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June 13, 2026

# Federal Budget 2026



## **FEDERAL BUDGET 2026**

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2026 (**FB**). All changes proposed through the FB, subject to approval by National Assembly and Presidential assent, are effective July 1, 2026 unless otherwise indicated.

This memorandum can also be accessed on our website <https://www.pwc.com.pk>

June 13, 2026

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## KEY ECONOMIC INDICATORS

### **Economic Survey 2025-2026**

During the year, the economy recorded a 3.70% annual growth, compared to 3.18% last year, supported by growth in Large-Scale Manufacturing (LSM), agriculture sector, exchange rate stability, and reforms under the IMF Extended Fund Facility (EFF) Programme.

Inflation increased from 7.3% in March 2026 to 10.9% in April 2026, mainly due to rising global oil prices and supply disruptions amid the Middle East crisis. The average inflation rate for July through April in FY 2026 was recorded at 6.2%, compared to 4.7% observed during the same period last year.

The fiscal deficit has contracted to 0.7% of GDP during July-March FY 2026 from 2.6% last year. The primary surplus has risen to 3.2% from 3%, and tax revenues have surged by 11.3%, totaling Rs 10,166.6 billion during July-March FY 2026. During July-April FY 2026, FBR net provisional tax collection increased by 10.3% to Rs 10,262.6 billion.

On the external front, the current account recorded a marginal surplus of US\$ 72 million during July-March FY 2026, compared to a surplus of US\$ 1.7 billion in the same period last year, while workers' remittances remained a key source of external sector support, rising by 8.2% to US\$ 30.3 billion.

	FY 25 – 26	FY 24 – 25
<b>GDP growth rate</b>	3.70%	3.18%
<b>Per capita income - US\$</b>	1,901	1,751
<b>FDI (July – April) US\$ million</b>	1,409	2,035
<b>Consumer price index (July – March)</b>	6.2%	4.5%
<b>Public debt (PKR billion)</b>		
- Domestic	57,566	54,472
- Foreign	25,720	26,047
	83,286	80,519
<b>Fiscal deficit - %age of GDP (July – March)</b>	0.7%	2.6%

Source: Economic Survey of Pakistan 2025-2026

# BUDGET AT GLANCE

## Budget Financials

The following table sets out the Key Budget Financials:

	<b>2026-2027</b>	<b>2025-2026 (Revised)</b>
	<u><b>Rs in Billion</b></u>	<u><b>Rs in Billion</b></u>
Tax revenue	15,264	12,983
Non-tax revenue	5,336	5,093
Gross revenue receipts	20,600	18,076
Less: Provincial share in Federal taxes	(8,849)	(7,592)
	11,751	10,484
Privatization proceeds	161	14
Net revenue receipts	11,912	10,498
Expenditure		
- Current expenditure	(17,495)	(15,006)
- Development expenditure (net of recovery of loans)	(1,276)	(1,024)
	(18,771)	(16,030)
<b>Deficit</b>	<b>(6,859)</b>	<b>(5,533)</b>
- Domestic debts non-bank (including public account receipts)	2,034	2,139
- Domestic debts banks / provincial surpluses	4,012	199
- Foreign debts / grants (net of repayments)	813	1,535
	<b>6,859</b>	<b>5,533</b>

## BREAK-UP OF TAX REVENUE

*There is no significant change in the ratio of direct taxes in the overall tax collection.*

*A substantial and incremental shift is required to expand tax base and distribute tax burden across all sectors of the economy.*

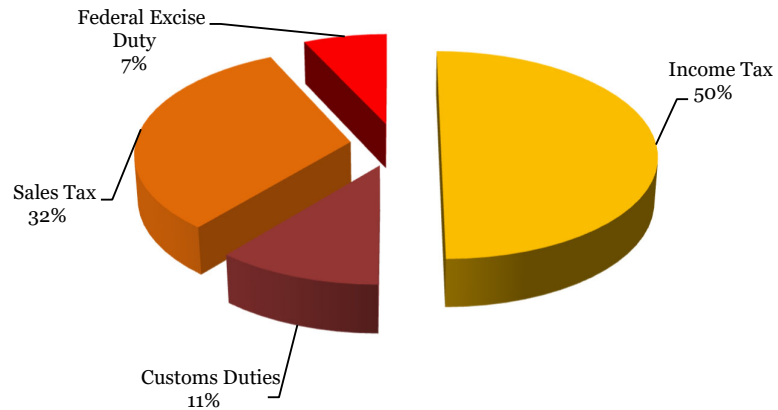
### Direct Taxes:

- Income Tax
- WWF, WPPF & Others

### Indirect Taxes:

- Sales Tax
- Customs Duty
- Federal Excise Duty

<i>FY 26 -27</i>	<i>FY 25 -26 (Revised)</i>
<i>Rs in Billion</i>	<i>Rs in Billion</i>
7,480	6,331
133	100
7,613	6,431
4,927	4,334
1,651	1,366
1,073	851
7,651	6,551
<u>15,264</u>	<u>12,983</u>



# EXECUTIVE SUMMARY

Significant amendments proposed through the FB vis-a-vis various federal tax laws are summarized as below.

## INCOME TAX

### **1. Super tax rationalisation**

- Abolished for persons (other than specified sectors) with income up to PKR 500 million.
- Reduced to 8% (from 10%) for income exceeding PKR 500 million, while key sectors (banking, oil & gas, fertiliser) remain subject to 10% for income exceeding PKR 150 million.

### **2. Salaried individuals**

- Revision of slab rates resulting in lower effective taxation, particularly for middle and upper-middle income bands.
- Surcharge under section 4AB abolished from Tax Year 2027.

### **3. Expansion of NCCPL regime**

- Extended to NBFCs, Modarabas, and companies (for listed debt securities).
- NCCPL to compute Capital Gains for banks, insurance companies, and mutual funds, though payment mechanism for such entities remains unchanged.

### **4. Elimination of opt-out mechanism**

- Taxpayers will no longer compute CGT independently, with adverse implications for non-residents / Foreign Institutional Investors claiming treaty exemptions.

### **5. Exporters**

- Shift to minimum tax at 1.25%, with abolition of additional 1% advance tax.

### **6. Withholding taxes as minimum tax**

- Government empowered to reduce rates (not below 1%) for specific sectors to address excessive tax burden.

### **7. Turnover tax adjustments**

- Revision in turnover tax rates for various sectors (e.g., pharmaceuticals, FMCG, electronics).

### **8. Retail sector**

- Introduction of fixed tax regime for small retailers (turnover up to PKR 200 million) at 1% of sales with simplified compliance.

**9. Life insurance payouts**

- New tax imposed on policy proceeds in excess of premium payments (other than death/disability or encashment after 7 years) from tax year 2026, with final tax withholding mechanism introduced.

**10. Digital economy and social media income**

- Tax on digital transactions refined and made adjustable above PKR 200 million turnover.
- 5% withholding tax introduced on income from social media platforms.

**11. Withholding tax rates**

- Increase in certain service-based WHT rates and marginal reduction in general rates.
- Increase in WHT on disposal of debt securities from 15% to 20%.
- Rationalisation of property transaction taxes for buyers and sellers.
- Major relief via reduction in foreign card transaction tax (5% to 0.5%).

**12. Integration incentive**

- 10% tax credit on expenditure for electronic invoicing integration.

**13. Mutual funds, REITs, NPOs**

- Streamlined issuance of exemption certificates for qualifying entities.

**14. IT exports**

- Reduced tax rate of 0.25% extended up to 2029.

**15. Mandatory e-filing and data integration**

- Financial statements to be submitted in machine-readable format.
- Banking data reporting for transactions exceeding PKR 100 million to support automated risk profiling.

**16. LLPs**

- Classified as AOPs for tax purposes, aligning with international practice.

**17. Shipping sector**

- Introduction of authorised shipping agent concept to strengthen tax enforcement.

**18. Inherited immovable properties**

- Cost of acquisition to be taken as equivalent of Fair Market Value at the time of inheritance

## **CAPITAL VALUE TAX ON FOREIGN ASSETS**

### **19. CVT abolished**

- CVT applicable at 1% of foreign assets abolished

## **AMENDMENTS COMMON IN INCOME TAX, SALES TAX & FED LAWS**

### **20. Algorithmic Settlement Mechanism**

- A new digital system will allow the Federal Board of Revenue (FBR) to offer settlement options for tax disputes based on compliance history and discrepancy nature, with acceptance via IRIS within ten days leading to resolution of issues covered by the offer.

### **21. Faceless Procedures**

- The FBR will establish a National Faceless Centre to conduct audits, assessments, and appeals electronically, maintaining confidentiality of officers' identities and reducing personal taxpayer interaction. Jurisdiction may be exclusive or concurrent, with provisions for physical verifications as needed.

### **22. Independent Case Scrutiny Committee**

- This committee, comprising a retired judge, an experienced advocate, and a senior FBR officer, will review tax cases before higher judiciary appeals, with binding recommendations and legal protections for members.

## **SALES TAX**

### **23. Definition of Tier-1 retailer**

- The definition of a Tier-1 retailer is proposed to be amended for wholesaler-cum-retailers & retailers by introducing a turnover threshold of Rs 200 million while the POS-based and withholding-based categories are proposed to be omitted.

### **24. Time of Supply**

- An explanation is proposed to be added to the definition of 'time of supply', to deem goods as delivered/made available when they become ready for dispatch from the business premises of the supplier (factory, warehouse, godown or branch).

### **25. Value of Supply**

- For 'value of supply', it is proposed that the Board may adopt valuations notified by the Pakistan Bureau of Statistics or outsource the valuation function to the prescribed third parties.

### **26. Steel Sector**

- It is proposed that sales tax on steel melters, re-rollers and composite units be collected on the basis of per-unit electricity consumption, with adjustment and monthly refund mechanism for registered persons integrated with the Board's production-monitoring and digital invoicing systems.

**27. Input tax adjustment**

- The Board is proposed to be empowered to reduce or enhance the 90% input tax adjustment cap under Section 8B for a registered person depending upon compliance with production monitoring, digital invoicing, e-builty, POS or other prescribed electronic systems.

**28. Debit / Credit Notes**

- It is proposed that issuance of debit and credit notes be governed by a mechanism prescribed by the Board, including electronic adjustments.

**29. Third Schedule expanded**

- Several goods, currently taxed on an ad valorem, are now proposed to be taxed based on their retail price under the Third Schedule at the already prescribed rates if the same exceeds 18%.

**30. Sales tax withholding**

- The scope of sales tax withholding agents is proposed to include Associations of Persons and Individuals. Additionally, registered persons engaged in toll-manufacturing are proposed to be designated as withholding agents.

**CUSTOMS DUTY**

**31. Reduction in tariff lines**

- Custom duties reduced on 92 industrial input tariff lines; 15 new PCT codes created.

**32. Additional Customs Duties reduced**

- Additional customs duties reduced across 3,125 tariff lines and Regulatory duties rationalized across 1,914 tariff lines

**FEDERAL EXCISE DUTY**

**33. Special Excise Duty on Vehicles**

- A Special Excise Duty (SED) is proposed on imported motor vehicles, excluding electric vehicles until June 30, 2027, with rates varying by engine capacity.

**34. Expanded Data Tampering Offense**

- The scope of data tampering offenses is widened to include manipulation of data in electronic monitoring equipment, production monitoring systems, and video analytics, strengthening anti-evasion measures.

**35. Federal Excise Duty (FED) Adjustments**

- FED rates are rationalized on items such as acetate tow and e-liquids, with exemptions and new charges applied to electric vehicles and certain petroleum products, including a sales tax mode levy on petroleum top naphtha, mineral turpentine oil, and solvent oil.

**PETROLEUM LEVY AND CLIMATE SUPPORT LEVY ENHANCEMENTS**

- Payment of these levies is made a license condition, with late payment surcharges introduced, a dedicated recovery mechanism established, and mandatory monthly reporting and annual audits required for companies, refineries, and licensees.

# INCOME TAX

## ***SUPER TAX***

From tax year 2027, super tax is abolished for persons (other than mentioned below) having 'income' not exceeding Rs 500 million, which is currently subject to tax at the rates ranging from 1% to 7.5%:

- a. Banking companies;
- b. Oil and Gas Exploration Companies; and
- c. Income of a person engaged in deriving income from sale of any kind of fertilizer.

The above persons shall continue to be liable to Super tax at the rate of 10% in cases where prescribed income exceeds Rs. 150 million. In case of Oil and Gas Exploration Companies, the rate of super tax shall not exceed the limits prescribed in Rule 4 of the Fifth Schedule.

For categories other than mentioned above, it is proposed to levy super tax at the rate of 8% only where prescribed income exceeds Rs. 500 million as against the currently applicable rate of 10%.

The finance minister mentioned in his Budget Speech that super tax abolishment on exporters is likely to be considered in the Finance Act.

## ***RELIEF FOR SALARIED TAXPAYERS***

The FB has proposed to revise / reduce the slab rates for salaried individuals. The maximum rate for salaried individuals has been kept at 35% for income exceeding Rs 7 million, with revisions within different slabs. Particularly, the highest salary slab on which progressive tax rate of 35% applies where taxable salary exceeds Rs. 4,100,000; has been proposed to be divided into three separate slabs with reduced tax incidence.

In addition, a surcharge under section 4AB of the Ordinance which is otherwise applicable at the rate of 9% of tax payable by salaried individuals having taxable income exceeding Rs 10 million is proposed to be abolished from tax year 2027.

A comparison of the current and proposed slabs is tabulated below:

<b><i>Sr No.</i></b>	<b><i>Taxable income</i></b>	<b><i>Existing Incremental Rates</i></b>	<b><i>Proposed Incremental Rates</i></b>
1	Upto Rs 600,000	-	-
2	Exceeding Rs 600,000 upto Rs 1,200,000	1% of the amount exceeding Rs 600,000	1% of the amount exceeding Rs 600,000
3	Exceeding Rs 1,200,000 upto Rs 2,200,000	11% of the amount exceeding Rs 1,200,000	11% of the amount exceeding Rs 1,200,000
4	Exceeding Rs 2,200,000 upto Rs 3,200,000	23% of the amount exceeding Rs 2,200,000	20% of the amount exceeding Rs 2,200,000
5	Exceeding Rs 3,200,000 upto Rs 4,100,000	30% of the amount exceeding Rs 3,200,000	25% of the amount exceeding Rs 3,200,000
6	Exceeding Rs 4,100,000 upto Rs 5,600,000	35% of the amount exceeding Rs. 4,100,000	29% of the amount exceeding Rs 4,100,000
7	Exceeding Rs 5,600,000 upto Rs 7,000,000	35% of the amount exceeding Rs. 4,100,000	32% of the amount exceeding Rs 5,600,000
8	Exceeding Rs 7,000,000	35% of the amount exceeding Rs. 4,100,000	35% of the amount exceeding Rs 7,000,000

The impact of the above-mentioned changes in slabs is illustrated as under:

Taxable income		Tax Year 2026			Tax Year 2027		Decrease in tax		
Annual (Rs)	Monthly (Rs)	Income Tax	Surcharge U/S 4AB	Effective Tax Rate	Income Tax	Effective Tax Rate	Annual (Rs)	Monthly (Rs.)	Effective Tax Rate
600,000	50,000	-	-	-	-	-	-	-	-
1,200,000	100,000	6,000	-	0.50%	6,000	0.50%	-	-	0.00%
2,200,000	183,333	116,000	-	5.27%	116,000	5.27%	-	-	0.00%
3,200,000	266,667	346,000	-	10.81%	316,000	9.88%	(30,000)	(2,500)	-0.94%
4,100,000	341,667	616,000	-	15.02%	541,000	13.20%	(75,000)	(6,250)	-1.83%
5,600,000	466,667	1,141,000	-	20.38%	976,000	17.43%	(165,000)	(13,750)	-2.95%
7,000,000	583,333	1,631,000	-	23.30%	1,424,000	20.34%	(207,000)	(17,250)	-2.96%
10,000,000	833,333	2,681,000	-	26.81%	2,474,000	24.74%	(207,000)	(17,250)	-2.07%
12,000,000	1,000,000	3,381,000	304,290	30.71%	3,174,000	26.45%	(511,290)	(42,608)	-4.26%
15,000,000	1,250,000	4,431,000	398,790	32.20%	4,224,000	28.16%	(605,790)	(50,483)	-4.04%
20,000,000	1,666,667	6,181,000	556,290	33.69%	5,974,000	29.87%	(763,290)	(63,608)	-3.82%
25,000,000	2,083,333	7,931,000	713,790	34.58%	7,724,000	30.90%	(920,790)	(76,733)	-3.68%
30,000,000	2,500,000	9,681,000	871,290	35.17%	9,474,000	31.58%	(1,078,290)	(89,858)	-3.59%
36,000,000	3,000,000	11,781,000	1,060,290	35.67%	11,574,000	32.15%	(1,267,290)	(105,608)	-3.52%

### ***ABOLISHMENT OF TAX ON DEEMED INCOME UNDER SECTION 7E***

In line with the recent order of the Federal Constitutional Court of Pakistan (FCCP), tax on deemed income from immovable properties under section 7E having already been held as ultra vires has been abolished.

It would have been preferred if the amendments were also made for enabling the refund of this tax already paid by various taxpayers.

## ***EXPORT OF GOODS***

The final tax regime on export of goods at the rate of 1% was replaced by minimum tax regime through Finance Act, 2024 whereby an additional 1% adjustable advance tax was also to be collected from exporters. With this 2% collection of tax, there was a difference of interpretation as to whether the minimum tax of such exporters was 1% or 1.25% otherwise applicable under section 113.

It is now proposed to abolish the advance tax collection at 1% and enhance the rate of tax collection under section 154 to 1.25% which will now be treated as minimum tax being equivalent of the rate of minimum tax otherwise applicable under section 113.

The rate of withholding tax applicable on indirect exporters is also enhanced from 1% to 1.25%.

## ***RATIONALISATION OF WITHHOLDING TAXES TREATED AS MINIMUM TAX***

Under the existing framework, besides minimum tax on turnover at 1.25%, various withholding taxes are treated as minimum tax, including taxes on imports, services, payments to contractors, traders of goods and commission agents, among others. This treatment often results in a disproportionately high-income tax incidence when compared with the underlying net taxable income of such persons. Consequently, there has been a continuing demand from various sectors, particularly the services sector, for such minimum tax to be abolished or rationalized to retain the true character of income-based taxation.

The Federal Government is proposed to be empowered to reduce the rate of any of the withholding taxes in the nature of minimum tax as specified in the First Schedule, other than minimum tax chargeable under section 113 of this Ordinance, up to 1% on the basis of economic viability in cases of persons or class of persons, subject to such restrictions and limitations as the Federal Government may specify. The Federal Government shall place before the National Assembly; all amendments made in rates of withholding taxes in the First Schedule, in a financial year under this section.

Legislative intent behind the proposed amendment seems to suggest that such reduction in rate can be made to ensure that the reduced rate does not go below 1%. For example, in the case of withholding tax currently applicable for contractors at 7.5%, the same can be reduced to the rate of 1%. If, however, the legislative amendment is only to empower the reduction in withholding tax rates by 1% (e.g. in case of 15% it can only be reduced to 14%) the provision requires reconsideration as the proposed reduction of 1% is not likely to achieve the desired results.

## ***EXPANSION OF SCOPE AND REALIGNMENT OF NCCPL'S ROLE FOR SPECIFIC SECTORS***

Section 100B currently establishes a structured, NCCPL driven capital gains tax regime for listed securities; however, its scope is presently not applicable to NBFCs, Modarabas, and companies (in respect of capital gains on listed debt securities only).

Through a proposed amendment, capital gains on listed securities derived by NBFCs and Modarabas as well as capital gains on listed debt securities derived by companies will now be subject to the NCCPL regime. Capital gains on unlisted debt securities inter alia derived by companies already covered by withholding tax provisions of section 151A in relation to IPS accounts remain unchanged.

Whilst Banking Companies, Insurance Companies and Mutual Funds remain outside the collection mechanism of NCCPL; however, NCCPL is now proposed to compute and determine capital gains of such entities.

### ***EXEMPTION CERTIFICATES FOR MUTUAL FUNDS, REITS & OTHER COLLECTIVE INVESTMENT SCHEMES***

Mutual Funds, REITs and other Collective Investment Schemes are exempt from tax if they distribute 90% of the accounting income for the respective tax year.

For timely issuance of exemption certificates to such entities and to streamline the related process, entities distributing at least 90% of their accounting income for the preceding three years (e.g. mutual funds and similar structures) will be eligible for an exemption certificate for the entire subsequent tax year

### ***EXEMPTION CERTIFICATES FOR NON-PROFIT ORGANISATIONS***

The non-profit organisations approved under section 2(36)(c) shall also be issued exemption certificates for the whole tax year for which such approval is issued.

### ***ELIMINATION OF OPT-OUT MECHANISM UNDER THE NCCPL REGIME***

At present, taxpayers are allowed to opt out of the NCCPL regime and instead compute gains on their own, enabling entity-level adjustments (e.g., loss set-off, timing flexibility) and discharge tax liability under normal manner. This is commonly utilized by taxpayers which desire to compute CGT on their own.

This opt out facility is particularly relevant and necessary for non-residents claiming exemptions under the applicable double tax treaty (DTT) provisions as there is no mechanism otherwise available to such non-residents for invoking the DTT provisions with NCCPL. The omission will adversely impact Foreign Institutional Investors entitled to CGT exemption under DTTs, as they may no longer have a straightforward mechanism to bypass NCCPL computation, potentially creating practical challenges in claiming treaty relief and thus creating unwarranted litigation.

### ***FRAMEWORK FOR ELECTRONIC INTEGRATION AND INVOICING SYSTEMS***

All persons registered under the Sales Tax Act, 1990 are required to integrate their invoicing mechanism with the Federal Board of Revenue's system in the prescribed manner. A similar concept was also introduced under the Income Tax Ordinance for certain businesses, where non-compliance with such provisions, besides attracting penalties, also resulted in disallowance of up to 8% of allowable expenditure.

The disallowance has now been restricted to 5% of the expenditure claimed by any person who fails to install the required electronic resource or to act as an integrated enterprise, as required under the law, subject to the method, manner and procedure as may be prescribed.

At the same time, an incentive has also been proposed in the form of a tax credit for persons who are required, under the Income Tax Ordinance, the Sales Tax Act, 1990 or the Federal Excise Act, 2005, to integrate with the computerized system of the Board for real-time production monitoring, or for recording or reporting sales or receipts.

The tax credit shall be allowed in respect of expenditure incurred exclusively on the purchase, acquisition, installation or implementation of such equipment, hardware, software or other electronic components as are directly and exclusively utilized for the purposes of such integration, subject to any limitations, conditions, and restrictions to be prescribed by the FBR for availing the tax credit.

The amount of tax credit for a tax year in which electronic resource is installed, integrated and configured with the Board's computerized system shall be 10% of the amount actually invested in the electronic resource. Such tax credit shall not be allowable against operation and maintenance expenses related to such electronic resources.

This tax credit is however only available only against normal tax payable under Division I or Division II of Part I of the First Schedule i.e. tax rates based on taxable income. If, however, a taxpayer is liable to tax on minimum tax basis, this tax credit is not allowable.

The Board may require any person or class of persons to install and use an electronic resource of such type and description as may be prescribed, or to act as an integrated enterprise through a notification in the official Gazette for the purpose of receiving, storing, matching and accessing information regarding any transaction that has a bearing on the tax liability of such person.

#### ***LIMITED LIABILITY PARTNERSHIP (LLP)***

The concept of LLP was introduced in 2017 through a special law, however, in the absence of any corresponding amendments in the Income Tax Ordinance there was confusion as to whether the same would constitute an AOP or a Company for income tax purposes. In line with international practice, an amendment is now proposed to include LLP within the ambit of AOP whereby the income of LLP would now be taxed in the hands of AOP, and its members would be exempt from tax on their respective profit.

However, unlike other AOPs and their members, if the income of LLP is exempt from tax, the member of the LLP will have to pay tax on his respective share in such income.

#### ***SUBMISSION OF FINANCIAL STATEMENTS BY COMPANIES IN ELECTRONICALLY READABLE FORMAT***

In case of companies for tax year 2026 and onwards, the financial statements accompanying the return shall only be filed in electronically readable file format.

#### ***TAX ON CERTAIN PAYMENTS BY LIFE INSURANCE BUSINESS***

Any payout, benefit, surrender value, maturity proceeds or similar payments from a life insurance business on account of insurance policy, family takaful certificate, plan or any similar arrangement is currently not taxable nor there is any expressed provision of withholding tax applicable on such amounts.

A new section 7G is proposed for tax year 2026 and onwards whereby a tax shall be imposed on every individual who receives the above amounts on account of insurance policy, family takaful certificate, plan or any similar arrangement. The amount liable to tax is the gross payout as reduced by the aggregate premiums or contributions paid by the policy holder or participant which would be chargeable to tax at the following rates:

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

The FB further proposes to introduce a withholding mechanism vide section 151B which will be applicable on payments to be made from July 1, 2026 onwards, requiring every life insurance company, including a family takaful operator or a window takaful operator, making any such payment to an individual to deduct tax at the above mentioned rates, at the time of making the payment, computed on the same basis, i.e. the gross amount of payout or benefit reduced by the aggregate premiums or contributions paid to be deducted.

Further, in the absence of a specific exclusion in the Tenth Schedule for these payments. In case the recipient of the amount is not appearing in the Active Taxpayers List, the prescribed rates would be increased by 100%.

The charge under section 7G, and the corresponding obligation to withhold under section 151B, would not apply where the payout or benefit is made:

- on account of death of the insured or participant;
- on account of disability of the insured or participant; or
- after completion of seven years from the date of issuance of the policy, certificate or plan.

The tax so deducted is proposed to be treated as final tax on the income of the person arising from such payout or benefit.

It is emphasised that the charge has been created for tax year 2026 and onwards whereby the taxpayers who have received these amounts in tax year 2026 albeit when no withholding was applicable will be required to pay such tax alongwith their returns of income for the said year. From July 1, 2026 and onwards, such payments will, however, be subject to final withholding tax deduction.

### ***AUTHORISED SHIPPING AGENT***

There is a special final tax regime for non-resident shipping companies in respect of certain incomes, and the returns are required to be filed on a vessel wise basis by the Master of the respective ship before the departure of a ship from Pakistan.

Whilst no change in the manner of taxation is proposed, to streamline and strengthen taxation and compliance relating to non-resident shipping operations, the FB proposes to introduce the concept of an 'authorized shipping agent' to cover a person in Pakistan who is authorised, expressly or impliedly, by a non-resident shipowner, charterer or operator to act on its behalf in respect of a vessel.

The Agent, in relation to such vessel or voyage, is made responsible for the receipt, collection, control or accounting of total freight and related amounts, or for documentation, manifest filing or reporting of cargo or freight, or directly or indirectly has the control, custody or disposal of any freight or related receipts attributable to that vessel or voyage, and who furnishes the return under the relevant provision.

Such authorised shipping agent is additionally proposed to be:

- treated as the representative of the non-resident person;
- jointly and severally liable for payment of tax and all obligations, proceedings, assessments and recovery in respect of such vessel or voyage; and
- responsible for fulfilling all other compliance requirements jointly with the master of the ship.

The proposed amendments appear to be aimed at creating a clear compliance anchor within Pakistan through the express identification of the authorised shipping agent and the imposition of joint and several liability.

### ***TAX ON PAYMENTS FOR DIGITAL TRANSACTIONS***

Through Finance Act 2025, a new section 6A was introduced in the Ordinance, whereunder the concept of levy of tax on persons receiving payments on account of digitally ordered Goods and Services was introduced. This tax is applicable on goods and services delivered from within Pakistan using locally operated online platforms including online marketplace or websites at prescribed rates which is treated as final tax. Withholding tax rates were also prescribed for the said transactions.

It is now proposed that said tax would be adjustable where turnover of a person in a tax year exceeds Rs 200 million.

Further, section 6A provides for final taxation of digitally ordered services whereas its corresponding rates in the First Schedule refer to digitally delivered services. The said mismatch is proposed to be corrected. Now section 6A and its corresponding rates in the First Schedule apply to digitally ordered services. However, previously there was an inconsistency between the wording of the charging and withholding provisions.

### ***CAPITAL GAINS TAX ON UNITS OF MUTUAL FUNDS, COLLECTIVE INVESTMENT SCHEME AND REIT SCHEME***

Presently, the proviso to table under Division VII of Part I to the First Schedule prescribes that a mutual fund, collective investment scheme or REIT scheme are to deduct capital gain tax at specified rates. Through the FB, it has been proposed that the said rates mentioned in the proviso are applicable for the purpose of chargeability as well.

The rates presently prescribed in the proviso are different from the tax rates specified in the Table under Division VII. Owing to this difference, there is a view that capital gain arising on these securities is subject to tax prescribed under the Table instead of the proviso.

The proposed amendment aims to align the chargeability with the withholding rates.

### ***FIXED TAX REGIME FOR RETAILERS / SMALL TRADERS***

The FB proposes to introduce a fixed tax regime for small traders through amendment in section 99B of the Income Tax Ordinance. The proposed amendment broadens the scope of section 99B by expressly covering “rate and payment of tax including fixed tax, filing of return, audit.” This is intended to provide a clear legal foundation for a revised retailer taxation framework, transitioning from the earlier Tajir Dost Scheme and advance tax mechanism to a more structured, simplified fixed tax regime for eligible small retailers.

Based on the Budget Speech of the Finance Minister, the key features of the proposed scheme are as follows:

- The scheme will apply to small retailers/shopkeepers with annual turnover not exceeding Rs. 200 million.
- Eligible retailers will be subject to tax at 1% of annual sales/turnover, with a minimum tax payment of Rs. 25,000, payable at the time of filing a simplified return. Withholding taxes suffered in the supply chain will be adjustable against the tax liability under the scheme.
- Retailers who opt into and remain compliant with the scheme will generally be protected from routine audit exposure.
- Participating retailers will be relieved from the obligation to act as withholding agents.
- Eligible retailers under this scheme will not be required to install a POS system.
- Retailers opting for the scheme will be issued a special identification plate with a QR code for display at their business premises. Where such identification plate is displayed, FBR officials will not be permitted to enter the premises for questioning or to conduct unnecessary field-level inquiries.
- Eligible retailers will be required to file a simplified one-page return, to be made available in Urdu and other regional languages.

The ultimate legal position and procedural details will depend on the special procedures, rules, and notifications to be issued after enactment of the FB.

### ***RATIONALISATION OF MINIMUM TURNOVER TAX***

Presently, a minimum turnover tax at a reduced rate of 0.25% is prescribed for distributors of pharmaceutical products & cigarettes and distributors, dealers, sub-dealers and wholesalers of following sectors:

- FMCG
- Edible oil
- Cement
- Steel

The FB proposes to withdraw the aforesaid reduced rate.

Reduced minimum turnover tax of 0.25% available to distributors, dealers, sub-dealers and wholesalers of fertilizers, locally manufactured mobile phones, sugar and electronics is proposed to be increased to 0.5%.

Reduced turnover tax of 0.5% is proposed for distributors, dealers, sub-dealers and wholesalers of packaged foods subject to the prescribed conditions.

In addition, presently, Tier-1 retailers of specified sectors integrated with FBR are allowed reduced minimum turnover tax rate of 0.25%. The FB proposes to retain the reduced rate only for the Tier-1 retailers of FMCG products.

The generic definition of FMCG is also proposed to be abolished, which needs to be reinstated in view of the reduced rate available to Tier-1 retailers of FMCG.

### ***RATIONALISATION OF RATE OF WITHHOLDING TAX FOR SERVICES***

Section 153(1)(b) prescribes rates of tax withholding on resident service providers. Following changes have been proposed through the FB:

- a. reduced withholding tax rate of 6% for specified services is proposed to be enhanced to 7%; and
- b. The general rate of 15% is proposed to be reduced to 14% except in case of independent professional services such as doctors, lawyers, architects, accountants, software engineers and developers, working independently.

The rate of 4% available to IT and IT enabled services remains unamended.

### ***REDUCTION IN WITHHOLDING TAX RATE FOR TERMINAL AND PORT SERVICES***

It is proposed to reduce the withholding tax rate for terminal and port services from 15% to 12%.

### ***WITHHOLDING TAX ON GAIN ON DISPOSAL OF CERTAIN DEBT SECURITIES***

Every custodian of debt securities (other than disposal of such securities made through registered stock exchange and which are settled through NCCPL) including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account is proposed to deduct tax at the increased rate of 20% of the gross amount of capital gain arising on disposal of such debt securities. Presently, such rate of withholding is prescribed at 15%.

### ***ADVANCE TAX ON PURCHASE / SALE / TRANSFER OF IMMOVABLE PROPERTY***

Presently, collection of advance tax in case of transfer of immovable property is prescribed for buyers as well as sellers at varying rates depending upon the value of the property as per the prescribed slabs. The FB proposes to prescribe a uniform rate of tax withholding at 2.75% of consideration received for sellers and 1.25% of fair market value for buyers abolishing the concept of slab rates.

Furthermore, there are enhanced rate of advance tax collection on transfer of immovable property prescribed for those buyers and sellers appearing on ATL who have filed the returns after the due date. The FB also proposes to abolish such categorization.

#### ***DETERMINATION OF COST OF INHERITED IMMOVABLE PROPERTY AND FAMILY SETTLEMENTS***

Presently, the cost of inherited immovable property to the beneficiary remains the same as in the hands of the deceased person. The FB proposes that cost of such property in the hands of such beneficiary shall be the Fair Market Value of property as prescribed under section 68(5) of the Ordinance, at the time of the death of the original owner. It has further been proposed that transmission of immovable property due to settlements amongst family members consequent to the death of a person shall also constitute transmission of property arising on death of a person and will be considered as tax neutral as envisaged under section 79 of the Ordinance.

#### ***REDUCTION IN TAX ON FOREIGN PAYMENTS THROUGH CARDS***

Advance tax on foreign remittances made through debit, credit and prepaid cards has been proposed to be reduced from 5% to 0.5%.

#### ***WITHDRAWAL OF ADVANCE TAX ON FOREIGN TV PLAYS AND ADVERTISEMENTS***

Advance tax on payments for foreign television plays and advertisements has been proposed to be withdrawn.

#### ***EXTENSION OF CONCESSIONARY TAX RATE FOR IT AND IT-ENABLED SERVICES EXPORTS***

The reduced tax rate of 0.25% for exporters of IT and IT-enabled services has been extended from 2026 up to 2029.

#### ***EXEMPTION FOR CERTAIN WELFARE AND CHARITABLE ORGANIZATIONS***

Presently, the income of Dawat-e-Hadiya and Sindh Institute of Urology and Transplantation is exempt from tax subject to compliance prescribed under section 100C of the Ordinance. These charitable organizations along with the following three entities are proposed to be added to clause (57) Part I to the Second Schedule of the Ordinance:

- a. Pakistan Red Crescent Society
- b. Shaheen Foundation established by Pakistan Air Force
- c. Bahria Foundation established by Pakistan Navy

Consequently, the income of the aforesaid charitable and welfare organizations will not have to comply with the conditions prescribed under section 100C to avail the exemption status.

#### ***EXEMPTION CERTIFICATE FOR NON-WITHHOLDING ON CAPITAL GAIN***

Enabling provisions have been proposed for National Investment Unit Trust, Collective Investment Scheme, Approved Pension Fund, Approved Income Payment Plan, REIT scheme including SPV and Approved retirement funds to apply for and obtain the exemption certificate for non-deduction of withholding tax on capital gain arising on debt securities.

### ***MINIMUM TAX ON MANUFACTURERS OF IRON AND STEEL PRODUCTS***

Presently, withholding tax suffered by manufacturers of iron and steel products on payments relating to sale of aforesaid items is not treated as minimum tax. The FB proposes to treat such withholding as minimum tax for non-corporate manufacturers.

### ***WITHDRAWAL OF CONCESSIONS AVAILABLE TO TRADING HOUSES***

Presently following concessions are allowed to trading houses subject to certain conditions:

- a. Exemption from withholding tax on receipts from sale of goods;
- b. Reduced turnover tax rate of 1%.

The FB proposes to withdraw the above concessions presently available to the trading houses.

### ***CONCESSIONS TO INDIVIDUAL TRADERS***

Presently, individual traders are exempt from making income tax withholding on their purchases in case the turnover does not exceed Rs. 100 million. The FB proposes to increase the threshold from Rs. 100 million to Rs. 200 million.

### ***APPLICATION OF TENTH SCHEDULE TO CAPITAL GAINS ON LISTED SECURITIES***

The exclusion available from enhanced tax rates applicable to non-ATL persons on capital gains from listed securities has been withdrawn to encourage tax compliance and return filing.

### ***EXEMPTION FOR SPECIAL PURPOSE VEHICLES UNDER ASSET-BACKED SECURITIZATION***

The salient features provide that income of qualifying Special Purpose Vehicles established for asset-backed securitization has been proposed to be exempted to facilitate capital market development. However, enabling provisions are not available in the FB.

### ***RETURN NOT FILED WITHIN DUE DATE***

For inclusion in active taxpayer list, where income tax return is not filed within due date, it is proposed to enhance the surcharge payable as follows:

<b><i>Person</i></b>	<b><i>Current</i></b>	<b><i>Proposed</i></b>
Company	Rs 20,000	Rs 100,000
Association of person	Rs 10,000	Rs 50,000
Individual	Rs 1,000	Rs 25,000

## ***PENALTIES***

### ***New Penalties***

The FB proposes following new penalties:

<b><i>Offence</i></b>	<b><i>Proposed Penalty</i></b>
Any person who, in contravention of section 174(5), fails to install, or, having installed, fails to use, maintain, or operate the prescribed electronic resources, or who tampers with, disables, or circumvents such resources used for storing and assessing transaction data affecting tax liability.	Rs. 1,000,000 for the first default and Rs. 2,000,000 for each subsequent default.
Where any agency, authority, institution, or organisation, being an integrated organisation under section 175A or notified as such by the Board, fails without reasonable cause to integrate its IT platform with the notified data interface within the specified time, share data as required, provide complete, accurate and timely data, designate a focal person, or remedy any deficiency within thirty days of written notice by the Board identifying the deficiency.	A penalty of Rs. 500,000 for the first default and Rs. 1,000,000 for each subsequent default shall be imposed on the principal officer of the integrated organisation.  For this purpose, "principal officer" means the person who holds overall executive responsibility for the administration and functioning of the organisation—by whatever designation, including but not limited to Governor, Chairman, Chief Executive Officer, Director General, Managing Director, Secretary, or Principal Accounting Officer. Where such responsibility is shared, it shall refer to the person specifically responsible for regulatory compliance, data governance, or information technology; and the absence of formal designation or vacancy shall not absolve the person actually performing such functions from liability.
Where a person claims a credit for tax withheld under the Ordinance in excess of the amount verifiably deducted and deposited by the withholding agent, as confirmed through the Board's computerized system or otherwise.	A penalty equal to the amount of excess credit claimed.

### ***Revised penalties***

#### ***Failure to furnish return of income***

Failure to furnish income tax return under section 114 is currently liable to a penalty of 0.1% of the tax payable for the tax year for each day of default, or Rs. 1,000 per day, whichever is higher, subject to certain conditions provided therein.

The term 'tax payable' is defined to mean the tax chargeable on taxable income based on an assessment made, or treated as made, under sections 120, 121, 122, or 122D.

It is now proposed to amend the definition of 'tax payable' to mean the higher of the following:

- (i) the tax payable determined under an assessment made, or treated as made, under sections 120, 121, 122, 122D, or 122E; and
- (ii) the highest tax payable for any of the three immediately preceding tax years for which a return has been filed.

### ***Penalty for non-compliance with Tax Audit provisions***

Failure to produce records or documents in non-compliance with section 177 is currently subject to penalty of Rs 25,000, 50,000, and 100,000 in case of non-compliance of first, second and third notice respectively.

It is now proposed to enhance the penalty amounts to Rs. 100,000, Rs. 200,000 and Rs. 300,000 respectively.

### ***Penalty for provision of false or misleading statement***

Provision of false or misleading statement, information, or document, whether in writing, orally, or electronically, to an Inland Revenue Authority, or omission of any material matter or information resulting in such statement or information being false or misleading is subject to penalty of Rs. 25,000 or 50% of the tax shortfall, whichever is higher, subject to the condition as provided therein.

It is now proposed to enhance the penalty amount to Rs 500,000 or 100% of the tax shortfall, whichever is higher.

### ***Concealment of income or furnishing of inaccurate particulars***

Concealing income or furnishing of inaccurate particulars, including through suppression of income, claiming deductions for expenditure not actually incurred, or any act referred to in section 111(1), in any proceedings before an Income Tax Authority or the Appellate Tribunal is currently subject to penalty of Rs. 100,000 or an amount equal to the tax sought to be evaded, whichever is higher, subject to the condition provided therein.

It is now proposed to enhance the penalty amount to Rs 1,000,000 or an amount equal to the tax sought to be evaded, whichever is higher.

### ***Failure to deduct or collect tax***

Failure to deduct or collect tax, or, having deducted or collected tax, failure to deposit it in accordance with relevant provisions is subject to penalty of Rs. 40,000 or 10% of the amount of tax involved, whichever is higher.

It is now proposed to enhance the penalty amount to Rs 500,000 or 10% of the amount of tax involved, whichever is higher. It is further provided that where the defaulter is a company, its principal officer shall be personally liable to pay an additional penalty of Rs. 500,000 for the offence.

### ***Failure to furnish information required with income tax return***

Failure by any company or association of persons to fully disclose or attach required particulars in the return, furnishing of blank, incomplete, or irrelevant annexures, statements, or documents is subject to penalty of Rs. 500,000 or 10% of the tax chargeable on taxable income, whichever is higher.

It is now proposed to extend this penalty to any person (covering individuals). Further, the FB proposes to clarify by way of an explanation that audited financial statements furnished as image files, scanned documents, or password-protected files that are illegible or otherwise inaccessible to the Inland Revenue Authority shall be deemed to have been furnished as blank or incomplete documents.

## ***EXTENSION OF CONCESSIONS AVAILABLE TO CORPORATE RDA ACCOUNT HOLDERS***

To promote foreign investment in Pakistan, the State Bank of Pakistan has recently amended its foreign exchange regulations to allow other than individuals to invest in Foreign Currency Value Accounts (FCVA), Non-Resident Pakistani Rupee Value Accounts (NRVA), Foreign Currency Business Value Accounts (FCBVA), and Non-Resident Rupee Business Value Accounts (NRBVA). Accordingly, corresponding amendments are now proposed in the Income Tax laws to align the tax requirements / relief extended to holders of these accounts.

- i) Capital Gains Tax on disposal of Debt instruments and Government Securities / Certificates at the rate of 10%
- ii) Exemption on Profit on debt from Rupees account fed from remittances abroad
- iii) Profit on Debt from Debt Instruments issued by the Federal Government taxable at 10%
- iv) Exemption from return filing and registration requirements except where investment is made in immovable property through business value accounts
- v) Relaxation from High Rate of Tax for persons not appearing on the Active Taxpayers List (ATL)

## ***REPORTING OF FINANCIAL TRANSACTION DATA***

It is proposed that every banking company and Electronic Money Institution shall electronically report information relating to account holders with deposits or withdrawals exceeding PKR 100 million in any or all accounts during the reporting period, to a Central Data Hub. This information will be algorithmically cross matched with tax records to detect discrepancies.

The information will remain confidential and inaccessible to Income Tax Authorities during this process. Only in cases of gross mismatches, the information will be forwarded to the Compliance Risk Management system for further action by the National Faceless Centre.

This amendment proposes to override existing laws to strengthen tax compliance through automated data sharing, while ensuring strict confidentiality and protecting privacy under banking regulations.

Additionally, it appears that periodic reporting deadlines of January 31 and July 31 are implied, though this requirement is not explicitly stated in the provisions.

## ***WITHHOLDING TAX ON REVENUES FROM SOCIAL MEDIA PLATFORMS***

It is proposed that banking and non-banking financial institutions shall deduct tax at the rate of 5% on amounts credited to accounts where such amounts represent revenues received from social media platforms. This provision proposes to cover digital content creators and social media influencers deriving income through digital platforms like YouTube, Facebook, Instagram, and TikTok, including payments received via banking channels or intermediaries such as online payment service providers.

The tax deducted will be a minimum tax for resident persons and a final tax for non-resident persons without a permanent establishment in Pakistan. The Board may prescribe rules for implementation, including identification and reporting mechanisms.

These receipts from foreign social media platforms were earlier subjected to final withholding tax under section 154A under the head exported services at the rate of 1%.

Earlier this year, the Board introduced draft of the Special Procedure Rules through SRO Notifications dated April 1, 2026 under the provision of section 99C for the computation of income of persons earning income from remunerative social media content. It appears that these SRO will now be finalized after appropriate amendments.

## **PROPOSED AMENDMENTS COMMON IN INCOME TAX, SALES TAX, CUSTOMS DUTY & FED LAWS**

### ***ALGORITHMIC SETTLEMENT MECHANISM***

A new concept of algorithmic settlement mechanism is proposed which can be availed by a taxpayer prior to the finalisation of an order under the respective provisions of the Income Tax Ordinance, Sales Tax Act or FED Act. This marks a significant shift towards digitalization of pre-assessment settlement mechanism. The Federal Board of Revenue (FBR) is proposed to be empowered to establish a digitally operated algorithmic settlement mechanism. The salient features and implications of this significant development are as under:

#### ***Settlement Offer Calculation:***

The mechanism proposes a settlement offer based on multiple factors, which include, but are not limited to:

- The stage at which the settlement is offered;
- The registered person's compliance history as maintained in FBR's data;
- The nature and character of the discrepancy;
- For income tax purposes, nature and character of the discrepancy inter alia include valuation or legal interpretation dispute, unexplained income or assets, or concealment; and
- Any other basis, FBR may consider relevant.

#### ***Acceptance of Offer:***

Registered person will have an option to accept the settlement offer by responding through IRIS within ten days from the date of offer and by depositing the specified settlement amount.

#### ***Resolution of Outstanding Issues:***

- Upon acceptance and payment of the settlement amount, any confronted issue(s) in a notice or audit report will stand abated.
- Acceptance of the settlement offer will not preclude the possibility of further proceedings regarding different issues or discrepancies not covered by the offer. It also does not affect proceedings related to other tax periods.

- For income tax, payment of settled amount will not incur any additional penalty or default surcharge, however, for Sales Tax and FED, there appears to be no expressed provision absolving the taxpayer from incurring any additional penalty or default surcharge in case of payment of settled amount.

### ***Specific provisions for Income Tax***

For income tax purposes, taxpayers are required to revise the relevant return of income to incorporate the settled amount to be deposited along with the revised return. In filing such revised returns:

- Taxpayers are not required to obtain approval from the Commissioner to file the revised return.
- The revised return must be accompanied by the necessary documentation as required for filing a revised return.

### ***FACELESS PROCEDURES***

A framework for faceless audits, assessments, rectification and appeals is proposed to reduce the scope for personal interface between taxpayers and tax authorities. The framework collectively proposes to establish procedures and jurisdictions for faceless interactions between taxpayers and tax authorities. Key features are as under.

#### ***National Faceless Centre***

- FBR is proposed to be empowered for the establishment of a National Faceless Centre and specify its jurisdiction, powers and functions.
- The Centre will house a Director General and appointed officers.
- FBR may design algorithms for assigning functions and jurisdictions to appointed officer.
- The Centre will be segmented into specialized wings and units, emphasizing the separation of audit, assessment, and quality control duties.
- All communications, whether among units, with registered persons or their representatives, or with others for necessary information or documentation, will be conducted electronically.

#### ***Faceless Jurisdiction***

The jurisdictional framework for faceless operations is proposed as under:

- Tax authorities at the National Faceless Centre are empowered to perform specified functions for designated tax periods via FBR developed algorithms.
- The assignment of jurisdiction may be either exclusive or concurrent.
- FBR will remain empowered for shifting cases from faceless to traditional jurisdiction, based on its own accord or on the recommendation of Chief Commissioner.
- The Chief Commissioner at the National Faceless Centre may request FBR to instruct Inland Revenue officers or other authorities to perform physical verification of business details, assets, and expenditures for proceedings at the Centre. FBR may allocate these verifications through an algorithm-based system.
- The identity of authorities at the Centre will remain confidential from registered persons, their representatives and any unauthorized person.
- Communications from these authorities cannot be challenged based on jurisdiction issues, lack of delegation, or confidentiality of the authority's identity.

### ***Faceless Audit and Assessment***

- The specifics of persons or class of person or income or class of incomes, or class of cases which will be subject to faceless assessment are proposed to be determined by FBR.
- In the aforesaid cases, audits and rectifications under the respective provisions of Income Tax, Sales Tax and FED Act will be conducted in a faceless manner.
- Traditional audit procedures under the respective provisions of the tax laws still apply, but with provisions for e-hearings, ensuring confidentiality of the tax officer's identity.

### ***Faceless Appeals***

- Appeals under the respective provisions of the tax laws may be processed through the National Faceless Centre as may be prescribed by FBR.
- Relevant provisions relating to appeals before Commissioner Inland Revenue (Appeals) remain applicable.

### ***INDEPENDENT CASE SCRUTINY COMMITTEE***

A new concept of an Independent Case Scrutiny Committee is proposed as a prerequisite for filing references, appeals, or reviews by FBR related to Income Tax, Sales Tax, FED or Customs Duty matters before higher judiciary bodies such as the High Courts, Federal Constitutional Court or the Supreme Court of Pakistan. Key features are as under:

- FBR may establish one or more scrutiny committees. These committees will be tasked with examining cases or specific classes of cases decided by the Appellate Tribunal Inland Revenue or the High Courts.
- The committee will comprise of the following:
  - A retired judge from either the Supreme Court, the Federal Constitutional Court, or any High Courts of Pakistan, who will act as the Chairman.
  - An experienced Advocate with at least 15 years in tax and commercial litigation practice before High Courts or Supreme Court from a panel notified by FBR.
  - A senior serving or retired officer from FBR holding a Grade BS 20 position or higher.
- The powers, functions, procedures and remuneration for the committee's members are to be prescribed by FBR.
- Recommendations of the Committee will be binding upon the Commissioner concerned.
- Legal actions, including suits or prosecutions against committee members and the Commissioner are barred in respect of decisions pursuant to this section.

### ***AUDIT***

The FB proposes to empower the Commissioner, with prior approval of the Chief Commissioner and after providing an opportunity of hearing to the registered person, to require such person, at any stage of the audit proceedings, to get a re-audit of accounts or re-valuation of inventory taking into account the complexity, volume of the accounts, reliability of records, the multiplicity of transactions, the specialized nature of the business, or even otherwise the Commissioner considers that the re-audit or re-valuation is mandated in the interest of revenue or such exercise is necessary under the circumstances of the case.

The re-audit or re-valuation so required may also include responses to the specific queries raised by the concerned official. Such re-audit or re-valuation shall be conducted by an accountant or cost accountant respectively from the panel notified by the Board.

It is noteworthy that the higher appellate authorities have ruled that issuance of audit report on completion of audit is a mandatory requirement, and non-compliance renders the entire proceedings to be unlawful. To align the provisions of section 25 of the Sales Tax Act with such settled principle and with the provisions already part of other fiscal statutes, issuance of audit report is proposed to be made mandatory.

Currently, if the tax short-paid or evaded is paid along with the default surcharge after the issuance of a show-cause notice under section 11E of the ST Act, the entire penalty is waived. The FB proposes to limit such waiver of penalty to 50%.

### ***ALTERNATIVE DISPUTE RESOLUTION (ADR)***

ADR mechanism is proposed to have following revisions:-

- Powers of rectification entrusted to the ADR Committee suo moto or upon application by either of the party to be exercised within thirty days of the receipt of decision of the Committee by the taxpayer or the Commissioner
- In case any of the members of the Committee becomes unavailable during the proceedings or is somehow unable to perform his duties, he can be substituted by the Chairman, FBR within a period of 15 days.

# SALES TAX

## ***Tier-1 retailer***

It has been proposed to modify the definition of Tier-1 retailer, in the following manner:

<b>Person covered by the definition</b>	<b>Existing criteria</b>	<b>Proposed criteria</b>
Wholesaler-cum-retailer	Engaged in bulk supply of consumer goods on whole sale basis as well as retail basis.	Engaged in bulk supply of consumer goods on whole sale basis as well as retail basis, <b><i>with annual turnover exceeding 200 million.</i></b>
Retailer	<ul style="list-style-type: none"> <li>• Acquired point of sale for accepting payment through debit or credit card; or</li> <li>• Having deductible withholding tax under sections 236G and 236H of the Ordinance in excess of prescribed threshold.</li> </ul>	Having turnover exceeding 200 million either by declaration or worked back on the basis of tax withheld under section 236G and 236H of the Ordinance.

Furthermore, the Board is proposed to be empowered to exclude any person or class of person from classification as a Tier-1 retailer, by way of notification in the official gazette.

## ***Time of supply***

The scope of expression ‘goods are delivered or made available’ employed in the definition of ‘time of supply’ is proposed to be clarified, through insertion of an explanation, to the effect that goods ready for dispatch from business premises (inter alia including factory, warehouse, godown or branch) would be construed as delivered or made available.

## ***Value of supply***

With regard to the ‘value of supply’, it has been proposed that the Board may adopt valuations of goods as notified by the Pakistan Bureau of Statistics or outsource valuation functions to the prescribed third parties.

## ***Collection of adjustable sales tax from persons operating in steel sector***

The FB proposes that sales tax is collected from steel melters, re-rollers and composite units on the basis of per-unit electricity consumption at rates prescribed by the Board. The tax so collected is proposed to be adjustable and excess, if any, refundable on a monthly basis through the Board’s automated refund system only in case of a registered person who integrates with the Board’s production monitoring and digital invoicing systems.

The proposed basis of collection of tax suggests that the tax would be collected by the DISCOs, however, the same is not specified through the proposed amendment.

### ***Limit on adjustment of input tax***

Section 8B presently caps the adjustable input tax of registered persons to 90% of the output tax, with certain exceptions and concessions *inter-alia* those notified by the Board. The FB proposes to empower the Board to reduce or enhance such limit for a registered person depending upon the compliance with production monitoring, digital invoicing, e-builty, POS or other prescribed electronic systems.

### ***Debit and credit notes***

Through the FB, it has been proposed that issuance of debit and credit notes be governed by a mechanism, including electronic adjustments, to be prescribed by the Board.

### ***De-registration, blacklisting and suspension of registration***

Through the proposed amendment, the Commissioner is empowered to de-register, blacklist or suspend registration of a person who is required, by the Board, to integrate its electronic invoicing system with Board's computerized system for real time reporting of sales or with the Board's monitoring or tracking system but fails to do so.

### ***Tax invoices & Advance Receipt Invoice***

Presently, the requirement regarding issuance of sales tax invoices is relevant only in case of taxable supply. It has now been proposed that the registered person shall also issue sales tax invoices in respect of exempt supply. Further, the concept of 'advance receipt invoice' has been proposed to be introduced, with its format and persons or class of persons required to issue the same to be notified by the Board.

It has also been proposed to replace the existing mechanism of issuing serially numbered invoices with the Board's verifiable and unique numbers, with effect from the date to be notified by the Board.

### ***Penalties***

The minimum penalty prescribed for certain offences is proposed to be increased as under:

<b>Entry No.</b>	<b>Offence</b>	<b>Existing Penalty</b>	<b>Proposed Penalty</b>
1	Failure to furnish a return within the due date ( <i>section 26</i> ).	Rs 10,000 (and, if filed within ten days of the due date, Rs 200 per day of default).	Rs 50,000 (and, for late filing within ten days, Rs 2,000 per day of default).
2	Failure to issue an invoice when required under the ST Act ( <i>section 23</i> ).	Rs 5,000 or 3% of the tax involved, whichever is higher.	Rs 25,000 or 5% of the tax involved, whichever is higher.
3	Unauthorized issuance of an invoice in which an amount of tax is specified ( <i>sections 3, 7 and 23</i> ).	Rs 10,000 or 5% of the tax involved, whichever is higher.	Rs 50,000 or 10% of the tax involved, whichever is higher.
5	Failure to deposit the tax due (or any part thereof) within the time or manner prescribed ( <i>sections 3, 6, 7 and 48</i> ).	Rs 10,000 or 5% of the tax involved (and, if paid within ten days of the due date, Rs 500 per day of default).	Rs 50,000 or 5% of the tax involved (and, if paid within ten days of the due date, Rs 5,000 per day of default).

Entry No.	Offence	Existing Penalty	Proposed Penalty
7	Failure to apply for registration before making taxable supplies, where required to be registered (section 14).	Rs 10,000 or 5% of the tax involved, whichever is higher.	Rs 50,000 or 5% of the tax involved, whichever is higher.
8	Failure to maintain records required under the ST Act or rules made thereunder (sections 22 and 24).	Rs 10,000 or 5% of the tax involved, whichever is higher.	Rs 50,000 or 5% of the tax involved, whichever is higher.

Currently, entry 25 of the Table to section 33 provides the following:

Entry No.	Offence	Penalty
25	Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under the Act, and if registered, fails to integrate in the manner as required under law.	Such person shall be liable to pay a penalty up to one million rupees, and if continues to commit the same offence after a period of two months after imposition of penalty as aforesaid, his business premises shall be liable to be sealed by an officer of Inland Revenue in the manner as may be prescribed.

Through the FB, the same is proposed to be substituted as under:

Entry No.	Offence	Proposed penalty
25	Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under this Act, and if registered, fails to integrate in the manner as required under law within the stipulated time as notified by the Board.	Such person shall be liable to pay a penalty up to one million rupees, if he continues to commit the offence after one month of the imposition of first penalty, he shall be liable to second penalty of up to five million rupees. Notwithstanding, his business premises shall be liable to be sealed with or without imposition of penalty by an officer of Inland Revenue in the manner as may be prescribed.

### ***New Penalties proposed***

Entry No.	Offence	Proposed penalty
29	Where any registered person issues a tax invoice for a transaction which is simulated or fictitious, or for which no actual supply of goods or services has taken place, as established after notice and adjudication.	(i) Such person shall pay a penalty equal to the face value of the simulated or fictitious invoice or invoices.  (ii) The Board shall, after issuance of a show cause notice and an opportunity of being heard, place the name and registration number of such person on a publicly accessible simulated invoice issuers register maintained on the Board's computerized system.

Entry No.	Offence	Proposed penalty
		<p>(iii) Any input tax credit claimed by a counterparty on the basis of invoices issued by a person on the simulated invoice issuers register shall be reversed automatically and treated as inadmissible with effect from the date of listing.</p> <p>(iv) Listing on the register shall be removed upon full payment of the penalty and default surcharge, and upon satisfactory demonstration of compliance.</p>
30	Where the Board's computerized system identifies that input tax credit claimed by a registered person in respect of any tax period cannot be matched to corresponding output tax declared by the supplier for the same or proximate tax period, and such mismatch is confirmed after issuance of notice and provision of opportunity of being heard.	Such person shall pay a penalty of 20% of the unmatched input tax amount, in addition to reversal of the inadmissible credit and payment of default surcharge under section 34.
31	Where a registered person has claimed input tax credit on the basis of invoices issued by a person who is subsequently placed on the simulated invoice issuers register under S. No. 29, and such registered person fails to reverse the inadmissible input tax credit within sixty days of the listing of the invoice issuer on the register.	Such person shall pay a penalty of 20% of the unreversed input tax credit, in addition to the reversal of such credit and default surcharge under section 34.

### ***Monitoring or tracking by electronic or other means***

A new concept of 'Production Monitoring System' is proposed to be introduced and simultaneously the same is proposed to be added to the existing prescribed methods of monitoring *inter-alia* including affixation of tax stamps, banderols, stickers, labels, barcodes etc.

It is also proposed that in case any taxable goods, prescribed for monitoring, tracking or identification, are manufactured, produced, removed, transported, supplied or otherwise dealt without adopting the prescribed monitoring/ tracking procedures would be liable to seizure and confiscation together with the conveyance used for their movement, carriage or transport. Similar penal consequences have already been prescribed through Entry No. 23 of the Table under section 33 of the ST Act.

### ***Sale of confiscated goods by auction***

A new Section 40F is proposed to be introduced, providing a mechanism for the sale of confiscated goods through public auction (including by electronic means), to be conducted in compliance with the Public Procurement Regulatory Authority Rules, 2014, with the sale proceeds to be applied in a defined cascading order.

### ***Disclosure of information by a public servant***

Section 56B currently prescribes that all information obtained under the ST Act is to be kept confidential and not to be disclosed by public servants (or appointed experts/auditors), except as specifically permitted under section 216 of the Ordinance.

The FB now proposes to empower the Board, subject to limitations, restrictions and conditions to be specified, to share sector-wise data extracted from sales tax returns of registered persons with other registered persons operating within the same sector (under strict non-disclosure agreement) to create market equity and enhance tax compliance.

The proposed amendment needs to be reconsidered from the perspective of applicable laws and market norms/practices.

### ***THIRD SCHEDULE – Retail price taxation***

Presently, the following items are subject to sales tax on ad valorem basis. Now, it is proposed that sales tax be made leviable on such goods on the basis of ‘retail price’:

- (i) Vegetable and animal fats and oils, sold in retail packing (Respective headings);
- (ii) Sugar Confectionary, sold in retail packing (Respective headings);
- (iii) Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing (PCT heading 19.02);
- (iv) Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing (Respective headings)
- (v) Fermented beverages, sold in retail packing (Respective headings);
- (vi) Petroleum jelly, paraffin wax, micro-crystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not coloured, sold in retail packing (PCT heading 27.12);
- (vii) Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale (PCT heading 38.08)
- (viii) Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing (PCT headings 39.19, 39.20 & 39.21);
- (ix) Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing (Chapter 39);
- (x) Trunks, suit-cases, vanity-cases, executive-cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping-bags, wallets, purses, map-cases, cigarette-cases, tobacco-

pouches, tool bags, sports bags, bottle-cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper, put up for retail sale (PCT heading 42.02);

- (xi) Footwear (all types) (Respective headings) – Entry 23 of Table-1 of the Eighth Schedule currently prescribes reduce rate of 5% on secondhand and worn clothing or footwear. This anomaly needs to be addressed;
- (xii) Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing (Respective headings);
- (xiii) Crockery items, sold in retail packing (Respective headings)
- (xiv) Car and automobile accessories, sold in retail packing (Respective headings);
- (xv) Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing (Respective headings);
- (xvi) Preparations for use on the hair, sold in retail packing (PCT heading 33.05);
- (xvii) Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties, sold in retail packing (PCT heading 33.07);
- (xviii) Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface-coloured, surface-decorated or printed, in rolls or sheets, put up for retail sale (PCT headings 4803.0000 & 48.18);
- (xix) Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations, sold in retail packing (PCT headings 20.07 & 20.08);
- (xx) Household utensils, including stainless steel, aluminum, melamine and other utensils and tableware (Respective headings); and
- (xxi) Ceramic Products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale (PCT heading 69.10).

It has been proposed that where rate higher than 18% has been prescribed, the same rate shall continue to apply after inclusion in the Third Schedule.

## **SIXTH SCHEDULE – Exemptions**

The Sixth Schedule lists goods exempt from sales tax. The proposed amendments comprise both changes to existing entries and the addition of new entries:

### **Table-1 (Import or supplies)**

- (i) In addition to newspapers and books, which are currently exempt, magazines are now also proposed to be exempted with the relevant PCT headings also proposed to be specified as 4902.1000 & 4902.9000;
- (ii) Exemption available to local manufacturers on import of CKD (in kit form) of electric vehicles (4 wheelers) being Small cars/SUVs with 50 Kwh battery or below and Light commercial vehicles (LCVs) with 150 kwh battery or below, is proposed to be extended from 30th June, 2026 to 30th June, 2027;
- (iii) Scope of exemption currently available on import/lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL) is proposed to be expanded by including PCT headings 8801.0000, 8802.2000, 8804.0000, 8805.2900, 8807.3000, 9104.0010, 8544.2000, 7007.1900 and 9931. It is also proposed that customs authorities shall restrict PIACL imports to quantities needed for aircraft operation and maintenance; and that imported ground-handling and related equipment (not manufactured locally) be used only within airport premises;
- (iv) Contraceptives (PCT headings 3926.9020 & 4014.1000);
- (v) Female Sanitary Pads / Tampons (PCT headings 9619.0030);
- (vi) Import of: Tankers; Dredgers; Floating or submersible drilling or production platforms; Other floating structures and vessels; Other vessels for the transportation of goods – excluding cruise ships, excursion boats and similar vessels principally designed for the transport of persons, and ferry-boats of all kinds. Provided that the quantity of imported goods under this entry shall be approved by the Ministry of Maritime Affairs (PCT headings 8901.2000, 8905.1000, 8905.2000, 8905.9000 & 8901.9000); and
- (vii) Import of bullet proof vehicles by the: (i) Federal Government for logistic arrangements for the Shanghai Cooperation Organization (SCO) summit, subject to prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control; (ii) Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government (Respective headings).

### **Table-3 (proposed new entries 23 & 24) - Plant & Machinery**

<b>Description</b>	<b>PCT Heading</b>	<b>Conditions</b>
Import of following machinery/ equipment for upgradation of existing refineries: 1. Reactors, 2. Shell and Tube Exchangers, 3. Vessels (Strippers/ Separators/ K.O. Drums), 4. Trim Coolers,	8419.8990, 8419.5000, 8419.8990, 8418.6990, 8419.8990,	The goods shall be imported directly by the refinery after approval by the division concerned.

Description	PCT Heading	Conditions
5. Air Coolers (Condensers), 6. Fired Heaters, 7. Centrifugal Pumps, 8. Reciprocating Pumps, 9. Centrifugal Compressors, 10. Reciprocating Compressors, 11. Steam Reformer Furnaces, 12. Filters, Provided that all such imports shall be essentially made for expansion of balancing, modernization, and rehabilitation of existing refineries and the quantity imported by each refinery shall be approved by Ministry of Petroleum and Natural Resources.	8417.8000 8413.7090 8413.5000 8414.8090 8414.8090 8417.8000, 8421.3990	
Import of machinery, equipment, raw materials, components and other capital goods, by Karachi Shipyard and Engineering Works Limited	Respective headings as approved by the concerned Division Respective headings as approved by the concerned Division	The Division dealing with the subject matter shall certify in the prescribed manner and format as per Annex-B that the imported goods are bona fide requirement. The authorized officer of the Ministry shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969.

### ***EIGHTH SCHEDULE – Concessionary (reduced) rates***

Eighth Schedule prescribes reduced sales tax rates for specified goods, in which following changes are proposed:

- (i) Reduced rate facility of 1% applicable to local supplies of locally manufactured or assembled electric vehicles (4 wheelers) being Small cars/SUVs with 50 Kwh battery or below and Light commercial vehicles (LCVs) with 150 kwh battery or below, is proposed to be extended from 30th June, 2026 to 30th June, 2027; and
- (ii) Reduced rate facility of 1% currently available to EV transport buses of 25 seats or more in CBU condition is proposed to be extended to electric trucks as well, with the relevant PCT headings specified as 8702.4090 and 8704.6030;

### ***ELEVENTH SCHEDULE – Withholding***

The Eleventh Schedule prescribes sales tax withholding agents and rates, wherein following changes are proposed:

- (i) Currently, companies as defined in the Income Tax Ordinance, 2001 (excluding companies engaged in exporting of surgical instruments) are required to withhold sales tax at 5% of the gross value of supplies made by persons other than Active Taxpayers.

Such withholding obligation is proposed to be extended to Associations of Persons and Individuals as defined in the Income Tax Ordinance, 2001, which would considerably broaden the scope of withholding obligations. The proposed amendment does not provide any qualifying threshold for the individuals/ AOPs to be categorized as withholding agents, this needs reconsideration. Moreover, it seems that the exclusion in respect of exporting of surgical instruments has not been proposed to be extended to individuals and AOPs, which also needs redressal.

(ii) The FB proposes to designate ‘registered persons engaged in toll-manufacturing’ as sales tax withholding agents while dealing with ‘suppliers’ being unregistered persons, requiring them to ‘withhold’ sales tax equivalent to four times the tax charged on the conversion charges. As per the Salient Features, the proposal seemingly aims to bring undocumented principals in the toll-manufacturing chain into the tax net.

The proposal is apparently in conflict with the charging provisions of section 3(7) of the ST Act imposing the withholding obligation on the ‘purchaser’ of goods or services (being the payer). In a tolling arrangement, however, the toll manufacturer is the supplier of the conversion service (being the payee) and, thus, question of withholding of sales tax cannot practically arise. Therefore, the same needs reconsideration to bring it in line with the overall scheme of law.

#### ***TWELFTH SCHEDULE – Minimum value addition tax on imports***

The Twelfth Schedule currently waives the 3% value addition tax on raw materials and intermediary goods imported by a manufacturer for in-house consumption (excluding specified scrap). The FB proposes that a manufacturer who supplies such imported goods in the same state shall be liable to pay the 3% value addition tax along with default surcharge. Further, where the waiver was availed on a declaration of in-house consumption and the goods were not so consumed but were supplied in the same state, such supplies exceeding 50% of total imports in a financial year, the manufacturer is proposed to be additionally liable to prosecution.

# FEDERAL EXCISE DUTY

## ***SPECIAL EXCISE DUTY (SED)***

The FB proposes to levy and collect SED in addition to FED on the following goods.

<b><i>S. No.</i></b>	<b><i>Description of goods</i></b>	<b><i>Heading/sub-heading Number</i></b>	<b><i>Rate of Duty</i></b>
(1)	(2)	(3)	(4)
1.	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2027 electric vehicles (4 wheelers) including station wagons, double cabin (4x4) pickup vehicles and racing cars:	87.03 8704.2190 8704.3190	
	(a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc		40% ad val
	(b) of cylinder capacity exceeding 3000cc		41% ad val.

FBR is proposed to be empowered to prescribe the time, mechanism, procedure, mode and manner for collection of such duty.

## ***SCOPE OF DATA TAMPERING OFFENCE WIDENED***

Under the existing provision, the offence was limited to any person who, without the approval of the Commissioner, directly or otherwise destroys, damages, erases or otherwise manipulates data stored in or used in connection with a computer or otherwise uses a computer, with the purpose or effect of reducing, avoiding or evading excise duty liability or defeating any provisions of the Act.

Through the proposed substitution, the scope of the offence has been significantly widened to now also cover manipulation of data stored in or used in connection with:-

- a computer, equipment or system used for the electronic monitoring of production, manufacture, sales, clearance, stocks or any other related activity implemented under the Act and the rules made thereunder;
- any production monitoring system; and
- any video analytics system.

The amendment is aimed at aligning the penal provision with the expanded monitoring infrastructure being deployed under section 45A of FE Act. Under the existing provision, the offence was confined to manipulation of data on "a computer", which left room for argument that interference with other monitoring equipment or systems may fall outside the penal provision. The proposed substitution removes any such ambiguity by expressly covering all electronic monitoring equipment or system, production monitoring systems and video analytics systems within the scope of the offence.

## ***POWER OF SEIZURE AND CONFISCATION***

The FB proposes to extend the scope of seizure, confiscation and destruction of goods which are required to be monitored through a production monitoring system and empowers the department to take enforcement action against goods manufactured or dealt with outside the prescribed monitoring framework, thereby strengthening the anti-evasion regime particularly in sectors such as cigarettes and beverages where production monitoring systems are being deployed.

## ***MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS – SCOPE WIDENED***

The FB proposes to extend scope of monitoring or tracking to services. Further, the scope of monitoring and tracking is proposed to be extended through compliance with production monitoring system and video analytics. For the purpose of production monitoring system, the equipment shall be acquired from the licensee appointed by the Board.

For this purpose, the term production monitoring system is proposed to mean any system or technology, used for the purposes of monitoring production and sale of goods, whether in real-time or otherwise, including such systems or technologies as may be prescribed by FBR from time to time.

## ***AUDIT***

The FB proposes substantial changes to audit procedures, introduce electronic processes and clarify penalty and compliance mechanisms as follows:

- The condition for conduct of audit once a year is proposed to be done away with.
- It is proposed that the officer should issue an audit report with observations and findings prior to passing an order.
- It is proposed that audit proceedings may be conducted electronically through video links or other facility as may be prescribed by FBR.
- It is proposed that assessment proceedings stand abated if:
  - duty along with default surcharge and 25% of prescribed penalty is deposited during/after audit but before issuance of show cause notice; or
  - duty along with default surcharge and 50% of prescribed penalty is deposited after issuance of show cause notice.

## ***RATIONALISATION OF FED RATE***

The FB proposes to substitute rate of FED on the following items:

<b><i>Description</i></b>	<b><i>HS Code</i></b>	<b><i>Existing Rate of Duty (Rs)</i></b>	<b><i>Proposed Rate of Duty (Rs)</i></b>
Acetate tow	Respective heading	Rupees forty four thousand per kg	Rupees ten thousand per kg
E-liquids by whatsoever name called, for electric cigarette kits	Respective heading	Rupees ten thousand per kg or 65% of retail price whichever is higher	Rupees sixteen thousand five hundred per kg

### **FED ON ELECTRIC VEHICLES**

The FB proposes to extend the applicable FED rates on imported or locally manufactured or assembled electric vehicles (4 wheelers) till June 30, 2027.

The FB, however, also proposes imposition of FED on imported electric vehicles for personal use in CBU condition as under:

<b>S. No.</b>	<b>Description</b>	<b>Heading/sub-heading Number</b>	<b>Proposed Rate of Duty (Rs)</b>
55A	Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of imported value including Custom Duty:-  (a) Not exceeding PKR 20 million  (b) exceeding PKR 20 million and upto PKR 30 million  (c) exceeding PKR 30 million	Respective heading	  0%  30%  40%

### **SUGARY FRUIT JUICES**

Sugary fruit juices, syrups and squashes, waters were subjected to FED @ 20% of retail price with the exclusion of mineral and aerated waters.

Now the FB proposes to also exclude hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener in addition mineral water and aerated water.

### **BASE LUBRICATING OILS**

The FB proposes to impose FED @ 5% ad valorem on base lubricating oil (HS Code 2710.1993) which was previously levied on lubricating oil.

### **PETROLEUM PRODUCTS**

The FB proposes imposition of FED on following petroleum products in sales tax mode:

<b>S. No.</b>	<b>Description</b>	<b>Heading/sub-heading Number</b>	<b>Proposed Rate of Duty (Rs)</b>
65	(i) Petroleum top Naphtha	2710.1942	(i) Rs. 80 per liter
	(ii) White Spirit/Mineral Turpentine Oil (MTT)	2710.1240	(ii) Rs. 80 per liter
	(iii) Solvent Oil	2710.1250	(iii) Rs. 80 per liter

### ***RESTRICTION ON CIGARETTE PRICING***

The FB proposes to restrict the price of a new cigarette brand variant to the lowest price of existing brands, instead of the current restriction based on the lowest price within the same brand family.

### ***CLUB, BUSINESS AND FIRST-CLASS AIR TICKETS***

The FB proposes to reduce the FED on club, business and first-class air tickets issued on or after the first day of July, 2026 as under:

<b><i>Description</i></b>	<b><i>Current FED (Rs)</i></b>	<b><i>Proposed FED (Rs)</i></b>
“(ii) Club, business and first class air tickets issued on or after the 1st day of July, 2026: (a) IATA Traffic Conference Area 1 (North, Central, South America and Environs)	300,000	50,000
(b) IATA Traffic Conference Area 2 (I) Middle East and Africa (II) Europe	150,000 210,000	25,000 40,000
(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)	210,000	40,000

### ***IMPORT OF BULLET PROOF VEHICLE***

The FB proposes to exempt import of following:

<b><i>S. No.</i></b>	<b><i>Description of goods</i></b>	<b><i>Heading/sub-heading Number</i></b>
(1)	(2)	(3)
28.	Import of bullet proof vehicles by the:  i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control  ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government”.	Respective heading

# CUSTOMS DUTY

## ***STATE WAREHOUSE AND SAFEGUARDING OF SEIZED GOODS***

With the aim of strengthening custody controls for seized goods, the FB proposes to introduce the concept of a “State warehouse”, being a place authorized by the Collector for storing detained, seized or confiscated goods. Presently, such goods are required to be deposited at the customs house nearest to the place of seizure and in case there is no customs house within a convenient distance, such goods are required to be deposited at the nearest place appointed by the Collector.

In the above context, penal consequences have been proposed where any person is involved in, or abets in the removal, substitution, damage or tampering of goods kept at a State warehouse. Such person may be liable to a penalty not exceeding two times the value of the goods involved and, upon conviction by a Special Judge, imprisonment for a period not exceeding five years or fine or both.

## ***SCANNING OF GOODS***

Presently, goods cleared through the Customs Computerized System may be examined and assessed only on the basis of computerized selectivity criteria. Similarly, in case of clearance of goods declaration through green channel, the goods may be examined with the prior approval of Collector. The FB now proposes to add scanning as an additional mode in both cases alongside physical examination. This proposed amendment aligns with Government’s digitalization & technology-based customs controls initiatives.

## ***GOODS NOT CLEARED, WAREHOUSED, TRANSSHIPPED, EXPORTED OR REMOVED FROM PORT***

The power to notify penalties for failure to clear, warehouse, transship, export or remove goods from port after unloading or filing of declaration is proposed to be transferred from the Federal Government to the Board. In unavoidable circumstances, the Collector is proposed to be empowered not only to waive penalties but also to reduce them.

The FB further proposes to authorize Board to prescribe rules regulating implementation of aforesaid penalties, including the process of appeal against imposed penalties and identifying the customs stations, goods or class of goods, where such penalties shall not apply.

In the context of these unremoved goods from the port, the FB proposes to empower the Board to authorize any person to auction the auctionable goods.

## ***PENALTY FOR FAILURE TO ENTERTAIN DELAY AND DETENTION CERTIFICATES***

Presently, the penalty on port authorities, agencies or persons managing or owning customs ports, customs airports, land customs stations or container freight stations for failure to entertain delay and detention certificates issued by the officer of Customs is Rs 500,000. The FB proposes to enhance such penalty to Rs 10 million.

### ***REMOVAL OF GOODS LIABLE TO CONFISCATION***

Under the Customs Act 1969, conveyance of whatever kind used in the removal of any goods liable to confiscation is also liable to confiscation. In this context, the FB proposes to clarify the term “removal” to include and shall deem to have always included, every act of carrying, transporting, depositing, harbouring, keeping, concealing, retailing or any other act involving movement of such goods.

### ***GOODS SEIZED OR DETAINED BY OTHER AUTHORITIES***

The FB proposes to substitute the existing procedure relating to goods seized by police with a broader framework covering goods detained or seized by any other authority. Under the proposed framework, where goods liable to confiscation are detained or seized by any other authority, the customs authorities may, upon confirmation, intimate such authority in writing and the authority would be bound to deposit the goods with customs for further processing irrespective of any proceedings pending under the laws of that authority.

It is also proposed to align the related penalty provisions with this broader framework, so that neglect by an officer of any authority, who is duty-bound to deposit the impugned goods with customs, may attract penal consequences.

### ***FACELESS ADJUDICATION***

The FB proposes to empower the Board to notify a procedure for faceless adjudication, whereby adjudication proceedings may be conducted without face-to-face interaction between the adjudicating officer and the respondent. The virtual mode would be prescribed by the Board from time to time. This proposal aligns with the Faceless Customs Assessment presently in place.

### ***FREEZING OF ASSETS IN CASES INVOLVING ILLEGAL TRANSFER OF FUNDS***

In the context of cognizance and trial of customs offences by Special Judges, the FB proposes that where a Special Judge, during trial of an offence punishable under the Act, is satisfied that there are reasonable grounds to believe that the accused has illegally transferred funds into or out of Pakistan, he may order freezing of the assets of the accused, held by accused or by any other person on his behalf.

### ***SERVICE OF ORDERS, DECISIONS, SUMMONS OR NOTICES***

In addition to the existing modes for service of orders, decisions, summons or notices, the FB proposes to adopt the manner prescribed for service of summons under the Code of Civil Procedure, 1908.

## SCHEDULES TO CUSTOMS ACT & ALLIED NOTIFICATIONS

The following commentary is based on the salient features released alongside the FB. The revised First Schedule and Fifth Schedule to the Customs Act, 1969, along with the relevant notifications pertaining to Additional Customs Duty (ACD) and Regulatory Duty (RD), are yet not available on the Federal Board of Revenue's website.

The proposed tariff measures are anchored in the National Tariff Policy (NTP) 2025-30, which prioritizes strategic tariff rationalization to reduce the cost of industrial inputs, simplification and trade facilitation, and targeted relief for public health and priority economic sectors

### ***RATIONALIZATION OF CUSTOMS DUTY UNDER THE FIRST SCHEDULE***

Customs duty rates on raw materials and input goods of various industrial sectors, spanning 92 tariff lines across different Chapters of the Pakistan Customs Tariff, are proposed to be reduced as follows:

<b>Existing rate of Customs duty</b>	<b>Proposed rate of Customs duty</b>
20%	15% or 10%
15%	10%
10%	5%
5%	0%

Additionally, 15 new PCT codes have been created and descriptions of 2 PCT codes have been amended for trade facilitation and statistical purposes.

### ***AMENDMENTS PROPOSED IN FIFTH SCHEDULE (CONCESSION / EXEMPTION)***

As part of a comprehensive review of the exemption regime under the Fifth Schedule to the Customs Act, 1969, the following changes have been proposed:

- Deletion of entries from the Fifth Schedule where the concessionary rate of CD equals or exceeds the general tariff rate prescribed under the First Schedule.
- Exemption of CD on critical cancer-related Active Pharmaceutical Ingredients.
- Reduction of CD from 20% to 10% on specialized construction-related vehicles for the construction sector.
- Exemption of CD on import of defense imports.
- Exemption of CD, ACD and RD on import of agricultural machinery.
- Exemption of CD on import of bullet-proof vehicles for the Shanghai Cooperation Organization (SCO) Summit, and on import of bullet-proof vehicles by the Federal or Provincial Government for the ongoing war against terrorism.

***ANNOUNCEMENT MADE BUT NOTIFICATION / AMENDMENTS AWAITED***

Following announcements in respect of the proposed amendments have been made through the salient features issued along with the FB:

***Additional Customs Duty (ACD)***

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

***Regulatory Duty (RD)***

- RD rates exceeding 20% to be brought down and capped at 20% on 359 tariff lines.
- 20% reduction across all RD rates between 2.5% and 20% on 1,347 tariff lines.
  - RD rates of 2.5%, 2% and 1% to be reduced by 20% or eliminated on 208 tariff lines.

*The full impact of these measures can only be assessed once the revised First Schedule, the substituted Fifth Schedule, and the relevant SROs/notifications are formally published.*

## THE WEST PAKISTAN MOTOR VEHICLES TAXATION ACT, 1958

The FB proposes amendments to the West Pakistan Motor Vehicles Taxation Act, 1958, which governs the levy of token tax on motor vehicles in the Islamabad Capital Territory (ICT). The proposed amendments revise the token tax rates for the following categories:

- Motor vehicles
- Motor cabs
- Public service vehicle
- Commercial vehicle / loading vehicle

## PETROLEUM LEVY AND CLIMATE SUPPORT LEVY

Through FB, definitions of terms ‘company’ and ‘refinery’ are proposed to be substituted as under which currently referred to entities enlisted in the Second and Fourth Schedules:

- **“company”** means an oil marketing company and includes a person engaged in the manufacturing, refining or reclaiming of lubricating oil from used lubricating oil under a license granted by OGRA.
- **“refinery”** means a facility or industrial plant where crude oil is refined to produce petroleum products.

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

Consequently, omission of Second and Fourth Schedules is proposed.

### **LICENSE CONDITION**

Through the FB, it has been proposed that the payment of Petroleum Levy and Climate Support Levy shall be deemed to be a license condition of every company, refineries or licensee, with effect from the date of issuance of the license by the Oil and Gas Regulatory Authority.

### **LATE PAYMENT SURCHARGE**

Through the FB, late payment surcharge has been proposed to be made applicable on the defaulting company, refinery or licensee in case any amount of Petroleum Levy and Climate Support Levy are not paid within the prescribed due date i.e.,

- date of filing of Sales tax or Federal Excise return in case of local production; and
- date of payment of custom duty in case of imported products.

The late payment surcharge would be in addition to original levy and would be calculated in the manner specified in section 40D of the Public Finance Management Act, 2019 which provides for an amount equal to monthly weighted financing cost of unpaid amount.

## ***RECOVERY***

The FB proposes introduction of a dedicated recovery mechanism for unpaid Petroleum Levy and Climate Support Levy, in place of the existing provision for recovery as arrears of land revenue (which has been proposed to be omitted).

- Where such levies or related surcharges will remain unpaid for ninety days, the relevant department may either initiate recovery of Petroleum Levy and Climate Support Levy independently or simultaneously at its discretion or request the Commissioner Inland Revenue to exercise powers of recovery in the same manner as income tax arrears.
- The Commissioner Inland Revenue has been restricted from granting any extension of time or allowing payment of outstanding levies (including late payment surcharge) in instalments.
- The Commissioner Inland Revenue would be required to submit fortnightly progress reports to the concerned Finance and Petroleum Divisions, including reasons for non-recovery.
- Any procedural irregularity in recovery proceedings shall not be challengeable before any tribunal or court.
- Outstanding amounts of Petroleum Levy and Climate Support Levy (and related surcharge) arising prior to enactment of the Finance Act, 2026 would also be recoverable under this proposed amendment.

## ***MANDATORY REPORTING MECHANISM FOR PAYMENTS***

It is proposed in the FB that every company, refinery or licensee would be required to submit monthly statement regarding the payment of the Petroleum Levy and Climate Support Levy on sale of petroleum products. The statement is to be supported by documentary evidence including monthly sales invoice submitted to the Federal Board of Revenue or any other document required by relevant department.

It is also proposed that every such party shall furnish an annual audited certificate to the Petroleum Division, issued by the Authorized Audit Firm (i.e. audit firm registered with Audit Oversight Board), certifying the accuracy of the levy and / or levies accrued and paid under this law with cost of audit to be borne solely by such party.

## **CAPITAL VALUE TAX (CVT)**

The FB proposes abolishment of CVT on foreign assets of resident individuals introduced vide Finance Act 2022. Currently, CVT is applicable at 1% of value of such assets held abroad by a resident individual where the aggregate value exceeded Rs. 100 million at the end of the tax year. The taxable value is determined as the higher of cost (including acquisition and improvement) or fair market value, and the tax is payable by the asset holder at the time of filing the income tax return.

The constitutional validity of this tax is still pending before the Federal Constitutional Court of Pakistan.