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FINANCE ACT 2025-26

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PREFACE

The budget for 2025-26 was announced on 10th June, 2025. The National Assembly approved the Finance Bill 2025 on June 26, 2025, with some amendments. Following the President of Pakistan's assent, the Finance Act 2025 was enacted on June 27, 2025. The amendments are effective from July 01, 2025 unless an earlier date is specified for a particular provision. Our comments provide a basic understanding of the expected changes; however, for a detailed explanation, we recommend seeking our professional advice.

DISCLAIMER

While preparing this Synopsis care has been taken to ensure that our understanding on significant changes are explained to the reader to the best of our abilities.

This commentary provides general guidance, therefore, any action on the basis of this synopsis will be readers' discretion. We however do not take any responsibility for loss, if any, suffered by reader by taking any action or inaction on the basis of these synopsis without seeking our formal written advice.

July 02, 2025

FINANCE ACT HIGHLIGHTS

INCOME TAX

The Finance Act has made following amendments:

- The definition of **"Banking Company"** has been restricted to entities recognized under the Banking Companies Ordinance, 1962, by excluding the broader reference to any corporate body transacting banking business in Pakistan.

- A new definition of **"Digitally Delivered Services (DDS)"** has been introduced, covering services delivered online with minimal human intervention, such as streaming, cloud services, telemedicine, e-learning, and digital consultancy.

- **E-commerce** is defined to include the online sale or purchase of goods and services through websites, mobile apps, or automated digital systems using various devices.

- **Recreational clubs** charging joining membership fees exceeding rupees 1 million for any class of new members will be excluded from the definition of a Non-Profit Organization (NPO).

- The definition of an **online marketplace** is expanded to include digital interfaces that facilitate direct buyer-seller interaction for a fee, regardless of the platform's economic ownership of goods or services.

- The surcharge on income exceeding rupees 10 million has been reduced from 10% to 9% for salaried individuals, offering slight relief while keeping the surcharge intact for others.

- The Finance Act has introduced a new **Section 6A**, imposing final tax on gross receipts from digitally ordered goods or services through local online platforms.

- The Finance Act has clarified that income of recreational clubs **from services to members is taxable as business income**.

- 10% of expenses on purchases from non-NTN holders will now be disallowed under the Finance Act, except in the case of agricultural produce.

- 50% of expenses related to **cash sales over rupees 200,000 per invoice** will be disallowed unless payment is made through banking or digital channels.

- **Depreciation will not be allowed** on capital assets where tax under **Sections 152 or 153** has not been withheld and deposited.

- The deemed useful life of intangible assets **without ascertainable life** has been reduced from 25 to 15 years, allowing faster amortization.

- The carryforward period for excess minimum tax under **Section 113** has been reduced from three to two years, limiting the timeframe to offset it against future normal tax liabilities.

- A new Section 114C has introduced strict restrictions on economic transactions by 'ineligible persons'—those who have not filed returns or cannot justify their sources of income. Such persons are barred from purchasing or selling immovable property, acquiring vehicles, investing in securities, and making cash withdrawals from banks exceeding the prescribed threshold.

- The Finance Act has extended the statutory **time limit for passing amended assessment orders** after the issuance of a show cause notice. Officers are now allowed up to one year to finalize amendments under Section 122.

- New **sub-sections (4A) and (4B)** clarify that no appeal effect order is required if an appellate body fully confirms tax liability, while a partial confirmation requires a limited appeal effect order for recovery of the confirmed portion.

- The Finance Act has restored the earlier **appellate structure** by eliminating the pecuniary jurisdiction introduced under the Tax Laws (Amendment) Act, 2024. All appeals, irrespective of the amount involved, will now be filed before the Commissioner Inland Revenue (Appeals) as the first appellate forum.

- The Finance Act, 2025 enables immediate **recovery of tax** exceeding PKR 200 million through property, arrest (Section 138), or asset attachment (Section 140) where the department has won at three appellate forums, including the High Court—regardless of pending appeals—marking a stronger enforcement shift in high-value cases.

- **Section 151A** imposes a 15% withholding tax on capital gains arising from the disposal of debt securities, excluding those settled through NCCPL. The custodian of the security is responsible for deduction and deposit.

- **Section 153** introduces withholding obligations for payment to intermediaries and courier services on e-commerce transactions.

- The Finance Act substantially increases rate of withholding tax on account of rendering of services.

- **Section 175AA** authorizes FBR to share tax and banking data of high-risk persons with scheduled banks. Banks must report mismatches based on data-driven algorithms to improve compliance.

- **Section 175C** empowers FBR to deploy Inland Revenue officers at business premises for monitoring operations. It mirrors indirect tax monitoring provisions to enforce accurate income reporting.

- **Section 214A** limits condonation of delay by FBR or Commissioners to a maximum of two years. Exceptions may apply in revenue loss cases, subject to approval by a special committee.

- **Section 216** allows limited disclosure of taxpayer information to auditors and institutions under strict confidentiality. It supports audit capability and policy research while preserving taxpayer privacy.

- **Section 218** clarifies that electronic notices can be validly served to all types of persons, not just individuals. This improves communication efficiency and ensures legal uniformity.

- **Section 231AB** has increased the advance tax rate on cash withdrawals by non-ATL persons from 0.6% to 0.8%.

EXEMPTION & TAX CONCESSIONS

- The Finance Act maintained the exemption relating to annuity or commutation of pension, which was earlier proposed to be withdrawn by the Finance Bill.
- The Finance Act has restricted the exemption for zone enterprises under special Economic Zone Act, 2012 to the earlier of the 10-year period or June 30, 2035.
- The Finance Act introduced exemption to any monetary reward from Federal or Provincial Government or from Public Office Holder by a sportsperson winning a medal in international Olympic Games representing Pakistan.
- The exemption to zone enterprise, as defined under the Special Technology Zones Authority Act, 2021, has been restricted at the earlier of the 10-year period or June 30, 2035.
- The Finance Act made a 25% tax reduction on salary income of full-time teachers or researchers in recognized non-profit institutions. This relief applies retrospectively from July 1, 2022, until tax year 2025. However, this exemption will not apply to private medical practitioners.
- The Finance Act, 2025 amend audit immunity by applying it to cases selected for audit in the past three tax years—rather than completed audits in four years—shifting the focus from concluded audits to audit selection under Sections 177 and 214C.

SALES TAX

The Act has made following amendments:

- The broad definition of “abettor” proposed in the Finance Bill has been narrowed down, restricting it to intentional acts—such as issuing false invoices with authorization or operating bank accounts to commit tax fraud—thus excluding unintentional or technical violations from prosecution.
- The Finance Act, 2025 narrowed down several digital economy definitions proposed in the Bill. The definition of “courier” was limited to logistics and ride-hailing services, omitting food delivery and e-commerce platforms. The definition of “e-commerce” was also restricted by removing references to services, confining it to goods. Similarly, the revised definition of “online marketplace” excluded services, focusing solely on the digital supply of goods. Lastly, the scope of “payment intermediary” was refined to cover only goods-related transactions, clearly excluding services and non-taxable payments from sales tax applicability.
- The Act has introduced a separate taxation mechanism for e-commerce. Sales tax on digitally ordered goods will be collected by payment intermediaries (in case of digital payments) and courier services (in case of cash on delivery), and such tax will be treated as final liability for cottage industry and retailer other than tier-1 retailers.
- FBR has been empowered to prescribe limits and defer input tax adjustments through an automated risk-based system.
- A best judgment assessment mechanism has been introduced under **Section 11D** for non-registrants identified via **Section 236G** purchase data.

- The time limit for completing assessments under **Sections 11D, 11E, and 11F** has been extended from 120 to 180 days.

- Mandatory registration has been introduced for all persons, including non-residents involved in digitally ordered goods, excluding only cottage industry and retailers other than Tier-1 retailers

- The Finance bill had introduced coercive measures, including restrictions on bank accounts and immovable property transfers of unregistered persons, through new Sections 14AC, 14AD, and 14AE. The Finance Act retains these measures but will implements them in a more structured and graduated manner.

- **E-invoicing and e-Bilty** integration has been made mandatory for all registered suppliers and Tier-1 retailers for real-time tracking of supplies.

- **Online Marketplaces**, payment intermediaries, and couriers are now required to submit monthly supplier-wise sales tax statements.

- A due process framework has been introduced for **suspension and blacklisting** of registered persons, including time-bound notice and decision procedures.

- New penalties have been prescribed for defaults related to e-commerce compliance, tax fraud, and failure to generate or tampering with e-bilty documents.

- The **power of arrest** has been restructured to include stronger safeguards. The Finance Act requires completion of inquiry, approval from a three-member committee, and a minimum fraud threshold of PKR 50 million. Arrests must be based on clear grounds such as evasion, non-cooperation, or evidence of tampering, with judicial oversight, defined timelines, and bail rights formalized

- The appeal structure has been revised to restore the two-tier system by removing pecuniary limits introduced earlier under **Section 43A**.

- The confidentiality framework under **Section 56B** has been expanded to include experts and auditors appointed by FBR.

- The power to refer audit firms for inspection has been introduced under Section 58C to ensure accuracy in audited accounts used for tax declarations.

- The FBR has been authorized to prescribe new thresholds for disallowing input tax on supplies made to unregistered persons under **Section 73**.

- Condonation of delay for filing returns or documents has been capped at two years, with limited exceptions allowed via a special committee.

- **Third Schedule – Retail-Price Taxation (Section 3(2)(a)**

  - Certain item like Pet food (dog & cat) in retail packs Coffee, Chocolates and Cereals bars – shifted from SRO 297(I)/2023 (25%) shifted to Third Schedule at 18 % of retail price.

- **Sixth Schedule – Exemptions Table 1 – Imports or Supplies**
  - Machinery and industrial inputs for tribal areas – exemption omitted; now covered under Eighth Schedule at concessional rates.
  - Electricity supply to tribal areas (excluding steel and ghee industries) – exemption extended until 30th June 2026.
  - Import or lease of aircraft by PIACL – new exemption inserted.
- **Sixth Schedule – Exemptions Table 2 – Local Supplies Only**
  - Iron and steel scrap – substituted entry to exclude following from exemption:
    - Supplies by manufacturer-cum-exporters of recycled copper, authorized under the Export Facilitation Scheme, when supplied directly to a registered steel melter; and
    - Supplies made directly by the importer to a registered steel melter.
- **Eighth Schedule – Reduced / Specific Rates**
  - Locally manufactured/assembled motorcars (up to 850cc) – reduced rate of 12.5% withdrawn; now subject to standard taxation.
  - New Entry for tribal area industries – exemption replaced with phased concessional rates
- **Eleventh Schedule – Withholding Tax on Supplies**
  - Online marketplace removed as withholding agent.
  - New entry added for payment intermediaries and couriers – required to deduct 2% sales tax on digitally ordered goods from within Pakistan supplied via online marketplaces, websites, or apps.

FEDERAL EXCISE DUTY

The Act has made the following amendments:

- A new clause (e) has been inserted in Section 3(5) of the Federal Excise Act, 2005, empowering the authorities to specify any person, including any middleman, as **person liable to pay excise duty** in cases not already covered under the existing provisions of the Act.
- The enforcement powers under **Section 26(1)** have been expanded to include goods not affixed with valid tax stamps or affixed with counterfeit barcodes as mandated under **Section 45A**. Such goods, along with the transporting vehicles, will now be liable to seizure.
- **Section 27(1)** has been amended to broaden confiscation provisions:

- Includes all dutiable goods without valid tax stamps or traceability labels, or bearing counterfeit markings.
- Aims to strengthen compliance with Track & Trace regulations.

- A new **sub-section (4)** is inserted into **Section 27**, empowering FBR to officials to enforce provisions of **Sections 26 and 27(1)**, especially in relation to counterfeit or duty-evaded goods monitored under Track & Trace.

- The pecuniary threshold for filing appeals **(Section 33A)** has been abolished, restoring the previous two-tier appeal structure. Now, all appeals regardless of monetary value will lie before the Commissioner Inland Revenue (Appeals).

- **Section 33** has been amended to allow an aggrieved person, other than a State-Owned Enterprise (SOE), to either file an appeal with the Commissioner (Appeals) or bypass it and proceed directly to the Appellate Tribunal Inland Revenue (ATIR).

- **Section 34A** has been amended to:
  - Reinstate the time limit of 60 days for filing reference appeals before the High Court against ATIR orders (previously reduced to 30 days).
  - Reaffirm the right of judicial review for all taxpayers.

- **Amendment to Table III – First Schedule:**

  Serial No. 1 has been omitted, thereby removing federal excise duty on allotment or transfer of property by builders or developers.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES)

The Act has made the following amendments:

- **Mandatory Digital Integration** - All service providers named in Table-1 and Table-2 must link their POS / ERP systems to FBR's real-time reporting platform on the date and in the manner the Board later notifies.

- Exemption alignment with Sales Tax Act - **Clause 3(2A)(d)** is updated to import two additional reliefs from the Sales Tax Act, 1990:
  - **Serial 147** (GIZ supplies)
  - **Serial 163** (UN/diplomatic imports)

  The same concessions will now also cover services supplied in the ICT.

- **Power to Issue a Negative List** - A new **sub-section 3(4)** empowers FBR to publish, by notification, a Negative List (Table-3) of services that will be sales-tax-exempt, subject to any conditions it specifies.

SIGNIFICANT AMENDMENTS
INCOME TAX

BANKING COMPANIES **Section 2(7)**

The Finance Act has amended the definition of “banking company” by excluding the phrase “any body corporate which transacts the business of banking in Pakistan.” This amendment aims to narrow the scope of the definition to only those entities formally recognized as banking companies under the Banking Companies Ordinance, 1962.

DIGITALLY DELIVERED SERVICES **Section 2(17C)**

The Finance Act has inserted a definition for "Digitally Delivered Services". Digital delivered Services means 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.

E-COMMERCE **Section 2(17C)**

The Finance Act has inserted a definition of E-Commerce. which 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 either mobile phone, iPad, Tablet or automated computer-to-computer ordering system.

ONLINE MARKET PLACE **Section 2(38B)**

The Finance Act has broadened the definition of online market place by including “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.

SURCHARGE ON TAX WHERE TAXABLE INCOME EXCEEDS TEN MILLION RUPEES **Section 4AB**

According to the existing provision of the Income Tax Ordinance, 2001 Surcharge under section 4AB of the Income Tax Ordinance, 2001 @ 10% is imposed on individuals and AOPs whose taxable income exceeds PKR 10 million in a tax year. The Finance Act has marginally reduced this surcharge to 9% for income chargeable under the head "Salary" in the case of salaried individuals. This amendment aims to provide limited relief to salaried taxpayers while maintaining the surcharge@ 10% for all other categories.

TAX ON PAYMENTS FOR DIGITAL TRANSACTIONS IN E-COMMERCE PLATFORMS **Section 6A**

The Finance Act has introduced a new Section 6A in the Income Tax Ordinance, 2001, which imposes tax on every person receiving payment for the supply of digitally ordered goods or services delivered within Pakistan through locally operated online platforms, including marketplaces and websites. The tax is levied on the gross amount of receipts at the rates @1% in case of payment through intermediaries (such as banks or digital platforms), and 2% withholding by courier services on Cash on Delivery (COD) transactions, this will be treated as a final discharge of tax liability. However, export proceeds subject to withholding under Sections 154 and 154A of the Ordinance have been expressly excluded from the scope of this provision.

Initially, the Finance Bill proposed variable tax rates based on the mode and amount of payment. However, the Finance Act has simplified the structure by introducing flat rates.

SALARY **Section 12 & 149**

The Finance Act, 2025 inserts sub-section (2A) in Section 12 of the Income Tax Ordinance, 2001, introducing specific tax treatment for pension income:

- Where pension exceeds PKR 10 million in a tax year, it will be taxed @ 5% of the amount exceeding Rs. 10 million, as final tax liability. However, individuals aged 70 years or above will be exempt from tax on pension income.

- If an individual continues employment with the former employer or its associate, the pension received will be taxed under normal slab rates applicable to salary income.

The Finance Act, 2025 has accordingly inserted a new sub-section (1A) in Section 149 of the Ordinance, introducing withholding tax on pension payments. Any person paying pension to a former employee under the age of 70 must deduct tax if the total annual pension exceeds PKR 10 million.

This tax is in addition to the surcharge under Section 4AB, after:

- Adjusting tax already withheld under other heads;
- Allowing tax credits under Sections 61 (charitable donations) and 63 (pension fund contributions);
- Accounting for prior deductions, excess/short deductions, and missed deductions during the year.

The amendment ensures proper withholding on high pension payouts, while avoiding double taxation and recognizing eligible tax credits.

Through the finance Bill annuity, a supplement to pension/annuity, or commuted pension were also subject to withholding, however the finance Act has restricted withholding to pension only.

INCOME FROM PROPERTY **Section 15**

The Finance Bill had proposed a change in the assessment of income from commercial property by introducing a minimum threshold for fair market rent, setting it @ 4% of the property's fair market value as determined under Section 68 using FBR's valuation tables. This was aimed at curbing under reporting of rental income. However, the Finance Act has not adopted this proposal, therefore, no change has been made to the existing provisions. We are of the view that the said provision was already provided in subsection 4 of Section 15 of the Ordinance and the tax authority has a power to tax rental income based on fair market value of rent.

INCOME FROM BUSINESS — **Section 18**
NON-PROFIT ORGANIZATION — **Section 2(36)**

According to the explanation to the provision contained in Section 18(1)(b) of the Ordinance, 2001, income from the sale of goods or services by co-operative societies to their members shall be chargeable to tax as business income. The Finance Act has extended this scope to include recreational clubs, from the sale of goods or services to their own members is also chargeable to tax under the head Income from Business.

The Finance Act has accordingly excluded recreational clubs, who are charging a joining fee exceeding one million rupees for any class of new members, from the definition of a Non-Profit Organization (NPO).

DEDUCTIONS NOT ALLOWED

Disallowance on purchases from persons not holding NTN — Section 21(q)

Previously, industrial undertakings faced a disallowance of up to 10% of total deductions for expenditure attributable to sales made to persons required to be registered under the Sales Tax Act, 1990 but not registered. The Finance Act has replaced this with a new provision, disallowing 10% of the expenditure attributable to purchases from persons not holding a National Tax Number (NTN). Initially, the Finance Bill proposed that this disallowance would not apply to agricultural produce purchased directly from growers. However, the Finance Act modified this by stating that, in the case of agricultural produce, the disallowance shall apply only to purchases made from middlemen, effectively exempting direct purchases from growers. Additionally, the Federal Board of Revenue (FBR) has been empowered to exempt specific persons or classes of persons from the application of this clause through notification in the official Gazette, subject to prescribed conditions and limitations

Disallowance for Cash Sales — Section 21(s)

The Finance Act has introduced a new provision of law which restrict 50% of the expenditure claimed in cases where payment, exceeding PKR 200,000 against a single invoice, (including one or more transactions) is received in cash or through modes other than banking channels or digital means. This may be problem in those industry where most of the payment were made in cash. However, it is good provision for transparency of transaction and documentation of economy.

DEPRECIATION — Section 22

The Finance Act has added proviso to section 22 of the Ordinance that depreciation shall not be allowed on the cost of capital assets acquired, where the applicable tax under sections 152 or 153 of the Ordinance has not been deducted and deposited into the government treasury. In such cases, the amount paid for the acquisition of these capital assets will not be included in the asset's cost base for the purpose of computing depreciation in any relevant tax year. This may be rectified at the monitoring of withholding where tax has been paid on demand.

INTANGIBLES — Section 24

Section 24 of the Ordinance prescribed a deemed useful life of 25 years for amortizing intangible assets with no ascertainable useful life. The Finance Act has reduced this deemed useful life to 15 years, thereby accelerating the amortization period for such assets.

SET OFF OF LOSSES **Section 56**

According to the provision contained in section 56 of the Ordinance, business losses for a tax year can be set off against income from property for the tax year, and vice versa. The Finance Act has restricted this adjustment.

This relief allowing business losses to be adjusted against property income was previously introduced through the Finance Act, 2021. The Act has reversed this change and restore the earlier position. Hence, business losses cannot be adjusted against the income from property.

GROUP RELIEF **Section 59B**

The Finance Act has restricted group relief only to companies taxable under the normal corporate tax regime**.** Where companies whose business income is taxed under any special provisions (such as special tax regime) will no longer be eligible for group relief under Section 59B.

TAX CREDIT FOR INTEREST PAID ON LOW-COST HOUSING LOAN **Section 63A.**

The Finance Act introduces Section 63A of the Ordinance, allowing individuals to claim a tax credit on profit on debt or share in rent or appreciation paid on a housing loan. The loan must be obtained from a scheduled bank, SECP-regulated institution, government, local authority, statutory body, or listed public company, and must be used to construct or acquire one personal house (up to 2,500 sq. ft.) or a flat (up to 2,000 sq. ft.).

No credit is allowed for profit already deducted under Section 15A, and the benefit is one-time, as the individual cannot claim this credit again for another property for the next fifteen tax years.

TAX CREDIT FOR CERTAIN PERSONS **Section 65F**

According to the provision contained in section 65F of the Ordinance certain persons including those engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects are allowed a 100% tax credit against tax payable under any provision of the Income Tax Ordinance, including the minimum tax, alternate corporate tax, and final tax regimes, subject to prescribed conditions and time limits.

The Finance Bill had proposed extending this benefit to projects supplying coal wholly or partially to power generation. However, the Finance Act has restricted the tax credit strictly to income derived from coal supplied to power generation projects, thereby excluding income from other supplies from this concession.

TAX CREDIT FOR CHARITABLE ORGANIZATIONS **Section 100C**

According to provision contained in Section 100C relating to the tax credit for Charitable Organization, entities listed in Table-I of Clause (66), Part I of the Second Schedule were exempt from tax, while those in Table-II were eligible for tax credit under Section 100C, subject to conditions.

The Finance Bill proposed merging of both tables, making all such entities eligible only for tax credit under Section 100C. The Finance Act has instead transferred list of entities eligible for outright exemption to Clause (57), while Clause (66) now contains the list of entities eligible for tax credit under Section 100C. Entities listed in clause 66 are required to obtain NPO certificate under section 2(36) of the Ordinance.

Changes in the list of entities are summarized as follows:

i. Entities transferred from previous Table-I to list of NPOs under clause (66).

Pakistan Sweet Homes (Angels and Fairies Place)
Sindh Institute of Urology and Transplantation (SIUT Trust and Society for the Welfare of SIUT)
Shaukat Khanum Memorial Trust
Abdul Sattar Edhi Foundation
Patient's Aid Foundation
Indus Hospital and Health Network
Sundus Foundation
Ali Zaib Foundation
Layton Rahmatullah Benevolent Trust (LRBT)
Dawat-e-Hadiya, Karachi
The Citizens Foundation
Make a Wish Foundation
Saylani Welfare International Trust
Dawat-e-Islami Trust
Chiniot Anjuman Islamia
Hamdard Laboratories (Waqf) Pakistan
Film and Drama Finance Fund
Shaheed Zulfikar Ali Bhutto Institute of Science and Technology

ii. Entities whose exemption from clause (66) has been withdrawn

National Rural Support Programme
Pakistan Poverty Alleviation Fund
Pakistan Disabled Foundation.
Forman Christian College.
SARMAYA-E-PAKISTAN LIMITED.
Sardar Trust Eye Hospital, Lahore.

MINIMUM TAX ON THE INCOME OF CERTAIN PERSONS Section 113

Previously, the excess of minimum tax over normal tax under Division I or Division II of Part I of the First Schedule is allowed to be carried forward for adjustment against normal tax liability for the next three tax years immediately succeeding the tax year in which the excess was paid. The Finance Act has reduced the carryforward period from three to two tax years, thereby limiting the window for utilizing such excess minimum tax against future tax liabilities.

RESTRICTION ON ECONOMIC TRANSACTIONS BY CERTAIN PERSONS

Section 114C.

The Finance Act has inserted new Section 114C into the Income Tax Ordinance, 2001, aimed at introducing significant restrictions on economic transactions for individuals classified as “ineligible persons”. This provision of law will override any other provision of law for the time being in force.

Restrictions on Ineligible Persons

This provision will be applicable from a date to be notified by the Federal Government. Ineligible persons will be barred from undertaking the following transactions if their value exceeds the prescribed thresholds:

Transaction	Basis	Threshold
Purchase of Motor Vehicle	Invoice value (local) or import value (customs assessed value)	Exceeds Rs 7 million
Buy or sell Immovable Property	Fair market value (as per section 2(22AA))	Exceeds Rs 100 million
Investment in securities/mutual funds	Acquisition cost	Exceeds Rs 50 million (Only new investment is considered; reinvestment is excluded)
Annual Cash Withdrawals	Sum of all bank accounts of an individual	Exceeds Rs 100 million

Exceptions

The restrictions will not be applicable to Non-resident persons, and public companies, except for the restriction of cash withdrawal.

Non-Taxability of Declared Sources

A person may file a "Sources of Investment and Expenditure Statement" to justify a specific transaction.

The sources of investment and expenditure statement filed by the person, shall not be construed as nature and source of income for the purposes of section 111 of the Ordinance.

Definitions Introduced

Following terms has been defined for the purpose of said section

Term	Definition
Eligible Person	Person who has filed return for the immediately preceding tax year and has sufficient resources in the wealth statement (individual) or financials (AOP/company) OR has submitted a Sources of Investment and Expenditure Statement. Also includes immediate family members**.**
Ineligible Person	Any person not qualifying as an eligible person.
Immediate Family Members	Includes parents, spouse, and dependent children**.**
Sources of Investment and Expenditure Statement	Declaration on FBR web portal explaining source of funds for specified transactions.
Sufficient Resources	130% of declared cash-equivalent assets (cash, gold, stocks, receivables, etc.) in latest wealth statement or financials. If an asset is purchased by exchange of already declared assets, its disposal value is treated as equivalent cash.

The government is empowered to enhance or reduce the prescribed thresholds through notifications.

The current provision appears to be flawed, as it permits the submission of a statement of sources without requiring a complete return of income. This loophole may lead to administrative abuse and increase the risk of corruption.

ASSESSMENTS **Section 120**

The Finance Act has amended section 120 of the Ordinance, 2001 to legally integrate system-based adjustments made under Section 120(2A) with the deemed assessment mechanism under Section 120(1) of the Ordinance.

Under the existing framework, FBR's automated system can process returns and make adjustments for arithmetical errors, disallowances, or incorrect claims. However, there was no explicit legal linkage between such adjustments and the final assessed tax. This created a grey area, where taxpayers could dispute the validity of automated adjustments unless a formal assessment order was issued.

The amendment addressed this by:

- Clarifying that adjusted amounts under Section 120(2A) will constitute the assessed tax;
- Deeming the date of final adjustment as the assessment date for legal and procedural purposes.

FBR's system will continue to issue automated notices before applying any adjustments, and taxpayers will have 30 days to respond via IRIS. If no response is received, the system will finalize the adjustments.

This change strengthens the legal basis for automated return processing and ensures that the outcome of such processing is treated as a valid and binding assessment without requiring a separate order under Section 122 of the Ordinance.

AMENDMENT OF ASSESSMENTS **Section 122**

The Finance Act, 2021 introduced a time limit under Section 122(9) of the Income Tax Ordinance, requiring orders to be passed within 120 days from issuance of show cause notice, extendable by 90 days with the Commissioner's approval and after recording reasons. The Finance Act, 2022 extended the limit to 180 days. While the Finance Bill, 2025 proposed removing the time limit altogether, however the Finance Act, 2025 has extended this limit it to one year.

ASSESSMENT GIVING EFFECT TO AN ORDER **Section 124**

The Finance Act has inserted sub-sections (4A) and (4B) into Section 124 of the Income Tax Ordinance, 2001. Under sub-section (4A), where the tax determined in the order under appeal is fully confirmed by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court, no appeal effect order is required, and the Commissioner may proceed directly with recovery.

Under sub-section (4B), where an appellate authority partly sets aside an order but confirms or modifies it on certain issues, the Commissioner must issue an appeal effect order to determine tax payable on the confirmed or modified issues. Recovery shall be made accordingly, excluding tax related to issues that have been set aside or remanded.

PECUNIARY JURISDICTION IN APPEALS **Section 126A**

Through the Tax Laws (Amendment) Act, 2024, significant changes were introduced to revamp the two-tier appellate system by introducing pecuniary jurisdiction for appeals. Under this framework, appeals involving assessment or refund of tax not exceeding twenty million rupees were to be filed before the Commissioner Inland Revenue (Appeals). In contrast, cases involving amounts exceeding twenty million rupees were required to be filed directly before the Appellate Tribunal Inland Revenue (ATIR).

The Finance Act has omitted this provision, thereby restoring the previous two-tier appeal structure, where all first-level appeals, regardless of monetary value, will once again lie with the Commissioner Inland Revenue (Appeals).

APPEAL TO THE COMMISSIONER (APPEALS) **Section 127**

With the removal of the pecuniary limit for filing appeals by omitting section 126A of the Ordinance, a corresponding amendment has been made to Section 127 of the Ordinance, which governs the filing of appeals before the Commissioner (Appeals). Additionally, a proviso has been inserted in sub-section (1) of Section 127, allowing an aggrieved person, other than a State-Owned Enterprise (SOE), the option to either file an appeal directly before the Commissioner (Appeals) or waive this right and instead avail the next appellate forum by filing the appeal directly before the Appellate Tribunal Inland Revenue (ATIR).

APPELLATE TRIBUNAL **Section 130**

Section 130 of the Income Tax Ordinance, 2001 deals with the constitution, eligibility, and functioning of the Appellate Tribunal Inland Revenue (ATIR), the final fact-finding appellate authority under the tax law.

Currently, under Section 130(3)(b), a person is eligible to be appointed as a member of the tribunal if they have practiced professionally as a Chartered Accountant for not less than ten years, as per the Chartered Accountants Ordinance, 1961.

The Finance Act has broadened the eligibility criteria. Under the amended provision, a person would be eligible for appointment if, for an aggregate period of at least ten years, they have either:

- Practiced as a Chartered Accountant, individually or in a firm of Chartered Accountants, or
- Been a Chartered Accountant employed by a Chartered Accountant in practice (as mentioned above).

This amendment expands the eligibility by including employment experience within Chartered Accountancy firms, thereby recognizing the competence of those who have served in senior in-house roles, in addition to those engaged in public practice.

APPEAL TO THE APPELLATE TRIBUNAL **Section 131**

With the restoring the two-tier appeal structure, corresponding amendment has been made in Section 131, clarifying that the aggrieved party may, within 30 days of receipt of the CIR appeals order, file an appeal before the ATIR.

REFERENCE TO THE HIGH COURT **Section 133**

In line with amendments to Sections 126A, 127, and 131 of the Ordinance, corresponding changes have been made to ensure consistency across related provisions. The right to file a reference before the High Court against an ATIR order has been reaffirmed in all cases.

Additionally, the time limit for filing such a reference has been restored to 60 days, reversing the earlier reduction to 30 days.

ALTERNATIVE DISPUTE RESOLUTION **Section 134A**

Section 134A of the Income Tax Ordinance, 2001 governs the mechanism for Alternative Dispute Resolution (ADR), providing taxpayers particularly in high-stakes cases or hardship situations an alternative forum for the resolution of disputes outside conventional appellate channels.

The Finance Act has made amendments to enhance the ADR process for State-Owned Enterprises (SOEs):

RECOVERY OF TAX OUT OF PROPERTY AND THROUGH ARREST OF TAXPAYER **Section 138**

The Finance Act, 2025, has adopted with modifications the changes introduced through the Tax Laws (Amendment) Ordinance, 2025, in section 138 of the Income Tax Ordinance. A new sub-section (3A) has been inserted, allowing immediate recovery of tax dues in high-value cases, even if appeals are pending.

This power applies when the department has secured favorable decisions from three appellate forums, including the High Court, and the tax payable exceeds Rs 200 million. Recovery is limited to the lowest amount confirmed by any of the forums.

These changes aim to prevent delays in recovery where the department's position has been upheld repeatedly, reinforcing the government's shift toward stronger enforcement in high-stakes disputes.

RECOVERY OF TAX FROM PERSONS HOLDING MONEY ON BEHALF OF A TAXPAYER Section 140

The Finance Act, 2025 has adopted, with certain amendments, the changes earlier introduced through the Tax Laws (Amendment) Ordinance, 2025 in section 140 of the Income Tax Ordinance. A new sub-section (6A) has been inserted, allowing immediate recovery of tax dues through attachment of assets or bank accounts, notwithstanding any contrary law, rule, or court decision.

This power is exercisable only if three appellate forums, including the High Court, have decided in favor of the department, the tax payable exceeds Rs 200 million, and recovery is limited to the lowest amount confirmed by any of the forums. The change is aimed at expediting recovery in high-value cases where the department's stance has been repeatedly upheld, even if appeals are pending before the Supreme Court. It reflects a continued policy shift toward stronger enforcement in large-scale tax matters.

IMPORTS Section 148

The Finance Act, 2025 has amended Section 148(1) by inserting an additional proviso. Under this amendment, the Collector of Customs shall not collect tax at the import stage where the recipient of goods is liable under the Digital Presence Proceeds Levy Act, 2025, and tax has already been collected by the payment intermediary, as defined in Section 153 of the Ordinance.

This change aims to prevent double taxation where digital transactions are already subject to withholding under the new levy regime. However, there is a lacuna in law that how Custom authorities will verify such goods.

GAIN ARISING ON DISPOSAL OF CERTAIN DEBT SECURITIES Section 151A

The Finance Act, 2025 introduces Section 151A of the Ordinance, imposing withholding tax on capital gains from the disposal of debt securities, including government securities. Every custodian, including banks maintaining Investor Portfolio Services accounts, must withhold tax at 15% on the gross capital gain at the time of disposal and deposit it with the government. Previously there is no withholding on such gain.

This provision excludes disposals made through a registered stock exchange settled by NCCPL.

PAYMENTS TO NON-RESIDENTS Section 152

Exemption from Withholding on Offshore Digital Services Covered Under DPPL

According to the provision contained in section 152(1C) of the Ordinance, 2001, every banking company or financial institution in Pakistan is required to deduct tax on payments remitted abroad for offshore digital services, when made on behalf of a resident or a permanent establishment of a non-resident. This withholding applies to the gross fee amount and is chargeable under Section 6, at the rate specified in Division IV of Part I of the First Schedule. The provision ensures effective tax collection on cross-border payments to non-residents for digital services.

The Finance Act has enacted the Digital Presence Proceeds Tax Act, 2025. Under this new law, payment intermediaries (including banks, financial institutions, exchange companies, and payment gateways) will be required to deduct tax at 5% on remittances of proceeds chargeable under Section 3 of the said law, when made to foreign vendors for digitally ordered goods or services.

To prevent double taxation, a proviso has been added to subsection (1C), providing that no withholding shall be made under this subsection if the Digital Presence Proceeds Levy (DPPL) has already been collected on the same transaction.

Capital Gains Tax on Short-Term Investments by Non-Residents via SCRA

Subsection (1D) of Section 152 requires banking companies or financial institutions maintaining a Special Convertible Rupee Account (SCRA) for a non-resident company (having no permanent establishment in Pakistan) to deduct tax at the rate of 10% on capital gains arising from the disposal of debt instruments and government securities, such as Treasury Bills and Pakistan Investment Bonds, in accordance with Division II of Part III of the First Schedule.

Through the Finance Bill, it was proposed that this tax rate would be subject to a holding period condition. Specifically, a higher tax rate of 20% was to apply if the underlying securities were held for less than twelve months, while the standard 10% rate would continue to apply for holdings of twelve months or more.

However, the Finance Act, revised this threshold by reducing the holding period requirement from twelve months to six months. Accordingly withholding will be made @ 10% if the securities are held for six months or more, whereas withholding @ 20% will apply where the securities are disposed of within six months.

PAYMENTS FOR GOODS, SERVICES AND CONTRACTS Section 153

Withholding Tax on E-Commerce Transactions via Payment Intermediaries and Courier Services

The Finance Act, 2025 has inserted sub-section (2A) in Section 153, requiring:

- Payment intermediaries (processing digital payments via local e-commerce platforms), and
- Courier services (collecting payments under Cash on Delivery for digitally ordered goods or services)

They are required to withhold tax at source from the gross amount payable (including sales tax, if any) to sellers, at the rate specified in Division IVA of Part I of the First Schedule, and deposit it into the government treasury.

The Finance Bill had proposed sub-section (2B) to prevent further tax deduction under sub-section (1) where tax was already withheld under sub-section (2A), aiming to avoid double deduction. However, this clause was not adopted in the Finance Act. This may reflect the legislature's view that tax deduction is not always feasible in online payments. Still, the absence of this safeguard could lead to disputes or demands by tax officers over short withholding.

The Finance Act amended Section 153(7) of the Income Tax Ordinance, 2001, to include following under **"prescribed person"**:

- **Courier service**: A specialized entity that provides secure, time-bound delivery of goods or documents, and collects cash on delivery (COD) for digitally ordered goods on behalf of the seller. This includes logistics services, ride-hailing services, food delivery platforms, and e-commerce delivery services.

- **Payment intermediary**: Any third-party entity such as a banking company, financial institution, licensed foreign exchange company, or payment gateway that facilitates, processes, routes, or settles payment transactions, without being the ultimate payer or recipient.

Initially, the Finance Bill proposed variable tax rates based on the mode and amount of payment. However, the Finance Act has simplified the structure by introducing flat rates of 1% withholding by payment intermediaries (such as banks or digital platforms), and 2% withholding by courier services on Cash on Delivery (COD) transactions, irrespective of the nature or value of the goods supplied.

Exemption from Withholding for Public Limited Companies

Previously, Section 153(4) allowed the Commissioner to reduce the withholding tax rate up to 80% where the tax under sub-section (1) was not minimum.

The Finance Act, 2025 has amended this sub-section by allowing the Commissioner to permit payment without any tax deduction in the case of public limited companies.

EXEMPTION FROM ADVANCE TAX ON SALE OF PERSONAL RESIDENCE

Section 159(1B)

The Finance Act, 2025 has inserted sub-section (1B) in Section 159 of the Income Tax Ordinance, allowing the Commissioner to issue an exemption certificate from advance tax collection under Section 236C on the sale of a residential immovable property, subject to the following conditions:

- The property has been in personal use for the last 15 years;
- It has been declared in the wealth statement under Section 116 for the last 15 years; and
- It is reflected as a personal residence in the taxpayer's records.

This exemption is a one-time benefit, available once every 15 years.

FURNISHING OF INFORMATION BY ONLINE MARKETPLACE, PAYMENT INTERMEDIARY AND COURIER SERVICE Section 165C

The Finance Act inserted a new Section 165C to impose mandatory reporting obligations on digital facilitators such as online marketplaces, payment intermediaries, and courier services engaged in digitally ordered goods and services.

Every payment intermediary, and courier services must submit a quarterly withholding statement and every online marketplace in Pakistan must file a monthly statement.
All provisions of Section 165 (excluding subsections 1, 1A, and 6) shall apply mutatis mutandis for due dates, extensions, revisions, Annual reconciliations, and Commissioner's power to call for statements

EXCHANGE OF BANKING AND TAX INFORMATION RELATED TO HIGH RISK PERSONS Section 175AA

The Finance Act, 2025 introduces Section 175AA, allowing the FBR to share tax declaration data with scheduled banks for cross-matching via data algorithms to identify high-risk persons. Banks must report any variances found.

All information will be used only for tax purposes and kept confidential, overriding any conflicting laws. The tax authorities by making use of Artificial Intelligence try to cross match return of total income with bank statement.

POSTING OF OFFICER OF INLAND REVENUE Section 175C

The Finance Act inserted a new Section 175C in the Income Tax Ordinance, 2001 to authorize the FBR or Chief Commissioners to post officers of Inland Revenue at a taxpayer's premises to monitor production, service delivery, or unsold stock for the purpose of tax determination. This provision mirrors Section 40B of the Sales Tax Act, 1990 and reflects an effort to align monitoring and enforcement mechanisms across direct and indirect taxes.

TAXPAYER'S REGISTRATION Section 181

The Finance Act, 2025 amends Section 181 to explicitly include digital commerce within the income tax registration regime. E-commerce vendors using online marketplaces or courier services are now required to register under the Income Tax Ordinance.

A new sub-section (1A) prohibits digital platforms and courier services from facilitating unregistered vendors. While the Finance Bill had proposed mandatory registration under both income tax and sales tax, the Finance Act restricts the requirement to income tax registration only.

OFFENCE AND PENALTIES Section 182

The Finance Act broadened the penalty framework under Section 182 of the Income Tax Ordinance, 2001, particularly targeting non-compliance in the digital and e-commerce ecosystem. Key changes include:

- **Inclusion of Section 165C**

  The penalty scope has been expanded to cover non-compliance with Section 165C, likely related to digital payments or third-party data reporting obligations.

- **Increase in Penalty for Non-filing of Statements**

  The penalty for failure to furnish prescribed statements under Sections 165, 165A, 165B, or 165C has been increased from Rs. 5,000 to Rs. 50,000, to impose a stricter compliance posture.

- **Platform Liability for Unregistered Vendors (not adopted)**

  The Finance Bill, 2025 proposed penalties of PKR 500,000 (first default) and PKR 1,000,000 (subsequent defaults) on online marketplaces and couriers facilitating unregistered e-commerce vendors. However, this provision is not included in the Finance Act.

- **Withholding Failures by Intermediaries**

  Where a banking company, payment gateway, or courier service provider fails to deduct or deposit tax while making payments to sellers of digitally ordered goods or services, the defaulting party shall be liable to a penalty equal to 100% of the amount of tax involved.

- **Penalty for Unregistered E-Commerce Sellers**

  Any seller supplying digitally ordered goods or services through an online marketplace who is required to be registered under the Income Tax Ordinance, 2001 but fails to do so shall be liable to a penalty of Rs. 500,000 for the first default, and Rs. 1,000,000 for each subsequent default.

INCOME TAX AUTHORITIES **Section 207**

The Finance Act has included "auditors appointed under section 222" in the list of designated Income Tax authorities under Section 207(1) of the Ordinance. This change grants legal authority to contractual or third-party auditors engaged by FBR, enabling them to perform audit functions, access taxpayer information, and operate within the legal framework of the Income Tax Ordinance, 2001.

CONDONATION OF TIME LIMIT **Section 214A**

The Finance Act, 2025 amends Section 214A by inserting two new provisos. It now restricts the maximum period for which the FBR or Commissioner may condone a time limitation to two years in aggregate, overriding any contrary provision or court ruling. However, where there is reason to believe that a significant loss to the exchequer or taxpayer has occurred due to an act of omission or commission by the taxpayer or Commissioner, a committee notified by the FBR may condone the limitation beyond two years, after giving the person a reasonable opportunity of being heard. The final version expands the Finance Bill's scope by also covering loss to the taxpayer.

DISCLOSE OF INFORMATION BY A PUBLIC SERVANT **Section 216**

The Finance Act amended section 216 of the Income Tax Ordinance to support expanded use of data in tax administration and policymaking. The amendment authorizes the disclosure of taxpayer information to contractual or third-party auditors (including payroll firms), subject to a non-disclosure agreement. It also permits anonymized data sharing with the FBR's Tax Policy Office, recognized universities, and donor agencies for research and analysis. These changes aim to strengthen audit capability and evidence-based policymaking, while retaining essential safeguards on taxpayer confidentiality.

SERVICE OF NOTICES AND OTHER DOCUMENTS **Section 218**

The Finance Act made a minor but important amendment to Section 218(2)(d) of the Income Tax Ordinance, 2001, by replacing the word “individual” with “person.” This change aligns the language with the intent of the provision, confirming that electronic service of notices is valid for all persons, including companies, associations, and non-resident taxpayers

APPOINTMENT OF EXPERT **Section 222**

The Finance Act authorized the Federal Board of Revenue (FBR) to appoint auditors up to a maximum of 2,000 either directly on a contractual basis or through third-party arrangements.

COMPUTATION OF LIMITATION PERIOD **Section 226**

The Finance Act has included the Alternate Dispute Resolution Committee (ADRC) within the list of forums that pause limitation timelines under Section 226. This ensures that any time a taxpayer’s case remains pending before the ADRC will be excluded from the computation of limitation, protecting the rights of both the taxpayer and the tax authorities during alternate dispute resolution.

ADVANCE TAX ON CASH WITHDRAWAL **Section 231AB**

The Finance Act has enhanced the rate of advance tax on cash withdrawal exceeding Rs.50,000 in a single day made by the person not appearing on Active taxpayer list (ATL) from 0.6% to 0.8%

AMENDMENT IN APPLICABLE TAX RATES

FIRST SCHEDULE
PART I
Division I
Rate of tax for Salaried Individual Clause (2)

S.No	Salary Slab	Old	New
1	Where taxable income does not exceed Rs. 600,000	0% of the income	0% of the Income
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000	1% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000	Rs. 6,000 + 11% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000	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	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	Rs. 616,000 + 35% of the amount exceeding Rs. 4,100,000

Provided that pension received by an individual from former employer in a tax year, the rate of tax on such income shall be charged as follows:

S.No	Description	Rate of tax
1	Where the amount of pension received does not exceed rupees ten million	0%
2	Where the amount of pension received exceeds rupees ten million	5%

Division IIB
Super Tax on high earning persons
The rate of tax under section 4C

S.No	Income under section 4C	Old	New
1	Where income does not exceed Rs. 150 million	0% of the income	0% of the income
2	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income	1% of the income
3	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income	1.5 % of the income
4	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income	2.5% of the income
5	Where income exceeds Rs. 300 million but does not exceed Rs. 350 million	4% of the income	3.5 % of the income
6	Where income exceeds Rs. 350 million but does not exceed Rs. 400 million	6% of the income	5.5% of the income
7	Where income exceeds Rs. 400 million but does not exceed Rs. 500 million	8% of the income	7.5 % of the income
8	Where income exceeds Rs. 500 million	10% of the income	10 % of the income

Division III
Rate of Dividend Tax (Tax Liability)

Dividend from Mutual Fund (Previous)

i. Tax of 15% rate on Dividend from mutual fund

ii. Tax rate of 25% on Dividend from Mutual fund, deriving 50% or more income from profit on debt

Dividend from Mutual Fund (Amended)

i. 25% tax rate will apply to the portion of the dividend income that corresponds to the fund's average annual investment in debt securities (e.g., government bonds, T-bills, sukuks). Provided that where the corporate entity is recipient of the dividend, the component derived from the debt securities shall be taxed at the rate of 29%.

ii. 15% tax rate will apply to the portion of the dividend income attributable to the fund's average annual investment in equity securities (e.g., listed company shares).

Division IIIA
Rate for Profit on Debt (Tax Liability)

The rate of tax for profit on debt imposed under section 7B shall be –

Description	Old	New
(a) profit paid by a banking company or financial institution on an account or deposit maintained with such company or institution	15%	20%
(b) Profit on Government Securities under section 151(1)(c) paid to any person other than individual.		20%
(c) yield or profit in cases other than those mentioned in clause (a)		15%

Part III
DEDUCTION OF TAX AT SOURCE
Division I
Rate of Dividend Tax

Dividend from Mutual Fund (Old)

iii. Tax of 15% rate on Dividend from mutual fund

iv. Tax rate of 25% on Dividend from Mutual fund, deriving 50% or more income from profit on debt

Dividend from Mutual Fund (New)

i. 25% tax rate will apply to the portion of the dividend income that corresponds to the fund's average annual investment in debt securities (e.g., government bonds, T-bills, sukuks). Provided that where the corporate entity is recipient of the dividend, the component derived from the debt securities shall be taxed at the rate of 29%.

ii. 15% tax rate will apply to the portion of the dividend income attributable to the fund's average annual investment in equity securities (e.g., listed company shares).

Division IA
Profit on Debt

The rate of tax to be deducted under section 151 shall be –

Description	Old	New
(a) profit paid by a banking company or financial institution on an account or deposit maintained with such company or institution	15%	20%
(b) Profit on Government Securities under section 151(1)(c) paid to any person other than individual.		20%
(c) yield or profit in cases other than those mentioned in clause (a)		15%

Division IIIAA
Gain arising on disposal of certain debt securities

The rate of tax to be deducted under section 151A shall be 15% of the gross amount of the capital gain.

Division II
Payment to non-residents

The rate of tax to be deducted from a payment referred to in clause (b) of sub-section (2A) of section 152 shall be

Category	Old	New
Specified services except IT services & IT enabled services	4%	8%
IT services & IT enabled services	4%	4%
Other than specified services (in case of company)	9%	15%
Other than specified services (in any other case)	11%	15%

The rate of tax to be deducted from a payment referred to in clause (c) of sub-section (2A) of section 152 shall be

Category	Old	New
Sportsman	10%	15%

Division III
Payment for Goods or Services

The rate of tax to be deducted from a payment referred to in clause (b) of subsection (1) of section 153 shall be

Category	Old	New
Specified services except IT services & IT enabled services	4%	6%
IT services & IT enabled services	4%	4%
Other than specified services (in case of company)	9%	15%
Other than specified services (in any other case)	11%	15%
Electronic and print media advertising	1.5%	1.5%

The rate of tax to be deducted from a payment referred to in clause (c) of subsection (1) of section 153 shall be

Category	Old	New
Sportsman	10%	15%

(3A) The rate of tax to be deducted from a payment referred to in sub-section (2A) of section 153 for digitally ordered goods or digitally delivered services through e-commerce platforms including websites shall be in case of payment through- withholding by payment intermediaries (such as banks or digital platforms) 1%, and withholding by courier services on Cash on Delivery (COD) transactions 2%, irrespective of the nature or value of the goods supplied.

Initially, the Finance Bill proposed variable tax rates based on the mode and amount of payment. However, the Finance Act has simplified the structure by introducing flat rates.

PART-IV
DEDUCTION OF COLLECTION OF ADVANCE TAX
Division X
Advance tax on sale or transfer of immovable property
The rate of tax to be collected under section 236C shall be as set out in the following table: –

<table>
<tr><th>S.No</th><th>Value of Property</th><th>Tax rate for Active Taxpayer</th><th>Tax rate for Late Filer</th><th>Tax rate for person non-active person</th></tr>
<tr><td>1</td><td>Where the gross amount of the consideration received does not exceed Rs. 50 million</td><td>4.5%</td><td>7.5%</td><td rowspan="3">11.5%</td></tr>
<tr><td>2</td><td>Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million</td><td>5%</td><td>8.5 %</td></tr>
<tr><td>3</td><td>Where the gross amount of the consideration received exceeds Rs.100 million</td><td>5.5%</td><td>9.5 %</td></tr>
</table>

Division XVIII
Advance tax on sale or transfer of immovable property
The rate of tax to be collected under section 236K shall be as set out in the following table: –

S.No	Value of Property	Tax rate for Active Taxpayer	Tax rate for Late Filer	Tax rate for person Non-active person
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	1.5%	4.5%	10.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million	2%	5.5%	14.5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	2.5%	6.5%	18.5%

SECOND SCHEDULE

PART-I
EXEMPTION FROM TOTAL INCOME

Exemptions introduced

Clause 65B Any monetary award received from the Federal or Provincial Government or from a Public Office holder by a sportsperson winning a medal in international Olympic Games representing Pakistan, provided that this clause shall be applicable from tax year 2025

Clause 98AA Income derived by ICC/IBC and associated personnel from the ICC Champions Trophy 2025 hosted in Pakistan.

Exemptions Withdrawn

Clause 8 This provision exempts pension income received by a citizen of Pakistan from a former employer provided that the individual is no longer working for the same employer or its associate. This exemption has been withdrawn.

Clause 9 Previously, pensions received by members of the Armed Forces or employees of the Federal or Provincial Government. This exemption has been withdrawn.

Clause 152 Profits and gains earned between July 1, 2022, and June 30, 2025, by venture capital companies and funds registered under SECP's relevant rules were exempt from tax. As the exemption period has been ended on 30 Jun 2025, the Finance Act has omitted this clause.

Exemptions modified

Clause 126E The current provision exempts income of a zone enterprise for 10 years from the date of commencement of commercial operations, and of a zone developer for 10 years from the date of the development agreement, under the Special Economic Zones Act, 2012. The Finance Act has restricted the exemption for zone enterprises to the earlier of the 10-year period or June 30, 2035

Clause 126EA Income derived by a zone enterprise, as defined under the Special Technology Zones Authority Act, 2021, is currently exempt for a period of 10 years from the date of issuance of the license. The Finance Act has restricted this exemption to the earlier of the 10-year period or June 30, 2035.

Clause 145A Income of individuals domiciled, or companies and AOPs resident, in the Tribal Areas of Khyber Pakhtunkhwa and Baluchistan previously not chargeable to tax before the 25th Constitutional Amendment remains exempt from June 1, 2018, to June 30, 2025. The Finance Act has extended this exemption until June 30, 2026.

Clause 151 Income derived from cinema operations is currently exempt for five years from the commencement of operations. The Finance Act has reduced the limit of this exemption to the earlier of the five-year period or June 30, 2030.

Exemptions Proposed to Be Withdrawn but Retained in the Finance Act

Clause 9 Pensions granted to families or dependents of Armed Forces or employees of the Federal or Provincial Government upon death in service, are exempt from income tax.

Clause 12 The Income Tax Ordinance exempts from tax any commutation of pension, whether received from the Government or under a Board-approved pension scheme.

Clause 13 The Income Tax Ordinance exempts from tax any income received as commutation of pension by an employee upon retirement or by the employee's heirs upon death.

Clause 23A The Income Tax Ordinance exempts up to 50% of the accumulated balance received from the Voluntary Pension System upon retirement, disability, or death (by nominated survivors) under the Voluntary Pension System Rules, 2005.

Clause 23C The Income Tax Ordinance exempts withdrawals from an approved pension fund to the extent they represent transferred balances from an approved provident fund under the Voluntary Pension System Rules, 2005.

(Part II)
REDUCTION IN TAX RATES

Clause 9AC A reduced withholding tax rate of 0.25% under section 148 applied to raw sugar imports by sugar mills, subject to quota limits, from January 26 to June 30, 2021. As this period has lapsed, the Finance Act has omitted this clause.

Clause 24CA A reduced tax rate of 1.5% under section 153(1)(a) applied to non-corporate suppliers of specific essential goods to Utility Stores Corporation from April 7 to September 30, 2020, excluding branded items and cases where a lower rate was otherwise applicable. As the period has ended, the Finance Act omitted this clause.

Clause 24CB The Finance Act, 2025 introduces Clause (24CB) in Part II of the Second Schedule, setting a 3% withholding/collection rate for National Logistics Corporation under Sections 153(1)(b & c) and 236A(1). The tax is minimum, but if the normal tax liability is higher, the excess must be paid.

(Part III)
REDUCTION IN TAX LIABILITY

Clause 3A The Finance Act has introduced a 25% reduction in tax payable on salary income of full-time teachers or researchers employed in non-profit educational or research institutions recognized by the HEC, a Board, or a university, including government research institutions. The relief does not apply to medical professionals earning from private practice or patient fees. This provision take effect retrospectively from July 1, 2022, and will remain in force until the end of tax year 2025.

(Part IV)
EXEMPTION FROM SPECIFIC PROVISIONS

Clause 12F Imports of 1.5 million tons of wheat under PCT headings 1001.1900 and 1001.9900 were exempt from withholding tax under section 148, as per a Cabinet decision dated June 16, 2020. The Finance Act has withdrawn this exemption.

Clause 12G Withholding tax under section 148 did not apply to the import of 300,000 metric tons of white sugar (PCT headings 1701.9910, 1701.9920, spec B) by the Trading Corporation of Pakistan, as per Cabinet decision dated August 4, 2020. The Finance Act has withdrawn this exemption.

Clause 12J Withholding tax under section 148 was exempted on the import of 300,000 metric tons of wheat by the Trading Corporation of Pakistan through a tendering process, as per Cabinet decision dated January 12, 2021. The Finance Act has withdrawn this exemption.

Clause 56 The Finance Act introduced an exemption from withholding tax under section 148 on the import of Cystagon, Cysta Drops, and Trientine capsules.

Clause 104A The Finance Act, 2025 exempts capital gains from the sale of one residential property from Super Tax (Section 4C) if held and used personally for 15 years, declared in wealth statements, and shown as residence for personal use in tax records. This relief is allowed once every 15 years.

Clause 105A Previously, a person whose income tax affairs have been audited in any of the preceding four tax years is excluded from selection for audit under Sections 177 and 214C, unless approved by the Board. The Finance Act, 2025 has amended this provision now, the immunity applies to persons whose affairs have been selected for audit in any of the preceding three tax years, shifting the focus from completed audits to audit selection.

Clause 109A Withholding tax provisions under Division III of Part V of Chapter X and Chapter XII do not apply to individuals domiciled, or companies and AOPs resident, in the Tribal Areas of Khyber Pakhtunkhwa and Baluchistan from June 1, 2018, to June 30, 2025. The Finance Act extended this exemption until June 30, 2026.

Clause 110 Withholding tax provisions under Division III of Part V of Chapter X and Chapter XII do not apply to individuals domiciled, or companies and AOPs resident, in the Tribal Areas of Khyber Pakhtunkhwa and Baluchistan, for the period from June 1, 2018, to June 30, 2025. The Finance Act extended this exemption until June 30, 2026.

SEVENTH SCHEDULE
RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS OF A BANKING COMPANY AND TAX PAYABLE THEREON

Rule (aa) The Finance Act amended that expenditure on leasehold improvements by banking companies shall be capitalized and amortized at 10% per annum. Amortization begins when the asset is first put to use. If the lease terminates before full amortization, the unamortized balance after adjusting for any proceeds from disposal will be allowed as a deduction in the year of termination.

Rule (ba) The Finance Act amended that, for banking companies, depreciation on right-of-use (ROU) assets and related finance costs under IFRS 16 will no longer be deductible. Instead, actual rent expense incurred during the tax year will be allowed as a deduction, subject to external auditor certification.

Adjustments for prior years (from tax year 2020 onward) are also mandated:

- Excess deductions over actual rent must be offered to tax in tax year 2025.
- Shortfall in deductions below actual rent will be allowed as an expense in tax year 2025, with both adjustments requiring auditor certification.

Rule (c) The Finance Act amended that from tax year 2025 onward, external auditor certificates for provisioning under Rule 1(c) must be in a prescribed, detailed format, specifying:

- Provision amounts (category-wise) per SBP Prudential Regulations,
- Provision amounts under IFRS 9,
- Provision amounts as per annual accounts, and
- Deductible amounts under clauses (c), (d), (da), (e), and (f), certified as compliant with regulatory and accounting standards.

Additionally, provisions will be allowed only if the certificate is filed completely with the return. Furthermore:

- Only provisions for non-performing advances classified as “loss” per SBP will be allowed.
- General provisions not based on SBP regulations will be disallowed.

These changes aim to align provisioning claims strictly with regulatory and accounting norms.

Rule (g) Under the current regime, any adjustment made in the annual accounts on account of applicable accounting standards, policies, or guidelines/ instructions issued by the State Bank of Pakistan (SBP) is excluded in computing taxable income. Furthermore, it is clarified that notional losses or gains are not recognized unless all events determining such gains or losses have occurred and they can be measured with reasonable accuracy.

The Act amended Rule 1(g) as follows:

- The clause will now be subject to other clauses of Rule 1, aligning its applicability with the broader framework of the Seventh Schedule.

- The scope is narrowed by replacing the reference to "any applicable accounting standard" with a specific reference to IFRS-9 (Financial Instruments).
- Adjustments made under SBP guidelines will only be considered to the extent they relate to IFRS-9.
- A proviso is added to clarify that these amendments shall be applicable from Tax Year 2025 onwards.

TENTH SCHEDULE
RULES FOR PERSONS NOT APPEARING IN ACTIVE TAXPAYER LIST

The Finance Act has reduced the rate of tax under section 236K for persons not appearing in the active taxpayers' list:

S. No.	Fair Market Value of Immovable Property	Old rate	New rate
1	Where the fair market value does not exceed Rs. 50 million	12%	10.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	16%	14.5%
3	Where the fair market value exceeds Rs. 100 million	20%	18.5%

With respect to the collection or deduction of tax under sections 151, and 236C, the Finance Act amended the rate of for persons not appearing in the active taxpayers' list as follows:

S. No.	Section	Description	Old rate	New rate
1	Section 151	On yield or profit on debt	35%	Increase by 100% of the rate applicable to filer
2	Section 236C	On the gross amount of consideration received on sale or transfer of immovable property	10%	11.5%

The Act has amended the rate of deduction or collection of tax from persons who appear on the active taxpayers' list but have not filed their return by the due date specified in section 118 or by the extended due date under section 119 or 214A for all the last three year preceding the tax year for which return has not be filed by the due date, as follows:

(a) as per rates set out in the following Table in case of tax to be collected under section 236C;

TABLE

S. No.	Gross Amount of Consideration Received	Old rate	New Rate
1	Where the gross amount of consideration does not exceed Rs. 50 million	6%	7.5%
2	Where the gross amount of consideration exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	8.5%
3	Where the gross amount of consideration exceeds Rs. 100 million	8%	9.5%

(b) as per rates set out in the following Table in case of tax to be collected under section 236K:

TABLE

S. No.	Fair Market Value of Immovable Property	Old Rate	New rate
(1)	**(2)**	**(3)**	
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 exceed Rs. 100 million	7%	5.5%
3	Where the fair market value exceeds Rs. 100 million	8%	6.5%

Capital Gains on Securities (37A)

Through an amendment to Rule 10(y), the Finance Act excludes capital gains tax under section 37A on securities acquired on or after 1st July 2025 from the scope of the Tenth Schedule, narrowing its application to non-filers.

SALES TAX

ABETTOR **Section 2 (1)**

The Finance Bill, 2025 initially proposed a broad definition of “abettor”, covering various forms of involvement in tax fraud, including misuse of credentials and paper transactions. However, the Finance Act adopted a narrower, intent-based definition, focusing only on those who intentionally:

- Prepare false invoices with the registered person’s authorization, or
- Allow or operate bank accounts for committing tax fraud or maintaining accounts in another’s name.

This revision limits prosecution to willful acts, excluding unintentional or technical violations.

CARGO TRACKING SYSTEM **Section 2 (4A)**

The Finance Act inserted a new definition of "Cargo Tracking System". This provision empowers the Federal Board of Revenue (FBR) to implement an advanced digital system for the electronic monitoring and tracking of goods transported within or across Pakistan’s territory.

The amendment aims to enhance transparency, improve regulatory oversight, and strengthen compliance by enabling real-time tracking of cargo movements.

COURIER **Section 2 (5AC)**

The Finance Bill, 2025 proposed a broad definition of “courier” under clause (5AC), covering any entity involved in the delivery of goods and collection of cash on behalf of a seller, with specific mention of logistics services, ride-hailing services, food delivery platforms, and e-commerce delivery services. However, the Finance Act, 2025 approved a slightly narrowed version, retaining only “logistics and ride-hailing services” in the illustrative list, while terms like food delivery platforms and e-commerce delivery services have been omitted.

E-BILTY **Section 2 (9A)**

The Finance Act has introduced a definition of "e-bilty" as the digital transport document generated via the Cargo Tracking System, which must accompany goods throughout their transportation.

E-COMMERCE **Section 2 (9AC)**

The Finance Bill, 2025 proposed to define “e-commerce” under clause (9AC) as the sale or purchase of goods and services conducted over computer networks through specifically designed digital platforms such as websites, mobile applications, or online marketplaces using mobile phones, automated systems, or similar devices. However, in the Finance Act, 2025, the definition was slightly narrowed by removing the reference to “services”, thereby limiting its scope to the sale or purchase of goods only.

ONLINE MARKETPLACE **Section 2 (18A)**

Previously, “online marketplace” was defined in an illustrative manner, focusing on platforms or portals that facilitated the sale of goods particularly third-party sales based on certain control factors such as setting terms, handling payments, or arranging deliveries. The Finance Bill, 2025 proposed to replace this definition with a broader one, defining “online marketplace” as an interface that facilitates, for a fee, direct interaction between multiple buyers and sellers via digital orders for supply of goods and services, regardless of whether the platform assumes economic ownership. However, the Finance Act, 2025 approved a narrower version, restricting the scope to the supply of goods only omitting reference to services. This shift indicates a deliberate legislative focus on regulating the digital sale of goods.

PAYMENT INTERMEDIARY **Section 2 (21)**

The Finance Bill, 2025 proposed to introduce definition of “payment intermediary” as any banking company, financial institution (including a licensed foreign exchange company), or payment gateway that facilitates the transfer of funds or payment instructions between parties to enable, process, route, or settle payments in a financial transaction, without being the actual payer or recipient.

However, the Finance Act, 2025 introduced a notable refinement by limiting the scope of such transactions specifically to payments related to goods. This amendment indicates a clear legislative intent to confine the regulatory oversight of payment intermediaries under the Sales Tax regime to goods related transactions only, thereby excluding services or other non-taxable payment flows from the purview of this definition.

RETAIL PRICE **Section 2 (27)**

Previously, clause (27) of the Sales Tax Act, 1990 defined "retail price" in relation to goods listed in the Third Schedule as the price fixed by the manufacturer or importer, inclusive of all duties, charges, and taxes (excluding sales tax), at which the goods should be sold to the general public.

The Finance Bill, 2025 proposed to refine the language by omitting the word “should” and replacing it with more definitive pricing rules. It also proposed the addition of three new provisos, including: (i) restricting reduction in price due to chilling or similar charges to a maximum of 5% for beverages, aerated water, mineral water, or fruit juices; (ii) empowering the FBR to fix retail prices for goods in the Third Schedule by official notification; and (iii) setting a minimum benchmark for imported goods’ retail prices at 130% of the customs value under section 25 of the Customs Act, inclusive of duties and FED.

The Finance Act, 2025 approved these changes with slight refinements. Notably, the phrase “should be” replaced with “is” making the definition more assertive and enforceable. Additionally, the 5% adjustment limit was made explicitly inclusive of sales tax, federal excise duty, and all taxes other than income tax, thereby closing any interpretive gaps. These changes aim to tighten enforcement, ensure minimum retail pricing transparency, and reduce under-declaration, particularly in the beverage and imported goods sectors.

TAX FRAUD **Section 2 (37)**

The Finance Act revised the definition of "Tax Fraud" and introduces the following new concepts:

Aspect	Previous Definition	New Definition
Intent Requirement	Focused on "intentional" acts.	Expands to include "knowingly, intentionally, or dishonestly" acts, broadening the scope of culpability.
Scope of Acts	General reference to understating tax or overstating credits/refunds.	More explicit, covering acts or abetting any act or omissions aimed at causing or attempting tax loss.
False Documents	Mentioned falsification of invoices, records, or accounts (clause g).	Specifically includes "false, forged, and fictitious documents" like returns and annexures (clause a).
Input Tax Credit Fraud	General false claim of input tax credit (clause b) and undue credit (clause e).	Specifies false claims based on fictitious transactions (clause c) and fake entries via system manipulation (clause j).
Non-Remittance of Tax	Covered failure to deposit collected tax (clause f).	Refers to suppression / nonpayment of withholding tax specifically (clause f).
Fictitious Compliance	Not explicitly addressed.	Introduces fictitious compliance with Section 73, e.g., routing payments back to benefit the registered person (clause k).
System Manipulation	Broadly covered under falsification via human/mechanical/electronic means (clause g).	Explicitly includes manipulation of the FBR's return filing system and fake entries (clause j).
Terminology	Used terms like "falsification" and "evasion."	Adds "forged," "fictitious," and "dishonestly" for precision and clarity.
Structure	Included a catch-all clause for intentional acts causing tax loss (clause k).	Replaces catch-all with specific acts like fake invoices, system manipulation and fictitious compliance by routing payments back to the registered person (clauses j, k).

The new definition is more granular, introducing specific terms like "forged," "fictitious," and "dishonestly" to enhance legal precision. It also reflects technological advancements by addressing manipulation of digital return filing systems and fictitious compliance with payment routing through Section 73. The broader intent requirement ("knowingly, intentionally, or dishonestly") lowers the threshold for prosecuting tax fraud, aligning with the FBR's goal of strengthening compliance. Additionally, terms like "e-commerce" and "payment intermediary" introduced in the same bill provide context for regulating digital transactions, indirectly supporting the updated tax fraud framework.

SCOPE OF TAX **Section 3**

The Finance Bill, 2025 proposed significant changes to the scope of sales tax under section 3 of the Act, introducing a new clause (c) in sub-section (3) to shift the liability of collecting and paying sales tax on digitally ordered goods to payment intermediaries (for digital transactions) and couriers (for Cash on Delivery transactions). It further proposed a new sub-section (7A), whereby tax collected by such intermediaries or couriers would be treated as final discharge of liability for online marketplaces and their vendors, with no input tax adjustment allowed. Additionally, the Bill proposed to omit the existing proviso to sub-section (7), which placed the withholding obligation on online marketplaces for third-party sellers.

However, the Finance Act, 2025 approved a refined version. While clause (c) and the omission of the proviso to sub-section (7) were retained, sub-section (7A) was narrowed to apply the final tax discharge only to cottage industry and retailers other than Tier-I retailers, thereby excluding online marketplaces and Tier-I sellers from its scope.

ADJUSTABLE INPUT TAX **Section 8B**

The Finance Act has empowered FBR to use a data-driven automated risk management system to defer certain input tax claims or set higher or lower limits on input tax adjustments to control claims and prevent fraud.

Registered persons can challenge such decisions by submitting an application and documents to the Commissioner concerned, who shall decide the case within 30 days.

BEST JUDGMENT ASSESSMENT **Section 11D**

The Finance Act made addition in Section 11D to allow the FBR to assess sales tax for distributors, dealers, or wholesalers who fail to file a return upon notice. The assessment can be based on reasonable grounds, including purchase data obtained under Section 236G of the Income Tax Ordinance, 2001.

This change strengthens the FBR's ability to enforce compliance using data collected under Income Tax Ordinance, 2001.

ASSESSMENT OF TAX OR RECOVERY OF TAX NOT LEVIED, SHORT LEIVIED OR ERRONEOUSLY REFUNDED **Section 11E**

The Finance Bill, 2025 proposed to amend sub-section (1) of Section 11E of the Sales Tax Act, 1990, which empowers Inland Revenue Officers (not below the rank of Assistant Commissioner) to determine and recover sales tax not levied, short levied, or erroneously refunded. While the core provisions relating to non-payment, inadmissible input tax or refunds remained intact, the proposed amendment introduced an important exclusionary proviso that the powers under Section 11E shall not apply in cases where proceedings are initiated under Section 37A (which deals with prosecution of offences and criminal investigations). The Finance Act, 2025 approved this amendment as proposed, thereby reinforcing a clear distinction between civil recovery proceedings under Section 11E and criminal investigation procedures under Section 37A of the Act. This ensures that dual proceedings for the same matter are avoided, and protects taxpayers from being subjected simultaneously to recovery and prosecution for the same default, thereby promoting legal clarity and procedural fairness

LIMITATION FOR ASSESSMENT **Section 11G**

The time limit for the Commissioner to pass an order has been extended from 120 days to 180 days.

REGISTRATION **Section 14**

The Finance Bill, 2025 proposed significant amendments to Section 14 of the Sales Tax Act, 1990 to tighten the registration regime for e-commerce transactions, particularly those involving digitally ordered goods. It sought to introduce mandatory registration for every person, including non-residents, supplying digitally ordered goods from within Pakistan through online platforms. It also proposed a new restriction on online marketplaces and couriers, prohibiting them from facilitating e-commerce unless the seller is registered under both sales tax and income tax laws. Additionally, it empowered the Commissioner Inland Revenue to compulsorily register unregistered persons who are liable to register.

However, the Finance Act, 2025 refined these provisions by introducing two key carve-outs under new sub-section (1A) cottage industry and retailers paying sales tax through electricity bills under Section 3(9) were exempted from mandatory e-commerce registration.

Further, sub-section (1B) was revised to require that such persons must hold an NTN, and for persons other than cottage industry or retailers paying sales tax through electricity bills, also a sales tax registration. Moreover, sub-section (2A) was enacted with the added safeguard of providing the person an opportunity of being heard before compulsory registration. These changes balance enforcement with fairness, while bringing digital commerce more fully into the tax net without overburdening micro and small-scale sellers.

BAR ON OPERATIONS OF BANK ACCOUNTS **Section 14AC**

The Finance Bill, 2025 proposed to introduce Section 14AC in the Sales Tax Act, 1990, granting powers to the Commissioner to bar operation of bank accounts of persons who fail to obtain mandatory sales tax registration. The proposed provision allowed the Commissioner to immediately block bank accounts via written order and required the order to be withdrawn upon registration.

The Finance Act, 2025, however, introduced a more structured and graduated approach. It made the provision applicable only where the Commissioner has reasons to believe a person is making taxable supplies without registration, and has given three consecutive opportunities of hearing. Instead of immediate indefinite blocking, the Act prescribes intermittent suspension of bank account operations for three working days, repeated up to three times with a one-week gap, before allowing permanent suspension through written order. It also mandates that once the person is registered, the bar must be lifted within two working days, and provides a right of appeal to the Chief Commissioner Inland Revenue. These refinements strike a balance between tax enforcement and due process, deterring unregistered commercial activity while guarding against arbitrary disruption of banking operations.

BAR ON TRANSFER OF IMMOVABLE PROPERTY Section 14AD

The Finance Bill, 2025 proposed to insert Section 14AD in the Sales Tax Act, 1990, granting broad powers to the Commissioner to bar the transfer of immovable property of any person who fails to get registered for sales tax purposes, with immediate removal of such restriction upon registration.

However, the Finance Act, 2025 introduced a more procedurally structured and fair mechanism. Under the revised version, if a person fails to obtain registration within 15 days of issuance of an order under Section 14AC(4) (relating to bank account bar), a three-member committee comprising the Chief Commissioner, the concerned Commissioner, and a representative from a Chamber of Commerce or Trade Association must be formed. This committee is responsible for issuing public notices, providing a personal hearing, and offering a 15-day grace period before recommending imposition of bar on transfer of property. Only after this process can the Commissioner direct the property registering authority to bar the transfer of property. Importantly, the bar must be lifted within two working days after the person is registered. The provision also allows the aggrieved person to file an appeal before the Chief Commissioner. These refinements introduce a fair, consultative, and transparent process, aligning enforcement with taxpayer rights while targeting deliberate non-registration

OTHER COERCIVE ACTIONS FOR NON-REGISTRATION Section 14AE

The Finance Bill, 2025 proposed insertion of Section 14AE, authorizing the Chief Commissioner Inland Revenue to take coercive enforcement actions including sealing of business premises, seizure of moveable property, or appointment of a receiver against persons who fail to register under the Sales Tax Act. It outlined safeguards such as issuing a public notice, providing a right of hearing through an open court by a committee (comprising the Chief Commissioner, concerned Commissioner, and a trade body representative), and publicizing the decision on the Board's website and newspapers.

The Finance Act, 2025 approved these powers with a key procedural refinement such measures can now only be initiated after prior actions under Sections 14AC (bank account bar) and 14AD (property transfer bar) have been exhausted. Additionally, the Act provides that upon registration, any such coercive order must be reversed within two working days, and an aggrieved person may represent before the FBR within 30 days. These changes reflect a phased escalation approach, ensuring due process and progressive enforcement while preventing premature or arbitrary actions against non-compliant businesses.

DE-REGISTRATION, BLACKLISTING AND SUSPENSION OF REGISTRATION Section 21

The Finance Bill, 2025 proposed to amend Section 21 of the Sales Tax Act, 1990 by inserting a new sub-section (2A) and omitting sub-section (5). Sub-section (2A) introduced a structured, time-bound process under which the Commissioner must issue a show cause notice within 15 days of a suspension order. After receiving the taxpayer's reply and providing an opportunity of hearing, the Commissioner is required to either revoke the suspension or issue a speaking, appealable order of blacklisting within 30 days.

The Finance Act, 2025, while approving this amendment, shortened the timeline to 10 days for issuing the show cause notice enhancing administrative efficiency.

TAX INVOICES **Section 23**

The Finance Act has amended Section 23 of the Act to enhance tax invoice requirements. A new proviso in subsection (1)(g) mandates that registered persons link tax invoices with the e-bilty (digital transport document). New subsections (5) empower the FBR to require specific persons or groups to integrate their electronic invoicing systems with the FBR's Computerized System for real-time sales reporting, as specified by notification.

RETURN **Section 26**

The Finance Bill proposed new provisos in Section 26 to enhance return filing requirements for e-commerce. Online marketplaces, payment intermediaries, and couriers to submit a true, complete, and correct monthly statement by the due date in a prescribed form.

These statements must detail supplier-wise payments, tax due, and other information for taxable supplies of digitally ordered goods in Pakistan, regardless of economic ownership, covering transactions via online marketplaces, websites, apps, or courier services.

Additionally, the proviso, which previously allowed revised returns without approval if filed within 60 days with higher tax payable or lower refund claimed, was proposed to be omitted which means permission for every revision shall be required.

The Finance Act, 2025 approved these proposals with one addition that a new sub-section (3A) was inserted, allowing revised returns within 60 days without prior approval provided it increases tax liability or reduces refund claim, unless flagged by the FBR's compliance risk management system.

OFFENCES AND PENALTIES **Section 33**

Through the Finance Bill, 2025, new serial No. 1A was proposed to introduce penalties for online marketplaces, payment intermediaries, and couriers failing to furnish prescribed monthly statements. This provision was approved with modifications in the Finance Act, 2025, notably reducing the penalty for the first default to PKR 300,000 (only applicable if the default persists for two consecutive months), while retaining PKR 1,000,000 for subsequent defaults within one year.

Serial No. 1B was also newly inserted through the Finance Bill and retained without changes in the Finance Act. It penalizes online marketplaces and couriers that allow unregistered persons to use their platforms for e-commerce activities, imposing a fine of PKR 500,000 for the first default and PKR 1,000,000 for subsequent defaults.

Serial No. 13, concerning tax fraud under section 2(37), was substituted by the Finance Bill and further revised in the Finance Act. The amendment split tax fraud into two categories: sub-clauses (a)–(f) and (g)–(k) of section 2(37), with both categories attracting a maximum imprisonment of five years (reduced from ten years as proposed) and additional liability for tax loss, 100% penalty, and default surcharge.

Similarly, Serial No. 13A was newly inserted through the Finance Bill to penalize persons abetting or conniving in tax fraud or other prosecutable offences under the Act. While the Bill proposed up to ten years' imprisonment or a PKR 10 million fine, the Finance Act reduced the imprisonment term to five years, keeping the fine unchanged.

Lastly, Serial No. 25B was introduced afresh to address non-compliance with e-Bilty regulations under section 40C(6). It was approved as proposed, prescribing a penalty of PKR 50,000 along with the recovery of any tax evaded through such contravention.

AMENDMENT IN PROVISIONS RELATING TO INVESTIGATION, ARREST AND RELEVANT PROCEDURES SECTION 37A & 37B

The Bill proposes new powers for Inland Revenue officers to investigate, arrest, and prosecute offenders, aligned with the Code of Criminal Procedure, 1898 under three separate provisions for (i) inquiry and investigation, (ii) arrest powers, and (iii) post-arrest procedures, along with a standalone provision for compounding offences.

The Finance Act, 2025, however, consolidated these into two sections, integrating arrest powers within the investigation process and incorporating compounding within the same framework. The approved version introduced additional safeguards for arrest requiring completion of inquiry, approval from a three-member committee, and a minimum fraud threshold of PKR 50 million, with clear grounds such as evasion, non-cooperation, or evidence tampering. It also formalized timelines, judicial oversight, and procedural rights like bail.

PECUNIARY JURISDICTION IN APPEALS **Section 43A**

The Finance Act has abolished the PKR 10 million pecuniary threshold for appeals before the Commissioner (Appeals) a limit introduced through the Finance Act, 2024. This change allows all cases to be heard, regardless of monetary value.

APPEALS **Section 45B**

With the omission of Section 43A, corresponding changes has been made in Section 45B, enabling taxpayers to appeal before the Commissioner (Appeals), except for state-owned entities, which can only appeal before the Appellate Tribunal (ATIR). This provision is optional, at the taxpayer’s discretion, allowing direct appeals to ATIR.

APPEALS TO APPELLATE TRIBUNAL **Section 46**

Currently, the Chief Commissioner has the power to examine the blacklisting/ suspension order passed by the Commissioner. The Finance Act has abolished above-mentioned powers of the Chief Commissioner Inland Revenue and the order of the Commissioner for suspension/ blacklisting is appealable before the appellate authorities under the Act.

REFERENCE TO THE HIGH COURT **Section 47**

The Finance Act has extended the time limit for submitting a reference to the High Court from 30 days to 60 days and restricts references to matters involving only questions of law.

INSPECTION OF AUDIT FIRM **Section 58C**

The Finance Act amended that in case the Chief Commissioner Inland Revenue believes that a registered person's audited accounts under the Companies Act, 2017 do not present a true and fair view of their sales, purchases, or related sales tax liability, they may, with Board approval, refer the audit firm that issued the audit certificate to the Audit Oversight Board for inspection.

CERTAIN TRANSACTIONS NOT ADMISSIBLE **Section 73**

The Finance Act has eliminated fixed sales thresholds of PKR 100 million in a financial year or PKR 10 million in a tax period with an unregistered person. Instead, it authorizes the FBR, with the approval of the Federal Minister-in-Charge, to determine and set these sales limits, providing greater flexibility to adjust limits as needed.

CONDONATION OF TIME-LIMIT **Section 74**

The Finance Act has amended Section 74 to refine the condonation of time limits. A new proviso caps the maximum extension period that the FBR or Commissioner can grant at 2 years, overriding any conflicting provisions, laws, or court decisions.

A committee appointed by the FBR may further extend this limit if there is evidence of significant revenue loss, after providing a reasonable opportunity for a fair hearing to taxpayers. This extension can be for any period deemed appropriate.

THIRD SCHEDULE

The following items has been added to the Third Schedule by the Finance Act, which deals with levying sales tax on the printed retail price, irrespective of sale value in the supply chain.

- Import of pet food, including for dogs and cats, sold in retail packing;
- Import of coffee sold in retail packing;
- Import of chocolates sold in retail packing;
- Import of cereal bars sold in retail packing.

SIXTH SCHEDULE:

Following exemption of sales tax has been revoked:

- Supplies and imports of plant & machinery for tribal areas.
- Supply of Solar Pannels (this item has been made subject to reduce rate of 10% under Eight Schedule).

Following new exemption to sales tax has been introduced:

- Electricity supplied to Tribal area remain exempt till 30, June 2026.
- Import of cystagon, cysta drops and trientine capsules (now wholly exempt, previously exempt only for personal use).
- Import or lease of aircrafts by Pakistan International Airlines Corporation Limited.

PROPOSED AMENDMENT IN PREVIOUS EXEMPTION

Previously, the local supply of iron and steel scrap was exempt from sales tax, except for supplies made by manufacturer-cum-exporters of recycled copper authorized under the Export Facilitation Scheme, 2021.

The Finance Act, 2025 has revised the scope of exclusions from this exemption. Now, the exemption does not apply to:

- Supplies by manufacturer-cum-exporters of recycled copper, authorized under the Export Facilitation Scheme, when supplied directly to a registered steel melter; and

- Supplies made directly by the importer to a registered steel melter.

EIGHTH SCHEDULE

The reduced rate on the supply of imported cinematographic equipment has been revoked by the Finance Act, meaning such goods are now subject to sales tax at 18%.

The reduced rate on the supply of locally manufactured or assembled motorcars of cylinder capacity upto 850cc has been revoked by the Finance Act, meaning such goods are now subject to sales tax at 18%.

The following new reduced rates for the import of plant and machinery for installation in tribal areas (subject to specified conditions) has been introduced through the Finance Act:

- 10% for 2025-2026
- 12% for 2026-2027
- 14% for 2027-2028
- 16% for 2028-2029

The exemption of supply of Photovoltaic cells whether or not assembled has been withdrawn, and the Finance Act has made it subject to reduced rate of 10%.

ELEVENTH SCHEDULE

To address the withholding requirements introduced for payment intermediaries, couriers, and online marketplaces, the Finance Act now requires payment intermediaries and couriers to withhold tax at 2% of the gross value on digitally ordered goods supplied through marketplaces, websites, or mobile apps under the Eleventh Schedule.

Federal Excise Duty Act, 2005

Amendment in the Federal Excise Act, 2005

DUTIES SPECIFIED IN THE FIRST SCHEDULE TO BE LEVIED SECTION 3

The Finance Act has amended Section 3(5) of the Federal Excise Act, 2005 by inserting a new clause (e), which empowers the law to designate any other person including a middle man as liable to pay federal excise duty in cases not specifically covered under clauses (a) to (d).

POWER TO SEIZE Section 26 (1)

The Finance Act has enhanced the enforcement powers under Section 26(1) of the Federal Excise Act, 2005. In addition to goods manufactured without payment of duty or in contravention of the Act, goods that are not affixed with, or are affixed with counterfeit, tax stamps or barcodes, as mandated under Section 45A, will also become liable to seizure along with the transporting vehicle. This amendment aims to reinforce compliance with FBR's electronic monitoring framework and curb tax evasion through improper product labeling.

CONFISCATION OF GOODS SUBJECT TO FEDERAL EXCISE DUTY Section 27

- The Finance Act introduces enforcement mechanisms by expanding the grounds for confiscation under Section 27(1). In addition to counterfeit cigarettes and beverages, any dutiable goods not bearing, or bearing counterfeit, tax stamps or traceability labels as required under Section 45A will also be subject to confiscation and destruction. This amendment underscores strict compliance with electronic monitoring systems implemented by FBR, such as the Track & Trace regime.

- The Finance Act has inserted sub-section (4) in Section 27 of the Federal Excise Act, 2005, empowering the FBR to authorize officer of Revenue Department not below the rank of Naib Tehsildar or Excise and Taxation Officer not below the rank of BPS-16 to exercise enforcement powers under Sections 26 and 27(1). This delegation will be applicable particularly in cases involving goods monitored under the Track and Trace System or counterfeit/duty-evaded goods and will be subject to conditions specified through notification.

APPEALS TO COMMISSIONER (APPEALS) Section 33

With the removal of the pecuniary limit for filing appeals by omitting section 33A, a corresponding amendment has been made to Section 45B, which governs the filing of appeals before the Commissioner (Appeals). Additionally, a proviso has been inserted in sub-section (4) of Section 31, allowing an aggrieved person, other than a State-Owned Enterprise (SOE), the option to either file an appeal directly before the Commissioner (Appeals) or waive this right and instead avail the next appellate forum by filing the appeal directly before the Appellate Tribunal Inland Revenue (ATIR).

PECUNIARY JURISDICTION IN APPEALS Section 33A

Through the Tax Laws (Amendment) Act, 2024, significant changes were introduced to revamp the two-tier appellate system by introducing pecuniary jurisdiction for appeals. Under this framework, appeals involving assessment or refund of tax not exceeding five million rupees were to be filed before the Commissioner Inland Revenue (Appeals). In contrast, cases

involving amounts exceeding five million rupees were required to be filed directly before the Appellate Tribunal Inland Revenue (ATIR).
The Finance Act has omitted this provision, thereby restoring the previous two-tier appeal structure, where all first-level appeals, regardless of monetary value, will once again lie with the Commissioner Inland Revenue (Appeals).

APPEALS TO THE APPELLATE TRIBUNAL **Section 34**

With the omission of Section 33A, the Finance Act has restored the earlier two-tier appeal structure, under which all first-level appeals, regardless of the monetary threshold, would once again be filed before the Commissioner Inland Revenue (Appeals).
Additionally, an amendment has been made in Section 33, allowing an aggrieved person, other than a State-Owned Enterprise (SOE), the option to waive the right to file an appeal before the Commissioner (Appeals) and instead proceed directly to the Appellate Tribunal Inland Revenue (ATIR).

In line with these changes, a corresponding amendment has also been made in Section 46, clarifying that the aggrieved party may, within 30 days of receipt of the order, file an appeal before the ATIR. This amendment ensures procedural consistency in light of the restructured appellate mechanism and preserves the right of appeal at the Tribunal level for those choosing to bypass the first-tier forum.

REFERENCE TO THE HIGH COURT **Section 34A**

With the amendments made in Sections 33, 33A, and 34, corresponding changes have also been made to ensure alignment across related provisions. As part of these revisions, the right to file a reference appeal before the High Court against an order of the Appellate Tribunal Inland Revenue (ATIR) has been reaffirmed in all cases.

Furthermore, the time limit for filing such a reference has been restored to sixty days from the date of the order reversing the earlier reduction to thirty days. This amendment reinstates the more reasonable timeline previously available to taxpayers, allowing adequate preparation for seeking judicial recourse before the High Court.

AMENDMENT TO TABLE I – FIRST SCHEDULE OF THE FEDERAL EXCISE ACT, 2005

The Finance Act has inserted following entry at Sr. 64 of the Table-I. By virtue of this Day Old Chick is liable to Excise Duty of Rs 10 per chick.

AMENDMENT TO TABLE III – FIRST SCHEDULE OF THE FEDERAL EXCISE ACT, 2005

The Finance Act has omitted Serial No. 1 of Table III of the First Schedule to the Federal Excise Act, 2005, which currently imposes federal excise duty on the allotment or transfer of property by builders or developers.

ISLAMABAD CAPITAL TERRITORY
(TAX ON SERVICES)

Amendments in Islamabad Capital Territory (Tax on Services) Ordinance, 2001

SCOPE OF TAX **Section 3**

The Finance Act has made multiple amendments to Section 3 of the Islamabad Capital Territory (Tax on Services) Ordinance, 2001, aimed at enhancing compliance, expanding exemption coverage, and providing administrative flexibility to FBR through notifications.

- A new proviso has been added to Section 3(1), requiring that:
    - Service providers listed in Table-1 and Table-2 of the Schedule must digitally integrate their business systems with the FBR's computerized system.
    - This integration will facilitate real-time reporting of services, and shall be implemented from a date and in a manner as notified by the FBR through a general order.
- The Finance Act has made an amendment to clause (d) of Section 3(2A), which governs the application of Sales Tax Act, 1990 provisions to ICT services mutatis mutandis.
    - The amendment seeks to include Serial Nos. 147 and 163 of Table-1 of the Sixth Schedule of the Sales Tax Act, 1990.
    - These entries pertain to:
        - Serial 147: Exemption on goods supplied to the German Development Agency (GIZ).
        - Serial 163: Exemption on goods imported by UN agencies, diplomats, privileged persons, and organizations, subject to zero-rating under customs laws.
    - By incorporating these serials, the corresponding exemptions will now also apply to services rendered under the ICT Ordinance.
- A new sub-section (4) has been inserted in Section 3, authorizing the Federal Board of Revenue (FBR) to:
    - Notify a Negative List of services that will be exempt from sales tax under the Ordinance.
    - This Negative List will be introduced as Table-3 of the Schedule.

The exemption will be subject to conditions, restrictions, and limitations as may be specified through official notification.