of multiple supplies or services) exceeds the above limit and such payment is not routed through a bank account or digital means. In such cases, 50% of the associated expenditure claimed by the taxpayer will be disallowed in computing business income for tax purposes.

Taxpayers must ensure that payments exceeding the prescribed threshold are received only via banking channels (e.g., cross cheque, online transfer) or digital means (e.g., mobile banking, credit card).

Disallowance of Depreciation in case of Non Withholding of Tax

Section 22

The Finance Bill proposes a significant amendment to disallow depreciation in respect of the cost of capital assets acquired from a seller where the tax deductible has not been duly withheld either under Section 152 (i.e. payments to non-residents) or Section 153 (i.e. payments to resident persons for goods, services, and contracts) of the Ordinance and deposited into the Govt treasury.

The disallowance applies in cases where a taxpayer makes payment for the acquisition of capital assets but fails to comply with the withholding and deposit obligations. In such circumstances, the amount paid shall not be added to the value of the asset and as such depreciation shall permanently be disallowed across all relevant tax years for the purpose of computing taxable income.

This amendment serves to reinforce the critical importance of withholding tax compliance as an essential component of the revenue collection framework.

To substantiate claims for depreciation, adequate documentation must be maintained, including but not limited to withholding tax statements, computerised payment receipts (CPRs), and other relevant records with the withholding provisions.

It would not be out of place to mention here that the Finance Bill didn't propose any relief or allowability of expenditure disallowed due to non-deduction or non-payment of withholding tax, even in case where the recipient has duly paid tax on the income received. This stands in contrast to the exception already available under Section 21(c) of the Ordinance, which provides that disallowance shall not be made where the recipient of the payment has included the amount in their return of income and paid due tax thereon.

It is, therefore, expected that this gap will be addressed through the Finance Act by the FBR, ensuring alignment with the spirit of Section 21(c) and avoiding unjust outcomes where the state has already recovered its due revenue from the recipient. Such amendments would help maintain the principle of equity.

Reduction in Prescribed Useful Life of Intangibles

Section 24

The Finance Bill proposes to amend the treatment of intangible assets by reducing their prescribed useful life from 25 years to 15 years for the purpose of amortization under Section 24 of the Ordinance. This amendment aims to align the tax treatment of intangibles with more practical norms.

It is important to note that while the maximum useful life is now capped at 15 years, the taxpayer must still determine and substantiate a reasonable and justifiable useful life of the intangible asset based on its nature and expected economic benefit.



Insertion of 'Digital Means'

Section 39(3)

The Finance Bill proposes to amend Section 39(3) of the Ordinance by expanding the modes of permissible payment for transactions such as gifts, loans, and advances. Previously, the law required such payments to be made through a banking channel to be considered valid for tax purposes.

The proposed amendment now includes 'digital means' alongside traditional banking channels, thereby modernizing the provision in line with evolving financial practices and the State's digitalization agenda. This change is expected to facilitate greater use of digital financial services and improve traceability of transactions.

Restriction on Set-Off of Business Loss Against Income from Property

Section 56

Section 56 of the Ordinance, currently permits the set-off of business losses against any income except salary, within the same tax year. The Finance Bill, now, proposes to further restrict this relief by excluding income from property from the heads of income against which such business losses may be adjusted. As a result, taxpayers will no longer be allowed to set off current year business losses against rental income.

This amendment will have a direct financial impact on individuals and entities deriving significant income from property. In such cases, the overall tax liability may increase, as rental income will now be fully taxable despite the existence of business losses. The unadjusted business loss would have to be carried forward to future years, subject to limitations under the Ordinance, potentially creating cash flow challenges for taxpayers who were previously relying on intra-year set-offs to optimize their tax position.

Restriction on Group Relief

Section 59B

Section 59B of the Ordinance, provides for group relief, allowing the surrender of business losses by one group company to another within the same group, subject to prescribed conditions.

The Finance Bill proposes a significant amendment to this provision by introducing a restriction that a company or companies within the group whose income from business is chargeable to tax under any provision of the Ordinance other than Division II of Part I of the First Schedule shall not be entitled to avail group relief.

This effectively limits group relief only to companies that are subject to normal corporate tax rates, thereby excluding those taxed under special regimes, fixed tax, or presumptive tax provisions.

Proposed Omission of the word 'Exclusively'

Section 65F

The Finance Bill proposes to omit the word 'exclusively' used in Section 65F of the Ordinance. The above Section, currently, allows a 100% tax credit to persons engaged in coal mining projects in Sindh, provided the coal is supplied exclusively to power generation projects. The use of the word

'exclusively' imposes a strict condition, limiting eligibility only to those entities that supply their entire coal output to power generation projects. Any diversion of supply to other sectors, even partially, disqualifies the taxpayer from availing the credit.

The removal of the word "exclusively" would expand the scope of eligible taxpayers. It would imply that;

- A coal mining company in Sindh does not have to supply all its coal to power generation projects to qualify.
- Partial supply to power generation projects—alongside supply to other sectors (e.g., cement, steel, industrial use)—would still make the company eligible for the 100% tax credit under Section 65F for that portion of income attributable to supplies made to power generation projects.

Such an amendment would also reduce the risk of complete disqualification for minor deviations and promoting a more practical application of tax incentives.

Reduction in Carry Forward Period of Minimum Tax

Section 113

The Finance Bill proposes to amend Section 113(2)(c) of the Ordinance by reducing the periods for which excess minimum tax shall be carried forward for adjustment against future tax liabilities from the existing three years to two years.

We are of the view that the above amendment would apply prospectively which means that the minimum tax paid up till the Tax Year 2025 on account of which the taxpayers have accrued a vested right would not be affected by the aforesaid proposal which would continue to be carry forward and adjusted.

Time Limitation Introduced for Tax Exemption;

Clause 126E

Clause 126E, Part I, 2nd Schedule to the Ordinance, provides a 10-year income tax exemption to zone enterprises operating within Special Economic Zones (SEZs), commencing from the date the developer certifies that commercial operations have begun.

The Finance Bill, now, proposes to insert a time restriction by adding the phrase 'or up to 30th June 2035, whichever is earlier' after the word 'operation'.

This amendment introduces a sunset clause, effectively capping the exemption period to no later than 30 June 2035, regardless of when commercial operations commence.

The introduction of a fixed end date for the 10-years tax holiday under Clause 126E is likely to result in substantial financial loss for zone enterprises commencing operations closer to or after FY 2030. This may discourage long-term industrial investment and distort the level playing field among SEZ participants based solely on operational timing.

Time Limitation Introduced for Tax Exemption

Clause 126EA

Clause 126EA, Part I, 2nd Schedule to the Ordinance, provides a ten (10) years exemption from tax on profits and gains derived by zone enterprises from the date of issuance of a license by the Special Technology Zones Authority (STZA), as defined under the Special Technology Zones Authority Act, 2021.

The Finance Bill proposes to insert the phrase 'or up to 30th June 2035, whichever is earlier'. As a result, the 10 years tax exemption for zone enterprises will now be subject to a cut-off date, meaning the exemption will end no later than 30 June 2035, regardless of when the license was issued.

This amendment introduces a sunset clause, effectively capping the benefit period and encouraging early operationalization and licensing within the STZ framework. However, it will also have financial consequences for zone enterprises that obtain licenses closer to or after FY 2030.

CHANGES IN NPO

Non for Profit Organization (NPO)

The NPO Sector has always remained controversial and subject to frequent changes and amendments over the period of time. Table – I & II as introduced earlier under clause 66 of Part-I of 2nd Schedule to the Ordinance have been proposed to be merged under a single table.

Before the proposed amendment, Clause (66) contained two Tables, Table-I enlists certain institutions/NPO/Trust, which are entitled to full exemption of their income without any conditions or restrictions, while the institutions as specified in Table-II are exempted from tax subject to the fulfilment of conditions as laid down under Section 100C of the Ordinance.

Now, all NPO's/Institutions/Trusts, which are proposed to enlist under Clause (66) of Part-I of 2nd Schedule to the Ordinance will be exempt subject to the conditions mentioned in section 100C.

Moreover, the following NPO have also been proposed to be included under the proposed Table of Clause 66 of Part I of Second Schedule

S. No.	Description
1	Beaconhouse National University
2	Federal Ziauddin University
3	Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme
4	Punjab Police Welfare Foundation Lahore

Recreational Clubs will not be NPO, if Membership Fee exceeds 1(M)

Through the Finance Bill 2025-26, FBR has proposed to exclude those recreational clubs having status of NPO, if the membership fee exceeds more than 1(M) for any class of new members of the club.

NON-FILERS AND ECONOMIC TRANSACTIONS

Non-Filers and Economic Transactions

Section 114C

In the Finance Bill, it has been proposed to impose restrictions on non-filer's economic transactions by introducing new concepts such as eligible persons, immediate family members, ineligible persons, sources of investment and expenditure statements, and sufficient resources, as outlined below:

- a) The automobile manufacturer or the vehicle registering authority of the Excise and Taxation Department shall not accept or process any application by ineligible person, for the booking or registration of a motor vehicle.
- b) Any authority responsible for registering, recording or attesting the transfer of immovable property exceeding the value notified by the Federal Government for the relevant tax year shall not accept or process any application or request from an ineligible person. This restriction shall apply only after the Federal Government notifies the specified value, and no person shall be treated as ineligible before such notification.
- c) Any person authorized to open or maintain accounts, clear transactions or sell securities, including debt securities or mutual fund units, shall not open an account, execute sale, or clear such transactions for an ineligible person, whether an individual or an association of persons.
- d) A banking company:
 - i. Shall not open or maintain a current, savings, or investor portfolio securities account except Asaan Account and Pensioner Account, in the name of any person notified by the Board.
 - ii. Shall not allow cash withdrawals exceeding the amount notified by the Board from any bank account of such person.
- e) Exclusions:
 - i. Purchase of rikshaws, motorcycles and tractors.
 - ii. Purchase of pick-up vehicles with engine capacity up to 800CC.
 - iii. Purchase of trucks and buses, subject to limitations and restrictions notified by the Board from time to time.
 - iv. Investment in securities, up to the limit specified by the Board from time to time.
 - v. Transactions by a public company or non-resident person, excluding cash withdrawals from bank accounts.
- f) Effect:
 - i. All or any restrictions imposed shall come into force on such date as may be specified by the Board through a notification in the official Gazette, with the approval of the Federal Government.



g) **Eligible Person:** A person shall be considered eligible if they have:

- i. Filed a tax return for the tax year immediately preceding year of the transaction and have sufficient resources reflected in their wealth statement [for individuals] or financial statements [for companies or associations of persons]; or
- ii. Submitted a source of investment and expenditure statement, declaring sufficient resources and providing an explanation for a specific purchase or investment transaction.

In the case of individuals, eligible person shall also include their immediate family members.

h) **Immediate Family members:** For an individual, immediate family members include their parents, spouse and dependent children.

i) **Ineligible Person:** A person who is not an eligible person.

j) **Sources of Investment and Expenditure Statement:** A declaration filed by a person on the Board's web portal, specifying the sources of funds used for the relevant transaction.

k) **Sufficient Resources:** means an amount equal to at least 130% of cash and cash equivalent assets, including local or foreign currency, fair market value of gold, net realizable value of stocks, bonds, receivables, or any other prescribed cash equivalent assets. These must be declared by a person in either:

- i. the sources of investment and expenditure statement,
- ii. the wealth statement filed for the latest tax year [for individuals], or
- iii. the financial statements attached with the income tax return for the latest tax year [for companies or associations of persons].

If a purchase is made through the exchange of capital assets already declared in the wealth statement, financial statement, or sources of investment and expenditure, the value of such disposed capital assets [as mentioned in the agreement] shall be considered part of cash-equivalent assets.

l) **Clarification Regarding Source Declaration:** The sources of investment and expenditure statement filed by a person, as mentioned under "Sufficient Resources," shall not be treated as a declaration of the nature and source of income for the purposes of Section 111 of the Ordinance.

It is important to highlight that a similar amendments were already proposed in December 2024 to tighten the government's control over non-filers. The same amendment have once again been reintroduced, reflecting delayed and slow enforcement in restricting economic transactions by non-filers. The intent expressed in December 2024 appears to be repeated in June 2025 in the absence of the necessary notifications from the Board / Federal Government, whereby the intended enforcement remains ineffective.

We understand that the proposed amendments will not take effect until the required notifications are issued by the Board / Federal Government. Therefore, any related restrictions, obligations, or compliance requirements will only become applicable once these notifications are officially published.

Advance Tax on Sales and Purchase of Immovable Property *Section 236C and 236K*

In the Finance Bill, it is proposed that the advance tax under Section 236C of the Ordinance be increased for sellers, while the advance tax under Section 236K be decreased for purchasers. This reflects an unbalanced approach, as the Bill tightens restrictions on non-filers under Section 114C on one hand, while on the other, it reduces the tax rate applicable to late-filers and non-filers as follows:

Advance Tax on Sales of Immovable Property							
S. No.	Amount	Existing Tax Rate			Proposed Tax Rates		
		Filer	Late Filer	Non-Filer	Filer	Late Filer	Non-Filer
1	Up to 50M	3%	6%	10%	4.5%	7.5%	11.5%
2	50M to 100M	3.5%	7%	10%	5%	8.5%	11.5%
3	100M & above	4%	8%	10%	5.5%	9.5%	11.5%

Advance Tax on Purchase of Immovable Property							
S. No.	Amount	Existing Tax Rate			Proposed Tax Rates		
		Filer	Late Filer	Non-Filer	Filer	Late Filer	Non-Filer
1	Up to 50M	3%	6%	12%	1.5%	4.5%	10.5%
2	50M to 100M	3.5%	7%	16%	2%	5.5%	14.5%
3	100M & above	4%	8%	20%	2.5%	6.5%	18.5%

We understand that there is a contradiction in intent, where the deterrence against non-filers' economic transactions under Section 114C appears to be symbolic and remains ineffective in the absence of the necessary notifications by the Board / Federal Government. On the other hand, the Finance Bill proposes 1.5% increase and 1.5% decrease in advance tax rates for non-filers on the sale and purchase of immovable property, respectively. This adjustment in tax rates seems to offer an easy escape route for non-filers, thereby undermining the intended effectiveness of the restrictions imposed under Section 114C of the Ordinance.

CHANGES IN ASSESSMENT AND AUDIT

Assessment *Section 120*

The expression "equal to the respective amounts adjusted under sub-section (2A)"* is inserted after "the tax due thereon".

In Clause (b), after the words "and the" the expression "adjustments were made under sub-section (2A)" shall be inserted.



Implications

- This clarifies that the tax due under deemed/auto assessment will be based on the adjustments made by the automated system under sub-section (2A) (e.g., corrections for arithmetical errors, incorrect claims, disallowed losses, deductible allowances or tax Credit etc.).
- This ensures that the return is treated as an assessment order only after the automated adjustments (if any) under sub-section (2A) have been applied.
- For example, Section 182A (1)(b) restrict taxpayer, who has filed their return after due date, to claim carry forward of business loss. If the tax payer has claimed business loss in subsequent tax year, IRIS cannot restrict the tax payer to declare it to claim in its tax return however the validation checks may auto disallow such loss in view of section (2A) of section 120 of the Ordinance.
- The purpose of this amendment may be to pass through validation checks built-in in IRIS system, which was not pre-requisite in earlier years and deemed assessment order is made once tax payer submits its Income Tax Return.
- Through this amendment, IRIS system may now issue a system generated notice to the tax payer specifying the adjustments intended to be made in the manners prescribed under the various provision of section 120(2A) of the Ordinance.

Amended Assessment

[Section 122\(9\)](#)

The existing Section 122(9) mandates that no assessment can be amended unless the taxpayer is given a chance to be heard. Further, the order must be passed within 180 days from the issuance of the show-cause notice (SCN), extendable by 90 days with written reasons by the Commissioner. The time period adjourned on account of Stay orders by courts/tribunals, Alternative Dispute Resolution (ADR) proceedings, agreed assessment proceedings under Section 122D, and adjournments sought by the taxpayer (up to *60 days*) was excluded earlier to determine the timeline of proceeding.

The Amendment in the section is made by removing the two provisions which were earlier added in the Finance Act 2021 relating to the time limits.

Implications:

- Tax authorities can now take unlimited time to pass an amendment order after issuing a Show Cause Notice.
- Businesses face prolonged litigation risks, as cases may remain unresolved for years.
- Previously, exclusions ensured that delays due to legal stays or ADR proceedings were accounted for. Now, no clear mechanism exists, leading to potential disputes.
- Complete removal of time limits is not a balanced approach rather longer but reasonable deadlines would have been preferable.

Assessment Giving Effect to an Order

Section 124, 4A & 4B

In newly introduced sub-section (4A) under section 124, the facilitations have been provided to tax authorities i.e. Commissioner can directly proceed with recovery without issuing a formal Appeal Effect Order if the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court has confirmed the tax payable as determined.

The reason may be to eliminate bureaucratic delays in case where the tax payer's liability is fully upheld by the Appellate forums or Courts.

The Critical Area is risk of premature Recovery i.e. if the taxpayer files a further appeal (e.g., to Tribunal, High Court or Supreme Court), recovery may proceed before all legal remedies are exhausted.

The amendment focuses on *recovery* but does not clarify if refunds (where appellate forums reduce liability) will be similarly expedited.

The newly proposed sub-section (4B) introduces a structured mechanism for issuing *Appeal Effect Orders in cases where appellate forums (Appellate Tribunal, High Court, or Supreme Court) partly confirm, modify, or set aside* a tax assessment.

The Commissioner shall issue an appeal effect order determining the tax payable as a result of the confirmation or modification by the Appellate Tribunal, High Court or Supreme Court and excluding the tax payable on the matters that have been set aside or remanded and the tax payable on the basis of the issue that have been confirmed or modified shall be paid or recovered under the provisions of the Ordinance.

Audit

Clause 105A Second Schedule Part IV

The existing clause 105A of Part IV of the Second Schedule was inserted by the Finance Act 2022 whereby a person, whose income tax affairs have been audited in any of the preceding (04) tax years, was granted immunity from selection of audit by the Commissioner as well as the Board. Nevertheless, the Commissioner would remain empowered to select such cases for audit with the Board's approval.

The (4) tax years is now substituted by preceding (3) tax years instead. For example, Tax Payer "A" audit of the Income Tax Affairs of tax year 2020 has been finalized. Now Tax Payer "A" can only be audited again after three tax year i.e. in tax year 2024.

CHANGES IN APPEALS

Choice of Appeal to the Commissioner (Appeals)

Sections 127

Section 126A was enacted via the Tax Laws (Amendment) Act, 2024, which determined the relevant appellate authority based on the assessment's value, whereby if the valuation amount was under Rs. 20 million, the case was set to be reviewed by the Commissioner Appeals. If the amount surpassed this limit, the case was referred to the Appellate Tribunal Inland Revenue. The Finance Bill now proposes eliminating Section 126A.



The bill further proposes changes to Section 127, allowing taxpayers, except for State Owned Enterprises, who disagree with the assessment order, a choice to file an appeal either with the Commissioner Appeals [CIRA] or to waive their right to appeal before the CIRA for appealing directly to the Appellate Tribunal Inland Revenue.

The suggested amendment provides taxpayers with the option to potentially speeding up the litigation process.

Chartered Accountant as ATIRs Member

Section 130

Currently, solely Chartered Accountants involved in professional practice qualify for appointment as a member of the Appellate Tribunal. The Bill now suggests that not only a Chartered Accountant, whether alone or within a Chartered Accountants firm, is qualified to serve as a Tribunal Member, but a Chartered Accountant, employed for a minimum of ten years by a practicing Chartered Accountant, qualifies for appointment as a member of the Appellate Tribunal too.

Appeal to the Appellate Tribunal

Sections 131

The Finance Bill proposed significant changes to the legal structure within the Ordinance regarding the submission of appeals to the Appellate Tribunal. Both the Commissioner or the taxpayer can appeal to the Appellate Tribunal against the order passed by the Commissioner Appeals.

Under the earlier framework, all taxpayers except a State-Owned Enterprise were required to submit an appeal to the Appellate Tribunal against the directive of an Officer of Inland Revenue, Commissioner, or Chief Commissioner, as stipulated under recently abolished Section 126A.

We understand that somewhere in between abolishing the provisions of Section 126A of the Ordinance and rewriting the provisions of Section 131 of the Ordinance, the right of the taxpayers to appeal against any order of the Board has been jeopardized.

Reference to High Court

Sections 133

The Finance Bill proposes extending the filing period for references to the High Court from 30 days to 60 days. The legislation also suggests that a Tribunal's appellate order can be challenged in the High Court through reference, and the existing provisions for disputing the Commissioner's Appeals order in the High Court are intended to be removed.

Alternative Dispute Resolution

Section 134A

This amendment seeks to improve the dispute resolution system by incorporating additional sub-sections, namely 11A and 11B. If a committee cannot resolve the dispute within sixty (60) days, the Board will reappoint a committee to address the dispute.

If the reappointed committee fails to resolve the issue within the additional sixty (60) day period, the Board will disband that committee, and the matter will escalate to court or the appellate body, based on where the legal proceedings are taking place.

The inclusion of these new sub-sections aims to ensure that disputes between taxpayers and the tax authority are resolved quickly and efficiently.

CHANGES IN RECOVERY

Recovery

Section 138 (3A) and 140 (6A)

Section 138 of the Ordinance prescribes the manner of recovery of Income Tax levied under the Ordinance. The Commissioner may proceed to recover from the tax payer the said amount by one or more of the different modes.

Initially presented through Tax Law amendments Ordinance 2025, the newly inserted subsection (3A) under Section 138 of the Ordinance introduces a *non-obstante clause* that significantly altered the recovery mechanism for tax demands arising from judicial decisions. While the amendment aims to expedite tax recovery, it raises several legal and practical concerns.

Similarly, under section 140, after sub section (6) a new sub-section (6A) is being introduced with the same content as prescribed under section 138 (3A) of the Ordinance to expedite the recovery measures.

Implications

The most critical aspects of these amendments are its *non-obstante ("notwithstanding") clause*, which seeks to override any conflicting provisions in law, rules, or even judicial precedents raising serious concerns as narrated here below:

- The provision grants the Commissioner broad powers to issue recovery notices without sufficient checks. This could lead to harassment of taxpayers particularly in cases where cases are still pending before higher courts.
- By mandating immediate recovery (or within a prescribed timeline) even where appellate forums have granted relief or stay orders, the provision effectively undermines judicial authority. This could be seen as overstepping into judicial functions.
- If Appellate Authorities issue judgments that provide taxpayers with extended timelines or stay orders, but the tax authorities disregard these under this clause, which creates conflict between judicial and executive actions, eroding trust in the legal system.
- The provision does not allow for a reasonable period for compliance, especially in cases where large tax liabilities are involved. The 7-day recovery space (in case of department-favorable High Court decisions) is practically very brief and may lead to coercive enforcement.

While the government's intent to expedite tax recovery is understandable, subsection (3A) of Section 138 and sub-section (6A) of section 140 goes too far by disregarding judicial timelines and trampling taxpayer rights.

CHANGES IN TAXATION OF CAPITAL GAIN

Capital Gain arising on Disposal of Debt Securities

Through the Finance Bill 2025-26, FBR has introduced a new Section 151A of the Ordinance, whereby every custodian of debt securities including banking company maintaining Investor Portfolio Securities (IPS) is responsible to deduct withholding tax @ 15% on the gross amount of capital gain arising from disposal of debt securities.

The above tax deduction shall not be applicable where the debt securities are traded through registered stock exchange and settled through NCCPL.

The capital gain arising from the disposal of debt securities shall be computed according to the provision laid down under Section 37A(1A) of the Ordinance.

The purpose of introducing the above provision is to tax those transactions of debt securities which are encashed before its maturity.

CHANGES IN WITHHOLDING TAX RATES

Changes in Withholding Tax Rates:

Increase of Withholding Tax on Cash Withdrawals by a Non-Filer from 0.6% To 0.8%

Section 231AB

The Finance Bill proposes an increase in the withholding tax rate under Section 231AB of the Ordinance, whereby every bank shall deduct withholding tax at the rate of 0.8% (increased from the existing 0.6%) on cash withdrawals exceeding Rs.50,000/- in a single day from person(s) not appearing on the Active Taxpayers List (ATL), i.e., non-filers.

This measure is intended to broaden the tax base and enhance revenue collection by pushing non-filers to file their income tax returns. It is pertinent to mention that no such tax is applicable on cash withdrawals made by filers.

Increase in Withholding Tax Rates under Various Provisions for Companies, Individuals & AOPs:

1. Payments to Non-Resident Persons under Section 152(2A)

First Schedule, Part-III, Division II, Paragraph 5(i) & 5(ii)

i). Increase in Withholding Tax on Specified Services

The Finance Bill, 2025–26 proposes to increase the withholding tax rate under Section 152(2A) of the Ordinance on payments made to non-resident persons for rendering specified services (other than Information Technology (IT) and IT-enabled services) from the existing rate of 4% to 8%.

ii). Rate for IT and IT-Enabled Services

The withholding tax rate under Section 152(2A) on payments made to non-resident persons for IT and IT-enabled services shall remain unchanged at 4%, as applicable in the preceding tax year.

iii). 15% Flat Rate on Non-Specified Services

A uniform withholding tax rate of 15% shall be applicable under Section 152(2A) on payments made to all persons—whether companies, individuals, or AOPs—for non-specified services.

iv). Payments to Sportspersons

The withholding tax rate on payments made to non-resident Sportspersons shall be increased from the existing 10% to 15%.

2. Payments to Resident Persons under Section 153(1)(b)
First Schedule, Part-III, Division III, Paragraphs (2), (3), & (3A)

i). Increase in Withholding Tax on Specified Services

The Finance Bill, 2025–26 proposes to increase the withholding tax rate on payments made to resident persons for specified services (excluding IT and IT-enabled services) under Section 153(1)(b) of the Ordinance, from 4% to 6%.

ii). Advertisement Services

The rate of withholding tax on payments made against advertising services provided through electronic and print media shall remain unchanged at 1.5%.

iii). Payments to Sportspersons

The withholding tax rate on payments made to resident Sportspersons shall be increased from the existing 10% to 15%.

OTHER IMPORTANT CHANGES

Exchange of Banking and Tax Information related to High-Risk Persons
Section 175AA

It has been proposed to introduce a new non-obstante clause in the Ordinance, which enables the sharing of information about high-risk persons or classes of persons along with data algorithms with the scheduled bank. The bank shall provide the information of such persons or classes of persons to FBR where any deviation is found in banking information from the data provided by the FBR. FBR will prescribe such high-risk persons through a separate notification at later stage.

Posting of Officer of Inland Revenue

Section 175C

It has been proposed that FBR or the Chief Commissioner Inland Revenue may post an officer of Inland Revenue at the premises of any person or class of person to monitor production, supply of goods or rendering of services and stock of goods at any time for determination of tax payable under the Ordinance.

Condonation of Time Limit

Section 214A

It has been proposed to introduce two provisos under Section 214A, in terms whereof, the Board or the Commissioner shall condone the time limit as specified under the Ordinance for a period not exceeding two (02) years. It also proposed that a committee of the members, as notified by the FBR, may further condone the time limit as it may deem fit if there is sufficient cause for loss to the Government's Kitty.

The amendment is being proposed to dilute the effect of various judgments whereby time-barred orders by the assessing officer were held as void.

Disclosure of Information by Public Servant

Section 216

It has been proposed to include the followings in the list of persons to whom tax-related data, available with FBR, may be shared:

- An auditor appointed on contractual basis or engaged through a third party, including a payroll firm in FBR, after a non-disclosure agreement.
- Tax Policy officer for research and policy analysis
- Recognized university and international donor agencies (only anonymized data of taxpayers can be shared)

Super Tax

First Schedule, Part-I, Division IIB to the Ordinance

It has been proposed to reduce rates of super tax by 0.5% with respect to persons whose income exceeds Rs.200 million but does not exceed Rs.500 million. It is pertinent to mention here that the proposed reduction in rates are applicable prospectively, i.e., from Tax Year 2026. The proposed slab rates of super tax in comparison with the prior year's rate are tabulated here as under:

Sr.	Income (in Rs)	Rate of Tax		
		TY 2022	TY 2023, TY 2024 & TY 2025	TY 2026 and onward
1	0 - 150 million	0%	0%	0%
2	150 million – 200 million	1%	1%	1%
3	200 million – 250 million	2%	2%	1.5 %
4	250 million – 300 million	3%	3%	2.5%
5	300 million – 350 million	4%	4%	3.5%



Sr.	Income (in Rs)	Rate of Tax		
		TY 2022	TY 2023, TY 2024 & TY 2025	TY 2026 and onward
6	350 million – 400 million	4%	6%	5.5%
7	400 million – 500 million	4%	8%	7.5%
8	Above 500 million	4%	10%	10%

Extension of Period of Tax Exemption

Clause 145A of Part I of Second Schedule

Income of persons resident in Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan is presently exempt from income tax up to 30 June 2025. It is proposed to extend the exemption up to 30 June 2026.



AMENDMENTS IN SALES TAX ACT, 1990

The Finance Bill 2025-26 [the Bill] introduces new concepts and expands the existing provisions under the Sales Tax Act, 1990 [the Act] for broadening the tax base and aligning tax framework with emerging business models.

Abettor and Tax Fraud

Section 2(1) and 2(37)

In the past, the scope of 'tax fraud' encompassed activities like intentional act aimed at underpaying tax liability or overstating the entitlement of tax credits / refunds etc. in contravention with the provisions of the Act. Now, the Bill proposes to distinguish between candid human error and tax fraud. Therefore, underpaying tax liability or overstating the entitlement of tax credits / refunds etc. have been excluded from the ambit of tax fraud.

On the contrary, the framework of tax fraud has been enlarged to include broader range of fraudulent activities like non-payment of withholding taxes beyond a period of three months from due date, making fictitious compliance of section 73 or providing benefit by routing of payment to registered person, fictitious claims or transactions, sales suppression regardless of registration status or issuance of tax invoice, and tempering of records etc.

To apprehend the facilitators of such offences, the Bill seeks to introduce the term of 'abettor' who abets a tax fraud by means of misuse of registered person's unique identification for modification in tax e-profile, filing of sales tax returns, preparation of unauthorized invoices etc. Accordingly, the abettor will also be fined and taken to task in all matters involving tax fraud.

Cargo Tracking System and e-bilty

Section 2(4A) and 2(9A)

The Bill proposes a concept of 'Cargo Tracking System' aimed at enabling real-time electronic monitoring and tracking for transportation of goods within or across the territorial Jurisdiction of Pakistan. We understand that such measure may align with track and trace system mechanism, enhancing tax compliance and curbing tax evasion.

To cater Cargo Tracking System, the Bill simultaneously proposes a concept of 'e-bilty' mechanism. It is a digital document generated from Cargo Tracking System and linked with electronically integrated tax invoice issued under Section 23 and validates the transshipment of goods. We understand that such concept has been in vogue in India.

E-Commerce Taxation

Section 2(5AC), 2(9AC), 2(18A), 2(21), 3(3)(c), 3(7A), 3(9A), 14 and 26

In an effort to align the tax framework with the evolving digital economy, the Bill proposes to expand the scope of e-commerce taxation by introducing new provisions under Sections 2 and 3 of the Act. Specifically, proposed clauses 3(3)(c) and 3(7A) place the obligation to collect and remit sales tax on payment intermediaries and couriers in relation to e-commerce supplies. These supplies will be subject to tax at the rate of 2% of the gross value, with no entitlement to input tax adjustment.

The terminologies 'payment intermediary' and 'courier' has also been defined through the corresponding amendments which stipulates payment intermediary as banks, financial institutions and payment gateways; while courier has been defined to mean anyone effecting delivery of goods & collection of cash on behalf of seller in respect of supplies through e-commerce, ride-hailing services, food delivery platforms and e-commerce delivery services.

In line with other sales tax registered taxpayers, online market place, payment intermediary and courier are required to furnish monthly statement within stipulated time as prescribed by the Board.

We understand this amendment is being introduced in line with international practices and observing considerable growth in this sector. However, such proposed amendment would be arguable by the taxpayers to surrender input tax @ 16% (18% minus 2%) to the extent of supplies made against at reduced rate. Therefore, we understand the Federal Legislature may need to prescribe the Rules and amend & allow apportionment of input tax under Rule 25 of the Sales Tax Rules, 2006.

The Finance Bill also proposes registration requirement on the person including non-resident person who sells digitally ordered goods from within Pakistan through online marketplace, website or software application. The Bill also proposes restrictions on online marketplace or a courier by requiring them to refrain from supplying digitally ordered goods when supplier fails to obtain registration under the Act.

Retail Price

Section 2(27)

The Bill proposes the following changes in retail price mechanism:

- fixing of chilling charges @ 5% as a in reduction of price (inclusive of sales tax and federal excise duty) on retails items (i.e. aerated water, beverages, mineral water or fruit juices etc.) sold to the general body of consumers.
- value of retail price on imported goods specified in Third Schedule not to be less than 130% of the customs assessed value.
- empowering the Board may fix the retail price of goods specified in Third Schedule through notification.

Adjustable Input Tax

Section 8B

The bill proposes to insert a proviso under Section 8B(4) of the Act which allows the Board to use a data based Automated Risk Management System (ARMS) to defer input tax of the registered person or fix any other higher or lower limit, if the input tax exceeds 90% of the output tax in a tax period. The taxpayers aggrieved from such action are also allowed to contest this by filing an application with the concerned Commissioner who is required to decide the case within 30 days of filing.

We understand that before implementing any such system, the Board must disclose the parameters of ARMS to ensure transparency and to avoid genuine input tax claims.



This proposed insertion seeks to enhance revenue collection by expanding the scope of the already existing restriction under Section 8B. However, this move is expected to adversely impact taxpayers' liquidity and cash flow.

Best Judgement Assessment

Section 11D

The bill seeks to expand the scope of Section 11D of the Act by inserting a new non obstante sub section empowering an officer of the inland revenue to assess sales tax liability of the person (*distributors, dealers and wholesalers*) who are liable to be registered based on tax withheld under section 236G of the Income tax Ordinance, 2001 but fail to furnish a return despite notice. The assessment may be made on the basis of value addition using purchase data obtained under section 236G.

This proposed amendment aims to broaden the tax net and enhance revenue by enabling presumptive assessment based on third party data, specifically targeting persons who are actively engaged in the supply chain but remain unregistered or non-compliant under the sales tax regime.

Assessment of Tax and Recovery of Tax not levied or short levied or erroneously refunded, Failure to Withhold Sales Tax

Section 11E

The current provision of Section 11E(1) focuses on the assessment of tax not levied or short levied, particularly where such under assessment is caused by collusion or a deliberate act, in addition to other reasons. However, the bill proposes to omit the reference to "*collusion or a deliberate act*", thereby removing tax fraud related proceedings from the scope of Section 11E which are now proposed to be dealt exclusively under Section 37A of the Act.

This omission narrows the application of Section 11E and aligns with the broader structural changes introduced through the Finance Bill which clearly differentiate between routine civil assessments and serious prosecutable offences, establishing a more structured and specialized enforcement framework.

Limitation of Tax Assessment

Section 11G

The bills seek to extend the timeline for passing an assessment order from 120 days to 180 days. Previously, the commissioner's approval was required if prescribed time limit has been lapsed; however, through such proposition, the tax officer will now have enough time to conclude the proceedings.



Registration

Section 14

Rule 6(1) of Sales Tax Rules 2006b is proposed to be incorporated into new Section 14(2A) of the Act. The aforesaid provision empowers the Commissioner to compulsorily register any person who liable to register but fails to apply for registration under the Act.

Restrictions on Un-Registered Persons

Sections 14AC, 14AD, 14AE

The Finance Bill proposes to empower the Commissioner to direct banks, financial institutions, or property registration authorities to restrain un-registered persons from operating bank account or transferring property. Upon registration, the Commissioner will issue and convey order for removal of bar on operation of bank accounts and transfer of property immediately. A person aggrieved by the order passed by the Commissioner may file appeal before the Chief Commissioner within thirty days.

In terms of Section 14AE, the Chief Commissioner is empowered to seal the business premises, seize movable property, or appoint a receiver for the management of the taxable activity of a person. The aforesaid actions taken by the Chief Commissioner will be subject to public notice, open court hearing, and publication of decision on website and in newspapers. Upon registration, the Chief Commissioner will issue and convey order for removal of aforesaid restriction within two working days. A person aggrieved by the order passed by the Chief Commissioner may file prefer representation before the Federal Board of Revenue within thirty days.

The application date of aforesaid provisions will be announced through notification.

Deregistration, Black listing and Suspension of Registration

Section 21

The bill seeks to insert sub-section Section 21(2A) requiring the commissioner to issue a show cause notice within fifteen days of suspension and pass a speaking order for revocation or blacklisting within thirty days of receiving a reply and providing the hearing opportunity. Such an order of blacklisting will be appealable before the Commissioner (Appeals).

This amendment also appears to align with a recent judicial observation where concerns were raised about the absence of timely or conclusive decisions in suspension and blacklisting matters, despite the availability of a revisional forum. By introducing clear timelines and enabling appellate recourse, the amendment aims to address such procedural uncertainties and reinforces principles of fairness, transparency, and administrative accountability.

Tax Invoice*Section 23*

The bill seeks to extend requirement of linking tax invoice with e-bilty (a digital transport document) generated through cargo tracking system to align with the requirements of Section 40C of the Act. This requirement aims to introduce digitalization into the businesses for security of goods, transparency and prevention from the revenue leakage.

The requirement of integration of Tier-1 retailers with FBR's system has been transposed from Section 3 to Section 23. However, the placement of such transposed provision warrants that FBR should clarify whether already integrated retailers are now again required to integrate their retail outlets via licensed integrators.

Offences and Penalties*Section 33*

The bill proposes to substitute the main heading in chapter VII from "Offences and Penalties" to "Offences, Penalties and Punishment thereby introducing punishments besides penalties against various offences some of them are new while others are slightly amended.

The new insertions to the table underneath Section 33 are as follows:

- The bill proposes several changes to the penalty table under Section 33 of the Sales Tax Act, 1990. New entries include Serial Nos. 1A and 1B, which penalize online marketplaces, payment intermediaries, and couriers for failing to file required statements or for facilitating e-commerce by unregistered persons, with penalties ranging from PKR 500,000 to PKR 1 million per default.
- Serial No. 13A introduces punishment for abetment or connivance in tax fraud, making such persons liable to imprisonment up to 10 years, a fine up to PKR 10 million, or both. Serial No. 25B penalizes failure to generate or tampering with e-bilty documents under Section 40C(6) with a PKR 50,000 fine and recovery of evaded tax.
- Additionally, Serial No. 13 is revised to impose imprisonment up to 10 years, a fine up to PKR 10 million, and recovery of tax loss, along with 100% penalty and default surcharge, as confirmed by the Special Judge under Section 37B.
- To streamline these changes, Serial Nos. 11 and 22 are proposed to be omitted, as their subject matter is now addressed under the revised Serial Nos. 13 and 13A, aligning with broader reforms targeting tax fraud.



Certain Transactions Not Admissible

Section 73

Section 73(4) was introduced in Year 2020 thereby restricting registered persons from supplying taxable goods to unregistered persons beyond Rs.100 million annually and Rs.10 million monthly, with excess supplies resulting in proportionate disallowance of input tax credit.

Aforesaid threshold has been proposed to be omitted. But, such threshold will be notified through notification by Federal Board of Revenue. We understand that FBR may notify the multiple thresholds for various industries.

Condonation of Time Limit

Section 74

The bill proposes to amend Section 74 of the Act by capping the condonation of time limits by the Board or the Commissioner to a maximum of two years, overriding any contrary provision or judgment. In exceptional cases involving significant loss to the exchequer due to acts or omissions by the taxpayer or tax officials, a committee notified by FBR may allow further condonation after hearing the taxpayer.

The aforesaid capping seems in contradiction with prevailing notifications which already allow the Commissioner to condone the time limit for a period of three years. However, once the amendment is enacted through the Finance Act, the notification being subordinate legislation will stand overridden to the extent of inconsistency, rendering the three-year condonation provision redundant in law.

Appeals to Commissioner (Appeals)

Section 43A

Currently, Section 43A entitles a person aggrieved by an order having value of tax assessed or refund of tax not exceeding ten million rupees passed by an officer of Inland Revenue to file appeal before Commissioner (Appeals). The said amendment was enacted at this Section through Tax Laws (Amendment) Act, 2024.

By virtue of amendment through the Bill, Section 43A is proposed to be omitted and Section 45-B has been substituted requiring an aggrieved person other than SOEs to file an appeal within thirty days from the date of receipt of the order irrespective of the quantum of tax assessed by the officer of Inland Revenue before the Commissioner (Appeals). The Bill has also proposed an option to such aggrieved person to file an appeal against such order either before the Commissioner (Appeals) or Appellate Tribunal, Inland Revenue.



As per our understanding, the amendment has once again restored old system of appeal which remained in field upto 03 May 2024, had now allowed the aggrieved person to prefer an appeal against impugned order passed by officer of Inland Revenue without any pecuniary limit before the Commissioner (Appeals).

The aforesaid amendment also envisaged that the appellate order passed by the Commissioner (Appeals) would be appealable before the Appellate Tribunal, prior to aforesaid amendment, was subject to filing reference before High Court. In other words, the said amendment has once again restored two-tiered system appeal for taxpayers.

Appeals to Appellate Tribunal

Section 46

Currently, Section 46 allows a person, aggrieved of an order having value of tax assessed or refund of tax exceeding ten million rupees passed by an officer of Inland Revenue, to file an appeal before the Appellate Tribunal. The said amendment was made at this Section through Tax Laws (Amendment) Act, 2024.

By virtue of Finance Bill, Section 46 has been subtitled requiring an aggrieved person excluding an SOE and tax department to prefer appeal within thirty days of receipt of any order passed Commissioner or Commissioner (Appeals) before the Appellate Tribunal.

By virtue of the amendment, it is also envisaged that the appellate order passed by the Commissioner (Appeals) would be appealable before the Appellate Tribunal which prior to aforesaid amendment was subject to filing reference before High Court. As per our considered opinion, the said amendment has once again restored two-tiered system appeal for taxpayers.

Reference to the High Court

Section 47

Sub-section (1) of Section 47 has been substituted through the Bill, requiring an aggrieved person including the Commissioner to file reference before the Court against an order passed by the Appellate Tribunal within sixty days of issuance of order stating any question of law.

Prior to the aforesaid amendment, Section 47 requires an aggrieved person to file reference before the High Court within thirty days of communication of appellate order either Commissioner (Appeals) or Appellate Tribunal. In other words, the aggrieved party had one option of appeal before any forum.

We understand that the proposed amendment has restored the old system of filing reference as was in field prior to amalgamation of Tax Laws (Amendment) Act, 2024. The newly inserted amendment speaks for filing reference within sixty days of issuance of order issued by Appellate Tribunal. The said omission may be rectified by inserting word 'communication' through Finance Act, 2025.



Appointment of Authorities

Section 30(1)(j)

Currently, only the designated persons of Inland Revenue can be appointed as authorities under this Section. The Finance Bill now proposes to extend this eligibility to officers of Directorates General. An accompanying explanation clarifies that such officers shall be deemed to have held the status of authorities from the outset.

Appointment of experts and auditors

Section 32B

In order to implement its plan to conduct audits of high-net-worth individuals and companies to identify tax evaders and increase revenue collection under FBR's Inland Revenue Transformation Plan, the Bill proposes to empower the Board or the Commissioner to appoint experts or auditors. Additionally, the Board may appoint as many as 2,000 auditors, either directly or through third party, to assist Inland Revenue authorities from the level of Chief Commissioner to Assistant Commissioner.

Tax Fraud

The Finance Bill 2025 introduces extensive amendments to combat tax fraud under the Act, significantly enhancing the powers of Inland Revenue officers. While intended to improve enforcement and revenue collection, these provisions grant tax authorities civil court-like powers, police powers for inquiry and arrest, and even access to telecom and internet data, often with minimal oversight. The expanded scope, including arrests without prior approval in certain cases and exclusion of abettors from compounding relief, raises serious concerns about potential harassment and misuse. The overreaching nature of these powers' risks undermining taxpayer rights and due process.

Power to Summon Persons to give Evidence and Produce Documents in Inquiries

Section 37(4)

The Bill proposes to empower officers of Inland Revenue with civil court-like powers during inquiries, enabling them to summon and enforce attendance, examine on oath, and require document production. This insertion significantly enhances their investigative capabilities, potentially leading to more efficient inquiries on the one hand, and harassment or abuse of power on the other hand.



Power to Inquire and Investigate Offences Warranting Prosecution

Section 37A

The Bill proposes to significantly enhance the powers of Inland Revenue officers' not below the rank of Assistant Commissioner, whereby they can initiate inquiry in tax fraud cases with the approval of the Commissioner. This section introduces a structured process of inquiry which may end up in commencement of investigation after the Commissioner's approval, if the accused makes non-compliance or unsatisfactory submissions. Once approval is granted for investigation, the Assistant Commissioner (or above) will be empowered to exercise the powers of an officer of a police station under the Code of Criminal Procedure, 1898 within the realm of the provisions of the Act.

Power to Arrest

Section 37AA

The Bill proposes to improve the earlier Section 37A by adding a layer of oversight whereby the officer Inland Revenue is required to obtain prior approval of the Commissioner before causing the arrest of the person during investigation in case of tax fraud or offence warranting prosecution under the Act.

However, in special circumstances where the officer believes that the delay in arrest may enable the accused to evade the process of law or obtaining Commissioner's approval is not practicable, the Bill proposes that he may cause arrest of the accused without Commissioner's approval. In this case, the arrest shall follow a report to the Commissioner by such an officer containing material facts. Further, in case of arrest without approval, this section empowers the Commissioner to direct the release of accused and refer the matter to the Chief Commissioner if he believes that the arrest was made without sufficient evidence or ground reasonable or made with mala fide intention. The Bill also proposes to apply the provisions of this section to the abettor of tax fraud as newly defined in the Finance Bill 2025, thereby broadening its scope.

Compounding of Offences

Section 37BB

The Bill introduces Section 37BB entailing a compounding mechanism for the cases of tax fraud or offences warranting prosecution under the Act, allowing accused individuals to settle their liabilities by depositing the tax amount, penalty, and default surcharge. This provision offers an opportunity for accused persons to avoid prosecution by compounding the offense with the Commissioner's approval. However, it excludes abettors as newly defined in the Bill. Additionally, if an appeal is pending before the High Court, the Bill proposes that the accused must obtain the Court's permission to compound the offense.



Obligation to Produce Documents and Provide Information

Section 38B(5)

Vide the Bill, the Commissioner is given an overreaching power to require Internet Service Providers, Telecommunication Companies and Pakistan Telecommunication Authority, to furnish subscriber's information pertaining to the Internet Protocols in connection with any inquiry or investigation in cases of tax fraud, as may be specified in written notice.

Monitoring or Tracking by Electronic or Other Means

Section 40C

The Bill proposes to amend Section 40C to align it with the concept of Cargo Tracking System introduced under Section 2(4A) of the Act. This will enhance transparency and accountability in taxable goods production and sales through real-time monitoring, video analytics, and streamlined reporting. It requires to implement Cargo Tracking System to electronically generate, carry, display or validate an e-bilty.

Pecuniary Jurisdiction in Appeals

Section 43A

Section 43A of the Act specifying pecuniary limit for deciding the jurisdiction of appeal is proposed to be omitted in order to align it with the amendments in Section 45B.

THIRD SCHEDULE

The Bill proposes to cover import of certain goods under Retail Price Taxation by insertion of new entries tabulated as under in the Third Schedule to the Act:

S. No.	Description	HS Code
52.	Import of pet food including dogs and cats sold in retail packing	2309.1000
53.	Import of coffee sold in retail packing	0901.1100, 0901.1200, 0901.2100, 0901.2200, 0901.9000, 2101.1120
54.	Import of chocolates sold in retail packing	1704.9010, 1806.2090, 1806.3100, 1806.3200, 1806.9000
55.	Import of cereal bars sold in retail packing	1904.1010, 1904.1090, 1904.2000, 1904.3000, 1904.9000



SIXTH SCHEDULE

(Table-I)

Withdrawal of Exemptions

SUPPLIES AND IMPORTS MADE IN ERSTWHILE FATA/PATA

Serial No. 151

The Bill proposes to withdraw the sales tax exemption currently available under S. No. 151 of the Sixth Schedule in respect of the supply and import of plant, machinery, and equipment by industrial units located in the erstwhile FATA/PATA regions.

In place of this exemption, the Bill introduces a new Entry No. 89 in the Eighth Schedule, which provides for a reduced sales tax rate of 10% on such supplies and imports, subject to fulfillment of specified conditions.

IMPORT AND SUPPLY OF PHOTOVOLTAIC CELLS

Serial No. 164

The Bill proposes to omit Entry No. 164, granting exemption on import and supplies of 'Photovoltaic cells whether or not assembled in modules or made up into Panels'. As a result of this proposed omission, both the import and local supply of photovoltaic cells shall become subject to sales tax at the standard rate i.e. 18%.

NEW EXEMPTIONS UNDER SIXTH SCHEDULE

Serial No. 181

Bill proposes to exempt import or lease of following items by insertion of new Entry:

181.	Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL)	8802.1200 8802.3000 8802.4000
------	---	-------------------------------------

AMENDMENTS IN EXISTING EXEMPTIONS

Bill proposes to enhance scope of exemption on certain goods tabulated as under

Serial No.	Existing	Proposed
152.	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30th June, 2025, to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30th June, 2026 , to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries



Serial No.	Existing	Proposed
179.	Import of cystagon, cysta drops and trientine capsules (for personal use only).	Import of cystagon, cysta drops and trientine capsules.

**SIXTH SCHEDULE
(Table-II)**

Bill proposes to enhance scope of exemption on import and supplies of goods tabulated as under

Entry	Existing	Proposed
57	Iron and steel scrap excluding supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021.	Iron and steel scrap excluding:- a) supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order; and b) supplied directly by the importer (verifiable from the goods declaration form) to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order.”;

**EIGHTH SCHEDULE
(Table-I)**

WITHDRAWAL OF REDUCED RATE FACILITIES

Bill proposes the omission of the following entries, thereby exposing such goods to sales tax at the standard rate.

S. No.	Description		Proposed Rate
53	The following cinematographic equipment imported during the period commencing on the 1 st day of July, 2018 and ending on the 30th day of June, 2023.	5%	18%
72	Locally manufactured or assembled motorcars of cylinder capacity up to 850cc	12.50%	18%



SUPPLIES AND IMPORTS MADE IN ERSTWHILE FATA/PATA

New Insertion

The Bill further proposes to insert new Entry No. 89 providing reduce rate of sales tax @ 10% on supplies and imports made in erstwhile FATA/PATA subject to conditions specified thereunder. The Bill further proposes gradual increase in reduce rate on yearly basis tabulated as under:

89	<p>(i) imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan; and</p> <p>(ii) and supplies within the tribal areas</p> <p>Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO.</p> <p>Provided further that if plant, machinery and equipment, on which reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas, the differential amount of tax shall be paid at applicable rate</p>	Respective heading	<p>10% (for 2025-2026)</p> <p>12% (for 2026-2027)</p> <p>14% (for 2027-2028)</p> <p>16% (for 2028-2029).</p>
----	---	--------------------	--

ELEVENTH SCHEDULE

Bill proposes amendment in existing Entry No. 8 of Eleventh schedule tabulated as under:

S. No.	Existing			Proposed		
	Withholding agent	Supplier category	Rate or extent of deduction	Withholding agent	Supplier category	Rate or extent of deduction
8	Online market place	Persons other than active taxpayers	1% of gross value of supplies: Provided that the provisions of this entry shall be effective from the date as notified by the Board	Payment intermediaries and couriers in respect of digitally ordered goods from within Pakistan.	Persons supplying digitally ordered goods from within Pakistan through online market place, website, software applications	2% of gross value of supplies



ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE 2001

Online Integration for Reporting of Real-Time Sales

Section 3(1)

The Bill has proposed the service providers specified at Tables 1 & 2 to ICT Ordinance to integrate their businesses with FBR's Computerized System for real time reporting of provision of services.

The aforementioned amendment has cleared confusion whether service providers are required to integrate their businesses with FBR's computerized system enabling them to raise online invoice for real-time reporting of their sales. The said amendment also provides that such integration would be subject to the issuance of general order by FBR.

Exemption of Sales Tax on Services under ICT Ordinance

Section 3(2A)

The Bill has proposed application of Entries No. 147 and 163 of Sixth Schedule to ST Act in relation to services rendered under ICT Ordinance. By virtue of such insertion, following entities would be exempt from sales tax on services under ICT Ordinance.

- ✓ German Development Agency- GIZ
- ✓ UNO, Diplomats, Diplomatic Missions, Privileged Persons and Privileged Organizations

Another Clause (iii) has also been proposed through the Bill indicating to issue negative list at Table-3 to the Schedule to ICT Ordinance. Such a list would specify exemption from sales tax on services as are rendered or provided from Capital Territory.



FEDERAL EXCISE DUTY ACT, 2005

Liability for Payment of Federal Excise Duty

Section 3(1) (5)

Section 3 of Federal Excise Act, 2005 [the Act] specifies various situations for levy of Federal Excise Duty (FED) in relation to specified goods and services. Whereas Section 3(5) of the Act fixes responsibility for payment of FED on various categories of persons in relation to excisable goods and services.

Through the Finance Act, 2024, the legislature had imposed FED on supply of white crystalline sugar to have been made to manufacturing, processing or packaging entity. As per our understanding, the person having liability for payment of FED in national kitty was not provided at Section 3(5) of the Act. Hence, an anomaly existed under the law as to who is liable to make payment of FED in treasury on supply of crystalline sugar. In this regard, various petitioners had not only challenged the legitimacy of levy of FED on supply of sugar at Sindh High Court but also raised question for not specifying the liability clause.

We understand that the aforementioned amendment will not yield the desired results and may lead to further litigation before court of law.

Power to Seize & Confiscate Excisable Goods

Sections 26 & 27

Presently, Sections 26 and 27 empower field formation of FBR to seize and confiscate specified excisable goods which have either been manufactured or produced unlawfully or other excisable goods on which FED has not been paid in prescribed manner in national kitty.

Through the Bill, Sections 26 and 27 have been amended to include excisable goods to be seized and confiscated by FBR provided such goods are without affixing or affixing counterfeited tax stamps, bar codes, banderoles, stickers, labels or bar codes in term of Section 45A of the Act. The underlying objective of aforesaid amendments seems to avoid revenue leakage and ensure bonafide payment of taxes and duty in national treasury.

Furthermore, sub-section (4) has also been inserted at Section 27 through the Bill, empowering FBR to delegate powers of seizure and confiscation of specified goods subject to monitoring or tracking under Section 45A, to employees of the Federal and Provincial Government.

As per our understanding, the said amendment would not only provide legitimacy to make raids by other departments of Federal and Provincial Government (security agencies) to be authorized by FBR, but also such measures would create harassment for businesses as are specified above.



Appeals to Commissioner (Appeals)

Section 33

Currently, Section 33 entitles a person including SOE aggrieved by an order having value of tax assessed or refund of tax not exceeding five million rupees passed by an officer of Inland Revenue to file appeal before Commissioner (Appeals). The said amendment was enacted at this Section through Tax Laws (Amendment) Act, 2024.

By virtue of amendment through Finance Bill, Section 33 has been substituted now requiring an aggrieved person other than SOEs to file appeal against an order irrespective of the quantum of tax assessed by officer of Inland Revenue before the Commissioner (Appeals). The Finance Bill has also proposed an option to such aggrieved person to file appeal against such order either before the Commissioner (Appeals) or Appellate Tribunal, Inland Revenue.

As per our understanding, the aforementioned amendment has once again restored old system of appeal which remained in field upto 03 May 2024, had now allowed the aggrieved person to prefer appeal against impugned order passed by officer of Inland Revenue without any pecuniary limit before the Commissioner (Appeals).

The aforesaid amendment has also envisaged that the appellate order passed by the Commissioner (Appeals) would be appealable before the Appellate Tribunal which prior to aforesaid amendment, was subject to filing reference before High Court. In other words, the said amendment has once again restored two-tiered system appeal for taxpayers.

Appeals to Appellate Tribunal

Section 34

Currently, Section 34 allows a person being aggrieved of an order having value of duty assessed or refund of duty exceeding five million rupees passed by an officer of Inland Revenue to file an appeal before the Appellate Tribunal. The said amendment was made at this Section through Tax Laws (Amendment) Act, 2024.

By virtue of Finance Bill, Section 34 has been subtitled requiring an aggrieved person other than SOE to prefer appeal within thirty days of receipt of any order passed by the Board or Commissioner or Commissioner (Appeals) before the Appellate Tribunal.

By virtue of aforesaid amendment, it is also envisaged that the appellate order passed by the Commissioner (Appeals) would be appealable before the Appellate Tribunal which prior to aforesaid amendment was subject to filing reference before High Court. As per our considered opinion, the said amendment has once again restored two-tiered system appeal for taxpayers.

Reference to the High Court

Section 34A

Sub-section (1) of Section 34A has been substituted through the Bill, requiring an aggrieved person including the Commissioner to file reference before the Court against an order passed by the Appellate Tribunal within sixty of issuance of order stating any question of law.



Prior to aforesaid amendment, Section 34A requires an aggrieved person to file reference before the High Court within thirty days of communication of appellate order either Commissioner (Appeals) or Appellate Tribunal. In other words, the aggrieved party was having one option of appeal before any forum.

We understand that the proposed amendment has restored the old system of filing reference as was in field prior to amalgamation of Tax Laws (Amendment) Act, 2024. The newly inserted amendment speaks for filing reference within sixty day of issuance of order issued by Appellate Tribunal. The said omission may be rectified by inserting word 'communication' through Finance Act, 2025.

First Schedule of Table-III of Federal Excise Act, 2005

Abolition of FED on Immovable Property

The Finance Act 2024 introduced levy of FED on allotment or transfer of commercial property or open plots or residential property. By virtue of the Finance Bill, the legislature has proposed to abolish / withdraw FED on immovable properties.



AMENDMENTS IN CUSTOMS ACT, 1969

Cargo Tracking System & E-Bilty Mechanism

Section 2(eb) & (kkaa)

The Bill introduces mandatory electronic generation and validation of e-bilty via the Cargo Tracking System (CTS) for consignors, transporters, and those involved in shipping goods through seaports, land borders, dry ports, or within Pakistan. FBR will prescribe the procedures and may levy a fee for system maintenance and operations.

Non-compliance may attract penalties ranging from Rs. 50,000 to Rs. 1,000,000, confiscation of goods/conveyance, and imprisonment (up to six months) upon repeated violations.

Exemptions apply where goods fall below prescribed value or distance thresholds, or are specifically excluded.

CTS is a digital system for real-time tracking of import, export, and transshipment goods.

E-bilty is a digitally generated document linked to the transport of goods, as prescribed by FBR rules.

General Power to Exempt from Customs-Duties

Section 19

The validity period of exemption notifications issued on or after July 1, 2016; pending ratification by the National Assembly is proposed to be extended from June 30, 2025, to June 30, 2026.

Minimal Duties Not to Be Demanded

Section 19C

It is proposed to reduce the threshold value (de minimis) for duty exemption on goods imported through post or courier services from Rs. 5,000 to Rs. 500.

Allowing Mutilation or Scrapping of Goods

Section 27A

Currently, owners may request mutilation or scrapping of notified goods (except new goods) prior to the filing of goods declarations. Duties are charged as applicable. To prevent misuse, it is proposed that mutilation or scrapping shall not exceed 10% of the total quantity of imported goods.

False Statement, Error, etc.

Section 32

Customs authorities are empowered to act upon audit findings that reveal non-levy, short-levy, or erroneous refund of duties or taxes. Currently, no recovery action is initiated where the recoverable amount is below Rs. 20,000.

The Bill proposes to increase this threshold to Rs. 100,000, subject to voluntary deposit of the amount by the concerned person.

Declaration and Assessment for Home Consumption or Warehousing or Transshipment *Section 79*

Presently, assessment and payment of duties and taxes for transshipment are conducted at the destination port. The Bill proposes to allow payment at the time of assessment, provided the goods declaration is filed prior to vessel berthing or vehicle cross-over, effective from a date to be notified by the Board.

Checking of Goods Declaration by the Customs *Section 80*

To assess and examine any import, export and transit consignment at any customs port, inland customs station, border customs station or airport, the Bill proposes to empower the Board to constitute Centralized Assessment Unit (CAU) and Centralized Examination Unit (CEU), accessible to designated customs officers, or such other officers authorized by the Chief Collector.

The Board may prescribe any manner or conditions for assessment or examination of goods through CAU and CEU. It has been further provided that digitalized assessment may be made through customs computerized system on the basis of artificial intelligence tools.

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 82*

To improve procedural clarity and enforcement, the Bill proposes:

- Penalties for non-compliance with prescribed timelines, to be notified by the Federal Government.
- Replacement of the current 15-day clearance/removal period (extendable by 5 days) with the following timelines:
- Goods declarations to be filed within 10 days of goods' arrival.
- Removal of goods from customs station within 3 days of assessment completion or clearance.
- Loading of export goods within 15 days of port entry.
- Goods may be confiscated if:
- No goods declaration is filed within 30 days of arrival, or
- Goods are not removed/loaded within 30 days of assessment.

Clearance for Home Consumption*Section 83*

In case of customs clearance through the Customs Computerized System, the Finance Bill proposes to explicitly make such clearance subject to payment of duty, taxes and other charges thereon.

Extent of Confiscation*Section 157*

Currently, if a customs officer seizes a conveyance liable to confiscation, the appropriate officer may order its release pending the adjudication of the case if the owner provides a sufficient guarantee from a scheduled bank for its production when required.

The Finance Bill has proposed to omit this provision of allowing release of vehicles liable to be confiscated against bank guarantee.

Things Seized How Dealt With*Section 169*

The Collector or authorized officer may sell seized goods (subject to legal requirements) and deposit the proceeds pending case resolution. A new sub-section is proposed whereby no court may stay such auctions unless the applicant furnishes a pay order or bank guarantee of at least 50% of the reserve price with the Court Nazir.

Power of Adjudication*Section 179*

The existing timeframe of 30 days of the issuance of show cause notice to decide cases involving smuggled goods and goods lying at the sea-port, air-port or dry-port is proposed to be enhanced to 45 days, which would be further extendable for 15 days by the Collector Adjudication.

Presently, the Board is empowered to regulate the system of adjudication including transfer of cases and extension of time limit under “exceptional circumstances”. It is proposed to empower the Board substituting the expressions “exceptional circumstances” with “as deemed appropriate after reasons to be recorded in writing” for the aforesaid purposes.

This amendment has apparently been proposed in view of the recent superior Court decision wherein the honourable Court observed that the existing powers of the Board to grant an extension under “exceptional circumstances” were much narrower and circumscribed as opposed to the powers conferred under the ST Act to grant an extension where deemed appropriate.



Burden of Proof as to Lawful Authority

[Section 187](#)

Presently, when any person is alleged to have committed an offence under the Customs Act, the burden of proof is cast upon him to show that he did any act or was in possession of lawful authority or under a permit, license or other document prescribed. It is proposed to insert further documents including goods declaration and sales tax invoice (in the person's name) to elaborate the burden of proof checking the presentation of import documents before adjudication authorities.

Presumption as to Legal Character of Vehicle

[Section 187A](#)

A new section has been proposed whereunder any detained or seized vehicle that upon forensic examination, is found to be having tampered or altered chassis is presumed to be smuggled even if registered with any Motor Registration Authority and shall be liable to confiscation. This includes vehicles with a tampered chassis number, cut and weld chassis, chassis number filled with welding material, re-stamped, or a body changed. Such vehicles will be liable to confiscation.

Appeal to Collector (Appeals)

[Section 193](#)

Any person aggrieved by any decision or order passed under prescribed sections of the Act by an officer of Customs below the rank of an Additional Collector may prefer appeal to the Collector (Appeals) within 30 days of the communication of such decision. It is proposed that no such appeal shall be preferred if the aggrieved person did not appear before the adjudicating authority despite sufficient opportunity of hearing. This proposal seeks to minimize the misuse of unlawful claim of ownership of seized goods before the Collector (Appeals).

Appeal to the Appellate Tribunal

[Section 194A](#)

The Finance Bill has proposed to increase the existing timeframe for filing Appeals to the Appellant Tribunal from 30 days to 45 days from the date on which the decision or order sought to be appealed against is communicated.

It is further proposed that stay against recovery of duty and taxes by the Tribunal shall be subject to furnishing of pay order or bank guarantee not less than 50% of the recoverable amount by the aggrieved person before the registrar of the Tribunal. No appeal shall be preferred if the aggrieved person did not appear before the adjudicating authority despite sufficient opportunity of hearing.



Powers to Pass Certain Orders

Section 195

The Finance Bill proposes to empower the Director Generals and Directors to re-open cases in their jurisdictions by calling for and examining the records of any proceedings under the Act. Presently, these powers are conferred to the Board, the Chief Collector, and the Collector of Customs. It has also been proposed to clarify that such powers also extend to adjudication proceedings under the Act.

Reference to the High Court

Section 196

The reference filing period to the High Court is proposed to commence from the date of receipt (instead of issuance) of the Tribunal's order.

A stay against recovery by the High Court shall require a pay order or bank guarantee of at least 50% of the disputed amount.

Procedure for the Sale of Goods

Section 201

Sale / auction of goods (other than confiscated goods) can be made after notice to the owner by public auction or by tender or by private officer with the written consent of the owner or his agent. It has been proposed that such sale / auction may be made through an authorized agent.

Further, any stay against the auction proceedings is proposed to be subject to furnishing of pay order or bank guarantee not less than 50% of the reserve price of the goods before the Nazir of the Court.

Establishment of Customs Command Fund

Section 225

In order to incentivize anti-smuggling operations, the Finance Bill proposes to establish Customs Command Fund wherein allocation of funds shall be made by the Federal Government from the sale proceeds of auction of smuggled goods. The allocation share shall be notified by the Board with the concurrence of the Finance Division.

Digital Enforcement Station(s)

Section 226

To prevent smuggling and illicit trade, the Finance Bill proposes to empower the Board to declare places to be Digital Enforcement Stations at locations deemed appropriate, through a notification in the official Gazette. The Board may notify any existing customs check-post as Digital Enforcement Station.

Additionally, the Board may make rules regarding staffing, operations, and technological enablement.

Rationalization of Customs Duty

Following changes are proposed in the rates of customs duty as part of tariff rationalization:

- To replace existing tariff slabs of 3%, 11% and 16% with 5%, 10%, and 15%, respectively on 1,573 items.
- 0% tariff slab to be extended to further 916 items, falling under different Chapters of Pakistan Customs Tariff.
- Reduced customs duty rates of 5%, 10%, and 15% on 211 tariff lines.

Amendments Proposed in Fifth Schedule

(Concession / Exemption)

Withdrawal of exemption / concession

The finance bill proposes to primarily withdraw following exemptions / concessions.

- Concessionary rate of 0% available for Machinery and Equipment related to agriculture, education and research related items, marble, granite and gem stone extraction / processing, solar and other renewable energy, food fortification, available under Part I of the Fifth Schedule.
- Concessionary rates available for Medical Equipment and Tourism Projects, available for goods under Part I of the Fifth Schedule.
- Concessionary rates ranging from 0% to 16%, available for raw materials / inputs for the textile sector under Part III of the Fifth Schedule.
- Concessionary rates ranging from 0% to 16%, available for goods covered under Part VII of the Fifth Schedule.

Policy Announcements – Notification Awaited

Announcement in respect of the following has been made through the salient features issued along with the Finance Bill; however, relevant notifications / amendments to that effect are awaited.



Regulatory Duty

- Withdrawal of regulatory duty from 554 items.
- Reduction in regulatory duty in 595 items.
- The maximum rate of regulatory duty to be reduced to 50% from 90%.

Additional Custom Duty

Proposed reduction in additional customs duty as follows:

Goods falling under Tariff slab(s)	Additional customs duty	
	Existing	Proposed
0%, 5% & 10%	2%	0%
15%	4%	2%
20%	6%	4%
above 20%	7%	6%



MOORE Shekha Mufti

Chartered Accountants

Principal Office

C-253, P.E.C.H.S., Block 6
Off Shahrah-e-Faisal
Karachi. Pakistan
P: + 92 21 34392484
+ 92 21 34392485
F: + 92 21 34544766

Lahore Office

Office # 12, Third Floor,
Leeds Center, Main Boulevard,
Gulberg III, Lahore
T: +92 42 32335958
E: info.lhr@mooreshekhamufti.com

Islamabad Office

The Hive 1st Floor Plot
No. E#14, Manzoor Plaza
Fazal-e-Haq Road G-6,
Blue Area Islamabad

Moore Shekha Mufti is an independent member firm of Moore Global International, members in principal cities throughout the world.

info@mooreshekhamufti.com

www.mooreshekhamufti.com