



YOUSUF ADIL

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Comments on Significant Amendments Finance Act, 2025



Foreword



This memorandum contains our comments in respect of significant amendments made in the Finance Bill, 2025, and further amendments, introduced in the federal legislations, through the recently promulgated Finance Act, 2025.

The amendments enacted through the Finance Act, 2025 will take effect from July 1, 2025 unless stated otherwise.

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Income Tax Ordinance, 2001

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

The Finance Bill proposed 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.

As per Finance Bill export proceeds already subjected to withholding tax under section 154A are exempt from this new tax, thereby preventing duplication of tax on such income.

The Act now seeks to also exclude proceeds from export of goods already subjected to withholding tax under sections 154 from the scope of the digital transactions tax under section 6A.

The Finance Bill did not include a corresponding exclusion for export proceeds of goods, which are subject to tax under section 154. This omission potentially created an unintended overlap, whereby digitally facilitated exports of goods could have been subject to both section 154 and the new section 6A.

By carving out export proceeds from the ambit of Section 6A, the amendment ensures that the new provision targets only domestic digital transactions, thereby preserving the competitiveness of Pakistani exporters operating through digital platforms.

Moreover, the Finance Bill proposed variable tax rates under Section 6A, based on transaction amount and type of goods. However, the Act has replaced this with flat rates of 1% for digital payments and 2% for Cash on Delivery.

2. Salary [Section 12]

The Finance Act has inserted a new sub-section (2A) in Section 12, specifically addressing the tax treatment of pension income falling under clause (f) of sub-section (2)

Taxability of Pension Income Exceeding Rs. 10 Million

The Act introduces a new sub-section (2A) in section 12, providing that pension income exceeding Rs. 10 million received from a former employer in a tax year shall be subject to final tax at 5%. This final tax treatment applies only when the individual is no longer employed by the former employer or its associated entities. The final tax provides certainty by removing such pension income from normal slab-based taxation.

Pension income of individuals who have attained 70 years of age shall be entirely exempt from tax, regardless of the amount involved.

Pension Received While Still Working for Former Employer or Associate

Where an individual continues to be employed by the former employer or its associated entity, the pension income will not qualify for final tax treatment and will instead be taxed under the normal slab rates. If the individual's salary income exceeds 75% of their total taxable income, the slab rates for salaried individuals will apply. Conversely, if salary income is 75% or less of total taxable income, the slab rates for non-salaried individuals will apply.

Above amendments grants age based exemption only to individuals aged 70 or above receiving pension from a former employer. However, it does not specifically provide any exemption where the individual continues to work for the former employer or its associate. This implies that the exemption is not available in such cases.

3. Income from property [Section 15]

The Finance Bill proposed that the minimum fair market rent for commercial properties would be considered at 4% of their fair market value per annum. This fair market value would be determined according to Section 68 of the Ordinance i.e. value notified by FBR or Deputy Collector. Minimum value of fair market rent at 4% would not apply if the taxpayer is able to provide evidence for actual rent received to the satisfaction of the Commissioner, proving otherwise.

This proposal has not been enacted through the Act.

4. Deductions not allowed [Section 21]

The Finance Bill proposed a significant change, proposing disallowance of 10% of claimed expenditure attributable to purchases made from persons who are not National Tax Number (NTN) holders. It was further proposed that this disallowance shall not apply to agricultural produce directly purchased from growers.

However, to avoid any ambiguity, the Act has revised the wording to clarify that in the case of agricultural produce, the clause shall only apply to purchases made from middlemen.

This change aims to strike a balance by safeguarding genuine agricultural transactions while still discouraging undocumented dealings through middlemen who are outside the tax net.

5. 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 Finance Bill proposed to relax this condition and suggested that 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. This proposed amendment was in conflict with the Explanation provided under this section.

The amendment introduced through the Act now clarifies that the tax credit shall be allowed only to the extent of income derived from supplying coal to power generation projects.

While this amendment does not alter the substantive intent of the provision, it removes ambiguity by incorporating the limitation, previously stated in the Explanation directly into the operative clause. This ensures greater clarity and alignment between the main provision and its interpretation.

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

The Finance Bill proposed 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 provisions prohibits the acceptance or processing of requests or applications from such 'ineligible persons' in relation to certain financial and capital transactions.

The Act has now introduced Fifteenth Schedule which has specified the threshold. Further,

the Act has substituted following clauses and section:

Through the Finance Bill, a blanket restriction was proposed whereby no application by an ineligible person for booking, purchase, or registration of a motor vehicle would be accepted or processed, irrespective of its value. However, in the enacted Finance Act, a monetary threshold has been introduced via the Fifteenth Schedule, thereby limiting the restriction to vehicles exceeding the specified value and narrowing the scope of the original proposal.

Value / threshold of immovable property

The Finance Bill proposed that the Federal Government would notify the value threshold for immovable property transactions by ineligible persons, with the clause remaining inoperative until such notification by the Government. Through the Finance Act, a fixed threshold has been introduced through insertion of the Fifteenth Schedule, replacing the discretionary notification and providing greater certainty and statutory clarity.

Prohibition on the sale, account opening, or clearance of securities and mutual fund transactions

Through the Finance Bill, a blanket prohibition was proposed on the sale, account opening, or clearance of securities and mutual fund transactions for ineligible persons, regardless of investment size. However, in the enacted Finance Act, this restriction has been narrowed, now applying only where the total investment by an ineligible person exceeds the threshold specified in the Fifteenth Schedule.

Restriction on account opening, cash withdrawal

The Finance Bill proposed for the restriction on account opening and cash

withdrawals by ineligible persons. The Finance Act has only retained the restriction on cash withdrawals exceeding the threshold specified in the Fifteenth Schedule. Consequently, banking companies may open and maintain accounts for all persons without restriction, however, cash withdrawals from such accounts remain subject to a statutory threshold i.e. one hundred million rupees, as prescribed.

Exclusions

Through the Finance Bill, number of exclusions were proposed from the applicability of Section 114C, covering low-capacity vehicles, certain trucks and buses, small-scale investments in securities (subject to Board notification), and transactions by non-residents and public companies. However, in the enacted Finance Act, these exclusions have been significantly narrowed down, retaining only the exemption for transactions by non-residents and public companies.

7. Amendment of assessments [Section 122]

Previously, proceedings for amendment of assessment under section 122 were to be concluded and an order was to be 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. 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 Finance Bill had proposed to omit the provisos that prescribed a specific timeline for concluding amendment proceedings under section 122 following the issuance of a show cause notice.

However, the Act has retained the provisos and instead amended the time limitation by extending the period for concluding such proceedings from 180 days to one year from the date of issuance of the show cause notice. This change provides the tax authorities with an extended window for finalizing assessments while maintaining the procedural safeguards previously in place.

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

Previously, 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 Finance Bill proposed 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.

The Act has limited the immediate recovery subject to the following conditions:

- a) That the case has been decided in the favor of the department at three appellate forums including the High Court;
- b) That the recovery under this section shall only be made to the extent of lowest amount of demand which has been confirmed by any of the three appellate forums; and

- c) That the tax payable exceeds rupees two hundred million, and the Commissioner shall proceed to recover the said amount irrespective of the time provided under any other provision or the said decision or judgment.

Above amendments seems to reduce administrative burden and limit recovery actions to high-value cases, avoiding unnecessary enforcement in routine or low-demand matters. The amendment strikes a balance between empowering tax authorities and protecting taxpayers from premature or excessive recovery proceedings. However, the amendment no more provides for seven days time for recovery after order of High Court, which implies that tax recovery shall be made immediately without any time limit.

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

Previously, 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.

The Finance Bill proposed 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.

Through the Act, provisions for immediate recovery are limited to following conditions:

- (a) That the case has been decided in the favor of the department at three appellate forums including the High Court;
- (b) That the recovery under this section shall only be made to the extent of lowest amount of demand which has been confirmed by any of the three appellate forums; and
- (c) That the tax payable exceeds rupees two hundred million, and the Commissioner shall proceed to recover the said amount irrespective of the time provided under any other provision or the said decision or judgment

Above amendments seems to reduce administrative burden and limit recovery actions to high-value cases, avoiding unnecessary enforcement in routine or low-demand matters. The amendment strikes a balance between empowering tax authorities and protecting taxpayers from premature or excessive recovery proceedings. However, the amendment no more provides for seven days time for recovery after order of High Court, which implies that tax recovery shall be made immediately without any time limit.

10. Imports [Section 148]

The amendment introduced clarifies that the Collector of Customs, shall not collect tax under section 148, where the recipient of goods is also liable under the Digital Presence Proceeds Levy, Act, 2025 and same has been collected by the payment intermediary as defined in section 153.

This clarification seems to avoid dual taxation by preventing the simultaneous collection of tax at import and under the Digital Presence Proceeds Levy mechanism, thereby ensuring a consistent and non-duplicative tax treatment for entities engaged in digital transactions through designated intermediaries.

11. Payments to non-residents [Section 152]

Section 152 of the Ordinance, governs the deduction of tax at source on various types of payments made to non-residents in Pakistan. This includes payments for royalties, technical services, insurance premiums, advertisement services, and offshore digital services, among others.

The existing provisions under sub-sections (1C) and (1D) address the tax deduction for offshore digital services and the capital gains tax on debt instruments and government securities, respectively.

The section 152(1D) currently mandates the deduction of tax at 10% on capital gains arising from the disposal of debt instruments and government securities held in a Special Convertible Rupee Account (SCRA) by a non-resident Company, regardless of the holding period.

The Finance Bill proposed a change in withholding tax rate based on holding period of such securities, whereby, the bank or financial institution shall deduct tax at the rate of 10% for securities held for 12 months or more. Whereas for securities held for less than 12 months, the capital gains shall be taxed at 20%.

However, the Act has reduced the holding period threshold to 6 months. As a result, capital gains on securities held for less than 6 months will now be subject to 20% tax, while those held for 6 months or more will be taxed at the lower rate of 10%. This amendment encourages medium-term investments while still discouraging short-term speculative trading.

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

As per existing provision of section 153 of the Ordinance, Commissioner is empowered to issue a reduced or lower

rate certificate, however, such reduction shall not exceed 80% of the rate specified in the said Division.

The Act seeks to provide relaxation by empowering the Commissioner under section 153 to issue exemption certificates and allow 100% reduction in tax deduction for public limited companies, where applicable.

13. Exemption or lower rate certificate [Section 159(IB)]

The Act has inserted a new exemption mechanism from collection of advance tax on sale or transfer of immovable property. Under the newly inserted subsection (1B), the Commissioner shall issue an exemption certificate from deduction of advance tax under section 236C upon application by a person, subject to the following conditions:

- The person's income from capital gains on the property is not

chargeable to tax under section 37(1A);

- The property must have been in the personal use of the individual for at least the last fifteen years;
- It must have been declared in the wealth statement under section 116 for the same 15 year period; and
- The property must be reflected as residence for personal use in tax records.

An exemption certificate under this provision can be issued only once in fifteen years.

This amendment is aimed at facilitating genuine long-term property owners who are not liable to capital gains tax, by exempting them from unnecessary deduction of advance tax at the time of sale or transfer of residential property. It introduces a documented and time bound relief mechanism while ensuring compliance through consistency with wealth statements and tax records.

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

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

Requirements introduced as per Finance Act as compared to proposed through the Finance Bill are as under:

Requirements	Finance Bill	Finance Act
FBR to share information with Banks	<p>FBR to share key taxpayer information with scheduled banks in Pakistan, including:</p> <ul style="list-style-type: none"> • 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. 	<p>The Act has broadened scope by authorizing the FBR to share information obtained from tax declarations, which is wider in scope and implicitly covers all forms of tax related disclosures, including those not expressly mentioned in the Finance Bill.</p>
Banks to share information with FBR	<p>Banks must provide particulars, including names and account numbers, of persons where banking information is inconsistent with the data algorithms shared by the FBR.</p>	<p>Banks must provide to the FBR the final results where the banking data is at variance with the algorithms shared by FBR.</p>

15. Tax Payer’s Registration [Section 181(IA)]

The Finance Bill proposed a new sub-section (1A) is 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.

The Act, however, removed the mandatory sales tax registration requirement, focusing solely on income tax registration.

16. Offences and penalties [Section 182]

Penalties introduced through the Finance Act as compared to the ones proposed by the Bill are as under:

Serial No.	Offences	Penalties (As per the Finance Bill)	Penalties (As per the Act) /Comments	Section of the Ordinance to which offence 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	Nil	181(1A)
15A	Any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to register under Sales Tax Act, 1990 and Income Tax Ordinance, 2001, fails to register under the aforementioned statutes.	Such seller shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default.	The Act has removed mandatory requirement for sales tax registration. Therefore, if taxpayer is not registered under Sales Tax Act, 1990 , the penalty shall not be applicable.	181

The First Schedule

Rates of Tax

Part I

The Finance Bill initially proposed that any income derived from pension, annuity, supplement to the pension or annuity, and commutation of pension, whether received from an employer or any other source would be taxed at the following concessional rates:

Income Slabs	Rate of Tax
Where the amount of pension received does not exceed rupees ten million	0% of the amount
Where the amount of pension received exceeds rupees ten million	5% of the amount exceeding rupees ten million

However, the Finance Act has significantly narrowed the scope of this relief. The reduced tax rates now apply only to pension income received from a *former employer*.

Consequently, any pension income received from sources other than an employer will be taxed under the applicable slab rates for salaried or non-salaried individuals, as the case may be.

Moreover, the Act restricts the reduced rate of tax to pension only. Accordingly, any amounts received under retirement benefit schemes such as annuity plans, pension supplements, or lump sum commutations (other than regular pension) will no longer qualify for the concessional treatment and will be subject to tax under normal slab rates.

This change effectively limits the concessional regime to traditional pension payments from former employers, in contrast to the broader scope initially proposed through the Finance Bill.

Rate of Dividend Tax [Division III]

The amendment introduced through the Finance Act provides that where the corporate entity is recipient of the dividend from mutual funds and REITS, the component derived from the debt securities shall be taxed at the rate of 29%.

Above amendments would encourage mutual funds to invest more in equity markets, by offering preferential tax treatment on equity derived dividends.

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 Finance Bill seek to amend Division IIIA regarding the rate of tax on profit on debt under Section 7B. These changes introduced 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 Act substitute the proposed changes as follows:

(As per the Finance Bill)	(As per the Act)
<p>(a) 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%.</p> <p>(b) For all other cases, the tax rate shall remain at 15%.</p>	<p>(a) 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%.</p> <p>(b) Profit on debt paid by Government securities under clause (c) of sub-section (1) of section 151 to person other than an individual shall be taxed at a rate of 20%.</p> <p>(a) For all other cases, the tax rate shall remain at 15%.</p>

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

The Finance Bill proposed tax rates under section 6A of the Ordinance for payments made for digitally ordered goods or digitally delivered services through e-commerce platforms. The Act has introduced rates and conditions that are different to the ones proposed by the Bill.

The comparison is as under:

(i) Digital Means or banking channels by payment intermediary

S. No.	Description	Tax Rates as per the Finance Bill	Tax Rates as per the Act
1.	Where the amount paid does not exceed rupees ten thousand	1% of the gross amount paid	1% of gross amount paid or payable irrespective of what 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 as per the Finance Bill	Tax Rates as per the Act
1.	On supply of electronic and electrical goods	0.25% of the gross amount paid	2% of the gross amount paid or payable irrespective of nature of goods being supplied.
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]**

The Finance Bill proposed following tax rate for deduction 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. The amendment introduced through the Act provides that where the corporate entity is recipient of the dividend from a mutual fund or REIT, the component derived from the debt securities shall be subject to deduction of advance tax at the rate of 29%.

**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 Finance Bill introduced 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%.

The Act made further changes, comparison of the changes introduced through the Bill and the ones introduced by the Act are as follows:

As per the Finance Bill	As per the Act
<p>(c) 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%.</p> <p>(d) For all other cases, the tax rate shall remain at 15%.</p>	<p>(c) 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%.</p> <p>(d) Profit on debt paid by Government securities under clause (c) of sub-section (1) of section 151 to person other than an individual shall be taxed at a rate of 20%.</p> <p>(b) For all other cases, the tax rate shall remain at 15%.</p>

**Tax on payments for digital transaction in e-commerce platforms
[Division III]**

The Finance Bill proposed 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.

The Act introduced different tax rates and conditions. Comparison of tax rates as per Bill and as per the Act are as follows:

(i) Digital Means or banking channels by payment intermediary

S. No.	Description	Finance Bill proposed Withholding Tax rate	Withholding Tax rate as per the Act
1	Where the amount paid does not exceed rupees ten thousand.	1% of the gross amount paid	1% of gross amount paid or payable irrespective of what 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	Finance Bill proposed Withholding Tax rate	Withholding Tax rate as per the Act
1	On supply of electronic and electrical goods.	0.25% of the gross amount paid	2% of the gross amount paid or payable irrespective of nature of goods being supplied.
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	

The Second Schedule

Part I

Exemptions and Tax Concessions

[Clause (9)]

The Finance Bill proposed to omit clause (9), which under the existing law provides exemption on pension income if it is 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.

However, the Act has retained clause (9) with a narrowed scope. Under the amended provision, exemption is now only available to Families or dependents of public servants or Armed Forces members who die during service.

Accordingly, pension income received directly by government employees or members of the Armed Forces in respect of their own service will no longer be exempt. Such income will now be subject to tax at the rate of 5% on the amount exceeding Rs. 10 million per annum.

[Clause (12)]

The Finance Bill proposed 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

The proposed omission has not been approved. Accordingly, the relief under clause (12) continues to remain available, and commutation of pension will remain exempt in the hands of the pensioner.

[Clause (13)]

Under the existing law, both gratuity and commutation of pension received by an employee or by their heirs in the event of death are eligible for tax exemption, subject to conditions as stipulated.

The Finance Bill had proposed to withdraw the exemption available on commutation of pension. However, this amendment has not been approved. Accordingly, the exemption to commutation of pension continues to be available under this clause.

[Clause (23A)]

The Finance Bill had proposed to omit clause (23A), which provides a 50% exemption on the accumulated balance received from the Voluntary Pension System by a person at the time of:

- retirement;
- disability rendering them unable to work; or
- death, in which case the amount is received by the nominated survivor.

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However, this amendment has not been approved. Accordingly, the relief under clause (23A) continues to remain available. Further, the taxable portion of the withdrawal continues to be subject to tax at the average rate of the preceding three tax years.

[Clause (23C)]

The Finance Bill proposed 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

However, the proposed omission has not been approved. Accordingly, the exemption under clause (23C) continues to remain available.

[Clause (57)]

The Act has inserted new sub-clause (4) whereby income of following listed funds, institutions, foundations and trusts are exempt from tax:

S.No	Name
i.	Pension of a former President of Pakistan and his widow
ii.	State Bank of Pakistan and State Bank of Pakistan Banking Services Corporation.
iii.	Federal Board of Revenue Foundation
iv.	Pakistan Council of Scientific and Industrial Research
v.	The Pakistan Water and Power Development Authority established under the Pakistan Water and Power Development Authority Act, 1958 (W. P. Act XXXI of 1958).
vi.	Pakistan Agricultural Research Council.
vii.	The corporatized entities of Pakistan Water and Power Development Authority from the date of their creation upto the date of completion of the process of corporatization i.e. till the tariff is notified.
viii.	The Prime Minister's Special Fund for victims of terrorism
ix.	Chief Minister's (Punjab) Relief Fund for Internally Displaced Persons (IDPs) of NWFP
x.	Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund.
xi.	National Disaster Risk Management Fund
xii.	The Prime Minister's COVID-19 Pandemic Relief Fund- 2020.
xiii.	National Endowment Scholarship for Talent (NEST).
xiv.	Securities and Exchange Commission of Pakistan.
xv.	Privatization Commission of Pakistan
xvi.	Fauji Foundation.
xvii.	Audit Oversight Board
xviii.	Supreme Court Water Conservation Account
xix.	Baluchistan Education Endowment Fund (BEEF).
xx.	Army Welfare Trust
xxi.	Public Private Partnership Authority for tax year 2022 and subsequent four tax years
xxii.	The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5 th August, 2022.

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S.No	Name
xxiii.	Export-Import Bank of Pakistan
xxiv.	Deposit Protection Corporation established under subsection (l) of section 3 of Deposit Protection Corporation Act, 2016 (XXXVII of 2016).
xxv.	WAPDA First Sukuk Company Limited
xxvi.	Pakistan Domestic Sukuk Company Ltd
xxvii.	WAPDA on issuance of twenty billion rupees TFC's/SUKUK certificates for consideration of Diamer Bhasha Dam Projects
xxviii.	WAPDA Second Sukuk Company Limited
xxix.	Pakistan International Sukuk Company Limited
xxx.	Second Pakistan International Sukuk Company Limited
xxxi.	Third Pakistan International Sukuk Company Limited
xxxii.	Islamic Naya Pakistan Certificates Company Limited (INPCCL).
xxxiii.	Pakistan Mortgage Refinance Company Limited.;
xxxiv.	The Pakistan Global Sukuk Programme Company Limited
xxxv.	Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi
xxxvi.	National Memorial Bab-e-Pakistan Trust
xxxvii.	Pakistan Poverty Alleviation Fund.
xxxviii.	National Rural Support Programme
xxxix.	Karandaaz Pakistan from Tax Year 2015 onwards
xl.	The Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network.
xli.	International Finance Corporation established under the International Finance Corporation Act, 1956 (XXVIII of 1956) and provided in section 9 of Article VI of Articles of Agreement 1955 as amended through April 1993
xlii.	Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on the 25th December, 2015
xliii.	SAARC Energy Centre.
xliv.	The Asian Development Bank established under the Asian Development Bank Ordinance, 1971 (IX of 1971
xlv.	International Islamic Trade Finance Corporation.
xlvi.	Islamic Corporation for Development of Private Sector
xlvii.	ECO Trade and Development Bank
xlviii.	The Islamic Chamber of Commerce and Industry under the Organization of Islamic Conference (OIC).
xlix.	Commission on Science and Technology for Sustainable Development in the South (COMSATS) formed under International Agreement signed on 5th October, 1994.
i.	Saarc Arbitration Council (SARCO).
ii.	International Parliamentarians' Congress
iii.	Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme.ii;

[Clause (65B)]

The Act introduces an exemption from tax on any monetary award received by a sports person representing Pakistan in the international Olympic Games, provided the award is granted by the Federal Government, a Provincial Government, or a public office holder. This exemption will apply from tax year 2025 onwards, offering a tax incentive for Olympic medalists.

[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.

The Finance Bill proposed 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 Act substituted table introduced through the Finance Bill and renumbered as follows:

Sr. No.	Name
i.	Al-Shifa Trust
ii.	Fatimid Foundation
iii.	Pakistan Engineering Council
iv.	The Institution of Engineers
v.	Liaquat National Hospital Association
vi.	Greenstar Social Marketing Pakistan (Guarantee) Limited
vii.	Gulab Devi Chest Hospital
viii.	National Academy of Performing Arts
ix.	Pakistan Bar Council
x.	Pakistan Centre for Philanthropy
xi.	Aziz Tabba Foundation
xii.	The Kidney Centre Post Graduate Training Institute
xiii.	Pakistan Disabled Foundation
xiv.	Forman Christian College
xv.	Habib University Foundation
xvi.	Begum Akhtar Rukhsana Memorial Trust Hospital
xvii.	Al-Khidmat Foundation
xviii.	Sardar Trust Eye Hospital, Lahore
xix.	Akhuwat
xx.	Al-Shifa Trust Eye Hospital
xxi.	Sarmaya-E-Pakistan Limited
xxii.	Lahore University of Management Sciences, Lahore
xxiii.	Ghulam Ishaq Khan Institute of Engineering Sciences and Technology
xxiv.	Society for the Promotion of Engineering Sciences and Technology in Pakistan (SOPREST)
xxv.	Businessmen Hospital Trust
xxvi.	Baitussalam Welfare Trust
xxvii.	Alamgir Welfare Trust International
xxviii.	Foundation University

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Sr. No.	Name
xxix.	Burhani Qarzan Hasnan Trust
xxx.	Saifee Hospital Karachi
xxxi.	Saifiyah Girls Taalim Trust
xxxii.	Balochistan Bar Council
xxxiii.	Islamabad Bar Council
xxxiv.	Khyber Pakhtunkhwa Bar Council
xxxv.	Punjab Bar Council
xxxvi.	Sindh Bar Council
xxxvii.	Shaheed Zulfikar Ali Bhutto Foundation (SZABF)
xxxviii.	Pakistan Sweet Homes Angels and Fairies Place
xxxix.	Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT
xl.	Shaukat Khanum Memorial Trust
xli.	Abdul Sattar Edhi Foundation
xl.ii.	Patient's Aid Foundation
xl.iii.	Indus Hospital and Health Network
xl.iv.	Sundus Foundation
xl.v.	Ali Zaib Foundation
xl.vi.	Layton Rahmatullah Benevolent Trust (LRBT)
xl.vii.	Dawat-e-Hadiya, Karachi
xl.viii.	The Citizens Foundation
xl.ix.	Make a Wish Foundation
l.	Saylani Welfare International Trust
li.	Dawat-e-Islami Trust
lii.	Chiniot Anjuman Islamia
liii.	Hamdard Laboratories (Waqf) Pakistan
liv.	Film and Drama Finance Fund
lv.	Shaheed Zulfikar Ali Bhutto Institute of Science and Technology
lvi.	Beaconhouse National University
lvii.	Federal Ziauddin University
lviii.	Punjab Police Welfare Organization, Lahore

Part II

Reduction in Tax Rates

[Clause (24 CB)]

The Act seek to introduce a new clause (24CB) which provides that the rate of tax under sections 153(1)(b) and (c), and section 236A, in respect of payments made to the National Logistics Corporation (NLC), shall be 3% of:

- the gross amount of payment for services or execution of contracts, and
- the gross sale price in case of a lease of toll collection rights.

The tax deducted or collected under this clause shall be treated as minimum tax. However, if the normal income tax liability exceeds the amount paid under this clause, the taxpayer shall be liable to pay the higher amount of normal income tax.

Part IV

Exemption from Specific Provisions

[Clause (104A)]

The Act seeks to introduce a new clause (104A) which provides that section 4C shall not apply on capital gain derived from the disposal of one residential immovable property subject to the following conditions:

- The property has been in the personal use of the person for the last fifteen years;
- The property has been declared by the person in his wealth statement under section 116 for the last fifteen years; and
- The property must be reflected as residence for personal use in tax records.

Above clause shall apply once in fifteen years.

The Fifteenth Schedule

The Act seek to introduce a new fifteen schedule, whereby for the purposes of section 114C of the Ordinance, the threshold limits for specified economic transactions, as applicable to ineligible persons, shall be determined as follows:

S.No	Transaction Reference	Description	Transaction value specification	Threshold limitation for ineligibility
1	114C(1)(a)	In relation to an application for booking, purchase or registration of motor vehicle.	The invoice value for locally manufactured vehicle; or the import value as assessed by the Customs Authority inclusive of all applicable taxes, duties, levies and charge.	Exceeding seven million rupees.
2	114C(1)(b)	In relation to an application for registering, recording or attesting transfer of any immoveable property	Fair Market Value as defined in clause (22AA) of section 2 of the Ordinance	Exceeding one hundred million rupees.
3	114C(1)(c)	In relation to the investment in securities, debt securities, units of mutual funds or money market instruments subject to the condition that the investment amount up to rupees fifty million shall be new investment in any financial year excluding reinvestment either by liquidation of similar type of securities and or reinvestment of returns earned on already held securities	Acquisition cost of securities or debt securities or unit of mutual funds or money market instruments	Exceeding fifty Million rupees;
4	114C(1)(d)	Annual cash withdrawal Limit		One hundred million rupees in all bank accounts held by an individual.

Digital Presence Proceeds Tax Act, 2025

1. Charging of Digital Presence Proceeds Tax [Section 3 (5)]

Through the Finance Bill, Permanent Establishments were proposed to be excluded from the scope of the Digital Payment Processing Tax (DPPT). However, in the enacted Finance Act, the term "Permanent Establishment" has been replaced with "branch office of a foreign vendor", indicating an intentional narrowing of the exemption.

This change suggests that only branch offices of non-resident vendors that deliver goods or services within Pakistan would fall outside the chargeability of DPPT. It also implies that transactions conducted by the branch office may be taxed separately under the normal tax regime, while digital transactions falling under DPPT outside the branch structure would remain subject to the digital tax provisions.

2. Significant Digital Presence in Pakistan [Section 4]

The criterion that a foreign vendor must complete more than five transactions annually to be considered as having a "significant digital presence" in Pakistan, introduced through the Bill has been replaced with a monetary threshold of PKR 1 million per financial year.

3. Administration of this Act [Section 13]

In the Finance Bill, the term "regulator" was used under section 13 in the context of the administration of the Act.

However, through the Finance Act, this has been substituted with the term "tax administrator" as an editorial change. The revised text now provides that:

"The Inland Revenue Department of the Board and its subordinate offices shall act as tax administrator for carrying out the purposes of this Act."

The substitution reflects more appropriate terminology from a tax law perspective, as the word "regulator" may imply commercial or operational oversight similar to how certain sectors are regulated by specialized bodies, which is not the intended role of the tax authorities. The term "tax administrator" more accurately conveys that the Inland Revenue Department is responsible solely for taxation and assessment functions under the Act.

4. Powered to Grant Exemption [Section 15]

Through the Finance Act, the Federal Government has been empowered to exempt any country, class of persons, or category of goods or services from the application of this Act through a notification in the official Gazette, subject to specified conditions.

This enabling provision appears to serve as a safeguard mechanism, allowing the government to address concerns or potential friction that may arise in connection with the taxation of cross-border digital transactions. It provides flexibility to grant relief to certain businesses of certain countries where mutual agreements, negotiations, or commercial understandings are pursued to resolve issues related to the imposition of tax under this regime.

Sales Tax Act, 1990

1. Definitions [Section 2]

i. Abettor [Clause (1)]

The Finance Bill proposed to introduce a definition of "abettor" under clause (1) of section 2 of the Sales Tax Act, 1990. Subsequently, the Act has approved the definition in a narrowed form, removing elements or actions like unauthorized use of login credentials and paper-based sales tax registrations from the definition, originally included under clauses (a) and (d) of the Finance Bill.

ii. Courier [Clause (5AC)]

The Finance Bill initially proposed to introduce a definition of the term "courier". However, the Act has modified the proposed definition by excluding food delivery platforms and ecommerce delivery services from its scope. As a result of this amendment, it appears that such platforms shall not be responsible for collecting tax under Eleventh Schedule in respect of taxable goods supplied on cash on delivery basis.

2. Scope of tax [Section 3]

The Finance Bill proposed insertion of new sub-section (7A) in section 3 of the Sales Tax Act, 1990 to treat tax collected by payment intermediaries and couriers on digitally ordered goods as final discharge of tax liability for all e-commerce suppliers. Now, the Act has approved the insertion with a narrowed scope, restricting application of final tax regime to cottage industry and retailers (other than tier-I retailers).

The Finance Bill proposed to substitute the existing proviso to sub-section (9A) of section 3 to exclude sales of Tier-1 retailers covered under sub-section (7A) from its chargeability. However, the Act has instead omitted the proviso

altogether, removing the exemption mechanism initially proposed.

3. Registration [Section 14]

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

The **Act** has approved the insertion with **modifications**, exempting **cottage industry** and **retailers paying sales tax through electricity bills** from this requirement. It also provides that online marketplaces and couriers shall not allow any person to use their services for e-commerce transactions unless such person holds **an NTN** and, where applicable, a **sales tax registration**.

The Finance Bill had further proposed insertion of sub-section (2A) to empower the Commissioner Inland Revenue or an authorized officer to compulsorily register a person required to be registered under the Sales tax Act. The **Act** has approved this provision with the addition of a **mandatory opportunity of being heard** before such registration is enforced.

4. 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 Act has approved the insertion of sections **14AC**, **14AD**, and **14AE** in the Act with **enhanced procedural safeguards**. These provisions empower the Commissioner Inland Revenue to:

- i. **suspend or bar operations of bank accounts,**
- ii. **bar transfer of immoveable property,** and
- iii. **take coercive actions,** including sealing of business premises or seizure of moveable property, against persons required to be registered under the Act but who fail to comply.

The Commissioner may **intermittently suspend bank account operations** up to three times before permanently barring them. Under section 14AD, if registration is not obtained within **15 days of such action**, a committee comprising the **Chief Commissioner, the concerned Commissioner, and a representative of the Chamber/Trade Body** may recommend barring transfer of immoveable property.

Further coercive actions under section 14AE can only be taken **after prior actions under sections 14AC and 14AD**, and only after following **due process**, including a **personal hearing through open court** and **public disclosure** of the decision.

The respective bars shall be removed by order of the Commissioner or Chief Commissioner upon registration. Aggrieved persons may file **appeals or representations** within **thirty days** of the order. These provisions shall come into force on a **date notified by the Board**.

5. Suspension and Blacklisting of Registration [Section 21]

The Finance Bill proposed to insert sub-section (2A) under section 21 of the Act, requiring the Commissioner to issue a show cause notice within fifteen days of the suspension of registration and, after

hearing the registered person, either revoke the suspension or issue an appealable speaking order for blacklisting within thirty days of receiving the reply.

The Act has approved the insertion with a revised timeline, requiring the show cause notice to be issued within ten days of the suspension.

6. Returns [Section 26]

The Finance Bill proposed to insert two provisos under sub-section (1) of section 26, requiring furnishing of a monthly statement in the prescribed form, showing supplier-wise payments, tax due, and other information relating to digitally ordered goods. The Act has approved this insertion.

The Finance Bill also proposed to omit the proviso to sub-section (3), thereby making all revised returns subject to Commissioner's approval. However, the Act has instead inserted sub-section (3A), providing that no approval shall be required where the revised return is filed within sixty days and the tax payable is increased or refund claimed is reduced, unless restricted by the Board's compliance risk management system.

7. Appointment of Experts and Auditors [Section 32B]

The Finance Bill proposed to insert a new section 32B, empowering the Board and the Commissioner to appoint experts and auditors for audit, investigation, litigation, and valuation purposes. It was also proposed that the Board may not appoint more than two thousand auditors. The Act has approved the insertion, with the final version omitting the proposed cap on appointment of the number of auditors.

8. Offences, Penalties and Punishment [Section 33]

The proposed penalty at serial 1A for non-filing of monthly statement within due date by online market place payment intermediary and courier has been reduced from Rupees five lac to three lac for the first default if the person fails to furnish the prescribed statement for two consecutive months.

Penalty at serial 13 has been adopted in the Act with further amendments as follows:

Entry No.	Offences	Penalties
	(1)	(2)
13	<p>(i) Any person who commits or, causes to commit tax fraud as defined under subclauses (a), (b), (c), (d), (e) or (f) of clause (37) of section 2.</p> <p>(ii) Any person who commits or, causes to commit tax fraud as defined under subclauses (g), (h), (i), (j) or (k) of clause (37) of section 2</p>	<p>(i) Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend upto five years. Such person shall also be liable to pay the amount equal to the loss of tax caused as confirmed by the Special Judge from such amount reported under sub section (11) of section 37B, including one hundred percent penalty of tax loss and default surcharge under section 34 of the Act.</p> <p>(ii) Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend upto five years. Such person shall also be liable to pay the amount equal to the loss of tax caused as confirmed by the Special Judge from such amount reported under sub section (11) of section 37B, including one hundred percent penalty of tax loss and default surcharge under section 34 of the Act.</p>

The newly inserted penalty at serial 13A has been adopted with reduction in terms of imprisonment from ten to five years.

9. Power to inquire, investigate offences warranting prosecution under this Act and Arrest of a person [Section 37A]

In the Act, the substituted section 37A has been adopted with certain changes as follows:

Section 37A	As proposed in Finance Bill	As adopted in Act	Implication of Change
Powers during Inquiry	Vaguely refers to powers under other sections.	Explicitly grants powers of a Civil Court (summoning persons, requiring documents, receiving evidence).	Significantly strengthens and clarifies the officer's authority during the initial inquiry phase.

Section 37A	As proposed in Finance Bill	As adopted in Act	Implication of Change
Timeline for Inquiry	No time limit specified.	A six-month time limit is imposed for completing the inquiry.	Adds a crucial procedural safeguard against indefinite or prolonged inquiries.
Opportunity to be heard	Officer may give a hearing after inquiry completion.	Officer shall give a hearing during the inquiry proceedings.	Strengthens the accused's right to be heard and makes it a mandatory part of the inquiry process.
Timeline for Investigation	No time limit specified.	A three-month time limit is imposed for completing the investigation.	Prevents investigations from dragging on indefinitely and pushes for timely resolution.
Power of Arrest	Completely silent. This section does not grant arrest powers.	Introduces extensive and detailed arrest powers. Establishes two paths for obtaining an arrest warrant and specifies conditions.	This is the most significant change, granting the Inland Revenue department a powerful enforcement tool previously not in this section.
Compounding of Offence	No provision for compounding.	Introduces a new provision for compounding (settling) the offence if the accused pays the due tax, surcharge, and penalty.	Provides an official mechanism to resolve cases without prosecution, acting as an off-ramp for the accused and a recovery tool for the department.
Rights of the Accused	Silent on specific rights.	Adds multiple new rights: Right to be informed of arrest grounds in writing, and an explicit mention of the right to seek bail.	Formalizes and protects the fundamental rights of a person accused under this law.
Overall Structure	7 subsections focused on a linear inquiry-to-investigation process.	15 subsections creating a comprehensive legal framework covering multiple contingencies (arrest, bail, settlement, etc.).	Version 2 in the Act is a self-contained code for handling serious tax fraud cases, not just a procedural outline.

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

In the Act, the substituted section 37B has been adopted with certain changes as follows:

Section 37B	As proposed in Finance Bill	As adopted in Act	Implication of Change
Initial Action on Arrest	Requires production before a Judge/Magistrate within 24 hours.	Adds a new, immediate step: The arresting officer must immediately intimate the fact of the arrest to the Special Judge. The 24-hour production rule is a subsequent step.	Increases judicial oversight from the very moment of arrest.

Section 37B	As proposed in Finance Bill	As adopted in Act	Implication of Change
Investigative Powers	The law is silent on granting specific police powers to the Inland Revenue officer.	Explicitly grants powers: States the officer shall have the "same powers as are exercisable by an officer in charge of a police station under the Code of Criminal Procedure, 1898."	Significantly strengthens the authority and legal standing of the Inland Revenue officer during an investigation.
Start of Investigation	No specific timeline is mentioned for the start of the investigation.	Mandates an immediate start: States the officer shall "immediately proceed to investigate" upon arrest.	Formalizes the investigation process and removes ambiguity about when it should begin.
Bail Cancellation	Special Judge can cancel bail after giving the person an opportunity of being heard.	Same, but adds a crucial exception: "...unless for reasons to be recorded he considered that the affording of such opportunity shall defeat the purposes of this Act."	Gives the Special Judge more discretionary power to cancel bail without a hearing in urgent or exceptional circumstances.
Reporting on Release	If evidence is insufficient, the officer reports to the Special Judge for discharge and makes a full report to the Commissioner.	If evidence is insufficient, the officer reports to the Special Judge for discharge and makes a full report to his immediate superior.	Changes the internal administrative reporting line, potentially streamlining the process.
Final Investigation Report	The final report to the Special Judge must be submitted through the Commissioner and must include the total amount of loss of tax.	The final report is submitted directly to the Special Judge. The explicit requirements to go "through the Commissioner" and to state the tax loss are removed from this subsection.	Streamlines the process of submitting the final report (challan) to the court.

11. Compounding of offences [Proposed Section 37BB]

The proposed new section has been merged into section 37A.

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

Through the Act, a new sub section has been added to section 38B whereby, the Commissioner may require Internet Service Providers, Telecommunication Companies and Pakistan Telecommunication Authority, to furnish subscriber's information pertaining to the Internet Protocols in connection with any inquiry or investigation in cases of tax fraud.

Eighth Schedule (Goods subject to Specified rates)

Table-1

In Table 1 of the Eighth schedule of the Sales Tax Act, 1990 the following changes have been made through the Act:

1. 'Photovoltaic cells whether or not assembled in modules or made up into panels' under PCT headings 8541.4200 and 8451.4300 are subject to reduced rate of 10%.

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

In the Finance Act, the term 'Carbon Levy' has been replaced with 'Climate Support Levy' throughout the Petroleum Products (Petroleum Levy) Ordinance, 1961. This updated terminology more accurately reflects the purpose of the measure to generate resources for climate resilience, green energy transition, and environmental adaptation.

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