

# TAX BRIEF

## AMENDMENTS MADE THROUGH THE FINANCE ACT, 2025

# Preamble

The Federal Budget for 2025–26 was presented on June 10, 2025. In response, ICMA promptly developed a detailed budget commentary titled “An Insight on Economic Survey 2024–25 and Finance Bill 2025.” This document was based on the Economic Survey, Budget Speech, and Finance Bill released by the Ministry of Finance.

The commentary was prepared under the supervision of Mr. Azeem Hussain Siddiqui (Member, National Council), with significant contributions from Mr. Mazhar Saleem Shah (Vice Chairman, Karachi Branch Council), Mr. Muhammad Asif, FCMA, and Mr. Asif Riffat. Thanks to their dedication and swift efforts, ICMA published the commentary next day after the budget announcement, ensuring timely insights for its members and stakeholders.

After the release of the Finance Act 2025, the same team came together once again to produce this follow-up publication titled “Tax Brief: Amendments Introduced through the Finance Act 2025.” It highlights major changes made during the budget approval process, including amendments in income tax, sales tax, customs duty, federal excise duty, and other fiscal measures.

We trust that this brief will serve as a practical and reliable reference for the CMA community, tax professionals, and policymakers. While every effort has been made to ensure accuracy and completeness, we welcome feedback to further enhance its value in the future.



# From the Desk of President ICMA

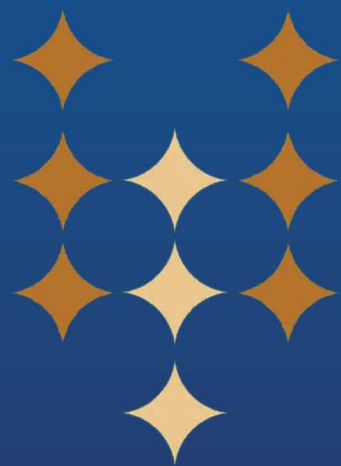
I am pleased to present this publication titled “Tax Brief: Amendments Introduced through the Finance Act 2025,” which provides a comprehensive analysis of the key changes in income tax, sales tax, customs duty, federal excise duty, and other fiscal provisions, effective from July 1, 2025.

At this pivotal stage of Pakistan’s economic journey, professional engagement and informed policy advice are essential. ICMA will continue to support national economic development through technical expertise, research, and active participation in policy dialogue.

I would like to express my sincere appreciation to Mr. Azeem Hussain Siddiqui (Member, National Council), Mr. Mazhar Saleem Shah (Vice Chairman, Karachi Branch Council), Mr. Muhammad Asif, FCMA, and Mr. Asif Riffat for their valuable contributions in reviewing the amendments and compiling this document. Their professional insight and commitment have ensured the quality and relevance of this publication for our members and broader stakeholders.

**Ghulam Mustafa Qazi, FCMA**  
**President, ICMA**





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## Disclaimer

This Tax Brief contains our comments and interpretations of the amendments through the Finance Act 2025. However, these should not be relied upon without appropriate professional advice keeping in view the particular situation.

## Significant Amendments through Finance Act, 2025

### Significant Amendments in the Income Tax Ordinance, 2001

**Exclusion of specified “recreational clubs” from the definition of “non-profit organization” (NPO) and inclusion of income of “recreational clubs” in “income from business” [Section 2(36) / Section 18]**

The Finance Act 2025 (“the Act”) excludes the “recreational clubs” formed with membership fee exceeding Rs. 1,000,000/- for any class of new members from the definition of “non-profit organization”.

The Act also includes incomes of “recreational clubs” in income of “trade, professional or similar association from the sale of goods or provision of services to its members”, hence chargeable to tax under the head “Income from Business”.

#### **Surcharge for salaried individual reduced [Section 4AB]**

The Finance Act 2025 reduces the surcharge from 10% to 9% for “salaried individuals” where taxable income exceeds Rs. 10,000,000/-. This change will be effective from Tax Year 2026.

#### **Rate of tax on income chargeable under the head “salary” exceeding 75% of taxable income [Section 4AB / First Schedule Part I Division I]**

The Finance Act 2025 has introduced the following new tax rates on income from salary, i.e. where salary income exceeds 75% of total taxable income:

S. No.	Description	Rate of Tax
1.	Where taxable income does not exceed Rs. 600,000/-	0%
2.	Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000/-	1% of the amount exceeding Rs. 600,000/-
3.	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-	Rs. 6,000/- + 11% of the amount exceeding Rs. 1,200,000/-
4.	Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-	Rs. 116,000/- + 23% of the amount exceeding Rs. 2,200,000/-
5.	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-	Rs. 346,000/- + 30% of the amount exceeding Rs. 3,200,000/-
6.	Where taxable income exceeds Rs. 4,100,000/-	Rs. 616,000/- + 35% of the amount exceeding Rs. 4,100,000/-

The impact of the above change of tax rates and changes in surcharge under section 4AB of the Ordinance, on tax incidence of the salaries individuals for Tax Year 2026 is tabulated in comparison to Tax Year 2025 hereunder:

Monthly taxable Salary	Annual taxable Salary	2025 Tax charge	2025 eff. tax rate	2026 Tax charge	2026 eff. tax rate	Increase / (Decrease) in tax charge	Increase / (Decrease) %
50,000	600,000	-	-	-	-		
66,667	800,000	10,000	1.25%	2,000	0.25%	(8,000)	(80.0%)
83,333	1,000,000	20,000	2.00%	4,000	0.40%	(16,000)	(80.0%)
100,000	1,200,000	30,000	2.50%	6,000	0.50%	(24,000)	(80.0%)
125,000	1,500,000	75,000	5.00%	39,000	2.60%	(36,000)	(48.0%)
150,000	1,800,000	120,000	6.67%	72,000	4.00%	(48,000)	(40.0%)
175,000	2,100,000	165,000	7.86%	105,000	5.00%	(60,000)	(36.4%)
200,000	2,400,000	230,000	9.58%	162,000	6.75%	(68,000)	(29.6%)
225,000	2,700,000	305,000	11.30%	231,000	8.56%	(74,000)	(24.3%)
250,000	3,000,000	380,000	12.67%	300,000	10.00%	(80,000)	(21.1%)
266,667	3,200,000	430,000	13.44%	346,000	10.81%	(84,000)	(19.5%)
291,667	3,500,000	520,000	14.86%	436,000	12.46%	(84,000)	(16.2%)
316,667	3,800,000	610,000	16.05%	526,000	13.84%	(84,000)	(13.8%)
341,667	4,100,000	700,000	17.07%	616,000	15.02%	(84,000)	(12.0%)
416,667	5,000,000	1,015,000	20.30%	931,000	18.62%	(84,000)	(8.3%)
583,333	7,000,000	1,715,000	24.50%	1,631,000	23.30%	(84,000)	(4.9%)
833,333	10,000,000	2,765,000	27.65%	2,681,000	26.81%	(84,000)	(3.0%)
1,250,000	15,000,000	4,966,500	33.11%	4,829,790	32.20%	(136,710)	(2.8%)
1,666,667	20,000,000	6,891,500	34.46%	6,737,290	33.69%	(154,210)	(2.2%)
2,083,333	25,000,000	8,816,500	35.27%	8,644,790	34.80%	(171,710)	(1.9%)
2,500,000	30,000,000	10,741,500	35.81%	10,552,290	35.17%	(189,210)	(1.8%)

### Super tax [Section 4C / First Schedule Part I Division IIB]

The Finance Act 2025 has reduced super tax rates applicable under section 4C of the Ordinance for Tax Year 2026 onwards, in the following manner:

S. No.	Income under section 4C	Rate of Tax		
		For tax year 2022	For tax years 2023, 2024 & 2025	For tax year 2026 and onwards
(1)	(2)	(3)	(4)	(5)
1.	Where income does not exceed Rs. 150 million	0% of the income	0% of the income	0% of the income
2.	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income	1% of the income	1% of the income
3.	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income	2% of the income	1.5% of the income
4.	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income	3% of the income	2.5% of the income
5.	Where income exceeds Rs. 300 million but does not exceed Rs. 350 million	4% of the income	4% of the income	3.5% of the income
6.	Where income exceeds Rs. 350 million but does not exceed Rs. 400 million		6% of the income	5.5% of the income
7.	Where income exceeds Rs. 400 million but does not exceed Rs. 500 million		8% of the income	7.5% of the income
8.	Where income exceeds Rs. 500 million		10% of the income	10% of the income

### Exemption of capital gain from applicability of Super Tax [Section 4C / Second Schedule Part IV Clause (104A)]

The Finance Act 2025 has added an exemption once in 15 years for capital gain, in respect of super tax calculation under section 4C of the Ordinance, which is derived from the disposal of one residential immovable property, if the property:

- (a) has been in the personal use of the person for the last 15 years;
- (b) has been declared by the person in his wealth statement under section 116 for the last 15 years; and
- (c) appears as residence for personal use in tax record of the person.

### **Tax on payments for digital transactions in e-commerce platforms [Section 6A / Section 153(2A) / First Schedule Part I Division IVA / First Schedule Part III Division III Para 3A]**

The Finance Act 2025 introduced tax deduction under section 6A of the Income Tax Ordinance 2001 (“the Ordinance”) on payment for “digitally ordered goods” or “digitally delivered services” through e-commerce platforms including websites to be charged at the rate specified in Division IVA of Part I of the First Schedule to the Ordinance.

The Finance Act 2025 also added sub-section (2A) under Section 153, to require 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); shall collect tax from the gross amount payable (including sales tax, if any) to the seller at the rate specified in Para 3A of Division III of Part III of the First Schedule to the Ordinance and deposit to government treasury.

The Act changed section 153(7) to include the “payment intermediary” and “courier service providers” as withholding agents.

The tax paid under section 6A shall be the final tax. The export proceeds subjected to withholding under section 154 and 154A shall not fall within the ambit of this section.

The Finance Bill 2025 proposed the rate of tax to be charged / deducted from a payment against section 6A and section 153(2A) for digitally ordered goods or digitally delivered services through e-commerce platforms including websites in the following manner:

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

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



**(ii) Cash on Delivery by courier service:**

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

However, through the Finance Act 2025 the above rates have been revised in the following manner and made applicable on amount paid as well as on “amount payable”:

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

Tax Rates
1% of the gross amount paid or payable

**(ii) Cash on Delivery by courier service:**

Tax Rates
2% of the gross amount paid or payable

**Furnishing of information by online marketplace, payment intermediary and courier service [Section 165C]**

The Finance Act 2025 added Section 165C requiring every payment intermediary and courier service responsible for deducting tax u/s 153(2A) of the Ordinance to file a quarterly withholding statement for tax deduction regarding sale of digitally ordered goods and services for each quarter of a tax year in the prescribed format. The Act also required every online marketplace in Pakistan to submit a monthly statement containing prescribed information 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.

### **Tax on pension [Section 12 / Section 149]**

The Finance Bill 2025 proposed to introduce withholding income tax under section 149 of the Ordinance, on pension income exceeding Rs. 10,000,000/- during a tax year to be deducted by the employer from a former employee under the age of 70 years, in the following manner:

S. No.	Description	Tax Rates
1.	Where the amount of annual pension received does not exceed Rs. 10,000,000	0%
2.	Where the amount of annual pension received exceeds Rs. 10,000,000	5% of the amount exceeding Rs. 10,000,000

The withholding tax deduction to also include surcharge as per section 4AB of the Ordinance, after making necessary adjustments for tax already paid / deducted.

The above proposed change was without introducing any corresponding changes in the charging sections. The Finance Act 2025, has now introduced necessary changes in section 12 for taxation of pension.

### **Minimum threshold defined for fair market annual rent of commercial properties [Section 15]**

The Finance Bill 2025 proposed to define the minimum rent threshold for commercial properties to 4% of the fair market value per annum as per Section 68 of the Ordinance. However, this minimum value of fair market rent shall not be applicable if evidence proving otherwise is provided by the taxpayer.

This proposed change has been withdrawn and is not included in Finance Act 2025.

### **Deductions not to be allowed from “income from business” in cases of purchase from unregistered persons and collection against sales through non-banking channel [Section 21]**

The Finance Act 2025 has replaced subsection 21(q) to disallow purchase from persons not having NTN to the extent of 10%, excluding direct purchase of agricultural produce from the growers. The Act empowered FBR to exempt persons or classes of persons from this condition. Before this change, as per this clause any expenditure attributable to sales made to persons required to be registered but not registered under the Sales Tax Act, 1990 by an industrial undertaking was disallowable proportionately.

The Finance Act 2025 also added sub-section 21(s) to disallow 50% of the expenditure, in case if collection against “sales of goods” or “provision of services” is received in cash against a single invoiced sale transaction exceeding Rs. 200,000/-.

### **Disallowance of depreciation relevant to addition to capital assets without deduction of tax [Section 22]**

The Finance Act 2025 amended section 22 to disallow depreciation expense relevant to the addition to capital assets, where the amount is paid without deduction and deposit of tax u/s 152 or 153 of the Ordinance.

### **Useful life of intangible assets [Section 24]**

The Finance Act 2025 reduced the useful life from 25 years to 15 years for intangible assets that does not have an ascertainable useful life. The change will result in increase in amortization cost for such intangible assets where useful life is not ascertainable.

### **Set off of “loss from business” against “income from property” withdrawn [Section 56]**

Earlier, loss for any tax year under any head of income was entitled for set off against the person’s income chargeable to tax under any other head of income except income from salary. However, the Finance Act 2025 has withdrawn the set off of “loss from business” against “income from property” for any tax year.

### **Exclusion of non-corporate entities from the benefit of group relief [Section 59B]**

The Finance Act 2025 excluded a company or companies within the group whose income from business is chargeable to tax under any provisions of this Ordinance other than Division II of Part I of the First Schedule to the Ordinance, to avail group relief.

### **Tax credit for interest paid on low-cost housing loan [Section 63A]**

The Finance Act 2025 introduced a tax credit for individuals in respect of any profit on debt or share in rent or share in appreciation for value of house paid by the person in the year on a loan from specified / regulated entities, where the person utilizes the loan for the construction (including land) or acquisition of one personal house having land area up to 2,500 square feet or flat having total area up to 2,000 square feet, subject to the following conditions:

- a. the tax credit under this section shall be availed to maximum of 30% of the person’s taxable income for the year; and
- b. on claiming tax credit under this section, the individual shall not be entitled to claim tax credit for another house or flat under this section during the subsequent 15 tax years.
- c. on claiming tax credit under this section, the individual shall not be entitled to deduct any profit under section 15A of the Ordinance, in computing income chargeable under the head “Income from Property”.

### **Scope of supply for persons engaged in coal mining projects in Sindh has been enhanced [Section 65F]**

The persons engaged in coal mining project in Sindh were eligible for 100% tax credit if they supply coal exclusively to power generation projects. However, the Finance Bill 2025 proposed to enhance the scope of supply for such person, who can now supply coal to any sector of the economy paying income tax on income from such supply and simultaneously can also avail 100% tax credit on supply to power generation projects.

The Finance Act 2025 accepted the proposed change however re-drafted the wording to further clarify that tax credit under section 65F of the Ordinance shall only be available on the income derived from supplying coal to power generation Projects by persons engaged in coal mining projects in Sindh.

### **Tax credit for charitable organizations [Section 100C / Clause (57) & (66) of Part I of Second Schedule]**

Earlier, there were two sets of Non-profit Organization (NPOs) enlisted under clause (66) of Part I of Second Schedule in the following manner:

Table 1 under Clause (66)	entities granted complete exemption on any income
Table 2 under Clause (66)	entities granted exemption subject to fulfilling the conditions laid down under section 100C

The Finance Act 2025 has added a new sub-clause (4) under Clause (57) of Part I of Second Schedule and merged Table 1 and Table 2 into one Table under Clause (66) of Part I of Second Schedule to restructure the scheme by enlisting the entities in the following manner:

Sub-Clause (4) of Clause (57)	entities granted complete exemption on any income
New Table under Clause (66)	entities granted exemption subject to fulfilling the conditions laid down under section 100C

The Finance Act 2025 has added the following entities in the total list:

Name
Beaconhouse National University
Federal Ziauddin University
Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme
Punjab Police Welfare Foundation Lahore

The Finance Act 2025 has deleted the following entity from the total list:

Name
Bilquis Edhi Foundation

Importantly, these changes have been made with the re-shuffling of the entities from one category to other. Due to the above change through the Finance Act 2025, any income of the entities appearing in the table under sub-clause (4) of clause (57) of Part I of Second Schedule, shall be exempt from tax without any compliance to section 100C of the Ordinance. Whereas specified income of the entities appearing in the amended list in table under clause (66) shall get exemption and that too after fulfilling necessary formalities under section 100C.

Name	Existing		Amended	
	S. No.	Clause (66) Table	S. No.	Clause
International Islamic Trade Finance Corporation	(i)	Table 1	(xlv)	(57)(4)
Islamic Corporation for Development of Private Sector	(ii)	Table 1	(xlvi)	(57)(4)
National Memorial Bab-e-Pakistan Trust	(iii)	Table 1	(xxxvi)	(57)(4)
Pakistan Agricultural Research Council	(iv)	Table 1	(vi)	(57)(4)
The corporatized entities of Pakistan Water and Power Development Authority from the date of their creation upto the date of completion of the process of corporatization i.e. till the tariff is notified	(v)	Table 1	(vii)	(57)(4)
The Prime Minister's Special Fund for victims of terrorism	(vi)	Table 1	(viii)	(57)(4)
Chief Minister's (Punjab) Relief Fund for Internally Displaced Persons (IDPs) of NWFP	(vii)	Table 1	(ix)	(57)(4)
The Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network	(viii)	Table 1	(xl)	(57)(4)
Pakistan Council of Scientific and Industrial Research	(ix)	Table 1	(iv)	(57)(4)
The Pakistan Water and Power Development Authority established under the Pakistan Water and Power Development Authority Act, 1958 (W. P. Act XXXI of 1958).	(x)	Table 1	(v)	(57)(4)



WAPDA First Sukuk Company Limited	(xi)	Table 1	(xxv)	(57)(4)
Pension of a former President of Pakistan and his widow	(xii)	Table 1	(i)	(57)(4)
State Bank of Pakistan and State Bank of Pakistan Banking Services Corporation	(xiii)	Table 1	(ii)	(57)(4)
International Finance Corporation established under the International Finance Corporation Act, 1956 (XXVIII of 1956) and provided in section 9 of Article VI of Articles of Agreement 1955 as amended through April 1993	(xiv)	Table 1	(xli)	(57)(4)
Pakistan Domestic Sukuk Company Ltd.	(xv)	Table 1	(xxvi)	(57)(4)
ECO Trade and Development Bank	(xvi)	Table 1	(xlvii)	(57)(4)
The Islamic Chamber of Commerce and Industry under the Organization of Islamic Conference (OIC)	(xvii)	Table 1	(xlviii)	(57)(4)
Commission on Science and Technology for Sustainable Development in the South (COMSATS) formed under International Agreement signed on 5th October, 1994	(xviii)	Table 1	(xlix)	(57)(4)
WAPDA on issuance of twenty billion rupees TFC's/SUKUK certificates for consideration of Diamer Bhasha Dam Projects	(xix)	Table 1	(xxvii)	(57)(4)
Federal Board of Revenue Foundation	(xx)	Table 1	(iii)	(57)(4)
WAPDA Second Sukuk Company Limited	(xxi)	Table 1	(xxviii)	(57)(4)
Pakistan International Sukuk Company Limited	(xxii)	Table 1	(xxix)	(57)(4)
Second Pakistan International Sukuk Company Limited	(xxiii)	Table 1	(xxx)	(57)(4)
Third Pakistan International Sukuk Company Limited	(xxiv)	Table 1	(xxxi)	(57)(4)
Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on the 25th December, 2015	(xxv)	Table 1	(xlii)	(57)(4)
Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund	(xvi)	Table 1	(x)	(57)(4)
National Disaster Risk Management Fund	(xvii)	Table 1	(xi)	(57)(4)
Deposit Protection Corporation established under sub-section (I) of section 3 of Deposit Protection Corporation Act, 2016 (XXXVII of 2016)	(xviii)	Table 1	(xxiv)	(57)(4)
SAARC Energy Centre	(xix)	Table 1	(xliii)	(57)(4)

The Asian Development Bank established under the Asian Development Bank Ordinance, 1971 (IX of 1971)	(xxx)	Table 1	(xliv)	(57)(4)
The Prime Minister's COVID-19 Pandemic Relief Fund-2020	(xxxi)	Table 1	(xii)	(57)(4)
SAARC Arbitration Council (SARCO)	(xxxii)	Table 1	(I)	(57)(4)
International Parliamentarians' Congress	(xxxiii)	Table 1	(li)	(57)(4)
Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT	(xxxiv)	Table 1	(xxxix)	(66) Table
Shaukat Khanum Memorial Trust	(xxxv)	Table 1	(xl)	(66) Table
National Endowment Scholarship for Talent (NEST)	(xxxvi)	Table 1	(xiii)	(57)(4)
Islamic Naya Pakistan Certificates Company Limited (INPCCL)	(xxxvii)	Table 1	(xxxii)	(57)(4)
Abdul Sattar Edhi Foundation	(xxxviii)	Table 1	(xli)	(66) Table
Patient's Aid Foundation	(xxxix)	Table 1	(xlii)	(66) Table
Indus Hospital and Health Network	(xl)	Table 1	(xliii)	(66) Table
Securities and Exchange Commission of Pakistan	(xli)	Table 1	(xiv)	(57)(4)
Dawat-e-Hadiya, Karachi	(xlii)	Table 1	(xlvii)	(66) Table
Privatisation Commission of Pakistan	(xliii)	Table 1	(xv)	(57)(4)
The Citizens Foundation	(xliv)	Table 1	(xlviii)	(66) Table
Sundus Foundation	(xlv)	Table 1	(xliv)	(66) Table
Ali Zaib Foundation	(xlvi)	Table 1	(xlv)	(66) Table
Fauji Foundation	(xlvii)	Table 1	(xvi)	(57)(4)
Make a Wish Foundation	(xlviii)	Table 1	(xlix)	(66) Table
Audit Oversight Board	(xlix)	Table 1	(xvii)	(57)(4)
Supreme Court Water Conservation Account	(I)	Table 1	(xviii)	(57)(4)
Layton Rahmatullah Benevolent Trust (LRBT)	(li)	Table 1	(xlv)	(66) Table
Baluchistan Education Endowment Fund (BEEF)	(lii)	Table 1	(xix)	(57)(4)
Saylani Welfare International Trust	(liii)	Table 1	(I)	(66) Table
Chiniot Anjuman Islamia	(liv)	Table 1	(lii)	(66) Table
Army Welfare Trust	(lv)	Table 1	(xx)	(57)(4)
Pakistan Mortgage Refinance Company Limited	(lvi)	Table 1	(xxxiii)	(57)(4)
The Pakistan Global Sukuk Programme Company Limited	(lvii)	Table 1	(xxxiv)	(57)(4)
Karandaaz Pakistan from tax year 2015 onwards	(lviii)	Table 1	(xxxix)	(57)(4)

Pakistan Sweet Homes Angels and Fairies Place	(lix)	Table 1	(xxxviii)	(66) Table
Public Private Partnership Authority for tax year 2022 and subsequent four tax years	(lx)	Table 1	(xxi)	(57)(4)
Dawat-e-Islami Trust	(lxi)	Table 1	(li)	(66) Table
Hamdard Laboratories (Waqf) Pakistan	(lxii)	Table 1	(liii)	(66) Table
The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5th August, 2022	(lxiii)	Table 1	(xxii)	(57)(4)
Film and Drama Finance Fund	(lxiv)	Table 1	(liv)	(66) Table
Export-Import Bank of Pakistan	(lxv)	Table 1	(xxiii)	(57)(4)
Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi	(lxvi)	Table 1	(xxxv)	(57)(4)
Shaheed Zulfikar Ali Bhutto Institute of Science and Technology	(lxvii)	Table 1	(lv)	(66) Table
Al-Shifa Trust	(ii)	Table 2	(i)	(66) Table
Bilquis Edhi Foundation	(iii)	Table 2	Entry Deleted	
Fatimid Foundation	(iv)	Table 2	(ii)	(66) Table
Pakistan Engineering Council	(v)	Table 2	(iii)	(66) Table
The Institution of Engineers	(vi)	Table 2	(iv)	(66) Table
Liaquat National Hospital Association	(vii)	Table 2	(v)	(66) Table
Greenstar Social Marketing Pakistan (Guarantee) Limited	(ix)	Table 2	(vi)	(66) Table
Gulab Devi Chest Hospital	(xi)	Table 2	(vii)	(66) Table
Pakistan Poverty Alleviation Fund	(xii)	Table 2	(xxxvii)	(57)(4)
National Academy of Performing Arts	(xiii)	Table 2	(viii)	(66) Table
National Rural Support Programme	(xv)	Table 2	(xxxviii)	(57)(4)
Pakistan Bar Council	(xvi)	Table 2	(ix)	(66) Table
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Pakistan Disabled Foundation	(xxii)	Table 2	(xiii)	(66) Table
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Al-Khidmat Foundation	(xxvi)	Table 2	(xvii)	(66) Table

Sardar Trust Eye Hospital, Lahore	(xxviii)	Table 2	(xviii)	(66) Table
Akhuwat	(xxix)	Table 2	(xix)	(66) Table
Al-Shifa Trust Eye Hospital	(xxxii)	Table 2	(xx)	(66) Table
SARMAYA-E-PAKISTAN LIMITED	(xxxiv)	Table 2	(xxi)	(66) Table
Lahore University of Management Sciences, Lahore	(xxxv)	Table 2	(xxii)	(66) Table
Ghulam Ishaq Khan Institute of Engineering Sciences and Technology	(xxxvii)	Table 2	(xxiii)	(66) Table
Society for the Promotion of Engineering Sciences and Technology in Pakistan (SOPREST)	(xxxviii)	Table 2	(xxiv)	(66) Table
Businessmen Hospital Trust	(xxxix)	Table 2	(xxv)	(66) Table
Baitussalam Welfare Trust	(xl)	Table 2	(xxvi)	(66) Table
Alamgir Welfare Trust International	(xli)	Table 2	(xxvii)	(66) Table
Foundation University	(xlii)	Table 2	(xxviii)	(66) Table
Burhani Qarzan Hasnan Trust	(xliii)	Table 2	(xxix)	(66) Table
Saifee Hospital Karachi	(xliv)	Table 2	(xxx)	(66) Table
Saifiyah Girls Taalim Trust	(xlv)	Table 2	(xxxi)	(66) Table
Balochistan Bar Council	(xlvi)	Table 2	(xxxii)	(66) Table
Islamabad Bar Council	(xlvii)	Table 2	(xxxiii)	(66) Table
Khyber Pakhtunkhwa Bar Council	(xlviii)	Table 2	(xxxiv)	(66) Table
Punjab Bar Council	(xlix)	Table 2	(xxxv)	(66) Table
Sindh Bar Council	(l)	Table 2	(xxxvi)	(66) Table
Shaheed Zulfikar Ali Bhutto Foundation (SZABF)	(li)	Table 2	(xxxvii)	(66) Table
Beaconhouse National University	New Entry		(lvi)	(66) Table
Federal Ziauddin University	New Entry		(lvii)	(66) Table
Army Officers Benevolent Fund/Benevolent Fund/Bereaved Family Scheme	New Entry		(lii)	(57)(4)
Punjab Police Welfare Foundation Lahore	New Entry		(lviii)	(66) Table

#### **Period of carry forward for adjustment of minimum tax on turnover reduced [Section 113]**

The Finance Act 2025 reduced the period of carry forward for adjustment of minimum tax on turnover from 3 years to 2 years. As per the amendment, after 2 years the remaining unadjusted amount of minimum tax paid will be lapsed.

### **Restriction on certain economic transactions by “ineligible persons” [Section 114C / Fifteenth Schedule]**

The Finance Act 2025 has introduced the concept of “eligible person” and “ineligible person” and empowering FBR to impose restrictions on facilitator (i.e. motor registration authority, property registration or transfer authority, banker etc.) not to provide any of the following economic activities / facilities to “ineligible person” with the monetary threshold defined in Fifteenth Schedule:

- a. booking, purchase or registration of a motor vehicle
- b. registering, recording or attesting transfer of any immovable property
- c. purchase, open an account or clear purchase securities including debt securities or units of mutual funds of securities, mutual funds
- d. cash withdrawal from any of the bank accounts

An “eligible person” means a person who has filed –

- (i) a return of income for the tax year immediately preceding the year of the above-mentioned transactions and has sufficient resources in the wealth statement in case of an individual, or financial statement in case of a company or an association of persons, as the case may be, for such transaction; or
- (ii) sources of investment and expenditure statement declaring sufficient resources and furnishing explanation thereof for a particular purchase or investment transaction covered in clauses (a), (b) and (c) as mentioned above.

Provided that in case of an individual, the eligible person shall include his immediate family members, which shall be parents, spouse and dependent children;

The monetary threshold defined in Fifteenth Schedule for ineligibility of economic transactions under section 114C of the Ordinance are as under:

S. No.	Transaction reference	Transaction value specification	Threshold limitation for ineligibility
1.	114C(1)(a)	The invoice value for locally manufactured vehicle; or the import value as assessed by the Customs Authority inclusive of all applicable taxes, duties, levies and charge	Exceeding Rs. 7,000,000
2.	114C(1)(b)	Fair Market Value as defined in clause (22AA) of section 2 of the Ordinance	Exceeding Rs. 100,000.000



3.	114C(1)(c)	Acquisition cost of securities or debt securities or unit of mutual funds or money market instruments	Exceeding Rs. 50,000,000
4.	114C(1)(d)	Annual cash withdrawal limit	Rs. 100,000,000 in all bank accounts held by an individual

#### **Amendment of assessment [Section 122(9)]**

The Finance Bill 2025 proposed to delete the limitation of time period of 180 days and further extended period of 90 days by the Commissioner (making total of 270 days) provided for completing proceedings for amendment of assessment from the date of issuance of show cause notice under this sub-section.

The Finance Act 2025, however restored the time limitation with the change of limit from 180 days to one year, along with further extension of 90 days by the Commissioner (making a total of 455 days). This change shall however be applicable to a show cause notice issued on or after the first day of July, 2021.

#### **Proceeding for recovery on confirmed or modified orders by the appellate forums [Section 124]**

The Finance Act 2025 has done away with the need of “appeal effect order” in cases where the tax payable has been confirmed at the appellate forum and the Commissioner shall proceed to effect recovery.

As per the Finance Act 2025, where the matters have been partly set aside or remanded and partly confirmed or modified on some other issues by the appellate forum, the Commissioner shall issue an appeal effect order on the prescribed form determining the tax payable on the basis of the issues that have been confirmed or modified and shall proceed to effect recovery.

#### **Withdrawal of pecuniary jurisdiction in appeals and changes in appeal procedures [Section 126A / Section 127 / Section 131 / Section 133]**

Through the Tax Laws (Amendment) Act 2024, FBR introduced new concept of filing direct appeal to Tribunal with certain monetary threshold, instead of filing first appeal before Commissioner Appeals. After some time of implementation, FBR has realized that this is not serving the purpose for which it was introduced. Hence, the Finance Act 2025 has withdrawn this section.

The Finance Act 2025 has also introduced option under section 127 of the Ordinance to either file appeal before Commissioner Inland Revenue (Appeals) [CIR-A] directly or may surrender the right of appeal before CIR-A and avail the next statutory appellate forum by

lodging the appeal directly before the Appellate Tribunal Inland Revenue. Corresponding amendments are also made in section 131 and section 133 of the Ordinance.

In addition to above, Finance Act 2025 has also increased in time period for filing appeal before High Court from 30 to 60 days and deleted the phrase “or a mixed question of law and facts”. Hence, High Court shall now only consider the question of law which arises out of the order appealed against.

#### **Alternate Dispute Resolution [Section 134A]**

The Finance Act 2025, in case of State-Owned Enterprise (SOE), has allowed FBR to re-appoint a committee if the first appointed Committee fails to decide the matter within a period of 60 days. In case, if the re-appointed Committee also fails to decide the matter within a further period of 60 days, then the Finance Act 2025 allows FBR to dissolve the Committee by an order in writing u/s 134A(5) of the Ordinance and then the matter shall be decided by the court of law or the appellate authority where the dispute was pending under litigation.

#### **Recovery of tax from taxpayer or persons holding money on behalf of a taxpayer [Section 138 / Section 140]**

In case the issue giving rise to the tax payable is decided by a High Court or Supreme Court of Pakistan, the Finance Bill 2025 proposed that the tax payable under any assessment order shall become immediately recoverable or within the time specified in the notice issued by the income tax authority under this subsection. The Finance Bill further proposes that in case if High Court decides the appeal filed by the Commissioner in favor of the department under section 133, recovery shall be made after 7 days from the date of the order of the High Court.

However as per the Finance Act 2025, the tax payable under any provision of the Ordinance or any assessment order shall become immediately payable only if the following conditions are met:

- (a) that the case has been decided in the favor of the department at three appellate forums including the High Court;
- (b) that the recovery under this section shall only be made to the extent of lowest amount of demand which has been confirmed by any of the three appellate forums; and
- (c) that the tax payable exceeds Rs. 200,000,000.

#### **Gain arising out of debt securities and withholding tax thereon [Section 151A / First Schedule Part I Division IIIAA]**

The Finance Act 2025 has added a new Section 151A to tax gain on debt securities and made every custodian of debt securities including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of holder of a debt security and shall at the time of disposal of debt securities including government securities deduct

tax @ 15% of the gross amount of the capital gain arising to such holder. The Act excludes disposal of debt securities made through registered stock exchange and which are settled through NCCPL from the ambit of section 151A of the Ordinance.

The withholding income tax on capital gain arising to the holder on disposal of debt security shall be computed at 15% of the gross amount of the capital gain under Division IIIAA in Part III of First Schedule to the Ordinance.

#### **Payment to non-residents [Section 152 / First Schedule Part III Division II]**

The Finance Act 2025 has imposed withholding tax, in case of holding period of debt instruments and Government securities including treasury bills and Pakistan investment bonds is less than twelve months, the capital gain arising on the disposal of such securities to the non-resident person applying withholding rate of 20% of the gross amount paid.

The Finance Act 2025 further proposes to increase withholding income tax rate on certain specified services as mentioned in para (5)(i) of Division II of Part III of First Schedule from 4% to 8%. However, the Finance Act 2025 has maintained the withholding rate of 4% for IT services and IT enable services.

The Act further increased withholding tax rates on services other than the above specified services u/s 152, in the following manner:

Division II Para	Description	Tax Year 2025 Tax Rates	Tax Year 2026 Tax Rates
5(ii)(a)	in case of a company	9% of the gross amount payable	15% of the gross amount payable
5(ii)(b)	in any other case	11% of the gross amount payable	15% of the gross amount payable
6(i)	in case of sportspersons	10% of the gross amount payable	15% of the gross amount payable

#### **Withholding tax reduced rate / NIL rate certificate under section 153 [Section 153(4)]**

Earlier, Section 153(4) of the Ordinance, allowed commissioner to issue reduced rate certificate but such reduction shall not exceed 80% of the rates specified. The Finance Act 2025 has now excluded “public limited companies” where the Commissioner can now allow payment without deduction of any tax.

This relaxation was not proposed in the Finance Bill 2025, but later included in the Finance Act 2025.

Exemption certificate for residential property where holding period is more than 15 years

### **[Section 37(1A) / Section 159(2A) / Section 236C]**

Where capital gains on sale of residential immovable property is not chargeable to tax under section 37(1A) of the Ordinance, no automatic exemption will now be available. The seller of the residential immovable property can get the exemption certificate once in 15 years, from the relevant Commissioner from advance tax under section 236C of the Ordinance, subject to the following conditions:

- (a) residential immovable property has been in the personal use for the last 15 years;
- (b) residential immovable property has been declared by the person in his wealth statement under section 116 for the last 15 years; and
- (c) residential immovable property appears as residence for personal use in tax record of the person:

This condition was not introduced in the Finance Bill 2025, but later included in the Finance Act 2025.

### **Exchange of banking and tax information related to high-risk persons. [Section 175AA]**

The Finance Act 2025 added Section 175AA, to share certain key information of any taxpayer with his bankers for the purpose to confirm his personal data with bank records.

### **Posting of officer of Inland Revenue to the business premises of any person [Section 175C]**

The Finance Act 2025 has added section 175C allowing FBR or the Chief Commissioner to post any officer of the Inland Revenue to the business premises of any person or class of such persons, to monitor production, supply of goods or rendering of services and the stock of goods not sold at any time for determining tax payable under the Ordinance.

### **Taxpayers' registration [Section 181]**

The Finance Act 2025 has added sub-section (1A) under Section 181 to restrict every online marketplace or courier service, involved in e-commerce by supplying or delivering digitally ordered goods or services from within Pakistan, to not allow any vendor to use its platform services to carry out e-commerce transactions unless such vendors have been registered under the Sales Tax Act, 1990 and the Income Tax Ordinance 2001.

### **Service of notices and other documents [Section 218]**

The Finance Act 2025 substituted the word "individual" with "person", as a clarificatory amendment.

### **Appointment of auditors by FBR [Section 222]**

The Finance Act 2025 made amendment in section 222 to give authority to FBR to appoint as many auditors as it deems fit for carrying out the purposes of this Ordinance. However, the total number of such auditors appointed under this section shall not be more than 2,000.

### **The rate of advance tax on cash withdrawal for non-filers increased [Section 231AB]**

The Finance Act 2025 has increased the rate of advance tax on total cash withdrawal in a day, exceeding Rs. 50,000 from 0.6% to 0.8%, from a person whose name is not appearing in the active taxpayers' list.

### **Rate of dividend tax / withholding tax on dividend [Section 150 / First Schedule Part I Division III Clause (ba) / First Schedule Part III Division I Clause (ba)]**

The Finance Act 2025 added a new clause (ba) in Division III of Part I of First Schedule and Division I of Part III of First Schedule, to introduce tax rates of 25% and 15%, in case of mutual funds, contingent upon proportional income derived from average annual investments in debt securities and equities, respectively.

Although not in the Finance Bill 2025, the Finance Act 2025 has added a proviso to charge tax at an enhanced rate of 29% on corporate entities as recipient of the dividend, where the component derived from the debt securities.

### **Rate for profit on debt / Withholding tax on profit on debt [Section 7B / Section 151 / First Schedule Part I Division IIIA / First Schedule Part III Division IA]**

The Finance Act 2025 has introduced the following tax rates for tax charge and tax withholding on profit on debt under Division IIIA of Part I of First Schedule and Division IA of Part III of First Schedule, respectively:

S. No.	Description	Tax Year 2025 Tax Rates	Tax Year 2026 Tax Rates
(a)	the yield or profit paid by a banking company or financial institution on an account or deposit maintained with such company or institution	15%	20%
(b)	The yield or profit on Government securities under section 151(1)(c) paid to any person other than an individual	15%	20%
(c)	the yield or profit in cases other than those mentioned in clause (a) and (b)	15%	15%



### **Tax rate on Profit on debt for non-filers [Section 151 / Tenth Schedule Rule (1) Third Proviso]**

In case of persons not appearing in the active taxpayers' list the tax rate on yield or profit on debt was 35%. The Finance Act 2025 seeks to delete this tax rate. As a result, the withholding tax rates on yield or profit on debt for persons not appearing in Active Taxpayers List are revised as under:

S. No.	Description	Tax Year 2025	Tax Year 2026
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	The yield or profit on Government securities under section 151(1)(c) paid to any person other than an individual	35%	40%
3	In other cases	35%	30%

### **Payment for goods, services and contracts [Section 153 / First Schedule Part III Division III]**

The Finance Act 2025 increased withholding income tax rate on certain specified services as mentioned in para (2) of Division III of Part III of First Schedule from 4% to 6%. However, the Act kept the rate at 4% for IT services and IT enable services.

The Act further increased withholding tax rates on services other than the above specified services, in the following manner:

Division III Para	Description	Tax Year 2025 Tax Rates	Tax Year 2026 Tax Rates
2(ii)(a)	in case of a company	9% of the gross amount payable	15% of the gross amount payable
2(ii)(b)	in any other case	11% of the gross amount payable	15% of the gross amount payable
2(ii)(c)	in respect of persons making payments to electronic and print media for advertising services	1.5% of the gross amount payable	1.5% of the gross amount payable

In case of sportspersons, the Act increased the rate of tax to be deducted from a payment for execution of contracts u/s 153(1)(c), from 10% to 15% of the gross amount payable. Accordingly, the withholding tax rates for "execution of contract" to be as under:

Division III Para	Description	Tax Year 2025 Tax Rates	Tax Year 2026 Tax Rates
3(i)	in case of sportspersons;	10% of the gross amount payable	15% of the gross amount payable
3(ii)	in case of a company	7.5% of the gross amount payable	7.5% of the gross amount payable
3(iii)	in any other case	8% of the gross amount payable	8% of the gross amount payable

**Advance tax on sale or transfer of immovable property [Section 236C / First Schedule Part IV Division X / Tenth Schedule Rule (1) Third Proviso / Tenth Schedule Rule (1A)(a)]**

The Finance Act 2025 has enhanced the advance tax rates on sales or transfer of immovable property u/s 236C of the Ordinance as per Division X of Part IV of First Schedule, in the following manner:

S. No.	Amount	For Filer	
		Tax Year 2025 Tax Rate	Tax Year 2026 Tax Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3.0%	4.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5.0%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4.0%	5.5%

In case of persons not appearing in the active taxpayers' list, the Finance Act 2025 has enhanced the advance tax rates on sales or transfer of immovable property u/s 236C of the Ordinance as per Third Proviso Rule (1) of Tenth Schedule, in the following manner:

S. No.	Amount	For Non-Filer	
		Tax Year 2025 Tax Rate	Tax Year 2026 Tax Rate
1	On the gross amount of consideration received on sale or transfer of immovable property	10.0%	11.5%

In case late filers of return, the Finance Act 2025 has enhanced the advance tax rates on sales or transfer of immoveable property u/s 236C of the Ordinance as per Rule (1A)(a) of Tenth Schedule, in the following manner:

S. No.	Amount	For Late Filer	
		Tax Year 2025 Tax Rate	Tax Year 2026 Tax Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	6.0%	7.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7.0%	8.5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	8.0%	9.5%

**Advance tax on purchase of immovable property [Section 236K / First Schedule Part IV Division XVIII / Tenth Schedule Rule (1) Second Proviso / Tenth Schedule Rule (1A)(b)]**

The Finance Act 2025 has reduced the advance tax rates on purchase of immoveable property u/s 236K of the Ordinance as per Division XVIII of Part IV of First Schedule, as given hereunder:

S. No.	Amount	For Filer	
		Tax Year 2025 Tax Rate	Tax Year 2026 Tax Rate
1	Where the fair market value does not exceed Rs. 50 million	3.0%	1.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	2.0%
3	Where the fair market value exceeds Rs. 100 million	4.0%	2.5%

In case of persons not appearing in the active taxpayers' list, the Finance Act 2025 has reduced the advance tax rates on purchase of immoveable property u/s 236K of the Ordinance as per Second Proviso of Rule (1) of Tenth Schedule, as given hereunder:

S. No.	Amount	For Non-Filer	
		Tax Year 2025 Tax Rate	Tax Year 2026 Tax Rate
1	Where the fair market value does not exceed Rs. 50 million	12.0%	10.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	16.0%	14.5%
3	Where the fair market value exceeds Rs. 100 million	20.0%	18.5%

In case late filers of return, the Finance Act 2025 has reduced the advance tax rates on purchase of immoveable property u/s 236K of the Ordinance as per Rule (1A)(b) of Tenth Schedule, in the following manner:

S. No.	Amount	For Late Filer	
		Tax Year 2025 Tax Rate	Tax Year 2026 Tax Rate
1	Where the fair market value does not exceed Rs. 50 million	6.0%	4.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	7.0%	5.5%
3	Where the fair market value exceeds Rs. 100 million	8.0%	6.5%

#### **Pension from Former Employer [Second Schedule Part I Clause (8)]**

The Finance Act 2025 has withdrawn clause (8) of Part I of Second Schedule making any pension received by a citizen of Pakistan from a former employer, taxable from Tax Year 2026 at the rate of 5% on the amount exceeding Rs. 10 million per annum.

#### **Pension in respect of services to Armed Forces, Federal or Provincial Government [Second Schedule Part I Clause (9)]**

The Finance Bill 2025 proposed to delete clause (9) of the Second Schedule, making the following pensions taxable:

- i. any pension received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government; or
- ii. by the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service.

The Finance Act 2025, has however only deleted clause (i) of clause (9) of Second Schedule, keeping the exemption alive for pensions received by the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service. The pensions received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government has however made taxable from Tax Year 2026 at the rate of 5% on the amount exceeding Rs. 10 million per annum.

#### **Commutation of Pension from Government or under any pension scheme approved by FBR [Second Schedule Part I Clause (12)]**

The Finance Bill 2025 proposed to withdraw the exemption to any payment in the nature of commutation of pension received from Government or under any pension scheme approved by FBR for the purpose of this clause. However, this proposal was not approved, hence the exemption under clause (12) of Part I of Second Schedule is still available.

**Commutation of Pension to employee on retirement or, in the event of his death, by his heirs [Second Schedule Part I Clause (13)]**

Any payment received by way of commutation of pension by an employee on his retirement or, in the event of his death, by his heirs was exempt to the extent defined. The Finance Bill 2025 proposed to withdraw such exemption for “commutation of pension”.

However, this withdrawal was not approved in the Finance Act 2025, hence the exemption available under this clause, shall continue to remain available.

**Payment of accumulated balance from voluntary pension system [Second Schedule Part I Clause (23A)]**

The Finance Bill 2025 proposed to withdraw exemption to payment of accumulated balance upto 50% from voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005.

However, this withdrawal was not approved in the Finance Act 2025, hence the exemption available under this clause, shall continue to remain available.

**Payment from transfer of balance of approved provident fund under voluntary pension system [Second Schedule Part I Clause (23C)]**

The Finance Bill 2025 proposed to withdraw exemption to withdrawal of accumulated balance from approved pension fund that represents the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005.

However, this withdrawal was not approved in the Finance Act 2025, hence the exemption available under this clause, shall continue to remain available.

**Monetary award received by a sportsperson winning a medal in international Olympic games representing Pakistan [Second Schedule Part I Clause (65B)]**

The Finance Act 2025 has introduced a new exemption, which was not part of the Finance Bill 2025, to any monetary award received from the Federal or Provincial Government or from a Public Office holder by a sportsperson winning a medal in international Olympic Games representing Pakistan.

This exemption is made applicable from tax year 2025.



### **Exemption to income / profits and gains of special economic and special technology zone Enterprises [Second Schedule Part I Clause (126E) / Clause (126EA)]**

Earlier, 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.

The Finance Act 2025 now restricts the above exemptions at earlier of the following:

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

### **Tax exemption extended for erstwhile tribal area residents [Second Schedule Part I Clause (145A) / Second Schedule Part IV Clause (109A) / (110)]**

The Finance Act 2025 extends the exemption on income of residents of erstwhile Tribal Areas, along with exemption from withholding tax, expiring on June 30, 2025 for a further period of one-year upto June 30, 2026.

### **Rebate to full time teachers or researchers [Second Schedule Part III Clause (3A)]**

A rebate of 25% was available to full time teachers and researchers, which was withdrawn through Finance Act, 2022.

The Finance Act 2025 has restored the same by adding a new (3A) in Part III of Second Schedule, to provide tax rebate of 25% of tax payable on income from salary to a full-time teacher or a researcher, employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government research institution. This rebate shall be deemed to have been in force with effect from the first day of July, 2022 and shall cease to have effect after tax year 2025.

Thus, this rebate will not be available from Tax Year 2026 onwards.

### **Audit / Selection of audit by FBR [Second Schedule Part IV Clause (105A)]**

Earlier, the exemption was available to a person from audit u/s 177 and 214C of the Ordinance, in case if the income tax affairs of that person are audited in any of the preceding four tax years. The Finance Act 2025 now changed the exemption “for complete non applicability of section 177 and 214C” to “selection of that person for audit under section 177 and 214C”.

The Act has further reduced the period of exemption from audit from 4 years to 3 years.

**Capital gain on disposal of securities [Section 37A / Tenth Schedule Rule (10)(y)]**

Rule 10 of Tenth Schedule to the Ordinance provides a list of withholding and advance tax. where enhance rates for persons not appearing in the active taxpayers' list does not apply. Before the Finance Act 2025, the list provided exclusion to all taxes collected u/s 37A, however the Finance Act has now excluded advance tax collected u/s 237A for only those securities which were acquired on and from 1st July 2025.

Hence, for persons not appearing in the active taxpayers' list, on disposal of securities acquired before 1st July 2025, withholding rates enhanced by 100% as per Tenth Schedule, shall now be applicable.

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## Significant Amendments in Sales Tax Act, 1990

### 1. Legislative changes:

#### 1.1 Definition of term ‘abettor’ – Clause (1) of Section 2 (renumbered)

In the context of strengthening the enforcement and creating deterrence against tax frauds, the role of an ‘abettor’ is being envisaged. For this purpose, the definition of the term “abettor” is enacted, which means a person who abets or connives in tax fraud within the parameters, as defined in Section 2(37) of the Sales Tax Act, 1990 [ST Act] or in the commission of any offence, warranting prosecution under the Act and includes a person who:

- (a) prepares, or causes to be prepared with or without authorization of the registered person, invoices for false claim of input tax adjustment;
- (b) allows use of bank account held or operated by him for abetting tax fraud or other offence warranting prosecution under the Act or unauthorizedly or illegally maintains or operates business bank account in another registered person’s name; or

The definition is now simplified to relieve the tax consultants or e-intermediaries from the purview of any punitive consequences.

#### 1.2 Definitions of ‘Cargo Tracking System’ [Clause (4A)] and ‘e-Bilty’ [Clause (9A)]

The Act introduces a new definition of the term ‘Cargo Tracking System’, whereupon a digital system of electronic monitoring and tracking of goods transported within or across the territory of Pakistan shall be notified by the Board for the purpose of tax enforcement, compliance and prevention of any tax evasion.

Simultaneously, another related definition of the term “e-bilty” is being inserted, which means a digital transport document generated through the Cargo Tracking System as prescribed by the Board, to accompany goods during their movement.

The procedural requirements under this new regime are yet to be notified. Most likely, the Board has initially introduced this scheme for specific sectors or class of registered persons, and it will gradually broaden its scope across the board. This is also an integration of cargo transportation with FBR’s systems in addition to POS integration/e-invoicing already made mandatory by FBR for corporate and non-corporate sectors.

### **1.3 Taxation of e-commerce and online market places under withholding sales tax mode:**

Through the Act, new definitions of the terms ‘e-commerce’, ‘online marketplace’ and ‘couriers’ have been enacted in order to introduce a revamped withholding sales tax regime for the digitally ordered taxable goods.

Previously, only online marketplaces were required to withhold sales tax at the rate of 1% on local supplies made by non-active taxpayer vendors. Yet, owing to high growth in this industry, particularly the online sales made through web-sites and mobile applications, the Government plans to widen the scope of withholding sales tax under the Eleventh Schedule to Act.

Following amendments have been made in the context of the captioned revamped regime:

#### **(a) Definition of term ‘e-commerce’ – Section 2(9AC)**

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

#### **(b) Definition of term ‘online marketplace’ – Section 2(18A)**

*“online marketplace” means online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods, with or without the platform taking economic ownership of the goods or services that are being sold.”*

#### **(c) Definition of term ‘courier’ – Section 2(5AC)**

*“courier” means any entity engaged in the delivery of goods and collection of cash on behalf of a seller including logistic and ride-hailing services.”*

As per the amendment in the Act, food delivery and e-commerce delivery services have been excluded from the proposed definition as per Finance Bill. Definition of term ‘payment intermediary’ – Section 2(21)

#### **(d) Definition of term ‘payment intermediary’ – Section 2(21)**

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

#### **(e) Insertion of enabling provision under the charging provision – Section 3(3)(c)**

This provision outlines the tax responsibility for supplies of digitally ordered goods within Pakistan in the context of e-commerce. It places the obligation to collect and remit sales tax on the payment intermediaries such as banks, financial institutions, licensed exchange companies, or payment gateways, when payments are made digitally. In case where goods are delivered on a Cash on Delivery (CoD) basis, the courier service handling the delivery is held responsible for collecting and paying the sales tax.

#### **(f) Insertion of new sub-section (7A) to Section 3**

A new sub-section (7A) has been inserted under the charging provision of Section 3 of the Act, which absolves the cottage industry and small retailers from incidence of sales tax, who are exempt from sales tax under ST Act. This enunciates that the withholding sales tax as deducted and paid under Eleventh Schedule by the payment intermediaries or couriers shall constitute the final discharge of sales tax liability in respect of the taxable supplies of digitally ordered goods by the cottage industry and retailers other than Tier-1 retailers.

#### **(g) Sales Tax Registration requirements – Section 14**

The Finance Act amends the provisions of Section 14 of ST Act as follows:

- Every person including a non-resident person selling digitally ordered goods from within Pakistan through online marketplace, website or software application as the case may be, shall apply in the prescribed form and in the prescribed manner for registration. Cottage industries and retailers other than Tier-I Retailers (who are required to pay sales tax through their electricity bills) are exempted from mandatory registration for selling digitally ordered goods.
- Every online marketplace or a courier, involved in e-commerce by supplying digitally ordered goods from within Pakistan shall not allow any person to use their services to carry out e-commerce transactions unless it is registered under sales tax and income tax.”; and
- If a person, who is required to be registered under the Act, does not apply for registration and the Commissioner Inland Revenue or any other officer, as may be authorized by the Board, after such inquiry as deemed appropriate, having reason to believe that a person is liable to register, he shall compulsorily register such person.

#### **(h) Filing of prescribed monthly statement – Section 26**

The addition of new provision imposes a reporting obligation on online marketplaces, payment intermediaries, and couriers involved in the supply of digitally ordered goods within Pakistan. Online marketplaces are required to submit a true, complete, and correct

monthly statement by the due date in the prescribed format, detailing supplier-wise payments, tax due, and other relevant information, regardless of the economic ownership of the goods.

Likewise, payment intermediaries and couriers must also file a similar monthly statement within the prescribed timeline. These requirements are intended to strengthen tax compliance and improve the traceability of e-commerce transactions.

A new sub-section (3A) has been inserted after sub-section (3), providing that approval for filing a revised return is not required if it is submitted within sixty days of the original return, and either the tax payable is higher or the refund claimed is lower than in the original return unless otherwise restricted by the Board's compliance risk management system.

#### **(i) Penalty on non-compliance – Section 33**

Nature of Offense	Rate of Penalty
“1A. Where any online marketplace, payment intermediary or courier fails to furnish prescribed monthly statement within due date	Such person shall be liable to pay: (i) Penalty of three lac rupees for first default; (ii) Penalty of one million rupees for each subsequent default within one year.
1B. Where any online marketplace, courier allow use of its services in the course of e-commerce by unregistered persons	Such person shall be liable to pay: (i) Penalty of five lac rupees for first default; (ii) Penalty of one million rupees for each subsequent default.

#### **(j) Rate of withholding sales tax under Eleventh Schedule:**

In place of online market place, the payment intermediaries and couriers of digitally ordered goods within Pakistan are assigned the responsibility of the withholding agents, who will deduct and pay withholding sales tax at the rate of 2% of the gross value of supplies. Previously, the online market place was required to withhold sales tax at 1% rate.

#### **(k) Enactment of the New Digital Presence Proceeds Tax Act, 2025:**

A new legislation titled as ‘The Digital Presence Proceeds Tax Act, 2025’ is promulgated. Under the Schedule of this new legislation, the tax rate for collection for cross-border transactions of digitally ordered goods and services shall be as under:

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



#### 1.4 Definition of 'tax fraud' – Section 2(37)

The scope of tax fraud is broadened by insertion of new definition.

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

- (a) using or preparing false, forged and fictitious documents including return, statements annexure and invoices;
- (b) suppression of supplies that are chargeable to tax under this Act;
- (c) false claim of input tax credit including based on fictitious transactions;
- (d) making taxable supplies of goods without issuing any tax invoice;
- (e) issuance of any tax invoice without supply of goods;
- (f) suppression and nonpayment of withholding tax in the prescribed manner beyond a period of three months from due date of payment of tax;
- (g) tampering with or destroying of any material evidence or documents required to be maintained under this Act or the rules made thereunder;
- (h) acquisition, possession, transportation, disposal or in any way removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner dealing with, any goods in respect of which there are reasons to believe that these are liable to confiscation under this Act or the rules made thereunder;
- (i) making of taxable supplies without getting registration under this Act;
- (j) generating fake input through manipulation of return filing system of the Board and making fake entries in the sales tax returns or in the annexures; and
- (k) making fictitious compliance of section 73, including routing of payments back to the registered person, or for the benefit of the registered person, through a bank account held by a supplier or a purported supplier.

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

### **1.5 Definition of ‘retail price’ – Section 2(27)**

Retail price with reference to Third Schedule to the Act means the price fixed by the manufacturer or imported inclusive of all duties, charges and taxes other than sales tax at which any particular brand or variety of any article be sold to the general body of consumers or if more than one such priced so fixed for the same brand or variety, the highest of such price.

The Act enacts a new proviso to the above definition, which enunciates that the reduction in price on account of chilling charges or any other similar charges in case of aerated water, beverages, mineral water or fruit juices shall not be more than 5% of the price inclusive of sales tax and Federal excise duty on which such goods are actually sold to the general body of consumers.

It is further added that in case of imported goods specified in Third Schedule, the retail price shall not be less than 130% of the value determined under Section 25 of the Customs Act, 1969 including the amounts of customs duties and Federal excise duty.

### **1.6 Adjustable input tax – Section 8B**

Under Section 8B of the Act, the Board is empowered to prescribe any other limit on input tax adjustment through a Gazette notification. In this context, the Board has issued a notification SRO.1190(I)2019, dated 02 October 2019. Now, the Act empowers the Board to use data based automated risk management system to defer certain input tax or fix higher or lower limits of input tax adjustment. The Act however allows the registered person to contest the action taken under this provision by filing application and documents with the Commissioner concerned, who shall decide the case within 30 days of such application.

### **1.7 Best judgment assessment – Section 11D**

A new sub-section (5) is added in Section 11D. This provision empowers the Officer of Inland Revenue to take action against individuals who are liable to be registered under the Sales Tax Act, 1990, specifically under clause (25) of section 2, which deals with persons required to be registered due to taxable activity but fail to furnish a return despite being issued a notice.

If such a person does not respond to a notice or file a return, the Inland Revenue Officer is authorized to estimate and assess their sales tax liability. This can be done on a reasonable basis, using value addition estimates and data from purchases reported under section 236G of the Income Tax Ordinance, 2001.

### **1.8 Assessment of tax and recovery of tax – Section 11E**

The provisions of Section 11E of the Act are substituted, which provide that proceedings of arrest of the person found in committing tax fraud, if initiated under Section 37A, then the proceedings under Section 11E shall not be applicable.

### **1.9 Bar on operations of bank accounts – Section 14AC**

A new Section 14AC has been inserted through the Finance Act, which introduces a strong enforcement tool by allowing the Commissioner Inland Revenue to block the bank accounts of individuals who fail to register under the Sales Tax Act.

Section 14AC introduces a strict enforcement tool allowing the Commissioner Inland Revenue to suspend the bank accounts of unregistered persons supplying taxable goods, after giving them three chances to register. This measure aims to pressurize the non-compliant individuals to seek sales tax registration by disrupting their financial operations. While it includes due process and appeal rights, the provision represents a significant escalation in enforcement and may raise concerns, if misapplied.

This section is aimed at forcing non-compliant persons to register, thereby broadening the tax base. It adds serious consequences for non-registration and encourages timely compliance through the threat of financial disruption.

### **1.10 Bar on transfer of immovable property – Section 14AD**

The Act inserts a new Section 14AD, introducing another enforcement measure by putting the bar on the transfer of immovable property of persons who fail to register under the Sales Tax Act despite repeated opportunities and after the enforcement of Section 14AC.

1. After the suspension of bank accounts under Section 14AC, if the person still does not register within 15 days, a committee including tax officials and a representative from the business community is constituted.
2. The committee issues notice, provides a hearing, and evaluates whether to recommend a ban on property transfers.
3. Before making this recommendation, the person is given one final 15-day opportunity to comply.
4. If non-compliance continues, the Commissioner can formally direct property registration authorities to bar the transfer of any immovable property owned by the defaulter.

#### **The provision is balanced by due process:**

- Involvement of a trade body member ensures business interests are represented.
- Personal hearing and clear timelines for compliance are built in.
- An appeal mechanism exists before a Chief Commissioner not involved in the earlier decision.

However, this section also raises the stakes significantly. By targeting immovable assets, it increases pressure on non-compliant businesses, making it difficult to operate, raise capital, or dispose of property until they get sales tax registration.

In essence, Section 14AD complements Section 14AC by extending enforcement from financial to immovable assets. Together, these provisions signal the FBR's firm resolve to force registration, formalize the economy, and close in on businesses operating outside the tax net. However, judicious use and strong safeguards against misuse will be critical to prevent potential harassment or unjustified actions.

#### **1.11 Other coercive action for non-registration – Section 14AE**

Section 14AE introduces coercive enforcement powers to ensure registration under the Act. It empowers the Chief Commissioner Inland Revenue to take the following actions against unregistered persons subject to prior action under Section 14AC and 14AD:

- Sub-section (1) empowers the Commissioner Inland Revenue to Seal business premises, seize movable assets, and appoint a receiver to manage the business
- Sub-section (2) provides that a public notice must be issued before taking action. A hearing opportunity must be provided by a committee including a tax officer and a trade body representative in an open court and decision must be made public via FBR's website and newspapers.
- Sub-section (3) provides that after registration; the receiver must be removed within two working days.
- Sub-section (4) provides appeal mechanism where an aggrieved person may appeal to the FBR within 30 days.
- Sub-section (5) provides that the provisions will take effect from a date notified by the Board.

This section is a compliance enforcement tool, designed to pressurize unregistered persons for sales tax registration by allowing physical and administrative intervention, while ensuring due process through hearings and public transparency.

#### **1.12 Suspension of sales tax registration – Section 21**

The Act amends Section 21 by adding sub-section (2A) to streamline the procedure of suspension and blacklisting of registered persons. It requires the Commissioner to issue a show- cause notice within 10 days of suspension and decide the case within 30 days of receipt of the reply, either revoking the suspension or passing a reasoned and appealable blacklisting order. This promotes transparency, accountability, and timely resolution while upholding taxpayer rights.

#### **1.13 Sales Tax Invoicing – Section 23**

The Act also amends Section 23 in order to strengthen the documentation and compliance by requiring that all transported or supplied goods must have tax invoices linked with

an e-Bilty, as generated under Section 40C of the Sales Tax Act and Section 83C of the Customs Act, 1969. This move seeks to ensure better traceability of goods in transit and enhances anti-smuggling and anti-evasion efforts.

Additionally, new sub-sections (5) and (6) provide mandate to FBR to integrate the taxpayers' electronic invoicing systems with the Board's computerized system for real-time sales reporting. This integration will be applied to specified persons or classes of persons through official notifications. Furthermore, licensed integrators will be responsible for connecting these systems as prescribed. The provision also mandates all Tier-1 retailers to integrate their retail outlets with the FBR's system in a prescribed manner and timeline. These changes are aimed at improving transparency, reducing tax evasion, and strengthening digital enforcement across the supply chain.

#### **1.14 Appointment of experts and auditors – Section 32B**

A new provision is enacted as Section 32B to allow FBR or the Commissioner to appoint as many auditors as it may deem necessary for effective implementation of the Act. These experts may assist in various functions, including audits, investigations, litigation, and valuation, thereby strengthening the capacity of tax authorities.

Additionally, the Board is authorized to appoint auditors, either directly or through third parties such as payroll firms. These auditors will support tax authorities under both the Sales Tax Act, 1990 and the Federal Excise Act, 2005. The engagement of these auditors will be governed by prescribed terms, conditions, and limitations. This provision aims to enhance the efficiency, reach, and technical capability of the tax administration system by involving specialized professionals in core compliance functions.

#### **1.15 Penalty – Section 33**

Section 33 is also amended to significantly expand and reinforce the legal framework governing offences, penalties, and punishments. The heading of Chapter VII is updated to include the term "Punishment," reflecting the introduction of stricter criminal consequences in addition to administrative penalties. In the penalty table, new entries are added specifically targeting non-compliance by digital platforms such as online marketplaces, payment intermediaries, and courier services. These entities now face substantial fines ranging from PKR 300,000 for the first offence to PKR 1 million for repeated defaults, if they fail to submit required statements or facilitate unregistered sellers in e-commerce transactions.

Moreover, serious offences such as committing tax fraud are now met with enhanced punitive measures. The revised entry for tax fraud prescribes imprisonment up to ten years, heavy fines up to PKR 10 million, and liability for the confirmed tax loss along with penalty and default surcharge. A new provision also criminalizes abetment or connivance in such fraudulent activities, making offenders liable to similar harsh punishment, reinforcing accountability for all participants in tax evasion schemes.

Other changes include the omission of outdated or redundant provisions, like S. No. 11 and 22, and the introduction of new offences such as failure to generate or tampering with e-bilty documents under Section 40C. These infractions now attract a penalty of PKR 50,000 and recovery of any evaded tax. Overall, the amendments aim to tighten compliance, broaden liability across stakeholders in digital commerce, and introduce more robust enforcement mechanisms to combat tax fraud and evasion.

#### **1.16 Power to summon in an enquiry – Section 37**

A new sub-section (4) in Section 37 is inserted and it empowers officers of Inland Revenue with civil court-like authority during inquiries under the Sales Tax Act. This means that for the purpose of conducting an investigation, Inland Revenue officers will have the legal power to summon individuals, compel their attendance, and examine them under oath. Additionally, they can require the production of relevant documents and accept evidence in the form of affidavits. By granting these quasi-judicial powers, the amendment aims to strengthen the enforcement capabilities of tax authorities and ensure more effective and thorough investigations into tax matters.

#### **1.17 Power to inquire and investigate – Section 37A**

The substituted Section 37A strengthens the framework for initiating and conducting inquiries and investigations into offences under the Act, particularly those involving tax fraud or acts warranting prosecution. It authorizes an Inland Revenue officer, not below the rank of Assistant Commissioner, to begin an inquiry with the Commissioner's approval if there is material evidence suggesting wrong-doing. The inquiry is to be carried out using powers provided under various sections of the Act. Once the inquiry concludes, the officer may confront the accused with the evidence and give them a chance to respond. If the response is unsatisfactory or absent, and the officer believes an offence has occurred, the case is referred back to the Commissioner for permission to move forward with a formal investigation. The Commissioner must then either approve the investigation, ask for further details, or reject the request after recording written reasons. If approved, the inquiry officer records the details of the offence and proceeds with the investigation, exercising powers similar to those of a police officer, though within the limits of the Sales Tax Act. This process introduces a more structured, evidence-based approach to handling serious tax offences, ensuring both due process and enhanced enforcement capability.

#### **1.18 Procedure to be followed on arrest of a person – Section 37B**

The substituted Section 37B outlines the procedure after an arrest under the Act, requiring the arrested person to be produced before a Special Judge or Judicial Magistrate within 24 hours, excluding travel time. The Special Judge can grant or refuse bail and may later cancel it if needed, while the Magistrate can authorize temporary detention to ensure timely presentation before the Special Judge. Both can remand the accused to Inland Revenue custody for up to fourteen days for investigation.



If evidence is insufficient, the investigating officer may release the accused on bond and report to the Special Judge, who can discharge or proceed with trial. Officers must maintain a detailed register of arrests and submit investigation reports, including tax loss details, to the Special Judge. Magistrates can record statements or confessions legally, and the Board may authorize other officers to exercise these powers, ensuring clear procedures and oversight during arrest and investigation.

#### **1.19 Obligation to produce documents – Section 38B**

The insertion of a new sub-section (5) to Section 38B grants the Commissioner the authority to directly require Internet Service Providers, Telecommunication Companies, and the Pakistan Telecommunication Authority to provide subscriber information related to Internet Protocols. This power can be exercised through a written notice during inquiries or investigations involving tax fraud. Importantly, this provision overrides any conflicting laws currently in force, thereby streamlining access to critical digital data for tax enforcement purposes. This amendment reflects an effort to modernize investigative powers in line with evolving technology and the increasing relevance of digital information in detecting and addressing tax fraud.

#### **1.20 Monitoring or tracking by electronic or other means – Section 40C**

The amendments to Section 40C enhance the scope of monitoring and enforcement under the Act by explicitly including production monitoring and video analytics alongside bar codes in the relevant subsections. This broadens the tools available for surveillance and control, reflecting a move toward more advanced technological methods. Furthermore, the substitution of sub- section (4) aligns the provisions of this section with those of Section 83C of the Customs Act, 1969, ensuring consistency and clarity in enforcement powers across related laws. The omission of sub-section (5) streamlines the section, possibly removing redundant or conflicting provisions. Overall, these changes signify a modernization and harmonization of monitoring mechanisms within tax administration.

#### **1.21 Pecuniary jurisdiction in appeals – Section 43A**

Through the amendments made vide Tax Laws (Amendment) Act, 2024, the pecuniary limit of the value of assessment for filing of appeal before the learned Commissioner (Appeals) was fixed upto Rs.10 million through insertion of Section 43A of the ST Act. Now, the amendment in the Act allows filing of appeals before the Commissioner (Appeals) irrespective of any monetary limit by omitting Section 43A.

#### **1.22 Appeal before Commissioner (Appeals)- Section 45B**

The substituted sub-section (1) of Section 45B revises the appellate procedure available to aggrieved taxpayers under specific provisions of the Act. It clarifies that any person, excluding State-Owned Enterprises (SOEs), may file an appeal against certain decisions or orders passed by Inland Revenue officers. The appeal must be filed with the Commissioner

Inland Revenue (Appeals) within thirty days of receiving the contested decision. However, some flexibility is introduced by allowing late appeals if the Commissioner is satisfied that there was a valid reason for the delay.

An important addition is the option granted to registered persons to bypass the first level of appeal and proceed directly to the Appellate Tribunal Inland Revenue. This alternative route enhances procedural efficiency and offers greater autonomy to taxpayers in choosing their preferred appellate forum. The amendment aims to streamline the appeals process and balance accessibility to justice with administrative discipline.

### **1.23 Appeal to the Hon'ble Appellate Tribunal – Section 46**

The substituted sub-section (1) of Section 46 revises the scope and eligibility for filing appeals before the Appellate Tribunal under the Act. It now explicitly allows not only taxpayers but also Inland Revenue officers of at least the rank of Additional Commissioner to file an appeal against an order issued by the Commissioner (Appeals). Additionally, it provides that in cases where a taxpayer has exercised the option under the second proviso to Section 45B to bypass the first appellate authority, such person—excluding State-Owned Enterprises (SOEs)—may also directly appeal to the Tribunal within thirty days of receiving the order.

The proviso further clarifies that SOEs may appeal under this provision only when the conditions laid down in sub-section (11) of section 134A of the Income Tax Ordinance, 2001 are met. This amendment ensures broader access to the Appellate Tribunal while preserving specific procedural limitations for SOEs, reflecting a more nuanced and tiered appellate structure tailored to different classes of taxpayers.

### **1.24 Reference to the Hon'ble High Court – Section 47**

The revised sub-section (1) of Section 47 reinforces the right of appeal to the High Court in cases where a legal question arises from an order of the Appellate Tribunal. It stipulates that either the aggrieved person or the Commissioner may, within sixty days of the Tribunal's order, submit a reference to the High Court. This reference must be made in the prescribed form and accompanied by a statement of the case along with the complete record of the proceedings before the Tribunal. By setting a clear timeline and documentation requirements, this amendment aims to ensure procedural consistency and judicial scrutiny of legal interpretations, thereby strengthening the appellate process within the framework of tax adjudication.

### **1.25 Inspection of audit firm – Section 58C**

The insertion of Section 58C introduces a significant accountability mechanism for audit firms involved in certifying financial statements of registered persons under the Sales Tax regime. It empowers the Chief Commissioner Inland Revenue, upon forming a reasoned

belief that the audited accounts do not fairly present the sales, purchases, or corresponding sales tax liabilities, to initiate a referral of the responsible audit firm to the Audit Oversight Board. However, this action requires prior approval from the Federal Board of Revenue, ensuring a higher level of scrutiny and procedural check before taking such a step. This provision strengthens the enforcement framework by targeting potential collusion or negligence on the part of audit firms and aligns tax audit practices with broader financial oversight and governance standards.

### **1.26 Certain transactions not admissible – Section 73**

The amendment to Section 73(4) replaces the fixed monetary thresholds of one hundred million rupees in a financial year or ten million rupees in a tax period with a more flexible mechanism. Now, the threshold for applying the provisions of this section will be determined and prescribed by the Federal Board of Revenue with the approval of the Federal Minister-in-Charge. This change allows the authorities to revise the applicable limits in response to changing economic conditions or policy priorities without requiring further legislative amendments.

### **1.27 Condonation of time-limit - Section 74**

The amendment to Section 74 introduces two important provisos that impose and then extend limits on the time period for condonation of time by the Board or the Commissioner. It establishes that, despite anything stated in the Act or other laws, or any prior court or authority decisions, the maximum extension allowed under this section is capped at two years in total.

However, in exceptional cases where there is reason to believe that a significant loss to the national exchequer has occurred due to the actions or inactions of a registered person or tax authority, a specially notified committee of members may further condone the delay beyond the two-year limit. This may only be done after affording the concerned person a chance to be heard. The change introduces a balance between limiting prolonged extensions and preserving flexibility for exceptional cases involving substantial revenue implications.

### **1.28 Time Limitation for Assessment**

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

## Sales Tax Schedule Changes

### 1. Sales tax on retail price basis – Third Schedule

The Act brings certain imported items under retail price sales tax regime under Third Schedule as per insertion of the following entries:

Entry No.	Description of taxable goods	PCT Heading
52	Import of pet food including of dogs and cats sold in retail packing	2309.1000
53	Import of coffee sold in retail packing	0901.1100, 0901.1200, 0901.2100, 0901.2200, 0901.9000, 2101.1120
54	Import of chocolates sold in retail packing	1704.9010, 1806.2090, 1806.3100, 1806.3200, 1806.9000
55	Import of cereal bars sold in retail packing	1904.1010, 1904.1090, 1904.2000, 1904.3000, 1904.9000

#### (i) Exemptions under Sixth Schedule withdrawn:

Entry No.	Description of goods	Tariff Heading
Table-1	Imports or local supply:	
151	(a)	Supplies; and
(b)	Imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan as made till 30 June 2025, to which the provisions of the Act or the notifications is-sued thereunder, would have not applied had Article 247 of the Constitution not been omitted under the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018)	Respective Headings
164	Photovoltaic cells whether or not assembled in mod- ules or made up into panels	8541.4200 and 8541.4300

**(ii) Exemptions allowed or extended:**

Entry No.	Description of goods	Tariff Heading
<b>Table-1</b>	<b>Imports or local supply:</b>	
152	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30th June 2026, to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries.  Note: The exemption period is being extended for one year as it is currently applicable till 30th June 2025.	2716.0000
179	Import of cystagon, cysta drops and trientine capsules  Note: The words 'for personal use only' stands omitted, which implies the scope of exemption is proposed to be widened irrespective of personal or commercial use.	3004.9099
180	Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL)	8802.1200 8802.3000 8802.4000
<b>Table-2</b>	<b>Local supplies only</b>	
57	Iron and steel scrap excluding: -  (a) supplied by manufacturer cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order; and  (b) supplied directly by the importer (verifiable from the goods declaration form) to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order.”;  Note: Scope of exemption is proposed to be extended to inter-alia cover the iron and steel scrap supplied by the importer.	7204.4100 7204.3000 7204.4990

## 2. Changes brought under Eighth Schedule (Reduced Rates)

### (i) Reduced rates to be withdrawn:

Entry No.	Description of goods	Existing Rate	New Rate
Table-1			
53	Locally manufactured or assembled motorcars of cylinder capacity upto 850cc [87.03].	12.5%	18%
72	Cinematographic equipment imported during the period from 01 July 2018 to 30 June 2023, as specified from Sr.No.(i) to (xix) subject to condition of availing 3% concessionary rate of customs duty on the import of such equipment.	12.5%	18%

### (ii) Reduced rates applied:

Entry No.	Description of goods	Existing Rate	New Rate
Table-1			
89	(i) imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan; and  (ii) and supplies within the tribal areas Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO. Provided further that if plant, machinery and equipment, on which reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas,	Respective heading	10% (for 2025-26)

### (ii) Reduced rates applied:

	Withholding Agent	Supplier category	Rate per extent of deduction
8.	Payment intermediaries and couriers in respect of digitally ordered goods from within Pakistan	Persons supplying digitally ordered goods from within Pakistan through online market place, website, software applications.	2% of gross value of supplies



## Significant Amendments in Petroleum Products (Petroleum Levy) Ordinance, 1961

### Legislative changes

The Act has introduced a new Climate Support Levy on the petroleum products, including petrol, high-speed diesel, and furnace oil, in addition to the existing Petroleum Levy.

S. No	Financial Year	Climate Support Levy (Rs. / Liter)
1	2025-26	2.5
2	2026-27	5

Furnace Oil (Bunker 'C') has also been added to the list of petroleum products subject to both the Petroleum Levy and Climate Support Levy. The objective of this levy is to discourage excessive fossil fuel consumption and to generate essential funding for climate change mitigation and the promotion of green energy initiatives.

Additionally, the Fifth Schedule of the Petroleum Levy Ordinance has been removed through the Act, which used to set a ceiling on the maximum Petroleum Levy that the Federal Government was authorized to impose. Now there will no longer be a statutory limit on the amount of Petroleum Levy that may be levied and collected by the government.

## Significant Amendments in Federal Excise Act, 2005

### 1. Seizure and confiscation of counterfeited goods – Section 26 & 27

The Finance Act amends the provisions of Sections 26 and 27 of FE Act to create deterrence and prevent illegal activities by prescribing the condition of affixing counterfeit tax stamps, bar codes, banderoles, stickers, labels, as required under Section 45A of FE Act in relation with excisable goods manufactured or produced. In case of non-compliance, such excisable goods shall be liable to seizure along with the vehicle used for their transportation. Furthermore, these seized goods may also be subject to outright confiscation by the authorities. Empowering the Board to authorize other officers – Section 27(4)

The Act enacts a new sub-section (4) in Section 27, in the context of confiscation of counterfeited excisable goods, which It empowers the Board, by notification in the official Gazette, to authorize an officer from other Federal or Provincial Government to officiate as an officer of IRS, not below the rank of Naib Tehsildar or Excise & Taxation Officer, not below the rank of BPS-16

## **2. Streamlining the pecuniary jurisdiction for appeals – Section 33, 34 & 34A**

The process for filing appeals with the learned Commissioner (Appeals), the Hon'ble Appellate Tribunal Inland Revenue, and making references to the Hon'ble High Court has been streamlined.

Through the amendments made vide Finance Act, 2024, the pecuniary limit of the value of assessment for filing of appeal before the learned Commissioner (Appeals) was fixed upto Rs.5 million. Now, the Act allows the filing of appeal before the learned Commissioner (Appeals) irrespective of any monetary limit.

The Act also amends the captioned provisions to provide an option to the registered person to directly file the appeal before Hon'ble Appellate Tribunal within thirty days of the receipt of the order.

The aggrieved person or the Commissioner may file a reference to the Hon'ble High Court within sixty days of the order of the Hon'ble Appellate Tribunal, stating any question of law arising out of such order.

## **3. FED withdrawn on allotment or transfer of immoveable property**

FED was imposed on allotment or transfer of commercial property and first allotment/ transfer of open plots or residential property by any developer or builder at the varied rates 3%, 5% and 7% vide the Finance Act 2024. Now, the Act abolishes this FED all together. This will certainly provide a sigh of relief for the real estate and construction industry.

## **Significant Amendments in the Customs Act, 1969**

The Government announces the guiding principles adopted for the tariff rationalization under the Customs laws, which inter-alia include:

- To encourage growth through increased exports.
- To protect and benefit consumers.
- To make sure industries have access to affordable raw materials.
- To achieve economic independence.
- To create more job opportunities.
- To carry out the FBR's Transformation Plan effectively.
- To support innovation, improve efficiency, and boost productivity.

## Legislative changes

- A new clause in Section 2 is inserted to introduce 'Cargo Tracking System'(CTS). This system will electronically monitor and track cargo movements, helping to detect any smuggled or unpaid goods.
- A new clause in Section 2 is inserted to define the term "e-Bilty" as a transport document created using the Cargo Tracking System. It enables real-time tracking and documentation of goods movement across borders and within the country.
- By virtue of substitution of the provisions of Sections 3A, 3B and 3BBB, the Board is empowered to establish the following Directorates of Customs by notification in the official Gazette:
  - (i) Directorate General of Intelligence & Risk Management, Customs;
  - (ii) Directorate General of Customs Auction and
  - (iii) Directorate General of Communication and Public Relations, Customs.
- Section 19C reduces the minimum value for courier and postal parcels from Rs.5,000 to PKR 1,000 in order to prevent misuse.
- The amendment in Section 32, sub-section (3A), increases the minimum amount for starting legal action for violations from Rs. 20,000 to Rs. 100,000, as long as the recoverable amount is paid. This change is made to reduce the number of legal disputes.
- The Act inserts a new sub-section (6) in Section 80 in order to establish the Centralized Assessment Units (CAUs) and Centralized Examination Units (CEUs) for transparent, speedy and uniform assessments.
- The Act, by virtue of substitution of Section 82 of the Customs Act, revamps the procedures for clearance or warehousing or transshipment or exports or removal of goods from the port after unloading or filing of declaration. The new procedures imposing penalties on non-compliance would help to reduce congestion at the ports and speed up cargo movements.
- The Act introduces to encourage pre-arrival clearance by letting importers submit Goods Declarations before paying duties and taxes upfront.
- A new Section 187A is enacted to hold that any vehicle with a tampered chassis will be considered smuggled, no matter if it is registered with the authorities or not.
- Section 194A is simplified to shorten the time allowed for resolving cases and filing appeals with the Appellate Tribunal. It provides that stay order shall be subject to furnishing pay order or bank guarantee not less than twenty five percent of principal amount by the aggrieved person before the registrar of the Tribunal.
- Section 196A is streamlined to reduce the time allowed for resolving cases and filing appeals with the High Court. It provides that stay order shall be subject to furnishing

pay order or bank guarantee not less than twenty five percent of principal amount by the aggrieved person before the Nazir of the court.

- The amendment to Section 201 enforces public auctions as the sole method for disposing of goods, promoting transparency and limiting discretion. It also introduces a financial barrier against stay from court. The court shall grant stay against the auction if a person obtaining stay order furnished pay order or bank guarantee not less than twenty-five percent of the reserve price of the goods before the Nazir of the court.
- The Act adds a new Section 225 to create Centralized Assessment Units (CAUs) and Centralized Examination Units (CEUs). These units will help ensure assessments are clear, fast, and consistent.
- The Act inserts a new Section 226 to set up Digital Enforcement Units (DEUs) at important places. These units will use technology to improve efforts against smuggling.

#### **Measures for Tariff Rationalization**

- The Act introduces new customs duty slab rates of 5%, 10%, and 15% as per amendments in the First Schedule to the Customs Act (which is also titled as First Schedule to the Finance Act, 2025 i.e. Page No.129 to 198.
- The Act abolishes the existing slab rates of customs duty 3%, 11%, and 16%.
- The existing zero-percent customs duty rate is now applicable on additional tariff lines totaling about 916 items, as may also be searched from the afore-stated First Schedule to the Finance Act, 2025.

#### **Reduction in Additional Customs Duty (ACD) Rates**

- The Government also announced that the rates of Additional Customs Duty (ACD) will also be reduced w.e.f. 01 July 2025 on various imported items. Therefore, such reliefs will be notified by the Board through amendment in Customs notifications pertaining to ACD.

#### **Measures to Provide Relief in Regulatory Duties**

- It is also announced by the Government that rates of regulatory duty will be reduced or rationalized on several tariff lines introducing new slab rates of 0%, 2%, 4% and 6%, besides reduction in maximum slab of regulatory duty from 90% to 50%. However, amendment customs notifications to this effect are expected to be issued w.e.f. 01 July 2025.

### **Substitution of Fifth Schedule to the Customs Act, 1969**

Under Second Schedule to the Finance Act, the Fifth Schedule to the Customs Act is substituted to provide wide coverage of industrial duty concessions & exemptions, which inter-alia pertain to imports meant for agriculture, education, research & development, marble industry, granite, energy sectors, food sectors, etc. For sake of brevity, it is suggested that the respective industrial concessions may be reviewed on the basis of tariff headings through the Finance Act (Page No.199-290).

## **Introduction of New Energy Vehicles Adoption Levy Act, 2025**

The Finance Act 2025 introduces the New Energy Vehicles Adoption Levy Act, 2025, which aims to accelerate the transition from traditional internal combustion engine (ICE) vehicles to cleaner, environmentally friendly alternatives by imposing a levy on ICE vehicles. This legislation has been enacted in response to growing climate concerns and the need to promote sustainable transportation. The Act applies across Pakistan and takes immediate effect upon its enactment.

Under the new law, manufacturers and importers of internal combustion engine motor vehicles will be required to pay a levy at rates specified in the First Schedule of the Act. This levy will be collected in the same manner as customs duty on imported vehicles and as sales tax on locally manufactured vehicles, aligning its administration with existing tax frameworks for ease of compliance and enforcement. The Federal Government is empowered to revise rates or modify the list of vehicles subject to the levy through notifications, allowing flexibility in its application over time. The rates of the proposed the levy are provided in the First Schedule to the Finance Bill (Page Nos. 353-355).

Importantly, the levy does not apply to vehicles powered by new energy sources such as fully electric motors, plug-in hybrids with at least 50 km of electric-only range, or hydrogen fuel cells. Exemptions are also provided for vehicles manufactured or imported solely for export, vehicles owned by diplomatic missions or international organizations entitled to privileges, and any other category specifically exempted by the Federal Government. This selective application underscores the policy intention to nudge both consumers and manufacturers toward cleaner vehicle technologies while recognizing legitimate exemptions.

The proceeds from this levy will be earmarked exclusively for promoting the adoption of new energy vehicles, supporting related infrastructure development, and other climate-positive initiatives as determined by the Federal Government. The Act also grants rule-making powers to the government for implementing its provisions and provides a mechanism to resolve operational difficulties through appropriate orders.

Overall, the New Energy Vehicles Adoption Levy Act, 2025 represents a significant step toward implementing Pakistan's green agenda in the transportation sector. By creating a fiscal disincentive for fossil-fuel-based vehicles and channeling the revenues toward green technology support, the Act sets a clear policy direction for a sustainable future in mobility.



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