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PROVINCIAL SERVICE TAX MEMORANDUM 2026

SINDH, PUNJAB, BALOCHISTAN & KHYBER PAKHTUNKHWA

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PREFACE

The Provincial Finance Acts, 2026 have introduced a number of significant amendments to the sales tax on services laws applicable in the Provinces of Punjab, Sindh, Balochistan and Khyber Pakhtunkhwa. These amendments reflect the continued evolution of the provincial indirect tax regime, with particular emphasis on digital tax administration, enhanced compliance measures, expansion of the tax base and strengthening of enforcement mechanisms.

This publication has been prepared to provide a comprehensive commentary on the principal amendments introduced through the Provincial Finance Acts, 2026.

The commentary has been organized on a section-wise basis, the nature of the amendment and its potential impact on businesses and service providers. Where appropriate, practical observations have also been included to highlight compliance considerations and issues that taxpayers may need to address.

While every effort has been made to ensure the accuracy and completeness of this publication, it is intended solely as a general guide to the amendments introduced through the Provincial Finance Acts, 2026. The commentary does not constitute legal or tax advice and should not be relied upon as a substitute for professional advice in relation to any specific transaction or factual situation.

We trust that this publication will serve as a useful reference for our clients and other stakeholders in understanding the recent legislative developments and their implications under the provincial sales tax on services laws.

The brief is also accessible on our official website www.mooreshekhamufti.com

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SINDH SALES TAX ON SERVICES ACT, 2011

DE-REGISTRATION
Section 25A

The Sindh Finance Act, 2026 (SFA26) extends the time limit for disposal of de-registration applications from 03 months to 180 days. It further clarifies that the obligations and liabilities of a person in respect of taxable services provided prior to de-registration would continue notwithstanding the filing of a de-registration application or cessation of registration.

PENALTIES
Section 43 (Serial 2AA)

The SFA26 inserts a new penalty provision on the persons who design, develop, customize or supply invoicing software that enables issuance of invoices not conforming to the invoicing requirements prescribed under the Sindh Sales Tax on Services Rules, 2011 and the Sindh Sales Tax Special Procedure (Online Integration of Business) Rules, 2022. Such persons would be liable to a penalty ranging from Rs.100,000/- to Rs.1,000,000/-.

REGISTERED PERSON TO DISPLAY NOTICE, MESSAGE OR INFORMATION
Section 52A (new insertion)

The SFA26 inserts a new section empowering the Commissioner to require a registered person to display any notice, message or information, through print or multimedia, at a conspicuous place in his premises accessible to the general public. The provision is intended to enhance customer and public awareness regarding tax matters and strengthen tax compliance through dissemination of information at business premises.

DECISION IN APPEAL
Section 59

The SFA26 introduces 60 days statutory time limit for completing any further inquiry directed by the Commissioner (Appeals) during appellate proceedings. Consequently, the actual period utilized for such inquiry (up to a maximum of 60 days) would be excluded when calculating the overall limitation period for disposing of the appeal. This amendment is designed to facilitate robust appellate adjudication, ensuring necessary factual inquiries can be conducted without jeopardizing the statutory timelines or causing the appeal to become time-barred

RECOVERY OF ARREARS OF TAX
Section 66

The SFA26 amends the first proviso of Section 66(1) to extend protection from recovery proceedings to cases where appeals are filed under Section 61 before the Appellate Tribunal, in addition to appeals under Section 57 before the Commissioner (Appeals). Further, the mandatory pre-deposit condition for availing such protection, whether the appeal is pending before the Commissioner (Appeals) or the Appellate Tribunal, has been enhanced from 10% to 20% of the tax demand.

DISCLOSURE OF INFROMATION
Section 73A (new insertion)

The SFA26 reinforces the confidentiality framework under Section 73A by reiterating that all particulars contained in tax statements, returns, accounts, records, evidence, affidavits, or proceedings relating to assessment or recovery would remain confidential and would not be disclosed by any officer or public servant of the SRB, except as expressly provided under the Act.

Further, the provision clarifies two exceptions to this restriction. First, disclosure is permitted where necessary for persons engaged in the implementation of the Act. Second, information may be shared with Federal or Provincial Government departments or authorities, where such disclosure is authorised under law or pursuant to inter-governmental arrangements for tax administration and enforcement purposes.

FIRST SCHEDULE
Exempt Services

S. No.	CPC	Description	Existing Legal Position	Amended Legal Position (Finance Act, 2026)	Comments / Impact
6	672	Storage and warehousing services	Exemption was available in respect of storage and warehousing services provided in relation to food and agricultural commodities.	Exemption is now restricted to storage and warehousing services provided in relation to food grains and fresh vegetables and fruits not subject to further processing.	Scope of exemption has been narrowed. Storage and warehousing services relating to processed agricultural products and other agricultural commodities may now become taxable unless covered under another exemption.
10	713	Insurance and pension services (excluding reinsurance services), except compulsory social security services	Exemption was available in respect of individual life insurance policies (other than group life insurance) having coverage of up to Rs. 500,000.	The exemption threshold has been enhanced and now applies to individual life insurance policies (other than group life insurance) having coverage of up to Rs.3,500,000.	Relief substantially expanded. The enhanced threshold broadens the exemption and brings a significantly larger number of individual life insurance policies within its ambit.

S. No.	CPC	Description	Existing Legal Position	Amended Legal Position (Finance Act, 2026)	Comments / Impact
10A	714	Reinsurance services	No exemption was available in respect of reinsurance services.	A new exemption has been introduced for reinsurance services relating to crop insurance and marine insurance for exports.	New exemption inserted. The amendment is intended to promote the agriculture and export sectors by reducing the tax cost of specified reinsurance services.
30	92	Education services	Exemption generally applied to education services; however, it was not available where: ▪ annual fee exceeded Rs. 500,000 per student; and ▪ sports education services (CPC 92912) were provided by a person other than an individual.	The exemption has been restructured and is now available only in respect of: ▪ Pre-primary, primary, secondary, post-secondary non-tertiary and tertiary education services (CPC Codes 921–925) where the annual fee does not exceed Rs. 500,000 per student; ▪ Sports education services (CPC 92912) provided by an individual (not being an employee); and ▪ Special education for children with special needs and education under adult literacy programmes.	Exemption framework revised. Instead of prescribing exclusions, the law now positively specifies the educational services qualifying for exemption, while expressly extending the exemption to special education and adult literacy programmes.

SECOND SCHEDULE PART-II

Reduced Services

The following table represents the amendments made in the Second Schedule:

S. No.	CPC	Description	Existing Legal Position	Amended Legal Position (Finance Act, 2026)	Comments / Impact
1	54540	Ready-mix concrete services	Reduced rate of 8% was available for construction services.	Entry has been substituted. The reduced rate of 8% now specifically applies to ready-mix concrete services.	Scope of the entry has been narrowed. General construction services have been carved out and are now dealt with separately.
1A	54232	Services of dredging and rock and silt removal	No corresponding entry existed.	A new entry has been inserted prescribing a reduced tax rate of 8% without any conditions.	New reduced-rate category introduced.
1B	54	Construction services	Construction services were covered under a general reduced-rate entry.	Construction services provided by property developers and promoters are now taxable at Rs.100 per square yard of land and Rs.50 per square foot of covered area.	Major change in taxation methodology. The reduced ad valorem rate has been replaced with a specific tax based on land and covered area.
7	6511	Road transport services of freight	Reduced rate 8% applied to road transport services of freight.	The description now expressly excludes transportation of petroleum oils through oil tankers.	Scope of reduced rate restricted by excluding transportation of petroleum oils through oil tankers.

S. No.	CPC	Description	Existing Legal Position	Amended Legal Position (Finance Act, 2026)	Comments / Impact
13	67910	Freight transport agency services and other freight transport services	The reduced rate applied to services provided by freight forwarding agents in respect of issuance of bills of lading, house bills of lading, airway bills and house airway bills.	The words "by freight forwarding agents" have been omitted from the relevant condition.	Scope of concession broadened. The omission may extend the benefit to other service providers satisfying the prescribed condition.
16	71610	Insurance brokerage and agency services	A single reduced rate of 5% applied to insurance brokerage and agency services.	Separate reduced rates have been prescribed: 2% for insurance agents and 3% for insurance brokers.	Differential tax treatment introduced for insurance agents and insurance brokers.
22	821, 823 & 824	Legal, tax consultancy, preparation, insolvency and receivership services	Reduced rate of 8% applied to legal, accounting, auditing and bookkeeping, tax consultancy, preparation, insolvency and receivership services.	The entry has been substituted. Reduced rate of 8% now applies only to legal services (CPC 821), tax consultancy and preparation services (CPC 823), and insolvency and receivership services (CPC 824).	Accounting, auditing and bookkeeping services (CPC 822) have been excluded from the reduced-rate regime.
28	8463	Broadcasting services and multi-channel programme distribution services	The description incorrectly referred to "PCP Code 84631."	The expression "PCP" has been substituted with "CPC".	Purely editorial amendment made to rectify a typographical error.
34	872	Repair services of other goods	Reduced rate 8% covered repair services including maintenance and repair services of fabricated metal	Entry has been substituted. Reduced rate now applies only to repair services of	Reduced-rate benefit withdrawn for maintenance and repair

S. No.	CPC	Description	Existing Legal Position	Amended Legal Position (Finance Act, 2026)	Comments / Impact
			products, machinery and equipment (CPC 871).	other goods (CPC 872).	services falling under CPC 871.
38	92	Education services	Reduced rate of 3% broadly applied to education services.	The entry has been substituted. The 3% reduced rate is now confined to: (i) pre-primary to tertiary education services (CPC 921–925) where annual fee exceeds Rs.500,000 per student; and (ii) other education and training services under CPC 929, excluding CPC 9292.	Reduced-rate regime substantially restructured by limiting its application to specified educational services.
	9292	Educational support services	No separate reduced-rate entry existed.	Educational support services (CPC 9292) are now subject to a separate reduced rate of 5%.	New concession introduced through a separate reduced-rate entry.
45	972	Beauty and physical well-being services	Two reduced rates were available, including a 5% rate for registered service providers integrated with the SRB Computerized System and issuing invoices containing the SRB invoice number and QR Code.	The entry has been substituted. A single reduced rate of 8% now applies without the earlier concession.	Concession withdrawn. The preferential 5% reduced rate linked to POS integration has been abolished.

PUNJAB SALES TAX ON SERVICES ACT, 2012

DEFINITION of “Active Taxpayer”
Section 2(1)

At present, a registered person ceases to be an active taxpayer if his registration is suspended or blacklisted by the Authority, or if he fails to file returns for two out of the preceding three consecutive tax periods.

The Punjab Finance Act 2026 (PFA26) makes this requirement stricter. Under the amendment, a registered person who fails to file returns by the "due date" for the last two consecutive tax periods will cease to be treated as an active taxpayer.

AMENDMENT IN SCHEDULES BY THE GOVERNMENT
Section 5(3)

The Provincial Government is empowered to amend the First and Second Schedules by notification in the official Gazette. Such notifications are required to be placed before the Provincial Assembly annually at the time of the Budget Statement.

However, the existing wording of Section 5(3) did not specifically refer to the First Schedule. The PFA26 inserts the reference to the “First Schedule” in order to remove this omission and bring amendments in both the First and Second Schedules within the same procedural framework.

TAX CREDIT NOT ALLOWED
Section 16B

The PFA26 inserts a new clause in Section 16B to disallow input tax adjustment against invoices issued by persons who are not appearing on the active taxpayers list maintained by the Punjab Revenue Authority or the Federal Board of Revenue.

EXTENT OF ADJUSTMENT OF INPUT TAX
Section 16C

The threshold for adjustment of input tax in a tax period has been restored to eighty percent of output tax. Earlier, this restriction had been relaxed from eighty percent to ninety percent through the Finance Act, 2022.

ADJUSTMENT OF INPUT TAX ON CERTAIN GOODS AND SERVICES
Section 16CC

The PFA26 reintroduces the procedure for adjustment of input tax relating to capital goods, machinery and fixed assets in twelve equal monthly instalments. This procedure had previously been abolished through the Finance Act, 2020.

INPUT TAX MANAGEMENT THROUGH RISK-BASED EVALUATION SYSTEM
Section 16CCC

A new section has been inserted empowering the Authority to establish a risk-based evaluation system for verification and monitoring of input tax claims, adjustments, credits and refunds. The Authority may use risk parameters, data analytics and other relevant information to profile taxpayers, suppliers and transactions through a risk register.

Where any input tax claim is identified as risky, the Authority may defer its admissibility pending verification, disallow the claim wholly or partly, require further information or evidence from the registered person, or select the case for audit or investigation. However, no adverse action can be taken without providing an opportunity of being heard. An aggrieved person may file an application before the concerned Commissioner, who is required to decide the matter within thirty days.

The crux of the provision is that input tax adjustment will no longer remain a purely claim based only on possession of tax invoices and related documents. It will become subject to automated and risk-based scrutiny by the Authority.

OFFENCES AND PENALTIES

Section 48

The PFA26 enhances penalties for certain offences. In some cases, the proposed increase is quite significant and may have serious financial implications for taxpayers. A comparison of the penalties before and after enactment of PFA26 is given below:

S#	Narration of offence	Before	Now
5	Registered person, without reasonable cause, fails to produce records after notice from the Authority or officer.	Such person shall pay a penalty of Rs.25,000 for first default and Rs.100,000 for each subsequent default	Individual: penalty up to Rs. 100,000 for first default and Rs. 100,000 for each subsequent default. Company or AOP: penalty up to Rs. 500,000 for first default and Rs. 500,000 for each subsequent default.
16	Person causes intentional damage to, or interference in, the electronic invoice monitoring system, or impedes/obstructs transmission of invoice data to PRA.	Rs. 100,000 for each act of commission. On three such acts, premises may be sealed for up to one month. Prosecution consequences may also apply.	Rs. 500,000 for each act of commission. Other consequences relating to sealing and prosecution to remain unchanged.
17	Person fails or refuses to issue a tax invoice.	Rs. 20,000 on first default and Rs. 50,000 for each subsequent default. On three defaults, premises may be sealed for up to one month.	Rs. 500,000 on first default and Rs. 1,000,000 for each subsequent default. Sealing consequence to remain unchanged.
20	Person avoids, defies or fails to comply with the electronic invoicing system, or issues invoices by bypassing the electronic invoicing system.	Penalty up to Rs. 100,000 but not less than Rs. 25,000. On three consecutive defaults, premises may be sealed for up to one month.	Penalty up to Rs. 500,000. Sealing consequence to remain unchanged.

AUTHORIZED OFFICER TO HAVE ACCESS TO PREMISES, STOCKS AND RECORDS
Section 56

Section 56 deals with the power of authorized officers to access business premises, registered offices and other places where records or documents are maintained. Before enactment of PFA26, only the Authority can authorize an officer for this purpose through notification in the official Gazette. This means that the decision to authorize access to business premises is presently taken at the highest level of the Authority's hierarchy.

Now, the power to authorize an officer is being shifted from the Authority to the Commissioner. Further, the requirement of authorization through notification in the official Gazette has been omitted.

The amendment may make inspection and access proceedings more administrative and less formal. It may also enable field formations to initiate such proceedings more quickly. Given the unrealistic tax targets for the next year, this provision may potentially be misused to extract undue revenue.

POWERS OF ADJUDICATION
Section 60

The monetary limit for adjudication by Assistant/ Deputy Commissioners has been enhanced from Rs. 10 million to Rs. 50 million. Similarly, the monetary limit for adjudication by Enforcement officer/Audit cum risk compliance officer has been enhanced from Rs. 5 million to Rs. 25 million.

POWER TO RESTRAIN CERTAIN AUTHORITIES
Section 76A

The PFA26 substitutes the existing Section 76A. The provision empowers the Authority to require licensing authorities, permission-granting authorities and no objection certificate issuing authorities not to issue or renew any license, permission or NOC for an economic activity involving taxable services unless the applicant is registered under the Act and appears on the active taxpayers list of the Authority.

The provision also extends this restriction to procuring agencies. A procuring agency awarding or renewing a contract relating to taxable services will not be allowed to award or renew such contract unless the bidder, contractor, supplier or consultant is registered and active under the Act.

A newly established business has been exempted from the application of this provision for six months from the date of its registration.

FIRST SCHEDULE
Tax-Free Services

Entry at Serial No. 25 relating to “services provided by a foreign exchange dealer or exchange company or money changer or money exchanger” has been omitted.

As a result, such services will no longer remain tax-free under the First Schedule. Simultaneously, a reduced rate for foreign exchange services in the Second Schedule has been introduced.

SECOND SCHEDULE – Part III

Reduced Rate Services

The PFA26 enhances the reduced rate of tax for various services from 5% to 8% without input tax adjustment. The relevant changes are summarized below:

Description of service	Tariff heading / classification	Before tax rate / condition	Now amended tax rate / condition
Hotels, motels and guest houses	9801.1000	5% without input tax adjustment for non-corporate, non-franchise, non-chain businesses having less than 20 rooms; 16% for others.	8% without input tax adjustment where payment is received through debit or credit card, mobile wallet or QR scanning; 16% for others.
Marriage halls and lawns, pandal and shamiana services, catering services	9801.3000; 9801.5000; respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Restaurants, cafes, coffee houses, food huts, ice-cream shops, eateries and similar outlets	98.01 series / respective headings	5% without input tax adjustment where payment is received through debit or credit card, mobile wallet or QR scanning; 16% for others.	8% without input tax adjustment for qualifying digital payments; 16% for others.
Other consultants, including listed consulting services	9815.9000; 9845.0000; 9860.0000; respective headings	0% for IT training services; 16% for others. Description also included event management services.	Event management services are proposed to be omitted from this entry. Other rates remain unchanged.
Tour operators and travel agents including allied services/facilities	9805.5100; 9805.5000; 9803.9000; respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Property dealers and realtors	9806.2000; 9844.0000; respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Architects, town planners, landscape designers and relevant consultancy/supervisory services	9814.1000; 9814.9000; 9814.4000; respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Rent-a-car services where provided to end consumers	9819.3000; respective headings	5% without input tax adjustment for end consumers; 16% for others.	8% without input tax adjustment for end consumers; 16% for others.

Description of service	Tariff heading / classification	Before tax rate / condition	Now amended tax rate / condition
Healthcare centres, gyms, physical fitness centres, indoor sports, amusement centres and similar services	9821.1000; 9821.2000; 9821.4000; respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Laundries and dry cleaners	9811.0000; respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Professional accountants, auditors, actuaries, tax consultants, company secretaries, receivers, liquidators, auctioneers and corporate law consultants	9815.4000; 9815.5000; respective headings	5% without input tax adjustment for accountancy, audit, tax and corporate law consultancy; 16% for others.	8% without input tax adjustment for Accountancy & Audit, Tax or Corporate Law consultants; 16% for others.
Warehouses, depots, storage and cold storage services including letting of storage space	9833.0000; respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Rental of machinery/equipment including bulldozers, excavators, cranes, construction equipment, scaffolding, framework, shuttering, generators, storage containers, refrigerator, shelves and racks	Respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Apartment house management, real estate management and rent collection services	Respective headings	5% without input tax adjustment.	8% without input tax adjustment.
Foreign exchange services provided by any person including exchange company, forex dealer and money changer, in respect of currency exchange	Respective headings	Tax-free under First Schedule S/N 25.	3% without input tax adjustment. Rate shall apply to the services involving consideration of spread charges permitted by State Bank of Pakistan

Description of service	Tariff heading / classification	Before tax rate / condition	Now amended tax rate / condition
Event management services, including the whole range and variety of such services regardless of separate or individual classification	Respective headings	Included in Part III S/N 9 as event management services under other consultants; effectively taxable under that entry.	8% without input tax adjustment under a separate entry.

BALOCHISTAN SALES TAX ON SERVICES ACT, 2015

DEFINITIONS

Section 2

The Balochistan Finance Act, 2026 (BFA26) has amended the definitions of *“Place of Business”* and *“Service Provider”* prescribed under section 2 of the Balochistan Sales Tax on Services Act, 2015 (BSTA) with the objective of removing ambiguities and ensuring greater certainty in the interpretation of the law. The amendments also align the statutory terminology with the present administrative framework of the Balochistan Revenue Authority (BRA) and other recently enacted provincial laws. Simultaneously, through the BFA26 definitions of *Banking*, *Forward Contract, Telecommunication Service* and *Truck Aggregator* have been omitted from section 2 of the BSA.

TAXABLE SERVICES

Section 3

The amendments made to section 3 are mainly intended to clarify the law and remove unnecessary duplication. The amendment to section 3(2) makes it clear that the reverse charge mechanism will not apply to services covered by the Explanation to section 3(1). As a result, such services will continue to be taxed under the normal charge mechanism, avoiding any overlap between the two provisions and reducing uncertainty regarding the person liable to pay the tax.

Furthermore, the omission of sub-section (6), which required persons liable to pay tax under section 3 to obtain registration under the Act, eliminates a redundant provision, as the obligation to obtain registration is comprehensively governed under Chapter IV, particularly section 25, without affecting the existing registration requirements applicable to taxable persons.

SCOPE OF TAX

Section 10(4A) New Insertion

A significant amendment has been introduced through the BFA26 clarifies that failure to obtain registration does not absolve a person from liability to sales tax. This amendment reinforces a well-established principle of indirect taxation that tax liability arises by operation of law and is not dependent upon administrative registration. Consequently, any person providing taxable services remains liable to discharge sales tax together with any applicable default surcharge and penalties, irrespective of whether registration has been obtained.

The amendment significantly strengthens the legal position of the tax authorities during audit and enforcement proceedings. Businesses operating without registration should therefore regularize their tax affairs immediately, as non-registration can no longer be relied upon as a defence against recovery proceedings.

COLLECTION OF EXCESS TAX

Section 17(1A) New Insertion

Through the BFA26, a statutory restriction on tax refunds has been codified via a new subsection, aligning Pakistan’s tax legal framework with the international doctrine of ‘unjust enrichment’. Mirroring existing mechanisms in other federal tax laws, this amendment stipulates that a refund shall be denied where the economic incidence of the tax has been shifted to a third party. The primary objective is to preclude taxpayers from extracting an unearned financial advantage by retaining customer-collected taxes while pursuing a sovereign refund. Accordingly, the statutory burden of proof rests on the claimant to substantiate, via verifiable documentary trails, that the tax burden was completely retained.

CONTINUITY OF EXISTING TAX TREATMENT

Section 78C (New Insertion)

The newly inserted section 78C provides that services which were subject to tax on 30 June 2025 shall continue to be taxed at the same rate unless specifically exempted or subjected to a reduced rate.

This is a significant clarification because it prevents uncertainty regarding the tax treatment of services during the transition to the revised framework introduced through the Finance Act. The provision effectively preserves the existing tax position unless the legislature has expressly provided otherwise.

REMOVAL OF DIFFICULTIES IN ADOPTING NEGATIVE LIST METHOD

Section 78D (New Insertion)

Section 78D empowers the BRA to issue orders for removing difficulties arising from the adoption of the negative list method.

The provision authorizes the BRA to make temporary adaptations, modifications, additions or omissions necessary for effective implementation of the law, subject to a sunset period of three years. Such provisions are commonly introduced when a tax system undergoes substantial structural change. They provide administrative flexibility while limiting the duration of the delegated power.

FIRST SCHEDULE

Exempt Services

The BFA26 amends specific qualifying provisions previously tied to service tax exemptions. This regulatory shift directly impacts the exemption criteria for the following categories:

- Serial No. 2: Tour Operators
- Serial No. 4: Contractual Execution of Work
- Serial No. 13: Agricultural Support Services
- Serial No.16: Educational Services
- Serial No 17: Hospitals and Clinics

These amendments aim to simplify the overall exemption framework and eliminate legacy conditional compliance requirements.

New Exemption - First Schedule

S#	Description	Conditions for Exemptions
28	Passenger Transport Services	The exemption shall not be applicable to services provided or rendered in relation to: (1) Rent a car and vehicle rental services; (2) Services provided or rendered by the owners or drivers of the vehicles using the cab aggregator services; and (3) Chartered flight services within Balochistan or originating from any air field in Balochistan.

S#	Description	Conditions for Exemptions
29	Insurance Premiums	The exemption shall be only applicable to such insurance premiums charged by the Company designated under the Balochistan Public Property Insurance Act, 2026, on insurance policies covering risks situated, or policyholder's resident or registered, in the Province of Balochistan.
30	Reinsurance Premiums	The exemption shall be only applicable to such reinsurance premiums paid by the Company designated under the Balochistan Public Property Insurance Act, 2026, in respect of cessions or retrocessions arising from policies referred to in entry (29) above.
31	Services provided or rendered to associates to Export Processing Zone.	This exemption shall only be applicable to services provided or rendered in any Export Processing Zone, as notified by the Federal Government, and wherein, the Government of Balochistan has a profit sharing up to 10%. Further, this exemption shall be applicable for a period of 15 years and limited to such services which are related to such investments and operations, made by foreign investors only.

THIRD SCHEDULE

Reduced Tax or Zero Rates

S#	Description	Rate	Conditions	Comments
1.	Services provided or rendered by restaurants, including café, coffee houses, food huts, ice-cream shops and eateries	from 2% to 4%	No change	Rate increased
2.	Services provided or rendered by marriage halls, lawns, mandap, pandal and shamiana, including floral and decoration, etc	from 2% to 4%	No change	Rate increased
19.	Technical, scientific and engineering consultants	from 6% to 8%	No change	Rate increased
24.	Commission agent	from 4% to 8%	No change	Rate increased
38.	Cosmetic and plastic surgery and Transplantation	from 4% to 6% or Rs.50,000/- per month, whichever is higher		Tax rates have increased, and a new minimum fixed tax now applies monthly, even if no services are rendered during that period.

S#	Description	Rate	Conditions	Comments
45.	Education Services	0%	Input tax credit/adjustment shall not be admissible	New entry
46.	Services provided or rendered by Hospitals/Institutes and Clinics	0%	Input tax credit/adjustment shall not be admissible	New entry

KHYBER PAKHTUNKHWA SALES TAX ON SERVICES ACT, 2022

DEFINITION
Section 2

“Point of Sale System”

The Khyber Pakhtunkhwa Finance Act, 2026 (KPFA26) has inserted a comprehensive definition of "Point of Sale System" (POS System) in section 2 of the Act. This definition is technology-neutral and extends beyond conventional billing machines to include software, cloud-based systems, digital platforms, applications and other electronic arrangements used for issuing, processing, recording, transmitting or storing invoices and tax receipts.

This legislative update formalizes the Authority's jurisdiction over diverse e-invoicing architectures to minimize regulatory gaps. Consequently, it establishes the groundwork for real-time digital integration and electronic transaction tracking, mirroring enforcement frameworks operational under the Federal Board of Revenue and neighboring provincial tax jurisdictions.

“Tax Fraud”

The definition of tax fraud has been broadened by introducing a new category of prohibited conduct relating to digital invoicing and electronic reporting systems.

Through this amendment, tax fraud would extend beyond conventional acts of suppression or concealment and would expressly include directly or indirectly facilitating the design, development, installation, configuration, integration or manipulation of software, hardware, electronic invoicing systems, Point of Sale Systems or similar digital platforms where such activities result in suppression, concealment, alteration or misreporting of taxable transactions.

The amendment significantly enlarges the scope of potential liability. Responsibility may no longer rest solely upon the registered person issuing invoices but may also extend to software developers, technology vendors, system integrators, consultants and other persons who knowingly facilitate tax evasion through technological means.

STANDARD OR GENERAL TAX RATE APPLICATION CHOICE
Section 18

In KPFA26, omits the proviso to section 18(1) of the Act. Prior to the amendment, companies providing services taxable at a reduced rate were permitted to opt for taxation under the standard-rate regime merely by intimating the Management Committee at least one month in advance, without obtaining its prior approval. This concession was not available to other categories of registered persons, who were required to obtain prior permission before exercising such option.

Consequent upon the omission of the proviso, the special procedural relaxation available to companies has been withdrawn. Accordingly, all registered persons, irrespective of their legal status, are now required to obtain prior permission from the Management Committee before opting to pay sales tax at the standard or general rate and claiming input tax adjustment under the Act.

The amendment does not curtail the substantive right to opt for the standard-rate regime; rather, it establishes a uniform approval mechanism for all taxpayers and enhances the Management Committee's oversight over such elections.

JOINT AND SEVERAL LIABILITY OF PERSON WHERE TAX REMAINED UNPAID
Section 22

The KPFA26, substantially expands the scope of section 22 by retaining the existing provisions as sub-section (1) and inserting a new sub-section (2). While the existing provision continues to impose joint and several liability upon the recipient and provider of taxable services where tax remains unpaid, the newly inserted sub-section extends liability to persons involved in the provision, operation and management of Point of Sale (POS) Systems.

The amendment will apply to any person acting as a “collection agent” or otherwise, including a provider, supplier, integrator, installer, operator or maintainer of a POS System used for recording, storing or reporting taxable services. Such persons may become jointly and severally liable where they:

- aid, abet, facilitate or enable the suppression, concealment, alteration or non-reporting of taxable transactions;
- design, develop, configure, supply, install or manipulate a POS System in a manner that results in, or is intended to result in, non-payment or short payment of sales tax; or
- have knowledge, or reasonable grounds to suspect, that a POS System is being used for such purposes and fail to take reasonable corrective or preventive measures. Indicators expressly identified by the Bill include system-generated anomalies, disabled audit trails, suppression of transaction logs and discrepancies between recorded and reported transactional data.

The amendment represents a significant departure from the traditional approach under sales tax legislation, where liability generally rested upon the registered taxpayer alone. The proposed provision recognises that tax evasion in a digital environment may be facilitated through software developers, system integrators, cloud service providers and other technology vendors responsible for designing or maintaining electronic invoicing systems.

The amendment is also notable because it introduces a "knowledge or reasonable grounds to suspect" standard. Accordingly, liability is not confined to deliberate participation in tax evasion but may also arise where a person becomes aware, or ought reasonably to have become aware, of manipulation or misuse of a POS System and nevertheless fails to take appropriate remedial action. This effectively imposes a statutory duty of care upon technology service providers engaged in the implementation or maintenance of electronic invoicing systems.

It appears that this amendment is one of the most significant anti-evasion measures introduced through the Finance Act. Rather than merely strengthening enforcement against registered persons, it extends statutory accountability to the broader digital ecosystem supporting tax compliance. Software developers, ERP vendors, cloud-based invoicing service providers and POS integrators should review their products and contractual arrangements to ensure that their systems cannot be used to suppress or manipulate taxable transactions.

ASSESSMENT OF TAX AND RECOVERY OF TAX NOT-LEVIED OR SHORT-LEVIED
Section 27(1A)

The KPFA26 substitutes sub-section (1A) of section 27 with a revised provision to strengthen the enforcement framework relating to non-compliance with statutory obligations under the Act.

Under the existing provision, where a registered person failed to furnish a return within the prescribed time, submitted a belated return or tax payment, failed to furnish information, explanations, documents or records in response to notices issued under the Act, or failed to comply with the requirements of sections 34 or 64, the Authority was empowered to pass an order only to the extent of imposing penalty or default surcharge in accordance with sections 53 and 54.

The substituted provision broadens the scope of the Authority's powers by consolidating enforcement action for such defaults under a more comprehensive statutory mechanism. Rather than limiting proceedings to the imposition of penalty or default surcharge. The amendment also reinforces the statutory obligation of taxpayers to comply with notices issued by the Authority and to furnish complete information, explanations, records and documentation within the prescribed time. Nevertheless, it expands the Authority's procedural powers to enforce compliance with statutory obligations and strengthens the legal framework for enforcement proceedings.

ELECTRONIC INTEGRATION, E-INVOICING AND DIGITAL COMPLIANCE
Section 34A

Through KPFA26, a new section 34A has been introduced which empowers the KPK Government to prescribe a comprehensive legal framework for electronic integration, e-invoicing and digital compliance under the Khyber Pakhtunkhwa Sales Tax on Services Act, 2022 (KPSTA).

The provisions authorises the Government to prescribe the requirements, obligations, procedures and mechanisms for the real-time sharing, transmission, integration, recording, verification and monitoring of invoices and transaction data with the Khyber Pakhtunkhwa Revenue Authority (KPRA). It further empowers the Government to specify the technical standards, operational requirements and compliance procedures for implementation of electronic invoicing by any specified service or class of services or by any registered person or class of registered persons.

Unlike the existing provisions of the KPSTA, which primarily regulate the issuance and maintenance of tax invoices, the newly inserted section creates the statutory basis for a technology-driven compliance regime under which invoice data may be transmitted directly to the Authority in real time or through electronically integrated systems.

The amendment is intentionally drafted in broad terms, thereby enabling the Government to implement e-invoicing requirements progressively through subordinate legislation without requiring further amendments to the Act. Consequently, different sectors or categories of taxpayers may be brought within the electronic integration framework in phases, depending upon the Government's implementation strategy.

The insertion of section 34A should also be read in conjunction with the simultaneous amendments introducing the statutory definition of “Point of Sale System” in section 2, expanding the definition of “tax fraud”, and imposing “joint and several liability” upon POS system providers under section 22. Collectively, these amendments establish a comprehensive legislative framework aimed at ensuring the integrity, transparency and real-time reporting of taxable transactions through digital platforms.

Although the provision itself does not immediately impose mandatory e-invoicing on all taxpayers, it provides the necessary statutory authority for the Government to notify such requirements through rules or notifications. Businesses should therefore treat this amendment as preparatory legislation for the phased implementation of electronic invoicing and digital reporting systems in Khyber Pakhtunkhwa.

OFFENCES AND PENALTIES
Section 53

Through KPFA26, the statutory penal framework under Section 53 has been completely overhauled and substituted with a significantly stricter regime.

This amendment has two principal implications:

- ✓ Higher Financial Exposure: The monetary rates for existing penalties have been substantially increased.
- ✓ Broader Scope of Offences: The list of non-compliance instances where penalties can be legally imposed has been expanded.

Considering this aggressive enforcement stance by the KPRA , taxpayers are strongly advised to review their current filing, recording, and digital integration workflows to mitigate any operational or financial risk.

OFFICER TO HAVE ACCESS TO PREMISES, STOCKS AND RECORDS
Section 60

There are two significant amendments that have been made in section 60 of KPSTA. On the one hand, the amendment enhances procedural safeguards for taxpayers during inspection proceedings, while on the other, it expands the statutory scope of the Authority's powers to inspect electronic records and digital storage facilities.

Furnishing of Approval Prior to Inspection

A new proviso is proposed to be inserted in sub-section (1), requiring the authorized officer, before or at the time of exercising powers under section 60, to furnish a copy of the approval granted by the Management Committee or the Collector, as the case may be, to the registered person or any person present at the business premises. The amendment further requires the authorized officer to submit a report to the approving authority after undertaking such action.

Clarification of the Scope of Inspection Powers

An Explanation after sub-section (4) has been added which clarifies the extent of the Authority's inspection powers. The Explanation expressly provides that the powers of access, inspection, examination and taking custody of records or documents shall extend to storage facilities, electronic devices, digital media, compartments, shelves and any other place or article within the business premises where records, documents, invoices or data maintained under the Act are reasonably believed to be kept or concealed.

RECOVERY OF AREARS
Section 74

The KPFA26 substitutes clause (c) of sub-section (1) of section 74 to strengthen the recovery mechanism available to the KPRA for collection of outstanding tax arrears through attachment of bank accounts.

Before Enactment	After Enactment	Legislative Effect
No express clarification regarding bank-wide applicability	Notice is binding on the bank as a whole	Removes disputes based on branch location
Maximum personal penalty of Rs.100,000	Rs.500,000 or 5% of recoverable tax, whichever is higher	Significantly strengthens deterrence
Recovery power already existed	Recovery power retained and clarified	Improves operational effectiveness rather than creating a new power

The amendment has important implications for both taxpayers and banking institutions.

Taxpayers should be aware that recovery proceedings may now be implemented more efficiently, particularly where accounts are maintained outside Khyber Pakhtunkhwa through branches of the same banking institution. Accordingly, taxpayers intending to challenge disputed tax demands should seek appropriate appellate relief or suspension of recovery before attachment proceedings are initiated.

Banks should review their internal compliance procedures to ensure that recovery notices received from KPRA are immediately communicated across their branch network and implemented without unnecessary delay. Branch managers and other responsible officers should exercise appropriate diligence, as deliberate non-compliance or collusion may now result in substantially higher personal financial exposure.

SECOND SCHEDULE- Part-II (Reduced Rate)
Annual Development Project (Serial No. 44)

The KPFA26 revises the reduced-rate regime applicable to specified construction and development projects by prescribing a 4% sales tax rate for projects approved on or after 1 July 2025. It also introduces a specific exemption for qualifying social welfare projects designed for poverty alleviation, women's and child welfare, persons with disabilities, skill development, employment generation, food or cash assistance and shelter homes shall be excluded from the purview of sales tax.

The KPFA26 provides two important clarifications:

- First, ongoing projects approved between 1 July 2021 and 30 June 2025 will continue to be taxed at 2%, even where the contract value changes because of revisions, escalation or supplementary work, subject to the stated conditions.

- Secondly, the 2% rate will not apply where the increase in contract value results from an upward revision in the applicable Market Rate System (MRS), Schedule of Rates (SOR), Composite Schedule of Rates (CSR) or another Government-notified rate forming the basis of the original contract.

The amendment provides certainty for ongoing projects while applying the revised rate prospectively to newly approved projects. Contractors and project owners should review project approval dates and contract documentation carefully to determine the applicable tax treatment.

Virtual Asset and Digital Asset Platform Services
(Serial No. 45)

KPFA26 introduces a new taxable category covering services rendered through digital platforms, exchanges, applications or interfaces facilitating transactions in virtual assets, digital assets, financial instruments, commodities, securities and derivatives. Such services are taxable at 5% without input tax adjustment whether provided by resident or non-resident.

It specifically encompasses platform access, order matching, trade execution, settlement facilitation, wallet interfaces, custodial and non-custodial holding services and other ancillary services.

The expressions "virtual asset" and "virtual asset services" would carry the meanings assigned under the proposed Virtual Assets Act, 2026 or as otherwise defined by the Management Committee as per provided Explanation.

Businesses engaged in crypto-related services, tokenized asset platforms, online trading exchanges and fintech operations are likely to fall within the scope of the aforesaid category of services.

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