

# AN INSIGHT ON ECONOMIC SURVEY 2025-26 AND FINANCE BILL 2026



# PREAMBLE

On June 11, 2026, the Finance Minister, Mr. Muhammad Aurangzeb, officially unveiled the Pakistan Economic Survey 2025–26, presenting key economic indicators and evaluating the performance of various sectors during FY 2025–26.

The following day, on June 12, 2026, the Finance Minister presented the Federal Budget 2026–27 in the National Assembly, outlining a total outlay of Rs. 18.8 trillion with an ambitious FBR tax collection target of Rs. 15,264 billion. This budget builds on the resilience demonstrated by Pakistan's economy, which has achieved stability through contained inflation, rising reserves, and a current account surplus. It is widely viewed as a forward-looking framework aimed at consolidating fiscal discipline while promoting sustainable, inclusive, and private-sector-led growth.

ICMA International is pleased to present this Insight on the Economic Survey 2025–26 and Finance Bill 2026, a comprehensive resource designed for its members, students, and the broader stakeholder community. This publication draws upon the Economic Survey, the Budget Speech, and the Finance Bill 2026 issued by the Ministry of Finance, Government of Pakistan. The insights contained in this document represent the authors' interpretations, based on their understanding and experience. These cannot be treated as a substitute for relevant laws and must not be used as the basis for any decision.

13th June 2026



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# From the Desk of President

I would like to congratulate the Federal Government on presenting a transformative and forward-looking Budget for FY 2026–27. This budget arrives at a time when Pakistan's economy has demonstrated remarkable resilience and recovery. According to the Pakistan Economic Survey 2025–26, GDP growth has reached 3.70 percent, inflation has been contained, foreign exchange reserves have risen to multi-year highs, and the current account has moved into surplus. This budget builds on that hard-won stability and charts a clear path toward sustainable, inclusive, and private-sector-led growth.

The total budget outlay of Rs. 18.8 trillion, with an ambitious FBR tax collection target of Rs. 15,264 billion, signals the government's firm resolve to broaden the tax base, enhance documentation, and improve compliance through technology-driven reforms rather than merely increasing the burden on existing taxpayers.

I particularly commend the government for providing meaningful relief to the salaried class. The restructuring of income tax slabs, the reduction of the maximum tax rate from 35 percent for income up to Rs. 4.1 million to 7 million, and the complete abolition of Section 7E (deemed income tax on immovable property) are welcome steps. The reduction in advance tax on the sale and purchase of immovable property to flat rates of 2.75 percent and 1.5 percent respectively, alongwith the rationalization of super tax (abolished for incomes up to Rs. 500 million and reduced from 10% to 8% beyond that), will encourage documentation and investment in the real estate sector.

The budget also demonstrates a strong commitment to export-led growth and the digital economy. The extension of the 0.25 percent concessionary tax rate for IT and IT-enabled services exports until Tax Year 2029, the reduction of withholding tax on



Azeem Hussain Siddiqui  
President ICMA

export proceeds from 2 percent to 1.25 percent, and the introduction of a 10 percent tax credit for integration with FBR's computerized systems are progressive measures that will enhance competitiveness and compliance. The establishment of the National Faceless Centre, the introduction of Algorithmic Settlement Mechanisms, and the mandatory electronic invoicing and production monitoring systems will fundamentally reshape tax administration, reduce taxpayer harassment, and curb corruption.

However, while the budget includes several positive steps, there remain areas requiring continued focus. The taxation of wholesale, retail, and agriculture sectors despite some measures such as the introduction of a fixed tax scheme for small retailers under Section 99B and the expansion of withholding tax on purchases from unregistered persons still requires deeper structural reforms to fully tap their potential. The education sector, particularly higher education, has seen a reduction in PSDP allocations compared to previous years. With over 26 million out-of-school children and a literacy rate of 63 percent according to the 2025 Population and Housing Census, increased investment in education is essential to develop a skilled, future-ready workforce. The government must prioritize this sector to drive sustainable national progress.

The budget's emphasis on fiscal consolidation is evident, with a projected budget deficit of 3.6 percent of GDP and a primary surplus of 2 percent of GDP. The allocation of Rs. 3,000 billion for defense, Rs. 1,000 billion for the Federal PSDP, Rs. 2,224 billion for Provincial ADPs, and Rs. 844.78 billion for BISP reflects a balanced approach between national security, infrastructure development, and social protection. The government's continued focus on privatization, energy sector reforms, and debt management is also commendable.

In summary, this budget lays a strong foundation for sustainable and inclusive growth. It prioritizes documentation, digitalization, and compliance while providing targeted relief to the salaried class, exporters, and small businesses. I hope the government will continue to engage with professional bodies, academia, and stakeholders to address remaining structural challenges—particularly in education, agriculture, and retail to ensure that the benefits of economic stability reach every citizen.

In the end, I would like to extend my heartfelt gratitude to Mr. Mazhar Saleem Shah, FCMA, Vice Chairman of Karachi Branch Council (KBC); Mr. Muhammad Asif, FCMA; and Mr. Asif Riffat for their valuable contributions to the compilation of this document.

# PAKISTAN ECONOMIC SURVEY 2025 – 26

## KEY HIGHLIGHTS





# GROWTH AND INVESTMENT

[PERIOD: FY2026]



- **Real GDP Growth:** 3.70% in FY 2026
- **GDP (at current market price):**  
Rs. 126.9 trillion FY 2026 [2025: Rs. 114 trillion]; 11.25% growth
- **Per capita income:** US \$1,901 [2025: US \$1,751]  
*Reason: 1) Exchange rate remained stable 2) Continued stabilization of macroeconomic indicators*
- **Investment to GDP ratio:** 14.38% [2025: 14.42%]  
*Reasons: 1) Contained inflationary pressures 2) Economic rebalancing.*
- **Agriculture sector growth:** 2.89%  
*Reasons: 1) Underlying resilience 2) Impact of continued policy support.*
- **Industrial sector growth:** 3.51%  
*Reasons: 1) Growth in agriculture, forestry & fishing 2) OGDC-led mining sector expansion*
- **Services sector growth:** 4.09%  
*Reasons: 1) Trade sector recovery 2) ICT sector growth*



# AGRICULTURE SECTOR

[PERIOD: FY2026]



**Agriculture Sector growth: 2.89%**

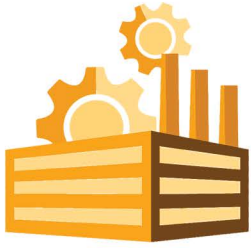
## **Crops production in FY2026**

- **COTTON:** 7.05 million bales; (0.5%) decrease from last year
- **RICE:** 9.99 million tonnes; (2.8%) increase from last year
- **SUGARCANE:** 89.45 million tonnes; (6.2%) increase from last year
- **WHEAT:** 29.61 million tonnes; (4.3%) increase from last year
- **MAIZE:** 8.79 million tonnes; (2.7%) decrease from last year
- **OTHER CROPS:** 2.43 % growth witnessed

**Livestock growth: 3.75%** [2025: 2.95%] – share in GDP: 14.64%

**Forestry sector growth: 2.02%** [2025: 2.88%] – share in GDP: 0.53%

**Fisheries sector growth: 1.66%** [2025: 1.43%] – share in GDP: 0.30%



# MANUFACTURING SECTOR

[PERIOD: FY2026]



**Manufacturing Sector Growth:** 6.6% increase during FY2026 [2025: 2%]

**LSM Sector Growth:** 6.5% increase during Jul-Mar FY2026.

**Sectors-Wise Growth/Decline:**

- **COKE & PETROLEUM PRODUCTS:** 10.9%
- **FOOD:** 9.8%
- **APPAREL:** 6.6%
- **TEXTILE:** 0.7%
- **MINING & QUARRYING:** 0.4%
- **PHARMACEUTICALS:** -5.1%
- **CHEMICALS:** -1.4%



# MINING AND QUARRYING SECTOR

[PERIOD: JULY TO MARCH FY2026]



M&Q Sector growth: 0.4% marginal growth during FY2026 [2025 contracted: 2%]

## Minerals with Positive growth:

- MAGNESITE: 164.8%
- ROCK SALT: 109.9%
- GYPSUM: 67%
- IRON ORE: 41.5%
- OCHER: 31.7%
- LIMESTONE: 25.1%
- COAL: 6.5%

## Minerals with Negative growth:

- SULPHUR: 68%
- CHROMITE: 51.3%
- SOAP STONE: 24.7%
- BARYTES: 20.7%
- NATURAL GAS: 3.7%
- CRUDE OIL: 0.6%



# FISCAL DEVELOPMENT

[PERIOD: JULY TO MARCH FY2026]



**Fiscal Deficit:** 0.7% of GDP [2025: 2.6% of GDP]

**Primary Balance:** Surplus of 3.2% of GDP [2025: 3% of GDP]

**Total Revenues:** Rs. 14,799.3 billion [2025: Rs 13,367 billion]; 10.7% growth

**Total Tax Collection:** Rs. 10,166.6 billion [2025: Rs. 9,137.3 billion]; 11.3% growth

**FBR Tax Collection:** Rs. 10,262.6 billion from Jul-Apr 2026 [2025: Rs. 9,300.2 billion]; 10.3% growth

**Non-Tax Revenues:** Rs 4,632.7 billion [2025: Rs. 4,229.7 billion]; 9.5% growth

**Total Expenditures:** Rs 15,655.6 billion [2025: Rs. 16,337 billion]; 4.2% **reduce**

**Current Expenditures:** Rs 14,267.4 billion [2025: Rs. 14,588.2 billion]; 2.2% **decline**

**Federal PSDP Spending:** Rs. 1,947.1 billion [2025: Rs. 1,535.6 billion]; 26.8% growth



# MONEY & CREDIT

[PERIOD: JULY TO MARCH FY2026]



**Broad Money (M2):** Increased by Rs. 2,740.6 billion [2025: Rs 1,604.1 billion increased]

**Net Foreign Assets (NFA):** Increased by Rs. 816.7 billion [2025: Rs. 1,162.7 billion increased]

**Net Domestic Assets (NDA):** Increased by Rs.1,924 billion [2025: Rs.441.4 billion increased]

**Currency in Circulation (CiC):** Increased by Rs 1,294 billion [2025: Increased by Rs. 1,108 billion]

**Consumer Financing:** Net increase of Rs. 146.2 billion [2025: Rs. 71.4 billion increased]

**Bank Deposits:** Increased by Rs. 1,456 billion [2025: Rs. 490 billion]

**Private Sector Credit:** Rs 934.1 billion [2025: Rs. 767.6 billion increased]



# CAPITAL MARKETS AND CORPORATE SECTOR

[PERIOD: JULY TO MARCH FY2026]



**KSE-100 index:** 18.4 % growth from 125,627 to 148,743 points.

**Market capitalization:** Rs 15,237 billion on 30th June 2025 [Rs. 16,534.35 billion on 31st March 2026]; 8.5% growth

**Number of Listed companies at PSX:** 536 as of March 31, 2026



# INFLATION

[PERIOD: JULY-APRIL FY2026]



**Headline CPI National Inflation:** 6.2% increased slightly from 4.7% in the same period last year

**Urban Food Inflation:** Increased by 3.6 % against 1.1% same period last year

**Urban Non-Food Inflation:** Decreased by 8.0% against 9.1% same period last year

**Rural Food Inflation:** Increased 4.7 % against the -1.5% same period last year

**Rural Non-Food Inflation:** Decreased by 7.4% against the rise of 8.3% same period last year

**Sensitive Price Index (SPI):** Decreased by 4.1% against 4.9% same period last year.

**Wholesale Price Index (WPI):** Increase by 2.3% against 2.2% same period last year



# TRADE AND PAYMENTS

[PERIOD: JULY-MARCH FY2026]



**Trade Deficit:** US\$ 27.9 billion [2025: US\$ 22.7 billion]

**Exports:** US\$ 22.7 billion; Declined by 8%

**Imports:** US\$ 50.7 billion; Increased by 6.9%

**Current Account Surplus:** US\$ 72 million [2025: US\$ 1.7 billion]

**Services Account Deficit:** US\$ 2.1 billion [2025: US\$ 2.3 billion]; 8.7% decreased

**Primary Income Account Deficit:** US\$ 6.4 billion [2025: US\$ 6.76 billion]; 5.4% narrowed.

**Workers' Remittances:** US\$ 30.3 billion [2025: US\$ 28.03 billion]; 8.2% growth

**Net FDI Inflows:** US\$ 1.4 billion [2025: US\$ 1.9 billion]

**FX Reserves:** US\$ 22.6 billion as of 15th May 2026

**PKR Stability:** Remained stable at an average rate of Rs. 281.1/US\$



# PUBLIC DEBT

[JUL-MAR 2025-26]



**Total Public Debt:** Rs. 83,285 billion

**Domestic Debt:** Rs. 57,566 billion

**External Public Debt:** Rs. 25,720 billion or US\$ 92.2 billion

**Interest expense on Public Debt:** Rs. 4,947 billion (23% decline on YoY)

*Comprising:*

- **Domestic Debt:** Rs 4,287 billion
- **External Debt:** Rs. 660 billion

**Total External Budgetary Inflows:** US\$ 6.1 billion

*Comprising:*

- **Multilateral Sources:** US\$ 2.7 billion
- **Bilateral Partners:** US\$ 1.1 billion
- **Naya Pakistan Certificates:** US\$ 2.0 billion
- **Commercial Banks:** US\$ 0.2 billion

**IMF Extended Fund Facility for Government:** US\$ 1.2 billion



# EDUCATION

[JUL-MAR 2025-26]



## Public Expenditure on Education:

0.8 % of GDP during FY 2025.

## Literacy rate:

The rate is 63% in FY2025

**Male Literacy Rate:** 73%

**Female Literacy Rate:** 54%

**Urban Literacy Rate:** 74%

**Rural Literacy Rate:** 55%

## Provincial Literacy Rate:

**Punjab:** 68%

**Sindh:** 58%

**Khyber Pakhtunkhwa:** 58%

**Balochistan:** 49%

## Out of School Children

[According to HIES 2024-25]

**Out of School Children (OOSC):** 28%

**OOSC Male:** 25%

**OOSC Female:** 31%

**OOSC Punjab:** 21%

**OOSC KP:** 28%

**OOSC Sindh:** 39%

**OOSC Balochistan:** 45%



# HEALTH AND NUTRITION

[PERIOD: 2025-26]



**Public Health Expenditures:** Rs. 942.2 billion FY2025 (0.8% of GDP) against Rs 924.9 billion last year

**Health Sector PSDP Allocation:** Rs. 19.376 billion FY2026

**No. of Hospitals:** 1,934 (2025P)

**Basic Health Units:** 5,746 (2025P)

**Infant Mortality Rate:** 47 (Per 1,000 Births) [2025]

**Life Expectancy:** 67.8% FY2024

## No. of Health Manpower

[Period:2025]

**Registered Doctors:** 336,582

**Dentists:** 42,118

**Nurses:** 138,391

**Midwives:** 46,801

**Lady Health Workers:** 29,163



# POPULATION LABOUR FORCE AND EMPLOYMENT

[PERIOD: ACCORDING TO THE NATIONAL  
INSTITUTE OF POPULATION STUDIES,  
TRAINING AND RESEARCH]



**Population:** 252.09 million

**Population growth:** 2.07%

**Male Population\*:** 129.64 million (51.43% share in total population)

**Female Population\*:** 122.45 million (48.57% share)

**Young Population (15-29 Aged):** 66.96 million (26.56% of total population)

**Working-age group (15-64 Aged):** 143.44 million (56.9%)

## Province-Wise Population

**Punjab:** 133.36 million

**Sindh:** 58.27 million

**Khyber Pakhtunkhwa:** 42.68 million

**Balochistan:** 15.21 million

**Other regions:** 2.57 million

## Labour Force and Employment

**Total Labour Force:** 83.1 million workers

**Employed Labour Force:** 77.2 million workers

**Unemployed Rate:** 5.9 million workers, 7.1 %

**Workers Regd. For Employment Abroad:** 762,499 (2025)

**Overseas Employment Promoters (OEPs):** 2,697 operational license holders

**Prime Minister's Youth Laptop Scheme:** 72,000 Laptop Distributed

**Prime Minister's Youth Business & Agriculture Loan Scheme:** Rs. 58 billion

**\*Disclaimer:** the shares of male and female population in total population are calculated



# TRANSPORT AND COMMUNICATION

[PERIOD: JULY-MAR FY2026]



**PSDP Allocation for NHA Projects:** Rs 226.98 billion for 71 NHA projects

**NHA's Network Length:** 14,480 Km

**Pakistan Railways Passenger Traffic:** 24.16 million

**Pak Railways Freight Traffic:** 4,839 tonne Km million

**Cargo Handling at Ports:** 78.452 million tonne

**Pakistan Post's Network:** 9,695 offices

**PEMRA Total Channel Licenced TV Stations:** 142 Units



# ENERGY

[PERIOD: JULY-MAR FY2026]



## Total Installed Capacity: 49,651 MW

- **Hydel:** 23.4%
- **Thermal:** 49.2%
- **Nuclear:** 7.1%
- **Renewables:** 20.3%

## Total Electricity Generation: 92,835 GWh

- **Hydel:** 30.1%
- **Thermal:** 46.9%
- **Nuclear:** 18.5%
- **Renewables:** 4.5%

## Total Electricity Consumption: 83,143 GWh

- **Household:** 47.48%
- **Industrial:** 31.52%
- **Agriculture:** 3.17%
- **Commercial:** 8.47%
- **Others:** 9.36%

**Total Consumption of Gas:** 2,929 MMCFD

**Total Consumption of Petroleum Products:** 13.64 million tonnes

**Total Consumption of Coal:** 21.41 Metric tonnes

**Total Imports of Petroleum Products:** 13,641.7 thousand tonnes



# IT & TELECOM

[PERIOD: JULY-MAR FY2026]



**Telecom Revenues:** Rs. 837 billion

**Trade Surplus of IT & Telecom:** US\$ 2.911 billion

**IT Export:** US\$ 3.38 billion; 19.7% growth

**Freelancers' Remittances:** US\$ 856.3 million

**Broad Band Subscribers:** 161 million Users

**Total Telecom Subscribers:** 207.2 million users



# SOCIAL PROTECTION

[PERIOD: JULY-MAR FY2026]

**BISP Allocations:** Rs. 722.49 billion

**BISP Beneficiaries\*:** 16.79 million  
(10.20 million under UCT and 6.59 million in CCT)

**BISP Disbursement:** Rs. 540.27 billion

**PPAF Loan Disbursement:** Rs 2.75 billion

**Micro Finance (Active Borrower):** 7.54 million

**Total Interest Free Loan (IFL) Disbursed:** Rs. 5.96 billion

## Comprising

**Punjab\*\*:** Rs. 3,625.07 million (60.80% in total IFL)

**Sindh\*\*:** Rs. 1,139.44 million (19.11% in total IFL)

**Khyber Pakhtunkhwa\*\*:** Rs. 806.81 million (13.53% in total IFL)

**Balochistan\*\*:** Rs. 253.12 million (4.25% in total IFL)

**Azad Jammu & Kashmir\*\*:** Rs. 62.69 million (1.05% in total IFL)

**Gilgit-Baltistan\*\*:** Rs. 74.72 million (1.25% in total IFL)

## Other Social Support Initiatives:

**Zakat Disbursed:** Rs. 11.77 billion

**EOBI Collection:** Rs. 63.15 billion

**Pakistan Bait-ul-Mal (PBM) disbursed:** Rs. 6.65 billion

**The Employees' Old-Age Benefits Institution (EOBI):** Rs. 63.15 billion

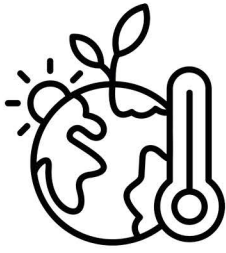
**The Workers' Welfare Fund (WWF) disbursed:** Rs. 6.83 billion

**Expenditure under the Poverty Reduction Strategy Paper (PRSP):** Rs. 4.66 trillion



**\*Disclaimer:** the total valued has been calculated by adding the UCT and CCT beneficiaries.

**\*\*Disclaimer:** the shares are calculated



# CLIMATE CHANGE

[PERIOD: FY2026]



**Average Temperature:** 23.9°C (2nd Warmest Year in 65 years in 2025)

**Rainfall levels:** 3% below the average.

**Climate and Disaster Resilience Enhancement Programme (CDREP) Subprogram-II under Implementation:** Allocation US\$ 500 million

**Green Climate Fund Regional Programme G2F Approved:** Allocation US\$ 27.5 million

**Four Key Reforms in IMF Resilience and Sustainability Facility (RSF) progress:**

- Introduction of carbon levy
- Adaptation electric vehicle policy framework
- Issuance of climate related financial risk management guidelines
- Operationalization of green taxonomy & ESG disclosure guidelines

# SALIENT FEATURES OF FEDERAL BUDGET 2026-27

## Estimated Targets in Budget for FY 2026-27

1. **Total Budget Outlay:** Rs. 18.8 trillion
2. **GDP Growth:** 4%
3. **Tax to GDP\*:** 10.63%
4. **Inflation:** 7%
5. **Tax collection:** Rs. 15,264 billion
6. **Non-Tax Revenue:** Rs. 5,336 billion
7. **Total Revenue:** Rs. 20,600 billion
8. **Total Federal Expenditure:** Rs. 18,771
9. **Current Expenditure:** Rs. 17,495
10. **Budget Deficit:** 3.6% of GDP
11. **Primary Surplus Projected:** 2% of GDP
12. **Privatization Proceeds:** Rs. 161 billion

## Budget Allocations for FY 2026-27

1. **Defence:** Rs. 3,000 billion
2. **Federal PSDP:** Rs. 1,000 billion
3. **Provincial ADPs:** Rs. 2,224 billion
4. **Benazir Income Support Program (BISP):** Rs. 844.78 billion

\*Disclaimer: the value of tax to GDP ratio has been calculated.

# Budget at a Glance

	(Rs. Billion)
<b>RESOURCES</b>	
Tax Revenue (FBR)	15,264
Non-Tax Revenue	5,336
<b>Gross Revenue</b>	<b>20,600</b>
Less: Share of Provinces	8,848
<b>Net Revenue</b>	<b>11,751</b>
Non-Bank Borrowings	2,034
Bank Borrowings	4,012
Net External Receipts	813
Privatization Proceeds	161
<b>TOTAL</b>	<b>18,771</b>
	(Rs. Billion)
<b>EXPENDITURE</b>	
Interest Payments	8,054
Pension	1,169
Defense Affairs	3,000
Grants and Transfers	2,680
Subsidies	1,091
Running of Civil Govt.	1,071
Provision for Emergency	430
<b>Current</b>	<b>17,495</b>
Federal PSDP	1,000
Net Lending	276
<b>Development</b>	<b>1,276</b>
<b>TOTAL</b>	<b>18,771</b>

# Relief Measures in Budget 2026-27

## Government Employees

- 7% increase in salaries (Grade 1 to 22).
- 7% increase in pensions for retired employees.
- Minimum wage has been increased by 10%.

## Salaried Individuals

Taxable Income	Rate of Tax
Where taxable income does not exceed Rs. 600,000/-	0%
Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000	1% of the amount exceeding Rs. 600,000/-
Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000	Rs. 6,000 + 11% of the amount exceeding Rs. 1,200,000/-
Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000	Rs. 116,000 + 20% of the amount exceeding Rs. 2,200,000/-
Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000	Rs. 316,000 + 25% of the amount exceeding Rs. 3,200,000/-
Where taxable income exceeds Rs. 4,100,000/- but does not exceed Rs. 5,600,000	Rs. 541,000 + 29% of the amount exceeding Rs. 4,100,000/-
Where taxable income exceeds Rs. 5,600,000/- but does not exceed Rs. 7,000,000	Rs. 976,000 + 32% of the amount exceeding Rs. 5,600,000/-
Where taxable income exceeds Rs. 7,000,000/-	Rs. 1,424,000 + 35% of the amount exceeding Rs. 7,000,000/-

## Real Estate / Property Owners

- Tax on deemed income from immovable property (Section 7E) abolished.
- Advance tax on sale of immovable property reduced from 4.5-5.5% to flat 2.75%.
- Advance tax on purchase of immovable property reduced from 1.5-2.5% to flat 1.25%.
- Cost basis for inherited property clarified as fair market value on date of death (reduces future capital gains tax).

## Corporate Sector / Super Tax

- Super tax abolished for persons having income up to Rs. 500 million.
- Super tax rate reduced from 10% to 8% for persons having income above Rs. 500 million.

## Exporters Foreign Remittances & Travel, and Small Traders & Retailers

- Tax on export proceeds reduced from 2% to 1.25%.
- Concessionary tax rate of 0.25% for IT and IT-enabled services exporters extended from 2026 to Tax Year 2029.
- Advance tax on foreign remittances through debit/credit/prepaid cards reduced from 5% to 0.5%.
- Advance tax on foreign TV plays and advertisements withdrawn.
- Federal Excise Duty on foreign travel reduced.
- Streamlining the definition of Tier-1 retailers by including only retailers with an annual turnover of Rs. 200 million or more in the Tier-1 category.
- Turnover threshold for withholding tax exemption for small traders increased from Rs. 100 million to Rs. 200 million.

## Tax Credits & Digital Incentives

- Tax credit equal to 10% of investment made in electronic resources for integration with FBR's computerized systems.
- Tax deducted on e-commerce transactions adjustable for sellers having turnover exceeding Rs. 200 million.

## Health & Pharmaceutical

- Contraceptives exempt from sales tax.
- Female sanitary pads/tampons exempt from sales tax.
- Critical cancer-related Active Pharmaceutical Ingredients exempt from customs duty.
- Substances registered as drugs under Drugs Act subject to sales tax at 1% (reduced rate).

## Electric Vehicles & Green Energy

- Extension in exemption on import of CKD for electric vehicles till 30.06.2027.
- Electric buses, electric trucks, and electric prime movers at 1% customs duty.

## Agriculture & Farmers

- Exemption of CD, ACD and RD on import of agricultural machinery.

## Charitable & Welfare Organizations

- Income tax exemption extended to Pakistan Red Crescent Society, Shaheen Foundation (PAF), Bahria Foundation, Dawat-e-Hadiya, and Sindh Institute of Urology and Transplantation (SIUT).
- Automatic issuance of exemption certificates for whole financial year to funds and eligible non-profit organizations.

## Construction Sector

- Customs duty on specialized construction-related vehicles reduced from 20% to 10%.

## Miscellaneous

- Magazines exempt from sales tax.
- Newsprint, books exempt from sales tax (excluding brochures, leaflets, directories).
- FED on import of acetate tow reduced from Rs. 44,000 to Rs. 10,000.
- FED removed on WHO standard compliant sports/electrolyte replenishing beverages.
- Sales tax exemption to boost strategic investment in shipping.
- Sales tax exemption on import of capital goods for upgradation and overhaul of existing refineries.
- Income of Special Purpose Vehicles (SPVs) exempted for asset-backed securitization.
- Capital Value Tax abolished on foreign movable and immovable assets of resident Pakistanis.

# Restrictions on Certain Persons / Segments in Budget 2026–27

- Terminal operators penalty for failing to honor Delay Detention Certificates increased to Rs. 10 million.
- Unauthorized removal or misappropriation of goods penalized under a new clause.
- Definition of removal expanded to include acts facilitating smuggling.

Special Judges empowered to freeze assets of accused persons in illegal fund transfers.

- Steel sector taxed on the basis of monthly electricity units consumed.
- Stronger provisions introduced to discourage fake or flying invoices.
- Social media influencers and digital content creators subject to withholding tax on revenues from platforms such as YouTube Facebook Instagram and TikTok.
- Distributors and wholesalers minimum tax rate increased to 0.5 percent conditional on documentation.
- Non ATL persons capital gains on listed securities now subject to enhanced tax rates.
- Counterfeit goods seizure and destruction provisions strengthened for cigarettes beverages and other excisable goods without tax stamps or barcodes.
- Failure to install electronic resource Rs. 1 million (first default) and Rs. 2 million (subsequent default)
- Integrated organization fails data sharing, principal officer penalty Rs. 500,000 (first default) and Rs. 1 million (subsequent default).

# Significant Amendments through Finance Bill 2026

## Significant Amendments in the Income Tax Ordinance, 2001

### Concept of “Faceless Assessment” introduced - [Section 2(5)]

The Finance Bill 2026 (“the Bill”) has proposed to include the “faceless assessment” in the definition of “assessment”.

### Concept of “authorised shipping agent” introduced in relation to non-resident ship owner or charterer - [Section 2(6A) / Section 143 / Section 172]

The Bill has proposed to introduce a new concept of “authorised shipping agent” being a person in Pakistan, who is authorised, expressly or impliedly, by a nonresident ship owner, charterer or operator to act on its behalf in respect of a vessel or voyage, along with his responsibilities.

Amongst other responsibilities, the “authorised shipping agent” shall also be responsible for furnishing the return under section 143 of the Income Tax Ordinance 2001 (“the Ordinance”), in respect of such vessel or voyage and such person shall, for the purposes of the Ordinance be treated as the representative of the non-resident u/s 172 of the Ordinance.

The Bill has also proposed certain changes to incorporate the concept of “authorised shipping agent” as defined in Section 2(6A), in Section 143 of the Ordinance.

### Definition of “fast moving consumer goods” deleted - [Section 2(22A)]

The Bill has proposed to delete the definition of “fast moving consumer goods” by deleting Section 2(22A) of the Ordinance.

### Definition of “Special Purpose Vehicle” deleted - [Section 2(60)]

The Bill has proposed to delete the definition of “Special Purpose Vehicle” by deleting Section 2(60) of the Ordinance.

### Surcharge for individual deriving income chargeable under the head “Salaried” deleted - [Section 4AB]

Finance Bill has proposed to delete the surcharge of 9% of the income tax imposed for “salaried individuals”, where taxable income exceeds Rs. 10,000,000/-.

### Rate of tax on income chargeable under the head “salary” exceeding 75% of taxable income - [First Schedule Part I Division I Clause (2)]

The Bill has introduced the following new tax rates on income from salary, i.e. where salary income exceeds 75% of taxable income:

S#	Taxable Income	Existing Rate of Tax	Proposed Rate of Tax
(1)	(2)	(3)	(4)
1.	Where taxable income does not exceed Rs. 600,000/-	0%	0%
2.	Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000/-	1% of the amount exceeding Rs. 600,000/-	1% of the amount exceeding Rs. 600,000/-
3.	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-	Rs. 6,000/- + 11% of the amount exceeding Rs. 1,200,000/-	Rs. 6,000/- + 11% of the amount exceeding Rs. 1,200,000/-
4.	Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-	Rs. 116,000/- + 23% of the amount exceeding Rs. 2,200,000/-	Rs. 116,000/- + 20% of the amount exceeding Rs. 2,200,000/-
5.	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-	Rs. 346,000/- + 30% of the amount exceeding Rs. 3,200,000/-	Rs. 316,000/- + 25% of the amount exceeding Rs. 3,200,000/-
6.	Where taxable income exceeds Rs. 4,100,000/- but does not exceed Rs. 5,600,000/-	Rs. 616,000/- + 35% of the amount exceeding Rs. 4,100,000/-	Rs. 541,000/- + 29% of the amount exceeding Rs. 4,100,000/-
7.	Where taxable income exceeds Rs. 5,600,000/- but does not exceed Rs. 7,000,000/-	Rs. 616,000/- + 35% of the amount exceeding Rs. 4,100,000/-	Rs. 976,000 + 32% of the amount exceeding Rs. 5,600,000/-
8.	Where taxable income exceeds Rs. 7,000,000/-	Rs. 616,000/- + 35% of the amount exceeding Rs. 4,100,000/-	Rs. 1,424,000 + 35% of the amount exceeding Rs. 7,000,000/-

**The impact of changes in tax slab rates and surcharge on salaried individuals - [Section 4AB / First Schedule Part I Division I Clause (2)]**

The impact of the above changes of tax rates and changes in surcharge u/s 4AB of the Ordinance, on tax incidence of the salaried individuals for Tax Year 2027 is tabulated in comparison to Tax Year 2026 below:

Monthly taxable Salary	Annual taxable Salary	2026 Tax charge	2026 eff. tax rate	2027 Tax charge	2027 eff. tax rate	Increase / (De-crease) in tax charge	Increase / (De-crease) %
50,000	600,000	-	-	-	-	-	-
66,667	800,000	2,000	0.25%	2,000	0.25%	-	-
83,333	1,000,000	4,000	0.40%	4,000	0.40%	-	-
100,000	1,200,000	6,000	0.50%	6,000	0.50%	-	-
125,000	1,500,000	39,000	2.60%	39,000	2.60%	-	-
150,000	1,800,000	72,000	4.00%	72,000	4.00%	-	-
175,000	2,100,000	105,000	5.00%	105,000	5.00%	-	-
200,000	2,400,000	162,000	6.75%	156,000	6.50%	(6,000)	(3.7%)
225,000	2,700,000	231,000	8.56%	216,000	8.00%	(15,000)	(6.5%)
250,000	3,000,000	300,000	10.00%	276,000	9.20%	(24,000)	(8.0%)
266,667	3,200,000	346,000	10.81%	316,000	9.88%	(30,000)	(8.7%)
291,667	3,500,000	436,000	12.46%	391,000	11.17%	(45,000)	(10.3%)
316,667	3,800,000	526,000	13.84%	466,000	12.26%	(60,000)	(11.4%)
341,667	4,100,000	616,000	15.02%	541,000	13.20%	(75,000)	(12.2%)
416,667	5,000,000	931,000	18.62%	802,000	16.04%	(129,000)	(13.9%)
583,333	7,000,000	1,631,000	23.30%	1,424,000	20.34%	(207,000)	(12.7%)
833,333	10,000,000	2,681,000	26.81%	2,474,000	24.74%	(207,000)	(7.7%)
1,250,000	15,000,000	4,829,790	32.20%	4,224,000	28.16%	(605,790)	(12.5%)
1,666,667	20,000,000	6,737,290	33.69%	5,974,000	29.87%	(763,290)	(11.3%)
2,083,333	25,000,000	8,644,790	34.80%	7,724,000	30.90%	(920,790)	(10.7%)
2,500,000	30,000,000	10,552,290	35.17%	9,474,000	31.58%	(1,078,290)	(10.2%)

**Super tax - [Section 4C / First Schedule Part I Division IIB]**

The existing rates of super tax u/s 4C of the Ordinance are as under:

S. No.	Income under section 4C	Rate of Tax		
		For tax year 2022	For tax years 2023, 2024 and 2025	For tax year 2026 and onwards
(1)	(2)	(3)	(4)	(5)
1.	Where income does not exceed Rs. 150 million	0% of the income	0% of the income	0% of the income
2.	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income	1% of the income	1% of the income
3.	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income	2% of the income	1.5% of the income
4.	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income	3% of the income	2.5% of the income

5.	Where income exceeds Rs. 300 million but does not exceed Rs. 350 million	4% of the income	4% of the income	3.5% of the income
6.	Where income exceeds Rs. 350 million but does not exceed Rs. 400 million		6% of the income	5.5% of the income
7.	Where income exceeds Rs. 400 million but does not exceed Rs. 500 million		8% of the income	7.5% of the income
8.	Where income exceeds Rs. 500 million		10% of the income	10% of the income

The Bill has now proposed to introduce “categories of persons” for charging super tax u/s 4C of the Ordinance. The Bill has also proposed to change “monetary threshold” for charging super tax as well as the “rate of tax” for Tax Year 2027 onwards, in the following manner:

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

**Tax on payments for digital transactions in e-commerce platforms, has been made adjustable for persons having turnover exceeding Rs. 200 million in a tax year - [Section 6A / Section 8 / First Schedule Part I Division IVA]**

By virtue of Section 6A inserted through the Finance Act 2025, the “tax on payments for digital transactions in e-commerce platforms” for every person who receives payment for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplaces or websites, was a “final tax” on the amount in respect of which the tax is imposed.

The Bill has now proposed to add a sub-section (3) under Section 6A, making the tax imposed under this section “adjustable” if the “turnover” in a tax year exceeds Rs. 200 million.

**Tax on deemed rental income deleted - [Section 7E / Section 8 / First Schedule Part I Division VIIC]**

From tax year 2022, a resident person was treated to have derived, as income chargeable to tax u/s 7E of the Ordinance, an amount equal to 5% of the fair market value of capital assets situated in Pakistan held on the last day of tax year and tax was imposed at the rates of 20% of such deemed income (effectively 1% on the fair market value of capital assets).

The Federal Constitutional Court (FCC) has, however recently declared the subject tax on the deemed income as ultra vires to the Constitution of Pakistan.

Following the FCC judgement, the Bill has proposed to delete this section and the related Division in the First Schedule.

**Tax on certain payments by life insurance business - [Section 7G / Section 8 / Section 151B / First Schedule Part III Division IC]**

The Bill proposes to impose a “final tax” on every individual who receives any payout, benefit, surrender value, maturity proceeds or similar payment (hereinafter referred to as payout) from a life insurance business on account of insurance policy, family takaful certificate, plan or any similar arrangement as reduced by aggregate amount of premiums or contributions paid by the policy holder or participant.

The Bill also proposes to add another Section 151B for life insurance company, including a family takaful operator or a window takaful operator to deduct tax on such payments, deduct tax at the rate specified in Division IC of Part III of the First Schedule, as under:

S. No.	Description	Rate of Tax
1.	Where payout or benefit is made within one year from the date of issuance of the life insurance policy, family takaful certificate or plan	15%
2.	Where payout or benefit is made after one year but before completion of seven years from the date of issuance of the life insurance policy, family takaful certificate or plan	10%

**Certain expenditure not to be allowed as deductions from “income from business” - [Section 21(r)]**

Before the Bill, any expenditure attributable to sales was not allowable expense u/s 21(r) of the Ordinance, if the person claiming such expenditure was required to integrate but fails to integrate his business as required by FBR. The Bill has proposed to restrict the disallowance up to 5% of the expenditure claimed by any person, who fails to install electronic resource or to act as an integrated enterprise, as required.

**Introduction of a tax credit for integration with the computerized system of FBR - [Section 64D]**

The Bill proposes to introduce a tax credit @ 10% of the amount actually invested in the electronic resource by any person required, under the Income Tax Ordinance, 2001, the Sales Tax Act, 1990 or the Federal Excise Act, 2005, to integrate with the computerized system of FBR for real-time production monitoring, or for the recording or reporting of sales or receipts. Such tax credit shall be available in respect of expenditure incurred exclusively on the purchase, acquisition, installation or implementation of such equipment, hardware, software or other electronic components as are directly and exclusively utilized for the purposes of such integration.

The Bill also proposes that such tax credit shall not be allowable against operation and maintenance expenses related to such electronic resource. Further, the tax credit would only be available against normal tax payable and if the taxpayer is liable to tax on minimum tax basis, this tax credit would not be allowable.

#### **Valuation of inherited immovable property in the hands of acquiring individual through inheritance - [Section 76(8A)]**

The Bill has proposed to introduce sub-section (8A) under Section 76 of the Ordinance, whereby the cost of inherited immovable property in the hands of acquiring individual through inheritance, shall be the fair market value of the property as provided u/s 68(5) the Ordinance, on the day of death of the original owner.

As per Section 68(5) of the Ordinance, where the fair market value of any immovable property of an area or areas has not been determined by the Board in the notification referred to in sub-section (4), the fair market value of such immovable property shall be deemed to be the value fixed by the District Officer (Revenue) or provincial or any other authority authorized in this behalf for the purposes of stamp duty.

#### **Transmission of immovable property by reason of family settlement amongst the family members' consequent upon death of the person - [Section 79(1)(b)]**

The Bill has proposed to add an explanation u/s 79(1)(b), to further explain the transmission of the asset, in the nature of immovable property, to an executor or beneficiary on the death of a person to also include the transmission of assets by reason of family settlement amongst the family members' consequent upon death of the person.

#### **“Limited Liability Partnership” has been included in the definition of “association of persons” - [Section 80(2)(a)]**

The Bill has proposed to amend the definition of “association of persons” to include “limited liability partnership”.

#### **Taxability of the share of profit from an association of person - [Section 92]**

By virtue of Explanation under Section 92(1) of the Ordinance, the share received in the capacity as member out of the “exempt income” of the “association of persons” was also exempt. However, the Bill has proposed to delete such explanation and to add another sub-clause (4) under section 92 to make the share received in the capacity as member out of the “exempt income” of the “limited liability partnership” as taxable.

It appears that the intention of the legislature was to tax the share out of the “exempt income” from “association of persons” it however mentioned “limited liability partnership” instead.

#### **Tax on capital gain on disposal of securities - [Section 37A / Section 100B]**

As per Section 100B of the Ordinance, there was exemption for certain entities not to compute, determine, collect and deposit capital gains on disposal of listed securities and tax thereon, in accordance with the rules laid down in the Eighth Schedule to the Ordinance, However, the Bill

proposes to withdraw such exemption for the following entities:

- i. A non-banking finance company
- ii. A modaraba
- iii. A company, in respect of debt securities only

As a result of the proposed change the capital gains on disposal of listed securities and tax thereon for the above entities shall now be computed, determined, collected and deposited, in accordance with the rules laid down in the Eighth Schedule to the Ordinance.

The Bill also proposes to add a new sub-section (2) under section 100B of the Ordinance, whereby in case of banking company, insurance company and mutual funds; NCCPL shall compute and determine the capital gain as per the mechanism prescribed under section 37A, whereas these entities shall continue to deposit tax on amount of capital gain as per the applicable provisions of the Ordinance.

#### **Change in process of filing return of income - [Section 114]**

The Bill has proposed to replace sub-section (2A) of Section 114 to align the relevant changes in respect of electronic filing of return on IRIS and the process of verification, digital signatures and other matters relating to electronic filing of returns, statements or documents, etc.

The Bill has further proposed that in case of companies for tax year, 2026 and onwards the financial statements accompanying the return shall only be filed in “electronically readable file format”.

The Bill has also proposed that in case the taxpayer avails a settlement offered by “algorithmic settlement mechanism”, he may file a revised return, and the:

- (a) Approval of Commissioner shall not be required to file the revised return;
- (b) Taxpayer shall pay the amount of tax determined by the mechanism and no separate penalty or default surcharge shall be payable; and
- (c) Return so filed shall be accompanied by such documents as required under sub-section (6) and shall be treated as revised return under this section.

#### **Introduction of new “National Faceless Center” under FBR - [Section 227D]**

The Bill has proposed that FBR may, for the purposes of proceedings under this Ordinance in faceless manner, establish a National faceless center and specify its jurisdiction, powers and functions.

#### **New concept of “faceless jurisdiction of income tax authorities” introduced - [Section 209B]**

The Bill has proposed to introduce a new concept of “Faceless jurisdiction of income-tax authorities” u/s 209B. through algorithms developed by FBR, the Inland Revenue tax authorities appointed in “National faceless center” shall perform all or such functions, and exercise all or such powers under this Ordinance as may be assigned to them in respect of such persons, or classes of persons, for such tax years of a person.

The Bill further propose that the identity of the authority exercising jurisdiction in the “National faceless center” shall be kept confidential from the taxpayer, the authorized representative of the taxpayer, and any unauthorized person.

### **Introduction of new concept of “Faceless audit, assessment and appeal” - [Section 122E / Section 129A / Section 227E]**

The Bill has proposed the concept of “Faceless audit and assessment” whereby any audit, assessment, rectification and appeal, may be made in a faceless manner as may be prescribed by FBR.

The Bill has further proposed that:

- The faceless assessment shall be made in respect of such persons or class of persons, or incomes or class of incomes, or cases or class of cases, as may be specified by FBR.
- The provisions of section 177 shall apply to the audit conducted in faceless manner under this section.
- Where opportunity of being heard is to be provided to the taxpayer during the course of this audit or a statement under oath is required to be obtained from a taxpayer or any other person under section 176 of this Ordinance, the same shall be done through E-hearing under section 227E of this Ordinance.
- Any appeal filed under section 127 may be processed through the “National faceless center” and the provisions of sections 127, 128 and 129 of the Ordinance, shall apply accordingly.
- The identity of the officer, including facial and voice identity, conducting such E-hearing shall be kept confidential.

### **Independent case scrutiny committee - [Section 133A]**

The Bill has proposed to add a new section 133A, whereby the Commissioner Inland Revenue can file a reference under section 133 of the Ordinance before the High Court, or an appeal or review before the Federal Constitutional Court or the Supreme Court of Pakistan only if the same has been approved by an “independent case scrutiny committee” as constituted by FBR.

It is proposed that FBR may constitute one or more such committees and assign them cases or classes of cases decided by the Appellate Tribunal Inland Revenue or the High Court, as the case may be.

The Bill has also proposed that the Committee shall comprise the following members as nominated by FBR:

- a. A retired judge of the Supreme Court of Pakistan, the Federal Constitutional Court, or any of the High Courts of Pakistan who shall also act as Chairman of the Committee;
- b. An Advocate having not less than fifteen years of experience in tax and commercial litigation before the High Court or Supreme Court of Pakistan, to be nominated from a panel notified by the Board from time to time; and

c. A senior serving or retired officer of the FBR (BS 20 or above)

The Bill has further proposed that:

- The powers, functions, and procedure of the committee along with remuneration of its Members shall be governed as may be prescribed by FBR.
- Recommendations of the committee shall be binding upon the concerned one word Commissioner Inland Revenue.
- Notwithstanding anything contained in any other law for the time being in force, no suit, prosecution, or other legal proceedings shall lie against the Members of the committee and the concerned Commissioner Inland Revenue in relation to the decisions made under this section.
- The Committee constituted shall exercise its powers and functions with effect from the date of its constitution as notified by FBR.

#### **Alternative Dispute Resolution - [Section 134A]**

The Bill has proposed certain changes to empower the Alternate Dispute Resolution Committee (ADRC) to rectify any mistake apparent from records on its own motion or any mistake brought to its notice by the taxpayer or the Commissioner within 30 days of its decision.

The Bill has further proposed to add the procedure to fill in the casual vacancy occurring on the ADRC and exercise of the relevant authorities in this respect.

#### **Introduction of new “Algorithmic settlement mechanism” and “settlement offer” to taxpayer - [Section 134B]**

The Bill has proposed to introduce a new concept of “Algorithmic settlement mechanism” whereby:

1. FBR may establish “digitally operated algorithmic settlement mechanism” for settlement of tax proceedings at any stage before any assessment or amendment of assessment order under sections 121, 122 or 122E of the Ordinance through revision of return under sub-section (6) of section 114 in certain cases.
2. In case, the mechanism calculates and presents to the taxpayer a settlement offer for voluntary revision of return, the taxpayer may avail the offer on the basis including but not limited to –
  - (a) the stage of proceedings at which settlement is offered;
  - (b) the taxpayer’s compliance history, as maintained in FBR’s data;
  - (c) the nature and character of the discrepancy, including whether it involves a valuation or legal interpretation dispute, unexplained income or assets, or concealment; and
  - (d) any other basis FBR may consider relevant to ensure revenue adequacy and equitable treatment of taxpayers.

3. A taxpayer may avail this mechanism within 10 days from the date of settlement offer to –
  - (a) accept the settlement offer on IRIS;
  - (b) deposit the settlement offer amount along with revised return; and
  - (c) revise the relevant return of income to incorporate the settled amount.
  
4. The issues confronted to the taxpayer through notice of selection of audit, a notice under section 111, an audit report under subsection (6) of section 177, a show cause notice under sub-section section 122(9), as the case may be, shall stand abated, if the taxpayer revises the return by accepting the offer.
  
5. Revision of return consequent upon acceptance of offer shall, however, not preclude proceedings in respect of any other issue or discrepancy not covered by the settlement offer, nor shall it affect proceedings for any other tax year.

**Advance tax requirement for exporters - [Section 147]**

Sub-section (6C) of Section 147 requires that certain persons shall, at the time of realization of foreign exchange proceeds, or realization of the proceeds on account of sale of goods, or export of goods, or at the time of making payment to an indirect exporter, or clearing of goods exported, respectively, deduct or collect, as the case may be, advance income tax at @ 1% of such foreign exchange proceeds, or export proceeds, or exports, or payment, in addition to tax collectable or deductible under section 154 of the Ordinance.

The Bill has proposed to abolish that condition by deleting this sub-section (6C) of section 147 of the Ordinance.

**Introduction of tax on revenues received from social media platforms - [Section 154B / Division IIIAB Part III of the First Schedule]**

The Bill has proposed to require every banking and non-banking financial institution shall, at the time of credit or receipt of any amount in an account of a person, deduct tax at the rate specified hereunder, where such amount represents revenues received from social media platforms:

S. No.	Description	Tax Rate	Tax Status
(a)	in case of resident persons whose name appearing in the Active Taxpayers List; and	5%	Minimum Tax
(b)	in case of non-resident person:	5%	Final Tax

The Bill has further proposed the following definitions for the purposes of this section:

- (a) “Digital Content Creator” or “social media influencer” means any individual or entity deriving income from creation, publication, or monetization of content on digital plat-forms including but not limited to YouTube, Facebook, Instagram, TikTok or such others simi-lar platforms; and
  
- (b) “Payment” includes any inward remittance, transfer, or credit received through banking channels, including through intermediaries such as online payment service providers or digital financial platforms.

**Conditions for issuance of exemption certificates in certain cases - [Section 159 / Clause (99) of Part I of the Second Schedule / Section 2(36)(c)]**

The Bill has proposed to add the following sub-sections under Section 159 as a pre-condition for issuance of exemption certificate:

New sub-section	Section / Clause reference	Subject	Exemption eligibility
159(1C)	Clause (99) of Part I of the Second Schedule	Where a person has distributed ninety percent or more of its accounting income amongst the unit or certificate holders or shareholders, as the case may be, for the last three years	the person shall be eligible for issuance of exemption certificate which shall be issued for the complete tax year.
159(1D)	Section 2(36)(c)	Where a person has been issued approval for a tax year	the person shall be eligible for issuance of exemption certificate which shall be issued for the complete tax year.

**Reporting of financial transaction data by banking companies and financial institutions - [Section 165AB]**

The Bill has proposed to make every banking company and Electronic Money Institutions (EMIs) responsible to electronically upload the specified information to the Central Data Hub, for algorithmic cross-matching of tax and bank information.

The Bill has proposed the definition for the relevant terms defined certain terms as under:

- “Such Specified Information” means information in respect of an account holders having deposits or withdrawals exceeding one hundred million Rupees during a reporting period in any or all of the bank accounts maintained by the account holder, specifying particulars of deposits or withdrawals, including opening and closing balances, peak credits, and total credits during the reporting period.
- “Accounts” means bank accounts maintained by a person including current deposits, call deposits, saving deposits, fix deposits, term deposits, or any other such deposits by whatever name called;
- “peak Credits” means the highest credit balance in all the bank accounts of the account holder on any given date during the reporting period;
- “Central Data Hub” means a virtual repository of data and information maintained by the Board through PRAL; and

- “Compliance Risk Management (CRM)” means a computer programme for identification and communication of compliance risks, including understatement of sales, overstatement of expenses, non-reporting or under-reporting of incomes, assets, and transactions.

The Bill has further proposed that

- This information as shared above shall be digitally processed and shall not be visible to any of the Income Tax Authorities during this cross-matching process.
- In case of gross mismatch in the information in respect of an account holder, the digital system of FBR shall feed the information so required into the Compliance Risk Management (CRM) system of the Board and further proceedings shall be conducted by the National faceless center as provided in the Ordinance.
- FBR shall ensure that such information, shared by the banks, remains strictly confidential and in no case is disclosed or misused in a manner to disregard the confidentiality measures provided in the statutes and rules governing commercial banking, save as provided in this section.

#### **More clarity has been brought in respect of maintenance of electronic records - [Section 174]**

The Bill has proposed to replace the existing sub-section (5) of Section 174 whereby FBR may now require any person or class of persons to install and use an electronic resource of such type and description as may be prescribed, or to act as an integrated enterprise through a notification in the official Gazette for the purpose of receiving, storing, matching and accessing information regarding any transaction that has a bearing on the tax liability of such person.

#### **Audit powers of the Commissioner extraordinarily extended - [Section 177]**

The Bill has proposed to introduce a new sub-section (6A) under section 177 of the Ordinance, whereby if the Commissioner is of the opinion that having regard to:

- (a) The nature and complexity of the accounts; or
- (b) Volume of the accounts; or
- (c) Doubts about the correctness of the accounts; or
- (d) Multiplicity of transactions in the accounts; or
- (e) Specialised nature of business activity of the taxpayer; and interests of the revenue

is of the opinion that it is necessary so to do, he may direct the taxpayer to get either or all of the following:

- (i) Accounts re-audited by an accountant, and to furnish a report of such audit duly signed and verified by such accountant including answers to the specific queries as the Commissioner may require;

- (ii) Inventory re-valued by a cost accountant, and to furnish a report of such inventory valuation duly signed and verified by such cost accountant including answers to the specific queries as the Commissioner may require; and
- (iii) Actuarial values in the accounts determined by an actuary and to furnish a report of such valuation duly signed and verified by such actuary including answers to the specific queries as the Commissioner may require

The Bill has also proposed that the Commissioner while exercising such powers:

- i. Shall give the taxpayer a reasonable opportunity of being heard
- ii. Shall get previous approval of the Chief Commissioner

**Surcharge enhanced for late filer to be in the active taxpayers’ list [Section 182A]**

As per Section 182A of the Ordinance, where a person fails to file a return of income under section 114 by the due date as specified in section 118 or by the date as extended by the Board under section 214A or extended by the Commissioner under section 119, as the case may be, such person shall be included in the active taxpayer’ list on filing return after the due date, if the person pays surcharge at the prescribed rates. The Bill has proposed to in-crease such surcharge in the following manner:

S. No.	In case of	Existing Surcharge Rates	Proposed Surcharge Rates	Proposed increase in Rs.	Proposed % increase
1	A company	Rs. 20,000	Rs. 100,000	Rs. 80,000	400%
2	An Association of Persons	Rs. 10,000	Rs. 50,000	Rs. 40,000	400%
3	An individual	Rs. 1,000	Rs. 25,000	Rs. 24,000	2400%

**Advance tax on TV plays and advertisements - [Section 236CA / [Division XA of Part IV of the First Schedule]**

Section 236CA was inserted by the Finance (Supplementary) Act, 2022 to levy advance tax on TV plays and advertisements. The Bill has proposed to abolish this section and relevant advance tax rates as prescribed under First Schedule to the Ordinance.

**Advance tax on amount remitted abroad through credit, debit or prepaid cards - [Section 236Y / Division XXVII of Part IV of the First Schedule]**

As per Section 236Y every banking company is liable to collect advance tax, at the time of transfer of any sum remitted outside Pakistan, on behalf of any person who has completed a credit card or debit card or prepaid card transaction with a person outside Pakistan. The Bill has proposed to reduce the advance tax rates from 5% to 0.5% of the gross amount remitted.

**Advance tax on sale or transfer of immovable property - [Section 236C / First Schedule Part IV Division X / Tenth Schedule Rule (1) Third Proviso / Tenth Schedule Rule (1A)(a)]**

The Bill has proposed to reduce the advance tax rates on sales or transfer of immovable property u/s 236C of the Ordinance as per Division X of Part IV of First Schedule, in the following manner:

S. No.	Amount	For Filer	
		Tax Year 2026 Tax Rate	Tax Year 2027 Tax Rate
1.	Where the gross amount of the consideration received does not exceed Rs. 50 million	4.5%	2.75%
2.	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	5.0%	
3.	Where the gross amount of the consideration received exceeds Rs. 100 million	5.5%	

In case of persons not appearing in the active taxpayers' list, the existing advance tax on sales or transfer of immovable property u/s 236C of the Ordinance as per Third Proviso Rule (1) of Tenth Schedule, has been maintained in the following manner:

S. No.	Amount	For Non-Filer	
		Tax Year 2026 Tax Rate	Tax Year 2027 Tax Rate
1.	On the gross amount of consideration received on sale or transfer of immovable property	11.5%	11.5%

In case late filers of return, the Bill has proposed to abolish Rule (1A) of Tenth Schedule to the Ordinance, whereby the separate advance tax rates on sales or transfer of immovable property u/s 236C of the Ordinance for late filers were defined.

**Advance tax on purchase of immovable property - [Section 236K / First Schedule Part IV Division XVIII / Tenth Schedule Rule (1) Second Proviso / Tenth Schedule Rule (1A)(b)]**

The Bill has proposed to reduce the advance tax rates on purchase of immovable property u/s 236K of the Ordinance as per Division XVIII of Part IV of First Schedule, as hereunder:

S. No.	Amount	For Filer	
		Tax Year 2026 Tax Rate	Tax Year 2027 Tax Rate
1.	Where the fair market value does not exceed Rs. 50 million	1.5%	1.25%
2.	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	2.0%	
3.	Where the fair market value exceeds Rs. 100 million	2.5%	

In case of persons not appearing in the active taxpayers’ list, the Bill has maintained the advance tax rates on purchase of immovable property u/s 236K of the Ordinance as per Second Proviso of Rule (1) of Tenth Schedule, as given hereunder:

S. No.	Amount	For Non-Filer	
		Tax Year 2026 Tax Rate	Tax Year 2027 Tax Rate
1.	Where the fair market value does not exceed Rs. 50 million	10.5%	10.5%
2.	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	14.5%	14.5%
3.	Where the fair market value exceeds Rs. 100 million	18.5%	18.5%

In case late filers of return, the Bill has proposed to abolish Rule (1A) of Tenth Schedule to the Ordinance, whereby the separate advance tax rates on purchase of immovable property u/s 236K of the Ordinance for late filers were defined.

**Reduced rate of minimum Tax u/s 113 - [Division IX of Part I of the First Schedule / Clause (24D) of Part II of the Second Schedule]**

The Bill has proposed to delete the minimum tax @ 0.25% u/s 113 of the Ordinance, for the distributors of pharmaceutical products, fast moving consumer goods and cigarettes.

The Bill has also proposed to replace the Clause (24D) of Part II of the Second Schedule to the Ordinance, in the following manner:

Clause Ref.	Existing Clause	Proposed Clause
(24D)	<p>The rate of minimum tax under sub-section (1) of section 113 in the case of distributors, dealers, sub-dealers, wholesalers and retailers of fast moving consumer goods, fertilizer, locally manufactured mobile phones, sugar, electronics excluding imported mobile phones, cement, steel and edible oil shall be 0.25% subject to the condition that beneficiaries of reduced rate are appearing on the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001:</p> <p>Provided that the benefit under this clause shall be available to only those Tier-1 retailers as defined under Sales Tax Act, 1990 who are integrated and configured with Board or its computerized system for real time reporting of sales or receipts.</p>	<p>The rate of minimum tax under sub-section (1) of section 113 in the case of distributors, dealers, sub-dealers, wholesalers of packaged food, fertilizer, locally manufactured mobile phones, sugar and electronics shall be 0.5%, subject to the conditions that beneficiaries of reduced rate are appearing on the active taxpayers' lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001).</p>

By virtue of the above proposed change:

- The general category of fast moving consumer goods has been changed to some specified industries
- Rate of minimum tax u/s 113 is proposed to be increased from 0.25% to 0.5%
- Retailer category is proposed to be deleted along with the condition of integration for retailer

**Payment for goods, services and contracts**  
[Section 153 / Division III of Part III of the First Schedule]

The Bill has proposed to change the tax to be deducted from a payment referred to in clause (b) of sub-section (1) of section 153 in certain cases as under:

Division III Para	Description	Tax Year 2026 Tax Rates	Tax Year 2027 Tax Rates
2(i)	in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in section 2, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services including architectural services, warehousing services, services rendered by asset management companies, data services provided under license issued by the Pakistan Telecommunication Authority, telecommunication infrastructure (tower) services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited, inspection, certification, testing and training services, oilfield services, telecommunication services, collateral management services, travel and tour services 1, REIT management services, services rendered by National Clearing Company of Pakistan Limited	6% of the gross amount payable	7% of the gross amount payable
2(i) Proviso	in case of IT services and IT enabled services as defined in section 2	4% of the gross amount payable	4% of the gross amount payable
2(ii)	in the case of independent professional services such as doctors, lawyers, architects, accountants, software engineers or developers, working independently	15% of the gross amount payable	15% of the gross amount payable
2(iii)	In case of electronic and print media in case of advertising services;	1.5% of the gross amount payable	1.5% of the gross amount payable
2(iv)	in the case of services other than those covered in sub-paragraphs (i), (ii) and (iii).”;	15% of the gross amount payable	14% of the gross amount payable

**The rate of tax to be deducted u/s 151A on Gain arising on disposal of certain debt securities enhanced - [Section 151A / Division IIIA of Part III of the First Schedule]**

The Bill has proposed to enhance the rate of tax to be deducted under section 151A as under:

Description	Existing Tax Rate	Proposed Tax Rate
Capital gain on disposal of debt securities u/s 151A	15% of the gross amount	20% of the gross amount

**The rate of tax to be deducted for Exporters enhanced - [Section 154 / Division IV of Part III of the First Schedule]**

The Bill proposed to enhance the withholding income tax rates on export of services as under:

S. No.	Description	Existing tax rates	Proposed tax rates
1.	The rate of tax to be deducted under sub-sections (1), (3), (3A), (3B) or (3C) of section 154 shall be	1% of the proceeds of the export	1.25% of the proceeds of the export
2.	The rate of tax to be deducted under sub-section (2) of section 153 shall be	1% of the proceeds	1.25% of the proceeds

**The period for reduced rate on export proceeds of computer software or IT services or IT enabled services registered with PSEB extended till tax year 2029 - [Section 154A / Division IVA of Part III of the First Schedule]**

The withholding tax rates on export proceeds of Computer software or IT services or IT Enabled services by persons registered with Pakistan Software Export Board was 0.25% till tax year 2026. The Bill has proposed to extend the period till tax year 2029.

**New NPOs added to the list - [Clause (57) of Part I of the Second Schedule]**

The Bill has proposed to include the following NPOs in the list provided under Clause (57) of Part I of the Second Schedule:

S. No.	Name
liii	Pakistan Red Crescent Society
liv	Shaheen Foundation established by Pakistan Air Force
lv	Dawat-e-Hadiya
lvi	Bahria Foundation established by Pakistan Navy
lvii	Sindh Institute of Urology and Transplantation

### **Reduced rate for a person rendering terminal or port service - [Clause (24CC) of Part II of the Second Schedule]**

The Bill has proposed a reduced rate of withholding tax u/s 153(1)(b) to be deducted from a person rendering terminal or port service shall be 12% of the gross amount of payment instead of existing rate of 15%.

### **Exemption from applicability of Section 153(3) of the Ordinance withdrawn for manufacturers of iron and steel products - [Clause (46A) of Part IV of the Second Schedule]**

Under Clause (46A) of Part IV of the Second Schedule, the payments received by the manufacturer of iron and steel products relating to sale of goods manufactured by them were allowed exemption in respect of the applicability of the provisions of section 153(3) of the Ordinance. The Bill has proposed to withdraw such exemption to treat such withholding as minimum tax for non-corporate manufacturers.

### **Exemption from applicability of Section 153 of the Ordinance withdrawn for Companies operating Trading Houses - [Clause (57) of Part IV of the Second Schedule]**

Under Clause (57) of Part IV of the Second Schedule, the companies operating “Trading Houses” were allowed exemption from deduction of tax on receipts from sale of goods and reduced rate turnover tax at 1%.

### **Threshold of prescribed person u/s 153(7) increased for “Traders” to avail exemption - [Clause (115) of Part IV of the Second Schedule]**

As per Clause (115) of Part IV of the Second Schedule to the Ordinance, the provisions of section 153 was not applicable to “Traders” as defined under clause (28D) of Part II of the Second Schedule, being individuals having turnover upto Rs. 100 million as a prescribed person. The Bill has proposed to increase the limit from Rs. 100 million to Rs. 200 million.

### **Separate tax rates for charging tax u/s 236C and 236K for late filers abolished - [Rule (1A) of the Tenth Schedule]**

Through Finance Act 2024, different tax rates for the purpose of charging tax u/s 236C and 236K of the Ordinance were introduced under Rule (1A) of the Tenth Schedule to the Ordinance, for “Late Filer” (persons who are appearing on active taxpayers’ list but have not filed return by the due date). The Bill proposes to discontinue such rates by deleting Rule (1A) of the Tenth Schedule to the Ordinance.

### **Exemption from higher tax rates for “non-filer” on disposal of securities withdrawn - [Rule 10(y) of the Tenth Schedule]**

Tenth Schedule to the Ordinance introduced higher rates for “non-filers”. As per Clause (y) of Rule 10, these higher tax rates were not applicable on tax collected under section 37A on disposal of securities acquired on and from 1st day of July, 2025. However, the Bill has proposed to withdraw such exemption and now higher rates for “non-filer” shall be applicable on such transactions, as well.

## Significant Proposed Changes in the Capital Value Tax Act, 2022

### Abolishment of CVT on Foreign Assets

The Finance Bill proposes the abolition of Capital Value Tax (CVT) on foreign assets of resident individuals, which was introduced through the Finance Act, 2022. Under the existing regime, CVT is levied at 1% of the value of foreign assets held by a resident individual where their aggregate value exceeds Rs. 100 million as at the end of the tax year. The taxable value is determined as the higher of cost (including acquisition and improvement costs) or fair market value, with the tax payable at the time of filing the income tax return.

It may be noted that the constitutional validity of this levy remains pending adjudication before the Federal Constitutional Court of Pakistan.

## Significant proposed amendments in the Sales Tax Act, 1990

### 1. Proposed insertion of new definitions – Section 2

The Bill introduces a structurally significant shift toward a centralized “National Faceless Centre” (Sections 11H, 30AA, 32C, 45C), an “Algorithmic Settlement Mechanism” (section 47AA), and an “Independent Case Scrutiny Committee” (section 47AAA/34AA). In this backdrop, the Bill proposes to insert new definitions under Section 2 of ST Act, as reproduced below:

- (1AA) “advance receipt invoice” means an invoice in the format as may be notified by the Board from time to time.
- (1AAA) “algorithmic settlement mechanism” means algorithmic settlement mechanism provided under section 47AA of this Act.
- (9AB) “electronic invoicing system” means such electronic system or mechanism as may be prescribed or approved by the Board for issuance and recording of sales tax invoices in electronic form.”
- (17A) “National faceless centre” means National faceless centre as defined in Section 32C of the Act.
- (22(1A) “production monitoring system” means any system or technology, used for the purposes of monitoring production and sale of goods, whether in real time or otherwise, including such systems or technologies as may be prescribed by the Board from time to time.”

### 2. Definition of “Tier-1 Retailers” – Section 2(43A)

The definition of term ‘Tier-1 Retailer’ prescribes a broad criterion for coverage of large retailers. The Finance Bill proposes the following key changes in the said definition:

#### (i) Sub-clause (d) – Wholesaler-cum-retailer:

The expression “having turnover more than two hundred million” is proposed to be inserted after “wholesaler-cum-retailer,” introducing a Rs. 200 million turnover threshold as a qualifying condition for this category to fall within Tier-1 classification.

#### (ii) Sub-clauses (f) and (g) – Omitted:

Existing categories under (f) and (g) are proposed to be removed entirely, suggesting that whatever criteria these previously captured (likely shop size, electricity-bill-based, or specific-trade-based criteria commonly used in earlier Tier-1 definition) are being eliminated as standalone triggers.

### **(iii) New Sub-clause (gb) – General Turnover-Based Catch-all:**

A retailer having turnover exceeding Rs. 200 million — either by way of self-declaration or by “worked back” turnover derived from tax deduction under sections 236G/236H of the Income Tax Ordinance, 2001 (advance tax on sales to distributors/retailers) during the immediately preceding 12 consecutive months — is brought within Tier-1.

This creates an incentive for borderline retailers to either proactively integrate ahead of being identified via the worked-back mechanism, or to manage purchase patterns/withholding exposure — though the latter would itself likely draw scrutiny given FBR’s expanding data-matching capability.

Now, FBR can independently cross verify scale of operations using data already collected through the income tax withholding regime — a form of data-matching/third-party information verification that mirrors international “indirect methods of income estimation” used by tax authorities (e.g., bank deposit or purchase based turnover estimation methods used in audits globally) to counter under reporting.

### **(iv) Sub-clause (h) – Residual Category with New Exclusion Power:**

The existing residual provision is retained, but a new proviso empowers the Board to exclude any person or class of persons from Tier-1 classification through a gazette notification, regardless of how they might otherwise qualify.

## **3. Definition of “time of supply” – Section 2(44)**

The Bill proposes to insert an Explanation to Clause (44) of Section 2 to clarify that the goods delivered or made available mean the goods become ready for dispatch from the business premises including but not limited to factory, warehouse, godown or branch.

## **4. Definition of “value of supply” – Section 2(46)**

The definition of term ‘value of supply’ prescribes different methods of valuation of taxable supply for sales tax assessment. By virtue of the proposed expression, the Board is vested with authority to use the valuation of goods notified by the Pakistan Bureau of Statistics immediately before the start of the tax period. The Board is also empowered to outsource the functions of valuation of goods to the third party in prescribed mode and manner.

## **5. Time and manner of payment - Section 6(2)**

For the steel melting/re-rolling sector, the production volumes can be determined more accurately through electricity consumption, being metered by third-party utility companies. By linking sales tax collection to per-unit electricity consumption (a methodology already used in Pakistan for steel melters/re-rollers under specific SROs), the Board proposes to adopt a presumptive, hard-to-evade collection base that does not depend on the taxpayer’s self-declared sales figures.

## **6. Adjustable input tax – Section 8B(1)**

Under the existing provision of Section 8B, a registered person is restricted to adjust input tax in excess of 90% of the output tax for a tax period except fixed or capital assets or categories of persons or taxable goods provided immunity from applicability of this provision under sales tax notification SRO.1190(I)2019, dated 02 October 2019.

Now, the Bill proposes to insert a new proviso to empower the Board through a notification in the official Gazette, may reduce or enhance the limit of 10% for any registered person on the basis of compliance or non-compliance with the production monitoring, digital invoicing, e-bilty, POS or any other electronic system prescribed by the Board for digital integration of data.

## **7. Debit and credit note – Section 9**

Due to on-going digital transformation in FBR, the Bill proposes to insert a new proviso to Section 9, allowing issuance of debit and credit notes through electronic adjustment mechanism, as may be prescribed by the Board.

## **8. Suspension / Black-listing on non-compliance with integration of sales tax invoices – Sections 21 & 23**

The Bill proposes to treat the non-compliance of Section 23 (e-invoicing with FBR) and Section 40C (monitoring and tracking by electronic means) as a fraudulent act to suspend or blacklist the sales tax registration of the registered person under Section 21(2) of ST Act.

A large number of registered persons are still in process of obtaining integration of invoices with FBR's systems, despite it has already been made mandatory for all segments of trade and industry. Strict adherence of the proposed amendment may cause genuine hardship for the small and medium enterprises or trading houses, in particular. Therefore, it is need of the hour to provide reasonable timeframe to the taxpayers to comply with the requirements of Section 23(6) and Section 40C of the ST Act.

## **9. Tax invoice for exempt supply & advance receipts – Section 23**

The Bill proposes to require the registered persons to issue proper tax invoices not just for taxable sales, but also for exempt supplies and advance receipts and each tax invoice must carry a unique, verifiable FBR-generated number rather than an invoice number generated by the business itself. This fits with the move toward mandatory e-invoicing for all registered persons.

The Bill also proposes to substitute the existing provisos in Clause (b), which inter-alia empower the Board to notify any person or class of persons who may be allowed to issue an advance receipt invoice within the notified system. Further, the Board shall notify the timeline for maintaining the verifiable and unique FBR invoice number, as afore-mentioned.

In contrary to above, a person who deals only in exempt supplies should not be affected by the proposed amendment, since such a person is not required to register under Section 14 in the first place.

## 10. Audit of sales tax affairs – Section 25

The Finance Bill 2026 introduces three sets of changes to the audit provisions under Section 25, refining audit procedure, redefining the trigger point for proceedings, and easing the deposit requirement for taxpayers seeking abatement.

The proposed insertions of new sub-sections entail the following requirements:

### (i) Sub-section (8A) – Power to Direct Special Audit/Re-valuation:

This provision seeks to empower the Commissioner, at any stage of proceedings, to direct a registered person to get:

- (a) accounts re-audited by an independent accountant or
- (b) inventory re-valued by a cost accountant,

The Commissioner shall direct so, only if he is of the opinion — having regard to the nature/complexity or volume of accounts, doubts about correctness, multiplicity of transactions, or specialized nature of the business — that such action is necessary in the interest of revenue.

Key safeguards built into this power include: (a) a mandatory opportunity of being heard to the registered person before such direction is issued, (b) prior approval of the Chief Commissioner (an additional administrative check above the Commissioner's own authority), and (c) the accountant/cost accountant must be nominated by the Commissioner from a Board-notified panel — preventing the registered person or the field officer from selecting the reviewer independently.

### (ii) Sub-section (8B) – Mandatory Audit Report:

This proposed insertion codifies a procedural requirement that, after completion of audit, the officer must obtain the registered person's explanation on all issues raised before issuing a formal audit report containing audit observations and findings. This strengthens procedural fairness and creates a documented audit trail.

### (iii) Sub-section (11) – Deposit Requirements for Abatement:

This proposed amendment under Section 25 substantially reduces the cash flow burden on taxpayers. Where previously a taxpayer needed to deposit the full amount of tax/duty (along with default surcharge, as typically required) to avail abatement of further proceedings after issuance of a show-cause notice, the threshold is now halved to fifty percent of the relevant amount.

## 11. Introduction of Faceless Audit, Assessment and Appeal – Sections 11H, 30AA, 32C & 45C:

The Finance Bill 2026 proposes a fundamental restructuring of FBR's operational framework through insertion of four new sections (11H, 30AA, 32C and 45C) in the Sales Tax Act, 1990, establishing a centralized, technology-driven "National Faceless Centre" to conduct audits, assessments and appeals without direct taxpayer-officer interaction. The segregation of audit/assessment/quality-control functions follows the "four-eyes principle" common in OECD tax administrations to reduce collusion risk.

The proposed insertions of the provisions relating to 'Faceless Audit and Assessment' are summarized below:

- (i) **Section 11H – Faceless Audit and Assessment:** This provision overrides all other provisions of the Act and empowers the Board to conduct audits under sections 25 and 72B, orders under section 11E, and rectifications under section 57 in a faceless manner, for persons or cases specified by the Board.

Notably, where a hearing is required or a statement under oath is to be recorded under section 37 (investigative audits), the same shall be conducted through "E-hearing" — thus replacing physical attendance with digital/video proceedings. It is also proposed that identify of the FBR officer including facial and voice identity, conducting such E-hearing shall be kept confidential.

- (ii) **Section 30AA – Faceless Jurisdiction:** This section creates an algorithm-based jurisdictional framework, allowing the Board to assign cases to officers of the National Faceless Centre (exclusive or concurrent jurisdiction), with power to transfer cases back to field officers under section 30.

Importantly, the Chief Commissioner of the Centre may direct field officers to carry out physical verification (premises, assets, business activity) where required, with allocation of such verification also potentially algorithm-driven.

A key feature is the confidentiality clause (sub-section 5) — the identity of the officer handling a case is shielded from the taxpayer, and proceedings cannot be challenged merely on grounds of lack of jurisdiction, delegation, or anonymity of the officer (sub-section 6), substantially limiting procedural challenges.

- (iii) **Section 32C – National Faceless Centre:** It is proposed that the Board may, establish a National Faceless Centre, specifying its jurisdiction, powers and functions. This Centre is proposed to be headed by a Director General, with wings/units staffed by IRIS officers and support staff, operating on Board-designed algorithms.

Critically, it mandates segregation of duties: audit, assessment and quality control for the same case/period must be handled by separate officers, building in an internal check and balance. All communication is to be strictly electronic.

**(iv) Section 45C – Faceless Appeals:** The mandate of faceless model is proposed to be extended to the first appellate stage, allowing appeals under section 45B (Commissioner Appeals) to be processed through the Centre, with section 45B’s procedural provisions applying mutatis mutandis.

The proposed insertions of above provisions signal a decisive shift toward AI/data-driven, risk-based case selection, gradually removing discretionary officer-level selection of audit cases and minimizing face-to-face interaction, which are primarily intended to curb maladministration and improve transparency.

However, the anonymity provisions and the bar on challenging proceedings for jurisdictional or identity-related reasons may raise due-process and natural-justice concerns, and taxpayers/practitioners should prepare for fully digital compliance (IRIS-based submissions, e-hearings) once the relevant procedures are prescribed by the Board.

## **12. Monitoring or tracking by electronic or other means – Section 40C:**

Section 40C deals with track-and-trace/tax stamp requirements for specified goods (including sectors like tobacco, beverages, sugar, fertilizer, cement, etc.). The proposed amendments broaden the monitoring framework and introduce a more severe enforcement consequence.

The existing framework of electronic monitoring under sub-section (2) of Section 40C is confined to affixing the physical tax stamps, banderols, stickers, or labels on the removal or sale of taxable goods by the registered manufacturers. The proposed provisions introduce a technology driven monitoring i.e. production monitoring system, video analytics or any other prescribed monitoring mechanism, etc.” as alternative or additional compliance modes, with the form, style and manner to be prescribed by the Board.

As regards the appointment of licensee for developing the production management systems, the registered persons have no choice of selecting the vendor for the equipment.

In line with the provisions of Section 40C, the Board has already framed procedures under Chapter XIV-A (Monitoring or Tracking of Certain Registered Person by Electronic or Other Means) of the Sales Tax Rules, 2006.

A new sub-section (6) is proposed to be inserted to empower the authorities to seize or confiscate the taxable good liability in the event of non-compliance with the afore-said procedural requirements, alongwith seizure / confiscation of the conveyance used for the movement, carriage of transportation of goods.

Confiscation of the conveyance (trucks, containers, etc.) — not merely the goods — is a substantially harsher enforcement tool than the typical penalty-and-recovery approach, and mirrors the kind of strict liability/seizure regimes used in other tax jurisdictions.

Transporters and logistics companies carrying such goods bear conveyance-seizure risk even where the non-compliance originates with the manufacturer/seller — this may prompt transport operators to demand compliance certifications or indemnities from shippers before accepting

consignments of goods covered under Section 40C, adding a layer of commercial due diligence across the supply chain.

While this strengthens FBR's anti-evasion toolkit in line with global track-and-trace best practices, the absence of an explicit materiality or good-faith carve-out in the statutory text is a point industry stakeholders are likely to raise during the consultation process, particularly for sectors with high transaction volumes where occasional technical non-compliance is operationally difficult to eliminate entirely.

### **13. Sale of confiscated goods by auction – Section 40F:**

The Bill proposes to insert a new provision under Section 40F, in order to establish a codified statutory framework for disposal of goods confiscated under the Sales Tax Act, without prejudice to other action, by public auction.

It is inter-alia proposed that:

- (i) auction proceeds do not absolve the person from other consequences (penalty, prosecution, default surcharge, etc.) that may separately apply.
- (ii) The Board shall adhere to the Public Procurement Regulatory Authority Rules, 2014.
- (iii) The sale proceeds shall be applied in the following order:
  - (a) First to pay the expenses of the sale;
  - (b) Then to pay sales tax, other taxes/dues including penalty and surcharge; and
  - (c) The balance in respect of confiscated goods (excluding those liable for outright confiscation i.e. where the owner forfeits all rights to the proceeds towards the confiscated goods) shall be paid to the owner of the goods.

In case the owner of goods could not apply for sale of confiscated goods within 6 months, the balance amount thereof shall be deposited in government treasury, provided that the share of importer (where goods declaration has been filed) shall not exceed the declared value of the goods. .

Section 40F brings much-needed structure, transparency, and a PPRA-anchored procedural safeguard to the disposal of confiscated goods, with electronic auction capability fitting the Bill's broader digital-administration theme. For affected businesses (particularly importers and transporters whose goods/conveyances may be seized under the strengthened section 40C(6) regime), the provision offers a defined — though time-bound and capped — pathway to recover residual value, while ensuring government revenue claims are prioritized.

### **14. Algorithmic Settlement Mechanism – Section 47AA:**

The proposed Section 47AA introduces an automated, AI algorithm-driven settlement option allowing registered persons to resolve tax discrepancies at any stage prior to an order passed under sections 11D (best judgment assessment) or 11E (assessment & recovery of sales tax), without proceeding to a contested order, hearing, or litigation.

The algorithmic settlement mechanism is conceptually similar to “fast-track settlement” or “advance compliance agreements” used in several other tax jurisdictions, though those typically involve negotiated rather than purely system-generated offers.

The proposed insertion provides the following mechanism / modus operandi to the algorithmic settlement option:

**(i) Pre-Order Settlement Window:**

The mechanism operates “at any stage” before an order is passed under sections 11D/11E of ST Act, which implies. This gives taxpayers a considerable relief by avoiding prolonged adjudication/assessment.

**(ii) System-Generated Offer, Not Negotiated:**

The offer is algorithmically calculated based on but not limited to:

- (a) the stage of proceedings at which settlement is offered;
- (b) the taxpayer’s compliance history as per FBR’s database;
- (c) the nature/character of the discrepancy, and
- (d) any other Board-specified criteria.

This removes human/officer discretion or negotiation from the settlement process; thus, the offer is presented, not bargained, which should reduce allegations of favouritism, but also leaves taxpayers without room to contest the basis of the computed figure.

**(iii) Time-limit for acceptance of offer:**

The registered person has only 10 days from the date of the offer to accept the settlement offer via IRIS and deposit the amount of such offer — a fairly short turnaround that will require taxpayers to be IRIS-vigilant and have funds readily available, or risk losing the option.

**(iv) Effect of Acceptance – Abatement:**

Upon timely deposit, the specific issues raised in the relevant notice or audit report “stand abated” (proposed sub-section 5) — effectively closing those particular issues without further proceedings, audit finalization, or appellate process for that discrepancy.

**(v) Limited Scope of Closure:**

The proposed sub-section (6) clarifies that settling one issue does not bar FBR from pursuing other unrelated issues/discrepancies in the same proceeding, nor does it affect any other tax period — so this is an issue-specific, period-specific settlement, not a blanket immunity from the tax liability.

The proposed scheme seems a positive development that offers a quick, low-friction, and potentially less costly route to close minor or genuine discrepancies, avoiding audit escalation, penalty proceedings, and litigation costs. This is particularly an attractive option for the compliant taxpayers with good track records. On the other hand, it would reduce the pendency of cases for FBR helping them to clear backlog of adjudication cases on settled issues.

The proposed insertion does not apparently specify (i) whether the offer amount is final/non-negotiable with no right of representation if the taxpayer disagrees with the algorithm's basis, (ii) whether rejecting the offer carries any adverse inference in subsequent proceedings, and (iii) the weightage/methodology of the algorithm. Thus, transparency in the underlying criteria will be cardinal to ensure the mechanism is perceived as fair rather than coercive, especially given the short 10-day acceptance deadline

### **15. Independent Case Scrutiny Committee – Section 47AAA:**

The proposed insertion of Section 47AAA introduces a mandatory internal gatekeeping mechanism for FBR, while pursuing litigation at the honourable higher judicial forums (i.e. High Court, Federal Constitutional Court, or Supreme Court), with the objective of curbing frivolous or weak departmental appeals/references that clog the higher judiciary and create prolonged uncertainty for taxpayers.

Following are the key features and implication of constitution of the proposed Independent Case Scrutiny Committee:

#### **(i) Mandatory Pre-filing Approval:**

No reference under section 47 (High Court) or appeal/review before the Federal Constitutional Court or Supreme Court can be filed by the Commissioner Inland Revenue unless cleared by this independent committee. This effectively inserts a quality-control checkpoint between an adverse order of the Appellate Tribunal/High Court and FBR's decision to escalate litigation. This seems to be a significant departure from the current practice where Commissioners file references largely on legal/field recommendations without independent external vetting.

#### **(ii) Composition Ensures Independence:**

The three-member structure of the Committee is proposed comprising (i) a retired superior court judge as Chairman, (ii) a senior tax/commercial litigation advocate (15+ years), and (iii) a senior FBR officer (BS-20 or above).

This clearly balances judicial independence, professional legal expertise, and departmental institutional knowledge. This composition is designed to bring objectivity to decisions on whether a case genuinely merits further litigation, reducing the tendency of routine "appeal everything" practice by the field formations.

#### **(iii) Binding Recommendations:**

Sub-section (5) proposes to make the Committee's recommendations binding on the jurisdictional Commissioner, meaning the Commissioner cannot override or bypass the Committee's decision not to pursue a case — removing discretion at the field level and centralizing the litigation-filtering decision.

#### (iv) Immunity from Legal Proceedings:

Sub-section (6) proposes to grant blanket immunity to Committee Members and the Commissioner from any suit, prosecution, or legal proceedings arising from decisions under this section.

While intended to allow members to act without fear of personal liability (encouraging frank, merit-based decisions), this broad immunity clause may draw scrutiny regarding accountability if decisions are arbitrary or based on presumptions.

For taxpayers' point-of-view, the proposed mechanism is likely to reduce the volume of unmeritorious departmental litigation reaching the High Courts/Supreme Court/Federal Constitutional Court, potentially shortening the litigation lifecycle of genuinely contested tax disputes and reducing prolonged exposure to protective assessments/recovery proceedings pending appeal.

Yet, the proposed provision does not provide any time limitation for the Committee's review & approval, delayed beyond the limitation period for filing the reference before the Hon'ble superior court. It is thus expected that the Board may have to frame the rules to describe/address the procedural issues.

### 16. Proposed changes in penalties – Section 33

- **General escalation:** Across S. Nos. 1, 2, 3, 5, 7 and 8, minimum penalty amounts are substantially increased (typically 5x), and proviso-based caps move from “hundred” to “thousand” denominations, reflecting an overall upward revision in baseline penalty quantum, likely to restore real-value deterrence eroded by inflation.
- **S. No. 25 (digital integration default):** A graduated penalty structure is introduced — escalating from Rs. 1 million (first default) to Rs. 5 million (continuing default after one month) — with the additional, severe consequence of premises sealing, independent of penalty imposition. This significantly raises the compliance stakes for the POS/integration regime.
- **New S. Nos. 29–31 — anti-fake-invoicing regime:** These three new entries collectively target invoice-based tax fraud through a linked enforcement chain: (i) S. No. 29 penalizes the issuer of fake/simulated invoices at full face value and creates a public “blacklist” register with automatic ITC reversal for counterparties; (ii) S. No. 30 penalizes unmatched ITC claims (sales-tax-return mismatch) at 20% of the unmatched amount; and (iii) S. No. 31 penalizes buyers who fail to reverse ITC within 60 days of their supplier being blacklisted under S. No. 29, also at 20%. Together, these create a self-policing supply chain mechanism where both fraudulent issuers and complicit/negligent recipients face cascading financial exposure.

### **17. Sector-wise data sharing - Section 56B(3):**

- A new sub-section (3) is proposed to be added to Section 56B, which currently restricts disclosure of taxpayer information. The amendment empowers the Board to share Sales Tax return data of registered persons within a sector amongst other registered persons of the same sector under strict non-disclosure agreements, with the stated objectives of creating “market equity” and enhancing tax compliance.
- This represents a notable policy shift from the traditional confidentiality regime under section 56B, allowing limited inter-taxpayer visibility of sector peers’ tax data, aimed prima-facie to help compliant businesses benchmark against under-declaring competitors and create peer pressure toward documentation/compliance.
- The safeguard of “strict non-disclosure agreements” and Board-specified limitations/restrictions/conditions will be critical; absence of clear rules could raise commercial confidentiality concerns (e.g., disclosure of turnover, input tax claims, or pricing-sensitive information to competitors).

### 18. Inclusion of Retail-Packed Consumer Goods in Third Schedule – Shift to Retail Price Taxation

A wide range of retail-packed consumer goods (confectionery, pasta, sauces, cosmetics, household plastics, footwear, ceramics, dairy products, etc. (S.Nos. 56–75) are brought under the Third Schedule, meaning sales tax will be charged on retail price rather than ex-factory value for these items. This “retail price taxation” approach, common for FMCG in jurisdictions seeking to curb under-invoicing at the manufacturer/distributor level, will likely increase the effective tax base and reduce valuation disputes, but may marginally raise consumer prices on a broad basket of daily-use goods, with cumulative inflationary impact across packaged foods, personal care, and household items.

In the Third Schedule, in the Table, in column (1), after Serial No. 55, the following new Serial Nos. and entries relating thereto in columns (2) and (3) shall be added, namely:

Serial No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
(1)	(2)	(3)
56.	Vegetable and animal fats and oils, sold in retail packing.	Respective headings
56.	Sugar Confectionary, sold in retail packing.	Respective headings
57.	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing.	19.02
58.	Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing.	Respective headings
59.	Fermented beverages, sold in retail packing.	Respective headings
60.	Petroleum jelly, paraffin wax, micro-crystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not coloured, sold in retail packing.	27.12

61.	Insecticides, rodenticides, fungicides, herbicides, anti- sprouting products and plant- growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale.	38.08
62.	Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing.	39.19, 39.20,39.21
63.	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing.	Chapter 39
61.	Insecticides, rodenticides, fungicides, herbicides, anti- sprouting products and plant- growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale.	38.08
62.	Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing.	39.19, 39.20,39.21
63.	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing.	Chapter 39
64.	Trunks, suit- cases, vanity- cases, executive- cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling- bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping- bags, wallets, purses, map- cases, cigarette- cases, tobacco- pouches, tool bags, sports bags, bottle- cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper, put up for retail sale.	42.02
65.	Footwear (all types)	Respective headings

66.	Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other wash-room accessories and fixtures, sold in retail packing	Respective headings
67.	Crockery Items, sold in retail packing	Respective headings
68.	Car and automobile accessories, sold in retail packing	Respective headings
69.	Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing	Respective headings
70.	Preparations for use on the hair, sold in retail packing	33.05
71.	Pre- shave, shaving or after- shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties, sold in retail packing	33.07
72.	Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface- coloured, surface-decorated or printed, in rolls or sheets, put up for retail sale.	4803.0000, 48.18
73.	Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations, sold in retail packing	20.07, 20.08
74.	Household utensils, including stainless steel, aluminum, melamine and other utensils and tableware.	Respective headings
75.	Ceramic Products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale.	69.10";

### 19. Revision in Description of Newsprint, Books and Magazines – Serial No. 32 (Table-1)

Description revised to “Newsprint, books, and magazines but excluding brochures, leaflets and directories” (PCT 4902.1000 and 4902.9000). This will narrow down the exemption by explicitly excluding brochures, leaflets, and directories from sales tax exempt status, while retaining relief for genuine print media.

### 20. Extension in Validity Date – Serial No. 157

The year “2026” is substituted with “2027” in column (2). It extends the existing exemption/concession for one additional year, continuing relief without change in scope.

### 21. PIACL Aircraft Imports/Leases – Serial No. 181

S. No.	Description	PCT Headings
181	Import or lease of aircraft and parts thereof by Pakistan International Airlines Corporation Limited (PIACL), subject to provisos restricting quantities to operational/maintenance requirements and confining non-locally-manufactured ground handling equipment, service vehicles, catering equipment and fuel trucks to airport premises	8801.0000, 8802.1200, 8802.2000, 8802.3000, 8802.4000, 8804.0000, 8805.2900, 8807.3000, 9104.0010, 8544.2000, 7007.1900, 9931

### 22. Additional Exemptions vide Insertion of New Serial Nos. 182-185

S. No.	Description	PCT Headings
182	Contraceptives	3926.9020, 4014.1000
183	Female sanitary pads/tampons	9619.0030
184	Import of tankers, dredgers, floating/submersible drilling or production platforms, other floating structures/vessels, and other goods-transport vessels (excluding cruise ships, excursion boats, vessels for transport of persons, and ferry-boats), subject to quantity approval by Ministry of Maritime Affairs	8901.2000, 8905.1000, 8905.2000, 8905.9000, 8901.9000
185	Import of bullet-proof vehicles by (i) Federal Government for SCO Summit logistics (subject to approval by Ministry of Foreign Affairs and Ministry of Interior and Narcotics Control), and (ii) Federal/Provincial Government for protection of public functionaries against terrorism threats (subject to Federal Government approval)	Respective heading

### 23. Insertion of New Serial Nos. 23 and 24 – Table-3 (Annexure)

S. No.	Description	Conditions
23	Import of machinery/equipment for upgradation of existing refineries (reactors, shell & tube exchangers, vessels, trim coolers, air coolers/ condensers, fired heaters, centrifugal/ reciprocating pumps and compressors, steam reformer furnaces, filters – various PCT headings)	Must be imported directly by the refinery after approval by the concerned Division; imports must be for balancing, modernization, and rehabilitation (BMR) of existing refineries, with quantity approved by Ministry of Petroleum and Natural Resources
24	Import of machinery, equipment, raw materials, components and other capital goods by Karachi Shipyard and Engineering Works Limited	Respective headings as approved by concerned Division; Division to certify bona fide requirement as per Annex-B; authorized officer to furnish information online to Pakistan Customs Computerized System under section 155D of the Customs Act, 1969

### 24. Extension in Validity Date – Serial No. 71

The date “30th June, 2026” is substituted with “30th June, 2027” in column (2). The proposed amendment seeks to extend the existing reduced-rate/concessionary treatment for the relevant goods by one additional year, without change in scope or conditions.

### 25. EV Buses and Electric Trucks (Substituted) – Serial No. 80

S. No.	Description	PCT Heading	Sales Tax Rate
80	EV transport buses of 25 seats or more, and electric trucks, in CBU condition	8702.4090, 8704.6030	1%

The proposed amendment confirms a concessionary 1% sales tax rate on imported electric buses (25+ seats) and electric trucks in CBU form, supporting government policy promoting electric vehicle adoption in public transport and commercial freight segments.

### 26. Expanded Scope of Withholding Agents – Eleventh Schedule, Serial No. 4

S. No.	Existing Description	Revised Description
4	...companies	...companies, association of persons and individuals

The Bill proposes to extend the withholding tax obligation under this entry to Associations of Persons (AOPs) and individuals, in addition to companies, broadening the withholding net to include a wider category of buyers/withholding agents.

### 27. Insertion of New Serial No. 14 in Eleventh Schedule – Withholding on Toll Manufacturing

S. No.	Description	Withholding Agent	Rate of Withholding
14	Registered persons engaged in toll manufacturing	Person other than registered person	Four times the tax charged on conversion charges

The Bill proposes to introduce a steep withholding tax (4x the sales tax on conversion charges) where toll manufacturing services are procured from unregistered persons, creating a strong compliance incentive for toll manufacturers to register and discouraging engagement with unregistered service providers.

### 28. Value Addition Tax on Goods Imported for In-house Manufacturing, Supplied in Same State – Twelfth Schedule

Condition	Treatment
Imported goods (where 3% value addition tax waiver availed for in-house manufacturing use) are instead supplied in the same state — same packing, repacked, or in bulk	Manufacturer liable to pay 3% value addition tax (ad valorem) plus default surcharge
Where waiver availed on declaration of in-house consumption, but: (i) goods not used in-house; (ii) supplied in same state (as-is/repacked/bulk); and (iii) such supply exceeds 50% of total imports in a financial year	Person liable to prosecution

## Significant Amendments in the Federal Excise Act, 2005

### 1. New Definitions Inserted – Section 2

New clauses (2A), (9b), (16A1) and (19b) introduce definitions of “algorithmic settlement mechanism,” “electronic invoicing system,” “National faceless centre,” and “production monitoring system,” cross-referenced to corresponding Sales Tax Act, 1990 provisions.

This is meant to establish the statutory foundation for digitization, faceless adjudication, and production monitoring under FED, aligned with parallel Sales Tax reforms.

### 2. New Sub-section (3B): Special Excise Duty – Section 3

A new Special Excise Duty is levied on goods listed in new Table-IA of the First Schedule, in addition to duty under sub-section (1); collection mechanism to be prescribed by the Board.

This introduces an additional duty layer on specified vehicles; affected importers face increased cost incidence pending procedural notification.

### 3. National Faceless Centre – New Section 7A

Audit and assessment under FED may be conducted by the National Faceless Centre in faceless manner. The proposed new provisions the ST Act in relation with jurisdiction, audit, assessment and appeals may apply mutatis mutandis. Board may also establish an algorithmic settlement mechanism for pre-order settlement of proceedings.

### 4. Revised Invoicing Requirements – Section 18(1)

Substituted sub-section (1) mandates issuance of an invoice (including advance receipt invoice) bearing a verifiable and unique FBR invoice number at clearance/sale, including zero-rated supplies and services, with prescribed particulars in Urdu/English. Board may notify exemptions for advance receipt invoices and the effective date for the unique-number requirement.

This would strengthen real-time invoice traceability; businesses must prepare systems ahead of the Board-notified applicability date.

### 5. Nomenclature and Offence Provisions – Section 19

- Clause (a), sub-section (2): “Federal Excise officer” replaced with “Officer of Inland Revenue.”
- Sub-section (4) substituted: Expands the offence of tampering with electronic monitoring/production monitoring/video analytics systems to evade duty; penalty increased to fine up to Rs. 75,000 or ten times the duty involved (whichever is higher), plus imprisonment up to five years, or both.

## 6. Expanded Scope of Seizure – Section 26(1)

Substituted sub-section extends seizure powers to counterfeited cigarettes/beverages, goods without proper tax stamps/banderols/barcodes under section 45A, and goods bypassing required production monitoring — along with the conveyance used.

Seizure liability now extends to production-monitoring violations, not just counterfeit/unstamped goods.

## 7. Confiscation and Destruction – Section 27(1)

Substituted sub-section extends outright confiscation and destruction (per section 19(10)) to goods covered under the expanded section 26(1), including production-monitoring violations.

Non-compliant goods, even if not counterfeit, now face outright confiscation.

## 8. Independent Case Scrutiny Committee – New Section 34AA

Clause	Change
Scope	References under section 34A (High Court); appeals/reviews before Federal Constitutional Court/Supreme Court
Filing authority	Commissioner Inland Revenue, only after Committee approval
Composition	(a) Retired judge (SC/FCC/HC) – Chairman; (b) Advocate, 15+ years duty/commercial litigation; (c) Senior FBR officer (BS-20 or above)
Effect	Recommendations binding on Commissioner Inland Revenue
Immunity	No suit/prosecution against Committee members or Commissioner for decisions under this section

The proposed scrutiny committee aims to improve litigation quality and reduce frivolous appeals, though may add procedural delay.

## 9. Monitoring and Tracking by Electronic or Other Means – Section 45A (Substituted)

Empowers the Board to notify registered persons/goods/services subject to electronic monitoring/tracking. From a Board-prescribed date, excisable goods cannot be removed/sold without affixing tax stamps, banderols, barcodes, or production monitoring/video analytics systems as prescribed. Equipment/stamps must be procured from Board-appointed licensees.

It consolidates the track-and-trace regime; manufacturers must source compliance equipment exclusively from Board-licensed vendors, with non-compliance triggering seizure/confiscation under sections 26-27.

### 10. Audit Provisions Overhauled – Section 46

Sub-section	Key Change
(1)	Officer of Inland Revenue (authorized by Board/Commissioner) may conduct audit after advance written notice
(2)	Commissioner, on evidence of fraud/evasion, may authorize audit by officer not below Assistant Commissioner, at any time in a year
(2A)	Audit report issued after obtaining registered person's explanation on audit observations
(2B)	Audit under (2) may be conducted electronically via video link or other prescribed facility
(2C)	Post-audit order under section 14(2) may be passed after hearing, covering duty, default surcharge, penalty, and recovery of erroneous refunds
(3) Proviso	Penalty relief on voluntary deposit: 25% of prescribed penalty if paid before show-cause notice; 50% if paid after show-cause notice (proceedings abate)
(3A) (New)	Commissioner, with Chief Commissioner's approval, may direct re-audit by accountant and/or inventory re-valuation by cost accountant (Board-nominated panel) in complex/doubtful cases

This introduces structured, time-bound audit procedures with electronic conduct option and graduated penalty relief for voluntary compliance; new re-audit/re-valuation mechanism adds a further scrutiny layer in complex cases.

### 11. Rate and Entry Amendments (with Comparison) – First Schedule, Table-1

S. No.	Description	Existing	Proposed
7a	FED rate (column 4)	Rs. 44,000 per kg	Ten percent
8a	FED rate (column 4)	Rs. 10,000 per kg or 65% of retail price whichever is higher	Rs. 16,500 per kg
55 & 55B	Applicable till year	30 June 2026	30 June 2027
59	Exclusion scope	Excludes "mineral and aerated waters"	Excludes mineral waters, aerated waters, hydration drinks/electrolyte beverages (sugar ≤5g/100ml, no artificial sweetener)
63	Lubricating oil/base oils	2710.1951, 2710.1952, and 2710.1953	2710.1951, 2710.1952, 2710.1953, and 2710.1993

**Implication:** S.No. 7a reflects a substantial rate reduction (44% → 10%); S.No. 8a revises the specific rate to Rs. 16,500/kg; sunset extension (55/55B) continues existing relief; S.No. 59 broadens duty-exempt beverage categories on health grounds; S.No. 63 rationalizes lubricant duty at a flat 5%; Restriction-2 strengthens anti-price-manipulation control for cigarette variants.

### 13. First Schedule, Table-1 – New Entries

S. No.	Description	Heading/PCT	Rate
55A (New)	Imported electric cars/ SUVs/pickups (CBU, personal use), by import value incl. Customs Duty	Respective Heading	(a) ≤ PKR 20 million: 0%; (b) > PKR 20m–30m: 30%; (c) > PKR 30m: 40%
65 (New)	Petroleum Top Naphtha; White Spirit/MTT; Solvent Oil	2710.1942 / 2710.1240 / 2710.1250	Rs. 80 per litre each

**Implication:** S.No. 55A introduces a new, value-tiered FED on imported electric vehicles (previously not separately specified), materially increasing cost for higher value EVs; S.No. 65 imposes a new specific-rate duty (Rs. 80/litre) on petroleum solvent products, not previously listed in Table-1.

### 14. First Schedule – New Table-IA (Special Excise Duty under Section 3(3B))

S. No.	Description	Heading/PCT	Rate
1	Imported motor cars, SUVs and other motor vehicles (excl. auto-rickshaws and heading 87.02); and, until 30 June 2027, electric 4-wheelers including station wagons, double-cabin (4x4) pickups and racing cars — cylinder capacity >2000cc to 3000cc	87.03, 8704.2190, 8704.3190	40% ad val.
1(b)	Same category — cylinder capacity exceeding 3000cc	—	41% ad val.

**Implication:** New Special Excise Duty (in addition to standard FED/Customs duty) on large-engine imported vehicles and, temporarily, on imported electric/4x4 vehicles and racing cars — representing a significant additional cost layer not previously applicable.

### 15. First Schedule, Table-II – Air Travel Services (FED Rates Revised for Club, business & first-class air tickets)

Sector	Previous Rate	Revised Rate (effective 1 July 2026)
IATA Area 1 (North/Central/South America)	Rs. 350,000	Rs. 50,000
IATA Area 2(I) – Middle East & Africa	Rs. 105,000	Rs. 25,000
IATA Area 2(II) – Europe	Rs. 210,000	Rs. 40,000
IATA Area 3 – Far East, Australia, NZ, Pacific	Rs. 210,000	Rs. 40,000

**Implication:** Revised FED rates on Club/Business/First Class international air tickets by region, effective 1 July 2026, generally increasing the cost of premium international air travel.

### **16. Second Schedule – New S. No. 5 (Exemption/Coverage)**

Inserts Petroleum Top Naphtha, White Spirit/MTT, and Solvent Oil (PCT 2710.1942/1240/1250) for both imported and locally produced goods, after omitted S.No. 4.

Implication: To be read with new Table-1 S.No. 65 (Rs. 80/litre); clarifies coverage of these products under the Second Schedule.

### **17. Third Schedule – New S. No. 28 (Exemption for Bullet-Proof Vehicles)**

Exempts import of bullet-proof vehicles by:

- (i) Federal Government for SCO Summit logistics, subject to Foreign Affairs and Interior Ministry approval; and
- (ii) Federal/Provincial Governments for protection of public functionaries facing terrorism threats, subject to Federal Government approval.

**Implication:** Targeted exemption facilitating security-related procurement for a specific diplomatic event and ongoing protective security requirements, subject to inter-ministerial safeguards.

## Significant Amendments in the Customs Act, 1969

According to the Budget Speech, the guiding principles adopted for the tariff rationalization under the Customs laws inter-alia include:

### Principal Guidelines:

Strategic tariff rationalization via the National Tariff Policy (NTP) 2025-30.  
Simplification, trade facilitation, and enhancement of system efficiency.  
Targeted public health relief and economic stimulus for key sectors.

### Measures for Tariff Rationalization:

- Reduction of the existing Customs Duty (CD) from 20% to 15% & 10%, existing 15% and 10% to 10% and 5%, and existing 5% to 0% respectively for input goods of different industrial sectors on 92 tariff lines.

### Reduction in Additional Customs Duty (ACD) Rates:

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

### Review of Regulatory Duty (RD) Regime:

- RD greater than 20% are brought down and capped at 20% for 359 Tariff Lines.
- 20% reduction on all RD rates between 2.5% and 20% across 1,347 Tariff Lines.
- RD rates of 2.5%, 2% and 1% are reduced by 20% or completely eliminated – 208 Tariff Lines

### Review of Exemption Regime (Fifth Schedule):

- Deletion of entries from the Fifth Schedule where concessionary CD equals or exceeds the First Schedule general tariff.
- Exemption of CD on critical cancer-related Active Pharmaceutical Ingredients (APIs) under the Fifth Schedule.
- Reduction of Customs Duty from 20% to 10% on specialized construction related vehicles for construction sector.
- Exemption of CD on import on Defence Imports.

### Exemption of Duties on import of Agricultural Machinery:

- Exemption of Custom Duty (CD), Additional Custom Duty (ACD) and Regulatory Duty (RD) on import of Agricultural Machinery.

### Exemption of Duties on import of Bullet Proof vehicles:

- Exemption of CD on import of bullet proof vehicles for Shanghai Cooperation Organization Summit and for the import of bullet proof vehicles by Federal or Provincial government, for the on-going war against terrorism.

### Introduction of New PCT Codes:

- 15 new PCT Codes created and description of 2 PCT Codes amended for trade facilitation and statistical purposes.

## Legislative changes:

### 1. Introduction of “State Warehouse” – Definition Section 2

It is proposed to insert a new clause (ssssa) after clause (ssss) that defines “State Warehouse” as any place authorized by the Collector of Customs for storing detained, seized, or confiscated goods. This insertion lays the legal foundation for new penalty provisions (S. No. 62A) and the broader seized-goods custody framework introduced elsewhere in the Bill.

Although, the Collectors will need to formally designate and notify such warehouse, however; lack of clarity on notification procedure or security standards could lead to disputes over custody and liability for goods stored therein.

### 2. Extension of Sunset Date – Section 19(5)

The Bill proposes to extend the second proviso’s cut-off year from 2026 to 2027, continuing an existing exemption/concession for one additional year without altering its scope or conditions.

Beneficiaries of the relevant concession get continuity for FY 2026-27; however, the recurring one-year extension pattern suggests the relief may again require renewal next year, creating planning uncertainty for affected importers.

### 3. Recognition of Scanning as Equivalent to Examination Section – 80(4)

It is proposed to place “Scanned” goods on equal footing with “examined” goods, both in the main provision and its proviso, for purposes of the assessment.

This provision formalizes legal validity of scan-based assessments, potentially speeding up clearance and reducing physical examination delays; however, importers may raise concerns regarding accuracy and the right to seek physical examination where scan results are disputed.

### 4. Board is vested with power to make rules – Section 82(1)

The Bill proposes to replace “Federal Government” with “Board,” shifting decision-making to FBR. The Board’s power to waive demurrage/storage charges is expanded to include “reduction.” A new proviso allows the Board to notify rules on implementation, appeals against penalties, and exclusions for specific stations or goods.

Centralizes and operationalizes decision making within FBR, potentially enabling faster relief decisions; however, until implementing rules are notified, ambiguity may persist regarding the appeal mechanism and applicability exclusions, and excessive delegation could invite legal challenge on grounds of excessive delegated legislation.

### **5. Outsourcing of Auction Process – Section 82(2)**

It is proposed to insert a new (sixth) proviso that permits the Board to authorize any person to conduct auctions of auctionable goods, as per manner to be notified.

This provision would open the door to private sector or third-party involvement in customs auctions, potentially improving efficiency and realization value; however, it raises questions on accountability, transparency, and conflict-of-interest safeguards for non-customs auctioneers.

### **6. Substantial Penalty Increase – Section 156(1), S. No. 7A**

The Bill proposes to raise the penalty amount from Rs. 500,000 to Rs. 10 million for the relevant contravention.

A twenty-fold increase signals a strong deterrent intent; affected parties should reassess compliance risk exposure significantly, as the cost of non-compliance under this entry becomes materially higher.

### **7. Penalty for Tampering with Goods at State Warehouses – Section 156(1), New S. No. 62A**

It is proposed to introduce a new offence: removal, substitution, damage, or tampering with goods (confiscated or otherwise) at a State Warehouse attracts a penalty of up to twice the value of goods, plus imprisonment up to five years and/or fine upon conviction by a Special Judge.

Establishes a robust deterrent specifically protecting the integrity of State Warehouses; customs officials and any persons with access to such facilities face heightened criminal exposure, likely necessitating tighter custody protocols and audit trails.

### **8. Expanded Accountability for Other Authorities' Officers – Section 156(1), S. No. 83**

The Bill proposes to revise the entry to cover any officer of any authority (not limited to customs) who, being duty-bound under section 170 to deposit impugned goods with customs, fails to do so.

Creates direct penal exposure for officers of other law enforcement/regulatory agencies (e.g., police, FIA, provincial excise), likely prompting inter-agency coordination protocols and possibly resistance or jurisdictional disputes during initial implementation.

### **09. Retrospective Expansion of “Removal” – Section 157**

It is proposed to add a new explanation deems “removal” to have always included carrying, transporting, depositing, harbouring, keeping, concealing, retailing, or any other movement-related act involving smuggled goods.

The retrospective (“deemed to have always included”) nature significantly broadens the net for prosecuting smuggling-related offences and may be applied to pending or past cases, likely triggering constitutional challenges on grounds of retrospective penal application.

### **10. Customs’ Overriding Authority Over Seized Goods Held by Other Agencies – Section 170 (Substituted)**

The Bill proposes that where goods liable to confiscation under the Customs Act are seized/detained by any other authority, Customs, upon confirming confiscability, may demand deposit of such goods, and that authority is bound to comply, irrespective of its own pending proceedings, notwithstanding any other law.

Asserts Customs’ primacy in a manner that could conflict with other agencies’ evidentiary or prosecutorial needs (e.g., FIA, ANF, police); likely to generate inter-departmental friction and possibly litigation over custody of goods central to multiple proceedings.

### **11. Introduction of Faceless Adjudication – Section 179**

The Bill proposes to insert a new sub-section (6) in Section 179 that empowers the Board to notify a faceless adjudication procedure, eliminating face-to-face interaction between adjudicating officers and respondents, in a Board-prescribed virtual manner.

Aims to reduce discretion, rent-seeking, and bias in adjudication; however, success depends on robust IT infrastructure, and respondents may raise due process concerns regarding adequacy of virtual hearings for complex cases.

### **12. Asset Freezing Power for Special Judges – Section 185A**

It is proposed to insert a new sub-section (6) that allows a Special Judge, on reasonable grounds of illegal fund transfer (into/out of Pakistan) by an accused under trial, to order freezing of the accused’s assets, whether held by the accused or by any other person on the accused’s behalf.

Strengthens links between customs offences and anti-money laundering enforcement; the “reasonable grounds” threshold and third-party asset coverage may raise due process and property rights concerns, particularly for third parties not party to the trial.

### **13. Independent Case Scrutiny Committee – New Section 196JJ**

The Bill proposes to insert a new Section 196JJ to establish a mandatory pre-filing approval mechanism for Customs’ civil petitions, references, and appeals before the High Courts, Federal Constitutional Court, or Supreme Court. The Committee comprises a retired superior court judge (Chairman), a senior advocate (15+ years in customs/commercial litigation), and a senior serving/

retired customs officer. Committee recommendations are binding, and members enjoy immunity from legal proceedings.

Likely to reduce frivolous or weak litigation by Customs, improving overall litigation quality and possibly easing court backlogs; however, the additional approval layer may delay time-sensitive appeals, and the binding nature of recommendations limits field formations' litigation autonomy.

#### **14. Additional Mode of Service of Notices – Section 215**

It is proposed to insert a new clause (d) that permits service of notices/summons in the manner prescribed under the Code of Civil Procedure, 1908, in addition to existing modes.

Provides an alternative, well-established legal mechanism for service, potentially reducing disputes over improper service of notices and easing enforcement in cases where parties are evasive.

#### **15. Tariff and Rate Amendments – First and Fifth Schedules**

The Bill proposes to amend the First Schedule (tariff) and substitution of the Fifth Schedule are provided for in the Second Schedule to the Bill.

Specific impact depends on the actual rate/tariff changes in the Schedules (not detailed here); businesses should review these schedules separately for product-specific duty implications.

## Significant Proposed Changes in the Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961

### 1. Revised Definitions – Section 2

Clause	Change
(1) "Company"	Redefined to mean an oil marketing company, and to include persons engaged in manufacturing, refining, or reclaiming lubricating oil from used lubricating oil under OGRA license
(7) "Refinery"	Redefined as a facility/industrial plant where crude oil is refined to produce petroleum products

Further, the term 'oil marketing company' is proposed to be defined to mean a company, other than lubricant marketing company, engaged in purchasing or obtaining of petroleum products from refineries or blending plants or through sources abroad for selling, distributing or marketing, directly through his agents or dealers at his dispensing outlets or filling stations.

### 2. Levy Payment as License Condition – Section 3

Through the Finance Bill, it has been proposed to substitute Sub-section (1) to make payment of Petroleum Levy and Climate Support Levy a deemed license condition for every company, refinery, or licensee from the date of OGRA license issuance, at rates notified by the Federal Government from time to time. Sub-section (3) is omitted.

### 3. Late Payment Surcharge – New Section 3B

The Bill proposes that levy amounts not paid by the prescribed due date (Sales Tax/FED return filing date for local production; customs duty payment date for imports) shall attract a late payment surcharge, computed per section 40D of the Public Finance Management Act, 2019.

### 4. Recovery Mechanism – New Section 3C

Provision	Key Points
Sub-section (1)	If levy/surcharge unpaid beyond 90 days, relevant department may request Commissioner (Inland Revenue) to recover as income tax arrears under Income Tax Ordinance, 2001 (Part IV, Chapter X); Commissioner cannot grant time extensions or instalment plans
Sub-section (2)	Department may pursue recovery of levy and surcharge separately or simultaneously
Sub-section (3)	Irregularity/infirmary in recovery proceedings not a ground for challenge before tribunals/courts
Sub-section (4)	Commissioner to submit fortnightly progress reports to Finance and Petroleum Divisions; failure to recover to be explained in writing
Sub-section (5)	Amounts due under sections 40B/40D of PFMA, 2019 (prior to Finance Act 2026) recoverable under this section

The Bill proposes to establish a robust, income-tax-arrears-style recovery regime with no relief for instalments/extensions and limited avenues for judicial challenge on procedural grounds, significantly tightening enforcement against defaulting companies/refineries/licensees.

### 5. Mandatory Reporting Mechanism for Payments – New Section 4A

Sub-section	Requirement
(1)	Monthly statements on levy payments, supported by documentary evidence (including monthly sales invoices) to be submitted to FBR
(2)	Annual audited certificate from an Authorized Audit Firm (registered with Audit Oversight Board under SECP Act, 1997) certifying accuracy of levies accrued/paid, to be furnished to Petroleum Division
(3)	Cost of such audit to be borne by the company/refinery/licensee

The Bill proposes to impose recurring compliance and reporting obligations, including mandatory third-party audit certification at the entity’s own cost, enhancing transparency and oversight of levy accuracy but increasing compliance burden for regulated entities.



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