YOUSUF ADIL
PACE ALIGNED ...

Budget 2025-26

Highlights & Comments

Tax

Foreword

This publication contains an economic review, highlights of fiscal proposals and explanatory description of the significant changes in the Income Tax, The Digital Presence Proceeds Tax, Sales Tax, Federal Excise, Customs Duty, Petroleum Products (Petroleum Levy and Carbon Levy) and New Energy Vehicles Adoption Levy.

Amendments proposed in the Finance Bill, 2025 will take effect from July 01, 2025, once it is approved by the Parliament.

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Karachi
June 11, 2025

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Budget at a glance

FY 2025-26 budget was presented on June 10, 2025 by the Finance Minister Muhammad Aurangzeb with aggregate receipts and expenditures of PKR 17,573 bn. It envisages FBR tax revenues of PKR 14,131 Bn, non-tax revenues of PKR 5,147 Bn, a provincial share outflow of (PKR 8,206 Bn), net revenue receipts of PKR 11,072 Bn, financing via non-bank public borrowing of PKR 2,874 Bn, net external receipts of PKR 106 Bn, bank borrowing of PKR 3,435 Bn, and privatization proceeds of PKR 86 bn. On the expenditure side, the budget allocates PKR 8,207 Bn for interest payments, PKR 1,055 Bn for pensions, PKR 2,550 Bn for defence affairs & services, PKR 1,928 Bn for grants and transfers, PKR 1,186 Bn for subsidies, PKR 971 Bn for civil government running costs, and PKR 1,676 Bn for the Public Sector Development Programme and others.

Receipts	**PKR (Billion)**	**Expenditures**	**PKR (Billion)**
Tax Revenue	14,131	Interest Payments	8,207
Non-Tax Revenue	5,147	Pension	1,055
Provincial Share	(8,206)	Defence Affairs & Services	2,550
Net Revenue Receipt	**11,072**	Grants and Transfers to Provinces & Others	1,928
Non-Bank Borrowing – Public Account	2,874	Subsidies	1,186
Net External Receipts	106	Running of Civil Govt.	971
Bank Borrowing	3,435	PSDP and Others	1,676
Privatization Proceeds	86		
Total Receipts	**17,573**	**Total Expenditures**	**17,573**

Source: Budget Document

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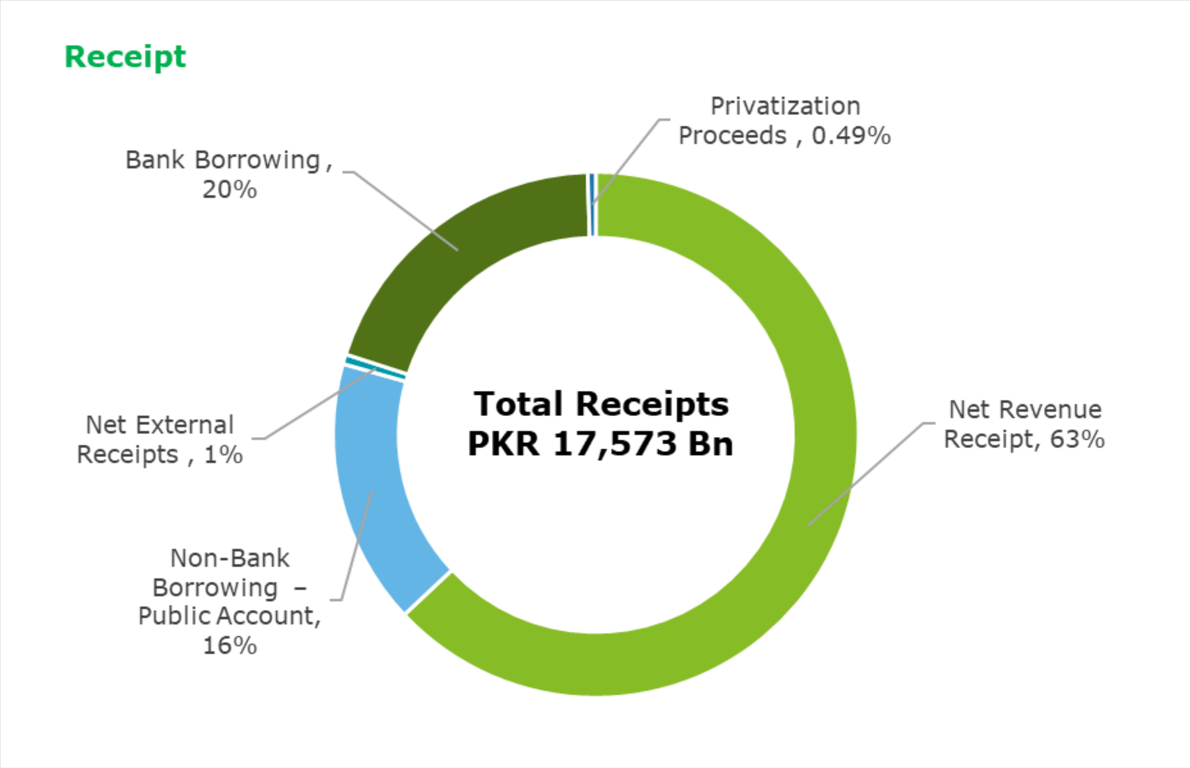
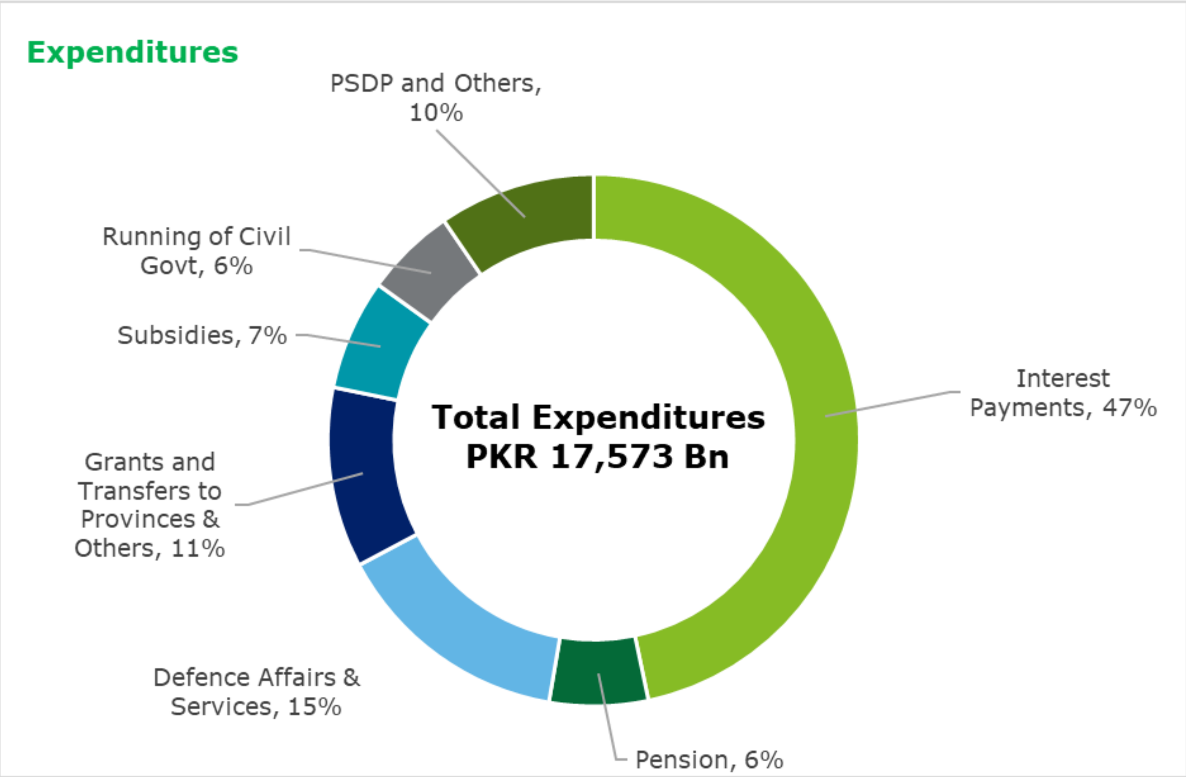


Source: Budget Document



Source: Budget Document

Economic Review 2024-25

FY 2024	VS	FY 2025 E
Real GDP Growth		**Real GDP Growth**
2.51%		**2.68%**
Inflation CPI		**Inflation CPI***
23.4%		**4.7%**
Debt to GDP Ratio		**Debt to GDP Ratio****
67.76%		**66.27%**
Policy Rate		**Policy Rate*****
20.50%		**11.00%**

* *These metrics reflect the period from July to April 2025.*
** *These metrics reflect the period from July to March 2025.*
*** *As per the MPC meeting scheduled for June 2025, the Policy Rate is expected to be revised further.*

Overview

In 2024, the global economy moved into a period of stabilization after enduring several years of unprecedented shocks. Inflation has fallen from multi-decade highs and is gradually approaching central bank's target, though the progress varies across regions. Labor markets have largely returned to pre-pandemic conditions, with employment and vacancy rates normalizing.

Looking ahead, global economic growth is estimated at 3.3% in 2024 and is projected to moderate to 2.8% in 2025, before recovering slightly to 3.0% in 2026. This slowdown reflects both cyclical headwinds and structural shifts in global trade. Rising tariffs and heightened uncertainty are weighing on business sentiment and disrupting supply chains. Global headline inflation stands at 5.7% in 2024 and is projected to decline to 4.3% in 2025 and 3.6% in 2026, driven by easing commodity prices.

A significant reordering of policy priorities presents downside risks to the global trade outlook for 2025. According to the IMF, global trade volume grew by 3.8% in 2024 but is expected to decelerate to 1.7% in 2025 amid tariff-related uncertainty, before recovering to 2.5% in 2026.

Trade-related uncertainties have risen to exceptionally high levels and are likely to have varying long-term effects across economies, depending on their exposure to protectionist policies, degree of financial integration, and geopolitical vulnerabilities.

Building on the economic recovery that began in FY 2024, Pakistan's economy continued on a path of gradual growth in FY 2025, registering an annual expansion of 2.68%. This progress was supported by improved macroeconomic indicators, stronger fiscal and external balances, and a decline in inflation.

There was a significant decline in inflation, falling from 20.7% in April 2024 to 0.3% in April 2025. The average inflation rate for July through April in FY 2025 was 4.7%, compared to 26.0% observed during the previous year. Several factors contributed to this decline, including fiscal consolidation, a stringent monetary policy, targeted relief measures, and efforts to stabilize the exchange rate.

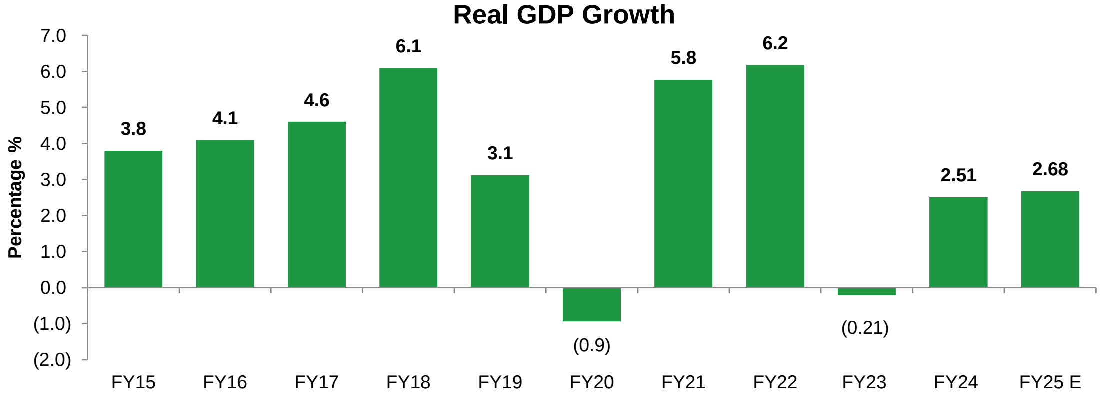
Despite ongoing supply-side constraints, Pakistan's growth outlook has improved notably, supported by rising investor confidence partly evidenced by 27.5% increase in company registrations. The government's fiscal position improved during July–March FY 2025, with the fiscal deficit narrowing to 2.6% of GDP from 3.7% a year earlier. Externally, the current account deficit is projected to decline slightly, driven by subdued import demand, stable remittances, and lower energy import costs.

On the fiscal front, revenue increased at a faster pace than expenditure growth during the first three quarters of FY 2025, reflecting the impact of improved collection efforts and enhanced economic activity. Tax revenues increased by 26.3%, while non-tax revenues rose by 68%, primarily due to higher SBP profits, petroleum levy, dividends, and surcharges.

Improved macroeconomic indicators have created space for monetary easing, supporting private sector credit growth and economic activity, while steady remittance inflows continue to bolster external stability and household consumption. Sustaining this momentum requires urgent structural reforms, particularly in education, skills development, and job creation for Pakistan's young population, these efforts should focus on labor-intensive sectors and promote inclusive growth by empowering SME's. In parallel, the digital economy offers significant potential, but unlocking it will require addressing infrastructure gaps, regulatory hurdles, and the digital divide, especially for women and rural communities.

(Data Sources: PES, 2024-25)

Real GDP



(Data Source: PES, 2024-25)

Building on recovery that started in FY 2024, the economy maintained its upward trajectory in FY 2025, recording a 2.68% annual growth. The real, fiscal, financial, and external sectors continued to demonstrate resilience and steady improvement in FY 2025.

GDP Growth 2024-25

3.6% Budget

2.68% Actual

(Data Source: PES, 2024-25 & Annual Plan 2024-25, Ministry of Planning Development & Special Initiatives (MPDSI))

Pakistan's real GDP growth was at 2.68% in FY2025. The Industrial sector posted a growth of 4.77%, manufacturing growth was also positive despite a slow recovery in large-scale manufacturing, supported by gains in small-scale manufacturing and slaughtering. The services sector (58.4% of GDP) emerged as the main growth driver, expanding by 2.91%, while the agriculture sector recorded a growth of 0.56% due to a decline in major crops. The per capita income rose to USD 1,824 from USD 1,662 in previous year.

(Data Source: PES, 2024-25)

Sector Performance

Industrial	Services	Agriculture
4.77%	2.91%	0.56%
Growth	Growth	Growth
Target was 4.40% growth	Target was 4.10% growth	Target was 2.0% growth

(Data Source: PES, 2024-25 & MPDSI)

The industrial sector witnessed a growth of 4.77%, reversing the contraction observed in the previous year. This growth was driven by recovery in the manufacturing sector. Gains in small-scale manufacturing and slaughtering helped offset the contraction in LSM. Mining and quarrying declined by 3.38% mainly due to contractions in crude oil (-14.72%) and natural gas (-7.05%) production. However, coal production registered a modest growth of 2.84%. Manufacturing remained in positive territory, with the support of gains in small-scale manufacturing and slaughtering, despite a contraction in LSM. The electricity gas and water supply sector showed a strong recovery with 28.88% growth, reversing the previous year's decline of 19.86%. This improvement was driven by a sharp increase in real subsidies, rising from Rs 601 Bn to Rs 1,290 Bn, and a lower deflator. While construction posted a growth of 6.61%, compared to a contraction of 1.14% last year.

The services sector expanded by 2.91%, maintaining its position as the largest contributor to GDP with a 58.40% share, slightly higher than the 2.19% recorded last year. This performance reflects mixed trends across subsectors, with several offsetting factors contributing to the overall growth. Wholesale and retail trade (0.14%), transportation and storage (2.20%), accommodation and food services activities (4.06%), information and communication (6.48%), finance and insurance activities (3.22%), real estate activities (3.75%), public administration and social security-general government (9.92%), education (4.43%), human health and social work activities (3.71%), and other private services (3.64%) are the subsectors of services with the corresponding shares in services and GDP.

The agriculture sector recorded modest growth of 0.56% in FY 2025 compared to the 6.4% last year, largely constrained by negative trends in major crops. Key crops - wheat, cotton, rice, sugarcane, and maize all posted declines in output. Wheat production dropped to 28.98 Mn tons from 31.81 Mn tons last year, showing a contraction of 8.9%. Cotton output declined sharply by 30.7%, with 7.084 Mn bales produced in FY 2025 against 10.22 Mn bales in FY 2024. Rice production fell slightly to 9.72 Mn tons, marking a 1.4% decline. Sugarcane production reduced by 3.9% to 84.23 Mn tons, while maize output dropped by 15.4% to 8.24 Mn tons. However, other crops showed a marked recovery, growing by 4.78% compared to just 0.07% last year, facilitated by higher production in fruits (4.1%), vegetables (7.8%), condiments (9.8%), and oilseeds (29.8%). Nonetheless, the cotton ginning contracted by 19.03%, reflecting the slump in cotton production. Livestock remained stable, while forestry and fishing sectors continued to retain a sustainable growth.

(Data Source: PES, 2024-25)

Trade & Payments

Current Account

	FY 2024	FY 2025
Current Account First 9 Months of FY	**($1.3) Bn**	**$1.9 Bn**

(Data Source: PES, 2024-25)

Global trade faced notable disruptions in 2024 due to geopolitical tensions but regained momentum in the latter half of the year, with global merchandise exports rising by 2% to USD 24.43 Tn.

Against this backdrop, the government, in collaboration with the SBP, initiated a series of targeted policy measures in FY2023. These efforts gained traction in FY2024 and were further strengthened in FY2025. As a result, during July-April FY2025, Pakistan’s external sector exhibited strong resilience, recording a current account surplus of USD 1.9 Bn, a significant improvement from the USD 1.3 Bn deficit in the same period last year. This positive shift was largely driven by a historic increase in remittances, which rose nearly 31% year on year to USD 31.2 Bn, reaching a monthly record of USD 4.1 Bn in March 2025.

(Data Source: PES, 2024-25)

During July – April 2025, the financial accounts observed an outflow of USD 1.6 Bn compared to a net inflow of USD 4.2 Bn in the same period last year. This was mainly due to increased government debt repayments as well as lower than projected disbursement of official loans. Despite this, the notable progress in the current account and economic environment improvement driven by the IMF EFF program helped stabilize the exchange rate and preserve foreign exchange reserves, even in the face of ongoing debt obligations.

(Data Source: PES, 2024-25)

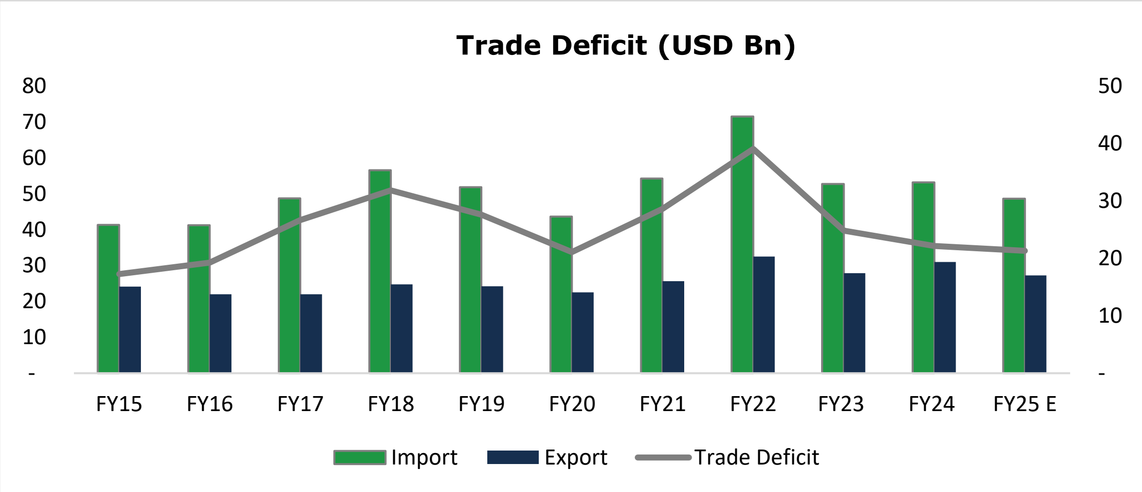
The trade deficit in goods widened to USD 21.3 Bn as imports increased significantly, outpacing exports. The services account also posted a higher deficit of USD 2.5 Bn due to rising import payments, while the primary income account deficit rose to USD 7.1 Bn, driven by greater dividend repatriation and interest payments.

Despite the challenges, a strong surge in remittances helped ease external pressures, allowing foreign exchange reserves to reach USD 16.64 Bn (SBP: USD 11.50 Bn; Commercial Banks: USD 5.14 Bn) by May 27, 2025. This supported exchange rate stability at PKR 278.72 per USD.

(Data Source: PES, 2024-25)

The trade balance in goods deteriorated as imports rose significantly, outpacing exports. Although service exports grew faster than imports, the services trade deficit still widened due to the larger absolute value of imports. The primary income account recorded a deficit of USD 7.1 Bn, up USD 803 Mn from the previous year, mainly due to increased outflows from dividends, investment income, and withdrawals from quasi-corporations.

(Data Source: PES, 2024-25)



(Data Source: SBP)

Financial Account

During July-April FY 2025, Pakistan's financial account registered net outflow of USD 1.6 Bn, a significant shift from net inflow of USD 4.2 Bn in the same period last year. This decline was primarily driven by higher government debt repayments and a substantial reduction in net incurrence of liabilities, which fell to negative USD 3.2 Bn, compared to USD 2.6 Bn during the corresponding period last year, reflecting a marked slowdown in external borrowing.

(Data Source: PES, 2024-25)

During July-April FY 2025, portfolio investment recorded a net outflow of USD 574 Mn, compared to USD 797 Mn in the same period last year. The improvement reflects stronger investor confidence driven by domestic economic stability, a current account surplus, and proactive policies. As global investors rebalance portfolios amid tighter monetary conditions and higher yields in developed markets, the government is actively engaging with stakeholders and refining policies to maintain confidence and financial stability.

(Data Source: PES, 2024-25)

Gross official reserves held by the SBP remained stable, supported by coordinated fiscal and monetary policies. The alignment of government reforms with SBP's external account management helped preserve reserves despite debt repayments. A stable exchange rate, aided by a stronger current account, controlled imports and steady remittances, anchored market expectations, improved forex liquidity, and reinforced confidence in the domestic currency, contributing to macroeconomic stability.

(Data Source: PES, 2024-25)

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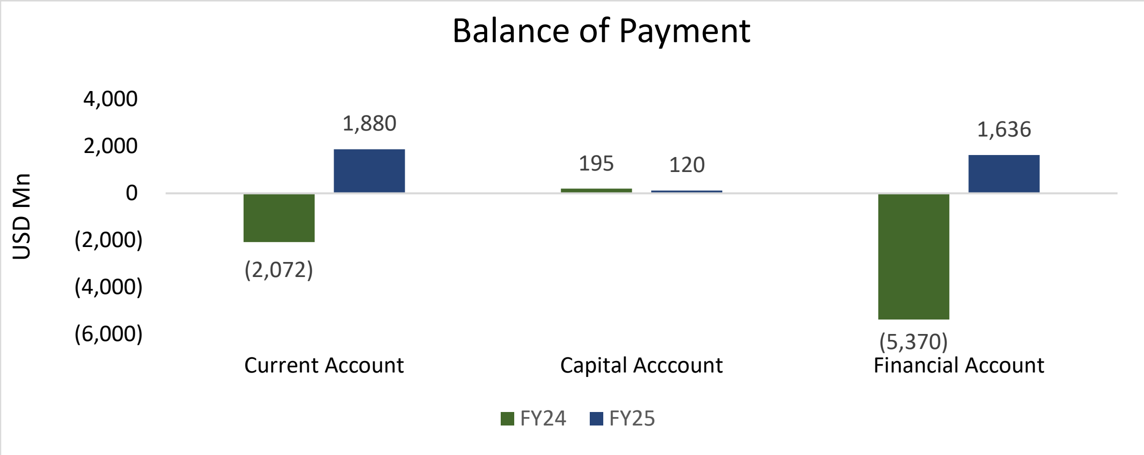
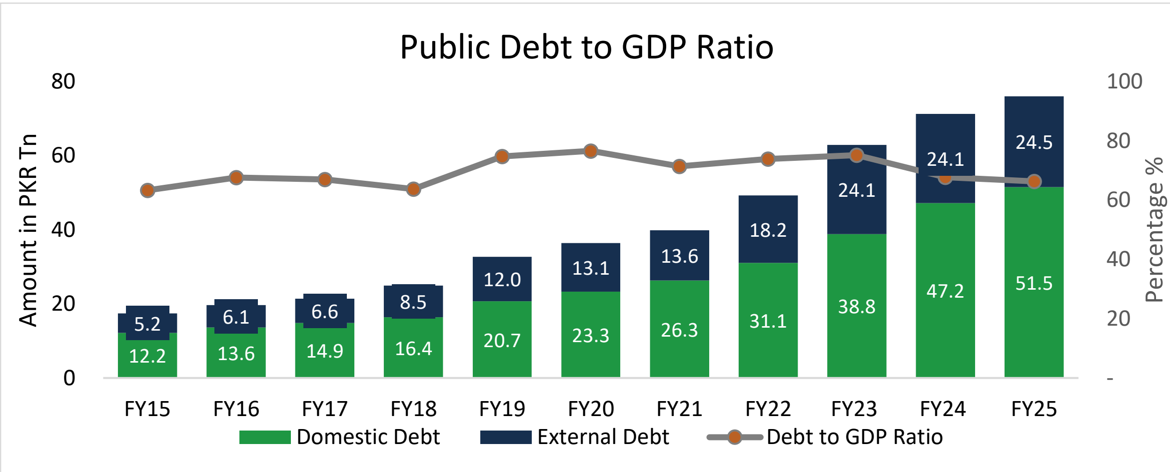


(Data Source: SBP)

Public Debt

By the end-March 2025, total public debt was recorded at PKR 76,007 Bn Compared to the PKR 8,482 Bn gain that was noted during the same period last year, this growth is greater. Additionally, the government was given USD 1.03 Bn through the Extended Fund Facility (EFF) of the IMF. The overall amount of repayments was USD 5,636 Mn, of which USD 2,828 Mn went to multilateral creditors, USD 1,565 Mn to bilateral creditors, and USD 1,243 Mn to commercial/other sources.

(Data Source: PES, 2024-25)



(Data Source: PES, 2024-25)

The primary factors that contributed towards the rise in external debt include the federal primary surplus (PKR 2,415 Bn), interest on debt (PKR 6,439 Bn) and others, which includes exchange rate, cash Balances and Accounting impact (PKR 738 Bn). The debt to GDP ratio stood at 66.27% as at March 2025.

(Data Source: PES, 2024-25)

Domestic Debt

Domestic debt was recorded to the tune of PKR 51,518 Bn at the end of March 2025, measuring an increase of PKR 4.8 Tn during the first nine months of FY2025. At the end of March 2025, permanent debt, floating debt and unfunded debt accounted for 78% (PKR 40 Tn), 15% (PKR 7.86 Tn) and 6% (PKR 2.94 Tn), of the domestic debt portfolio, respectively.

(Data Source: PES, 2024-25)

External Debt

By the end of March 2025, Pakistan's external public debt was PKR 24,489 Bn or USD 87.4 Bn, showing an increase of approximately USD 883 Mn during the first nine months of FY 2025. The major portion of Pakistan's external public debt i.e. 51.8% of multilateral loans, followed by bilateral loans, commercial loans, Eurobonds/ Sukuks, which accounts for 22.8%, 7.5%, and 8.7%, respectively.

The Government's strategy is to reduce its debt burden to sustainable levels by running primary surpluses, maintaining a low and stable inflation, and promoting measures that support sustainable economic growth. Moreover, the Government is committed to ensuring fiscal discipline through revenue mobilization and expenditure rationalization measures. With a narrower fiscal deficit and effective debt management, public debt is further projected to enter a firm downward path.

(Data Source: PES, 2024-25)

Monetary Policy

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Average Interest Rate	7.3	5.8	6.0	6.0	9.9	10.1	7.0	9.8	17.8	21.3	15.5
Inflation CPI	4.5	2.9	4.8	4.7	6.8	10.7	8.9	12.2	29.2	26.0	4.7

(Data Source: PES 2024-25)

The Monetary Policy Committee decided to lower the policy rate to 11% on May 5, 2025, which represents a significant cumulative decrease from the prior peak of 22% over the previous fiscal year.

(Data Source: PES, 2024-25)

The Monetary Policy Committee (MPC) decided to lower the policy rate by 100 basis points to 11%, with effect from May 6, 2025, at its on May 5, 2025. The Committee observed that there was a significant drop in inflation in March and April, primarily as a result of lower administered power costs and a persistent downward trend in food inflation. April saw a decrease in core inflation as well, mostly due to a favorable base effect in the context of modest demand. In comparison to the prior assessment, the MPC concluded that the inflation outlook had improved overall. However, the Committee believed that the economy would face difficulties due to the increased global uncertainties regarding trade tariffs and geopolitical developments. The MPC underlined the significance of keeping a cautious monetary policy stance against this background.

(Data Source: SBP)

During July-April FY 2025, the consumer price index (CPI) inflation recorded at 4.7% down from 26.0% during the same period last year, witnessed a significant decrease in inflation, reflecting the government's tireless efforts. Numerous variables, such as increased food supply, lower energy prices, and excess production capacity, are also responsible for Pakistan's substantial drop in inflation. The global drop in commodity costs, mostly due to better food and energy sources, has an impact on the reduction of inflation as well.

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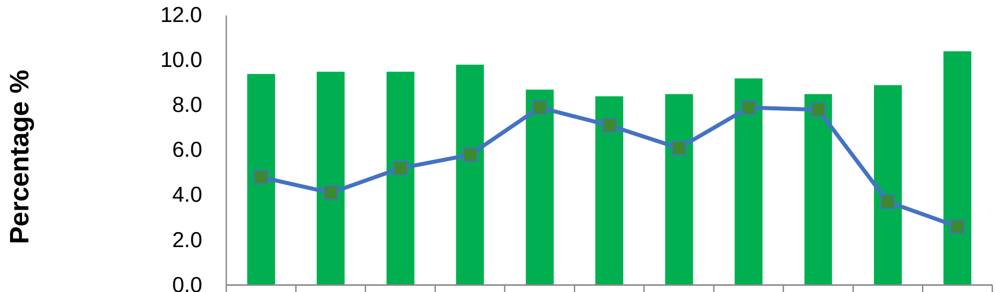
These efforts demonstrate the government's commitment to improving citizens' lives and fostering a stable macroeconomic environment. This remarkable decline is a direct result of the government's balanced policy framework, which effectively combines fiscal discipline, targeted interventions by the SBP, and exchange rate stability.

(Data Source: PES, 2024-25)

Fiscal Policy

Fiscal Analysis



	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Tax Revenue to GDP Ratio	9.4	9.5	9.5	9.8	8.7	8.4	8.5	9.2	8.5	8.9	10.4
Fiscal Deficit as % of GDP	4.8	4.1	5.2	5.8	7.9	7.1	6.1	7.9	7.8	3.7	2.6

(Data Source: PES, 24-25)

Tax Collections and Budget Deficit

From July-March FY 2025, the fiscal deficit narrowed down by 23.9%. The fiscal deficit decrease to 2.6% of GDP, as compared to 3.7% in the previous year. The primary surplus increased to Rs 3,468.7 Bn (3.05% of GDP) more than double of FY 2024 i.e. Rs 1,615.4 Bn (1.5% of GDP). The government fetched PKR 2,950.5 Bn from domestic sources and PKR 19.5 Bn from external sources to finance the deficit. Despite a difficult economic climate, recent improvements in fiscal accounts demonstrate that structural reforms are moving forward and that the fiscal difficulties are being successfully addressed.

(Data Source: PES, 24-25)

	FY 2024	FY 2025 E
Fiscal Deficit as % of GDP	**3.7%**	**2.6%**

(Data Source: PES, 2024-25)

Total Revenue

The tax collection increased by a significant 25.8% between July and March of FY 2025. Non-tax revenues increased by 75.4% in FY 2024. The primary drivers of this notable increase in non-tax collection were higher petroleum levy revenues, SBP's earnings, and markups from PSEs and other entities.

Provinces made a substantial contribution to enhancing the overall fiscal performance during this time as well. In FY 2024, the combined provincial surplus for all four provinces was Rs. 518.2 Bn, or 0.5% of GDP.

(Data Source: PES, 2024-25)

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Total Expenditure

From July-March FY2025, total spending increased to PKR 16,337.0 Bn from PKR 13,682.8 the previous year. It rose by 14.2% of GDP as compared to 13% of GDP of last year. Total expenditure increased by 19.4% to Rs 16,337.0 Bn during July-March FY 2025, compared to Rs 13,682.8 Bn in the previous year.

While current expenditures have grown relatively moderately, development spending has increased significantly, which is the main cause of this expenditure expansion. The Public Sector Development Program (PSDP) saw a significant increase of 28.6%, rising from Rs 321.6 Bn in FY 2024 to Rs 413.6 Bn in July-March 2025.

(Data Source: PES, 2024-25)

FBR Tax Collection

In Budget 2025-26, the Federal Board of Revenue (FBR) is tasked with collecting PKR 14,131 Bn in tax revenues an ambitious rise from the PKR 12,970 Bn originally budgeted for FY 2024-25 and a marked recovery from the PKR 11,900 Bn revised estimate. This target comprises PKR 6,902 Bn in direct taxes (income tax, corporate tax, etc.) and PKR 7,229 Bn in indirect taxes (sales tax, customs duties, FED). Achieving these levels will require sustained improvements in taxpayer compliance, expansion of the tax net and prudent management of exemptions and rebates. Given the significant under-performance of indirect taxes in the current year down 18.5% versus the original estimate, the FBR must reinforce audit and enforcement mechanisms while facilitating ease of remittance to realize the projected growth in FY 2025-26.

(Data Source: Annual Budget Statement FY2026)

Key highlights of Budget FY26

- The government has set a GDP growth target of 4.2% for FY26 as compared to 2.68% in FY25.
- The salaries of government employees will be increased by 10%, and pensions will be raised by 7%. The pay raise will apply to employees in grades 1 through 22.
- The CPI inflation rate is projected to be approximately 7.5% in FY26, while the budgeted fiscal deficit is expected to be around 3.9% of GDP.
- For the salaried class earning between Rs 600,000 and Rs 1.2 Mn, the government has decided to reduce the tax rate from 5% to 2.5%.
- The government has allocated Rs 716 Bn for the Benazir Income Support Programme (BISP), marking a 21% increase compared to the previous year.
- The government has imposed an 18% tax on the import of solar panels in the 2025-2026 budget.
- In the 2025-26 budget, non-filers will be subject to a withholding tax of up to 1.2% on cash withdrawals.
- Defence expenditure amounts to Rs 2,550 Bn, reflecting a 20.2% increase compared to last year’s budget, and accounts for 1.97% of GDP, up from 1.71% last year.
- The government has reduced the maximum rate of Regulatory Duty (RD) from 90% to 50%.
- Pension income received by individuals aged below 70 years that exceeds Rs. 10 Mn will be taxed at a flat rate of 5%. Pension income up to Rs. 10 Mn will be exempt from tax.
- The tax rate on income from debt mutual funds has been increased from 15% to 25%, while the tax on income from equity mutual funds remains unchanged at 15%.
- The withholding tax on interest income has been increased from 15% to 20%.
- Sales tax on FATA/PATA has been increased to 10% (from 0%), will rise by 2% yearly, reaching 16% by FY29.
- The Federal Excise Duty (FED) on the allotment or transfer of commercial and residential plots, previously ranging from 3% to 7%, is proposed to be abolished.
- Out of the total expenditure, Rs 8.2 Tn has been earmarked for mark-up payments, making up 47% of the government overall spending.
- The Federal Board of Revenue (FBR) has been tasked with collecting Rs 14.13 Tn in FY26, reflecting a 9% increase from the Rs 12.9 Tn target set for FY25. The FY26 tax collection target comprises Rs 6.9 Tn in direct taxes and Rs 7.2 Tn in indirect taxes.
- The government has allocated Rs 1,055 Bn for pensions and Rs 1,186 Bn for subsidies, while Rs 1,928 Bn has been set aside for grants.
- The federal Public Sector Development Programme (PSDP) has been reduced to PKR 1.0 Tn, while the provincial PSDP is set at PKR 2.9 Tn, bringing the total PSDP allocation to PKR 4.2 Tn.
- The super tax for corporations earning between PKR 200 Mn and PKR 500 Mn has been reduced by 0.5%.
- A new 5% levy has been introduced on cross-border transactions involving goods and services.

Highlights of Important Fiscal Proposals

Income Tax

1. Tax relief is provided to salaried class by reducing tax rate from 5% to 1% for incomes between Rs.600,000 and Rs.1,200,000, from 15% to 11% for incomes up to Rs.2,200,000. Additionally, for higher earners between Rs.2,200,000 and Rs.3,200,000, the tax rate is reduced from 25% to 23%.

2. Pension, annuity, or commutation of pension exceeding Rs.10 million for former employees, under seventy years of age, are now subject to withholding tax at 5%.

3. Exemption of pension income, provided under different clauses of Part I of the Second Schedule, is withdrawn.

4. Exemption, up to 50% of the accumulated balance received from the voluntary pension system, is withdrawn.

5. The surcharge rate for salaried individuals with taxable income over Rs 10 million is reduced from 10% to 9%.

6. Super tax rate is reduced by 0.5% for all income slabs exceeding Rs 200 million.

7. 25% tax credit available to full-time teachers and researchers will cease to exist from July 01, 2025.

8. Tax credit, for interest / profit /share in rent or appreciation value of a house, is reintroduced, subject to certain conditions. Tax credit will be available at the effective tax rate of the individual applied on the lesser of total profit / interest paid or 30% of the individual’s taxable income for the year.

9. New definitions for "digitally delivered services" and "e-commerce" are introduced to expand the tax net to online services and marketplaces, including online interfaces facilitating direct buyer-seller interactions.

10. Courier companies and banks/payment gateways are now required to withhold tax (ranging from 0.25% to 2%) on Cash on Delivery (COD) and online payments on account of digitally ordered goods and services delivered from within Pakistan. These tax deductions shall be final tax liability of the recipients. The Courier companies and payment intermediaries are required to file quarterly withholding statements reporting such withholding.

11. A new section 151A is proposed for withholding tax on capital gains from disposal of debt securities. Custodians will deduct 15% tax on the gross capital gain. Exemptions apply for disposals through registered stock exchanges or settled via NCCPL.

12. Withholding tax rate for rendering of services is increased to 15% for both corporate and non-corporate service providers. Withholding tax is treated as minimum tax for the service sector and accordingly increase in these rates will significantly increase their cost of doing business.

13. The withholding tax rate for specified services, subject to reduced withholding tax rate, is also increased from 4% to 6% (for resident service providers) and from 4% to 8% (for non-resident service providers). IT enabled services will continue to be subject to withholding tax at 4%.

14. Withholding tax rate on payments to sports persons is enhanced from 10% to 15%.

15. Non-filers will now be subject to withholding tax at 0.8% as compared to existing 0.6% % on the aggregate amount of cash withdrawals exceeding PKR 50,000 in a single day.

16. Tax rate is enhanced from 15% to 20% on interest paid by banking companies or financial institutions on accounts or deposits maintained. Interest income from other avenues (including national saving schemes) will be subject to tax at 15%.

17. Dividend income from mutual funds will be subject to tax at 25% in case of mutual funds deriving proportional income from average annual investments in debt securities; tax rate will be 15% in case of mutual funds deriving proportional income from average annual investments in equities.

18. Tax rate on offshore digital services is enhanced from 10% to 15%.

19. Capital gains arising from the disposal of debt instruments and government securities held in a SCRA by a non-resident Company will be subject to withholding tax at 20%, if held for less than 12 months. Withholding tax will apply at 10% if securities are held for more than 12 months.

20. A minimum fair market rent for commercial properties is set at 4% of their fair market value annually, unless evidence as to lower rent is provided to the Commissioner.

21. 10% of claimed expenditure on purchases from non-National Tax Number (NTN) holders will be disallowed, with an exception for purchase of agricultural produce from growers.

22. 50% of claimed sales expenditure is to be disallowed, if taxpayer received payment exceeding Rs 200,000 otherwise than through banking channel or digital means.

23. Depreciation for capital assets will be disallowed if the required withholding tax on their acquisition was not deducted and deposited under sections 152 and 153.

24. The useful life for amortizing intangibles without an ascertainable life is reduced from 25 years to 15 years.

25. The business losses cannot be adjusted against income from property for the year.

26. Carry-forward limit for minimum tax under section 113 is reduced from 3 to 2 years.

27. A company or companies in a group, taxable under other than normal tax regime, cannot avail group relief.

28. 100% tax credit is now applicable for all persons engaged in coal mining projects in Sindh, for supply of coal to any businesses / projects, in addition to supply to power generation projects.

29. Digital payments (online payments) are included in the definition of banking channel and any loan through such means will not attract tax under the head ‘income from other sources’.

30. Table 1 & 2 under Clause (66) of Part I of the Second Schedule are merged and all the organizations covered under clause (66) will now need to comply with conditions under section 100C to claim exemption of tax.

31. The definition of Non-Profit Organizations (NPOs) now excludes recreational clubs with high new-membership fees (over Rs 1 million), making their income from member services/sales taxable under the head "income from business".

32. High-value economic transactions for non-compliant individuals and entities are restricted. This includes prohibiting the booking/purchase/registration of motor vehicles, transfer of immovable property, and sale of securities or mutual funds. Banking companies are also restricted from opening/maintaining accounts or allowing cash withdrawals beyond a notified amount for such persons.

33. The Commissioner shall now be taken to have made an assessment of taxable income for the tax year and the tax due thereon equal to respective amounts adjusted under sub-section (2A) i.e. under automated adjusted assessment mechanism.

34. Timeline of 180 days for passing amended assessment order after the issuance of notice is withdrawn.

35. Immunity from selection for tax audit under section 177 or 214C is now applicable for persons whose income tax affairs have been audited in any of the preceding three tax years, as compared to four years applicable in past.

36. The Commissioner is empowered to recover tax demand without an appeal effect order, if the tax payable has been confirmed by higher appellate authorities.

37. Pecuniary limits for filing appeals are withdrawn, allowing any person (other than SOE) to appeal before the Commissioner Appeals. Taxpayers will have the option to file an appeal before the Commissioner Inland Revenue (Appeals) or proceed directly to the Appellate Tribunal Inland Revenue.

38. The appellate mechanism is reinstated almost to the same position as was applicable before the amendments introduced through the Tax Laws (Amendment) Act, 2024.

39. Eligibility criteria for appointment of Chartered Accountants as Members of the Appellate Tribunal is revised to include Chartered Accounts having at least ten years of practice or employment with a practicing Chartered Accountant.

40. The tax will become immediately payable, with recovery to be made within seven days after the order in favour of the department, when the issue has been decided by a High Court or Supreme Court.

41. Tax assessed under an order becomes immediately recoverable once the underlying legal issue has been decided by a High Court or Supreme Court, with recovery to be made within seven days if the High Court decides in favour of the department.

42. The Board or Chief Commissioner is empowered to post an Officer of Inland Revenue at any person's premises to monitor production, supply, services, and unsold stock to determine actual tax liability.

43. Penalties, for failure related to withholding statements filing, are enhanced from Rs 5,000 to Rs.50,000. New penalties are introduced for online marketplaces, allowing unregistered vendors and for banking companies/payment gateways/courier services failing to deduct or pay tax on digitally ordered goods/services.

44. Tax exemption for FATA / PATA regions is extended up to June 30, 2026.

45. Exemption provided to Special Economic Zone, Zone enterprises, Developers, Co-Developers will be available till June 30, 2035, irrespective of the date of commencement of operations.

46. Income of Non-resident individuals and entities associated with the ICC Champions Trophy 2025 is exempted.

47. Advance tax on purchase of immovable property for late filers and non-filers is reduced as under:

S.No.	Fair Market Value of Immovable property	Late Filer	Non-Filer
		Proposed	Proposed
1	Where the fair market value does not exceed Rs. 50 million	4.5%	10.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceeds Rs. 100 million	5.5%	14.5%
3	Where the fair market value exceeds Rs. 100 million	6.5%	18.5%

48. Advance tax on sale of immovable property for late filers and non-filers is enhanced as under:

S.No.	Gross Amount of Consideration Received	Late Filer	Non-Filer
		Proposed	Proposed
1	Where the gross amount of consideration does not exceed Rs. 50 million	7.5%	11.5%
2	Where the gross amount of consideration exceeds Rs. 50 million but does not exceeds Rs. 100 million	8.5%	
3	Where the gross amount of consideration exceeds Rs. 100 million	9.5%	

49. Enhanced tax rates are not applicable under the Tenth Schedule on the disposal of securities acquired on or after July 1, 2025.

50. Withholding tax rate for non-filer under section 151 on account of profit on debt will now apply 100% enhanced rate.

The Digital Presence Proceeds Tax Act, 2025

1. Under the newly introduced Act, cross-border transactions of digitally ordered goods and services shall be subject to Digital Presence Proceeds Tax as under:

S. No.	Description	Rate of Tax
1.	Services	5% of the payment including of advertisement on social media platforms
2.	Goods	5% of the payment made to foreign provider

2. Conditions for chargeability include:

   (a) Transaction via foreign online marketplace/e-store (e.g., Google Play, Shopify).
   (b) Linked to digitally ordered services/goods (e.g., app purchases).
   (c) Pakistani user is a party to the transaction.

3. A foreign vendor shall be considered as having a significant digital presence in Pakistan, where supplying digitally ordered services and goods from outside Pakistan to any user in Pakistan, if the aggregate of number of transactions exceeds five for the current financial year along with one of the additional factors mentioned in the Act.

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4. This tax will not apply to digitally ordered goods where:

   (i) Such payment is effectively connected with a PE in Pakistan of the non-resident person and the goods are supplied from within Pakistan.

   (ii) Digitally delivered services rendered through a local PE of the non-resident person in Pakistan, where such services are received in Pakistan.

5. The responsibility of collecting tax under this Act will lie with payment intermediaries. Tax so collected is to be deposited within 7 days after the end of month. Intermediaries are required to file a quarterly statement containing foreign vendor-wise information regarding all payments related to e-commerce transactions of sale of digitally ordered services and goods

Sales Tax

1. A new term "Abettor" introduced envisages the role of a person who connives with the registered persons involved in fraudulent activities to evade the sales tax, along with proposal of punishment for his offence.

2. The scope of term "tax fraud" is broadened to cover all kinds of frauds including those involving technology.

3. The term "Cargo Tracking System" and "E-Bilty" defined for electronic monitoring and tracking of goods transported within or across Pakistan's territory.

4. Powers of the Board extended to fix the retail price of items classified under Third Schedule to the Act, including minimum retail price of imported items set at 130% of customs value.

5. The scope for withholding tax on e-commerce transactions broadened. Now payment intermediaries (banks, financial institutions, exchange companies, and payment gateways) will collect sales tax on digital payments, while courier companies to collect tax for CoD transactions. There is proposal to increase withholding tax rate from 1% to 2%.

6. The definition of 'e-commerce' has been introduced, and 'online marketplace' is redefined to include all taxable activities to cater digitally ordered taxable goods into the e-commerce sales tax framework.

7. To deter claims related to suspicious or illegal transactions, the Board empowered to use automated risk-based systems to defer or limit input tax adjustments with a right available to the registered person to contest such limit or deferment through application before the Commissioner.

8. The current time limit to pass an assessment order enhanced from 120 days to 180 days from the issuance of show cause notice.

9. Pecuniary limit for deciding the jurisdiction of appeal abolished and taxpayer granted an option to either file appeal with Commissioner (Appeals) or directly approach Tribunal.

10. The Commissioner empowered to obtain subscriber's information from ISPs, PTA and Telcos in connection with any inquiry or investigation in cases of tax fraud.

11. Time limit for filing reference before the High Court enhanced from existing 30 days to revised 60 days of the communication of the order.

12. Enforcement measures introduced to promote sales tax registration and economic documentation whereby unregistered persons are restricted to operate bank account, transfer immovable property, including coercive actions like business premises sealing, property seizure and appointment of receiver to compel compliance.

13. The Board or the Commissioner empowered to appoint experts or auditors for assistance in audit, investigation, litigation or valuation with restriction on disclosure of information by such persons.

14. Chief Commissioner Inland Revenue now can dissent with audited accounts of the registered person relating sales and purchases and related sales tax liability and can refer audit firm to Audit Oversight Board for inspection.

15. Aggregate threshold attributable to taxable supplies made to unregistered persons done away with and now the Board to prescribe the amounts through a notification for the purpose of disallowance of input tax under Section 73.

16. The maximum period of extension by the Board or the Commissioner under Section 74 is restricted to 2 years in aggregate, however, the Board authorized to form a committee to further condone the limitation specified for a period as it may deem fit, after providing opportunity of hearing to the registered person.

17. Sales tax exemption available to erstwhile FATA/PATA proposed to be gradually withdrawn over the period starting July 2025 to June 2029.

18. Exemption on supply of electricity in erstwhile FATA/PATA extended till 30 June 2026.

19. Retail price adjustment of beverages, mineral water, juices and aerated water capped at 5%.

20. Imported coffee, pet food, cereal bars and chocolates classified under the Third Schedule to be taxed at the retail price.

21. Reduced sales tax of 12.5% withdrawn on locally manufactured or assembled motorcars upto 850cc.

22. **E**xemption proposed on the import or lease of aircraft by Pakistan International Airlines Corporation Limited.

Customs Duty

1. Cargo Tracking System and e-bilty mechanism to be introduced for digital monitoring / tracking of goods.

2. Proposal for hiring of technical staff through short-term contracts.

3. Capping of mutilation/scrapping at 10% of imported goods to curb misuse.

4. Non-actionable duty recovery limit to increase from from Rs. 20,000 to Rs. 100,000.

5. Pre-Arrival Payments mechanism to be introduced for faster clearance.

6. Initiatives for AI-Driven clearance system to be taken by establishing Centralized Assessment/Examination Units (CAU/CEU).

7. Penalties for non-compliance of e-bilty provisions.

8. Stricter penalties for non-compliance, including higher fines (e.g., up to Rs. 1 million), imprisonment (up to 6 months), and mandatory confiscation of goods.

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9. Stay order from any court to be conditioned with 50% bank guarantee / payments.
10. Tampered chassis numbers vehicles to be construed as smuggled and will liable for confiscation regardless of their registration status.
11. Appeals cannot be filed if parties skip hearings.
12. Time period for filing of appeal before Tribunal to be enhances (30→45 days).
13. Proposal for creation of a fund from auction proceeds for the purpose of enforcement.
14. Authorization of digital enforcement stations to combat smuggling.

Federal Excise Duty

1. Scope of seizure of goods to be enhanced onto to items that lack mandatory tax stamps, bar codes, banderoles, stickers, or labels as prescribed under section 45A of the FED Act.
2. Confiscation scope broadened to non-compliant dutiable goods beyond counterfeit items.
3. Pecuniary limit for appeal filing to be abolished. Taxpayers to choose appellate forum between Commissioner Appeals or Tribunal.
4. Timeline for filing High Court Reference to enhance upto 60 days.
5. FED on property transaction proposed to be abolished.

Islamabad Capital Territory sales tax on services Highlights

1. FBR may require any service provider as mentioned in Table 1 and Table 2 of the Schedule to ICT Ordinance to integrate its business with the Board's Computerized System.
2. Exemption proposed to be granted to services provided to German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit) GIZ', and services acquired by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations.
3. FBR empowered to specify a negative list of services exempt under the Ordinance.

Petroleum Products (Petroleum Levy and Carbon Levy) Ordinance, 1961

A Carbon Levy is proposed on petroleum products (Motor Spirit, High-Speed Diesel, and Furnace Oil) starting FY 2025–26 at the rate of Rs. 2.5 per liter, with rates increasing in FY 2026–27 to Rs. 5 per liter, aligning with climate policy objectives.

New Energy Vehicles Adoption Levy Act, 2025

1. A levy is proposed to be imposed on all domestically manufactured and imported Internal Combustion Engine (ICE) vehicles.
2. Rates of the levy shall be notified by the Federal Government.

~~3.~~ Proceeds from the levy are exclusively earmarked for promoting New Energy Vehicle (NEV) adoption and related initiatives.

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Income Tax Ordinance, 2001

1. Digitally delivered services [Section 2(17C)]

The Bill proposes to introduce the term "digitally delivered services", which is defined as "any service delivered over the internet or electronic networks, where the delivery is automated and require minimal or no human intervention including music, audio and video streaming services, cloud services, online software applications services, services delivered through online inter-personal interaction i.e., tele medicines, e-learning etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility".

2. E-commerce [Section 2(19AA)]

The Bill proposes to introduce the term "e-commerce", which is defined as "sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using either mobile phone, iPad, Tablet or automated computer-to-computer ordering system."

3. Non-profit organization [Section 2(36)]

The Bill proposes to amend clause (36)(a), which defines "non-profit organization", whereby it seeks to exclude the Clubs formed with a membership fee exceeding one million rupees for any class of new members. This change aims to narrow the scope of entities qualifying as non-profit organizations, potentially impacting their tax-exempt status.

4. Online marketplace [Section 2(38B)]

The Bill proposes to amend the definition of **"online marketplace"**. It now also adds "online interfaces" that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or providing or rendering the services that are being sold. This expansion aims to capture a wider range of digital platforms within the taxation framework, regardless of their direct involvement in the transaction's fulfillment.

These definitions and amendments are being introduced because the Bill aims to bring online services and digital marketplaces under the tax net, especially for services delivered over the internet and for online selling platforms (e-commerce).

Additionally the Bill proposed to extend the withholding tax regime to digital transactions, aiming to capture revenue from the growing e-commerce sector. This includes mandating courier companies to deduct tax on Cash on Delivery (COD) payments, and requiring banks and payment gateways to deduct tax on online payments made through banking channels. These measures are part of a broader strategy to digitize the economy, enhance tax compliance, and bring currently untaxed or under-taxed digital transactions into the formal tax net.

5. Surcharge on Tax Chargeable [Section 4AB]

Currently, individuals and Associations of Persons (AOPs) with a taxable income exceeding Rs 10 million are liable to pay a surcharge at a rate of 10% of the income tax imposed under Division I of Part I of the First Schedule. This surcharge is a general levy applicable across all income categories for those exceeding the specified income threshold.

The Bill proposes to reduce the Surcharge rate from 10% to 9% for only salaried persons.

6. Tax on payments for digital transactions in e-commerce platforms [Section 6A & 8]

The Bill introduces a new section 6A, imposing a tax on payments received for digital transactions within Pakistan's e-commerce landscape.

This tax will apply to persons receiving payments for digitally ordered goods or services delivered from within Pakistan, using locally operated online platforms, including online marketplaces or websites.

The tax will be calculated by applying a specified rate ranging from 0.25% to 2% to the gross amount of these digital transaction receipts. It is clarified that export proceeds already subject to withholding tax under section 154A will be exempt from this new tax.

This new section aims to broaden the tax net to encompass the growing e-commerce sector, ensuring that revenues generated from digital transactions within Pakistan are appropriately taxed, while avoiding double taxation on export-related digital income.

This new tax on digital transactions will be withheld at the source. For Cash on Delivery (COD) payments, the courier service will be responsible for withholding the tax. If payments are made through digital means or banking channels, the payment intermediary (like a bank or payment gateway) will be the one to deduct the tax.

The tax withheld on these digital transactions, as outlined in the new Section 6A, will be considered a final tax on the recipient's income.

7. Income from property [Section 15]

Under the existing Section 15 of the Income Tax Ordinance, any rent a person receives or is due to receive in a tax year, unless it's specifically exempt, is taxed as "Income from Property." This broad definition of "rent" covers payments for using or occupying land or buildings, and even includes forfeited deposits from property sales. Section 15(4) addresses situations where the declared rent is less than the property's fair market rent. In such cases, the taxpayer is treated as having received the fair market rent for the period the property was rented out.

However, determining such fair market rent has always been challenge for the FBR. The Bill proposes that the minimum fair market rent for commercial properties will be considered at 4% of their fair market value per annum. This fair market value is determined according to Section 68 of the Ordinance i.e. value notified by FBR or Deputy Collector.

The fair market value of properties has already been notified for several cities by the Board therefore, determination of the fair market value rent after this proposed amendment will not be difficult.

Minimum value of fair market rent at 4% will not apply if the taxpayer is able to provide evidence for actual rent

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received to the satisfaction of the Commissioner, proving otherwise.

8. Income from Business [Section 18(1)(b)]

The existing law under Section 18(1)(b) clarifies that income of co-operative societies, including income from selling goods or services to members, is taxable as business income. This explanation ensured such activities were clearly within the tax net.

The Bill now proposes to include income of recreational clubs from the sale of goods to be taxed under the head 'income from business'.

This change means that income derived by recreational clubs from selling goods, immovable property, or providing services to their members will now be explicitly deemed taxable under the "Income from Business" head, leaving no ambiguity regarding their tax liability.

This change directly relates to the taxation of recreational clubs. The proposed amendment to the NPO definition specifically identifies and excludes certain recreational clubs from being classified as NPO, particularly those with high membership fees. This means such clubs will no longer enjoy the tax benefits typically associated with NPOs.

9. Deductions not allowed [Section 21]

Section 21 of the Income Tax Ordinance outlines specific expenses that are not allowed as deductions when calculating a person's "Income from Business."

The Bill introduces a significant change by substituting the existing clause (q) in Section 21 with a new provision. Previously, clause (q) dealt with disallowance of expenditure attributable to sales made to unregistered persons under the Sales Tax Act, 1990 by industrial undertakings. The new clause (q) now proposes that 10% of claimed expenditure attributable to purchases made from persons who are not National Tax Number (NTN) holders shall be disallowed as a deduction. This aims to encourage businesses to engage with registered suppliers and formalize transactions, pushing more entities into the tax net.

This disallowance shall not apply to agricultural produce directly purchased from growers. This exception is likely to protect the agricultural sector, where many growers might not possess NTNs, and to avoid disrupting the supply chain for essential commodities.

Furthermore, a second proviso grants the Board the power to exempt specific persons or classes of persons from this clause through notification, subject to certain conditions, offering flexibility for unique circumstances.

The Bill proposes to add the new clause (s). This clause proposes that 50% of the expenditure claimed in respect of a sale shall be disallowed if the taxpayer received a payment exceeding Rs 200,000 otherwise than through a banking channel or digital means against a single invoice containing one or more transactions of supply of goods or provisions of services. This measure is designed to curb large cash transactions and promote the use of formal banking and digital payment channels. By disallowing a substantial portion of the expenditure, when sales proceeds are received in cash above a certain threshold, the government aims to increase transparency, reduce the informal economy, and enhance the traceability of financial transactions, ultimately leading to better tax compliance.

10. Depreciation [Section 22]

Section 22 of the Ordinance currently allows a deduction for the depreciation of a person's depreciable assets that are used in its business during a tax year. The depreciation deduction is computed by applying a specified rate from the Third Schedule against the written down value of the asset at the beginning of the year.

The Bill proposes that depreciation expense shall not be allowed for the amount paid for the addition of capital assets, if the tax deductible under Sections 152 or 153 of the Ordinance in respect of those payments has not been deducted and deposited in the treasury. Furthermore, it clarifies that such amounts paid for capital asset additions will not be included in the cost of the assets for the computation of tax depreciation.

By linking the allowance of depreciation to the proper withholding and deposit of tax on the acquisition of capital assets, the government aims to significantly improve compliance with withholding tax provisions. Businesses failing to fulfill their withholding tax obligations when acquiring assets will now face the penalty of not being able to claim depreciation on those assets, thus increasing their taxable income.

11. Intangibles [Section 24]

Under existing law, an intangible that does not have an ascertainable useful life shall be treated as if it had a normal useful life of twenty-five years for amortization purposes. The Bill proposes to reduce the useful life for such intangibles from 25 to 15 years.

12. Income from other sources [Section 39]

Section 39 of the Income Tax Ordinance acts as a residual head, taxing various types of income not specifically falling under other heads like "Salary," "Income from Property," or "Income from Business."

A key provision within this section is sub-section (3), which targets undocumented financial transactions. Currently, this sub-section stipulates that any amount received as a loan, advance, deposit for shares, or gift by a person in a tax year from another person (excluding banking companies or financial institutions) is treated as "Income from Other Sources" if it is not received via a crossed cheque drawn on a bank or through a banking channel from a person holding a National Tax Number.

The Bill proposes to include payments received through digital means, in the definition of banking channel, as an acceptable mode of payment, which will not be treated as 'income from other sources'.

13. Set off of losses [Section 56]

Currently, if a person sustains a loss under any head of income, the person is entitled to set off the loss against taxable income under other heads of income, except income under the head Salary. Accordingly, the business loss (excluding speculation business loss) sustained during the year can be adjusted against income under other heads.

The Bill proposes to limit the adjustment of business loss and it is proposed that business loss sustained during a tax year shall not be allowed to be adjusted against income from property for that tax year. The adjustment of losses was not allowed against 'Income from Property' prior to Finance Act, 2021.

14. Group relief [Section 59B]

The subsidiary or a holding company may surrender its losses under Section 59B in favour of its holding company or its subsidiary or between another subsidiary of the holding company under group relief provisions as per Section 59B. However, such relief is subject to various conditions mentioned in sub-section 2 of the Section 59B.

The Bill proposes to insert an additional condition that company or companies within the group whose income from business is chargeable to tax under any provisions of the Income Tax Ordinance, 2001 other than Division II of Part I of the First Schedule shall not be entitled to avail group relief. This means that the companies paying minimum tax under Section 113, ACT under Section 113C or tax under any provision of the Ordinance, other than normal corporate tax, will not be entitled for group relief. Therefore, the group relief provisions will be limited to the companies paying tax at normal rate, under Division II of Part I of the First Schedule. This additional restriction may affect the efforts of the government to promote corporatization and group formation.

15. Tax credit for interest paid on Low-cost Housing Loan [newly proposed Section 63A]

Previously, there was a tax credit available under Section 64 (omitted by the Finance Act, 2015) for the profit paid on loan utilized for the construction or acquisition of house. Later, a deductible allowance was introduced through Section 60C which was also omitted by the Finance Act, 2022.

The Bill proposes to re-introduce the tax credit in respect of any interest / profit / share in rent or share in appreciation for value of house paid by the person. However, the credit is subject to following conditions:

- The person utilizes the loan for the construction (including land) or acquisition of one personal house;

- The land area should be up to 2,500 square feet for house or total area up to 2,000 square feet for a flat;

- No credit will be allowed if a deduction has been claimed against income from property under Section 15A; and

- If credit has been claimed once under this section, then no credit for another house or flat will be available during the next fifteen tax years.

The tax credit under newly proposed Section 63A will be allowed on effective tax rate of the person's income on the lesser of:

- total profit/interest paid or
- 30% of the person's taxable income for the year.

This seems to be a measure aiming to support activity in real estate sector of the country, which has remained passive for quite some time due to imposition of higher taxes and other economic factors.

16. Tax credit for certain persons [Section 65F]

Section 65F provides tax credit to certain persons equal to 100%of the tax payable. For availing 100% tax credit, Finance Act, 2024 clarified that such tax credit is applicable for the persons engaged in coal mining projects in Sindh, supplying coal exclusively to power generation projects.
The Bill proposes to relax this condition and the persons engaged in coal mining projects in Sindh can also supply coal to other business/projects in addition to the power generation projects in order to be eligible for 100% tax credit.

17. Purchase of assets through banking channel [Section 75A]

Under the existing law, a person cannot purchase specified assets exceeding prescribed value otherwise than by a crossed cheque drawn on a bank or through crossed demand draft or crossed pay order or any other crossed

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banking instrument showing transfer of amount from one bank account to another bank account.

The Bill proposes to add the payments made through digital means i.e. online payments under the umbrella of payment made through banking channel. This is a measure to streamline the definition of payments made through banking channel in the wake of significant increase in digital payments.

18. Tax credit for charitable organizations [Section 100C]

Currently, the clause (66) of the Part 1 of the Second Schedule of the Ordinance is divided into two tables (Table 1 and Table 2). The organizations mentioned in Table 1 were entitled to exemption from income tax without any condition; however, the organizations mentioned in Table 2 were allowed a tax exemption subject to the approval and conditions mentioned under Section 100C.

The Bill proposes to remove this distinction by revamping the clause (66) of the Part 1 of the Second Schedule. Now the organizations are listed under one table and the un-conditional exemption has been revoked. Now all the organizations have been made subject to provisions of Section 100C of the Ordinance in order to avail tax exemption.

This appears to be an effort to document and regulate the non-profit organizations; however, it may lead to difficulties for the organizations owing to approval procedures under Section 2(36) and applicability of other conditions under Section 100C.

19. Minimum tax on the income of certain persons [Section 113]

The minimum tax paid under Section 113 was initially allowed to be carried forward for adjustment against normal tax liability for five tax years. The Finance Act, 2022 reduced the limit of carry forward from 5 years to 3 years.

Now the Bill proposes to further reduce the limit to carry forward the minimum tax from 3 years to 2 years. This will result in increase of cost of doing business, as the businesses will have to absorb this cost in the form of expired minimum tax credits coupled with a new bar on adjustment of business losses against income from property under Section 56.

This is likely to lead to litigations, especially in respect of minimum tax paid till date and where vested right for carrying forward such excess tax has been created.

20. Restriction on economic transactions by certain persons [Section 114C]

The Bill proposes to insert a new section 114C to restrict certain high-value economic transactions for individuals and entities who are non-compliant with their tax obligations.

The proposed provision prohibits the acceptance or processing of requests or applications from such 'ineligible persons' in relation to certain financial and capital transactions. The following transactions are restricted under the proposed Section 114C:

(a) any application made by any ineligible person, for booking, purchase or registration of a motor vehicle, shall not be accepted or processed by any manufacturer of a motor vehicle or vehicle registering authority of Excise and Taxation Department, as the case may be.

(b) any application or request made by any ineligible person, to any authority responsible for registering, recording or attesting transfer of any immovable property, more than such value in aggregate in a tax year as may be notified by the Federal Government from time to time, shall not be accepted or processed by such authority.

(c) any person, authorized to sell securities including debt securities or units of mutual funds including a person authorized to open and maintain an account or clear such transactions, shall not sell, open an account or clear sale of securities, mutual funds, to an ineligible person being an individual or an association of persons; and

(d) a banking company shall.

(i) not open or maintain an already opened current or a saving bank or investor portfolio securities account, except Asaan account and Pensioner Account, in the name of such persons as may be notified by the Board; and

(ii) not allow cash withdrawal from any of the bank accounts of any person, exceeding the amount as may be notified by the Board from time to time;

The above provisions excluding those in the clause (d) shall not apply to the following:

i). purchase of all rikshaws, motorcycle and tractors;

ii). purchase of a pick-up vehicle having engine capacity up to 800 CC;

iii). purchase of such motor vehicles other than those mentioned in clauses (a) and (b), trucks and buses subject to restrictions and limitations as may be notified by the Board from time to time;

iv). investment in securities up to such limit as may be notified by the Board from time to time; and

v). transactions made by a non-resident person or a public company except that mentioned in sub-clause (ii) of clause (d) of sub-section (1).

All or any of the restrictions imposed under sub-section shall come into force as the Board may by notification in the official Gazette appoint with the approval of the Federal Government.

The term "**eligible person**" broadly covers those who have filed their income tax return for the immediately preceding tax year or are otherwise unable to demonstrate sufficient declared resources in their wealth or financial statements, or through a duly filed sources of investment and expenditure statement.

Ineligible person - Any person who does not qualify as an eligible person shall be treated as ineligible under Section 114C.

The filing of a sources of investment and expenditure statement, supported by an explanation of the declared means, shall be recognized as evidence of financial capacity, though it shall not be treated as a declaration of income for the purpose of Section 111 of the Ordinance.

Provided that in case of an individual, the eligible person shall include his immediate family members.

Immediate family members in respect of an individual, shall include his parents, spouse and dependent children.

Sources of investment and expenditure statement shall mean a declaration by a person filed on the Board's web portal, specifying the sources of funds for making such transaction

Sufficient Resources under the proposed section 114C of the Ordinance means a person's declared financial capacity equal to at least 130% of the value of cash and cash-equivalent assets, including:

- Cash (local or foreign currency),
- Gold (at fair market value),
- Stocks, bonds, receivables (at net realizable value), and
- Any other prescribed liquid assets.

These resources must be disclosed in the wealth statement or sources of investment and expenditure statement (for individuals), or the audited financial statements filed with the latest income tax return (for companies or AOPs).

It is clarified that where any asset, other than those specified in clause (d), is acquired through exchange or disposal of capital assets that have already been duly declared in the wealth statement, financial statements, or sources of investment and expenditure statement, the value of the disposed capital asset, as recorded in the agreement of exchange or transfer, shall be deemed to constitute part of the cash-equivalent assets for the purposes of this section.

The proposed insertion of Section 114C aims to improve tax compliance by making access to certain high-value transactions. Individuals and entities that fail to comply with tax obligations may be barred from purchasing vehicles, acquiring immovable property, or investing in securities. This provision is intended to discourage non-compliance, promote documentation of the economy, and help expand the tax base.

21. Assessments [Section 120 (1) & (2A)]

As per section 120 (1), where a taxpayer has furnished a return of income, the Commissioner shall be treated to have made an assessment of taxable income and tax due thereon equal to amounts specified in the return. Further, such return shall be taken for all purposes to be an assessment order issued by the Commissioner.

In order to ensure accuracy of the returns filed by taxpayers, automated adjusted assessment mechanism was introduced through the Finance Act, 2020 by inserting sub-section (2A) to section 120. Under this mechanism, the return filed shall be subject to an automatic review and adjustment within six months of filing of return for rectification of any numerical errors or incorrect claims, losses, deductible allowances or tax credit, or wrongful carry forward of losses that are apparent from the return of income. In this regard, a notice shall be issued to the taxpayer before the adjustments are effected in the return, which is required to be responded within 30 days of the date of notice.

Further, where no such adjustments are made within the specified period of six months, the return filed shall be deemed to have been automatically adjusted on the day the return is filed and automatic intimation through IRIS shall be forwarded to the taxpayer.

"Arithmetical Error" includes any wrong or incorrect calculation of tax payable including any minimum or final tax payable

"An incorrect claim apparent from any information in the return" shall mean a claim, based on an entry, in the return

i. of an item, which is inconsistent with another entry of the same or some other item in such return;

ii. regarding any tax payment which is not verified from the collection system; or

iii. in respect of a deduction, where such deduction exceeds specified statutory limit which may have been expressed as monetary amount or percentage or ratio or fraction.

The Bill now proposes to amend the section 120, whereby the Commissioner shall be taken to have made an assessment of taxable income for that tax year and the tax due thereon equal to respective amounts adjusted under sub-section (2A) i.e. under automated adjusted assessment mechanism.

22. Amendment of assessments [Section 122]

Under the existing provisions of law, proceedings for amendment of assessment under section 122 shall be concluded and an order is passed within 180 days of issuance of show cause notice or within such extended period as the Commissioner may, for reasons to be recorded in writing, so however, such extended period shall in no case exceed 90 days. Further any period during which the proceedings are adjourned on account of a stay order or Alternative Dispute Resolution proceedings or agreed assessment proceedings under section 122D or the time taken through adjournment by the taxpayer not exceeding sixty days shall be excluded from the computation of the period specified above.

The Bill proposes to delete the provisos specifying timeline for passing of an order after issuance of show cause notice.

The continuity of amendment proceedings without any time limit will cause hardship for the taxpayers.

23. Assessment giving effect to an order [Section 124]

The Bill proposes to empower the Commissioner to make recovery of tax demand, without passing an appeal effect order, where the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court has confirmed the tax payable as determined in the order appealed against.

However, where the Appellate Tribunal, High Court or Supreme Court has partly set -aside the order and confirmed or modified the order on some other issues that were subject matter of the appeal, the Commissioner shall issue an appeal effect order on the prescribed form determining the tax payable as a result of the confirmation or modification by the Appellate Tribunal, High Court or Supreme Court and excluding the tax payable on the matters that have been set aside or remanded and the tax payable on the basis of the issues that have been confirmed or modified shall be paid or recovered under the provisions of the Ordinance.

The above amendments are likely to cause hardship for the taxpayers, especially in cases where the orders confirming demand are not received by the taxpayer on timely basis.

24. Pecuniary jurisdiction in appeals [Section 126A]

The Tax Laws (Amendment) Act, 2024 introduced pecuniary limits to determine the appellate forum available to a taxpayer as under:

(a)an appeal to the Commissioner (Appeals) shall lie where the value of assessment of tax or, as the case may be, refund of tax does not exceed Rs 20 million.

(b) an appeal to the Appellate Tribunal Inland Revenue shall lie where the value of assessment of tax or, as the case may be, refund of tax exceeds Rs 20 million.

The Bill proposes to omit the pecuniary limits.

25. Appeal to the Commissioner (Appeals) [Section 127]

Under the existing law, a person could only file an appeal before the Commissioner appeal where the value of assessment of tax or, as the case may be, refund of tax does not exceed Rs 20 million.

Consequence to the proposed amendment in section 126A for omitting such limit, the Bill also proposes that any person, other than State Owned Enterprise (SOE), may prefer an appeal before the Commissioner Appeals.

The Bill further proposes that an aggrieved person may have the option to either file appeal before Commissioner Inland Revenue (Appeals) directly or may surrender his right of appeal before Commissioner Inland Revenue (Appeals) and avail the next statutory appellate forum by lodging the appeal directly before the Appellate Tribunal Inland Revenue.

The proposed amendment reverses the amendments introduced through Tax Laws (Amendment) Act, 2024 by providing option of preferring an appeal before the Commissioner Appeals or directly to Appellate Tribunal. Accordingly, the taxpayers will now have both the forums available, as were available before Tax Laws (Amendment) Act, 2024.

This is a positive amendment considering the hardship being faced by the taxpayers.

26. Appellate Tribunal [Section 130]

Under the existing law, a Chartered Accountant, who has for a period of not less than ten years practiced professionally as a chartered accountant within the meaning of the Chartered Accountants' Ordinance, 1961 (X of 1961), can be appointed as a Member of Appellate Tribunal;

The Bill proposes to revise the eligibility criteria whereby a Chartered Accountants is now eligible to be appointed as Members of Appellate Tribunal, if has, for an aggregate period of not less than ten years, been:

(i) in practice as a Chartered Accountant, either individually or in a firm of Chartered Accountants, within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961); or

(ii) a Chartered Accountant, within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961), and has been in employment of a Chartered Accountant in practice as specified in sub-clause (i) above at least for a period of ten years.

27. Appeal to the Appellate Tribunal [Section 131]

Under existing law, a person other than a SOE, may prefer appeal before the Appellate Tribunal, subject to pecuniary limit as per section 126A introduced through the Tax Laws (Amendment) Act, 2024. The

Bill proposes to reverse such amendment and where the taxpayer, or the Commissioner objects to an order passed by the Commissioner (Appeals), the taxpayer or Commissioner may appeal to the Appellate Tribunal against such order within thirty days of the receipt of such order.

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Provided that the taxpayer may directly appeal against the order of the Officer Inland Revenue or the Commissioner as the case may be to the Appellate Tribunal by exercising the option as provided in sub-section (1) of section 127.

28. Reference to High Court [Section 133]

Under the existing law, a taxpayer is required to file a reference within 30 days of receiving an order from the Commissioner Appeals. Considering the reversal of amendments introduced through the Tax Laws (Amendment) Act, 2024, a taxpayer can now prefer a reference before the High Court within 60 days, after receiving an order from the Appellate Tribunal. The Bill accordingly proposes making necessary amendments in section 133 by removing references to order of the Commissioner Appeals. Further, reference to mixed questions of law is also proposed to be omitted.

29. Alternative Dispute Resolution [Section 134(11)]

Under existing subsection (11), if the Committee fails to decide within the period of sixty days under sub-section (5), the Board shall dissolve the Committee by an order in writing and the matter shall be decided by the court of law or the appellate authority where the dispute is pending under litigation.

The Bill proposes to introduce sub-section (11A), whereby in the case of a state-owned enterprise, if the Committee fails to decide within a period of sixty days, the Board shall reappoint a Committee under sub-section (3) that shall decide the dispute in accordance with sub-section (5) of this section.

The provisions of subsection (11) for dissolving the Committee and referring the matter to the Court will now apply in case of state owned company, if the reappointed Committee fails to decide the matter within a further period of sixty days.

30. Recovery of tax by District Officer (Revenue) [Section 138A (3A)]

Through the Tax Laws (Amendment) Ordinance, 2025 a new subsection (3A) was introduced which stipulates that where a tax liability arises under any provision or assessment order and the issue giving rise to the tax liability has been decided by a High Court or the Supreme Court of Pakistan, such tax becomes immediately payable or within the time specified in a notice issued by the income tax authority notwithstanding any other provision of law or any contrary decision of any court or authority.

The Bill proposes the above amendment for enactment through the Finance Act. The Bill further proposes that where the High Court decides the appeal filed by the Commissioner in favor of the department under section 133, recovery shall be made after seven days from the date of the order of the High Court.

31. Recovery of tax from persons holding money on behalf of a taxpayer [Section 140 (6A)]

Through the Tax Laws (Amendment) Ordinance, 2025 a new subsection (3A) was introduced whereby tax assessed under an order was made immediately recoverable once the underlying legal issue has been decided by a High Court or the Supreme Court, regardless of any provisions in the Ordinance or any decision of a court or authority that might otherwise delay recovery.

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The Bill proposes the above amendment for enactment through the Finance Act. The Bill further proposes that where the High Court decides the appeal filed by the Commissioner in favor of the department under section 133, recovery shall be made after seven days from the date of the order of the High Court.

As a consequence of the insertion of these provisions, where a tax liability arises under any provision (e.g. section 4B, 4C or 7E) and the issue is decided by the higher courts giving rise to the tax liability then the tax would immediately become payable for all the taxpayers who are impacted by that provision of law.

These amendments are intended to streamline the recovery process by removing procedural delays caused by appeals or stay orders on legal issues already conclusively settled by the superior judiciary and aim to discourage unnecessary prolongation of disputes over settled matters and prevent abuse of appellate remedies to defer payment.

While this seems to help FBR implement settled law uniformly and without delay and to help in reducing backlog in litigation by narrowing down issues open for appeal but at the same time this grants wide discretion to tax authorities, which may be misused in borderline or fact-specific cases.

32. Salary [Section149]

The Bill proposes the insertion of a new sub-section (1A) in section 149 of the Ordinance. This amendment mandates that any person:

(a) responsible for paying pension, annuity, or commutation of pension to a former employee under the age of seventy, and

(b) the amount of pension payment in a tax year exceeds PKR 10 million,

shall deduct tax at source, on the amount exceeding the above threshold, at the rate applicable to a salaried individual, in addition to any tax already deducted on account of surcharge as provided under section 4AB of the Ordinance.

Furthermore, the payer, while tax withholding, is required to adjust for any tax previously withheld from the former employee under other heads and consider any tax credits admissible under sections 61 and 63 of the Ordinance, based on documentary evidence provided by the employee for:

(a) tax withheld from the former employee under this Ordinance during the tax year; or

(b) any excess deduction or deficiency arising out of any previous deduction; or

(c) failure to make deduction during the year.

This measure aims to ensure that high-value pension or annuity payments are subject to appropriate tax deductions, aligning with the principles of progressive taxation and enhancing overall tax compliance.

33. Capital Gains on Debt Securities [Section 151A]

The Bill proposes to insert a new section 151A relating to withholding tax on capital gains arising on disposal of certain debt securities.

As per the proposed provision, every custodian of debt securities, including a banking company maintaining an Investor Portfolio Securities (IPS) Account on behalf of the holder of a debt security, shall be responsible to deduct tax at the time of disposal of debt securities, including government securities. The deduction shall be made on the gross amount of capital gain arising to the holder at the rate of 15% and such deducted amount shall be deposited into the government treasury.

However, the proposed provision shall not apply in case of disposal of debt securities that are:

(a) Made through a registered stock exchange, and

(b) Settled through the National Clearing Company of Pakistan Limited (NCCPL).

Further, the capital gain arising to the holder on disposal of debt securities as referred to in sub-section (1), shall be computed in accordance with the formula A-B, where A is the consideration received on disposal of the security, and B is the cost of acquisition of the security.

This amendment introduces a specific withholding requirement on gains from debt securities outside stock exchange mechanisms and enhances tax compliance from portfolio investors.

34. Payment for goods, services and contracts [Section 153]

As per existing provisions of the Ordinance, tax under section 153(1) is required to be deducted at prescribed rates by the payer at the time of making payments for goods, services, and contracts. The Ordinance did not previously contain any special mechanism for tax collection on behalf of sellers operating through digital or e-commerce platforms, nor did it define entities such as payment intermediaries or courier services specifically for this purpose. The Bill now proposes to introduce a new mechanism through insertion of sub-sections (2A) and (2B) in section 153, specifically targeting the e-commerce ecosystem, as follows:

New sub-section (2A) mandates that:

i- Every payment intermediary at the time of processing payment through digital means, on behalf of a seller of digitally ordered goods or services through locally operated e-commerce platforms (including websites)

ii- Every courier business providing courier services collecting cash from a buyer under Cash on Delivery payment terms on behalf of a seller for the supply of digitally ordered goods and services through e-commerce platforms (including websites)

shall collect tax at the time of payment/remittance to the seller from the gross amount payable (inclusive of sales tax, if any) and deposit it into the government treasury. The applicable rate will be as specified in newly proposed Division IVA of Part I of the First Schedule to the Ordinance.

Furthermore, the Bill proposes to insert sub-section (2B) which provides that no further tax deduction under section 153(1) shall be required by the payer if tax has already been collected under sub-section (2A) by a payment intermediary or courier service. This is aimed at eliminating duplication of withholding obligations.

The Bill also proposes to insert new sub-clauses in clause (i) of sub-section (7) by expanding the definition of prescribed person to include "payment intermediary" and "courier service", for the purpose of subsection (2A).

The Bill has also proposed to insert definitions of courier service as clause (iia) and payment intermediary as clause (iib) as below:

"Courier service" means any specialized entity that provides fast, secure and often tracked transportation of documents, packages and small freight, typically offering door-to-door delivery solutions of goods within specific timeframes and in case of digitally ordered goods in e-commerce delivery and collection of cash on behalf of the seller and such delivery service provider includes but not limited to:

(a) logistics services;

(b) ride-haling services;

(c) food delivery platforms;

(d) e-commerce services

“Payment intermediary” means any third part entity including a banking company, financial institution, a licensed foreign exchange company or payments gateways that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

35. Statements [Section 165C]

The Bill proposes to insert new section 165C in the Ordinance, aiming to bolster transparency and compliance in Pakistan's digital economy. Section 165C deals with the transactions referred in newly introduced section 6A (tax on digital transactions) and withholding of tax on such transactions under section 153(2A) i.e. withholding on Digital Transactions by Payment Intermediaries and Courier Services, by mandating structured and regular disclosure of digital commerce activities. Key provisions include:

Quarterly Reporting by Payment Intermediaries and Courier Services:

Entities responsible for deducting tax under sub-section (2A) of section 153 of the Ordinance shall file quarterly withholding statements with the Commissioner. These statements shall include the following details:

- Seller's name, NTN/CNIC, and address
- Transaction date, unique identifier (invoice number), and total transaction value
- Total tax deducted at the time of payment to the seller
- Any other prescribed particulars

This proposed amendment is expected to improve tax compliance and broaden the tax base. On the other hand, it may also impose additional compliance burdens on smaller e-commerce platforms lacking robust reporting infrastructure.

Monthly Reporting by Online Market Places:

All online marketplaces operating in Pakistan are mandated to submit a monthly statement containing the following particulars for each vendor registered on their platform who supplies digitally ordered goods and services in e-commerce:

- Vendor’s name and address
- Sales Tax registration number
- Income Tax registration number
- Transactional and aggregated monthly turnover of the vendor
- Amount deposited into the vendor’s bank account against such sales

Furthermore, all relevant provisions of section 165 of the Ordinance, excluding sub-sections (1), (1A), and (6) of the Ordinance, shall apply mutatis mutandis with respect to:

- Due dates for filing withholding statements
- Procedures for revision of submitted statements
- Authority of the Commissioner to call for statements
- Extension of time to furnish statements after the due date
- Powers of the Board related to withholding statements
- Filing of annual withholding statements
- Reconciliation of monthly withholding statements with the vendor’s annual income tax return

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36. Exchange of Banking and Tax Information Related to High-Risk Persons [Section 175AA]

Through the insertion of section 175AA, the Bill proposes to strengthen the framework for exchange of financial information related to high risk persons by facilitating structured information sharing with scheduled banks.

Sharing of Taxpayer Information with Banks
The newly inserted provision seeks to authorize FBR to share key taxpayer information with scheduled banks in Pakistan, including:

- Turnover, taxable income, and other financial details from income tax returns, wealth statements, and financial statements.
- Data-based algorithms that banks can use to identify high-risk persons.

Information Sharing by Banks
Banks must provide particulars, including names and account numbers, of persons where banking information is inconsistent with the data algorithms shared by the FBR. This provision aims to address discrepancies and ensure tax compliance by tracking and reconciling financial transactions.

Confidentiality Clause
All information received under Section 175AA will be used strictly for tax and related purposes and will be kept confidential to avoid misuse or unauthorized disclosure.

37. Posting of Officer of Inland Revenue [Section 175C]

Through the Tax Laws (Amendment) Ordinance, 2025 a new section 175C was inserted, whereby the Board or the Chief Commissioner is empowered to post an Officer of Inland Revenue, or such other officials, at any time at the premises of any person or class of persons, for the purpose of monitoring production, supply of goods, rendering of services, and unsold stock, in order to determine the actual tax liability. The Bill proposes to enact such amendment.

This change is likely to have a significant compliance impact, as businesses may now be subject to increased on-site monitoring by tax authorities. It reflects the government's intent to improve real-time oversight of economic activity and reduce tax evasion. However, it may also increase the administrative and operational burden on taxpayers, especially in sectors with complex supply chains or inventory systems.

38. Tax Payer's Registration [Section 181]

The Bill proposes significant changes to section 181 of the Ordinance. Under the proposed amendment, the scope of the term "taxpayer" is being widened by inserting a clarificatory expression in sub-section (1), whereby it will now explicitly include persons "selling digitally ordered goods or services from within Pakistan using online marketplace or a courier service."

This aims to capture a broad range of digital sellers operating through platforms such as e-commerce websites and delivery networks, whether they supply goods or services.

Additionally, a new sub-section (1A) is proposed to be inserted, making it **mandatory for all online marketplaces and courier services** engaged in facilitating e-commerce to ensure that **no vendor is allowed to use their platform unless registered under both the Sales Tax Act, 1990 and the Ordinance.**

As a consequence of the proposed amendment, a rise in sales tax and income tax registrations is anticipated among small and medium-sized online vendors. However, it may also increase the **compliance burden** on online marketplaces and courier services, who will now be required to maintain proper verification systems to ensure vendors' tax registrations are in place.

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39. Offences and penalties [Section 182]

Proposed amendments to existing entries in the Table

In Serial No. IA, which deals with withholding statements, reference to the newly inserted section 165C of the Ordinance is proposed to be inserted. Further, the amount of penalty in the said entry is proposed to be increased from PKR. 5,000 to PKR. 50,000.

Proposed new entries in the Table

The following new entries in respect of offences specified therein are also proposed to be inserted in Table given in section 182:

Serial No.	Offences	Penalties	Section of the Ordinance to which offense has reference
3B	Where an online marketplace allows an unregistered vendor, whether resident or non-resident involved in e commerce business supplying digitally ordered goods or services, who is required to register under Sales Tax Act 1990 and Income Tax Ordinance, 2001, under section 181 before using the platform.	Such online marketplace or a courier service provider shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default	181(1A)
12B	Where a banking company or payment gateway or a courier service provider, as the case may be, fails to deduct tax at the time of making payment to a seller, or fails to pay the tax deducted as required under section 160, with respect to digitally ordered goods or rendering or providing of digitally delivered services using e-commerce platform.	Such person shall pay a penalty equal to hundred percent of the amount of tax involved.	153(2A)
15A	Any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to registered under Sales Tax Act, 1990 and Income Tax Ordinance, 2001, fails to registered under the aforementioned statues.	Such seller shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default.	181

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40. Income tax authorities [Section 207]

Section 207 of the Ordinance enlists the Income Tax authorities from clause a to l. The Bill proposes to insert a new clause "m", namely "auditor appointed under section 222". As a result, the auditors appointed by the Commissioner in the capacity of an expert shall also have the status of Tax Authority for the purpose of this Ordinance.

41. Condonation of time limit [Section 214A]

Section 214A of the Ordinance currently allows the Board to grant relaxation in time limits prescribed under the Ordinance for filing applications or completing certain actions. This power can be used either before or after the deadline has passed, and may also be delegated to any Chief Commissioner or Commissioner through notification.

The Bill, through insertion of two new provisos, now proposes to place a time limit on this relaxation. It is proposed that the Board or its officers will not be able to allow condonation in time limit of more than two years in aggregate. However, an exception to this limit has also been proposed. If there is a situation where a delay has caused a significant loss to the exchequer, either due to the taxpayer's actions or due to a Commissioner's conduct, a committee to be formed by the Board may allow further time beyond two years. In such cases, the affected person will be given a reasonable opportunity of being heard before any decision is made.

42. Disclosure of information by public servant [Section 216]

As per existing provisions of the Ordinance, section 216 places a strict bar on disclosure of taxpayer information or documents by public servants, except in specifically enumerated cases under sub-section (3). This ensures the confidentiality of taxpayer data, a fundamental principle of tax administration, aimed at building trust and ensuring privacy.

The Bill now proposes to expand the list of exceptions under sub-section (3) through insertion of clauses (ba), (kd) and (ke) as follows:

(ba) Disclosure of taxpayer information to an auditor appointed on contractual basis or engaged through a third party including a payroll firm in the Federal Board of Revenue, after a non-disclosure agreement is made with such auditor as may be prescribed, to assist any authority mentioned in clauses (b) to (g) of sub-section (1) of section 207.

(kd) Disclosure of taxpayer information to the Tax Policy Office for the purpose of processing and analyzing data for research and policy analysis;

(ke) Disclosure of taxpayer information to the recognized universities and international donor agencies subject to the conditions that before sharing, the taxpayer's data shall be anonymized.

These proposed insertions aim to enhance data-driven policy making and audit capacity by enabling controlled access to taxpayer information. While supporting transparency and institutional efficiency, they necessitate robust data privacy safeguards to maintain taxpayer trust.

43. Service of notices and other documents [Section 218(2)]

Under the current law, , any notice, order or requisition required to be served on any person (other than a resident individual to whom sub-section (1) applies) for the purposes of this Ordinance shall be treated as properly served on the person if –

(a) personally served on the representative of the person;

(b) sent by registered post or courier service to the person's registered office or address for service of notices under this Ordinance in Pakistan, or where the person does not have such office or address, the notice is sent by registered post to any office or place of business of the person in Pakistan;

(c) served on the person in the manner prescribed for service of a summons under the Code of Civil Procedure, 1908 (V of 1908); or

(d) served on the individual electronically in the prescribed manner.

The Bill proposes replacing the term "individual" with "person" in section 218(2)(d) of the Ordinance. This change aims to extend the electronic service of notices and documents to all taxpayers, including individuals, companies, associations of persons (AOPs), and other legal entities.

By broadening the scope, the Board seeks to modernize tax communication, ensuring uniformity and efficiency across all taxpayer categories including non-resident persons.

44. Appointment of Experts [Section 222]

Section 222 of the Ordinance allows the Commissioner to appoint any expert, as needed, for audits, valuation or other purposes.

The Bill proposes to insert a new sub-section (2) allowing the Board to:

(a) Appoint auditors on a contractual basis, or

(b) Hire auditors through third-party arrangements.

Furthermore, the total number of such auditors shall be limited to 2,000.

This amendment empowers the Board to strengthen audit capacity by engaging up to 2,000 external auditors, promoting broader tax enforcement without increasing permanent staff.

45. Computation of Limitation Period [Section 226]

The section 226 of the Ordinance deals with the computation of the limitation period for an appeal, application, assessment or other proceeding under the Ordinance. The sub-clause (ii) of clause (b) of section 226 provides that the period during which an assessment or other proceeding remains pending before a Court or Appellate Tribunal shall be excluded while computing the limitation period for assessments or other proceedings.

The Bill proposes to amend this section by including the Alternate Dispute Resolution Committee (ADRC) alongside Courts and Appellate Tribunal. This means that the time for which a case remains pending before the ADRC will also be excluded from the limitation period. This amendment ensures that the delay caused due to proceedings before the ADRC will not count towards the time limit for completing tax assessments or proceedings, aligning the ADRC's status with other judicial forums.

46. Advance tax on cash withdrawal [Section 231 AB]

Under the existing provisions of Section 231AB of the Ordinance, every banking company is required to deduct advance tax at the rate of **0.6%** on the aggregate amount of **cash withdrawals exceeding PKR 50,000 in a single day** from persons **not appearing in the Active Taxpayers' List (ATL).**

The **Bill** proposes to **increase the withholding tax rate from 0.6% to 0.8%** in such cases.

This proposed amendment is aimed at **promoting tax compliance** and **encouraging non-filers to become part of the documented economy** by registering and filing their returns in order to avoid the higher rate of deduction.

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The First Schedule

Rates of Tax

Part I

Rates of Tax for Salaried Individuals
[Clause II]

The tax slabs for salaried individuals remain unchanged, with an exemption for those with taxable income up to Rs. 600,000 for the year. The maximum tax rate for salaried individuals continues to be 35%. However, the fixed amount of tax has been reduced to Rs. 616,000.

A comparison of existing and proposed tax rates for salaried individuals is given below:

S. No	Existing		Proposed	
	Income Slabs	Rate of Tax	Income Slabs	Rate of Tax
1	Where taxable income does not exceed Rs. 600,000	0%	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	1% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 plus 15% of the amount exceeding Rs. 1,200,000	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 6,000 plus 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. 180,000 + 25% of the amount exceeding Rs. 2,200,000	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
5	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000	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
6	Where taxable income exceeds Rs 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000	Where taxable income exceeds Rs 4,100,000	Rs. 616,000 + 35% of the amount exceeding Rs. 4,100,000

Below is the comparison between different amounts of salaries taxed at current tax rates and potential tax liability as per the proposed rates:

S. No.	Annual Taxable Income (Rs)	Annual Tax Liability (Rs)		
		Existing	Proposed	Increase / (Decrease)
1	600,000	-	-	-
2	1,200,000	30,000	6,000	(24,000)
3	1,800,000	120,000	72,000	(48,000)
4	2,500,000	255,000	185,000	(70,000)
5	3,500,000	520,000	436,000	(84,000)
6	4,000,000	670,000	586,000	(84,000)

Further, the Finance Act 2024 introduced a new section 4AB, whereby surcharge of 10% on income tax was payable by every individual and association of persons, if their taxable income **exceeded** Rs 10 million. The Bill proposes to reduce this surcharge rate from 10% to 9% in respect of salaried individuals. Consequently, below is a comparison of salary amounts exceeding Rs 10 million, taxed at the current rates versus the potential tax liability under the proposed rates:

Taxable Income	Existing			Proposed			Difference
	Tax Liability	Surcharge @ 10%	Total Tax Liability	Tax Liability	Surcharge @ 9%	Total Tax Liability	
Amount in Rupees							
10,000,001	2,765,000	276,500	3,041,500	2,681,000	241,290	2,922,290	(119,210)
15,000,000	4,515,000	451,500	4,966,500	4,431,000	398,790	4,829,790	(136,710)
20,000,000	6,265,000	626,500	6,891,500	6,181,000	556,290	6,737,290	(154,210)

The reduction in salary tax rates is a positive step and will provide relief to the salaried class, who are already overburdened and have expressed concerns on different forums.

Moreover, reducing the fixed amount of tax under the tax slabs for salaried individuals can lead to significant economic benefits. Economically, it increases disposable income, allowing individuals to save more and invest in financial instruments, thereby enhancing their financial security. This increase in disposable income can also stimulate consumer spending, contributing to economic growth. Lower tax rates can improve tax compliance, reducing the administrative burden on both taxpayers and tax authorities.

Rates of Super Tax
Division IIB

The Bill proposes to reduce the Super Tax rate by 0.5% for income slabs exceeding Rs 200 million.

A comparison of existing and proposed tax rates for super tax on high earning persons under section 4C is given below:

S. No	Income under section 4C	Rate of Tax		
		For the Tax Year 2022	For the tax Year 2023, 2024 and 2025	For tax Year 2026 and onwards (Proposed)
(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

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<table>
<tr><th rowspan="2">S. No</th><th rowspan="2">Income under section 4C</th><th colspan="3">Rate of Tax</th></tr>
<tr><th>For the Tax Year 2022</th><th>For the tax Year 2023, 2024 and 2025</th><th>For tax Year 2026 and onwards (Proposed)</th></tr>
<tr><td>2.</td><td>Where income exceeds Rs 150 million but does not exceed Rs. 200 million</td><td>1% of the income</td><td>1% of the income</td><td>1% of the income</td></tr>
<tr><td>3.</td><td>Where income exceeds Rs. 200 million but does not exceed Rs. 250 million</td><td>2% of the income</td><td>2% of the income</td><td>1.5% of the income</td></tr>
<tr><td>4.</td><td>Where income exceeds Rs. 250 million but does not exceed Rs. 300 million</td><td>3% of the income</td><td>3% of the income</td><td>2.5% of the income</td></tr>
<tr><td>5.</td><td>Where income exceeds Rs. 300 million but does not exceed Rs. 350 million</td><td rowspan="4">4% of the income</td><td>4% of the income</td><td>3.5% of the income</td></tr>
<tr><td>6.</td><td>Where income exceeds Rs. 350 million but does not exceed Rs. 400 million</td><td>6% of the income</td><td>5.5% of the income</td></tr>
<tr><td>7.</td><td>Where income exceeds Rs. 400 million but does not exceed Rs. 500 million</td><td>8% of the income</td><td>7.5% of the income</td></tr>
<tr><td>8.</td><td>Where income exceeds Rs. 500 million</td><td>10% of the income</td><td>10% of the income”</td></tr>
</table>

Rate of Dividend Tax
[Division III]

Currently, clause (b) of Division III provides tax rates on dividend income from mutual funds and Real Estate Investment Trusts (REITs) at 15% and 25%, respectively, subject to certain conditions.

The Bill proposes to substitute the existing clause (b) with new clauses (b) and (ba) respectively. As a result of these changes, the rates of tax to be charged on dividend income from mutual funds and REITs shall be as follows:

- 15% in the case of REIT and cases other than those mentioned in clauses (a), (ba), (c) and (d);
- 25% in case of mutual funds deriving proportional income from average annual investments in debt securities; and
- 15% in case of mutual funds deriving proportional income from average annual investments in equities.

Rate for Profit on Debt
[Division IIIA]

Section 7B of the Ordinance, governs the tax on profit on debt. This section applies to individuals (other than companies) who receive profit on debt from persons mentioned in Section 151(1), such as banking companies, financial institutions, and government bodies. The current provisions specify that tax should be imposed at the rate of 15%. The proposed changes in the Bill seek to amend Division IIIA regarding the rate of tax on profit on debt under Section 7B. These changes introduce a two-tier tax rate system:

- Profit on debt paid by banking companies or financial institutions on accounts or deposits maintained with them shall be taxed at a rate of 20%.
- For all other cases, the tax rate shall remain at 15%.

The higher rate for banking-related profits could lead to reduced demand for traditional deposit products, possibly shifting investment toward other financial products with a more favorable tax rate. While the change may increase tax revenue from the banking sector in the short term, it could also have negative consequences on savings behaviour and the broader banking sector, prompting investors to seek tax-efficient alternatives.

Rate of Tax on Certain Payments
[Division IV]

Currently, withholding tax rate on payment of fee for offshore digital services is 10%. The Bill proposes to increase this rate to 15%.

Division IVA
Rate of Tax on Payments for Digital Transactions in E-commerce Platforms

The Bill proposes to insert specific tax rates under section 6A of the Ordinance for payments made for digitally ordered goods or digitally delivered services through e-commerce platforms. The proposed tax rates are:

(i) Digital Means or banking channels by payment intermediary:

S. No.	Description	Tax Rates
1.	Where the amount paid does not exceed rupees ten thousand	1% of the gross amount paid
2.	Where the amount paid exceeds rupees ten thousand but does not exceed rupees twenty thousand	2% of the gross amount paid
3.	Where the amount paid exceeds rupees twenty thousand	0.25% of the gross amount paid

(ii) Cash on Delivery by courier service:

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

Part III

Advance Tax on Dividend
[Division I]

Following rates of tax are proposed to be deducted on dividend income from mutual funds and REITs:

- 15% in the case of REIT and cases other than those mentioned in clauses (a), (ba), (c) and (d);
- 25% in case of mutual funds deriving proportional income from average annual investments in debt securities; and
- 15% in case of mutual funds deriving proportional income from average annual investments in equities.

Profit on Debt
[Division IA]

Section 151 of the Ordinance, addresses the taxation of profit on debt, requiring tax to be deducted at source on various types of debt-related payments. These include yields from accounts, deposits, and certificates under schemes such as the National Savings Scheme or Post Office Savings Accounts, as well as profits paid by banking companies and financial institutions on deposits maintained with them. The tax deduction currently stands at 15%.

The proposed changes in the Bill introduce a two-tier tax rate structure for profit on debt under Division IA:

- The tax rate for profit on debt paid by banking companies or financial institutions on accounts or deposits maintained with them is proposed be increased to 20%.
- For all other cases, where profit on debt is paid from other sources, the tax rate shall remain at 15%.

This proposed change could discourage savings in traditional bank accounts, potentially leading to shifts in investment behaviour toward non-banking products. It may result in higher tax revenue from the banking sector, but could also alter consumer investment patterns and affect the banking sector's liquidity.

Division II

Various amendments are proposed in this Division, resulting in the following changes in withholding tax rates for payments made to permanent establishment of a non-resident :-

Serial No.	Section Reference of Ordinance	Nature of Payment	Existing Rate	Proposed Rate
1	Section 152 (2A)(b)	Specific services other than IT services and IT enabled services as defined in section 2.	4%	8%
2	Section 152 (2A)(b)	IT services and IT enabled services as defined in section 2.	4%	4%
3	Section 152(2A)(b)	Services (other than those mentioned in serial No. 1 and 2 above) provided by Companies	9%	15%

Serial No.	Section Reference of Ordinance	Nature of Payment	Existing Rate	Proposed Rate
4	Section 152(2A)(b)	Services (other than those mentioned in serial No. 1 and 2 above) provided by individuals and AOPs	11%	15%
5	Section 152(2A)(b)	Payment received by sportspersons	10%	15%

Withholding tax is treated as minimum tax for the service sector and accordingly increase in these rates will significantly increase their cost of doing business.

Division III

Various amendments are proposed in this Division, which would result in the following changes in withholding tax rates for payments made to resident persons:-

Serial No.	Section Reference of Ordinance	Nature of Payment	Existing Rate	Proposed Rate
1	Section 153 (1)(b)	Specified services other than IT services and IT enabled services as defined in section 2.	4%	6%
2	Section 153 (1)(b)	IT services and IT enabled services as defined in section 2.	4%	4%
3	Section 153 (1)(b)	Services (other than those mentioned in serial No. 1 and 2 above) provided by Companies	9%	15%
4	Section 153 (1)(b)	Services (other than those mentioned in serial No. 1 and 2 above) provided by individuals and AOPs	11%	15%
5	Section 153(1)(c)	Payment received by sportspersons	10%	15%

Withholding tax is treated as minimum tax for the service sector and accordingly increase in these rates will significantly increase their cost of doing business.

The Bill also proposes to insert a new paragraph 3A prescribing the rates of withholding tax for newly proposed section 153(2A) covering payments for digitally ordered goods or digitally delivered services through e-commerce platforms including websites as follows:

(i) Digital Means or banking channels by payment intermediary

S. No.	Description	Proposed Withholding Tax rate
1	Where the amount paid does not exceed rupees ten thousand.	1% of the gross amount paid
2	Where the amount paid exceeds rupees ten thousand but does not exceed rupees twenty thousand.	2% of the gross amount paid
3	Where the amount paid exceeds rupees twenty thousand.	0.25% of the gross amount paid

(ii) Cash on delivery by Courier Service

S. No.	Description	Proposed Withholding Tax rate
1	On supply of electronic and electrical goods.	0.25% of the gross amount paid
2	On supply of clothing articles, apparels, garments etc.	2% of the gross amount paid
3	On supply of goods other than mentioned in S. No. 1 and 2 above.	1% of the gross amount paid

Part-IV

Advance tax on sale or transfer of immovable property [Division X]

The section 236C deals with advance tax on the sale or transfer of immovable properties. Under this section, the person responsible for registering, recording, or attesting the transfer of immovable property must collect an advance tax at the rates specified in Division X of Part IV of the First Schedule.

The proposed amendments in the Bill aim to modify the advance tax rates as below:

S. No.	Gross Amount of Consideration Received	Current Tax Rate	Proposed Tax Rate
1	Where the gross amount of consideration received does not exceed Rs. 50 million	3%	4.5%
2	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5%
3	Where the gross amount of consideration received exceeds Rs. 100 million	4%	5.5%

The proposed changes seek to increase the tax rates on the sale or transfer of immovable properties. This will likely raise the cost of real estate transactions, particularly for higher-value properties. While this could boost government revenue from the real estate sector, it may also discourage high-value transactions, leading to market slowdowns, and encourage strategies to avoid higher tax brackets.

Division XVIII

The Bill proposes to reduce the rate of collection of advance tax on purchase of immovable property under section 236K based on the fair market value. Below is the comparison of the existing and proposed rates:

S.No	Amount	Existing Rate	Proposed Rate
1	Where the fair market value does not exceed Rs. 50 million.	3%	1.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	2%
3	Where the fair market value exceeds Rs. 100 million	4%	2.5%

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The Second Schedule

Part I

Exemptions and Tax Concessions

Withdrawal of exemption on Pension

The IMF has been consistently recommending to eliminate income tax exemptions for various pension schemes as part of a broader fiscal reform plan to increase revenue. The Bill proposes the withdrawal of pension-related exemptions:

[Clause (8)]

The Bill proposes to omit clause (8), which provides exemption for any pension received by a citizen of Pakistan from a former employer, provided that if a person receives multiple pensions, only the higher amount is exempt.

This may significantly increase the tax burden on retired individuals. Many retired persons rely on pensions as a primary source of income. Taxing this income reduces their net monthly receipts.

[Clause (9)]

The Bill propose to omit clause (9), which under the existing law provides exemption on pension income if it received by

- Members of the Armed Forces of Pakistan;
- Federal Government or Provincial Government employees, for services rendered.
- Families or dependents of public servants or Armed Forces members who die during service.

[Clause (12)]

The Bill propose to omit clause (12), which under the existing law provides exemption on any payment received as commutation of pension if it is:

- Received from the Government or
- Paid under a pension scheme approved by the Board

[Clause (13)]

As per existing law, both gratuity and commutation of pension payments received by an employee (or their heirs in case of death) enjoy certain tax exemptions within prescribed limits.

The Bill proposes to remove the exemption on commutation of pension payments.

[Clause (23A)]

The Bill proposes to omit Clause (23A), which provides exemption up to 50% of the accumulated balance received from the voluntary pension system by a person at the time of:

- retirement; or
- disability rendering him unable to work; or
- death by his nominated survivor.

The proposed amendment is likely to adversely affect pension funds, as it may discourage both employed and self-employed individuals from investing in funds established under the Voluntary Pension System Rules, 2005.

[Clause (23C)]

The Bill proposes to omit Clause (23C), which provides exemption on any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules , 2005

With the omission of the proposed clause, may result in decreased contributions to pension funds, negatively affecting the capital available for long-term investment and the overall pension fund industry.

Non-profit charitable institutions
[Clause (66)]

Through Finance Act, 2020, non-profit charitable institutions were bifurcated into two tables Table 1 and Table 2. Whilst Entities in Table 1 remain exempt from tax without any condition, exemption to other set of entities were made conditional on fulfilling the conditions laid down under section 100C.

Now the Bill seeks to substitute clause (66) by merging both the tables into one and exemption has made conditional for all entities subject to fulfilling the conditions laid down under section 100C.

The Bill also proposes to include the following additional institutions into the purview of Clause (66):

Sr. No.	Name
(cviii)	Beaconhouse National University
(cix)	Federal Ziauddin University
(cx)	Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme
(cxi)	Punjab Police Welfare Foundation Lahore

Specific exemption on Income from ICC Champions Trophy 2025
[Clause (98AA)]

The Bill proposes to insert a specific exemption on any income derived by ICC Business Corporation (IBC) or International Cricket Council (ICC) or employees, officials, agents and representatives of IBC and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IBC partners and media representatives, other than persons who are resident of Pakistan, from ICC champions Trophy, 2025 hosted in Pakistan.

This proposed clause aims to exempt non-resident individuals and entities associated with the ICC Champions Trophy 2025 from income tax in Pakistan, and likely to:

- Facilitate international participation.
- Promote Pakistan as a host for global sporting events.

Limitation on Exemption
[Clause (126E)]

As per existing law, the clause (126E) provides exemption to:

- **Zone enterprises**: for a period of 10 years starting from the date of commencement of commercial operations (as certified by the developer).
- **Developers:** for a period of 10 years starting from the date of signing the development agreement in a Special Economic Zone (SEZ).
- **Co-developers**: subject to certification that the developer has not claimed the exemption and has relinquished the right in their favor.

Now the Bill proposes to limit the period of tax exemption upto June 30, 2035. Even if a zone enterprise starts commercial operations after June 30, 2025, the maximum exemption period will end on June 30, 2035 regardless of whether the full 10 years have lapsed.

[Clause (126EA)]

As per existing law, the clause (126EA) provides exemption on profits and gains derived by the following entities under the Special Technology Zones Authority Act, 2021:

- **Zone Developers**: for a period of 10 years, starting from the date of signing the development agreement.
- **Zone Enterprises**: for a period of 10 years, starting from the date of issuance of license by the Special Technology Zones Authority (STZA).
- **The Special Technology Zones Authority (STZA)** itself.

Now the Bill proposes to limit the maximum period of tax exemption on Zone Enterprise to the earlier of:

- 10 years from license issuance; or
- June 30, 2035.

Extension in exemption for residents of Tribal Areas
[Clause (145A)]

The Bill proposes to extend time limit for the exemption on any income, which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018, of any individual domiciled or Company and Association of Persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June, 2018.

Presently, this exemption is upto June 30, 2025, which is proposed to be extended upto June 30, 2026.

Exemption on Cinema Operation
[Clause (151)]

As per existing law, clause (151) provides exemption to any income derived by a person from cinema operations for five years from the commencement of cinema operations.

Now the Bill proposes to limit the maximum period of exemption to the earlier of:

- 5 years from commencement of cinema operations; or
- June 30, 2030.

Withdrawal of exemption Venture capital
[Clause (152)]

Clause (152) provides exemption on Profits and gains derived between the July 1, 2022 and the June 30, 2025 both days inclusive, by a venture capital company and venture capital fund registered under relevant Venture Capital Companies and Funds Management Rules issued by Securities and Exchange Commission of Pakistan. This exemption, about to lapse on June 30, 2025, and is proposed to be omitted.

Part II

Reduction in Tax Rates
[Clause 9AC]

A specific clause was inserted through Finance Act, 2021 wherein, reduced rate of 0.25% was introduced on import of raw sugar by sugar mills from the January 26, 2021 to the June 30, 2021 both days inclusive provided that such imports shall not exceed 50,000 metric tons per sugar mill and 300,000 metric tons in aggregate by the sugar industry.

The Bill now proposes to omit the above clause as the above clause, being redundant, after the lapse of the exemption period.

Withdrawal of Relief measures provided during the COVID pandemic.
[Clause 24CA]

Through Finance Act, 2020, reduced rate of 1.5% introduced for tax deduction under section 153 at reduced rate of 1.5% of the gross amount of payment received for supply utility store corporation of Pakistan upto September 30, 2020.

The Bill now proposes to omit the above clause, being redundant.

Part III

Reduction in Tax Liability

Tax credit to full-time Teachers and Researchers
[Clause 3A]

The Bill proposes to provide reduction in tax payable by 25% for a full-time teacher or researcher employed in a non-profit educational institution (including Government research institutions) recognized by HEC, from tax year 2022 to 2025. As such, such reduction will not be available after tax year 2025.

The proposed omission may spark a debate regarding the Government's priorities in respect of education and research sectors. The Government should consider alternative measures to support these sectors, such as targeted grants or incentives for institutions to invest in faculty development and research infrastructure.

Part IV

Exemption from Specific Provisions
[Clause (12F)]

A specific clause was inserted through Finance Act, 2021 wherein, it was provided that section 148 shall not be applicable on the import of 1.5 million tons of wheat, classified under PCT Headings 1001.1900 and 1001.9900, based on a Cabinet Decision (case No.399/23/2020) dated June 16, 2020.

The Bill now proposes to omit the above clause, being redundant.

[Clause (12G)]

A specific clause was inserted through Finance Act, 2021, wherein, it was provided that section 148 shall not be applicable on the import 300,000 metric tons of white sugar having PCT heading 1701.9910,1701.9920, specification B by the Trading Corporation of Pakistan in pursuance of the Cabinet Decision in case No. 541/30/2020 dated the August 4, 2020.

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The Bill now proposes to omit the above clause, being redundant.

[Clause (12J)]

A specific clause was inserted through Finance Act, 2021 wherein, it was provided that section 148 shall not be applicable on the import of 300,000 metric tons of wheat through tendering process by the Trading Corporation of Pakistan in pursuance of the Cabinet Decision in case No. 34/02/2021 dated the January 12, 2021.

The Bill now proposes to omit the above clause, being redundant.

Section 148 not applicable on imports of Cystagon, Cysta drops and Trientine capsules [Clause (56)]

The Bill proposes to insert a new entry (xx) after sub-clause (xix) thereby granting exemption of withholding tax under section 148 on import of following item:

Sr. No.	Description
(xx)	Import of Cystagon, Cysta drops and Trientine capsules

Exemption from applicability of section 177 and 214C
[Clause (105A)]

As per existing clause (105A), the provision of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding **four** tax years.

The Bill proposes to reduce the immunity period from 4 to 3 years.

Extension of exemption to former FATA and PATA region
[Clause 109A & 110]

The Ordinance provides exemptions from withholding tax on payments covered under Division III, Part V of Chapter X, for individuals domiciled, or companies and associations of persons resident, in the Tribal Areas that are part of the Provinces of Khyber Pakhtunkhwa and Baluchistan, as defined in paragraph (d) of Article 246 of the Constitution. This exemption applies to income that was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018), and is effective from June 1, 2018, to June 30, 2024 (inclusive).

Such exemption from withholding tax on payments was extended for one year till June 30, 2025 vide Finance Act 2024. The Bill now proposes to further extend the exemption period till June 30, 2026.

The Seventh Schedule

Rules for the Computation of the Profits and Gains of a Banking Company and Tax Payable thereon.

The Seventh Schedule to the Ordinance pertains to the rules and provisions related to the taxation of Banking Companies. It outlines the specific guidelines for the assessment and computation of taxable income for Banking Companies, taking into account various special considerations applicable to the Banking Sector.

[Rule 1(aa)]

The Bill proposes that a new Clause (aa) shall be inserted in the Rule 1, whereby:

Expenditure on leasehold improvements (on rented or leased premises) shall be capitalized and amortized at 10% per annum, starting from the date of use. If the lease ends before full amortization, the remaining balance (after adjusting any proceeds) will be allowed as a deduction in the year of lease termination.

[Rule 1(ba)]

The Bill proposes that a new Clause (ba) shall be inserted in the Rule 1, which will override IFRS 16 for tax purposes which is summarised below:

- Depreciation on right-of-use (ROU) assets and related finance costs shall not be tax-deductible.
- Instead, only the actual rent expense incurred during the tax year shall be allowed as a deduction, subject to certification by the external auditor.
- If excess deduction was previously claimed (ROU depreciation + finance cost > actual rent), the excess must be offered to tax in 2025.
- If lower deduction was claimed (ROU depreciation + finance cost < actual rent), the shortfall will be allowed as expense in 2025.
- All adjustments must be certified by the external auditor.

This amendment decouples tax accounting from IFRS 16 lease accounting for banks, restoring the traditional rent-based deduction method, with a one-time adjustment in Tax Year 2025 to correct prior period claims. This change ensures uniformity and transparency in rent deductions, aligning tax rules with actual cash outflows rather than IFRS-based accounting estimates. It prevents mismatched tax benefits and promotes compliance certainty through auditor-certified adjustments.

[Rule 1(c)]

The Bill proposes the following insertions in Clause (c) in the Rule 1, relating to provisions claimed by banking companies:

1. Mandatory Auditor's Certificate (Prescribed Format)

   A detailed certificate from the external auditor must accompany the tax return, disclosing the following category-wise data:

   - Provision allowed under SBP Prudential Regulations
   - Provision recognized under IFRS 9
   - Provision disclosed in annual financial statements
   - Provision eligible for tax deduction under clauses (c), (d), (da), (e), and (f) of Rule 1, specifically certified for regulatory and accounting consistency

2. Clarification of Consequences for Non/Incomplete Filing:

   - If the certificate is not filed or is incomplete at the time of return filing, no deduction under clause (c) will be allowed.
   - This requirement is applicable from Tax Year 2025 onward.

3. Restriction on Deductible Provisions:

   - Only provisions for non-performing advances classified as "loss" under SBP Prudential Regulations will be deductible.
   - General provisions or those not in line with SBP rules will be disallowed for tax purposes.

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The Bill also proposes amendments to clause (g) of Rule 1, which include:

- The clause shall begin with the expression "Subject to the aforesaid clauses of Rule 1 of this Schedule," indicating that clause (g) will be subject to the provisions introduced earlier in the rule.

- The phrase "any applicable accounting standard" is proposed to be replaced with "the application of International Financial Reporting Standard IFRS-09 (Financial Instruments)," to clearly specify the accounting standard being referred to.

- After the word "Pakistan," the expression "in respect of IFRS-09" is proposed to be inserted for further clarity.

- Additionally, a proviso is proposed to be inserted before the explanation, stating that the amendments to this clause shall apply from tax year 2025 and onwards.

This amendment significantly tightens the documentation and compliance standards for claiming deductions on provisions by requiring a comprehensive auditor-certified reconciliation across SBP, IFRS, and financial reporting. The change ensures transparency and consistency in provisioning claims, curbing aggressive deductions by banking companies.

The Tenth Schedule

The Tenth Schedule to the Ordinance outlines the taxation rules for persons not appearing in the Active Taxpayers' List (ATL). These provisions enforce higher withholding tax rates and stricter measures to encourage tax registration and compliance.

Rate of deduction or collection of tax
[Rule 1]

Reduction in Advance Tax on Purchase of Immovable for Non-Filer

Through the Finance Act 2024, withholding tax rates were introduced for collection of advance tax under section 236K for persons not appearing in ATL, based on the fair market value of immovable property. The Bill proposes to reduce the advance tax rates for non-filer as under:

S. No.	Fair Market Value of Immovable property	Existing rate for non-filers	Proposed rate for non-filers
1	Where the fair market value does not exceed Rs. 50 million	12%	10.50%
2	Where the fair market value exceeds Rs. 50 million but does not exceeds Rs. 100 million	16%	14.50%
3	Where the fair market value exceeds Rs. 100 million	20%	18.50%

This reduction appears to be a strategic response to the slowdown in documented property transactions.

While the reduction offers benefits to the real estate sector, its success depends on whether the government can implement strong compliance mechanisms to balance revenue loss and maintain pressure on non-filers.

Increase in Advance Tax on Sale of Immovable property for Non-Filer

The Bill proposes to increase the rate of advance tax from 10% to 11.5% on sale of immovable properties under third proviso to Rule 1 of Tenth Schedule.

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S. No.	Description	Existing rate for non-filers	Proposed rate for non-filers
1	On the gross amount of consideration received on sale or transfer of immovable property	10%	11.5%

Restoration of non-filer rate under section 151 - Profit on Debt

Through the Finance Act, 2024 an enhanced withholding tax rate of 35% was introduced for non-filers receiving profit on debt payments. The Bill proposes to reduce such rate to 30%.

Rule 1A of the Tenth Schedule

Through the Finance Act, 2024, new Rule 1A was inserted in the Tenth Schedule to the Ordinance, creating a separate withholding tax regime under sections 236C (on sale of immovable property) and 236K (on purchase of immovable property).

This rule applies to persons who appear on the Active Taxpayers List (ATL) but have failed to file their income tax returns within the due date in any of the three preceding tax years. These persons, termed "late filers," are now subject to separate rates, reflecting their repeated non-compliance.

The Bill proposes to revise these rates of the advance tax on sale of immovable property for late filers as under:

S. No.	Gross Amount of Consideration Received	Existing rate for non-filers	Proposed rate for non-filers
1	Where the gross amount of consideration received does not exceed Rs. 50 million	6%	7.5%
2	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	8.5%
3	Where the gross amount of consideration received exceeds Rs. 100 million	8%	9.5%

In contrast, the advance tax on purchase by late filers is proposed to be reduced as under:

S. No.	Fair Market Value of Immovable property	Existing rate for non-filers	Proposed rate for non-filers
1	Where the fair market value does not exceed Rs. 50 million	6%	4.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceeds Rs. 100 million	7%	5.5%
3	Where the fair market value exceeds Rs. 100 million	8%	6.5%

Exclusions from the provisions of the Tenth Schedule to the Ordinance [Rule 10]

Through Finance Act, 2024, tax collected or deducted under section 37A - Capital gain on sale of securities, was excluded from the ambit of tenth schedule.

The Bill proposes to amend Sub-Rule (y), Rule 10 of the Tenth Schedule to the Ordinance, by limiting its applicability to the disposal of securities acquired on or after July 1, 2025 by persons not appearing on the Active Taxpayers List (ATL). In contrast, the provision introduced through the Finance Act 2024 applied without such distinction, capturing all disposals by non-filers regardless of the acquisition date.

The Digital Presence Proceeds Tax Act, 2025

The digital age has made it possible to carry out business in multiple territories without establishing any physical presence in any territory. However, the evolution of the virtual world has turned out to be a challenge for nations in exercising their taxing rights. Conventional taxation models never envisaged anything but a bricks-and-mortar world.

The growth of the digital economy in recent decades has been paired with policy debates about the taxes digital companies pay and where they pay them. In the absence of a multilateral change to tax policies, as an interim measure a significant number of countries adopted unilateral tax measures targeted at digital businesses, including digital services taxes (DSTs), gross-based withholding taxes, and digital permanent establishment rules.

DSTs are gross revenue taxes with a tax base that includes revenues derived from a specific set of digital goods or services or based on the number of digital users within a country.

Despite ongoing multilateral negotiations, instead of adapting the international tax rules to better capture the digital economy, countries impose DSTs to tax large businesses based on their revenues derived from certain digital services provided to domestic users or consumers.

The Digital Presence Proceeds Tax Act, 2025 (the Act) represents Pakistan's legislative response to the challenges posed by the digitalization of the economy. The Act aims to ensure taxation of multinational enterprises deriving economic value from users, data, and digital engagement within Pakistan, regardless of their physical presence.

Our comments on the newly introduced Act are as under:

1. Definitions (Section 2)

(a) **"Authority"** means the Commissioner Inland Revenue who has been assigned jurisdiction for the purposes of this Act by the Federal Board of Revenue;

(b) **"Board"** means the Central Board of Revenue established under the Central Board of Revenue Act, 1924 (IV of 1924), and on the commencement of Federal Board of Revenue Act, 2007, the Federal Board of Revenue established under section 3 thereof and includes a Member of the Federal Board of Revenue to whom powers of the Board have been delegated under section 8 of the Federal Board of Revenue Act, 2007;

(c) **"Digitally delivered services"** means any service delivered over the internet or electronic networks, where the delivery is automated and required minimal or no human intervention including music, audio and video streaming services, cloud services, online software application services, services delivered through online inter-personal interaction i.e. tele-medicine, e-learning etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility;

(d) **"e-commerce"** means sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering

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features by using either mobile phones or automated computer-to-computer ordering system;

(e) **"e-store"** means the online platform including websites and software applications used to conduct e-commerce, which involves buying and selling goods or services including digital products, through electronic transactions over the internet or other computer networks;

(f) **"Online marketplace"** means Online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers for digital orders for supply of goods and services, without the platform taking economic ownership of the goods or rendering the services that are being sold; and

(g) **"Payment Intermediary"** means any third part entity including a banking company, financial institution, a licensed foreign exchange company or payments gateway that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

2. Charging of Digital Presence Proceeds Tax (Section 3)

This provision establishes a new charge of tax on foreign vendors with significant digital presence in Pakistan, covering both goods and services ordered digitally and supplied from outside Pakistan.

The tax rate for collection for cross-border transactions of digitally ordered goods and services shall be as under:

S. No.	Description	Rate of Tax
1.	Services	5% of the payment including of advertisement on social media platforms
2.	Goods	5% of the payment made to foreign provider

This provision intends to addresses base erosion in the digital economy by creating a tax nexus without physical presence. This levy, namely Digital Presence Proceeds Tax could face challenges under double tax treaties as it does not seem to be aligned with PE principles. May also lead to disputes regarding what constitutes a "supply" from outside Pakistan.

2.1 Attribution to Pakistani users - Provides the criteria for attributing proceeds to Pakistan based on digital presence, transactions, and user participation.

Conditions for Taxability:

(a) Transaction via foreign online marketplace/e-store (e.g., Google Play, Shopify).

(b) Linked to digitally ordered services/goods (e.g., app purchases).

(c) Pakistani user is a party to the transaction.

2.2 Definition of Pakistani User - Pakistani user under the Act means any user who is reasonable to assume:

(a) in the case of an individual, is normally resides in Pakistan;

(b) in the case of a company, is established or have permanent establishment in Pakistan; and

(c) the payment for the digital order of services and goods has been electronically paid from within Pakistan.

2.3 Exempt Transactions

(a) Digitally ordered goods where such payment is effectively connected with a **PE in Pakistan of the non-resident person and the goods are supplied from within Pakistan.**

(b) Digitally delivered services **rendered through a local PE of the non-resident person in Pakistan, where such services are received in Pakistan.**

3. Significant Digital Presence in Pakistan (Section 4)

This section provides thresholds and qualitative criteria for establishing digital presence in Pakistan.

It provides that a foreign vendor shall be considered as having a significant digital presence in Pakistan, where supplying digitally ordered services and goods from outside Pakistan to any user in Pakistan, if the aggregate of number of transactions exceeds five for the current financial year along with one of the following additional factors:

(a) *User Base & Data Input - If the vendor has a* ***Pakistani customer base*** *or collects* ***user data*** *(e.g., profiles, preferences) from Pakistan. Applies to social media (Meta, TikTok), streaming (Netflix), and data-driven firms (Google Ads).No clarity on* ***minimum user/data thresholds which*** *could lead to arbitrary enforcement.*

(b) *Local Currency Billing / Payment Methods - Accepting* ***PKR payments*** *or offering* ***local payment options****. May discourage foreign businesses from offering local payment convenience.*

(c) *Responsibility for Final Delivery - Vendor is responsible for the delivery of goods and services to Pakistani consumers.* ***Implications. This intends to c****aptures e-commerce giants (e.g., Amazon, Alibaba).*

(d) *After-Sales Support / Maintenance –* ***Vendor is responsible for*** *providing after sales* ***customer service, repairs and maintenance****. Likely to affect hardware/software sellers (e.g., Apple, Microsoft) but not passive digital services.*

(e) *Sustained Marketing & Sales Promotion - Running* ***targeted ads, local campaigns, or influencer marketing*** *in Pakistan. This may include Facebook ads, YouTube promotions, or local affiliate marketing.*

The threshold of 5 transactions is too low and may capture low-value transactions, targeting free lance developers etc. Moreover, vagueness in criteria such as "user base" and "sustained marketing" could lead to administrative challenges for both the FBR and the foreign vendors. It is advisable to define metrics more precisely (e.g. revenue threshold, value of transactions).

4. Responsibility to Collect Digital Presence Proceeds Tax (Section 5)

This section shifts responsibility of tax collection to payment intermediaries.

It requires that a payment intermediary (such as a bank, financial institution, licensed exchange company, or payment gateway), remitting money abroad to a foreign digital seller for online services or goods that are taxable under this Act, must withhold tax from the total payment at the rate given in the Schedule.

This section further provides that regardless of what other laws say, payment intermediaries (such as banks, payment gateways, or financial institutions) must not:

1. Maintain a bank account for a foreign seller supplying goods or services from abroad, or

2. Transfer money out of Pakistan,

unless they have first deducted and paid the required tax to the government.

Exception: This rule does not apply if the payment provider collects and deposits the tax at the time of sending the payment abroad.

The amount of tax deducted by the payment intermediary in a month is required to be deposited in the government treasury before the 7th of immediately succeeding month.

Regardless of any other laws, Customs authorities must prevent courier companies from delivering any shipment unless proof of tax payment is provided by the courier, when its payment is settled by the buyer and seller.

Exception: Customs is not responsible for collecting sales tax or income tax on shipments where the tax under this Act has already been paid.

5. Responsibility to collect digital presence proceeds tax on advertisement at social media platform (Section 6)

This section requires every foreign vendor having digital presence in Pakistan making any payment in whole or part to social media platforms or any other online platform for online advertisement in Pakistan which is chargeable to tax under this Act, to deduct tax from the gross amount paid at the rate specified in the Schedule of this Act.

The amount of tax deducted by the foreign vendor in a month is required to be deposited in the government treasury before the 7th of immediately succeeding month.

This requirement seems impractical to implement considering the fact that the foreign vendor, in the absence of any physical presence in Pakistan, would not be able to maintain its bank account in Pakistan.

6. Failure to deduct or deposit collected tax and recovery along with default surcharge (Section 7)

A person becomes liable to pay the amount of tax along with default surcharge at KIBOR + 3% per annum for the days of default, if the person:

1. Fails to deduct tax, as a payment intermediary (under section 5(1)).
2. Fails to comply with the requirements of section 5(2).
3. Fails to deduct tax as a foreign vendor on advertisement at social media platform (section 6).
4. Collects but fail to remit tax to the Commissioner.

The Commissioner may pass an order levying the tax and default surcharge and may proceed to recover the same, subject to granting an opportunity of being heard to the person.

For the recovery of the demand created under this Act, the Part IV of Chapter X of the Income Tax Ordinance, 2001 regarding tax recovery shall apply.

7. Furnishing of information by Online Payment Intermediaries (Section 7) (*incorrect numbering in the Act)

Every payment intermediary responsible for collection of tax in respect of remitting proceeds to foreign vendors shall file a quarterly statement to the Commissioner Inland Revenue containing foreign vendor wise information regarding all payments related to e-commerce transactions of sale of digitally ordered services and goods including as follows:

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(a) name of the purchaser, its identification number (CNIC) and address of the foreign vendor to whom payments have been made from which tax has been collected under section 5 and section 6;

(b) transaction date, unique identifier (invoice number) and total transaction value from which tax has been collected under section 5 and section 6;

(c) the total amount of tax deducted from the seller under section 5 and section 6; and

(d) any other particular may be prescribed.

Every payment intermediary maintaining bank account for foreign vendors with digital presence in Pakistan shall file a quarterly statement in the manner as prescribed to the Commissioner Inland Revenue containing information regarding total credit amount in the bank account during this period in the account of foreign vendor and the amount remitted outside Pakistan.

8. Furnishing of information by social media and online platforms (Section 8)

Every social media and online platform having digital presence in Pakistan is required to file a quarterly statement in the manner as prescribed providing:

(a) client-wise information of local vendors or foreign vendors with or without a permanent establishment whose advertisements are relayed in Pakistan through its platform and

(b) the amount received.

9. Penalty for non-filing of statement (Section 9)

If any payment provider (like banks or payment gateways) or social media platform does not submit the required reports, as specified in sections 7 and 8 of the Act about:

- Digital sales/services, or
- Advertisements relayed in Pakistan

they will be liable to a penalty of PKR 1,000,000 for each default.

10. Suspension of remittances to a Foreign Advertiser (Section 10)

This section requires the payment intermediary to suspend the remittances of proceeds of such foreign vendors if it is reported to them by Commissioner that such vendors are advertising continuously for one hundred and twenty days without the payment of this tax by the foreign vendor.

This suspension shall be in addition to the recovery of tax along with default surcharge as provided under section 7 for violation of section 6, requiring deduction of tax.

11. Appeals (Section 11)

This section provides that any order of recovery under this Act is appealable before the Appellate Tribunal Inland Revenue within thirty days from the receipt of the order.

Further, the aggrieved person or the Commissioner may prefer a reference, against the order of the Appellate Tribunal within 60 days of the receipt of the order, before the High Court stating any question of law arising out of such order.`

12. Administration of this Act (Section 12)

This section provides that the Inland Revenue Department of the FBR and its subordinate offices shall act as regulator for the carrying out the purposes under this Act.

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13. Power to make rules (Section 13)

The Act empowers the FBR to prescribe rules for the purposes of giving effect to the provisions of this Act and for the removal of any difficulty or matter ancillary thereto.

Challenges ahead - The Act represent a bold step in taxing the digital economy and aligns with global efforts to modernize tax rules. However, clarity, proper definitions, and dispute resolution mechanisms are crucial for successful implementation without disrupting trade or violating treaty obligations.

In 2016, India introduced the Digital Service Tax in the form of Equalization Levy, initially at 6% on advertisement services and later 2% on e-commerce but recently in April 2025, it has withdrawn the levy realizing the unilaterality of this levy. As of now there are number of countries that have introduced DST in one form or the other with some of the countries withdrawing later.

There is also a debate that the multinationals won't be able to claim tax credit in their country of residence as this levy is not likely to be covered under the definition of "tax" as per Article 2 of the OECD model tax convention on tax treaties. The fact that this levy is introduced outside the Income Tax Ordinance, 2001 also gives weight to this argument.

Such levy is also against the principle that the business profits of a non-resident entity should only be taxed in the source country if it has a permanent establishment therein. It is likely that the multinationals will pass on the cost of this Tax to the consumers in Pakistan.

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Sales Tax Act, 1990

1. Definitions [Section 2]

i. Abettor [Clause (1)]

The Bill proposes to define the term abettor which means a person who abets or connives in tax fraud or in the commission of any offence warranting prosecution under the ST Act and includes a person who-

(a) misuses other registered person's unique user identifier and password for filing returns or annexures or any other document or unauthorizedly makes change in tax e-profile of any registered person;

(b) prepares, or cause to be prepared with or without authorization of the registered person, invoices for false claim of input tax adjustment;

(c) allows use of bank account held or operated by him for abetting tax fraud or other offence warranting prosecution under this Act or unauthorizedly or illegally maintains or operates business bank account in other registered person's name; or

(d) has obtained or cause to obtain sales tax registration number for the purpose of paper transactions, including issuance of invoices without involving any taxable activity.

ii. Cargo Tracking System [Clause (4A)]

The Bill proposes to define the term cargo tracking system means a digital system notified by the Board for electronic monitoring and tracking of goods transported within or across the territory of Pakistan, for the purpose of tax enforcement, compliance and prevention of tax evasion.

iii. Courier [Clause (5AC)]

The Bill proposes to define the term courier means any entity engaged in the delivery of goods and collection of cash on behalf of a seller including logistic services, ride-hailing services, food delivery platforms and ecommerce delivery services.

iv. E-bilty [Clause (9A)]

The Bill proposes to define the term e-bilty means a digital transport document generated through the Cargo Tracking System as prescribed by the Board, to accompany goods during their movement.

v. E-commerce [Clause (9AC)]

The Bill proposes to define the term e-commerce means sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using mobile phones, automated computer-to-computer ordering system or any similar device.

vi. Online Marketplace [Clause (18A)]

The Bill proposes to provide the exhaustive definition of the term online marketplace against current inclusive definition. The proposed definition brings within its ambit online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or services that are being sold.

vii. Payment Intermediary [Clause (21)]

The Bill proposes to define the term payment intermediary means a banking company, any financial institution including a licensed foreign exchange company or payment gateway that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route, or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

viii. Retail Price [Clause (27)]

The Bill proposes to remove word "should" from the existing definition of retail price, shifting the focus from intended to actual sale price as fixed by manufacturer or importer. The proposed amendment appears to avoid ambiguity and assist enforcement in tax assessments based on declared retail prices.

The Bill also seeks to insert new provisos which:

a. restrict price reductions, on account of chilling charges or other similar charges in case of aerated water, beverages, mineral water or fruit juices, to the extent of 5% of the price (inclusive of sales tax and federal excise duty) on which such goods are actually sold to the general body of consumers;

b. empower the Board to fix, by notification, retail price of goods as specified in Third Schedule; and

c. sets a minimum retail price of imported goods specified in Third Schedule at 130% of the value determined under section 25 of the Customs Act, 1969 (IV of 1969) inclusive of customs duties and federal excise duty.

ix. Tax Fraud [Clause (37)]

The Bill proposes to broaden the scope of the term 'tax fraud' by substituting the existing definition with the following:

"tax fraud" means knowingly intentionally or dishonestly doing any act or causing to do any act or omitting to take any action or causing the omission to take any action, to cause loss of tax or attempting to cause loss of tax under this Act, including-

(a) using or preparing false, forged and fictitious documents including return, statements annexure and invoices;

(b) suppression of supplies that are chargeable to tax under this Act;

(c) false claim of input tax credit including based on fictitious transactions;

(d) making taxable supplies of goods without issuing any tax invoice;

(e) issuance of any tax invoice without supply of goods;

(f) suppression and nonpayment of withholding tax in the prescribed manner beyond a period of three months from due date of payment of tax;

(g) tampering with or destroying of any material evidence or documents required to be maintained under this Act or the rules made thereunder;

(h) acquisition, possession, transportation, disposal or in any way removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner dealing with, any goods in respect of which there are reasons to believe that these are liable to confiscation under this Act or the rules made thereunder;

(i) making of taxable supplies without getting registration under this Act;

(j) generating fake input through manipulation of return filing system of the Board and making fake entries in the sales tax returns or in the annexures; and

(k) making fictitious compliance of section 73, including routing of payments back to the registered person, or for the benefit of the registered person, through a bank account held by a supplier or a purported supplier.

Explanation- Any act of commission mentioned in this clause shall be treated as intentional unless the person accused of tax fraud proves that he had no intention, motive, knowledge, or reason to believe that he was committing a tax fraud.

2. Scope of tax [Section 3]

The Bill proposes to insert clause (c) under sub section (3) of section 3 of the Act whereby it imposes liability to pay tax on the payment intermediary and the courier company in case of the supply of goods ordered through digital means. The proposed clause provides that in the case of supply of digitally ordered goods by online market place, website and software application from within Pakistan during the course of e-commerce, the liability to collect and pay tax shall be of payment intermediary including a banking company, a financial institution, licensed exchange company or payment gateway in case the payment is made digitally and of the courier delivering the goods where those are supplied on Cash on Delivery (CoD) basis at the rate of 2% as provided in the Eleventh Schedule.

The Bill further proposes to omit the proviso to the sub-section (7) of Section 3 of the Act related to online market place after the proposed insertion of the above mentioned clause (c) to sub section 3 of section 3 of the Act.

The Bill also proposes to insert a new sub section (7A) in Section 3 of the Act, which introduces a final tax regime for digitally ordered goods supplied within Pakistan through e-commerce platforms. It overrides all other provisions of the law, stating that any tax collected by payment intermediaries or courier companies on such supplies shall be treated as the full and final discharge of tax liability for the online marketplace, vendors, or platforms involved. No further tax will be payable on these supplies, and no input tax adjustment will be allowed. This simplifies compliance for e-commerce businesses while enhancing tax enforcement through intermediaries, though it may increase costs due to the denial of input credits.

The Bill further proposes the substitution of existing proviso to sub section (9A) of section 3 which currently relates to requirement of Tier1 retailers to integrate their retail outlets with Board's computerized system. This requirement is proposed to be placed under sub section 5 to section 23. The substituted proviso clarifies that the final tax regime would also apply to Tier-1 retailers to the extent of digital supplies made by them.

3. Adjustable input tax [Section 8B]

Currently as per sub section (4) of section 8B of the Act, Board has the power to prescribe any limit of input tax adjustment for any person or class of persons. The bill proposes to make the addition in said sub section so as to empower the FBR to use automated risk-based systems to defer or limit input tax adjustments with an aim to control excessive or risky input claims. As per the proposed addition, the affected taxpayers can contest the action to limit the input tax adjustment by filing application and documents with the Commissioner who shall decide the case within 30 days of the application. However there is no time is prescribed for filing application for contest.

4. Best judgment Assessment [Section 11D]

The bill proposes to insert sub-section (5) in section 11D whereby an Inland Revenue officer may assess sales tax liability for a person who is required to be registered (under clause 25 of section 2) due to tax withheld under section 236G of the Income Tax Ordinance, 2001, but fails to furnish a return after receiving a notice. The assessment may be made on a reasonable value addition basis, using purchase data obtained under section 236G.

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5. Assessment of tax and recovery of tax not levied or short levied or erroneously refunded [Section 11E]

The Bill proposes to substitute sub-section (1) of section 11E whereby two revamping changes have been proposed. Firstly, the Bill excludes the scope of proceedings for tax not levied or short levied by way of collusion or a deliberate act therein. Such proceedings have been seemingly covered under the proposed substituted section 37A. Furthermore, the bill proposes that section 11E shall not be applicable to the extent of proceedings initiated vide section 37A.

6. Limitation for assessment - [Section 11G]

The Bill proposes to increase the original time limit for issuance of order under sections 11D, 11E, and 11F so that an order shall be made within one hundred and eighty days of the show cause notice as against the current time limit of one hundred and twenty days. Time limit as may be increased on Commissioner discretion and subject to condition remains unchanged.

7. Registration [Section 14]

The Bill proposes to insert sub sections (1A) and (1B) under section 14 of the Act whereby it proposes that every person including non-resident person engaged in sale or supply of goods through digital means from within Pakistan and every online marketplace or a courier involved in e-commerce shall apply for registration.

The Bill requires that above online market place or a courier shall not allow any person to use their services to carry out e-commerce transactions unless it is registered under sales tax and income tax.

The Bill further proposes to insert sub section (2A) under section 14 of the Act whereby it proposes to empower the Commissioner Inland Revenue or an authorized officer, to compulsory register a person who is required to register under the Act, but fails to do so, after due inquiry.

8. Bar on Operations of Bank Accounts [Section 14AC] Bar on Transfer of Immoveable Property [Section 14AD] Other Coercive Actions for Non-Registration [Section 14AE]

The Bill proposes to insert sections 14AC, 14AD and 14AE to the Act whereby Commissioner Inland Revenue is empowered to (i)bar operations of the bank accounts (ii) bar transfer of immoveable property or (iii) take any other coercive actions including sealing business premises or seizure of immoveable property, against the persons who are required to be registered under the Act but fails to do so.

The bar shall be removed by order of the Commissioner upon registration of the person. A person aggrieved by the action of the Commissioner Inland Revenue may prefer an appeal before the Chief Commissioner Inland Revenue within thirty days of the date of receipt of such decision or order. These provisions of this section will come into force on a date notified by the Board.

No coercive action under section 14AE shall be initiated without due process, including a personal hearing through open court before a committee comprising of Chief Commissioner, the Commissioner concerned, and a representative from the Chambers of Commerce or Trade Bodies. An aggrieved person may prefer representation to the Board within thirty days of the receipt of committee’s decision.

9. De-registration, blacklisting and suspension of registration. [Section 21]

Currently, the order of suspension and blacklisting passed by the Commissioner can be amended either by the Chief Commissioner of his own motion or on application made by the registered person.

The Bill proposes that, after the order of the suspension and blacklisting has been passed, the Commissioner shall within fifteen days of issuance of order of suspension, issue a show cause notice to the registered person and if satisfied by the response of the registered person, pass an order for revocation of the suspension or black listing. In case the response of the registered person is not satisfactory, an appealable order for blacklisting of the registered person may be issued within thirty days of receipt of the response to the notice.

10. Tax Invoices [Section 23]

The bill proposes following changes to section 23 of the ST Act:

1) Insertion of a new proviso in clause (g) of sub section (1) under section 23 of the ST Act whereby it proposes to make it mandatory for registered person to ensure the generation and linkage of the tax invoice with the e-Bilty generated under section 40C of this Act and section 83C of the Customs Act, 1969.

2) Insertion of a new sub section (5) under section 23 of the ST Act whereby it proposes to empower the Board, via notification in the official Gazette, to require any person or class of persons to integrate their e-invoicing system with its computerized system for real-time sales reporting in such manner and date as may be specified.

3) Insertion of a new sub section (6) under section 23 of the Act whereby it proposes to require licensed integrators to integrate registered persons' e-invoicing systems referred to in sub section (5) in the manner as may be prescribed.

   Furthermore, all Tier-1 retailers must integrate their retail outlets with the Board's system for real-time sales reporting from the date specified by the Board. Currently, such requirement is in the proviso to sub section (9A) of section 3.

11. Section 26- Returns

The bill proposes the following amendments in Section 26 of the ST Act:

1. In sub-section (1) under Section 26, two new provisos have been proposed to be inserted relating to furnishing monthly statement in the prescribed form, indicating the supplier-wise amount paid and tax due and such other information of the taxable supplies of digitally ordered goods.

2. Currently, a taxpayer can file revised return within sixty days of filing of return in cases where the tax payable is more than the amount paid or the refund claimed is less than the amount as claimed under the return sought to be revised.

   The bill proposes to omit proviso to sub-section (3) under section 26 whereby all revised returns will require approval from the Commissioner Inland Revenue.

12. Section 30- Appointment of Authorities

The bill proposes that the clause (j) of section 30(1) to be amended to explicitly include officers of Directorates General as authorities under the Sales Tax Act.

13. Section 32B. Appointment of experts and auditors

The bill propose to insert new section 32B empowering the Board and Commissioner to appoint experts and auditors for audit, investigation, litigation, and valuation purposes.

14. Offences, Penalties and Punishment [Section 33]

Following are the important enhancement/amendments proposed in relation to the penalties prescribed under various clauses of section 33 of ST Act:

Entry No.	Offences	Relevant penalties	Proposed change
	(1)	(2)	(2)
13	**Current description:** Any person who commits, causes to commit or attempts to commit the tax fraud, or abets or connives in commissioning of tax fraud. **Proposed Description:** Any person who commits, causes to commit or attempts to commit the tax fraud as defined in section 2(37).	Under the existing law, the penalty for tax fraud is as follows: For the person committing/attempting tax fraud (a): Financial Penalty: The higher of PKR 25,000 or 100% of the evaded tax. Imprisonment (upon conviction by a Special Judge): • Up to 5 years if the evaded tax is less than PKR 1 billion. • Up to 10 years if the evaded tax is PKR 1 billion or more. Fine (upon conviction by a Special Judge): Up to an amount equal to the evaded tax, or both imprisonment and fine. The penalties of imprisonment and fine are also applicable to the persons abetting / conniving in tax fraud.	The Bill proposes to increase the penalty for person convicted by a Special Judge for tax fraud. They could be imprisoned for up to **ten years**, or fined up to **ten million rupees**, or both. Additionally, they'll be required to pay an amount equal to the confirmed tax loss, which includes a **100% penalty** on that loss and a **default surcharge** as per section 34 of the Act.

Penalties introduced:

The Bill proposes to insert the following new entry into the table in section 33 of the ST Act.

Entry No.	Offences	Penalties	Section of the Act to which offence has reference
	(1)	(2)	(3)
1A	Where any online marketplace, payment intermediary or courier fails to furnish prescribed	Such person shall be liable to pay: (i) Penalty of five lac rupees for first default;	26

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Entry No.	Offences	Penalties	Section of the Act to which offence has reference
	(1)	(2)	(3)
	monthly statement within due date	(ii) Penalty of one million rupees for each subsequent default.	
1B	Where any online marketplace, courier allow use of its services in the course of e-commerce by unregistered persons	Such person shall be liable to pay: (i) Penalty of five lac rupees for first default; (ii) Penalty of one million rupees for each subsequent default.	14
13A	Any person who abets or connives in committing tax fraud as defined in section 2(37) or any offence warranting prosecution under the Act.	Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to ten years or with fine which may extend to ten million rupees, or with both.	2(1), 2(37), 50A
25B	Where any person fails to generate an e-bilty, or tampers with, misuses, or forges such document in contravention of sub-section (6) of section 40C.	Such person shall be liable to a penalty of fifty thousand rupees and recovery of any tax evaded through such contravention	sub-section (6) of 40C.

Penalties omitted:

The Bill proposes to omit entries in Table having number 11 and 22 relating to persons committing the tax fraud and persons abetting / conniving the tax fraud as they have been covered under the proposed new penalties under serial 13 and 13A.

15. Power to summon persons to give evidence and produce documents in inquiries under the Act. [Section 37]

The Bill proposes to enhance the powers of the Inland Revenue Officer similar to a civil court in relation to any inquiry under the Act. Specifically they can:

- Summon individuals, enforce their appearance, and examine them under oath.
- Require the production of relevant documents and accept written evidence on affidavits.

16. Power to inquire and investigate offences warranting prosecution under this Act. [Section 37A]

The Bill proposes to substitute the existing section 37A (Power to arrest and prosecute) to define the powers of an officer of Inland Revenue to investigate the offences requiring trial, particularly focusing on tax fraud. A summary of the proposed substituted section 37A is as follows:

- **Initiating an Inquiry**

  An Inland Revenue officer, who is at least an Assistant Commissioner or any other officer authorized by the Board, can start an inquiry if they have material evidence pointing to tax fraud or another prosecutable offense. This step requires prior approval from the Commissioner.

- **Conducting the Inquiry**

  The designated inquiry officer has the authority to use various powers granted under other sections of the Act (specifically sections 37, 38, 38A, 38B, and 40) to gather information and evidence.

- **Opportunity to be Heard and Submission of Findings**

  Upon completing the inquiry, the officer must offer the accused person an opportunity to be heard. During this hearing, the officer will present the details of the alleged tax fraud or other offense.

  If the accused person either doesn't comply with this opportunity or provides an unsatisfactory submission, and the inquiry officer still believes, based on the evidence, that an offense occurred, they will submit the facts and findings, including the calculated tax loss, to the Commissioner. This is done to obtain prior approval to initiate a formal investigation.

- **Commissioner's Decision on Investigation**

  The Commissioner will review the submitted facts and findings. Based on these, and after recording reasons in writing, the Commissioner will either:

  - Approve the initiation of an investigation.
  - Request further information or documents from the Inland Revenue officer before making a decision.
  - Reject the request for investigation.

- **Formal Investigation Powers**

  If the Commissioner approves the investigation, the inquiry officer will formally record the details of the offense. During this investigation, an Inland Revenue officer (again, at least an Assistant Commissioner) will have the same powers as an officer in charge of a police station under the Code of Criminal Procedure, 1898. However, these powers must be exercised subject to the specific provisions of the Act.

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17. Power to arrest [Section 37AA]

The Bill proposes to insert a new section 37AA (Power to arrest) to define the powers of an officer of Inland Revenue to arrest any person involved in tax fraud. A summary of the proposed new section 37AA is as follows:

- **General Rule for Arrest (with prior approval):** An Inland Revenue officer can arrest a person if he has an evidence of tax fraud or another prosecutable offense, but this requires prior approval from the Commissioner.

- **Arrest Without Prior Approval (in urgent cases):** An officer can arrest a person without the Commissioner's prior approval if he believes that delaying the arrest would allow the accused to evade the law, or if obtaining approval is not practical. However, in such cases, the officer must immediately report the arrest to the Commissioner, providing a summary of material facts and grounds for arrest.

- **Commissioner's Authority Post-Arrest without Approval:** If the Commissioner believes there wasn't enough evidence or reasonable grounds for an arrest made without approval, or if the arrest was malicious ("mala fide intent"), they can immediately order the release of the arrested person.

  If the Commissioner suspects an unjustified or malicious arrest (without prior approval), they must refer the matter to the Chief Commissioner for a fact-finding inquiry.

- **Arrest of Company Personnel:** If a company is suspected of tax fraud, any director, CEO, or CFO (or equivalent) believed to be personally responsible for the company's actions leading to the fraud can also be arrested. However, this arrest does not absolve the company from its tax liabilities, penalties, or default surcharge.

- **Compliance with Criminal Procedure:** All arrests made under this Act must generally follow the relevant provisions of the Code of Criminal Procedure, 1898, unless the Act specifies otherwise.

- **Arrest of Abettors (with prior approval for investigation and arrest):** An Inland Revenue officer (Assistant Commissioner or higher, or Board-authorized) can arrest someone they believe is an abettor of tax fraud or another prosecutable offense, but this requires approval from the Commissioner specifically for both the investigation and the arrest.

18. Procedure to be followed on arrest of a person [Section 37B]

The bill proposes to substitute section 37B of the ST Act which outlines the legal process and safeguards that must be followed once a person is arrested under the Act, particularly focusing on their production before a Special Judge or Judicial Magistrate, bail, remand, release, and investigation procedures. A summary of the proposed substituted section 37B is as follows:

- **Production before a Judge:** Any person arrested under this Act must be produced before a Special Judge or the nearest Judicial Magistrate within 24 hours of arrest, excluding travel time.

- **Bail and Detention by Special Judge:** When brought before a Special Judge, the individual can request bail. The Special Judge will consider the request after reviewing the record and hearing from the prosecution. The judge can:
  - Grant bail with or without sureties.
  - Refuse bail and order detention. The Special Judge can also cancel bail later if deemed necessary, but must give the

person an opportunity to be heard first.

- **Production before a Judicial Magistrate:** If initially produced before a Judicial Magistrate (because no Special Judge is nearby), the Magistrate can authorize detention for a period necessary to ensure the person's earliest production before a Special Judge. The Magistrate will then either fix a date for production or direct immediate transfer to the Special Judge.

- **Remand to Inland Revenue Custody:** Both the Special Judge and the Judicial Magistrate can remand the arrested person to the custody of an Inland Revenue officer for investigation, if the officer makes a written request and the judge believes it's necessary for completing the investigation. Such a remand can be extended if good cause is shown, but the total period of Inland Revenue custody cannot exceed fourteen days.

- **Release by Inland Revenue Officer:** If, after investigation, an Inland Revenue officer believes there's insufficient evidence or reasonable grounds for suspicion, they can release the person on bond (with or without sureties). The officer must then direct the person to appear before the Special Judge as required and report the discharge to the Special Judge, along with a full case report to the Commissioner.

- **Special Judge's Decision on Discharge:** Upon receiving a report for discharge from the Inland Revenue officer, the Special Judge will review the record and hear the prosecution. The judge can either:

  - Agree with the report and discharge the accused.

  - Proceed with the trial if they find sufficient grounds for proceedings, and direct the prosecution to produce evidence.

- **Maintenance of Arrest and Detention Register:** An Inland Revenue officer conducting investigations must maintain a register of arrests and detentions. This register must record details of every arrested person, including time/date of arrest, information received, recovered items, witnesses, the person's explanation, and daily investigation progress. This register or authenticated copies must be produced before the Special Judge when directed.

- **Investigation Report to Special Judge:** After completing an investigation, the Inland Revenue officer must, as soon as possible, submit a report to the Special Judge through the Commissioner. This report should be in the same format as a police station's report to a court and must include the total amount of tax loss caused or attempted to be caused by the accused.

- **Recording of Statements and Confessions:** A Magistrate of the first class can record any statement or confession during an investigation under this Act, following the procedures outlined in section 164 of the Code of Criminal Procedure, 1898.

- **Delegation of Powers:** The Board, with the approval of the Federal Minister-in-charge, can authorize other officers working under the Board to exercise the powers and perform the functions of an Inland Revenue officer under this section, subject to any conditions deemed appropriate.

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19. Compounding of offences [Proposed Section 37BB]

The proposed new section 37BB introduces a mechanism for compounding of offences under the ST Act, essentially allowing any accused person to avoid full prosecution. The section empowers the Commissioner to "compound" an offence if the accused deposits the calculated tax amount, along with any penalties and default surcharges, as determined under an inquiry or investigation. This applies to cases of tax fraud or other offences warranting prosecution under the ST Act, with the exception of the offence listed in clause (13A) of Section 33 relating any person who abets or connives in committing tax fraud or any offence warranting prosecution under the Act.

Compounding an offence typically leads to the acquittal of the accused, it does not affect ongoing investigations or prosecution proceedings for registered persons, individuals, or entities who abet or connive in the tax fraud or other offence warranting prosecution under the Act.

However, if accused has already been convicted and appeal is pending before the High Court under Section 37I, compounding is not permitted without the leave of the High Court.

In essence, the proposed Section 37BB offers a pathway for certain offenders to settle their tax liabilities and avoid criminal prosecution, but it carefully balances this with measures to hold accomplices accountable and to respect ongoing judicial process.

20. Obligation to produce documents and provide information [Section 38B]

Currently, the Assistant Commissioner Inland Revenue (ACIR) is empowered to obtain information or records from the taxpayer in connection with the audit, inquiry or investigation under the Act. The ACIR is also authorized to require from any person, department, company or organization to furnish such information as is held by that person, department, company or organization, which, in the opinion of the officer of Inland Revenue, is relevant to such audit, inquiry or investigation.

The Bill proposes to extend powers to the Commissioner to require subscriber's information from Internet Service Providers, Telecommunication Companies and Pakistan Telecommunication Authority pertaining to the Internet Protocols in connection with any inquiry or investigation in cases of tax fraud. The proposition overrides any other law for the time being in force and it would apply even if other laws seem to prevent it.

21. Monitoring or Tracking by Electronic or other means [Section 40C]

The Board can specify any registered person or class of registered persons or any good or class of goods in respect of which monitoring or tracking of production, sales, clearances, stocks or any other related activity may be implemented through electronic or other means.

The Bill proposes to introduce 'production monitoring' and 'video analytics' as means of tracking besides existing tools of tax stamp, band role stickers, labels, barcodes, etc. Further, like existing tracking tools, the Bill also proposes to acquire monitoring equipment from a licensee appointed by the Board for the purpose, against price approved by the Board.

Currently, the Board is empowered under sub-section (4) to require any person or class of persons to integrate their electronic invoicing system with the Board's Computerized System for real time reporting of sales. Under Sub-section (5) Licensed integrator is required to integrate electronic invoicing system of registered persons in the prescribed manner. The Bill proposes to substitute sub-section (4). The substituted sub-section shall apply the provisions of proposed Section 83C of the Customs Act, 1969 *mutatis mutandis* to the Sales Tax Act, 1990 thereby enabling the implementation of a cargo tracking system and e-Bilty mechanism for monitoring and tracking of goods. Further, sub-section (5) is proposed to be omitted.

22. Pecuniary jurisdiction in appeals [Section 43A]

The Tax Laws (Amendment) Act, 2024 introduced pecuniary limits to determine the appellate forum available to a taxpayer as under:

(a) an appeal to the Commissioner (Appeals) shall lie where the value of assessment of tax or, as the case may be, refund of tax does not exceed Rs 10 million.

(b) an appeal to the Appellate Tribunal Inland Revenue shall lie where the value of assessment of tax or, as the case may be, refund of tax exceeds Rs 10 million.

The Bill proposes to omit the pecuniary limits.

23. Appeals [Section 45B]

Currently, any person other than the Sales Tax Department aggrieved by decision or order passed by officer Inland Revenue under sections 10, 11, 25, 36, or 66 of the Act can prefer appeal before the Commissioner Inland Revenue Appeals (CIRA) for the value of tax or refund in question upto Rs.10 million.

The Bill proposes to substitute the sub-section (1) whereby the limit of Rs.10 million is done away with and any person other than State Owned Enterprises (SOE) can file appeal before the CIRA against order passed by officer Inland Revenue under Sections 10, 11A, 11D, 11E, 11F, 21, 33, 34 and 66 of the Act.

However, under the newly introduced proviso to this section registered person has an option to directly file an appeal before ATIR without availing right of Appeal before the CIRA.

24. Appeals to Appellate Tribunal [Section 46]

Under Sub-section (1), currently, any person, other than an SOE, aggrieved by any order passed by officer of Inland Revenue, or the Board or Commissioner (Appeals) excluding the order of suspension or blacklisting under sub-section (2) of section 21, prefer an appeal to the Appellate Tribunal or, as the case may be, a reference to the High Court. SOE has also right of appeal under these provisions where sub-section (11) of Section 134A of Income Tax Ordinance, 2001 applies.

The Bill seeks to substitute the sub-section whereby now any person including an officer of inland revenue not below the rank of Additional Commissioner aggrieved by an order of the Commissioner (Appeals); or any person other than SOE aggrieved by an order passed by officer of inland revenue exercising direct right to appeal under above proposed section 45B may file an appeal to the Appellate Tribunal, in all such cases appeal is to be filed within thirty days of the receipt of the order subjected to appeal in Appellate Tribunal. SEO continues to have the same right of appeal as aforesaid under substituted sub-section. Unlike existing provisions, it appears that order of suspension or blacklisting is now appealable under the proposed provisions.

25. Reference to the High Court [Section 47]

Currently, Commissioner (Appeals), the aggrieved person or the Commissioner could prefer an application before the High Court for any question of law or a mixed question of law and fact arising out of order of ATIR. The Bill proposes to increase the time limit for filing reference from existing 30 days to revised 60 days of the communication of the order. Also, the right of reference is restricted to the question of law only thus making Appellate Tribunal IR as final fact finding forum.

26. Disclosure of information by a public servant [Section 56B]

Section 56B restricts disclosure of information acquired by the public servants under any provision of the ST Act which is required to be kept confidential and shall only be disclosed as provided under section 216 of the Income Tax Ordinance, 2001. The Bill proposes to extend such restriction to experts and auditors appointed under proposed new insertion of section 32B.

27. Inspection of audit firm [Proposed Section 58C]

The proposed section seeks to empower the Chief Commissioner Inland Revenue (CCIR), subject to the Board's approval, to refer the audit firm to the Audit Oversight Board for inspection where the CCIR has reason to believe that the audited accounts of the registered person do not reflect the true and fair view of sales and purchases and related sales tax liability.

28. Certain transactions not admissible [Section 73]

Currently, a registered is not entitled to deduct input tax (credit adjustment or deduction of input tax) which is attributable to taxable supplies exceeding, in aggregate, Rs.100 million in financial year or Rs.10 million in a tax period as are made to certain person who is not a registered person under the ST Act. The Bill proposes to substitute the respective financial year and tax period thresholds, whereby now the Board is empowered to prescribe the respective amounts through a notification with the approval of Federal Minister-in-Charge.

29. Condonation of time-limit [Section 74]

Currently, the Board or the Commissioner empowered by the Board has the authority to condone the time or period within which application or action is required to be completed under the ST Act. The Bill proposes a new proviso in the section whereby the maximum period of extension by the Board or the Commissioner is restricted 2 years in aggregate. However, under another proposed proviso the Board is authorized to form a committee of members to further condone the limitation specified for a period as it may deem fit, after providing a reasonable opportunity of being heard to the registered person concerned. Committee can be formed where there are reasons to believe that significant loss to exchequer has been caused by an act of omission or commission by the registered person or by any authority mentioned in Section 30 of the ST Act.

Third Schedule

The Bill proposed to insert certain items sold in retail packing to the Third Schedule of the ST Act for sales tax to be charged on their retail price. Such items include import of:

- Pet food including of dogs and cats (2309.1000)
- Coffee (0901.1100, 0901.1200, 0901.2100, 0901.2200, 0901.9000, 2101.1120)
- Chocolates (1704.9010, 1806.2090,1806.3100, 1806.3200, 1806.9000)
- Cereal bars (1904.1010, 1904.1090, 1904.2000, 1904.3000, 1904.9000).

Sixth Schedule (Exempt Goods)

Table-1 (Imports or supplies)

In Table 1 of the Sixth schedule of the ST Act, the following changes have been proposed:

1. Omission of exemption at serial no. 151 related to supplies and imports of plant, machinery, equipment, and industrial inputs for industries located in tribal areas. Such goods shall now be taxable at a reduced rate of sales tax as described under the proposed new insertion at serial no. 89 of the table at Eighth Schedule.

2. Omission of exemption at serial no. 164 related to Photovoltaic cells whether or not assembled in modules or made up into panels.

3. Extension of time in exemption mentioned at serial 152 related to supplies of electricity to residential and commercial consumers in tribal areas, and to industries established and operational before 31st May 2018 (excluding steel and ghee/cooking oil industries) from June 30, 2025 to June 30, 2026.

4. Omission of exception 'for personal use only' in respect of Trientine capsules mentioned in Serial 179. Based on proposed amendment import of Cystagon, Cysta Drops, and Trientine capsules solely, remains exempted without any condition.

5. Insertion of new exemption at serial No. 181 related to the import or lease of aircraft by Pakistan International Airlines Corporation Limited (PIACL) under PCT headings 8802.1200, 8802.3000, and 8802.4000.

Table-2 (Local supplies only)

In Table 2 of the Sixth Schedule of the ST Act, the following substitution is proposed against serial No. 57, column 2 relating to exemption of iron and steel scrap:

Iron and steel scrap excluding:

(a) Supplied by manufacturer-cum-exporter of recycled copper (authorized under the Export Facilitation Scheme, 2021) directly supplied to a registered steel melter, subject to apportionment, conditions, and restrictions specified by the Board through a Sales Tax General Order; and

(b) Supplied directly by the importer (verifiable from the goods declaration form) to a registered steel melter, subject to apportionment, conditions, and restrictions specified by the Board through a Sales Tax General Order.

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Eighth Schedule (Goods subject to Specified rates)

Table-1

In Table 1 of the Eighth schedule of the ST Act the following changes have been proposed:

1. **Omission of entry at serial no. 53 related to reduced rate of 5% sales tax (with certain conditions) on cinematographic equipment imports for the period from 1st July 2018 to 30th June 2023.**

2. **Omission of entry at serial no. 72 related to a reduced rate of 12.5% sales tax on locally manufactured or assembled motorcars upto 850cc. Sales tax at standard rate will be applicable thereon after the proposed omission.**

3. Insertion of entry at serial no. 89 related to supplies and imports of plant, machinery, equipment, and industrial inputs for industries located in tribal areas with reduced rate of sales tax at 10% for 2025-26, 12% for 2026-27, 14% for 2027-28 and 16% for 2028-29.

Eleventh Schedule (Rate of Sales Tax Withholding)

To align the withholding sales tax responsibility in relation to proposed sales tax on goods ordered digitally, the bill proposes to substitute serial No. 8 of the Eleventh Schedule currently related to the online market place wherein a 2% of the gross value of supplies shall now be required to be withheld by payment intermediaries and couriers from persons supplying digitally ordered goods from within Pakistan through online marketplaces, websites, or software applications.

Federal Excise Act, 2005

1. Duties specified in the First Schedule to be levied [Section 3(5)]

Sub-section (5) of section 3 prescribes the person responsible for payment of Federal Excise Duty (FED). Currently in case of goods manufactured, imports and services provided or rendered, the manufacturer, importer and service provider respectively, is liable to pay the FED.

The Bill proposes to insert new clause (e), expanding liability to pay FED in "any other case" not covered above to the person as may be specified under the Act. This change could extend liability to intermediaries, agents, or other supply chain participants in unspecified scenarios mentioned in sub-section (5) of section 3.

To our understanding the amendment enhances regulatory flexibility but may introduce uncertainty for businesses regarding potential liability under proposed clause (e). Providing clarity on the criteria or parameter for designating liable persons under clause (e) would help to mitigate this ambiguity.

2. Power to seize [Section 26]

At present, sub-section (1) of section 26 provides that counterfeited cigarettes or beverages which have been manufactured or produced unlawfully and other dutiable goods on which duty of excise has not been paid, shall be liable to seizure besides the conveyance which has been used for the movement, carriage or transportation of such goods.

The Bill seeks to broaden the scope of seizure. As per the proposed amendment, such goods that do not bear the required tax stamps, bar codes, banderoles, stickers, or labels as mandated under Section 45A of the Act can also be seized by enforcing authorities.

3. Confiscation of goods subject to federal excise duty [Section 27]

Currently, subsection (1) of section 27 empowers enforcement authorities for outright confiscation as well as destroying counterfeited cigarettes or beverages.

The proposed amendment broadens the scope of outright confiscation to include not only counterfeit cigarettes or beverages but also dutiable goods that do not comply with the requirements of tax stamps, banderoles, stickers, labels, or barcodes as prescribed under section 45A of the FED Act.

The bill also proposes to empower the Board to authorize officer or employee of the Federal or Provincial Government for seizure / confiscation of goods in term of section 26 and 27 of the FED Act.

4. Appeals to Commissioner (Appeals) [Section 33]

Under the existing law, a person could only file an appeal before the Commissioner appeal where the value of assessment of tax or, as the case may be, refund of tax does not exceed Rs 5 million.

The Bill seeks to amend the section 33 by omitting such limit, the Bill also proposes that any person, other than State Owned Enterprise (SOE), may prefer an appeal before the Commissioner Appeals.

The Bill further proposes that an aggrieved person may have the option to either file appeal before Commissioner Inland Revenue (Appeals) directly or may surrender his right of appeal before Commissioner Inland Revenue (Appeals) and avail the next statutory appellate forum by lodging the appeal directly before the Appellate Tribunal Inland Revenue.

The proposed amendment reverses the amendments introduced through Tax Laws (Amendment) Act, 2024 by providing option of preferring an appeal before the Commissioner Appeals or directly to Appellate Tribunal. Accordingly, the taxpayers will now have both the forums available, as were available before Tax Laws (Amendment) Act, 2024.

This is a positive amendment considering the hardship being faced by the taxpayers.

5. Pecuniary jurisdiction in appeals [Section 33A]

The Tax Laws (Amendment) Act, 2024 introduced pecuniary limits to determine the appellate forum available to a taxpayer as under:

(a) an appeal to the Commissioner (Appeals) shall lie where the value of assessment of tax or, as the case may be, refund of tax does not exceed Rs 5 million.

(b) an appeal to the Appellate Tribunal Inland Revenue shall lie where the value of assessment of tax or, as the case may be, refund of tax exceeds Rs 5 million.

The Bill proposes to omit the pecuniary limits.

6. Appeals to the Appellate Tribunal [Section 34]

Under existing law, a person other than a SOE, may prefer appeal before the Appellate Tribunal, subject to pecuniary limit as per section 33A introduced through the Tax Laws (Amendment) Act, 2024. The Bill proposes to reverse such amendment and where the taxpayer, or the Commissioner objects to an order passed by the Commissioner (Appeals), the taxpayer or Commissioner may appeal to the Appellate Tribunal against such order within thirty days of the receipt of such order.

Provided that the taxpayer may directly appeal against the order of the Officer Inland Revenue or the Commissioner as the case may be to the Appellate Tribunal by exercising the option as provided in sub-section (1) of section 33.

7. Reference to the High Court [Section 34A]

Under the existing law, a taxpayer is required to file a reference within 30 days of receiving an order from the Commissioner Appeals. Considering the reversal of amendments introduced through the Tax Laws (Amendment) Act, 2024, a taxpayer can now prefer a reference before the High Court within 60 days, after receiving an order from the Appellate Tribunal. The Bill accordingly proposes making necessary amendments in section 34A by removing references to order of the Commissioner Appeals. Further, reference to mixed questions of law is also proposed to be omitted.

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First Schedule

Table-III – Excisable Items other than those mentioned under Table-I and table-II

Through Finance Act, 2024 the Federal Government levied FED on allotment / transfer of specified immovable properties at the rate of 3%, 5% & 7% of the gross amount of consideration involved depending upon filing status of the buyer.

The Bill proposes to withdraw the afore-mentioned FED by omitting serial no. 1 of the Table III of the First Schedule.

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Customs Act, 1969

1. Cargo Tracking System & Digital Documentation through e-bilty [Section 2(eb)& (kkaa)]

Presently, no definition of the terms 'Cargo Tracking System' and 'e-bilty' is available under the Act. The Bill seeks to introduce definition of these terms in order to implement effective enforcement through digital means-

"cargo tracking system" means a digital system notified by the Board for electronic monitoring and tracking of import, export, transit and transshipment goods transported within or across the territory of Pakistan for the purposes of enforcement, compliance and prevention of smuggling."; and;

"e-bilty" means the digital document generated through cargo tracking system to be accompanied with the transport carrying import, export, transit and transshipment goods transported within or across the territory of Pakistan as per the format prescribed under the rules by the Board;

2. Establishment / Re-Organization of Directorate General Offices (Section 3A, 3B, 3BBB & 3DD)

The Bill aims to re-organize and establish certain Directorate General offices.

Section 3A: The Bill proposes to substitute section 3A whereby office of Director General of Risk Management is merged with Directorate General of Intelligence and be re-named to Director General of Intelligence and Risk Management (DGI&RM) which also have powers assigned under the Anti-Money Laundering Act, 2010.

Section 3B: The Bill seeks to substitute section 3B whereby a new Directorate General Offices to be established for handling of 'Customs Auction' related matters.

Section 3BBB: The Bill also seeks to establish Directorate General of Communication and Public Relations' through substitution of 3BBB.

Section 3DD: The Bill seeks to substitute section 3DD whereby office of Director General of Internal Audit to be integrated with the office Directorate General of Post Clearance Audit. The re-organized office is proposed to be called Directorate General of Post Clearance Audit and Internal Audit (DGPCA&IA).

3. Hiring of Technology specialists, Auditors, Accountants and Goods Evaluators on Short Term Contract (Section 3F)

In order to fill the gap of technical human resource, the Bill seeks to insert a new section whereby the Board is empowered to hire technology specialists, auditors, accountants, and goods evaluators on short-term contracts (up to two years), with re-hiring based on performance benchmarks set by an assessment committee comprising customs officers and private sector experts.

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4. General power to exempt from custom-duties [Section 19(5)]

The Bill proposes to extend the protection to all in-field exemption notifications issued on or after July 1, 2016 upto June 30, 2026. Validity of such exemption notifications is currently valid till June 30, 2025.

5. Minimal duties not to be demanded (Section 19C)

At present, duties and taxes on imported goods not exceeding of Rs. 5,000 are not demanded subject to conditions and restrictions prescribed by the Board. The Bill seeks to reduce this threshold from Rs. 5,000 to Rs. 500, applicable only to goods imported via post or courier.

6. Allowing Mutilation or Scrapping of Goods (Section 27A)

In terms of section 27A of the Act, custom authorities allows mutilation or scrapping of goods as mentioned however, no threshold (in quantity) is specified for goods eligible for mutilation or scrapping.

In order to strengthen regulatory control and addressing potential misuse, the Bill proposes to quantify such threshold whereby scrapping and mutilation shall not be allowed for quantity exceeding 10% of the imported goods.

7. False Statement, Error, etc. (Section 32)

At present, in terms of sub-section 3A of section 32 a notice shall be issued to a person who was liable to pay any duty, tax or charge but has not paid such dues owing to any reason requiring him to pay the short paid amount. However, custom authorities do not initiate such action in cases where recoverable amount is less than Rs. 20,000.

The Bill proposes to enhance the threshold of the recoverable amount from Rs. 20,000 to Rs. 100,000 subject to a condition that the person has deposited such recoverable amount into government exchequer.

8. Declaration and assessment for home consumption or warehousing (Section 79)

At present, importer of goods imported for home consumption or warehousing may file goods declaration prior to ten days of the expected time of arrival of the vessel and currently option for pre-arrival payment of taxes & duties is not available.

Aiming to faster customs clearance from the date as notified by the Board, the Bill seeks to allow option to the importer of goods for pre-arrival payment of duties and taxes upon completion of assessment.

9. Checking of goods declaration by Customs (Section 80)

The Bill proposes a significant amendment to Section 80 by introducing the establishment of Centralized Assessment Units (CAU) and Centralized Examination Units (CEU) at designated locations. These units will play a pivotal role in improving the efficiency of customs clearance process.

A key feature of this proposal is the integration of AI-based digital assessments through the customs computerized system, aimed at improving accuracy, speed, and transparency, and aligning with global best practices in customs management.

Furthermore, the Board will have the authority to define specific conditions for these processes. Existing units will also be retroactively recognized under this new framework, providing legal

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continuity and ensuring a seamless transition to the updated system.

10. Procedure in case of goods not cleared or warehoused or transshipped or exported or removed from the port after unloading or filing of declaration (Section 82)

At present if goods are not cleared, warehoused, transshipped, exported, or removed from the port within 15 days (extendable by 5 days), Customs may auction or take custody of the goods after due notice. Special rules apply for perishable, hazardous, or military goods, and sale proceeds are held pending adjudication. The Collector can also order re-export of banned/restricted goods if not cleared within 60 days.

The Bill seeks to substitute section 80 of the said Act, introducing stricter timelines (e.g., 10 days for filing declarations, 3 days for removal post-clearance) and explicitly links penalties to non-compliance. It reduces the confiscation window to 30 days whereby automatic confiscation can be done upon non-compliance however, it retains safeguards for perishable/military goods. The changes aim to streamline processes but impose tighter deadlines on importers/exporters.

11. Clearance for home consumption (Section 83)

As per existing provision Customs Computerized System may clear the goods through system generated clearance documents for home consumption goods.

The Bill seeks to clarify that system-generated clearance is permitted only after full payment of duties and charges. The amendment seeks to bring more clarity and accountability to the customs clearance process, making it explicit that clearance will not be granted until full payment has been made.

12. Cargo Tracking System & e-Bilty Mechanism (Section 83C)

The Bill seeks to insert a new section 83C requiring all parties including consignor, transporter, shipping agent, freight forwarder, consignee, supplier or recipient of goods and causing movement of goods from and to a seaport, land border station, inland dry-port or inland movement to electronically generate, carry, display or validate an e-bilty through Cargo Tracking System (CTS). However the issuance of e-Bilty will be subject to value of goods / travel distance threshold which to our understanding shall be prescribed by the Board in terms of sub-section 2 of the section 83C.

13. Label or declaration in respect of goods imported or exported by post to be treated as entry (Section 144)

The Bill proposes to include courier shipments alongside postal goods, allowing their labels / declarations to serve as customs entries. Apparently, this is proposed to streamline clearance for e-commerce and small parcels while ensuring proper duty assessment.

14. Rate of duty in respect of goods imported or exported by post (Section 145)

The existing law specifies that the duty rate for goods imported or exported by post is determined based on the date declared by the postal authorities.

The Bill seeks to formally recognizing courier company’s declaration in duty assessment, aligning procedures for

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post and courier shipments. Now the duty shall be calculated as per the date declared by the courier companies as well.

15. Punishment for Offences [Section 156(1)]

Penalties introduced:

With respect to existing penalties as enlisted in Table 1 of section 156(1) of the Act, the Bill proposes to introduce amendments in penal provisions in the following manner:

(i) *In serial no. 64 of the Table, the Bill proposes to substitute the expression "sections 128 and 129" with "sections 127, 128, 129, and 129A".*

As per proposed amendments, the penalties currently applicable on violation of sections 128 and 129 shall now also apply on violation of sections 127 and 129A of the Act.

(ii) *The Bill proposes to insert sub-serial no. (ix) in serial no. 105 of the Table whereby new penal provisions are introduced for the persons who fail or intentionally avoid to generate, carry, display, or validate an e-bilty and its associated tracking devices; or who manipulates such tracking devices for inland movement of goods.*

The proposed penalties on above offences include confiscation of goods with imprisonment that may extend to 6 months accompanied by a fine that may extend from 50 thousand to 1 million rupees.

16. Extent of Confiscation (Section 157)

The Bill proposes to omit the proviso under sub-section (2) of section 157 of the Act, which currently allows the release of seized conveyances pending adjudication if the owner provides bank guarantee. By this amendment, the Bill proposes to remove the discretionary release option, tightening enforcement by mandating confiscation until the case is resolved.

17. Things seized how dealt with (Section 169)

Section 169 outlines the procedure for handling seized goods liable to confiscation whereby the Collector of Customs may order the sale of such goods under Section 201, even during pending adjudication or court proceedings, with proceeds held in deposit until final resolution.

The Bill proposes to insert a new sub-section (6), whereby any party seeking a stay order against the auction of confiscated goods shall furnish a pay order or bank guarantee for at least 50% of the reserve price before the Nazir of the Court. This measure aims to prevent misuse of stay orders and ensure uninterrupted auction proceedings.

18. Power of adjudication (Section 179)

Provisos of sub section (3) of section 179 prescribed time limit of certain cases that needs to be decided within thirty days from the date of show cause notice while goods at ports/airports must be decided within 30 days however, the Collector of Custom may allow extension of 15 days in such cases.

The bill proposes to extend time limit form 30 days to 45 days. The Collector's power to extend such time limit by further 15 days will remain intact.

19. Burden of proof as to lawful authority (Section 187)

At present, if a person is accused of the violation of Custom Act and the question arises whether the person had lawful authority (e.g, a permit, license,

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or legal document) for their actions or possession of goods, the burden of proof lies on the accused to demonstrate such authorization.

The bill seeks to expand documentation requirements, requiring the accused to additionally produce goods declaration or sales tax invoice on his name before the adjudication authority.

20. Presumption as to legal character of vehicle (Section 187A)

The Bill to seeks to creates a strict deterrent against smuggling of vehicle by inserting new section whereby any vehicle seized with a tampered chassis number or altered body shall construed to be smuggled, regardless of its registration status with the Motor Registration Authority and such vehicle shall be liable to confiscation.

21. Appeals to Collector (Appeals) (Section 193)

As per section 193 of said Act, a person including officer dissatisfied with any orders passed under sections 33, 79, 80 ,131 66, 179 and 195 of the said Act, can file appeal within 30 days before the Collector (Appeals).

The Bill to proposes to insert new proviso whereby no appeal can be filed against an order if the aggrieved person failed to appear before the adjudicating authority despite being given adequate opportunity for a hearing.

22. Appeals to the Appellate Tribunal (Section 194A)

Section 194A prescribed the appeal process to the Appellate Tribunal, specifying the form, verification, fee, and timeline for filing appeals. At present, the Appellate Tribunal may after affording an opportunity of being heard to the Collector having jurisdiction, for reasons to be recorded, allow stay from the recovery of duty and taxes for thirty days.

The Bill proposes to extend the time of fling of appeal from 30 days to 45 days however, issuance of stay is proposed to be conditioned with 50% payment of recoverable amount. *The Bill also seek to insert new proviso whereby no appeal can be filed against an order if the aggrieved person failed to appear before the adjudicating authority despite being given adequate opportunity for a hearing.*

23. Powers of Board or Chief Collector or Collector (Section 195)

At present, the Board, Chief Collector, or Collector of Customs may review the records or the legality of decisions made by subordinate officers within their jurisdiction.

The Bill seek to include Director General in the list of authorities who may review the records or the order passed by the subordinate officer.

24. Reference to High Court (Section 196)

Section 196 prescribed the procedure for referring cases to the High Court, including the establishment of Special Benches, time limits, and application fees. At present, where recovery of duty or tax has been stayed by the High Court by an order, such order shall cease to have effect on the expiration of a period of six months following the day on which it was made unless the reference is decided or such order is withdrawn by the High Court earlier.

The Bill proposes to extend the time of fling of appeal from 30 days to 45 days. It also proposes to insert new proviso under sub-section 6 of the said section, whereby issuance of stay is proposed to be conditioned with 50% payment of recoverable amount.

25. Procedure for sale of goods (Section 201)

The existing section outlines the procedure for selling non-confiscated goods under the Customs Act, 1969 whereby goods are to be sold via public auction, tender, private offer, or other methods with the owner's consent, after due notice.

The Bill proposes to add "authorized agent" as a method for selling goods. A new sub-section (4) is also proposed to be insert, which prohibits courts from staying auctions unless the party provides a pay order or bank guarantee of at least 50% of the reserve price, aiming to prevent frivolous delays.

26. Establishment of Customs Command Fund (Section 225)

The Bill proposes to establish Customs Command Fund by insertion of new section whereby Federal Government shall allocate funds to the Custom Command Fund from proceeds generated by the auctioning smuggled goods.

The Board may regulate the utilization of Customs Command Fund monies, including establishing conditions and restrictions as deemed appropriate.

27. Digital Enforcement Station (Section 226)

The Bill seeks to insert new section whereby the Board may designate any location as a Digital Enforcement Station via official Gazette notification to combat smuggling and illicit trade. This includes converting existing customs check-posts into such stations as per need.

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

1. Service providers to integrate their business for real-time reporting [Section 3]

The Bill proposes to insert a new proviso under sub-section (1) of section 3 which states that the Board may require any service provider as mentioned in Table 1 and Table 2 of the Schedule to integrate its business with the Board's Computerized System for real-time reporting of services.

The above insertion has been proposed in alignment with the provincial sales tax laws for real time reporting of provision of services.

The mode and effective date of said provision will be communicated by the Board through a general order.

2. Exemptions from tax to the specified agencies listed in Sixth Schedule of the Sales Tax Act, 1990 [Section 3]

The Bill proposes to exempt the services provided to the following agencies and privileged organizations:

1. Services provided to German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit) GIZ' as enlisted at serial no. 147 of the Sixth Schedule to the Sales Tax Act, 1990; and
2. Services acquired by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder; and agreements by the Federal Government, as enlisted at serial no. 163 of the Sixth Schedule to the Sales Tax Act, 1990.

3. Addition of new sub-section specifying negative list of exempt services [Section 3]

The Bill proposes to insert a new sub-section (4) under section 3 of the Ordinance, giving powers to the Board to specify a negative list of services exempt under the Ordinance, subject to such conditions, restrictions and limitations as specified therein by way of a notification in the official gazette. Such negative list is however, yet to introduced.

Amendment in the Petroleum Products (Petroleum Levy) Ordinance, 1961

Through the Bill, the Federal Government has introduced a strategic policy shift by introducing Carbon Levy. This initiative aligns with both Pakistan's domestic climate policy objectives and its international commitments to reduce carbon emissions. The Bill proposes amendments whereby the Petroleum Levy Act, 1961 will be renamed as "the Petroleum Products (Petroleum Levy and Carbon Levy) Ordinance, 1961", marking a significant transformation in the country's approach to environmental taxation and energy policy. This shift reflects a deliberate effort to incentivize lower carbon emissions and promote sustainable practices.

Section 3 & Fifth Schedule

Carbon Levy is proposed vide new section 3(4), to be imposed on petroleum products for the Financial Year 2025-26 and beyond on following items:

Product	FY 2025-26	FY 2026-27
Motor Spirit	Rs. 2.50 per liter	Rs. 5.00 per liter
High Speed Diesel	Rs. 2.50 per liter	Rs. 5.00 per liter

Product	FY 2025-26	FY 2026-27
Furnace Oil	Rs. 2.50 per liter (equivalent to Rs. 2,665/MT)	Rs. 5.00 per liter

These rates are in addition to any Petroleum Levy that may be applicable and notified by the Federal Government from time to time.

Under the proposed framework, the Federal Government will retain the authority to notify Petroleum Levy rates during the transitional phase; accordingly, the Fifth Schedule has been omitted.

Simultaneously, the Carbon Levy rates, introduced through the proposed Bill, will be determined and enforced by the Federal Government.

First Schedule

The Bill proposes to include another petroleum product—Furnace Oil Bunker 'C'—within the scope of petroleum levy chargeability.

New Energy Vehicles Adoption Levy Act, 2025

The Bill proposes to enact a new Act titled " New Energy Vehicles Adoption Levy Act, 2025" to encourage the adoption of New Energy Vehicles (NEVs) in Pakistan by imposing a levy on Internal Combustion Engine (ICE) vehicles. The proceeds from this levy will be specifically used to promote NEV adoption.

The Act will apply to the entire country and will come into force immediately upon enactment.

1. Definitions [Section 2]:

In this Act, unless the subject or context indicates otherwise, the following terms are defined as

(a) **"bus"** includes a motor vehicle

- designed or adapted to carry more than ten passengers at a time, in addition to the driver, whether for hire or otherwise, and
- includes a van, mini-bus and coaster

(b) **"division concerned"** means the division to which business of this Act stands allocated;

(c) **"internal combustion engine motor vehicle"** means a motor vehicle powered wholly or partially by fossil fuels including petrol, diesel, compressed natural gas or liquefied petroleum gas;

(d) **"levy"** means the new energy vehicle adoption levy imposed and collected under this Act;

(e) **"manufacturer"** means a person carrying out the business of assembly, manufacture, fabrication or production of motor vehicles in Pakistan;

(f) **"motor vehicle"** means a vehicle propelled mechanically, electrically or other zero emission based technology either partially or completely, adapted for use upon roads and includes motorcycles, rickshaws, cars, vans, SUVs, Jeeps, sedans, sub-urban vehicles, buses, loaders, and trucks;

(g) **"new energy motor vehicle"** means a motor vehicle that is powered—

(i) exclusively by an electric motor run on a rechargeable battery; or

(ii) by both an electric motor run on a rechargeable battery and an internal combustion engine, capable of achieving a range of no less than fifty kilometers under normal conditions exclusively running on electric motor by a single battery charge; or

(iii) hydrogen fuel cells or any other technology that produces zero tailpipe emission; and

(h) **"truck"** means a motor vehicle designed or adapted primarily

- for the carriage of goods or materials, having a payload capacity exceeding fifteen hundred kilograms and
- includes a rigid or articulated truck, loader, delivery van, pickup and any other vehicle equipped with a goods-carrying body or container.

2. New Energy Vehicle Levy (Section 3):

2.1 **Applicability**: A levy will be imposed on every ICE motor vehicle manufactured, assembled, and supplied by a manufacturer in Pakistan, and on every ICE motor vehicle imported into Pakistan by any person.

2.2 R**ate of Levy:** The levy will be paid at a rate and by persons as specified in the "First Schedule" (The First Schedule is not provided in the Bill).

2.3 **Revision of Rate**: The Federal Government has the authority to revise the levy rate or add/remove categories from the "First Schedule" over time.

- **Exemptions**: The levy will NOT apply to:

  (i) New Energy Vehicles themselves.

  (ii) ICE vehicles manufactured or imported exclusively for export purposes, under a Federal Government order.

  (iii) ICE vehicles owned by diplomatic missions, consulates, or international organizations with privileges under the Diplomatic and Consular Privileges Ordinance, 1972.

  (iv) Any other ICE motor vehicle or category that the Federal Government may exempt via official notification, with or without conditions.

3. Collection and Refund of Levy (Section 4):

3.1 **Collection Method**:

i. For imported ICE vehicles, the levy will be collected in the same manner as import duty under the Customs Act, 1969.

ii. For domestically manufactured or assembled ICE vehicles, the levy will be collected in the same manner as sales tax under the Sales Tax Act, 1990.

3.2 **Applicability of Existing Laws**: The provisions of the Customs Act, 1969, and the Sales Tax Act, 1990, will apply, as far as practicable, to the imposition, collection, recovery, and refund of this new levy.

3.3 **Use of Levy (Section 5):**

All funds generated from this levy are earmarked exclusively for promoting the adoption of new energy vehicles and related matters, as determined by the Federal Government.

3.4 **Power to Make Rules (Section 6):**

The Federal Government can make rules through the official Gazette notification to implement the Act's purposes.

4. Removal of Difficulties (Section 7):

If any difficulties arise in implementing the Act, the Federal Government can issue orders (consistent with the Act) to resolve them.

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About Yousuf Adil

Yousuf Adil, Chartered Accountants provides Audit & Assurance, Consulting, Risk and Financial Advisory and Tax & Legal services, through over 725 professionals in four cities across Pakistan.

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