



A.F.FERGUSON & Co.

11 June 2025

Federal Budget 2025



FEDERAL BUDGET 2025

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2025. All changes proposed through the Finance Bill 2025, subject to approval by National Assembly and Presidential assent, are effective July 1, 2025 unless otherwise indicated.

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

June 11, 2025

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KEY ECONOMIC INDICATORS

Economic Survey 2024-2025

During the year, the economy is expected to record a 2.68 percent annual growth, following implementation of IMF Extended Fund Facility (IMFEFF).

Inflation has experienced a significant reduction, decreasing from 20.7 percent in April 2024 to a near-zero (0.3%) in April 2025. The average inflation rate for July through April in FY 2025 was observed during the previous year.

The fiscal deficit has contracted to 2.6 percent of GDP from 3.7 percent last year, the primary surplus has risen to 3.0 percent from 1.5 percent, and tax revenues have surged by 26.3 percent, totaling Rs 9.3 trillion (July-April FY 2025). On the external front, there is a shift from a US\$ 1.3 billion deficit to a US\$ 1.9 billion surplus a primarily on account of record remittance inflows.

	FY 24 – 25	FY 23 – 24
GDP growth rate	2.68%	2.38%
Per capita income - US\$	1,824	1,662
FDI (July – April) US\$ million	1,785	1,837
Consumer price index (July – April)	4.7%	26%
Public debt (PKR billion)		
- Domestic	51,518	43,432
- Foreign	24,489	24,093
	76,007	67,525
Fiscal deficit - %age of GDP (July – March)	2.6%	3.7%

Source: Economic Survey of Pakistan 2024-2025

BUDGET AT GLANCE

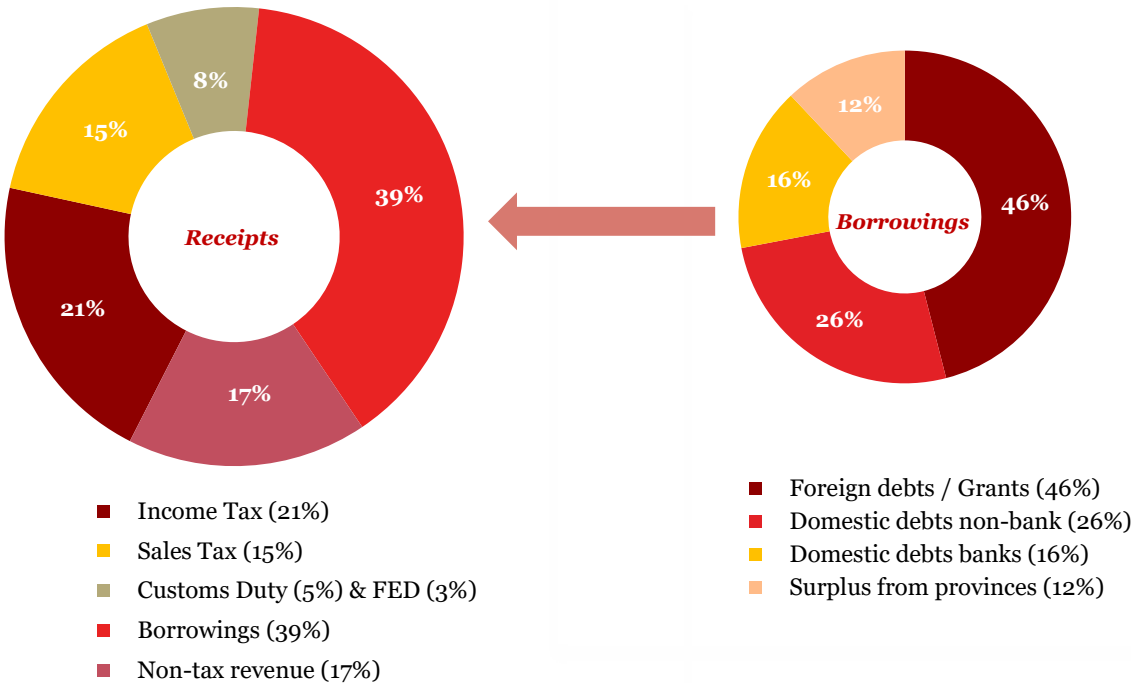
Budget Financials

The following table sets out the Key Budget Financials:

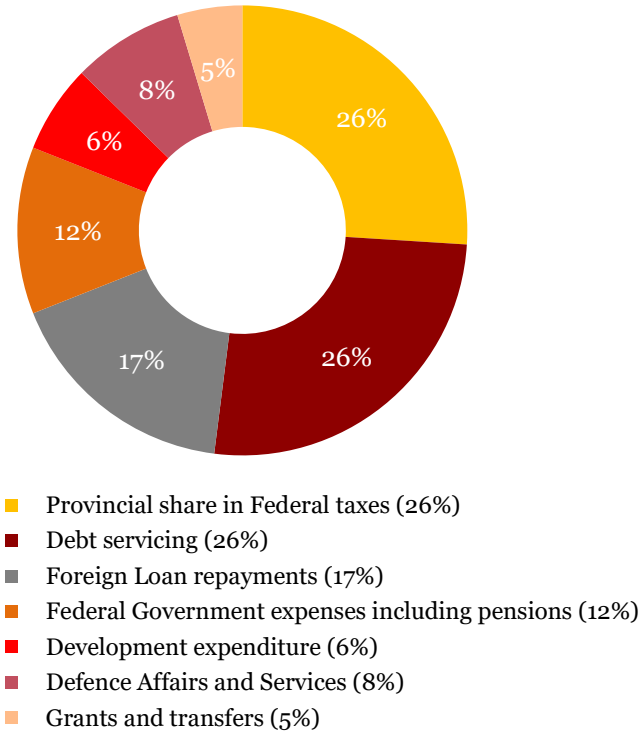
	2025-2026		2024-2025 (Revised)	
	<i>Rs in Billion</i>	%	<i>Rs in Billion</i>	%
Tax revenue	14,131		11,900	
Non-tax revenue	5,147		4,902	
Gross revenue receipts	19,278		16,802	
Public account receipt – net	210		231	
Total receipts	19,488	100	17,033	100
Less: Provincial share in Federal taxes	(8,206)	(42)	(6,997)	(41)
Net revenue receipts	11,282	58	10,036	59
Expenditure				
- Current expenditure	(22,073)	(113)	(19,788)	(116)
- Development expenditure	(1,775)	(9)	(1,715)	(10)
	(23,848)	(122)	(21,503)	(126)
Deficit	(12,566)	(64)	(11,467)	(67)
- Domestic debts non-bank	3,267		899	
- Domestic debts banks	1,971		3,718	
- Foreign debts / grants	5,777		5,833	
- Privatization proceeds	87		8	
- Surplus from provinces	1,464		1,009	
	12,566		11,467	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

IN



OUT



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.

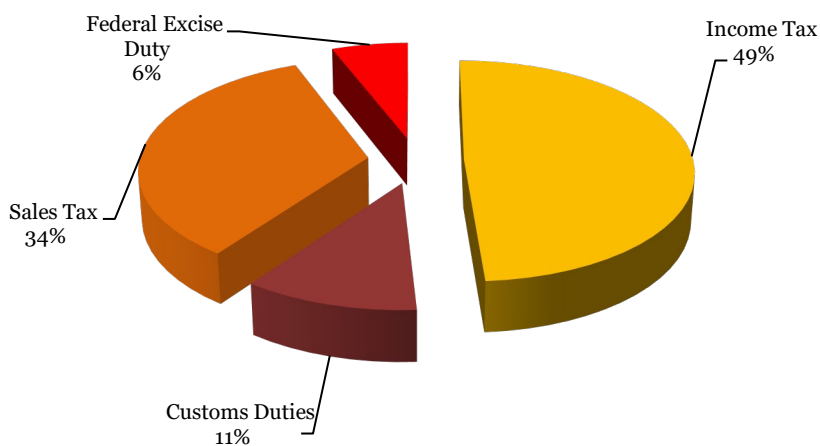
Direct Taxes:

- Income Tax
- WWF, WPPF & Others

Indirect Taxes:

- Sales Tax
- Customs Duty
- Federal Excise Duty

FY 25 -26	FY 24 -25 (Revised)
Rs in Billion	Rs in Billion
6,811	5,749
91	77
6,902	5,826
4,753	3,984
1,588	1,316
888	774
7,229	6,074
<u>14,131</u>	<u>11,900</u>



SUMMARY OF SIGNIFICANT PROPOSED AMENDMENTS

The Finance Bill has proposed various amendments in the Income Tax, Sales Tax, Federal Excise Duty and Customs laws besides introducing certain new levies in the form of Digital Presence Proceeds Tax, Carbon Levy, New Energy Vehicles Adoption Levy, etc.

A summary of certain significant proposal is as follows: -

INCOME TAX

1. Tax rates for salaried individuals having taxable income upto Rs 3.2 million have been reduced.
2. Rate of surcharge for salaried individuals having taxable income exceeding Rs 10 million is reduced from 10% to 9%.
3. Super tax rates for incomes exceeding Rs 150 million and upto Rs 500 million have been reduced by 0.5%.
4. Tax credit on profit on debt on loans for construction or acquisition of a house reintroduced with certain modifications.
5. Advance tax rates on purchase of immovable properties reduced.
6. Income tax exemption for erstwhile tribal areas extended upto June 30, 2026.
7. Appellate process reverted to a two-tier appeal forum mechanism.
8. Retrospective restoration of 25% tax rebate to full time teachers and researchers upto June 30, 2025.
9. 50% of the expenditures attributable to cash sales exceeding Rs 200,000 proposed to be disallowed.
10. Purchases from non-NTN holders proposed to be disallowed at 10%.
11. General withholding tax rates for services rendered enhanced from 11% to 15% whereas for specified sectors, the rate is proposed to be revised upwards from 4% to 6% / 8%, as the case may be.
12. Useful life of intangibles having indefinite period reduced from 25 to 15 years.
13. Minimum tax carry forward period reduced from three years to two years.
14. Final withholding tax proposed for Pakistan based digital transactions in E-commerce platforms.
15. Increase in withholding tax rate for profit on debt payments from 15% to 20%.

16. Increase in rate of tax on dividends from mutual funds deriving income from profit on debt from 15% to 25%.
17. Tax holiday period of Special Economic Zone and Special Technology Zone enterprises shall not be extended beyond June 30, 2035.
18. Significant restrictions introduced for certain 'ineligible persons' for purchasing vehicles, immovable properties, operating bank accounts, etc.
19. Withholding tax introduced at 15% for capital gains on pre-mature disposal of debt instruments.
20. Rate of advance tax on cash withdrawals by non-filers enhanced to 0.8%.
21. FBR empowered to seek certain information relating to High-Risk persons from the Banking Companies.
22. Recovery provisions strengthened for tax demands confirmed in appeals.
23. Set off of business losses not available against rental income.
24. Certain recreational clubs are disentitled from applying for the NPO status.
25. Income tax exemption for certain NPOs also subjected to section 100C conditions and limitations.
26. Minimum fair market rent of commercial properties proposed at 4% of FBR values of such properties.
27. Expenditure on leasehold improvements of Banking Companies to be capitalized for tax depreciation purposes.
28. Actual rent expense instead of depreciation to be allowed to Banking Companies in respect of Right of use assets with effect from tax year 2020.
29. Pension / Commutation / Annuity exceeding Rs 10 million for persons below 70 years age made taxable.
30. Withdrawals from Approved Pension Schemes also made taxable.

SALES TAX

1. Cargo tracking system has been proposed to be introduced for real-time monitoring of goods in transit to control the issue of tax evasion.
2. Adjustment of chilling charges from retail price of aerated water, beverages, mineral water, or fruit juices has been proposed to be restricted to a uniform rate of 5%.
3. Retail price in case of imported goods shall not be less than 130% of the customs assessed value.
4. In respect of digitally ordered goods from within Pakistan, payment intermediary and courier have been proposed to be made liable to collect and pay sales tax.

5. FBR has been proposed to be empowered to defer certain input tax or fix higher or lower limits of input tax adjustment by using data based on risk management system.
6. Enforcement measures such as restriction on bank account operations, transfer of immovable property, sealing of business premises, seizure of movable property and the appointment of receiver have been proposed to be introduced to compel unregistered person to get itself registered.
7. Sales tax exemption available on supplies and import in erstwhile Tribal areas has been removed in a phased manner.
8. Sales tax exemption available on import or supply of solar panels withdrawn.
9. The mechanism governing inquiry, investigation and compounding of offences by Inland revenue officials, prior to trial by Special Judge, streamlined/rationalized, by introduction of certain checks and balances.
10. Two- tier appeal system is proposed to be reinstated and the pecuniary limits associated with different appellate forums are proposed to be done away with.
11. Chief Commissioner Inland Revenue is empowered to refer an audit firm to Audit Oversight Board for inspection in certain cases.

FEDERAL EXCISE DUTY & ISLAMABAD CAPITAL TERRITORY SALES TAX (ICTT)

1. FED on allotment or transfer of immovable property withdrawn.
2. All service providers covered by ICTT shall be required to integrate businesses with the Board's computerized system of real time reporting of provision of services.
3. FBR empowered to introduce negative list of services for ICTT.

CUSTOMS DUTY

1. Replacement of existing tariff slabs of 3%, 11% and 16% with 5%, 10%, and 15%, respectively on 1,573 items.
2. 0% tariff slab to be extended to further 916 items, falling under different Chapters of Pakistan Customs Tariff.
3. Reduced customs duty rates of 5%, 10%, and 15% on 211 tariff lines.

NEW TAXES & LEVIES

1. Proposal to introduce 5% digital presence proceeds Tax on foreign vendors with significant digital presence in Pakistan.
2. Proposed imposition and collection of levy on internal combustion engine motor vehicles to promote adoption of new energy vehicles.
3. Carbon levy on petrol, high-speed diesel and furnace oil proposed at Rs 2.5 per liter for 2025-26 and Rs 5 per liter for 2025-27.

INCOME TAX

FAIR MARKET RENT OF COMMERCIAL PROPERTIES

Rental income of all properties is chargeable to tax under the head ‘income from property’ and where such rent is lower than fair market rent, the law deems the income to be equivalent of such fair market rent.

Through a proposed amendment, minimum fair market rent for commercial properties is deemed to be equivalent of 4% of the fair market value of such property as per Federal Board of Revenue’s (FBR) valuation tables. However, if the taxpayer is able to substantiate through evidence to the satisfaction of the Commissioner that actual rent is lower than such minimum fair market rent, the actual amount shall be accepted.

INADMISSIBLE BUSINESS EXPENDITURES

(i) Purchases from non-NTN holders

It is proposed to disallow 10% of the claimed expenditure attributable to purchases from persons who are not National Tax Number holders.

The above provision shall however not be applicable on agricultural products directly purchased from the growers and any persons or classes of persons to be prescribed by the FBR under a notification in the official gazette.

(ii) Expenditure relating to cash sales

Where a taxpayer receives payment exceeding Rs 200,000 otherwise than through a banking channel or digital means against a single invoice containing one or more than one transactions of supply of goods or provision of services, 50% of the expenditure claimed in respect of such sale is proposed to be disallowed.

(iii) Depreciation on depreciable assets

Depreciation is proposed to be disallowed for the amount paid for addition of capital assets to a seller in all relevant tax years if the tax deductible under section 152 (i.e. payments to a non-resident) or 153 (payments to a resident person) in respect of those payments has not been deducted and deposited in the treasury. In such case, the asset will be excluded from the tax depreciation schedule for the purpose of computing the admissible tax depreciation.

GROUP RELIEF

Companies entitled to the group relief provisions can surrender their assessed business losses to holding or subsidiary companies against payment of cash, subject to certain conditions and limitations.

A company or companies within the group whose income from business is chargeable to tax under any provision of the Income Tax Ordinance, 2001 (Ordinance) other than that which is chargeable to tax at applicable corporate tax rate is no more entitled to avail group relief.

The proposed amendment aims to exclude companies whose income is subject to minimum or any special tax regime under the respective provisions of the Ordinance.

TAX CREDIT FOR INTEREST PAID ON LOW-COST HOUSING LOAN

Prior to June 30, 2015, tax credit under Section 64 of the Ordinance was available for individuals on profit from debt or share in appreciation of a house when a loan was obtained from a bank or similar institution for constructing or acquiring a new house. Through the Finance Act, 2015, section 60C was introduced allowing a direct deduction for such profit-on-debt or share in appreciation, replacing the previous tax credit mechanism. This was subsequently omitted through the Finance Act, 2022, thus, removing the availability of any tax credit or deduction for profit on debt related to house building loans.

The Bill proposes the introduction of Section 63A, which would allow a tax credit for profit on debt, share in rent, or share in appreciation of house value. This credit applies to loans from scheduled banks, regulated financial institutions, the government, statutory bodies, or listed companies, provided the loan is used for constructing or acquiring a personal house or flat within specified size limits (up to 2,500 square feet for a house or 2,000 square feet for a flat).

Once an individual claims this tax credit, he would be ineligible to claim it for another house or flat for the next 15 tax years.

RESTRICTION ON ECONOMIC TRANSACTIONS

The Tax Laws (Amendment) Bill, 2024, proposed the introduction of the concept of an 'Eligible Person' to restrict certain economic transactions involving 'ineligible persons.' Although the original law was not approved, it is proposed to be reintroduced with certain modifications.

Proposed Restrictions for Ineligible Persons (subject to the Board's notification):

1. Motor Vehicles:

Applications for booking, purchasing, or registering motor vehicles will not be accepted by manufacturers or the Excise and Taxation registration authority if made by ineligible persons.

2. Immovable Property:

Applications or requests by ineligible persons to authorities responsible for registering, recording, or attesting transfers of immovable property that exceed a specified aggregate value in a tax year (as notified by the Federal Government) will not be accepted or processed.

3. Securities Transactions:

Authorized sellers of securities, including debt securities and mutual funds, must not sell or facilitate transactions for ineligible persons, whether individuals or associations.

4. Banking Transactions:

Banking companies are restricted from:

- Opening or maintaining current or savings accounts (except Asaan accounts and Pensioner Accounts) for persons notified by the Board.
- Allowing cash withdrawals from any bank accounts exceeding amounts notified by the Board.

Exemptions from Restrictions:

Certain transactions are exempt from the above restrictions, including:

- The purchase of rickshaws, motorcycles, and tractors.
- The purchase of pick-up vehicles with engine capacities up to 800CC.
- The purchase of other motor vehicles, trucks, and buses, subject to restrictions and limitations notified by the Board.
- Investment in securities up to a limit as may be notified by the Board.
- Transactions conducted by a public company or a non-resident person, except for cash withdrawals from their bank accounts.

Definitions:

Eligible Person: A person (including his immediate family members) who has filed a return of income for the tax year immediately preceding the year of the transaction and has sufficient resources in the wealth statement (for individuals) or financial statement (for companies or association of persons) for such transaction. Alternatively, a person who has declared sufficient resources in their sources of investment and expenditure statement.

Ineligible Person: A person who does not meet the criteria of an eligible person.

Sufficient Resources: This means having resources amounting to at least 130% of the declared cash and equivalent assets, including fair market value of gold, net realizable value of stocks, bonds, receivables, or any other cash equivalent asset.

NON- PROFIT ORGANIZATIONS (NPO)

Non-Profit Organizations are allowed 100 percent tax credit under section 100C of the Ordinance, subject to certain conditions and limitations specified therein.

Recreational Clubs

The proposed amendment aims to disentitle the 'recreational clubs' formed with membership fee exceeding Rupees one million for any class of new members from applying for the status of NPO in terms of section 2(36) of the Ordinance.

Earlier the Finance Act, 2021 added an explanation having a retrospective effect whereby the income of cooperative societies from sale of goods, immovable properties or provision of services to its members was deemed as business income chargeable to tax. An amendment is now proposed to include recreational clubs within the ambit of this explanation.

The absence of a specific definition of the term ‘recreational club’ may lead to disputes with regard to its interpretation.

NPOs specified in Clause (66)

Clause (66) contained in Part I of Second Schedule currently contains two Tables. Whilst Table 1 enlists certain institutions, which are entitled to full exemption of their income without any conditions and restrictions, the institutions specified in Table 2 are presently exempt from tax subject to the provisions of section 100C.

Through the proposed amendments, both tables have been merged and as an effect, the exemption for institutions earlier covered by Table 1 will now also be subject to the conditions mentioned in section 100C.

The merged table now also proposes to include following entities:

S. No.	Name
(i)	Beaconhouse National University.
(ii)	Federal Ziauddin University.
(iii)	Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme.
(iv)	Punjab Police Welfare Foundation Lahore.

INTANGIBLES

The Bill proposes to introduce change in the provisions relating to intangibles, including amortisation.

Presently where an intangible does not have an ascertainable useful life, the amortisation is to be allowed over a period of 25 years. This is now proposed to be a period of 15 years.

SET OFF OF LOSSES

Presently, losses under a head of income in a tax year can be set off against the income under any other head of income other than ‘Salary’. Through the Finance Act, 2021, taxpayers were allowed to set off business losses against their property income for the year.

The Bill proposes to restrict the adjustment of loss under the head ‘Business’ against ‘Income from Property’ by reverting to the pre-2021 position.

TAX CREDIT ON COAL MINING PROJECTS IN SINDH

A tax credit equal to 100% of tax payable is inter alia available to persons engaged in coal mining projects in Sindh supplying coal ‘exclusively’ to power generation projects, subject to certain conditions.

The Bill proposes to remove the condition of an exclusive supply of coal to power generation projects to avail tax credit under such provisions. Hence, such entities would be able to supply coal to other sectors without impacting the credit available on supply to power generation projects.

MINIMUM TAX CARRY FORWARD

Minimum tax at the rate of 1.25 per cent of the turnover is *inter alia* payable by resident companies, permanent establishment of a non – resident, etc. where the normal tax for the year is lower. Presently, the law provides for adjustment of such tax paid including that exceeding the normal tax payable against the tax payable for a period of three tax years immediately succeeding the year of payment. The Bill proposes to reduce the time of adjustment to two years.

Earlier, when such carry forward period was reduced from five to three years, it was held in appeals filed by certain taxpayers that such curtailment was not applicable for tax paid in prior tax years. Similar principle will apply for the proposed amendment.

PURCHASE OF ASSETS THROUGH BANKING CHANNEL AND DIGITAL MEANS

An overriding provision restricts the purchase of following assets by any person otherwise than by a crossed cheque drawn on a bank or through crossed demand draft or crossed pay order or any other crossed banking instrument showing transfer of the amount from one bank account to another bank account:

- Immovable property having fair market value greater than Rs 5 million; or
- Any other asset having fair market value more than Rs 1 million.

In case the transaction is not undertaken in the above manner, such asset is considered as not eligible for any depreciation or amortisation allowance and no related cost is to be accounted for whilst determining any taxable gain on such transaction.

The Bill proposes to include payment made through digital means as an acceptable mode of acquiring the assets.

TIME LIMITATION FOR AMENDMENT OR FURTHER AMENDMENT OF ASSESSMENT

Under the current law, as amended through the Finance Act, 2021, an order is required to be issued within 120 days from the date of issuance of a show cause notice under section 122 (excluding any period for which proceedings are stayed) unless extended by the Commissioner for period not exceeding 90 days. The said amendment was made applicable on notices issued after July 1, 2021.

The Bill proposes to remove this time limitation.

APPEAL EFFECT ORDER AND RECOVERY PROCEEDINGS

It is proposed that no appeal effect order will be necessary when the Commissioner (Appeals), Appellate Tribunal Inland Revenue (ATIR), High Court or Supreme Court confirms the tax payable as determined in the appealed order. In such situation, the Commissioner can proceed directly with the recovery.

It is however proposed that when the ATIR, High Court or Supreme Court partially sets aside the order and confirms or modifies certain issues in the appeal, the Commissioner must issue an appeal effect order. This order will determine the tax payable based on the confirmed or modified issues, excluding any tax related to matters that have been set aside or remanded back. The tax payable for the confirmed or modified issues will be collected or recovered in accordance with the provisions of the Ordinance.

APPEALS

The pecuniary jurisdiction/ limitation in appeals, originally inserted vide Tax Laws (Amendment) Act, 2024 and subsequently modified through the Finance Act, 2024, is proposed to be done away with.

It is now proposed that an order passed by an officer of Inland Revenue shall be appealable before the Commissioner Inland Revenue (Appeals) [CIR(A)] irrespective of the amount of tax revenue involved; thus, reverting back to the position prior to the introduction of pecuniary limits. However, through the proposed amendment, the registered person shall have an option to file an appeal directly before the ATIR while foregoing his right of appeal before the CIR(A).

Similar amendments have also been proposed in the Sales Tax Act, 1990 (ST Act) and Federal Excise Act, 2005 (FE Act).

Presently, a taxpayer can prefer an appeal before the ATIR in respect of any order passed under the Ordinance by the Commissioner Inland Revenue (CIR) or Chief Commissioner *inter-alia* including the order that is passed by the FBR. Through the Bill, such right of taxpayer to file an appeal against the order passed by the FBR has been taken away.

REFERENCE TO THE HIGH COURT

Under the current law, a reference to the High Court can be filed on a mixed question of law and facts, arising out of the orders of CIR(A) and the ATIR, as the case may be, within 30 days of communication of the order.

Through the bill, it is proposed to enhance the time limit of filing reference to 60 days and restrict filing thereof, against the order of ATIR, purely on a question of law. The proposed change primarily aligns the aforesaid provision with the reintroduction of two-tier appeal system under the Ordinance.

Similar amendments are also proposed to be made in the ST Act and FE Act.

ALTERNATIVE DISPUTE RESOLUTION (ADR) FOR STATE OWNED ENTERPRISES

An enabling provision is proposed to be introduced for a reappointment of ADR Committee where in case of a State-Owned Enterprise (SOE), such committee fails to decide within a period of sixty days. Such reappointed committee shall however decide the matter within a further period of sixty days; failing which the SOE will acquire the right of appeal.

Similar amendments are also proposed to be made in the ST Act and FE Act.

EXCHANGE OF BANKING AND TAX INFORMATION RELATED TO HIGH-RISK PERSONS

Based on information to be provided by the FBR to Commercial Banks in respect of turnover, income including taxable income for one or more of the tax years, identification data including bank account numbers declared in the income tax return and other information shared with the FBR in respect of persons or classes of persons alongwith the data based algorithms, the Scheduled Banks will be required to provide to the FBR particulars such as name, account numbers of such person where the banking information is at variance with the data algorithms provided by the Board.

The above provisions are proposed to have an overriding effect over other laws including Banking Companies Ordinance, 1962 and the information received shall only be used for tax purposes.

CONDONATION OF TIME-LIMIT

Presently, the FBR is empowered to condone any time or period specified under the Ordinance as may be required. However, the Courts have held that the said provisions cannot be interpreted in a way to condone the time limits indefinitely. In order to attach rationality to the provisions, while keeping in view the findings recorded by the Constitutional Courts on the matter, it is proposed to limit the condonation of time to a maximum period of two years in aggregate, by way of inserting an overriding provision.

It is also proposed that a committee of members as notified by the Board may further condone the time limitation after providing an opportunity of being heard to the registered persons but only in those cases where significant loss to exchequer has been caused by an act of omission/ commission of any registered person/ authority under the Ordinance.

Similar amendments have also been proposed in the ST Act.

ADVANCE TAX ON CASH WITHDRAWAL BY NON-FILERS

The rate of advance tax on cash withdrawals exceeding Rs 50,000 in a day by a person whose name does not appear on Active Taxpayers List is proposed to be enhanced from 0.6% to 0.8%.

RESTORATION OF TAX REBATE TO FULL TIME TEACHERS AND RESEARCHERS

A rebate of 25 per cent was available to full time teachers and researchers. The said rebate in its entirety was later withdrawn through Finance Act, 2022. Despite the said withdrawal, the rebate was continued to be claimed by taxpayers under the impression that the same was available.

In the latter half of 2024, the FBR issued notices to the taxpayers asserting that the rebate was discontinued vide the Finance Act, 2022. Consequently, the FBR demanded the full income tax without accounting for the rebate, along with the recovery of arrears since July 2022.

On issuance of notices by tax officers, the matter was raised by the teaching community at various levels. Subsequently, a decision was made by the Federal Cabinet on March 26, 2025, to reinstate the rebate through the Income Tax (Second Amendment) Bill, 2025.

The Finance Bill, 2025 now proposes to reinstate the rebate retroactively effective from July 1, 2022, which shall cease to have effect after tax year 2025.

TAX ON PAYMENTS FOR PAKISTAN BASED DIGITAL TRANSACTIONS IN E-COMMERCE PLATFORMS

A new section 6A is proposed to be introduced in the Ordinance, whereunder the concept of levy of tax on persons receiving payments on account of digitally ordered Goods and Services has been 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. This section excludes export proceeds subjected to final withholding tax under section 154A of the Ordinance.

The term ‘**Digitally Delivered Services**’ is proposed to be defined as any service delivered over the internet or electronic networks, where the delivery is automated and requires minimal or no human intervention including music, audio and video streaming services, cloud services, online software applications services, etc.

The term **E-Commerce** is proposed to be defined to mean sale or purchase of goods and services over computer networks by involving receiving or placing of orders through websites, mobile applications or online marketplace.

Further, the definition of ‘**Online Marketplace**’ is proposed to be expanded to include online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or providing or rendering the services that are being sold.

Collection Agents:

Corresponding amendments are also proposed in Section 153 of the Ordinance, whereby the following persons have been established as agents for collection of taxes from payment for digital transactions in e-commerce platforms from the gross amount payable (including sales tax, if any) at prescribed rates and the tax so collected would constitute final discharge of liability of the e-commerce platform:

- every **payment intermediary** at the time of processing payment through digital means, on behalf of a seller of digitally ordered goods or services through locally operated e-commerce platforms (including websites); and
- every **courier business** providing courier services collecting cash from a buyer under Cash on Delivery (CoD) payment terms on behalf of a seller for the supply of digitally ordered goods and services through e-commerce platforms (including websites).

An exclusion from deduction of WHT under section 153(1) has been provided when tax has been collected by the abovementioned collection agents.

Further, there is no specific exclusion in the Tenth Schedule for these payments and thus in case the recipient of the amount (online marketplace / E-commerce platforms) is not appearing in the Active Taxpayers List, the prescribed rates need to be increased by hundred per cent of the rate specified.

For the purpose of section 153, definitions of Courier Service and Payment Intermediary have been proposed to be added.

Prescribed Tax Rates:

Under the newly proposed Division IVA of Part I and Division III of Part III of First Schedule, tax is chargeable and subject to withholding on payments made in respect of digitally ordered goods and services. The rates vary based on the payment method and transaction type as follows:

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

S. No.	Description	Tax Rates of the gross amount paid
1.	Amount paid does not exceed Rs 10,000	1%
2.	Amount paid exceeds Rs 10,000 but does not exceed Rs 20,000	2%
3.	Amount paid exceeds Rs 20,000	0.25%

(ii) Cash on Delivery by courier service:

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

Filing requirements:

The following filing requirements are proposed for online marketplaces, payment intermediaries and courier services.

- (i) Every **payment intermediary and courier service** responsible for deducting tax as referred above would be required to file a withholding statement for tax deduction regarding sale of digitally ordered goods and services for each quarter of a tax year in the prescribed form setting out:
 - name, identification number (NTN/CNIC) and address of the seller;
 - transaction date, unique identifier (invoice number) and total transaction value;
 - the total amount of tax deducted at the time of payment to the seller; and
 - any other prescribed particulars.
- (ii) Every **online marketplace** in Pakistan would be required to submit a monthly statement containing name, address, Sales Tax and Income Tax registration number of every vendor registered on its platform supplying digitally ordered goods and services in e-commerce, transactional and aggregated quantum of seller's monthly turnover and the amount deposited into the vendor's bank account against such sale transactions.

Other provisions of section 165 relating to timing of filing of statements, revision of statement, extension of time, reconciliation of withholding statement etc. would be applicable to the abovementioned statements as well.

Registration requirements:

A person selling digitally ordered goods or services from within Pakistan using online marketplace or a courier service is mandatorily required to obtain income tax registration.

An online marketplace or a courier service involved in e-commerce by supplying or delivering digitally ordered goods or services from within Pakistan shall not allow any vendor to use its platform services to carry out e-commerce transactions unless such vendor is registered for income tax and federal sales tax purposes.

Penal Provisions:

To enforce the above provisions, following penalties are proposed:-

<i>S. No.</i>	<i>Offence</i>	<i>Penalty</i>
(i)	Where an online marketplace permits an unregistered vendor (resident or non-resident) to supply digitally ordered goods or services without obtaining registration under the ST Act and the Ordinance as required under section 181.	-Rs. 500,000 for the first default
(ii)	Where a seller of digitally ordered goods or digitally delivered services through an online marketplace fails to obtain mandatory registration under the ST Act and the Ordinance.	- Rs. 1,000,000 for every subsequent default.
(iii)	Where a banking company, payment gateway, or courier service fails to deduct or deposit tax under section 160 on payments for digitally ordered goods or digitally delivered services via an e-commerce platform.	100% of the amount of tax involved.

TAXATION OF BANKING COMPANIES

Expenditure on leasehold improvements

In respect of expenditure incurred on leasehold improvements on rented property, it is proposed that the same shall be capitalised and amortised at the rate of 10% per annum, from the date on which such leasehold improvements are first put to use. However, in case the lease is terminated prior to the completion of said amortisation period, it is proposed that the unamortised balance shall be allowed as deduction after taking effect of proceeds received from its disposal/transfer.

This proposed amendment seems to be an attempt to undo various appellate judgements holding that expenditure incurred for leasehold improvement on rented property is a revenue expenditure.

Right-of-use asset

Effective January 1, 2019 (corresponding to tax year 2020), SBP mandated the implementation of IFRS 16 'Leases', whereby each operating lease recognised in terms of IAS 17 'Leases' was required to be disclosed as 'right-of-use asset' and corresponding liability booked as 'lease liability'. Consequently, under IFRS 16, such right-of-use asset is then depreciated, while expense under the head finance cost is booked representing unwinding of lease liability.

It is proposed that ‘actual rent expense’ would be allowed as deduction (instead of depreciation on right-of-use asset and the related finance cost) subject to furnishing of certificate from the external auditor confirming such rent expense.

It is proposed to implement this amendment retrospectively, by offering to tax or claiming as deduction (as the case may be) in tax year 2025 the aggregate amount of difference between ‘actual rent expenses’ and deductions claimed on account of depreciation on right-of-use asset and the related finance cost pertaining to tax year 2020 and onwards, provided that the said adjustment is certified by bank’s external auditor.

The proposed amendments need to be revisited for retrospective applicability as well as the change of tax rates applicable during tax years 2020 to 2024, when the depreciation and finance cost were claimed as deductions against rates applicable in tax year 2025, in which the difference is now proposed to be offered to tax. Similarly, where the excess amount is now to be claimed by a Banking Company; the revision of return may not be possible due to already amended assessment orders passed in the case of banking companies.

The proposed amendment would also affect the vested right in cases where depreciation and finance cost have been allowed as deductions by the Officer of Inland Revenue during the amendment proceedings.

Claim of provisions against Non-Performing Loans (NPL)

Banking companies are presently allowed provisions against NPL / bad debts under the category of ‘loss’ upto 1 percent and 5 percent of total corporate and consumer advances irrespective of the actual provisioning, provided that a certificate from the external auditor is furnished.

For tax year 2025 and onwards, it is proposed to prescribe the format of the said certificate *inter alia* specifying category-wise amounts of provisions/reversals:

- In accordance with the Prudential Regulations issued by the SBP;
- Recognized under the IFRS 9;
- Disclosed in the annual accounts of the banking company; and
- Eligible for deduction under Rule 1 of the Seventh Schedule. It has further been proposed that in case of non-filing of said prescribed certificate or any deficiency therein, provision against NPL would not be admissible.

Certain amendments are also proposed to be made in order to reinforce the view taken by tax authorities in certain cases to the effect that provision against NPL other than those classified as ‘loss’ and general provisions not in accordance with Prudential Regulations issued by SBP, would not be admissible. The proposed amendments vis-à-vis their effect on pending disputes are likely to be subject to litigation.

Other adjustments

Currently, any adjustment *inter alia* in the light of any applicable accounting standard does not constitute an admissible deduction. For tax year 2025 and onwards, it is proposed to restrict such inadmissibility only to the extent of adjustments made under IFRS 9 and those accounting standards otherwise specified in Rule 1 of the Seventh Schedule.

Corresponding clarificatory amendment is required to be made in clause (da) of Rule 1 of the Seventh Schedule.

REVISED TAX RATES FOR SALARIED INDIVIDUALS

The Finance Bill has proposed to revise the slab rates for salaried individuals. The maximum rate for salaried individuals has been kept at 35% with revisions within different slabs. Further, it is proposed to reduce the surcharge from 10% to 9% on salaried individuals having taxable income in excess of Rupees 10 million.

A comparison of proposed amendment in slab rates for salaried individuals is given below:

Sr No.	Taxable income	Existing Incremental Rates	Proposed Incremental Rates
1.	Upto Rs 600,000	-	-
2.	Exceeding Rs 600,000 upto Rs 1,200,000	5% 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	15% 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	25% of the amount exceeding Rs 2,200,000	23% 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	30% of the amount exceeding Rs 3,200,000
6.	Exceeding Rs 4,100,000	35% of the amount exceeding Rs 4,100,000	35% of the amount exceeding Rs 4,100,000

The impact of the above-mentioned changes in slabs (other than surcharge and super tax) is illustrated as under:

Annual taxable income	Tax Year 2024		Tax Year 2025		Tax Year 2026		Increase/(Decrease) from tax year 2025		Increase/(Decrease) from tax year 2024	
(Rupees)	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate
600,000	-	-	-	-	-	-	-	-	-	-
1,200,000	15,000	1.25%	30,000	2.50%	6,000	0.50%	(24,000)	(2.00)%	(9,000)	(0.75)%
2,200,000	140,000	6.36%	180,000	8.18%	40,000	1.82%	(140,000)	(6.36)%	(100,000)	(4.55)%
2,400,000	165,000	6.88%	230,000	9.58%	162,000	6.75%	(68,000)	(2.83)%	(3,000)	(0.13)%
3,200,000	345,000	10.78%	430,000	13.44%	346,000	10.81%	(84,000)	(2.63)%	1,000	0.03 %
3,600,000	435,000	12.08%	550,000	15.28%	466,000	12.94%	(84,000)	(2.33)%	31,000	0.86 %
4,100,000	572,500	13.96%	700,000	17.07%	616,000	15.02%	(84,000)	(2.05)%	43,500	1.06 %
6,000,000	1,095,000	18.25%	1,365,000	22.75%	1,281,000	21.35%	(84,000)	(1.40)%	186,000	3.10 %
8,000,000	1,795,000	22.44%	2,065,000	25.81%	1,981,000	24.76%	(84,000)	(1.05)%	186,000	2.33 %
10,000,000	2,495,000	24.95%	2,765,000	27.65%	2,681,000	26.81%	(84,000)	(0.84)%	186,000	1.86 %
12,000,000	3,195,000	26.63%	3,465,000	28.88%	3,381,000	28.18%	(84,000)	(0.70)%	186,000	1.55 %
15,000,000	4,245,000	28.30%	4,515,000	30.10%	4,431,000	29.54%	(84,000)	(0.56)%	186,000	1.24 %

TAX ON PENSION / ANNUITY EXCEEDING RS. 10 MILLION

It is proposed to tax pension/annuity/commutation of pension received in a tax year in excess of Rs 10 million by an individual under the age of 70 years; however, the drafted wording is ambiguous and tends to suggest that it will be taxed at normal rates unless individual is 'solely' deriving such income in which case it will be taxed as per table below:

Sr No.	Description	Proposed Rate of Tax
1.	Where the amount of annual pension received does not exceed rupees ten million	0%
2.	Where the amount of annual pension received exceeds rupees ten million	5% of the amount exceeding rupees ten million

Pension to families and dependents of Shaheeds continues to be exempt.

Amendments are proposed in section 149 whereby a person responsible for paying pension or annuity would be required to withhold income tax from pension /annuity to an individual below the age of 70 years at the above referred rates.

The withdrawal of exemption on pension/annuity will also have bearing of surcharge and super tax.

SUPER TAX ON HIGH EARNING PERSONS

Rates of super tax are proposed to be revised as follows

Sr. No.	Income under section 4C	For tax year 2025	For tax year 2026 and onwards
1	Upto Rs. 150 million	0%	0%
2	Exceeding Rs. 150 million but does not exceed Rs. 200 million	1%	1%
3	Exceeding Rs. 200 million but does not exceed Rs. 250 million	2%	1.5%
4	Exceeding Rs. 250 million but does not exceed Rs. 300 million	3%	2.5%
5	Exceeding Rs. 300 million but does not exceed Rs. 350 million	4%	3.5%
6	Exceeding Rs. 350 million but does not exceed Rs. 400 million	6%	5.5%
7	Exceeding Rs. 400 million but does not exceed Rs. 500 million	8%	7.5%
8	Exceeding Rs. 500 million	10%	10%

TAX ON DIVIDEND

Currently, dividend from mutual funds is taxable at the rate of 15% except for dividend received from mutual funds deriving 50% or more income from profit on debt which is taxable at the rate of 25%.

It is proposed that dividend received from mutual funds deriving income from investments in both equity and debt securities be taxed at the rate of 15% and 25% respectively contingent upon proportionate income derived from average annual investment in debt and equity securities respectively.

Corresponding amendments are also proposed in the provisions relating to withholding of tax on such dividend.

PROFIT ON DEBT

It is proposed to enhance the rate of tax deduction from 15% to 20% on yield or profit received by a person from a banking company or financial institution on an account or deposit maintained with such company or institution. However, profit on debt from other than a banking company or financial institution will continue to be taxed at 15%. Further, similar amendment has been made to rate of tax applicable under section 7B which provides for final taxation of non-corporate taxpayers earning profit on debt upto Rs 5 million.

Rate of tax withholding on yield or profit on debt is proposed to be revised for persons not appearing in Active Taxpayers List as tabulated below.

<i>Sr No.</i>	<i>Description</i>	<i>Existing Rate</i>	<i>Proposed Rates</i>
1.	Yield or profit from a banking company or financial institution on an account or deposit maintained with such company or institution	35%	40%
2.	In other cases	35%	30%

FEE FOR OFFSHORE DIGITAL SERVICES

Rate of tax on fee for offshore digital services is proposed to be enhanced from 10% to 15%.

The aforesaid tax shall not be deducted where the recipient is also liable to Digital Presence Proceeds Levy (as proposed by Digital Presence Proceeds Tax Act, 2025) and the same has been collected. Corresponding amendment in the charging provisions is desired.

GAIN ON DISPOSAL OF CERTAIN DEBT SECURITIES

Gains arising on disposal of debt securities are subject to tax under section 37A. Now, 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 rate of 15% of the gross amount of capital gain arising on disposal of such debt securities.

CAPITAL GAINS ON DEBT SECURITIES HELD BY A NON-RESIDENT COMPANY

Presently, the capital gains on debt securities arising on disposal of debt instruments and government securities invested by non-resident company having no permanent establishment are subject to withholding tax at the rate of 10% which is also the final tax thereon.

Amendments are proposed whereby the capital gains are proposed to be subjected to withholding of tax in the following manner:

- (a) Where the Special convertible Rupee Account is maintained for a period of not less than 12 months, the rate of 10% is applicable.
- (b) Where the holding period of the securities is less than 12 months, rate of 20% is applicable.

The intention for the amendment in relation to (a) seems to be to tax the securities held for a period of more than 12 months at a lower rate of 10%; however, the proposed manner of the amendment suggest otherwise which needs to be re-visited.

ENHANCEMENT OF RATE OF WITHHOLDING TAXES FOR SERVICES AND EXECUTION OF CONTRACTS

Section 152(2A) relates to tax withholding from payments to non-residents' Permanent Establishments (PE) on account of sale of goods, rendering of services and execution of contracts whereas section 153(1) deals with similar payments to resident persons.

It is proposed to enhance withholding tax rates for payments covered by sections 152(2A) and 153(1) as tabulated below.

Sr No.	Description	Existing Rates	Proposed Rates
1.	Provision or rendering of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services, building maintenance services, services rendered of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services, oilfield services	4% 4%	8% (applicable to PE of a non-resident person) 6% (applicable to resident person)
2.	IT services and IT enabled services	4%	4%
3.	Other services: <ul style="list-style-type: none"> Company Others 	9% 11%	15% 15%
4.	Execution of contract by sports persons	10%	15%

ADVANCE TAX ON PURCHASE / SALE / TRANSFER OF IMMOVABLE PROPERTY

Advance tax on purchase / sale / transfer of immovable property is proposed to be revised upward for the sellers and downward for purchasers. Comparison of existing and proposed rates is tabulated below:

Advance Tax on Sale or Transfer of Immovable Property

S. No.	Gross consideration received	Existing Tax Rates		
		Persons appearing in ATL	Persons appearing in ATL who filed returns after due date	Persons not appearing in ATL
1	Upto Rs. 50 million	3%	6%	10% of the gross amount of consideration received
2	From Rs. 50 million to Rs. 100 million	3.5%	7%	
3	Exceeding Rs. 100 million	4%	8%	

S. No.	Gross consideration received	Proposed Tax Rates		
		Persons appearing in ATL	Persons appearing in ATL who filed returns after due date	Persons not appearing in ATL
1	Upto Rs. 50 million	4.5%	7.5%	11.5% of the gross amount of consideration received
2	From Rs. 50 million to Rs. 100 million	5%	8.5%	
3	Exceeding Rs. 100 million	5.5%	9.5%	

Advance Tax on Purchase of Immovable Property

S. No.	Fair Market Value	Existing Tax Rates		
		Persons appearing in ATL	Persons appearing in ATL who filed returns after due date	Persons not appearing in ATL
1	Upto Rs. 50 million	3%	6%	12%
2	From Rs. 50 million to Rs. 100 million	3.5%	7%	16%
3	Exceeding Rs. 100 million	4%	8%	20%

S. No.	Fair Market Value	Proposed Tax Rates		
		Persons appearing in ATL	Persons appearing in ATL who filed returns after due date	Persons not appearing in ATL
1	Upto Rs. 50 million	1.5%	4.5%	10.5%
2	From Rs. 50 million to Rs. 100 million	2%	5.5%	14.5%
3	Exceeding Rs. 100 million	2.5%	6.5%	18.5%

TAX WITHHOLDING ON GAIN ON DISPOSAL OF SECURITIES

Currently, the rate of tax deduction on gain on disposal of securities is separately prescribed for persons appearing on Active Taxpayers List and otherwise.

It is proposed that the rate of tax deduction will be enhanced by 100% in case of disposal of securities by a person not appearing on Active Taxpayers List where the securities were acquired before July 1, 2025.

EXEMPTION ON INCOME FROM ICC CHAMPIONS TROPHY 2025

It is proposed to exempt any income derived by ICC Business Corporation (IBC) or International Cricket Council (ICC) or employees, officials, agents and representatives of IBC and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IBC partners and media representatives, other than persons who are residents of Pakistan, from ICC champions Trophy, 2025 hosted in Pakistan. Earlier, the same exemption was provided through SRO 579(I)/2025 dated April 9, 2025.

EXEMPTION TO SPECIAL ECONOMIC & SPECIAL TECHNOLOGY ZONE ENTERPRISES

Currently, the income / profits and gains of Special Economic Zone (SEZ) and Special Technology Zone (STZ) enterprises are exempt for a period of ten years from the date the developer certifies that the enterprise has commenced commercial operation or from the date of issuance of license by the STZ Authority to a zone enterprise.

Now, it is proposed to restrict the above exemptions at earlier of the following:

- for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operation; or
- up to the 30th day of June, 2035.

TAX EXEMPTION EXTENDED FOR ERSTWHILE TRIBAL AREA RESIDENTS

The period of exemption on income of residents of erstwhile Tribal Areas was due to expire on June 30, 2025. The said exemption along with exemption from withholding tax is proposed to be extended for another year upto June 30, 2026.

EXEMPTION OF INCOME OF CINEMA OPERATIONS

Presently, income from cinema operations is exempt from tax for a period of five years from the commencement of cinema operations. Now it is proposed to restrict the period of exemption upto June 30, 2030 or five years from the commencement of cinema operations, whichever is earlier.

EXEMPTION ON IMPORT OF SPECIFIED GOODS UNDER SECTION 148

It is proposed to exempt Cystagon, Cysta drops and Trientine capsules from collection of advance tax under section 148 of the Ordinance.

IMMUNITY FROM AUDIT

Currently a person whose income tax affairs have been audited in any of the preceding four tax years, is granted immunity from the audit provisions of section 177 and 214C.

Now, it is proposed to restrict the immunity for selection of audit where the income tax affairs have been selected for audit in any of the preceding three tax years.

WITHDRAWALS FROM VOLUNTARY PENSION FUNDS

Currently, withdrawals of accumulated balance from voluntary pension funds are exempt upto 50% of such amounts. This exemption is proposed to be withdrawn. As a result, income derived from investment in voluntary pension funds would be taxed as per applicable provisions.

Exemption from tax for any withdrawal of accumulated balance from Approved Pension Funds which represent transfer of the balance from approved provident fund is also proposed to be withdrawn.

SALES TAX

CARGO TRACKING SYSTEM

Through the Bill, a concept of cargo tracking system is proposed to be introduced for real time monitoring and tracking of goods in transit to control the issue of tax evasion. FBR is to notify such system through which, a digital transport document, called 'e-bilty' linked with the tax invoice, will be generated.

RETAIL PRICE

In terms of FBR's letter dated September 27, 1994, suppliers of aerated waters were allowed to exclude chilling charges, equivalent to 5% to 10% of the consumer price, while working out retail price subject to sales tax. Such mechanism to determine the retail price is now proposed to be made part of statute with a uniform allowance of chilling charges at 5% for aerated water, beverages, mineral water, or fruit juices.

The Bill also proposes to empower the FBR to fix the retail price of goods specified in Third Schedule, through issuance of a notification in Official Gazette.

Further, in respect of imported goods specified in Third Schedule, it is proposed that the retail price shall not be less than 130% of the assessed value determined under section 25 of the Customs Act, 1969, including custom duties and federal excise duty.

SUPPLY OF GOODS ORDERED DIGITALLY THROUGH ONLINE MARKET PLACE AND SIMILAR PLATFORMS

In case of an online marketplace facilitating the sale of third-party goods, operator of such marketplace is presently required to withhold sales tax at the rate of 1% of value of supplies in case of local supplies made by non-active taxpayers.

Now, it is proposed that in place of operator of online marketplace, the following persons would be liable to collect and pay sales tax in case of supply of goods ordered digitally through online marketplace, website or software application from within Pakistan in the course of e-commerce:

- In case payment is made digitally - **payment intermediary**, proposed to be defined as a banking company, a financial institution, licensed exchange company or payment gateway, facilitating transfer of funds without being ultimate source or recipient of the payment; and
- In case goods are supplied on 'Cash on Delivery' basis – **Courier delivering the goods**, proposed to be defined as an entity delivering goods and collecting cash on behalf of seller and includes logistic services, ride-hailing services, food delivery platforms and e-commerce delivery services.

The tax so collected by payment intermediary and courier at the rate of 2% of value of supplies would be deemed as final discharge of tax liability for online marketplace, vendors at online marketplace, websites, software applications to the extent of supplies made by them, without any entitlement to claim adjustment of input tax. Such tax regime would also remain relevant in case of Tier-1 retailers to the extent of goods supplied through aforementioned medium or platform.

Further, the online marketplace, payment intermediary and courier would also be liable to furnish a monthly statement in the prescribed form, stating the supplier-wise details of amount paid and tax due along with certain information relating to taxable supplies.

The definition of expression “e-commerce” is also proposed to be included in the Sales Tax Act to mean sale or purchase through electronic means via websites, software applications or online marketplace using electronic devices such as computers, mobile phones etc.

Through the Bill, it is proposed that the person engaged in selling digitally ordered goods from within Pakistan through online marketplace, website or software application shall secure sales tax registration and unless, sales tax and income tax registration is obtained, the online marketplace or courier would not allow such person to use their services for e-commerce transaction.

Further, the sales tax rules requiring compulsory registration of a person who is required to be registered but fails to do so are proposed to be made part of the Sales Tax Act.

Whilst the current provisions were applicable only in case of non-active vendors whereas the registered vendors undertaking transactions through online market place remained liable to pay sales tax at the applicable rates on their supplies, the proposed provisions seem to be applicable on all vendors irrespective of their registration status and nature of supplies being covered by the Third Schedule or subject to any concessional rates or exemptions. The tax proposed to be collected by the payment intermediaries and courier service providers on such transactions will constitute final tax on such transactions for all parties involved in the transactions. Accordingly, the mandatory requirement for vendors to be registered for availing online marketplace services seems to be practically superfluous.

ADJUSTABLE INPUT TAX

It is proposed that the FBR be empowered to defer certain input tax or fix higher or lower limits of input tax adjustment by using data based on risk management system. However, the aggrieved person would have the right to contest such action before the concerned Commissioner, who would be liable to decide the matter within 30 days of filing of application by such person.

BEST JUDGEMENT ASSESSMENT

Under the prevalent scheme of law, best judgement assessment may be made by the assessing officer on the basis of available information and material, where a person *inter alia* fails to furnish return in response to notice.

Now, in case of a person who is liable to be registered on the basis of tax withheld under section 236G of the Ordinance and fails to furnish a return in compliance with a notice, a *non-obstante* provision is proposed to be inserted, allowing the assessing officer to assess sales tax liability on the value addition by utilizing information obtained from the purchase data under section 236G of the Ordinance.

TIME LIMITATION FOR ASSESSMENT

Presently, the assessment order under sections 11D, 11E and 11F is required to be passed within 120 days from the issuance of show-cause notice. Such time limit is proposed to be extended to 180 days.

BAR ON OPERATION OF BANK ACCOUNTS

The Commissioner is proposed to be empowered to direct banking companies, scheduled banks and other financial institutions, through an order in writing, to bar operation of the bank account of any person who fails to get registered for the purposes of the Sales Tax Act. Any person aggrieved by such order may prefer appeal before the Chief Commissioner within a period of thirty days from receipt of the order. Upon registration of such person under the Sales Tax Act, Commissioner shall issue and convey order to remove bar on operation of bank account immediately. The Board is to notify the date of enforcement of these provisions.

BAR ON TRANSFER OF IMMOVABLE PROPERTY

The Commissioner is proposed to be empowered to direct property registering authority, through an order in writing, to bar transfer of immovable property of any person who fails to get registered for the purposes of the Sales Tax Act. The person aggrieved by such order may prefer appeal before the Chief Commissioner within a period of thirty days from receipt of the order. Upon registration of such person under the Sales Tax Act, Commissioner shall issue and convey order to remove bar on transfer of immovable property immediately. The FBR is to notify the date of enforcement of this section.

OTHER COERCIVE ACTIONS FOR NON-REGISTRATION

The Chief Commissioner is proposed to be empowered to adopt following coercive actions against a person who fails to get himself registered for the purposes of the Sales Tax Act:

- Seal the business premises; or
- Seize moveable property; or
- Appoint a receiver for management of taxable activity of the person.

It is provided that such coercive actions shall not be taken unless:

- a public notice is issued specifying the date from which the premises shall be sealed, or movable property is seized, or a receiver is appointed for management of taxable activity;
- a committee comprising the Chief Commissioner, the Commissioner concerned, and a representative from the Chambers of Commerce or Trade Bodies, provides an opportunity of being heard to the person through an open court; and
- such decision is made public by placement on the Board's website and newspaper as well.

The person aggrieved by such order may prefer representation before the FBR within a period of thirty days from receipt of the order. Upon registration of such person, the Chief Commissioner shall issue and convey order for removal of receiver not later than two working days. The Board is to notify the date of enforcement of these provisions.

MECHANISM FOR BLACKLISTING

A detailed mechanism to blacklist a non-compliant registered person following suspension of his registration is proposed to be incorporated in the statute. Through the proposed mechanism, the Commissioner is required to issue a show cause notice to the registered person within 15 days of the issuance of order of suspension and upon receipt of reply to the notice by the registered person, the Commissioner is required to either revoke the order of suspension or pass an appealable speaking order for blacklisting within thirty days of receipt of reply to the notice.

At present, the Chief Commissioner is empowered to modify an order of suspension or blacklisting either on his own motion or on application by the registered person. Such power is proposed to be withdrawn.

INTEGRATION OF ELECTRONIC INVOICING SYSTEM WITH THE BOARD'S COMPUTERIZED SYSTEM

Currently, the Board is empowered to require any person or class of persons to integrate their electronic invoicing system with Board's computerized system for real time reporting of sales under Chapter XIV of the Sales Tax Rules, 2006.

Such requirement is now proposed to be made part of statute through insertion of sub-sections 5 and 6 in section 23 of the Sales Tax Act.

Similarly, the requirement for Tier-1 retailers to integrate their invoicing system under Chapter XIV-AA of the Sales Tax Rules is also proposed to be made part of the provisions of Sales Tax Act.

REVISION OF RETURN

The registered person is not required to secure approval of the Commissioner for filing of revised return if such revision is made within 60 days from filing of return and the tax payable/ refundable for relevant tax period is more/ less than the amount declared/ claimed in return sought to be revised.

It is now proposed that approval of Commissioner be made mandatory for revision of return, irrespective of impact of tax payable or refundable.

OFFICERS OF DIRECTORATE GENERAL

The officers of various Directorates General are proposed to be included in the authorities appointed under the Sales Tax Act. Further, it is proposed to ratify the actions of such officers retrospectively. The proposal is aimed to provide statutory cover to proceedings initiated and actions taken by these directorates that were already in operation.

APPOINTMENT OF EXPERTS AND AUDITORS

It is proposed to empower the Board and Commissioner to appoint experts for the purposes of the Sales Tax Act to assist in audit, investigations, litigations or valuations.

It is also proposed to empower the Board to appoint auditors, with maximum number capped at 2,000, through direct engagement or through a third-party including payroll firm and confer such powers as may be deemed necessary, to assist an officer not below the rank of Assistant CIR in discharge of his duties under the Sales Tax Act.

Such experts and auditors are also proposed to be prohibited from disclosing any information acquired during their appointments in line with restrictions presently applicable to officers of Inland Revenue.

PENALTIES

Tax fraud

Presently, any person who commits or causes or attempts to commit tax fraud is subject to penalty of Rs 25,000 or 100% of tax evaded or sought to be evaded, whichever is higher. Further, upon conviction by Special Judge, such person is also liable to fine equivalent to tax involved or imprisonment for following terms, or both:

- Up to 5 years – In case tax evaded or sought to be evaded does not exceed Rs. 1 billion; and
- Up to 10 years - In other cases.

Through the bill, it is proposed that the person involved in subject offence shall, upon conviction by a Special Judge, be subject to fine which may extend up to Rs 10 million or imprisonment up to 10 years or both, besides being liable to pay the loss of tax as confirmed by the Special Judge, along with 100% penalty of tax loss and applicable default surcharge.

Further, the scope of expression “tax fraud”, presently encompassing certain specific eventualities, is proposed to be revamped by redefining such term as knowingly, intentionally or dishonestly doing any act or causing do any act, or omitting or causing to omit any act to cause or attempting to cause loss of tax under the Act. Further, following additional instances are intended to be covered in the proposed definition:

- Generating fake input through manipulation of return filing system and making fake entries in the sales tax returns or related annexures; and
- Making fictitious compliance of section 73.

Abettor

A person who abets or connives in committing tax fraud is liable, upon conviction by Special Judge, to imprisonment for following term or fine up to 100% of tax evaded or sought to be evaded, or both:

- Up to 5 years – In case tax evaded or sought to be evaded does not exceed Rs. 1 billion; and
- Up to 10 years - In other cases.

Now, it is proposed that upon conviction by Special Judge, the abettor shall be liable to imprisonment up to 10 years or fine extending to Rs 10 million or both, irrespective of the amount of tax evaded or sought to be evaded. Further, the term “abettor” is proposed to be defined as a person who abets or connives in tax fraud or in commission of any offence warranting prosecution under the Act, including the person who:

- misuses the login credentials for filing return, annexures or any document or changes tax profile without authorization;

- prepares or causes to prepare invoices for false claim of input tax adjustment;
- allows use of his bank accounts for subject offence or maintains or operates business bank account in other's name unauthorizedly or illegally; and
- has obtained sales tax registration for paper transactions, including issuance of invoices without engaging in any taxable activity.

Other non-compliances

Offense	Penalty	Section reference
Failure to furnish prescribed monthly statement by online marketplace, payment intermediary or courier.	(i) Penalty of Rs 500,000 for 1 st default; and (ii) Penalty of Rs 1 million for each subsequent default.	26
Allowing the use of services by an online marketplace or courier to un-registered person in the course of e-commerce.	(i) Penalty of Rs 500,000 for 1 st default; and (ii) Penalty of Rs 1 million for each subsequent default.	14
Failure to generate e-bilty or tempering, misuse or forging of such documents.	Penalty of Rs 50,000 along with amount of tax evaded.	40C(6)

POWERS OF OFFICER OF INLAND REVENUE CONDUCTING INQUIRY

It is proposed that an officer of Inland Revenue shall have powers of a civil court trying a suit under Code of Civil Procedure, 1908 in respect of:

- summoning and enforcing the attendance of any person and examining him on oath; and
- requiring the discovery and production of documents and receiving evidence on affidavits.

PROCEDURES FOR INVESTIGATION/ INQUIRY, COMPOUNDING & ARREST

The presently applicable provisions of Section 37A and 37B prescribe the detailed procedures/mechanism for inquiry, arrest & prosecution [in terms of Code of Criminal Procedure, 1898 ('CrPC')] and the compounding of offences, leading upto trial by Special Judge under section 37D of the Act. The Finance Bill 2025 seeks to introduce significant amendments in sections 37A/37B and also insert sections 37AA & 37BB in the following manner:

- (a) The provisions of Section 37A are proposed to be comprehensively revamped to lay down a two-step approach relating to inquiry and investigation as follows:
 - A formal inquiry process can be initiated, by an officer not below the rank of Assistant Commissioner, after obtaining Commissioner's prior approval, on the basis of material evidence pointing to the commission of tax fraud/offence warranting prosecution under the Act. Such inquiry may be initiated notwithstanding any assessment proceedings under Section 11E of the Act, however, it can be concluded only after providing an opportunity of being heard to the accused person; and

- In case of non-compliance or unsatisfactory explanation by the accused person, the inquiry officer shall submit his inquiry report to the Commissioner for obtaining approval for initiating investigation proceedings in which he can wield powers similar to those conferred upon Police officials under the CrPC.
- (b) A new Section 37AA is proposed to be introduced extending wide powers to the Inland Revenue officials relating to arrest/prosecution, subject to prior approval of the Commissioner:
- During investigation stage, the Inland Revenue officials are empowered to arrest suspects, including any person whom they, on the basis of material evidence, believe is an abettor of tax fraud or any offence warranting prosecution under the Act. In urgent cases, or if otherwise impracticable, however, arrest may be made without Commissioner's approval, provided it is reported immediately. The Commissioner can order the release of such individuals if the arrest is deemed unjustified/ made with mala fide intent, with such cases to be reported to the Chief Commissioner for a fact-finding inquiry.
 - It has now been explicitly provided that Chief Executive Officers and Chief Financial Officers of companies involved in tax fraud can also be arrested without absolving the company of its tax liabilities.
- (c) The provisions of section 37B of the Act governing procedure of arresting a person are proposed to be aligned with that of section 37A and 37AA with the major consequence that arrest, if any, is to be made during the investigation stage as against the presently applicable provisions which permit arrest during inquiry. No change has, however, been proposed in provisions of section 37D governing prosecution by Special Judge.
- (d) The provisions relating to the compounding of offences are proposed to be formulated through insertion of a new Section 37BB and following significant changes are proposed therein:
- Earlier, the offence was compounded upon the accused person depositing the amount of tax sought to be evaded along with payment of penalty and default surcharge. Now, the amount of principle tax to be deposited shall be computed on the basis of inquiry/investigation;
 - The facility of compounding shall, however, not be available to persons who abet or connive in committing tax fraud or any offence warranting prosecution under the Act; such prosecution proceedings shall not abate even if the main accused person avails the facility of compounding ; and
 - In case the accused person is convicted, and appeal is pending before the High Court under Section 37I, compounding shall not be allowed without the leave of the High Court.

OBLIGATIONS TO PRODUCE DOCUMENTS / INFORMATION

The provisions of section 38B empower an Officer not below the rank of Assistant Commissioner to seek records/documents from any person required to maintain records under the Act. By way of insertion of sub-section (5) in Section 38B, the Commissioner has now been empowered to seek subscribers' information from internet service providers, telecom companies, and the Pakistan Telecommunication Authority for use in tax fraud investigations.

MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS

It is proposed to enhance the scope of electronic monitoring/ tracking of taxable goods by requiring the registered persons to employ necessary equipment for production monitoring & video analytics.

Further, it is proposed that provisions of Section 83C of the Customs Act, 1969, proposed to be inserted through the Finance Bill, shall apply *mutatis mutandis* in respect of the monitoring/ tracking of taxable goods under the Act.

APPEALS

Under the existing law, the Chief Commissioner is empowered to examine the blacklisting/ suspension order passed by Commissioner under section 21(2) and modify the same, if need be. Through the Bill, the aforesaid powers of the Chief Commissioner Inland Revenue are done away with and the order for suspension/ blacklisting is proposed to be made appealable before the appellate authorities under the Act.

Presently, the Act allows a registered person to prefer an appeal before the ATIR in respect of any order passed under the Act *inter-alia* including the order that passed by the Board. Through the Bill, such right of taxpayer to file an appeal against the order passed by the Board has been taken away.

Further, through the Finance Act, 2024 the provisions relating to tax not levied/ short levied/ short tax withheld were revamped by bifurcating the erstwhile section 11 of the Act into sections 11D, 11E, 11F & 11G of the Act. However, a reference to these sections was not made in section 45B of the Act. In order to bring conformity, reference to these sections is updated through the proposed amendment in section 45B of the Act.

INSPECTION OF AUDIT FIRM

In cases where the accounts of registered persons are subject to audit under the Companies Act, 2017, it is proposed to empower the Chief Commissioner Inland Revenue, subject to approval by the Board, to refer the audit firm to the Audit Oversight Board ['AOB'] for inspection in cases where the Chief Commissioner has reasons to believe that the accounts audited by such firm do not reflect true & fair view of the sales, purchases and the related sales tax liability of the registered person.

CERTAIN TRANSACTIONS NOT ADMISSIBLE

Presently, a person making supplies to unregistered persons where value of such supplies is in excess of Rs 10 million in a tax period & Rs 100 million in a financial year is not allowed to claim input tax proportionate to such supplies. Through the Bill, the existing thresholds are proposed to be dispensed with and the Board is mandated to prescribe the related thresholds with the approval of Federal Minister-in-charge.

THIRD SCHEDULE

Presently, import of the following items is 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) Import of pet food including of dogs and cats sold in retail packing (*PCT heading 2309.1000*);
- (ii) Import of coffee sold in retail packing (*PCT headings 0901.1100, 0901.1200, 0901.2100, 0901.2200, 0901.9000 & 2101.1120*);
- (iii) Imported chocolates sold in retail packing (*PCT headings 1704.9010, 1806.2090, 1806.3100, 1806.3200 & 1806.9000*); and
- (iv) Import of cereal bars sold in retail packing (*PCT heading 1904.1010, 1904.1090, 1904.2000, 1904.3000 & 1904.9000*).

SIXTH SCHEDULE - EXEMPTIONS

Through the Bill, import or lease of aircrafts (*PCT heading 8802.1200, 8802.3000 & 8802.4000*) by Pakistan International Airlines Corporation Limited (PIACL) is proposed to be exempted from sales tax.

Presently, import for personal use only, of 'cystagon', 'cysta drops' and 'trientine capsules', is exempt from levy of sales tax. Through the Bill, it is proposed to extend such exemption to include import for non-personal use as well.

Withdrawal of exemption

Through the Bill, sales tax exemption presently available in respect of import or supply of 'Photovoltaic cells whether or not assembled in modules or made up into panels' is proposed to be withdrawn.

Exemptions relating to Iron and Steel Scrap

Presently, local supply of iron and steel scrap, excluding supplied by manufacturer-cum-exporters of recycled copper, authorized under the Export Facilitation Scheme, 2021 is exempt from levy of sales tax. The Bill proposes to exempt from levy of sales tax the local supply of iron and steel scrap excluding that supplied directly by:

- (i) manufacturer-cum-exporter of recycled copper, authorized under the Export Facilitation Scheme, 2021 to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified; and
- (ii) importer to registered steel melters subject to such apportionment, conditions and restrictions as may be specified.

Exemptions relating to erstwhile tribal areas

Sales tax exemption available in respect of following supplies and imports is expiring on June 30, 2025:

- (i) Supplies meant for consumption in tribal areas;
- (ii) import of plant, machinery, equipment for installation in tribal areas; and
- (iii) import of industrial inputs by the Industries located in tribal areas.

The Bill proposes levy of sales tax on such supplies and imports in a phased manner subject to conditions specified for imports:

Tax period	Rate of sales tax
July, 2025 to June, 2026	10%
July, 2026 to June, 2027	12%
July, 2027 to June, 2028	14%
July, 2028 to June, 2029	16%

Exemption with respect to (i) supply of electricity to all residential and commercial consumers in tribal areas; and (ii) supply of electricity to such industries (excluding steel and ghee/ cooking oil industries) in the tribal areas which were set up and started their industrial production before March 31, 2018, as expiring on June 30, 2025 has been proposed to be extended till June 30, 2026.

LOCALLY MANUFACTURED OR ASSEMBLED MOTORCARS

At present, locally manufactured or assembled motorcars of cylinder capacity upto 850cc are subject to sales tax @ 12.5%. Through the Bill, it has been proposed that such motorcars are made subject to sales tax at standard rate of 18%.

MEASURES MENTIONED IN SALIENT FEATURES NOT PART OF THE BILL

Local supply of bun and rusk is presently subject to sales tax at a reduced rate of 10% under the Eighth Schedule to the Act. While the Salient Features as released along with the Bill note a proposal to grant full exemption on their local supply, the Bill does not propose such exemption. Such anomaly is expected to be addressed at the time of passing of the Finance Act.

Further, the Salient Features as released along with the Bill note that reduced rate of sales tax on local supply of 'vermicillies' and 'sheer maal' has been proposed to be withdrawn. However, the Bill does not propose any such removal of reduction. Such anomaly is expected to be addressed at the time of passing of the Finance Act.

FEDERAL EXCISE DUTY

ALIGNMENT OF LIABILITY TO PAY WITH SCOPE

Through the Finance Act, 2023, scope of duty was extended to items not previously specified however, no corresponding amendment was made to specify as to who would be liable to pay such duty.

Sub section (5) is now proposed to be introduced thereby determining person responsible for payment of duty on such items.

POWER REGARDING SEIZURE AND CONFISCATION OF GOODS EXTENDED

Through Tax laws (Amendment) Ordinance, 2025 following powers were introduced, which are now proposed to be ratified by the Finance Bill:-

- to seize and confiscate the goods being sold without affixing or affixing counterfeited tax stamps, bar codes, banderoles, stickers, labels or barcodes, as required under section 45A of the FE Act; and
- to authorize an employee of Federal Government or Provincial Government to act as Officer of Inland Revenue, subject to certain conditions, by way of notification in the official Gazette for the purposes of section 26 and section 27(1) of the FE Act.

FED on allotment or transfer of immovable property

FED was imposed on allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property by any developer or builder in such mode and manner and subject to such conditions and restrictions as may be prescribed by the Board through Finance Act 2024 is now proposed to be withdrawn.

CUSTOMS DUTY

CARGO TRACKING SYSTEM AND E-BILTY MECHANISM

The Bill has proposed that any person being a consignor, transporter, shipping agent, freight forwarder, consignee, supplier or recipient of goods and causing movement of goods from and to a seaport, land border station, inland dry-port or inland movement, shall be required to electronically generate, carry, display or validate an e-bilty through the Cargo Tracking System (CTS). To implement such mechanism, identify, and for digital record keeping, the FBR may subsequently prescribe underlying procedure and may charge fee for maintenance and operations.

The Bill further proposes penal action for prescribed contraventions to this mechanism, including fine starting from Rs 50,000 to Rs 1,000,000, including confiscation of goods, conveyance and upon conviction by a special judge liable to imprisonment not exceeding six months for multiple failures to operate under CTS.

Certain exemptions to generate e-bilty however have been prescribed in the Bill, including where the value of goods or travel distance is less than the prescribed limit and the goods being transported are specifically exempted from such purview.

Cargo Tracking System is proposed to be defined as a digital system notified by the Board for electronic monitoring and tracking of import, export, transit and transshipment goods transported within or across the territory of Pakistan for the purposes of enforcement, compliance and prevention of smuggling.

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

ESTABLISHMENT & REORGANISATION OF DIRECTORATE GENERALS

To improve coordination and intelligence operations, multiple Directorates are proposed to be merged, detailed below:

Present Directorate General

- Directorate General of Intelligence and Investigation
- Directorate General of Risk Management
- Directorate General of Internal Audit
- Directorate General of Post Clearance Audit

Proposed Directorate General

- Directorate General of Intelligence and Risk Management
- Directorate General of Post Clearance Audit and Internal Audit

The Finance Bill proposes to further establish the following:

- Directorate General of Customs Auction; and
- Directorate General of Communication and Public Relations.

Each Directorate shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

GENERAL POWER TO EXEMPT FROM CUSTOMS-DUTIES

The validity of exemption notifications issued on or after July 1, 2016 (that were placed for ratification before the National Assembly) is proposed to be extended from June 30, 2025 to next fiscal year (i.e., up to June 30, 2026).

MINIMAL DUTIES NOT TO BE DEMANDED

The Finance Bill proposes to reduce the threshold (de minimis) for demand of duties for goods having import value of Rs 5,000 to Rs 500, imported through post or courier.

ALLOWING MUTILATION OR SCRAPPING OF GOODS

Except for goods imported in new condition, presently the mutilation or scraping of notified goods is allowed at the request of the owner, to be made before the filing of goods declaration. The goods so scrapped are chargeable to duty at the rates as may be applicable under the law. To check the misuse of existing facility, the Finance Bill proposes that scrapping and mutilation shall not be allowed for quantity exceeding 10% of the imported goods.

FALSE STATEMENT, ERROR, etc.

The custom authorities are empowered to take action where as a result of an audit or examination of the accounts of the importer or exporter, it is found that certain taxes or duties have not been levied, short levied or erroneously refunded. No action is, however, allowed to be initiated if the recoverable amount in a case is less than Rs 20,000.

Through the Finance Bill, it is proposed to enhance the threshold of Rs 20,000 to Rs 100,000, provided the recoverable amount is deposited by the person.

DECLARATION AND ASSESSMENT FOR HOME CONSUMPTION OR WAREHOUSING OR TRANSSHIPMENT

The owner of any imported goods is required to make entry of such goods for home consumption or warehousing or transshipment or for any other approved purposes. Presently, the assessment and paying of duty, taxes and other charges in respect of transshipment shall be at the port of destination.

From such date as notified by the Board, the Finance Bill proposes to provide the owner with an option in respect of goods declarations filed prior to berthing of the vessel or cross-over event of vehicle, to pay such duties, taxes and other charges on completion of assessment.

CHECKING OF GOODS DECLARATION BY THE CUSTOMS

To assess and examine any import, export and transit consignment at any customs port, inland customs station, border customs station or airport, the Finance Bill proposes to empower the Board to constitute Centralized Assessment Unit (CAU) and Centralized Examination Unit (CEU), accessible to designated customs officers, or such other officers authorized by the Chief Collector.

The Board may prescribe any manner or conditions for assessment or examination of goods through CAU and CEU. It has been further provided that digitalized assessment may be made through customs computerized system on the basis of artificial intelligence tools.

PROCEDURE IN CASE OF GOODS NOT CLEARED OR WAREHOUSED OR TRANSSHIPPED OR EXPORTED OR REMOVED FROM THE PORT AFTER UNLOADING OR FILING OF DECLARATION

The Finance Bill has proposed certain changes in the procedure in case of subject goods to enhance clarity, establish a stricter timeline for compliance, further incorporated penalties to encourage adherence to the updated procedures. The key changes are listed below:

- The owner of the goods shall be liable for penalties to be notified by the Federal Government in cases of non-compliance with specified timelines for filing goods declarations or removing goods.
- replacing the currently applicable duration of fifteen days (extendable by upto 5 days) for clearance / removal etc. with more specific timelines as follows:
 - goods declaration to be filed for home-consumption or warehousing or transshipment within ten days of the arrival of goods at a customs station;
 - where the goods declaration filed prior to (or after) berthing of the vessel, the goods to be removed from the customs station after payment of leviable duty and taxes, within three days of completion of assessment (or clearance of goods declaration, where applicable);
 - the goods to be loaded on the conveyance for export within fifteen days of the entry in the port.
- the goods shall be liable to confiscation if goods declaration for home-consumption or warehousing or transshipment is not filed within thirty days of arrival or the goods are not loaded on the conveyance for export or not removed from the port area within thirty days of assessment of the goods declaration

CLEARANCE FOR HOME CONSUMPTION

In case of customs clearance through the Customs Computerized System, the Finance Bill proposes to explicitly make such clearance subject to payment of duty, taxes and other charges thereon.

EXTENT OF CONFISCATION

Currently, if a customs officer seizes a conveyance liable to confiscation, the appropriate officer may order its release pending the adjudication of the case if the owner provides a sufficient guarantee from a scheduled bank for its production when required.

The Finance Bill has proposed to omit this provision of allowing release of vehicles liable to be confiscated against bank guarantee.

THINGS SEIZED HOW DEALT WITH

Notwithstanding any ongoing legal proceedings, subject to the prescribed requirements of applicable law, the Collector of Customs or an authorized officer, may sell a seized item and hold the proceeds in deposit until case adjudication, appeal disposal, or a Court's final judgment. The Finance Bill has proposed addition of a new sub-section under which no Court shall stay such auction proceedings unless the person obtaining the stay order furnishes a pay order or bank guarantee not less than 50% of the goods' reserve price before the Court's Nazir.

TIME LIMIT FOR ADJUDICATION

The existing timeframe of 30 days of the issuance of show cause notice to decide cases involving smuggled goods and goods lying at the sea-port, air-port or dry-port is proposed to be enhanced to 45 days, which would be further extendable for 15 days by the Collector Adjudication.

Presently, the Board is empowered to regulate the system of adjudication including transfer of cases and extension of time limit under “exceptional circumstances”. It is proposed to empower the Board substituting the expressions “exceptional circumstances” with “as deemed appropriate after reasons to be recorded in writing” for the aforesaid purposes.

This amendment has apparently been proposed in view of the recent superior Court decision wherein the honourable Court observed that the existing powers of the Board to grant an extension under “exceptional circumstances” were much narrower and circumscribed as opposed to the powers conferred under the ST Act to grant an extension where deemed appropriate.

BURDEN OF PROOF

Presently, when any person is alleged to have committed an offence under the Customs Act, the burden of proof is cast upon him to show that he did any act or was in possession of lawful authority or under a permit, license or other document prescribed. It is proposed to insert further documents including goods declaration and sales tax invoice (in the person's name) to elaborate the burden of proof checking the presentation of import documents before adjudication authorities.

PRESUMED SMUGGLED VEHICLE

A new section has been proposed whereunder any detained or seized vehicle that upon forensic examination, is found to be having tampered or altered chassis is presumed to be smuggled even if registered with any Motor Registration Authority and shall be liable to confiscation. This includes vehicles with a tampered chassis number, cut and weld chassis, chassis number filled with welding material, re-stamped, or a body changed. Such vehicles will be liable to confiscation.

APPEAL TO COLLECTOR (APPEALS)

Any person aggrieved by any decision or order passed under prescribed sections of the Act by an officer of Customs below the rank of an Additional Collector may prefer appeal to the Collector (Appeals) within 30 days of the communication of such decision. It is proposed that no such appeal shall be preferred if the aggrieved person did not appear before the adjudicating authority despite sufficient opportunity of hearing. This proposal seeks to minimize the misuse of unlawful claim of ownership of seized goods before the Collector (Appeals).

APPEAL TO THE APPELLATE TRIBUNAL

The Finance Bill has proposed to increase the existing timeframe for filing Appeals to the Appellant Tribunal from 30 days to 45 days from the date on which the decision or order sought to be appealed against is communicated.

It is further proposed that stay against recovery of duty and taxes by the Tribunal shall be subject to furnishing of pay order or bank guarantee not less than 50% of the recoverable amount by the aggrieved person before the registrar of the Tribunal. No appeal shall be preferred if the aggrieved person did not appear before the adjudicating authority despite sufficient opportunity of hearing.

POWERS TO PASS CERTAIN ORDERS

The Finance Bill proposes to empower the Director Generals and Directors to re-open cases in their jurisdictions by calling for and examining the records of any proceedings under the Act. Presently, these powers are conferred to the Board, the Chief Collector, and the Collector of Customs. It has also been proposed to clarify that such powers also extend to adjudication proceedings under the Act.

REFERENCE TO THE HIGH COURT

Reference against the order of Tribunal can be filed to the High Court within 30 days of the order of the Tribunal. The Finance Bill proposes to rationalize this time period to commence from the date of receipt of the order of the Tribunal, rather than the date of the order itself.

As in case of appeal before the Tribunal, it is proposed that stay against recovery of duty and taxes by the High Court shall be subject to furnishing of pay order or bank guarantee not less than 50% of the recoverable amount by the aggrieved person before the Nazir of the Court.

PROCEDURE FOR THE SALE OF GOODS

Sale / auction of goods (other than confiscated goods) can be made after notice to the owner by public auction or by tender or by private officer with the written consent of the owner or his agent. It has been proposed that such sale / auction may be made through an authorized agent.

Further, any stay against the auction proceedings is proposed to be subject to furnishing of pay order or bank guarantee not less than 50% of the reserve price of the goods before the Nazir of the Court.

ESTABLISHMENT OF CUSTOMS COMMAND FUND

In order to incentivize anti-smuggling operations, the Finance Bill proposes to establish Customs Command Fund wherein allocation of funds shall be made by the Federal Government from the sale proceeds of auction of smuggled goods. The allocation share shall be notified by the Board with the concurrence of the Finance Division.

DIGITAL ENFORCEMENT STATION(S)

To prevent smuggling and illicit trade, the Finance Bill proposes to empower the Board to declare places to be Digital Enforcement Stations at locations deemed appropriate, through a notification in the official Gazette. The Board may notify any existing customs check-post as Digital Enforcement Station.

Additionally, the Board may make rules regarding staffing, operations, and technological enablement.

FIRST SCHEDULE TO THE CUSTOMS ACT

Rationalization of Customs duty

Following changes are proposed in the rates of customs duty as part of tariff rationalization:

- To replace existing tariff slabs of 3%, 11% and 16% with 5%, 10%, and 15%, respectively on 1,573 items.
- 0% tariff slab to be extended to further 916 items, falling under different Chapters of Pakistan Customs Tariff.
- Reduced customs duty rates of 5%, 10%, and 15% on 211 tariff lines.

AMENDMENTS PROPOSED IN FIFTH SCHEDULE (CONCESSION / EXEMPTION)

Withdrawal of exemption / concession

The finance bill proposes to primarily withdraw following exemptions / concessions.

- Concessionary rate of 0% available for Machinery and Equipment related to agriculture, education and research related items, marble, granite and gem stone extraction / processing, solar and other renewable energy, food fortification, available under Part I of the Fifth Schedule.
- Concessionary rates available for Medical Equipment and Tourism Projects, available for goods under Part I of the Fifth Schedule.
- Concessionary rates ranging from 0% to 16%, available for raw materials / inputs for the textile sector under Part III of the Fifth Schedule.
- Concessionary rates ranging from 0% to 16%, available for goods covered under Part VII of the Fifth Schedule.

ANNOUNCEMENT MADE BUT NOTIFICATION / AMENDMENTS AWAITED

Announcement in respect of the following has been made through the salient features issued along with the Finance Bill; however, relevant notifications / amendments to that effect are awaited.

Regulatory Duty

- Withdrawal of regulatory duty from 554 items.
- Reduction in regulatory duty in 595 items.
- The maximum rate of regulatory duty to be reduced to 50% from 90%.

Additional Custom Duty

Proposed reduction in additional customs duty as follows:

Goods falling under Tariff slab(s)	Additional customs duty	
	Existing	Proposed
0%, 5% & 10%	2%	0%
15%	4%	2%
20%	6%	4%
above 20%	7%	6%

DIGITAL PRESENCE PROCEEDS TAX ACT, 2025

OBJECTIVE

The Digital Presence Proceeds Tax Act, 2025, proposed through the Finance Bill, seeks to address the fiscal challenges posed by the digital economy. Multinational enterprises increasingly generate substantial revenues from jurisdictions where they maintain no physical presence whereas current international tax rules ordinarily depend upon the concept of permanent establishment i.e. actual physical presence. As per the Preamble, the proposed legislation aims to:

- Promote tax equity by ensuring that digital businesses contribute fairly to the jurisdictions they profit from.
- Safeguard public revenue from erosion due to cross-border digital transactions.
- Align taxation principles with value creation in digital markets, particularly through user engagement, data, and digital infrastructure.

SCOPE AND APPLICABILITY

It is proposed to charge a tax on foreign vendors with significant digital presence in Pakistan on proceeds from digitally ordered goods and services supplied from outside Pakistan.

Tax is proposed @5% to be charged on gross proceeds from transactions involving Pakistani users i.e., individuals ordinarily residing in Pakistan, companies incorporated or having permanent establishment in Pakistan and payment electronically remitted from within Pakistan.

The proceeds of foreign vendors are deemed attributable to Pakistani users based on the criteria for sufficient digital presence, where:

- The transaction is executed through a foreign online marketplace or e-store;
- The transaction pertains to digitally ordered goods or services; and
- A Pakistani user is a party to the transaction.

This, however, does not apply to:

- Payments for digitally ordered goods connected with a permanent establishment in Pakistan where goods are supplied from within Pakistan.
- Payments for digitally delivered services rendered through a permanent establishment in Pakistan and received within Pakistan

The term ‘permanent establishment’ borrowed from the Income Tax is not specifically defined in the proposed Act.

CRITERIA FOR SIGNIFICANT DIGITAL PRESENCE

A foreign vendor is considered to have a significant digital presence in Pakistan if more than five transactions in a financial year; and:

At least one of the following must also be present:

- User base and data input:
- Local currency billing or payment methods:
- Responsibility for final delivery:
- Provision of support services:
- Sustained marketing and promotion.

COLLECTION AND COMPLIANCE MECHANISM

The mechanism for tax collection recognizes the challenges of enforcing tax compliance on foreign digital vendors, the provision strategically shifts the collection responsibility to domestic financial intermediaries’ entities that facilitate cross-border payments. This approach appears to enable collection of tax at the source of remittance, thereby minimizing evasion and administrative complexity.

It proposes to designate the following responsible for tax deduction:

- Banking companies
- Financial institutions
- Licensed exchange companies
- Payment gateways

Tax deducted in a given month must be deposited by the 7th of the following month.

It is proposed that Customs authorities will ensure that no courier consignment is delivered unless evidence of tax payment is provided.

However, Customs authorities are not responsible for collecting sales or income tax on consignments where this digital tax has already been paid. Corresponding amendments are required to be made in the Income tax and sales tax laws for such exclusion.

ADVERTISEMENT-SPECIFIC PROVISIONS

Any foreign vendor with a digital presence in Pakistan who makes payments, either in full or in part, to social media platforms or other online platforms for advertisements targeting Pakistani users is required to:

- Deduct tax from the gross amount paid.
- Apply the rate specified in the Schedule (5%).

Both the foreign vendor and the payment intermediary (if involved in the transaction) are required to:

- Deposit the deducted tax into the government treasury.
- Do so by the 7th of the month following the month in which the deduction was made.

FAILURE TO DEDUCT OR DEPOSIT THE TAX

The Bill outlines the consequences of non-compliance with the tax collection and remittance obligations imposed on payment intermediaries and foreign vendors. The provision ensures that the tax regime is not only declaratory but also effectively enforceable, with clear penalties and recovery mechanisms.

The section identifies four specific instances of default:

- Failure to collect tax.
- Failure to comply with the prohibition on remittance without deduction.
- Failure to comply with the advertisement tax deduction obligations.
- Failure to deposit tax after collection.

The liable persons (intermediary or vendor) are proposed to become personally responsible for the unpaid tax. A default surcharge is imposed at the rate of KIBOR + 3% per annum, calculated for the duration of the default. However, no recovery action can be initiated unless the defaulting party is given an opportunity to be heard.

The recovery of unpaid tax and surcharge shall follow the procedure outlined in the Ordinance.

REPORTING REQUIREMENTS

The Bill introduces a reporting framework to support the enforcement of the Digital Presence Proceeds Tax. Given that payment intermediaries are central to the flow of funds in cross-border digital commerce, this provision forces them to furnish detailed transaction-level data to the tax authorities.

Quarterly statements must be submitted by:

- Payment intermediaries, detailing transactions and tax deductions.
- Social media and online platforms, disclosing advertiser identities and payment amounts.

PENALTIES AND ENFORCEMENT

- A penalty of Rs. 1 million applies for each instance of non-filing of required statements.
- Recovery procedures are aligned with the Ordinance.

SUSPENSION OF REMITTANCES TO A FOREIGN ADVERTISER

If a foreign vendor continues to advertise in Pakistan for 120 consecutive days without paying the applicable Digital Presence Proceeds Tax, the CIR may notify the payment intermediary. Upon such notification, the intermediary is required to suspend all remittances of proceeds to the non-compliant foreign advertiser. This suspension is in addition to the recovery proceedings for violation (which mandates tax deduction on advertisement payments).

APPEALS AND ADMINISTRATION

- Aggrieved parties may file an appeal with the ATIR within 30 days of the recovery order.
- A further reference to the High Court is permissible within 60 days on questions of law.
- The Inland Revenue Department is designated as the regulatory authority for enforcement.

RULE-MAKING AUTHORITY

The Federal Board of Revenue (FBR) is empowered to:

- Formulate rules for effective implementation.
- Address procedural ambiguities and operational challenges.

Issues to be examined

Presently, payments for digitally delivered services are largely covered by withholding tax provisions under the Ordinance as applicable for ‘fees for offshore digital services’, however, by virtue of the overriding provisions of the double tax treaties, certain non-resident service providers claim nontaxable status in Pakistan in the absence of their Permanent Establishments. It appears that the proposed Act aims to negate the effect of double tax treaty provisions which are ordinarily applicable on income tax and substantially similar taxes whereas the proposed levy is not nomenclated as income tax. A corresponding amendment proposed in Income tax law with regard to non-applicability of withholding tax provisions on such payments create an impression that the proposed levy is in lieu of income tax and hence the same may fall within the purview of ‘substantially similar taxes’ used in the double tax treaties.

As regards tangible goods, the withholding tax provisions are ordinarily not applicable to such non-resident suppliers because of no PE in Pakistan. In case of tangible goods, the tax was being collected from the importer of record under the applicable provisions of income tax and sales tax. The proposed levy on non-resident supplier does not appear to be in line with international tax practices as such supplier cannot be taxed in Pakistan when the sale has taken place offshore and the supplier does not have any physical presence herein. The proposed exemption from sales tax and income tax on import of such goods may outweigh the actual tax collection to be made from the offshore suppliers.

The provisions empowering the Commissioner to block the remittances for such offshore suppliers and service providers may result in Pakistan being not considered to be a tax friendly country for such businesses.

Constitutional Validity

The validity of the proposed tax needs to be examined in view of the relevant Constitutional provisions.

NEW ENERGY VEHICLES ADOPTION LEVY ACT, 2025

The Bill proposes to enact New Energy Vehicles Adoption Levy Act, 2025 with the purpose to provide for the imposition and collection of levy on internal combustion engine motor vehicles to promote adoption of new energy vehicles.

Person liable to pay

Under the proposed Act, the liability to collect and pay the levy in case of locally manufactured and assembled internal combustion engine motor vehicles is of the manufacturer whereas in case of import of internal combustion engine motor vehicles into Pakistan, the liability is of the importer of such vehicles.

Rates

The levy is proposed to apply as per the following rates:

Category of vehicle	Rate of levy
Internal combustion engine motor vehicles with engine capacity:	
- less than 1300 cc	1% ad valorem of invoice price / assessed value inclusive of duties and taxes
- 1300 cc to 1800 cc	2% ad valorem of invoice price / assessed value inclusive of duties and taxes
- more than 1800 cc	3% ad valorem of invoice price / assessed value inclusive of duties and taxes
Bus and Truck with internal combustion engine	1% ad valorem of invoice price / assessed value inclusive of duties and taxes

- The Federal Government may, from time to time, revise the rate or otherwise add or remove a category of internal combustion engine mentioned above.

Exemptions

- Following exemption are provided from the levy as under:
 - (a) A new energy vehicle;
 - (b) an internal combustion engine motor vehicle manufactured or imported exclusively for export purposes under an order of the Federal Government;

- (c) an internal combustion engine motor vehicle owned by a diplomatic mission or consulate, and an international organization enjoying privileges under the Diplomatic and Consular Privileges Ordinance, 1972 (Ordinance IX of 1972); and
- (d) any other internal combustion engine motor vehicle or category of internal combustion engine motor vehicle that the Federal Government may, by a notification in the official Gazette, exempt from application of the levy with or without any and conditions.

Provisions relating to implementation

- The provisions of the Customs Act, 1969 (IV of 1969) and ST Act, as the case may be, shall, in so far as may be practicable, apply to the imposition, collection, recovery and refund of the levy.
- The Federal Government may, by notification in the official Gazette, make rules to carry out the purposes of this Act. For removal of difficulties in giving effect to any provisions of this Act, it may also make an order that is not inconsistent with the provisions of this Act.

Definitions of key terms

The bill defines ‘internal combustion engine motor vehicle’ as a motor vehicle powered wholly or partially by fossil fuels including petrol, diesel, compressed natural gas or liquefied petroleum gas.

The term “new energy motor vehicle” is defined to mean as a motor vehicle that is powered—

- exclusively by an electric motor run on a rechargeable battery; or
- by both an electric motor run on a rechargeable battery and an internal combustion engine, capable of achieving a range of no less than fifty kilometers under normal conditions exclusively running on electric motor by a single battery charge; or
- hydrogen fuel cells or any other technology that produces zero tailpipe emission.

“motor vehicle” means a vehicle propelled mechanically, electrically or other zero emission based technology either partially or completely, adapted for use upon roads and includes motorcycles, rickshaws, cars, vans, SUVs, Jeeps, sedans, sub-urban vehicles, buses, loaders, and trucks.

“bus” includes a motor vehicle designed or adapted to carry more than ten passengers at a time, in addition to the driver, whether for hire or otherwise, and includes a van, mini-bus and coaster.

“truck” means a motor vehicle designed or adapted primarily for the carriage of goods or materials, having a payload capacity exceeding fifteen hundred kilograms and includes a rigid or articulated truck, loader, delivery van, pickup and any other vehicle equipped with a goods-carrying body or container.

ISLAMABAD CAPITAL TERRITORY (SALES TAX ON SERVICES) ORDINANCE, 2001

INTEGRATION OF BUSINESSES WITH BOARD'S SYSTEM OF REAL TIME REPORTING

It is proposed that all service providers, from the date and in the mode and manner to be prescribed through a general order, be required to integrate businesses with the Board's computerized system of real time reporting of provision of services.

EXEMPTION ON SERVICES TO GERMAN DEVELOPMENT AGENCY AND SPECIALIZED AGENCIES/DIPLOMATS

It is proposed to accord exemption on services rendered to German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit) GIZ and agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder, and agreements by the Federal Government.

NEGATIVE LIST OF SERVICES

It is proposed to empower the Board to specify Negative list of services, subject to such conditions, restrictions and limitations, exempt from tax under this Ordinance in Table 3 to the Schedule by notification in official Gazette.

PETROLEUM LEVY

Through the Finance Bill, a new 'carbon levy' on petrol, high-speed diesel, and furnace oil is proposed to be levied (in addition to Petroleum Levy) at the following rates:

<u>Financial Year</u>	<u>Carbon Levy (Rs. / Liter)</u>
2025-2026	2.5
2026-2027	5

Furnace Oil (Bunker 'C') is also proposed to be included in the list of Petroleum products on which Petroleum Levy & Carbon Levy may be levied. The aim of Carbon Levy is to curb excessive fossil fuel consumption and generating crucial funds for climate change mitigation and green energy programmes.

Through the Finance Bill, the omission of Fifth Schedule to the Petroleum Levy Ordinance is also proposed (which provided for maximum amount of Petroleum Levy beyond which the Federal Government is not presently empowered to notify the Petroleum Levy). After this amendment, there will be no maximum capping on the amount of Petroleum Levy which the Federal Government may impose and collect.

PUBLIC FINANCE MANAGEMENT ACT, 2019

The proposed amendments to the Public Finance Management Act, 2019, through the Finance Bill, aim to enhance the governance and financial management of public entities. The key changes proposed through the Finance Bill are as under:

1. Expanded Definition of 'Public Entity':

- The definition is proposed to be broadened so as to include any agency, statutory body, authority, or council established by law and funded through the Federal Consolidated Fund or revenues like taxes, levies, duties, etc.

2. Cash Management System:

- Policies will be developed to extend budgetary and accounting frameworks to all declared public entities, not just autonomous ones.
- These frameworks will also address the usage of idle cash by these entities.

3. Dissolution of Special Funds:

- The responsibility for notifying the dissolution of special funds will shift from the Finance Division to the concerned Division.
- An evaluation report on the dissolution must be shared by the concerned Division with the Finance Division within 3 months of such dissolution.

4. Management of Self-Generated Revenues:

- Revenues collected by public entities under any law will be managed according to the relevant Act, in consultation with the Finance Division.
- Existing laws or regulations not previously consulted with the Finance Division must be reviewed within 6 months.
- Public entities must submit approved budget documents to the Finance Division and make them publicly available.

5. Accounting and Financial Reporting:

- The Controller General of Accounts, after consultation and approval, will develop accounting frameworks for public entities aligned with international standards.
- During the transition period, public entities must ensure that audited financial statements for the past 3 fiscal years are published within 6 months.

These amendments aim to improve transparency, accountability, and efficiency in managing public finances, aligning with international best practices and ensuring better oversight of public resources.