KRESTON
HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS

# UNPACKING BUDGET PROPOSALS - 2026


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# COMMENTS ON BUDGET PROPOSALS - 2026

This memorandum has been prepared for the convenience, guidance and general knowledge of our valued clients and staff members and may be used as a ready reference to the proposed amendments mentioned in the Finance Bill 2026 (Bill). The memorandum contains Budget – 2026 at a glance, salient features and comments on the changes proposed through this Bill in the taxation laws of the country. All changes are effective from July 01, 2026 unless otherwise specified in these comments.

The comments on the Bill represent our interpretation and understanding of the proposed amendments as contained therein. We recommend that the actual text of the Bill should be read in conjunction with these comments for a better understanding of the proposed changes and for considering the precise effect of a particular change. Further, reference should also be made to the specific wording in the relevant statutes.

These are general comments on the proposed amendments, which shall be enacted when the Bill is passed by the National Assembly; accordingly, for specific application of any part of this information, guidance / advice may be obtained separately in order to avoid any risk. The firm therefore accepts no liability for any action taken as a result of this commentary. We would be glad to entertain any further clarification regarding our comments.

The comments on Budget Proposals - 2026 can also be accessed on / downloaded from the website of our firm -http://www.krestonhbco.com

**Dated: June 12, 2026**

**KRESTON HYDER BHIMJI & CO.**
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# FEDERAL BUDGET AT A GLANCE IN COMPARATIVE FORM

| | PROPOSED 2026-27 | REVISED 2025-26 | PROPOSED 2025-26 |
|---|---|---|---|
| | ……... *Rs. in billion* | …….. | |
| **Revenue** | | | |
| Tax Revenue | **15,264** | 12,983 | **14,131** |
| Non-Tax Revenue | **5,336** | 5,093 | **5,147** |
| a) Gross Revenue Receipts | **20,600** | 18,076 | **19,278** |
| b) Less: Provincial Share | **(8,849)** | (7,592) | **(8,206)** |
| **Net Revenue Receipts (a-b)** | **11,751** | 10,484 | **11,072** |
| **Expenditure** | | | |
| Current expenditure *(detailed below)* | **17,495** | 15,006 | **16,286** |
| Development expenditure | **1,276** | 1,024 | **1,287** |
| | **18,771** | 16,030 | **17,573** |
| **Net Deficit** | **(7,020)** | **(5,546)** | **(6,501)** |
| **The detail of current expenditure is as under:** | | | |
| Markup on debt | 8,054 | 6,938 | **8,207** |
| Pension | 1,169 | 1,055 | **1,055** |
| Defense affairs & services | 3,000 | 2,588 | **2,550** |
| Grants & transfers (provincies and others) | 2,680 | 1,971 | **1,928** |
| Subsidies | 1,091 | 1,157 | **1,186** |
| Provision for contingencies | 1,501 | 1,297 | **1,360** |
| | **17,495** | 15,006 | **16,286** |

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## SALIENT FEATURES OF AMENDEMENT PROPOSED IN INCOME TAX ORDINANCE, 2001

**A.** The bill proposed following relief measures:

i. Restructuring of salaries slabs. Intermediate slabs have been introduced and the threshold for the maximum tax rate of 35% has been increased from Rs. 4.1 million to Rs. 7 million. Surcharge on high salaried individuals withdrawn.

ii. Section 7E, relating to deemed income from capital assets situated in Pakistan, has been omitted.

iii. Super Tax under section 4C has been abolished for persons having income of up to Rs. 500 million. Above this threshold, tax rate reduced from 10% to 8%. Banks, ENP and fertilizer sectors excluded for the earning over Rs.150 million.

iv. Advance tax rates reduced for sale of properties under section 236C from 5.5% to 2.75% and for purchase of properties under section 236K from 2.5% to 1.5%. Enhanced rates of late filers withdrawn.

v. Advance tax on export proceeds reduced from 2 % to 1.25% in order to encourage exports.

vi. Extended time period from 2026 to tax year 2029 for exporters of IT and IT-enabled services at the rate 0.25%.

vii. Reduced advance tax rate from 5% to 0.5% on foreign remittances made through debit, credit and prepaid cards.

viii. Tax collected on payments for digitally ordered goods and services via e-commerce platforms is to be adjustable for sellers having turnover exceeding Rs.200 million.

ix. Tax credit of 10% offered on the amount invested in electronic resources for integration with FBR's computerized system for real time monitoring of production, sale and receipts.

x. Withdrawn advance tax on payments for foreign television plays and advertisements.

xi. Abolished Capital Value Tax (CVT) on foreign moveable and immovable assets for facilitation of Resident Pakistanis which is being charged currently.

xii. Increased turnover threshold from Rs. 100 million to Rs. 200 million for exemption from withholding tax for small traders.

xiii. Automatic issuance of exemption certificates for the whole financial year to the funds and eligible non-profit organizations meeting prescribed conditions.

xiv. The fair market value under section 68(5) at the date of death of owner determine the cost of inherited immovable property for family settlements after death.

**B.** The bill proposed following revenue enhancing measures:

i. Maturity proceeds or similar payments/benefits to an individual under life insurance schemes become taxable after reducing premium paid by the policyholder. Tax deducted by the insurers will be treated as final tax. Amounts paid on deaths, disability or after 7 years of insurance are excluded.

ii. A new section 53A introduced for rationalization of rates of minimum taxes (other than section 113) as low as 1% on economic-viability grounds with the changes made by the Federal Government and laid before the National Assembly.

iii. Introduced withholding tax regime on social media revenues received by digital content creators and social media influencers from platforms such as YouTube, Facebook, Instagram and TikTok. Banking and financial institutions shall deduct tax on such receipts.

iv. Rationalization of withholding tax rates on services. Generally rate reduced from 15% to 14%, Rates for doctors, lawyers, architects, accountants, software engineers/developers working independently stay at 15%. Reduced rate of tax on services increased from 6% to7%.

v. The minimum tax rate under section 113(1) for distributors, dealers, sub-dealers and wholesalers of Packaged foods, fertilizers, mobile phones, sugar and electronics increased from 0.25% to 0.5% subject to appearing in ATL list of income and sales tax.

vi. A new section 165AB introduced to broaden the tax base, algorithmic cross-matching of banking and tax information has been proposed. Under this mechanism, banking companies and Electronic Money Institutions shall electronically provide information to Central Data Hub relating to high-value deposits and withdrawals exceeding 100 million in a six month period for algorithmic comparison to identify significant mismatches.

vii. Strengthening of electronic integration of businesses and to install electronic resources and integrate business systems for real-time reporting of transactions. Failure to comply may result in disallowance of 5% expenditure claimed.

viii. Penalties for non-compliance have been enhanced to improve deterrence and adjust inflation. For ATL inclusion surcharge increased for individual -Rs. 25,000, AOP-Rs.50,000 and Company- Rs.100,000.

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

**C.** The bill proposed following streamlining measures:

i. Faceless audits, assessments and appeals mechanism introduced to reduce taxpayer interface and enhancing transparency.

ii. A new automated Algorithm settlement mechanism proposed to allow taxpayers to settle discrepancies through a technology-based process. The taxpayer will be able to file revised income tax return without the approval of Commissioner and without separate penalty or default surcharge.

iii. An independent mechanism has been proposed to be introduced for scrutiny of departmental litigation to improve quality and consistency of tax litigation management.

iv. The ADR framework has been revised to improve efficiency and facilitate quicker resolution of tax disputes.

v. Comprehensive provisions have been introduced to define Authorized Shipping Agents and strengthen taxation and compliance relating to non-resident shipping operations.

vi. The role of NCCPL in computation and determination of capital gains on listed securities has been expanded and clarified. Under section 37A, NCCL will compute CGT for banks, insurers and mutual funds. NBFCs, modarabas and debt-securities companies are brought into the CGT regime (section 100B/Eight Schedule).

vii. Electronic filing of Income tax Returns via IRIS and submission of machine-readable financial statements has become mandatory for Companies from 2026.

viii. The scope of special procedures for small traders and shopkeepers has been expanded through amendments in section 99B. Accordingly, the Board may prescribe special, fixed tax procedure for small traders and shopkeepers for payment of tax and filing of return.

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## SALIENT FEATURES OF AMENDMENTS PROPOSED IN SALES TAX ACT, 1990

### 1. RELIEF MEASURES

i. Grant of exemption from sales tax to magazines

ii. Extension in exemption on import of CKD for electric vehicles till 30.06.2027

iii. Enhancement in scope of exemption on parts of aircrafts for import and lease by M/s PIACL

iv. Withdrawal of exemption of sales tax on family planning devices

v. Abolition of tampon tax

vi. Exemption of sales tax to boost strategic investment in shipping

vii. Exemption to strategic imports for SCO summit and counter terrorism

viii. Exemption of sales tax on import of capital goods for upgradation and overhaul of existing refineries.

ix. Addition of new S. No. in the Sixth Schedule

x. Extension in date of sunset for electric vehicles till 30.06.2027

### 2. REVENUE MEASURES

i. Expansion of Third Schedule to ensure payment of sales tax at consumer price by the manufacturers at manufacturing stage

ii. Withholding of sales tax by the toll manufacturers from unregistered buyers

iii. Enhancement in scope of withholding sales tax by AOPs and individuals from unregistered persons

iv. Imposition/recovery of 3% VAT from the manufacturers if the imported raw material is sold in same state

v. Rationalization of amount of penalty on certain offences and inclusion of three more offences in section 33 for imposition of penalty

## 3. STREAMLINING MEASURES

i. Insertion definition of advance receipt invoice, algorithmic settlement mechanism, electronic invoicing system, national faceless centre and production monitoring system

ii. Streamlining of definition tier-1 retailers. Inclusion of retailer having two hundred million or more annual turnover, in the category of tier-1 retailer

iii. Insertion of explanation to clarify the time of delivery of goods to the recipient

iv. Grant of power to Board to outsource the function of valuation of goods

v. Addition of new proviso in section 6 to impose tax on steel sector on the basis of monthly electricity units consumed

vi. Addition of new proviso in section 8B to enhance or decrease limit of input tax adjustment

vii. Insertion of proviso in section 9 for adjustment through issuance of debit and credit notes electronically.

viii. Insertion of new section 11H for faceless audit and assessment.

ix. Substitution of sub-section (2) of section 21 to discourage fake/flying invoices and fraudulent activities.

x. Substitution of sub-section (1) of section 23 for issuance of invoice against exempt supplies also.

xi. Insertion of new sub-section (8A) in section 25 for audit by the Chartered Accountant or Cost and Management Accountant

xii. Insertion of section 30AA – faceless jurisdiction

xiii. Insertion of section 30DDDB for establishment of Directorate General (Field Compliance) by Inland Revenue

xiv. Insertion of new section 32C for creation of National Faceless centre

xv. Substitution of section (2) and (3) of 40C for production monitoring system and video analytic

xvi. Addition of new sub-section (6) in section 40C for seizure and confiscation of goods without affixing tax stamps, stickers etc.

xvii. Insertion of new section 40F for auction of confiscation goods

xviii. Insertion of section 45C – faceless appeal procedure xix. Insertion of section 47AA – Algorithmic Settlement Mechanism

xix. Insertion of section 47AAA – Independent case scrutiny committee

xx. Addition of new sub-section (3) of section 56B for maintaining centralized directory

xxi. Addition of proviso under Twelfth Schedule to restrict sale of imported same state goods.

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## SALIENT FEATURES OF AMENDMENTS PROPOSED IN FEDERAL EXCISE ACT 2005

**The proposed changes are effective /applicable from 1st July 2026 except specifically mentioned in respective clauses.**

1. The bill aims to reduce Federal Excise Duty on Club, Business and First-class foreign air tickets issued on or after the 1st day of July, 2026.

.2. The bill seeks to reduce FED on import of acetate tow Rs. 44000 to Rs. 10000.

3. The FED on E-liquids by whatsoever name called, for electric cigarette kits is proposed to be enhanced from Rupees ten thousand per kg or 65% of retail price whichever is higher to Rupees thousand sixteen five hundred per kg. This measures seems to be rational as this harmful activity should be discouraged. This measure also removes the highest possible tariff of 65% of the retail price imposed under the previous regime.

4. The bill seeks to remove Federal Excise Duty on WHO standard compliant sports/ electrolytes replenishing beverages.

5. Exemption to strategic imports of vehicle for SCO summit and counter terrorism and Extension of Exemption on Import of CKD kits for electric vehicles for one year extended to 30.06.2027 are proposed.

6. The bill seeks to Impose FED on luxury EVs and other Luxury Vehicles exceeding PKR 20 million and up to PKR 30 million @ 30% and exceeding PKR 30 million @40%.

7. The bill proposes to insert definition of advance receipt invoice, algorithmic settlement mechanism, electronic invoicing system, national faceless center and production monitoring system

8. Addition of New Section 7A is proposed for adoption of Faceless Audit and Assessment

9. the bill aims at substitution of Sub-Section (1) of Section 18 for issuance of invoice for dutiable and zero-rated supply of goods.

10. The bill seeks to strengthen audit and verification mechanisms in complex or high-risk cases by involving independent professional expertise by external Auditors. While the intent is to enhance accuracy of assessments and safeguard revenue, the wide discretion conferred upon the Commissioner necessitates clear guidelines to ensure consistency, transparency, and avoidance of potential misuse.

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## COMMENTS ON AMENDMENTS PROPOSED VIDE FINANCE BILL 2026 IN THE INCOME TAX ORDINANCE, 2001

**1. Definitions**
**Section 2**

**A)** New clause (1AA) in section 2 has been inserted in the proposed finance bill 2026 after clause (1A) "algorithmic settlement mechanism" and mechanism of algorithmic settlement mechanism provided under section 134B of the Income Tax Ordinance.

**B)** The word amended assessment and faceless assessment included in proposed finance bill 2026 instead of word "and amended assessment under clause 5 of section 2 of the Income Tax Ordinance.

**C)** New clause 6A "authorized shipping agent" has been inserted in the proposed finance bill 2026 under clause 6 of section 2 of the Income Tax Ordinance. The newly inserted clause 6A is as follows;'

*"authorised shipping agent" means a person in Pakistan who is authorised, expressly or impliedly, by a non-resident ship owner, charterer or operator to act on its behalf in respect of a vessel, and who in relation to such vessel or voyage,*

***(a)*** *is responsible for the receipt, collection, control or accounting of total freight and any related amounts, and undertakes or is responsible for documentation, manifest filing, or reporting of cargo or total freight, including having, directly or indirectly, the control, custody or disposal of any freight or related receipts attributable to such vessel or voyage; and*

***(b)*** *furnishes the return under section 143 of this Income Tax Ordinance, in respect of such vessel or voyage and such person shall, for the purposes of this Income Tax Ordinance —*

*(i) be treated as the representative of the non-resident under section 172;*
*(ii) be jointly and severally liable for payment of tax and all obligations, proceedings, assessments and recovery in respect of such vessel or voyage;*
*(iii) and be treated as such, and the provisions of sub-section (3) of section 172 shall apply accordingly;"*

**D)** New clause 19DA "electronically readable format" has been inserted in the proposed finance bill 2026 after clause 19D of section 2 of the Income Tax Ordinance. The newly inserted clause is as follows'

*"electronically readable format" means any digital format in which data is structured so that it can be automatically read, extracted, validated and processed by computer systems without human intervention, including spreadsheet formats (such as CSV or XLSX), XML, XBRL, JSON, and other structured or semi-structured data formats but excluding formats primarily designed for human readability, such as PDF, scanned images or photographs;"*

**E)** Proposed finance bill 2026 omitted the clause 22A "fast moving consumer goods" of section 2 of the Income Tax Ordinance.

**F)** Proposed finance bill 2026 clause 30A of section 2 "integrated enterprise" shall substitute the expression "Board through approved fiscal electronic device and software", to the expression "Board's computerized system through a licensed integrator"

**G)** New clause 30D "Licensed integrator" has been inserted in proposed finance bill after clause 30C of section 2 of the Income Tax Ordinance which has same meaning as defined under clause 15A of section 2 of the Sales Tax Act, 1990 which is follows;

*"licensed integrator" means any person licensed by the Board to provide electronic invoicing system for integration of registered persons in the prescribed manner"*

**H)** New clause 35(1A) "National Faceless Center" has been inserted in proposed finance bill 2026 under section 2 of the Income Tax Ordinance, which has same meaning as defined under section 227D of the Income Tax Ordinance, the proposed finance bill 2026 also amended the section 227D" national faceless center" which is follows;

*(1) Notwithstanding anything to the contrary contained in any of the provisions of this Income Tax Ordinance, the Board may, for the purposes of proceedings under this Income Tax Ordinance in faceless manner, establish a National faceless center (hereinafter referred to as "the centre") and specify its jurisdiction, powers and functions.*

*(2) The centre shall comprise a Director General and as many Chief Commissioners, Commissioners, Additional Commissioners, Deputy Commissioners, Assistant Commissioners, and any of the Income Tax Authorities mentioned in section 207 along with support staff, as the Board may deem fit for the purposes of this section.*

*(3) The Board may design algorithms for assigning any function or jurisdiction under this section to any of the authorities mentioned in sub-section (2).*

*(4) The Centre shall comprise as many wings and units as may be prescribed by the Board.*

*(5) The functions of audit, assessment, and quality control in a specific case for a specific tax year shall be performed by separate officers.*

*(6) All communications, among the units, or with the taxpayer, or an authorized representative of the taxpayer, or with any other person with respect to the information or documents or evidence or any other details, as may be necessary, shall be through electronic means."*

I) The proposed finance bill 2026 has been inserted new clause 42AA “PRAL” after clause 42A “PMEX” under section 2 of the Income Tax Ordinance, the “PRAL” means Pakistan Revenue Automation (Pvt) Limited, a State-Owned Enterprise which has been assigned functions related to software development and maintenance of the Board’s IT infrastructure;”; and

J) Clause 60“Special Purpose Vehicle” has been omitted under proposed finance bill 2026.

## 2. Deletion of surcharge on salaried person
**Section 4AB**

Through Finance Act, 2024 the surcharge was levied on every individual and Association of Persons at the rate of 09 percent of the Income, where taxable income exceeds rupees 10 million. However, in the case of salaries person the rate is 09 percent.

The Bill proposes to provide a relief only to the salaried class whereby henceforth this surcharge will no more be payable.

The amendment provides targeted relief to documented salaried taxpayers and reduces the effective tax burden on high-income employees. The amendment is expected to reduce payroll tax costs for salaried individuals.

## 3. Tax on payments for digital transactions in an E-commerce platform
**Section 6A**

Through finance Act 2025, the tax on payment for digital transaction in locally operated e-commerce platforms were enforced whereby every person who receive payment for supply of digitally ordered goods or services within Pakistan. Tax payable on these transactions has been a final tax.

The Bill proposes that the tax under section 6A shall be adjustable where turnover exceeds Rs. 200 million and in that case provisions of final tax as provided in section 8 will no more be final tax and for this tax paid has been permitted to be allowed as adjustable tax.

The amendment aligns taxation of larger businesses with normal assessment principles and reduces cascading tax effects.

## 4. Tax on deemed income
**Section 7E**

Vide Finance Act 2022, the tax on deemed income arising from ownership of capital assets (immovable property) in Pakistan was imposed. It treated certain assets as generating notional income based on a prescribed percentage of fair market value, regardless of whether any actual income had been earned.

Further, the section 7E departed from conventional income tax principles by taxing notional income rather than actual, accrued or received income. This gave rise to constitutional objections, particularly that the provision effectively taxed ownership of property rather than income itself. It also created recurring disputes on valuation, exemptions and compliance.

The Bill proposes a omission of section 7E. This removes the deemed income regime in its entirety. The omission is a welcome return to orthodox income tax principles. From a policy perspective, the change may also improve confidence in the real estate sector by lowering non-transactional holding costs.

Importantly, the Honourable Federal Constitutional Court of Pakistan in its order dated 7th May, 2026, wherein it was pronounced that Section 7E of the Income Tax Ordinance, 2001, is ultra vires the Constitution, and is accordingly struck down, being void ab initio.

However, the proposed amendment should have been made to effect its applicability retrospectively.

**5. Tax on certain payments by life insurance business- new section Section 7G**

The Bill proposes to enforce new tax avenue on life insurance payouts (except death/disability/7-year maturity) impacting high- value policy holders which is hitherto fore were not taxable since it provided life insurance financial benefit on various life insurance policies.

The salient feature of this new avenue of taxation is as under:

(1) For tax year, 2026 and onwards, a tax shall be imposed, at the rate specified in Division IC of Part III of the First Schedule on every individual who receives any payout, benefit, surrender value, maturity proceeds or similar payment (hereinafter referred to as payout) from a life insurance business on account of insurance policy, family takaful certificate, plan or any similar arrangement.

(2) For the purposes of sub-section (1), the amount liable to tax shall be the gross amount of payout reduced by aggregate amount of premiums or contributions paid by the policy holder or participant.

(3) The provisions of sub-section (1) shall not apply where the payout or benefit is made—

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

(4) Tax deducted under this section shall be treated as final tax on the income arising from such payout or benefit.

## 6. Consequential Change Due To Insertion Of New Section 7g

Consequential changes due to insertion of new section 7G, wherever the section 7E is appearing shall be replaced with section 7G.

## 7. Disallowance of expenses for non-integration Section – 21

The bill proposes the limit of disallow of expenses up to the 5% (Previously this was up to 8%) of the total expenditure who fail to install electronic resource or is not integrated as required by the law, subject to the method, manner and procedure as may be prescribed.

This may increase the POS integration compliance.

## 8. Rationalization of rates of withholding taxes in the nature of minimum tax Section -53

The Bill proposes insertion of a new Section 53A whereby the Federal Government may reduce the rates of withholding taxes up to 1% that constitute minimum tax on the basis of economic viability in cases of persons or class of persons, subject to such restrictions and limitations as the Federal Government may specify. Further, this relaxation shall not apply to the minimum tax imposed under Section 113 of the Income Tax Ordinance.

Furthermore, the proposed section requires the Federal Government to place before the National Assembly all amendments made in rates of withholding taxes, in a financial year under this section.

## 9. Tax credit for Integration Section 64D

The Bill proposes the tax credit at the rate 10% against the normal tax payable for the actual expenditure incurred **exclusively** on the purchase, acquisition, installation or implementation of equipment, hardware, software or other electronic components as are directly and exclusively utilized for the purposes of integration with the computerized system of the Board for real time production monitoring, or for the recording or reporting of sales or receipts.

The proposed section read as follows:

"**64D. Tax credit for integration**. — (1) Any person required, under this Ordinance, the Sales Tax Act, 1990 or the Federal Excise Act, 2005, to integrate with the computerized system of the Board for real-time production monitoring, or for the recording or reporting of sales or receipts, shall be entitled to a tax credit in respect of expenditure incurred exclusively on the purchase, acquisition, installation or implementation of such equipment, hardware, software or other electronic components as are directly and exclusively utilized for the purposes of such integration: Provided that the Board may prescribe limitations, conditions, and restrictions for availing the tax credit under this section.

(2) The amount of tax credit allowed under sub-section (1) for a tax year in which electronic resource is installed, integrated and configured with the Board's computerized system shall be ten percent of the amount actually invested in the electronic resource.

(3) Such tax credit shall not be allowable against operation and maintenance expenses related to such electronic resource

(4) This tax credit shall be available only against normal tax payable under Division I or Division II of Part I of the First Schedule."

## 10. Cost of inherited Property in the hands of heir(s)
**Section 76**

Either to for, in the case of inherited property, the cost of property is taken to be the cost in the hands of deceased as enacted in subsection 1(b) & (C) of section 79. It stated that in case of transmission of asset to an executor or beneficiary on a death of a person have the same character as the person disposing of the asset and acquiring the asset for a cost equal to the cost of the asset for the person disposing of the asset at the time of disposal.

The Bill proposes that in the case of immovable property acquired by an individual through inheritance, the cost of such property in the hands of that individual shall be the fair market value of the property as provided under sub-section (5) of section 68 of this Ordinance on the day of the death of the original owner.

The proposed amendment introduces a clear tax basis for inherited property by adopting the fair market value at the date of death as the deemed cost to the heir.

## 11. Explanation of transmission of an asset in Family settlement
**Section 79**

The Bill proposed to provide clear explanation of transmission of assets by reason of family settlement amongst the family members consequent upon death of the person.

The proposed subsection reads as follows:

"Explanation: For the removal of doubt it is clarified that transmission of an asset, in the nature of immovable property, to a beneficiary on the death of a person shall also include the transmission of assets by reason of family settlement amongst the family members consequent upon death of the person."

## 12. Inclusion of Limited Liability Partnership (LLP) in the definition of a Person
**Section 80**

The Bill proposes to include the Limited Liability Partnership (LLP) in the definition of Person to cover the LLP under the ambit of tax.

## 13. Taxation of Limited Liability Partnership (LLP) members
**Section 92**

The Bill proposes to tax the amount received by the members of LLP where the income of an LLP is exempt.

## 14. Expansion of Special procedure for small traders and shopkeepers
**Section 99B**

The Bill proposes to broaden the FBR's power to prescribe special regimes wherein added the expression in section 99B, "rate and payment of tax including fixed tax, filing of return, audit"

## 15. Capital gain computation by NCCPL
**Section 100B**

The Bill proposes to exclude **Non-Banking Finance Companies (NBFCs)** from section 100B(2) and omit clauses (c) and (d). Further, a new sub-section (3) is inserted providing that **NCCPL shall compute and determine capital gains of banking companies, insurance companies and mutual funds in accordance with section 37A,** while these entities shall continue to deposit tax under the applicable provisions of the Ordinance.

## 16. Changes in legal provision of filing of Income tax return/ revised income tax return
**Section 114**

The existing section 114 requires taxpayers to file income tax returns electronically through the FBR's IRIS system. Taxpayers may revise a return where any omission or incorrect statement is discovered, subject to prescribed conditions.

The Bill proposes the changes for filing of tax returns are as under:

**(i) Electronic Readable Financial Statements**

Companies will be required to file financial statements in an electronically readable format from Tax Year 2026 onwards.

**(ii) Algorithmic Settlement Mechanism**

Taxpayers accepting a settlement offered through the Algorithmic Settlement Mechanism may revise their returns accordingly (See our comments on section 134B for algorithmic settlement mechanism).

**(iii) New Sub section 114(6B)**

Where a taxpayer accepts algorithmic settlement:

- Commissioner's approval for revision will not be required;
- Tax determined through the mechanism shall be paid;
- No penalty or default surcharge shall apply; and
- The revised return shall be treated as a valid revised return.

The current law is based on self-assessment and electronic filing through IRIS. Financial statements are generally uploaded in PDF format and revised returns often require administrative approval.

This proposed amendment represents a significant move towards data-driven tax administration. Machine-readable financial statements may enable automated analysis, risk assessment and cross-matching with sales tax, customs and banking data.

However, implementation will require transparency, procedural safeguards and protection of taxpayer rights.

**17. New Section– Faceless Audit & Assessment**
**Section 122E**

The Bill introduces new provisions regarding faceless audit, assessment, rectification with intent to eliminate physical interaction, reduce corruption and harassment risk and enhance transparency.

The salient feature of newly proposed section is as under:

(1) Notwithstanding anything to the contrary contained in any other provision of this Ordinance, any audit under sections 177 or 214C, any order made under section 111, any assessment under this Part and rectification under section 221, with respect to the cases referred to in sub-section (2), may be made in a faceless manner as may be prescribed by the Board.

(2) The faceless assessment under sub-section (1) shall be made in respect of such persons or class of persons, or incomes or class of incomes, or cases or class of cases, as may be specified by the Board.

(3) The provisions of section 177 shall apply to the audit conducted in faceless manner under this section:

The proposed section represents a major administrative reform aims to enhance transparency, consistency and efficiency in tax administration by reducing human intervention in audit and assessment proceedings. The faceless regime is expected to minimize discretionary practices, improve taxpayer experience and promote uniform application of tax laws.

However, successful implementation will depend upon effective digital infrastructure and adequate safeguards to ensure taxpayers' right of hearing and due process.

## 18. New Section- Faceless Appeals
## Section 129A

Under the existing appellate framework, appeals are heard and decided by Commissioners (Appeals) through conventional proceedings involving direct interaction between taxpayers and appellate authorities.

The Bill proposes insertion of a new section 129A whereby appeals filed under section 127 may be processed through the **National Faceless Centre** in the manner prescribed by the Board. The provisions of sections 127, 128 and 129 shall apply to such faceless appeals accordingly.

The proposed section extends the faceless regime to appellate proceedings and complements the faceless audit and assessment framework introduced through section 122E with the intent to promote transparency, consistency and efficiency in disposal of appeals while reducing administrative delays and direct contact between taxpayers and tax officials.

The success of the system will depend upon effective digital infrastructure and adequate safeguards to ensure fair hearing and due process.

## 19. Formation of Independent Case Scrutiny Committee
## Section 133A

The Bill proposes insertion of a new section 133A requiring that any reference before the High Court or any appeal or review before the Federal Constitutional Court or the Supreme Court shall only be filed after approval of an **Independent Case Scrutiny Committee** constituted by the Board.

In this regard, the Board may constitute one or more such committees and assign them cases or classes of cases decided by the Appellate Tribunal Inland Revenue or the High Court, as the case may be.

The Committee shall comprise of:

(a) a retired judge of the Supreme Court of Pakistan, the Federal Constitutional Court, or any of the High Courts of Pakistan who shall also act as Chairman of the Committee;
(b) an Advocate having not less than fifteen years of experience in tax and commercial litigation before the High Court or Supreme Court of Pakistan, to be nominated from a panel notified by the Board from time to time; and
(c) a senior serving or retired officer of the FBR (BS 20 or above).

Its recommendations shall be binding on the Commissioner Inland Revenue.

Notwithstanding anything contained in any other law for the time being in force, no suit, prosecution, or other legal proceedings shall lie against the Members of the committee and the Commissioner Inland Revenue having jurisdiction over the case, in relation to the decisions made under this section.

The Committee constituted under this sub-section shall exercise its powers and functions with effect from the date of its constitution as notified by the Board.

The proposed provision aims to filtering weak or non-meritorious tax cases before they reach superior courts and to ensure that only cases involving substantial legal merit are pursued before superior Courts.

The measure may also reduce the burden on courts and promote consistency in FBR's litigation strategy.

**20. Empowering rectification of mistakes by Alternative Dispute Resolution Committee (ADRC) and Reconstitution of ADRC**
**Section 134A Sub-section (10) and (11)**

The Bill proposes insertion of a new provision that, notwithstanding dissolution of the ADRC, the Committee may rectify any mistake apparent from the record on its own motion or on an application by the taxpayer or the Commissioner within thirty days of receipt of the Committee's decision.

Under the existing provisions, once the ADRC issued its decision and stood dissolved, there was no express statutory mechanism enabling correction of apparent errors in its decision.

The proposed amendment addresses a practical gap in the Alternate Dispute Resolution framework by allowing correction of any apparent mistakes or errors without requiring fresh proceedings. The rectification power is limited in scope and may only be exercised within thirty days, thereby preserving certainty in dispute resolution.

Further the Bill proposes an additional proviso vide section 134A(11) whereby any member of the ADRC becomes unavailable during proceedings, the Chairman of the Board shall appoint a replacement member within fifteen days. The reconstituted Committee shall continue proceedings and be allowed an additional sixty days to conclude the matter, subject to a minimum total period of ninety days from the Committee's original constitution.

The amendment strengthens the Alternate Dispute Resolution mechanism by providing a clear procedure for replacement of Committee members and uninterrupted continuation of dispute resolution proceedings.

## 21. Establishment of Algorithmic settlement mechanism Section 134B

The Bill proposes insertion of a new section 134B empowering the Board to establish a digitally operated Algorithmic Settlement Mechanism for settlement of tax proceedings before issuance of an assessment or amended assessment order under sections 121, 122 or 122E through revision of return.

The amendment introduces an automated, technology-based mechanism through which taxpayers may settle identified tax discrepancies electronically before formal assessment proceedings are concluded.

The proposed mechanism forms part of the broader digital transformation agenda, including faceless audits, faceless appeals and electronic compliance systems and is aimed at promoting voluntary compliance, reducing litigation and facilitating early resolution of tax disputes. It enables taxpayers to regularize their tax position through a simplified digital process while reducing administrative burden on FBR.

The salient features of the proposed section are as under:

(1) Notwithstanding anything contained in this Ordinance, the Board may establish digitally operated algorithmic settlement mechanism (hereinafter referred to as "the mechanism") for settlement of tax proceedings at any stage before any assessment or amendment of assessment order under sections 121, 122 or 122E of this Ordinance through revision of return under sub-section (6) of section 114 in certain cases.

(2) In case, the mechanism calculates and presents to the taxpayer a settlement offer for voluntary revision of return as per the criteria provided under sub-section (3), the taxpayer may avail the offer as provided in sub-section (4).

(3) The system generated settlement offer shall be calculated on the basis including but not limited to –

(a) the stage of proceedings at which settlement is offered;
(b) the taxpayer's compliance history, as maintained in FBR's data;
(c) the nature and character of the discrepancy, including whether it involves a valuation or legal interpretation dispute, unexplained income or assets, or concealment; and
(d) any other basis the Board may consider relevant to ensure revenue adequacy and equitable treatment of taxpayers.

(4) A taxpayer who opts to avail this mechanism shall within ten days from the date of settlement offer to –

(a) accept the settlement offer on IRIS;
(b) deposit the settlement offer amount along with revised return; and
(c) revise the relevant return of income to incorporate the settled amount.

(5) The issues confronted to the taxpayer through notice of selection of audit, a notice under section 111, an audit report under sub section (6) of section 177, a notice under sub-section (9) of section 122, as the case may be, shall stand abated, if the taxpayer revises the return by accepting the offer as provided in sub-section (4).

(6) Revision of return consequent upon acceptance of offer under sub-section (4) of this section shall not preclude proceedings in respect of any other issue or discrepancy not covered by the settlement offer, nor shall it affect proceedings for any other tax year.

**22. Return of Non-Resident Ship Owner or Charterer**
**Section 143**

The Bill proposes to recognize the **Authorised Shipping Agent** as a responsible person for filing returns, handling freight documentation and complying with tax obligations relating to a vessel or voyage. The agent shall be jointly and severally liable for tax liabilities.

Further the Bill proposes a new subsection whereby only one return shall be filed for each vessel or voyage, covering total freight and related amounts by the master of the Ship or Authorized shipping agent as well as the electronic confirmation of return filing and tax payment is also proposed. It simplifies compliance through a single-return mechanism and promotes digital verification of tax payments.

The proposed amended subsection read as follows:

(1A) Notwithstanding anything contained in this Ordinance, only one return shall be furnished for each vessel or voyage, and such return shall cover the total freight and all related amounts attributable to the ship.

(1B) The master of ship or the authorised shipping agent responsible for manifest filing and freight handling in respect of a vessel shall furnish the return under this section, and no other person shall furnish such return for that vessel or voyage.

**23. Advance Tax Paid by the Taxpayer**
**Section 147 (6C)**

Section 147(6C), inserted through the Finance Act, 2024, formed part of the advance tax regime applicable to certain export-related transactions.

The Bill proposes omission of sub-section (6C) of section 147 for advance tax requirement introduced in 2024. Accordingly, this provision will now only be governed by the general advance tax provisions of the Ordinance. Now the Exporters will no more be required to pay additional advance tax at the time of proceeds realization.

**24. Widening of tax withholding on life insurance**
**Section 151 B**

The Bill proposes insertion of a new section 151B requiring life insurance companies and takaful operators to deduct tax from certain policy or certificate payouts particularly those having an investment or savings element. Now the Insurance companies and takaful operators will act as withholding agents and collect tax at source.

The proposed new section is read as under:

(1) Every life insurance company, including a family takaful operator or a window takaful operator, making any payout, benefit, surrender value, maturity proceeds or similar payment to an individual under a life insurance policy, family takaful certificate, plan or arrangement shall, at the time of making such payment, deduct tax at the rate specified in Division IC of Part III of the First Schedule.

(2) For the purposes of sub-section (1), the amount liable to tax deduction shall be the gross amount of payout or benefit reduced by the aggregate amount of premiums or contributions paid by the policyholder or participant.

(3) The provisions of sub-section (1) shall not apply where the payout or benefit—

(a) is made on account of death of the insured or participant;
(b) is made on account of disability of the insured or participant;
(c) or is made after completion of seven years from the date of issuance of the policy, certificate or plan.

(4) Tax deducted under this section shall be treated as final tax on the income arising from such payout or benefit.

**25. Widening of tax withholding on foreign currency account etc. arising on capital gain**
**Section 152 sub-section (1DA)**

The Bill proposes substitution of sub-section (1DA) of section 152 relating to withholding tax on payments made to non-residents.

The new substituted sub-section shall be read as under:

(1DA) Every banking company maintaining a Foreign Currency Value Account (FCVA), Foreign Currency Business Value Account (FCBVA), Non-Resident Rupee Value Account (NRVA), or Non Resident Rupee Business Value Account (NRBVA) shall deduct tax from capital gain arising on the disposal of debt instruments and Government securities and certificates (including Shariah compliant variant) invested through aforesaid accounts at the rate specified in Division II of Part III of the First Schedule.

Previously, section 152(1DA) required a banking company maintaining a **Foreign Currency Value Account (FCVA)** to deduct tax on profit or yield and certain gains arising from investments made through such accounts.

Now the Bill substitutes section 152(1DA) to broadens the withholding tax regime applicable to foreign and non-resident investors whereby every banking company maintaining:

- Foreign Currency Value Account (FCVA);
- Foreign Currency Business Value Account (FCBVA);
- Non-Resident Rupee Value Account (NRVA); or
- Non-Resident Rupee Business Value Account (NRBVA);

shall deduct tax on capital gains arising from disposal of debt instruments and Government securities/certificates (including Shariah-compliant variants) at the rate specified in Division II of Part III of the First Schedule.

**Brief Comparison is as under:**

| Existing Position | Proposed Position |
|---|---|
| Limited withholding framework primarily covering investments through FCVA accounts. | Expanded to FCVA, FCBVA, NRVA and NRBVA accounts. |
| Scope was narrower. | Specifically covers capital gains on disposal of debt instruments and Government securities. |
| Certain non-resident investment structures were not expressly covered. | All major value account structures for foreign and non-resident investors are covered. |

## 26. Widening of tax withholding on from Social Media Platforms Section 154B

The Bill proposes insertion of a new section 154B requiring tax to be withheld on revenues received by resident persons from social media platforms including social media content creation, advertising revenue, sponsorships and other digital content monetization channels.

The provision seeks to bring the rapidly growing digital economy within the formal tax net. With increasing income being earned through platforms such as YouTube, Facebook, TikTok, Instagram and similar platforms, the amendment aims to ensure taxation of such revenues at source and improve documentation of digital income streams.

The proposed section reads as under:

154B. Withholding tax on revenues Received from social media platforms. –

(1) Every banking and non-banking financial institution shall, at the time of credit or receipt of any amount in an account of a person, deduct tax at the rate specified in Division IIIAB of Part III of the First Schedule, where such amount represents revenues received from social media platforms.

(2) For the purposes of this section –

(a) "digital content creator" or "social media influencer" means any individual or entity deriving income from creation, publication, or monetization of content on digital platforms including but not limited to YouTube, Facebook, Instagram, Tik Tok or such others similar platforms; and

(b) “payment” includes any inward remittance, transfer, or credit received through banking channels, including through intermediaries such as online payment service providers or digital financial platforms.

(3) prescribe The tax deducted under this section shall be –

(a) minimum in the case of a resident person; and
(b) final tax in the case of a non-resident person not having a permanent establishment in Pakistan.

(4) The Board may, by notification in the official Gazette, rules for implementation, including identification and reporting mechanisms.

**27. Exemption certificate**
**Section 159**

The proposed amendment introduces an objective, criteria-based pathway for obtaining exemption certificates. Entities that have distributed 90% or more of their accounting come for the last three years automatically qualify for a full-year exemption certificate. This directly supports regulated investment vehicles such as mutual funds, REITs and income funds.

For charitable and not-for-profit entities approved under section 2(36)(c), the Bill now proposes automatic issuance of an exemption certificate for the entire tax year. This will improve liquidity for welfare organizations.

**28. Additional Bank Reporting of High-Value Transactions**
**Section 165AB**

The Bill proposes to insert a new section 165AB whereby mandatory, system-driven reporting regime where banks and Electronic Money Institutions (EMIs) must upload details of any account with deposits or withdrawals exceeding **PKR 100 million** in a six-month period. The Bill proposes that this data including opening/closing balances, total credits, and **peak credits** is uploaded to the **Central Data Hub** and “*shall be digitally processed and shall not be visible to any of the Income Tax Authorities during this cross-matching process.*”

The proposed section reads as follows:

“165AB. Reporting of financial transaction data by banking companies and financial institutions. —

(1) Notwithstanding anything contained in the Banking Companies Ordinance, 1962 (LVII of 1962), the State Bank of Pakistan Act, 1956 (XXXIII of 1956), the Protection of Economic Reforms Act, 1992 (XII of 1992), or any other law for the time being in force, every banking company and Electronic Money Institutions

(EMIs) shall electronically upload the information, as mentioned in sub section (2), to the Central Data Hub, for algorithmic cross-matching of tax and bank information.

(2) Information in respect of an account holders having deposits or withdrawals exceeding one hundred million Rupees during a reporting period in any or all of the bank accounts maintained by the account holder, specifying particulars of deposits or withdrawals, including opening and closing balances, peak credits, and total credits during the reporting period.

(3) This information as shared above shall be digitally processed and shall not be visible to any of the Income Tax Authorities during this cross-matching process.

(4) In case of gross mismatch in the information in respect of an account holder, the digital system of the Board shall feed the information so required into the Compliance Risk Management (CRM) system of the Board and further proceedings shall be conducted by the National faceless centre as provided in this Ordinance.

(5) The Board shall ensure that such information, shared by the banks, remains strictly confidential and in no case is disclosed or misused in a manner to disregard the confidentiality measures provided in the statutes and rules governing commercial banking, save as provided in this section.

(7) In this section –

(a) "reporting period" means, in respect of a Financial Year, a period of six months, starting from:

 (i) 1st day of July and ending on 31st day of December; and
 (ii) 1st day of January and ending on 30th day of June,

(b) "specified date" means the–

 (i) 31st day of January in case of reporting period ending on 31st day of December; and
 (ii) 31st day of July in case of reporting period ending on 30th day of June;

(c) "accounts" means bank accounts maintained by a person including current deposits, call deposits, saving deposits, fix deposits, term deposits, or any other such deposits by whatever name called;

(d) "peak credits" means the highest credit balance in all the bank accounts of the account holder on any given date during the reporting period;

(e) "Central Data Hub" means a virtual repository of data and information maintained by the Board through PRAL; and

(f) "compliance risk management (CRM)" means a computer programme for identification and communication of compliance risks, including understatement of sales, overstatement of expenses, non-reporting or under-reporting of incomes, assets, and transactions.

**29. Inclusion of Section 154B in Final Tax Regime**
**Section 169**

The Bill proposes to include **section 154B(3)(b)** in section 169(1)(b), thereby treating tax withheld on specified social media revenues as **final tax**.

**30. Power to Obtain Information**
**Section 174**

The Bill proposes to substitute section 174(5) to empower the Board to require any person or class of persons to install and use prescribed electronic resources or operate as an integrated enterprise for receiving, storing, matching and accessing transaction data relevant to tax liability.

The proposed amendment empowers FBR's authority to implement digital integration and real-time access to business transaction data. It enables mandatory system integration for specified taxpayers to facilitate automated monitoring and verification of tax-related information by:

- Mandatory integration of business systems with FBR.
- Increased digital reporting and data sharing.
- Enhanced monitoring of transactions and tax compliance.
- Supports faceless audits and algorithmic settlement mechanisms.

**31. Access to Information by FBR**
**Section 175AA**

The Bill proposes an amendment significantly **expands the scope of financial data accessible to FBR** by widening the list of institutions required to share information and by formally empowering the **State Bank of Pakistan (SBP)** to operate a centralized banking data repository.

Now the ordinance, explicitly includes the **State Bank of Pakistan, Microfinance Banks, and Electronic Money Institutions (EMIs)** within the information-sharing framework. This ensures that FBR receives data not only from scheduled banks but also from **digital wallets, microfinance channels, and SBP-maintained systems.**

Further, the proposed amendment formalizes a **direct data-exchange pipeline** between SBP and FBR by **establishment and maintaining a secure virtual repository** of banking data based on unique identifiers by the SBP.

The amendment transforms Section 175AA into a **modern, institution-wide financial data-sharing framework**, enabling FBR to access comprehensive, standardized banking information through SBP's centralized systems.

## 32. Enhanced Audit Powers to the Commissioner
## Section 177

The Bill proposes to insert new sub-section (6B) whereby empowering the Commissioner, with prior approval of the Chief Commissioner, to direct a taxpayer to obtain:

- Re-audit of accounts by an accountant;
- Re-valuation of inventory by a cost accountant; and/or
- Determination of actuarial values by an actuary,

where the nature, complexity, volume, correctness or specialized nature of the taxpayer's accounts or business warrants further examination at the taxpayer's expense (Additional compliance cost).

## 33. Enhanced Penalty Regime
## Section 182

The Bill proposes significant enhancements, clarifications, and new penalty categories, aiming at strengthening enforcement of digital integration, data-sharing, and accurate tax reporting. The changes also substantially increase penalty amounts across several defaults.

The Bill proposes the following major changes:

<table>
<tr><th>S. No.</th><th>Amendment</th></tr>
<tr><td>S. No. 1</td><td>Explanation given in serial no. 1 has been proposed to be amended whereby scope of "Tax payable" for penalty purposes redefined as the higher of:<br><br>i. tax chargeable on the taxable income on the basis of assessment made or treated to have been made under sections 120, 121, 122, 122D, or 122E; or<br>ii. the highest tax payable by the person in any of the three immediately preceding tax years for which returns of income were duly filed.</td></tr>
<tr><td>S. No. 2A (New)</td><td>Penalty for failure to install, operate, maintain or tamper with FBR-prescribed electronic systems under section 174(5).<br>New entry shall be read as under:
<table>
<tr><th>S. No.</th><th>Default</th><th>Penalty</th><th>Section</th></tr>
<tr><td>2A</td><td>Where any person, having been required by the Board under sub-section (5) of section 174 to install and use an electronic resource of the type and description prescribed for the purpose of storing and accessing information regarding any transaction that has a bearing on the tax liability of such person, fails to install such electronic resource within the time specified, or having installed it, fails to use, maintain, or operate it in the prescribed manner, or tampers with, disables, or circumvents such electronic resource.</td><td>Rs. 1 million for the first default, and Rs. 2 million for each subsequent default.</td><td>174(5)</td></tr>
</table></td></tr>
<tr><td>S. No. 2B (New)</td><td>Penalty on integrated organizations for failure to integrate systems, share data, provide accurate information, nominate focal persons or rectify deficiencies under section 175A.</td></tr>
</table>

New proposed entry shall be read as under:

| | | | |
|---|---|---|---|
| **2B** | Where any agency, authority, institution, or organisation that is an integrated organisation within the meaning of section 175A, or has been notified as such by the Board, fails without reasonable cause to—<br>(a) integrate its IT platform such data interface as notified by the Board within the time specified; or<br>(b) share data of the categories and in the manner required under section 175A or the rules made thereunder; or<br>(c) provide complete, accurate, and timely data as required; or (d) designate a focal person as required; or<br>(e) remedy a deficiency or non-compliance within thirty days of a written notice by the Board identifying the deficiency. | A penalty of Rs. 500,000/- for the first default and Rs. 1 million for each subsequent default shall be imposed on the principal officer of the integrated organisation. **"Principal officer"** for this purpose means the person who, at the time of the default or during the period of continuing default, holds overall executive responsibility for the administration and functioning of the integrated organisation, by whatever title or designation that person may be referred to under this Ordinance, rules, or instrument constituting or governing that organisation, including but not limited to: - the Governor,<br>- Chairman,<br>- Chief Executive Officer,<br>- Director General,<br>- Managing Director,<br>- Secretary, or<br>- Principal Accounting Officer,<br>as the case may be; where executive responsibility is shared between two or more persons by virtue of a collegiate body or board structure, the "principal officer" shall be the person who, within that body, holds specific responsibility for regulatory compliance, governance, information, data or technology; and the absence of a formal designation, or a vacancy in the office, shall not relieve the person actually exercising the functions of the principal officer from liability under this section. | 175A |

**S. No. 8**

The Bill proposed to enhance the existing penalties as follows:

| **S. No.** | **Default** | **Existing Penalty** | **Proposed Revised Penalty** | **Section** |
|---|---|---|---|---|
| 8(a) | Where a taxpayer who, without any reasonable cause, in non-compliance with provisions of section 177, fails to produce the record or | Rs. 25,000/- | Rs. 100,000/- | 177 |

| | | | | | |
|---|---|---|---|---|---|
| | | documents on receipt of first notice. | | | |
| | 8(b) | Where a taxpayer who, without any reasonable cause, in non-compliance with provisions of section 177, fails to produce the record or documents on receipt of second notice. | Rs. 50,000/- | Rs. 200,000/- | 177 |
| | 8(c) | Where a taxpayer who, without any reasonable cause, in non-compliance with provisions of section 177, fails to produce the record or documents on receipt of third notice. | Rs. 100,000/- | Rs. 300,000/- | 177 |

**S. No. 10**

The Bill proposed to enhance the existing penalties as follows:

| S. No. | Default | Existing Penalty | Proposed Revised Penalty | Section |
|---|---|---|---|---|
| 10(a) | Any person who makes a false or misleading statement to an Inland Revenue Authority either in writing or orally or electronically including a statement in an application, certificate, declaration, notification, return, objection or other document including books of accounts made, prepared, given, filed or furnished under this Ordinance. | Higher of:<br>- Rs. 25,000/- or<br>- 50% of the amount of tax shortfall. | **Higher of:<br>- Rs. 500,000/- or<br>- 100% of the amount of tax shortfall.** | 114, 116, 174, 176, 177, 118 |
| 10(b) | Any person who furnishes or files a false or misleading information or document or statement to an Income Tax Authority either in writing or orally or electronically. | Higher of:<br>- Rs. 25,000/- or<br>- 50% of the amount of tax shortfall. | **Higher of:<br>- Rs. 500,000/- or<br>- 100% of the amount of tax shortfall.** | 114, 116, 174, 176, 177, 118 |
| 10(c) | Any person who omits from a statement made or information furnished to an Income Tax Authority any matter or thing without which the statement or the information is false or misleading in a material particular. | Higher of:<br>- Rs. 25,000/- or<br>- 50% of the amount of tax shortfall. | **Higher of:<br>- Rs. 500,000/- or<br>- 100% of the amount of tax shortfall.** | 114, 116, 174, 176, 177, 118 |

**S. No. 12**

Penalty increased from Rs.100,000 to Rs.1,000,000.

| Default | Existing Penalty | Proposed Revised Penalty | Section |
|---|---|---|---|
| Where a person has concealed income or furnished inaccurate particulars of such income, including but not limited to the suppression of any income or amount chargeable to tax, the claiming of any deduction for any expenditure not actually incurred or any act referred to in sub-section (1) of section 111, in the course of any proceeding under this Ordinance before any Income Tax authority or the appellate tribunal. | Higher of<br>- Rs. 100,000/-<br>or<br>- an amount equal to the tax which the person sought to evade. | Higher of<br>- Rs. 1,000,000/-<br>or<br>- an amount equal to the tax which the person sought to evade. | 20, 111 and General |

**S. No. 15**

Penalty increased from 40% to 500%; additional personal penalty of Rs.500,000 imposed on Principal Officer of a company.

| S. No. | Default | Existing Penalty | Proposed Revised Penalty | Section |
|---|---|---|---|---|
| 15 | Any person who fails to collect or deduct tax as required under any provision of this Ordinance or fails to pay the tax collected or deducted as required under section 160. | Higher of:<br>Rs. 45,000/-<br>or<br>10% of the amount of tax. | Higher of:<br>Rs. 500,000/-<br>or<br>10% of the amount of tax.<br><br>"Provided that where the defaulter in such case is a company, its Principal Officer shall be personally liable to pay an additional penalty of Rs. 500,000/- for such offense."; | Division II or Division III, excluding sub-section (2A) of section 153, of Part V of Chapter X or Chapter XII |

**S. No. 35**

Scope of penalty expanded to all persons including companies, Previously this was applicable to only companies.

Explanation added read as under:

For the purposes of this entry, audited financial statements furnished in the form of image files, scanned documents, or password-protected files that are illegible or otherwise inaccessible to the concerned Inland Revenue authority shall be deemed to have been furnished as blank or incomplete documents.

**S. No. 36 (New)**

New Penal provision added in the case where taxpayer claims withholding tax credit exceeding the amount actually deposited by withholding agent.
It reads as under:

| S. No. | Default | Proposed Revised Penalty | Section |
|---|---|---|---|
| 36 | Where a person claims a credit in respect of tax withheld at source under any | Such person shall pay a penalty equal to the | 168 |

| | | | | |
|---|---|---|---|---|
| | | provision of this Ordinance in excess of the verifiably amount deducted and deposited by the withholding agent, as confirmed through the Board's computerized system or otherwise. | amount of excess credit claimed | |

**34. Return not filed within due date**
**Section 182A.**

This section relates to the surcharge for inclusion in the active tax payer list on persons who fail to furnish their income tax returns within the prescribed due date under Section 182A of the Income Tax Ordinance, 2001. The Bill also proposes to enhance the rate of surcharge applicable to late and non-filers. Consequently, taxpayers who fail to file their returns within the due date may be subject to a higher surcharge as compared to the existing provisions of the Ordinance.

| Clause | Existing Surcharge | Propose Surcharge |
|---|---|---|
| i) | Rs. 25,000/- in case of a company | Rs. 100,000 in case of a company |
| ii) | Rs. 10,000/- in case of an association of persons; | Rs. 50,000 in case of an association of persons; |
| iii) | Rs. 1,000/- in case of an individual | Rs. 25,000 in case of an individual |

**35. Omission of Section 209A.**

Section 209A contained provisions relating to the **appointment and functions of Inland Revenue Authorities** for specific administrative purposes under the Ordinance.

The Bill proposes complete omission of section 209A. The omission appears to be part of the broader restructuring and digitalization of tax administration introduced through Finance Bill 2026, including faceless audits, faceless appeals, the National Faceless Centre and algorithmic settlement mechanisms. Any functions previously performed under section 209A are likely being absorbed within the revised administrative framework.

The omission of section 209A is primarily an administrative rationalization measure and forms part of FBR's transition towards a technology-driven and centralized tax administration system.

**36. Faceless jurisdiction of income tax authorities**
**Section 209B**

The Bill proposes to insert a new section introducing **faceless jurisdiction** through the National Faceless Centre for conducting tax audits, assessments, and appellate proceedings. This initiative represents a significant step towards the modernization and digital transformation of tax administration.

The newly proposed section reads as follows:

“209B. Faceless jurisdiction of income-tax authorities. –

(1) Notwithstanding anything contained in this Ordinance, the Inland Revenue tax authorities appointed in National faceless center shall perform all or such functions, and exercise all or such powers under this Ordinance as may be assigned to them in respect of such persons, or classes of persons, for such tax years of a person through algorithms developed by the Board.

(2) The jurisdiction so assigned under this Ordinance may be exclusive or concurrent. In case of concurrent jurisdiction, the powers and functions not assigned to the National faceless centre shall remain with the Commissioner having jurisdiction under section 209 of this Ordinance.

(3) The Board may transfer jurisdictions in respect of persons or classes of persons, for a specific tax year, for which the jurisdiction has already been assigned under this section, from National faceless center to the Commissioner having jurisdiction under section 209 of this Ordinance, on recommendation of the Chief Commissioner or on its own accord.

(4) The Chief Commissioner appointed in the National faceless center may request the Board to direct the Commissioner having jurisdiction under section 209 or any other Income Tax Authority, as it may deem fit to conduct physical verification including nature and size of the business, assets, investments, expenditures, and any other information or verification required by the Chief Commissioner for conducting any proceedings assigned to the National faceless centre: Provided that the Board may exercise its power of allocation of verification through an algorithm-based system.

(5) Notwithstanding anything contained in any law for the time being in force, the identity of the authority exercising jurisdiction in the National faceless centre shall be kept confidential from the taxpayer, the authorized representative of the taxpayer, and any unauthorized person.

(6) No notice, order, demand, or assessment passed by an authority appointed at the National faceless centre shall be called in question or set aside merely on the ground that such authority did not have jurisdiction over the taxpayer under section 209 of this Ordinance, or lack of notified delegation of power under section 210 of this Ordinance, or because of the fact that identity of the authority has been kept confidential from the taxpayer as per sub-section (5).

**37. Disclosure of Information by Public Servants**
**Section 216 sub-section (3)**

Existing section 216 prohibits disclosure of taxpayer information except to persons and authorities specifically authorized under the Ordinance. Clause (ba) permitted disclosure to auditors in limited circumstances, while clause (ke) permitted disclosure to certain international organizations and institutions.

The Bill expands clause (ba) to permit disclosure of taxpayer information to **auditors, audit mentors and sectoral experts** engaged by FBR on a contractual basis or through third-party arrangements, including payroll firms, subject to execution of a prescribed non-disclosure agreement.

The amendment broadens the category of persons who may access taxpayer information for audit, advisory and research purposes. It facilitates FBR's use of external professionals and specialized experts in audit and compliance functions while requiring confidentiality safeguards through non-disclosure agreements.

**38. Appointment of auditor as an expert**
**Section 222(2)**

The Proposed amendment complements the changes made in section 216 and adds the role of audit mentors and sectoral experts in the tax administration framework. It enables these professionals to assist tax authorities in specialized audits, sector-specific reviews and technical examinations.

**39. Substitution of National Faceless Center with Automated Impersonal Tax Regime**
**Section 227D**

The proposed Finance Bill seeks to substitute the concept of the **National Faceless Center** with a broader and more comprehensive Automated Tax Regime under section 227D of the Ordinance. The proposed regime is intended to institutionalize technology-driven tax administration by providing a statutory framework for conducting tax proceedings through automated and electronic processes, minimizing direct human interaction between taxpayers and tax authorities.

Under the proposed provisions, the Centre shall function as the operational arm of the Board for conducting faceless proceedings under the Ordinance. The Centre will comprise a **Director General**, along with such number of **Chief Commissioners, Commissioners, Additional Commissioners, Deputy Commissioners, Assistant Commissioners, and other Income Tax Authorities specified under section 207**, supported by the necessary administrative and technical staff, as may be determined by the Board.

A notable feature of the proposal is the authorization granted to the Board to design and deploy **algorithm-based systems** for assigning functions, cases, and jurisdiction among the tax authorities operating within the Centre. This automated allocation mechanism is intended to ensure objectivity, transparency, uniformity, and efficient utilization of resources while reducing the possibility of discretionary case selection.

The proposed section further empowers the Board to establish various **wings and operational units** within the Centre as may be prescribed, enabling specialization and functional segregation of responsibilities. In addition, to strengthen governance and quality assurance, the Bill specifically requires that the functions of **audit, assessment, and quality control** relating to a particular case and tax year shall be performed by officers, thereby introducing an additional layer of checks and balances within the tax administration process.

Furthermore, all communications among the Centre's units, taxpayers, authorized representatives, and any other relevant persons for obtaining information, documents, evidence, or explanations shall be conducted exclusively through **electronic means,** reinforcing the digital and paperless nature of the proposed regime.

**40. Establishment of a new Directorate General (Field Compliance), Inland Revenue**
**New Section 228A**

The Bill seeks to insert a new **section 228A** in the Ordinance to provide for the establishment of a dedicated **Directorate General (Field Compliance), Inland Revenue**.

Under the proposed section, the Directorate General (Field Compliance) shall consist of a **Director General, Directors, Additional Directors, Deputy Directors, Assistant Directors,** and such other officers as may be prescribed by the Board from time to time. The organizational structure is intended to facilitate effective supervision, coordination, and implementation of compliance-related functions across various jurisdictions and sectors.

The proposed provision further empowers the Board to prescribe, through notification in the official Gazette, the **powers, duties, functions, and jurisdiction** of the Director General and other officers serving within the Directorate. This authority will enable the Board to define the operational scope of the Directorate and allocate responsibilities in accordance with evolving compliance risks, enforcement priorities, and administrative requirements.

**41. Omission– Advance Tax on Motor Vehicles**
**Clause (c) of Section 231B(6)**

The existing section deals with the matter relating to payment of advance tax on motor vehicles and it provides the expression date of first registration means:

(a) the date of issuance of broad arrow number in case a vehicle is acquired from the Armed Forces of Pakistan;
(b) the date of registration by the Ministry of Foreign Affairs in case the vehicle is acquired from a foreign diplomat or a diplomatic mission in Pakistan;
***(c) the last day of the year of manufacture in case of acquisition of an unregistered vehicle from the Federal or a Provincial Government; and***
(d) in all other cases the date of first registration by the Excise and Taxation Department.

The Bill seeks to omit **clause (c) of subsection (6) of section 231B** of the Ordinance. The omitted clause previously prescribed the **date of first registration of a motor vehicle** as one of the criteria for determining the applicability or rate of advance tax under the said section. The proposed amendment removes one of the exclusions or exceptions previously available under sub-section (6). As a result, the scope of the remaining provisions is narrowed and the omitted category will no longer qualify for the treatment previously available under clause (c).

**42. Omission of Advance tax on TV plays and advertisement**
**Section 236CA**

The Bill seeks to **omit section 236CA** of the Ordinance. Under the existing provisions, advance tax was chargeable on the screening and viewing in Pakistan of **foreign-produced television dramas and serials that had been dubbed into local languages**, as well as on **advertisements featuring foreign actors** broadcast through television channels operating in Pakistan.

The omission of section 236CA would effectively withdraw the requirement to collect advance tax on such foreign media content and advertisements. Consequently, responsibility for the collection or payment of tax under this section would no longer be subject to these obligations.

**43. Uniform requirement for staff of FBR**
**New section 237C**

The Income Tax Ordinance, 2001 did not contain any specific provision empowering the Board to prescribe a uniform for officers and staff of the Inland Revenue Service.

The Bill proposes insertion of a new section 237C authorizing the Board to prescribe, through notification in the official Gazette, rules regarding the wearing of uniform by officers and staff of the Inland Revenue Service of Pakistan.

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## COMMENTS ON AMENDMENTS PROPOSED VIDE FINANCE BILL 2026 IN THE INCOME TAX ORDINANCE, 2001 VIDE FINANCE BILL 2026- SCHEDULES

### 1.1 Reduced Tax Rates for Salaried Individuals [First Schedule- Part I, Division I, Clause (2)]

The Bill proposes to revise the tax rates for salaried individuals to provide some relief to them, which is displayed by the following table:

| Taxable Income (Rs.) | Existing Tax (Rs.) | Proposed Tax (Rs.) | Reduction (Rs.) | Effective Tax Rate (%) | | Reduction % |
|---|---|---|---|---|---|---|
| Annual | Annual | Annual | Annual | Existing-Annual | Proposed - Annual | Annual |
| **1,500,000** | 39,000 | 39,000 | 0 | 2.60% | 2.60% | - |
| **3,000,000** | 300,000 | 276,000 | 24,000 | 10.00% | 9.20% | 8% |
| **5,000,000** | 931,000 | 802,000 | 129,000 | 18.62% | 16.04 % | 13.86% |
| **7,000,000** | 1,631,000 | 1,424,000 | 207,000 | 23.30% | 20.34 % | 12.69% |
| **10,000,000** | 2,681,000 | 2,474,000 | 207,000 | 26.81% | 24.74 % | 7.72% |
| **12,000,000** | 3,381,000 + 304,290 (Surcharge @ 9%) = 3,685,290 | 3,174,000 | 511,290 | 30.71% | 26.45 % | 13.88% |
| **15,000,000** | 4,436,000 + 399,240 (Surcharge @ 9%) = 4,835,240 | 4,224,000 | 611,240 | 32.23% | 28.16 % | 12.65% |

### 1.2 Super Tax Rates (Section 4C) (First Schedule- Part I, Division II B)

There is a proposal to substitute the tax rate table relevant to Section 4C, as under:

| S. No. | Income under section 4C and person | Rate of Tax |
|---|---|---|
| 1. | Income of a banking company exceeding Rs. 150 million | 10% of the income |
| 2. | Income of a person, whose income is computed as per Part I of the Fifth Schedule, exceeding Rs. 150 million, so far as it does not exceed the limit specified in rule 4 of that Part | 10% of the income |
| 3 | Income of a person, engaged in deriving income from sale of any kind of fertilizer, exceeding Rs. 150 million. | 10% of the income |

| | | |
|---|---|---|
| 4 | Income of a person other than those mentioned in Sr. # 1, 2 & 3, exceeding Rs. 500 million | 8% of the income |

For ease of understanding and quick comparison, the existing tax rates under Section 4C are also tabulated below:

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

### 1.3 Tax on deemed income - Under Section 7E (First Schedule- Part I, Division VIIIC)

The Bill seeks to omit this Division pursuant to the judgment of the Honorable Federal Constitutional Court Of Pakistan, who has declared the relevant provisions to be unconstitutional.

### 1.4 Minimum tax Under Section 113 (First Schedule- Part I, Division IX)

The Bill seeks to withdraw the applicability of minimum tax under Section 113 on the turnover/receipts of distributors of pharmaceutical products, consumer goods, and cigarettes that is being chargeable @ 0.25% at present.

### 1.5 Withholding tax on certain payments by Life Insurance Companies and Takaful Operations (First Schedule- Part III, Division IC)

A new division has been proposed for withholding tax on certain payments made by Life Insurance Companies and Takaful Operations, as ***being proposed through Section 7G of the Income Tax Ordinance 2001***, as per the following table:

| Sr. # | Description | Rate of Tax |
|---|---|---|
| (1) | (2) | (3) |
| 1 | Where payout or benefit is made within one year from the date of issuance of the life insurance policy, family takaful certificate or plan | 15% |
| 2 | Where payout or benefit is made after one year but before completion of seven years from the date of issuance of the life insurance policy, family takaful certificate or plan. | 10% |

### 1.6 Withholding tax on certain payments – Clause (b) of Sub-section (1) of Section 153 (First Schedule- Part III, Division III)

The Bill proposes to enhance withholding tax rates as under:

i) For Payments as mentioned in Clause i @ 7% against the existing rate of 6%
ii) For Payments as mentioned in Clause ii, the following paragraph is substituted

15% in the case of independent professional services such as doctors, lawyers, architects, accountants, software engineers or developers, working independently; and

Thereafter, the following new sub-paragraphs shall also be proposed to add, namely:

(iii) 1.5% of the gross amount payable to electronic and print media in case of advertising services; and

(iv) 14% of the gross amount in the case of services other than those covered in sub-paragraphs (i), (ii) and (iii).

**1.7 Withholding tax on gain arising on disposal of certain debt Securities (First Schedule- Part III, Division IIIAA)**

The Bill seeks to increase the rate of withholding tax on the above said gain from 15% to 20%.

**1.8 Withholding tax on revenue received from Social Media Platforms (First Schedule- Part III, Division IIIAB)**

The Bill also proposes to deduct tax on the above mentioned receipts at the following rates:

- 5% in case of resident persons whose name appearing in the Active Taxpayers' List; and
- 5% in case of non-resident person:

Provided that tax collected under clause (b) shall be final tax.

**1.9 Rate of tax deductions on exports (First Schedule- Part III, Division IV)**

The Bill proposes to increase in the rates of deductions on export proceeds under sub-sections (1), (3), (3A), (3B) and (3C) of section 154 as well as sub-section (2) of Section 153 from 1% to 1.25%.

**1.10 Rate of tax deductions on export of services (First Schedule- Part III, Division IVA)**

The Bill proposes the application of rate of tax deductions to 2029 which is expiring up to tax years 2026.

**1.11 Advance tax on sale or transfer of immovable property (First Schedule- Part IV, Division X)**

The Bill proposes the rate of advance tax on the transfer of immovable properties @ 2.75% of the gross amount of consideration received under section 236C. The substituted paragraph of this division is given below for the purpose of comparison:

| S. No. | Amount | Tax Rate |
|---|---|---|
| (1) | (2) | (3) |
| 1 | Where the gross amount of the consideration received does not exceed Rs. 50 million | 4.5% |
| 2 | Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million | 5% |
| 3 | Where the gross amount of the consideration received exceeds Rs. 100 million | 5.5%] |

**1.12 Advance tax on purchase of immovable property**
**(First Schedule- Part IV, Division XVIII)**

The Bill also proposes to reduce and fix the rate of advance tax to be collected on the purchase of immovable property u/s 236K at 1.25% of its fair market value. The existing rate table is also reproduce hereunder for viewing the exact reduction:

| S. No. | Amount | Tax Rate |
|---|---|---|
| (1) | (2) | (3) |
| 1 | Where the fair market value does not exceed Rs. 50 million | 1.5% |
| 2 | Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million | 2% |
| 3 | Where the fair market value exceeds Rs. 100 million | 2.5%] |

**1.13 Advance tax on amount remitted abroad**
**(First Schedule- Part IV, Division XXVII)**

The Bill also seeks a substantial reduction of advance tax rate u/s 236Y on the amount remitted abroad through credit, debit and prepaid cards from 5% to 0.5%.

**1.14 Advance tax on TV plays and advertisements**
**(First Schedule- Part IV, Division XA)**

The Bill seeks to delete the advance tax on TV plays and advertisement which was being collected u/s 236CA as under:

| [S.No | Description | Rate of Tax |
|---|---|---|
| (1) | (2) | (3) |
| 1. | Foreign-produced TV drama serial or play | Rs.1,000,000 per episode |
| 2. | Foreign-produced TV play (single episode) | Rs.3,000,000 |
| 3. | Advertisement starring foreign actor | Rs.100,000 per second.] |

## 1.15 Exemption from total income
## (Second Schedule- Part I Clause 57)

The Bill seeks to add the following Organization in the table given in sub-clause 4 of this clause:

| | |
|---|---|
| “liii | Pakistan Red Crescent Society |
| liv | Shaheen Foundation established by Pakistan Air Force |
| lv | Dawat-e-Hadiya |
| lvi | Bahria Foundation established by Pakistan Navy |
| lvii | Sindh Institute of Urology and Transplantation. |

## 1.16 Reduction in tax rates
## (Second Schedule - Part II Clause 5AA)

The Bill seeks to make certain amendments in this clause to be read as under:

“ The rate of tax to be deducted under sub-section (2) of section 152, in respect of payments to an person, on account of profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident Rupee account repatriable (NRAR), foreign currency value account (FCVA), foreign currency business value account (FCBVA), non-resident rupee value account (NRVA) or non-resident rupee business value account (NRBVA) maintained with a banking company in Pakistan shall be ten percent of the gross amount paid:

Provided that tax deducted on such profit on debt shall be final tax/

Presently this requirement was applicable to an individual which has now been expanded to all the person and also applied to non-resident Rupee account repatriable and foreign currency accounts specified above instead of non-resident Rupee account repatriable and all foreign currency accounts

## 1.17 Reduction in tax rates
## (Second Schedule - Part II Clause 24CC)

The Bill seeks to insert the following clause 24CC after clause 24CB:

“ (24CC) rate of tax under clause (b) of sub-section (1) of section 153 to be deducted from a person rendering terminal or port service shall be twelve percent of the gross amount of payment.”; and

### 1.18 Reduction in tax rates
**(Second Schedule - Part II Clause 24D)**

The Bill seeks to substitute the existing clause 24D as under:

"The rate of minimum tax under sub-section (1) of section 113 in the case of distributors, dealers, sub-dealers, wholesalers of packaged food, fertilizer, locally manufactured mobile phones, sugar and electronics shall be 0.5%, subject to the conditions that beneficiaries of reduced rate are appearing on the active taxpayers' lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001)."

### 1.19 Exemption from specific provisions
**(Second Schedule - Part IV Clause 47B)**

It is proposed that the provision of section 151A shall also not apply to any person making payment to NIT or a collective investment scheme or approved pension fund, etc. as provided in this clause.

### 1.20 Exemption from specific provisions
**(Second Schedule - Part IV Clause 46A)**

The Bill proposes that exemption from the provisions of sub-section 3 of section 153 shall now apply to any payment received by a manufacturer of iron and steel products relating to sale of goods manufactured by him. <u>Consequently, the provisions of this clause shall be omitted.</u>

### 1.21 Exemption from specific provisions
**(Second Schedule - Part IV Clause 57)**

The Bill proposes to omit this clause which is read out as under:

The provisions of section 5, 6, 7,and 153 shall not apply to companies operating Trading Houses, which:

i) have paid up capital of exceeding Rs.250 million;
ii) own fixed assets exceeding Rs.300 million at the close of the Tax Year;
iii) maintain computerized records of imports and sales of goods;
iv) maintain a system for issuance of 100% cash receipts on sales;
v) present accounts for tax audit every year; and
vi) is registered 8[under the Sales Tax Act, 1990

Provided that the exemption under this clause shall not be available if any of the aforementioned conditions are not fulfilled for a tax year.

[Provided further that minimum tax under section 113 shall be 0.5% up to the tax year 2021 and one per cent thereafter].

*Explanation:*

(i) For the removal of doubt, exemption under this clause, in respect of section 153, shall only be available as a recipient and not as withholding agent.

(ii) It is further clarified that in-house preparation and processing of food and allied items for sale to customers shall not disqualify a company from being treated as a Trading House, provided that all the conditions in this clause are fulfilled and sale of such items does not exceed two per cent of the total sales.

### 1.22 Exemption from specific provisions (Second Schedule - Part IV Clause 111AB)

The Bill proposes to amend the following clause to the extent that for the expression

"non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or Non-resident Pakistani Rupee Value Account (NRVA)"

the expression "Foreign Currency Value Account (FCVA), Foreign Currency Business Value Account (FCBVA), Non-Resident Rupee Value Account (NRVA), or Non-Resident Rupee Business Value Account (NRBVA).

### 1.23 Exemption from specific provisions (Second Schedule - Part IV Clause 114A)

The Bill proposes to substitute the existing clause with the following:

"(114A) The provisions of clause (ae) of sub-section (1) of section 114 and section 181 shall not apply to a person maintaining a Foreign Currency Value Account (FCVA), Foreign Currency Business Value Account (FCBVA), Non-Resident Rupee Value Account (NRVA), or Non-Resident Rupee Business Value Account (NRBVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan:

Provided that this clause shall not apply if the person referred in this clause has Pakistan-source taxable income other than the following; namely:

(a) profit on debt on FCVA, FCBVA, NRVA, or NRBVA ;

(b) profit on debt earned on Government of Pakistan (GOP) securities either conventional or Shariah Compliant where investment has been made from proceeds of FCVA, FCBVA, NRVA, or NRBVA;

(c) capital gain on disposal of immovable property acquired from proceeds of FCVA or NRVA;

(d) capital gain on disposal of securities traded on Pakistan Stock Exchange and units of mutual funds that are acquired from proceeds of FCVA, FCBVA, NRVA, or NRBVA; or

(e) dividend income from securities traded on Pakistan Stock Exchange and mutual funds that are acquired from proceeds of FCVA, FCBVA, NRVA, or NRBVA.

**1.24 Exemption from specific provisions**
**(Second Schedule - Part IV Clause 115)**

The Bill proposes to expand the scope of exemption from withholding tax under section 153 for traders who are individuals. Under the proposed amendment, the provisions of section 153 shall not apply to prescribed individual traders having an annual turnover of up to Rs. 200 million, as against the existing threshold of Rs. 100 million.

**1.25 Rules for the computation of capital gains on listed security**
**(Eighth Schedule – Rule 5)**

The Bill proposes to omit the Rule 5 of this schedule, which at present is as under:

Every taxpayer shall file the certificate referred to in sub-rule (4) along with the return of income and such certificate shall be conclusive evidence in respect of the income under this Schedule.

**1.26 Rules for the computation of capital gains on listed security**
**(Tenth Schedule – Rule 1A)**

The Bill proposes this rule omitted which read out as under:

"Rate of deduction or collection of tax from persons who are appearing on active taxpayers' list but have not filed return by the due date."

Where tax is required to be collected in respect of persons appearing on the active taxpays' list who have not filed the return by the due date specified in section 118 or by the due date as extended under section 119 or 214A, the rate of tax shall be –

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

| S. No. | Gross Amount of Consideration Received | Tax Rate |
|---|---|---|
| 1 | Where the gross amount of consideration received does not exceed Rs. 50 million | 7.5% |
| 2 | Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million | 8.5% |
| 3 | Where the gross amount of consideration received exceeds Rs. 100 million | 9.5% |

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

| S. No. | Fair Market Value of Immovable Property | Tax Rate |
|---|---|---|
| 1 | Where the fair market value does not exceed Rs. 50 million | 4.5% |
| 2 | Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million | 5.5% |
| 3 | Where the fair market value exceeds Rs. 100 million | 6.5% |

Provided that the provisions of this rule shall not apply to a person who has filed return by the due date specified in section 118 or by the due date as extended under section 119 or section 214A for all of the last three tax years preceding the tax year for which the return has not been filed by the due date specified in section 118 or by the due date as extended under section 119 or 214A.

Resultantly the provision for application of higher rates on sale and purchase of property in the cases of non-filer or later filer has been removed.

### 1.27 Rules for the computation of capital gains on listed security (Tenth Schedule – Rule 10, clause Y)

The Bill proposes to omit the clause Y of this Rule having become infectious, which is read out as under:

"(Y) tax collected under section 37A on disposal of securities acquired on and from 1st day of July, 2025."

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## COMMENTS ON AMENDMENTS PROPOSED VIDE FINANCE BILL 2026 IN THE SALES TAX ACT, 1990 - EFFECTIVE FROM JULY 01, 2026, EXCEPT PROVIDED OTHERWISE

### 1. DEFINATION

#### 1.1 Advance Receipt Invoice [Section 2 (1AA)]

The Bill proposes to insert a new definition of "Advance Receipt Invoice", which shall be read as follows:

**"**advance receipt invoice**"** means an invoice in the format as may be notified by the Board from time to time.

#### 1.2 Algorithmic Settlement Mechanism [Section 2 (1AAA)]

The Bill proposes to insert a new definition of "Algorithmic Settlement Mechanism)", which shall be read as follows:

**"algorithmic settlement mechanism"** means algorithmic settlement mechanism provided under section 26AAA of this Act.

#### 1.3 Electronic Invoicing System [Section 2 (9AB)]

The Bill proposes to insert a new definition of "electronic invoicing system", which shall be read as follows:

**"electronic invoicing system"** means such electronic system or mechanism as may be prescribed or approved by the Board for issuance and recording of sales tax invoices in electronic form.

#### 1.4 National Faceless Centre [Section 2 (17A)]

The Bill proposes to insert a new definition of "National faceless centre", which shall be read as follows:

**"National faceless centre"** means National faceless centre as defined in section 32C of the Act.

#### 1.5 Production Monitoring System [Section 2 (22)(1A)]

The Bill proposes to insert a new definition of "production monitoring system", which shall be read as follows:

**"production monitoring system"** means any system or technology, used for the purposes of monitoring production and sale of goods, whether in real-time or otherwise, including such systems or technologies as may be prescribed by the Board from time to time.

### 1.6 Tier-1 Retailer [Section 2(43A)]

The term " Tier-1 retailer" has been defined in clause (43A) as under:

Tier-1 retailer" means a retailer falling in any one or more of the following categories, namely:-]

(a) a retailer operating as a unit of a national or international chain of stores;

(b) a retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks;

(c) a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rupees twelve hundred thousand;

(d) a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers";

(f) a retailer who has acquired point of sale for accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by State Bank of Pakistan;

(g) a retailer whose deductible withholding tax under sections 236G or 236H of the Income Tax Ordinance, 2001(XLIX of 2001) during the immediately preceding twelve consecutive months has exceeded the threshold as may be specified by the Board through notification in the official Gazette; and

(h) any other person or class of persons as prescribed by the Board.

The bill proposes to insert the expression "having turnover more than two hundred million after the expression " wholesale-cum-retailer" in sub-clause (d) in clause (43A).

The Bill further proposes to omit sub-clauses (f) and (g) of clause (43A) and insert sub-clause (gb) and a proviso after sub-clause (h)

The Bill proposes to rationalize the definition of Tier-1 retailers by excluding wholesaler-cum-retailers with annual turnover not exceeding Rs. 200 million. The existing criterion based on tax withholding under Sections 236G and 236H of the Income Tax Ordinance, 2001is proposed to be replaced with a turnover-based threshold. Under the revised framework, retailers with turnover exceeding Rs. 200 million during the preceding twelve months will qualify as Tier-1 retailers. A retailers classified solely on the basis of accepting payments through debit/credit cards or digital payment service providers approved by the SBP are proposed to be removed from the scope of Tier-1 retailers.

After the proposed amendment, clause (43A) shall read as under:

Tier-1 retailer" means a retailer falling in any one or more of the following categories, namely:-]

(a) a retailer operating as a unit of a national or international chain of stores;

(b) a retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks;

(c) a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rupees twelve hundred thousand;

(d) a wholesaler-cum-retailer having turnover more than two hundred million, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers";
(e) Omitted
(f) Omitted

(g) Omitted

(ga) Omitted

(gb) a retailer having turnover exceeding two hundred million rupees either by way of declaration or from worked back value of turnover from tax deduction under section 236G or 236H of Income Tax Ordinance, 2001 (XLIV of 2001) during the immediately preceding twelve consecutive months; and

(h) any other person or class of persons as prescribed by the Board:

Provided that the Board may also exclude any person or class of persons through a notification in the official gazette.

**1.7 Time of Supply [ Section 2(44)]**

Before amendment in the definition of "time of supply" through Finance Act, 2021, sales tax was leviable at the time of earlier of "receipt of payment" or "delivery of goods". Such mechanism of levy of sales tax was done away with through the Finance Act, 2021 with sales tax made leviable at the time of delivery of goods. This position was revert back through Finance Act, 2024. Now Bill proposes to add explanation to enlarge the term delivery after sub-clause (a) of clause (44), which shall be read as under:

"***Explanation.–*** For the removal of doubt, the term goods are delivered or made available mean the goods become ready for dispatch from the business premises including but not limited to factory, warehouse, godown or branch."; and

The Bill proposes to clarify that goods shall be treated as supplied once they are ready for dispatch from the supplier's premises, including factories, warehouses, godowns, or branches. This amendment is intended to ensure recovery of sales tax on all such inventories.

After the proposed amendment sub-clause (1) of clause (44) will be read as under:

(44) "***time of supply***", in relation to,**–**

(a) a supply of goods, other than under hire purchase agreement, means the time at which the goods are delivered or made available to the recipient of the supply or the time when any payment is received by the supplier in respect of that supply, whichever is earlier.
"***Explanation.–*** For the removal of doubt, the term goods are delivered or made available mean the goods become ready for dispatch from the business premises including but not limited to factory, warehouse, godown or branch."; and

## 1.8 "Value of Supply" [ Section 2(46)]

Clause 46 defines the term "value of supply". The methods of determining value of supply in different situations have been prescribed in sub-clauses (a) to (j) of clause (46). There are two provisos at the end of clause (46). It has been proposed to add an expression after first proviso of clause (46). Under the provisions of section 2(46), Board is empowered to fix the 'value of supply' of any imported or local goods including fixation of value of imported goods specified in Third Schedule. Now the Bill proposes to further empower the Board to use the valuation of goods as notified by Pakistan Bureau of Statistics as well if it deems fit it can also outsource the function of valuation to third party.

Accordingly, the Bill proposes to insert a provision in clause (46) in sub-clause (j) in the first proviso, which shall be read as under:

"For this purpose of valuation, the Board may use the valuation of such goods as notified by Pakistan Bureau of Statistics immediately before the start of tax period. The Board may also where deems fit outsource the functions of valuation of goods to third party in the mode and manner as may be prescribed:";

The terms "value of supply" after amendment, as proposed, shall read as under:

(46) "value of supply" means:--

(a) in respect of a taxable supply, the consideration in money including all Federal and Provincial duties and taxes, if any, which the supplier receives from the recipient for that supply but excluding the amount of tax:

Provided that –

(i) in case the consideration for a supply is in kind or is partly in kind and partly in money, the value of the supply shall mean the open market price of the supply excluding the amount of tax;

(ii) in case the supplier and recipient are associated persons and the supply is made for no consideration or for a consideration which is lower than the open market price, the value of supply shall mean the open market price of the supply excluding the amount of tax; and

(iii) in case a taxable supply is made to a consumer from general public on installment basis on a price inclusive of mark up or surcharge rendering it higher than open market price, the value of supply shall mean the open market price of the supply excluding the amount of tax.

(b) in case of trade discounts, the discounted price excluding the amount of tax; provided the tax invoice shows the discounted price and the related tax and the discount allowed is in conformity with the normal business practices;

(c) in case where for any special nature of transaction it is difficult to ascertain the value of a supply, the open market price;

(d) in case of imported goods excluding those as specified in the Third Schedule, the value determined under section 25 of the Customs Act, including the amount of customs duties and federal excise duty levied thereon;

(e) in case where there is sufficient reason to believe that the value of a supply has not been correctly declared in the invoice, the value determined by the Valuation Committee comprising representatives of trade and the Inland Revenue constituted by the Commissioner;

(f) in case of manufacture of goods belonging to another person, the actual consideration received by the manufacturer for the value addition carried out in relation to such goods;

(g) in case of a taxable supply, with reference to retail tax, the price of taxable goods excluding the amount of retail tax, which a supplier will charge at the time of making taxable supply by him, or such other price as the Board may, by a notification in the official Gazette, specify.

(h) in case of supply of electricity by an independent power producer or WAPDA, the amount received on account of energy purchase price only; and the amount received on account of capacity purchase price, energy purchase price premium, excess bonus, supplemental charges etc. shall not be included in the value of supply;

(i) in case of supply of electric power and gas by a distribution company, the total amount billed including price of electricity and natural gas, as the case may be, charges, rents, commissions and all duties and taxes local, provincial and federal but excluding the amount of late payment surcharge and the amount of sales tax;

Explanation.- It is clarified that the value of supply does not include the amount of subsidy provided by the federal government or provincial governments to the electricity or natural gas including re-gasified liquefied natural gas consumers and has never been chargeable to tax under the Act;

(j) in case of registered person who is engaged in purchasing used vehicles from general public on which sales tax had already been paid at the time of import or manufacturing, and which are, later on, sold in the open market after making certain value addition, value of supply will be the difference between sale and purchase price of the said vehicle on the basis of the valuation method prescribed by the Board.

Provided that, where the Board deems it necessary it may, by notification in the official Gazette, fix the value of any imported goods including those as specified in the Third Schedule or taxable supplies or class of supplies and for that purpose fix different values for different classes or description of same type of imported goods or supplies. For this purpose of valuation, the Board may use the valuation of such goods as notified by Pakistan Bureau of Statistics immediately before the start of tax period. The Board may also where deems fit outsource the functions of valuation of goods to third party in the mode and manner as may be prescribed:

Provided further that where the value at which import or supply is made is higher than the value fixed by the Board, the value of goods shall, unless otherwise directed by the Board, be the value at which the import or supply is made;

### 1.9 Time and Manner of Payment [Section 6(2)]

The Bill proposes to insert a new proviso in sub section (2) of section 6 which shall be read as follows:

"Provided further that in the case of steel melters, steel re-rollers and composite units, the tax shall be collected on the basis of per unit electricity consumption at the rate as prescribe by the Board, through notification in the official Gazette. The tax so collected shall be adjustable and the excess amount, if any, shall be refunded on monthly basis through Board's automated refund system to those registered persons who integrate with the Board's prescribed production monitoring and digital invoicing systems."

The proposal aims to reduce underreporting of production and sales, improve tax compliance, and automate tax assessment and refund processes through digital monitoring.

In essence, the Bill proposes to use electricity consumption as a proxy for production in the steel sector while allowing adjustments and refunds through integrated digital systems.

### 1.10 Adjustable Input Tax [ Section 8B]

Section 8B was inserted in the Act through Finance Act, 2007 and has been invariably amended. In terms of sub- section (1), registered person shall not allowed to adjust input tax in excess of ninety percent of the output tax for a tax period other than in case of input tax on the purchase of fixed asset. There are two provisos to sub-section (1).

The Bill proposes to insert a third proviso to sub-section (1) of section 8B, which shall be read as follows:

"Provided further also that the Board may by notification in the official Gazette, reduce or enhance the limit provided in this sub-section for any registered person on the basis of compliance or non-compliance with the production monitoring, digital invoicing, e-bility, POS, or any other electronic system prescribed by the Board for digital integration of data.";

After the amendment , sub section (1) shall be read as follows:

8B. Adjustable input tax.– (1) Notwithstanding anything contained in this Act, in relation to a tax period, a registered person shall not be allowed to adjust input tax in excess of ninety per cent of the output tax for that tax period:

Provided that the restriction on the adjustment of input tax in excess of ninety percent of the output tax, shall not apply in case of fixed assets or Capital goods:

Provided further that the Board may by notification in the official Gazette, exclude any person or class of persons from the purview of subsection (1).

Provided further also that the Board may by notification in the official Gazette, reduce or enhance the limit provided in this sub-section for any registered person on the basis of compliance or non-compliance with the production monitoring, digital invoicing, e-bility, POS, or any other electronic system prescribed by the Board for digital integration of data.

### 1.11 Debit and Credit Note [ Section 9]

The Bill proposes to insert a proviso to section 9, which shall be read as follows:

"Provided that the issuance of debit and credit notes shall be governed by the mechanism including electronic adjustments, as may be prescribed by the Board."

The proposed amendment aims to authorizes the Board to establish detailed rules for issuing debit and credit notes and allows such adjustments to be made electronically through prescribed digital systems.

After the proposed amendment section 9 shall be read as follows:

9. Debit and credit note. – Where a registered person has issued a tax invoice in respect of a supply made by him and as a result of cancellation of supply or return of goods or a change in the nature of supply or change in the value of the supply or some such event the amount shown in the tax invoice or the return needs to be modified, the registered person may, subject to such conditions and limitations as the Board may impose, issue a debit or credit note and make corresponding adjustment against output tax in the return:

Provided that the issuance of debit and credit notes shall be governed by the mechanism including electronic adjustments, as may be prescribed by the Board.

### 1.12 Faceless audit and assessment [ Section 11H]

The Bill proposes to introduce a new faceless audit and assessment regime through electronic platforms. The framework enables audits, assessments, and rectification proceedings to be conducted digitally without any physical interaction, while safeguarding the taxpayer's right to be heard. The initiative is aimed at enhancing transparency, neutrality, and administrative efficiency within the tax system.

The new section 11H , shall be read as follows:

**11H. Faceless audit and assessment.–** (1) Notwithstanding anything to the contrary contained in any other provision of this Act, any audit under sections 25 and 72B, any order made under section 11E, and rectification under section 57 with respect to the cases referred to in sub-section (2), may be made in a faceless manner as may be prescribed by the Board from time to time.

(2) The faceless assessment under sub-section (1) shall be made in respect of such persons or class of persons, or incomes or class of incomes, or cases or class of cases, as may be specified by the Board.

(3) The provisions of section 25 shall apply to the audit conducted in faceless manner under this section:

Provided that where opportunity of being heard is to be provided to the taxpayer during the course of this audit or a statement under oath is required to be obtained from a taxpayer or any other person under section 37 of this Act, the same shall be done through E-hearing:

Provided further that the identity of the officer, including facial and voice identity, conducting such E-hearing shall be kept confidential.";

**1.13 De-registration, blacklisting and suspension of registration.–[ Section 21(2)]**

The provisions of section 21 of the Act empower the Commissioner to blacklist or suspend a taxpayer in cases involving issuance of fake invoices or commission of tax fraud. The Bill proposes to enhance the power of the Commissioner of suspension and blacklisting in case of non issuance and implementation of integrated invoices system as prescribed in sub-section (5) and (6) of section 23 or section 40C.

The Bill proposes to insert in sub-section (2) of section 21 after the word invoices the expression " has committed non-compliance of sub-section (5) and (6) of section 23 or section 40C."

After the proposed amendment section 21(2) shall be read as follows:

2) Notwithstanding anything contained in this Act, in cases where the Commissioner is satisfied that a registered person is found to have issued fake invoices has committed non-compliance of sub-section (5) and (6) of section 23 or section 40C or has otherwise committed tax fraud, he may issue an order of suspension and blacklisting] such person or suspend his registration in accordance with such procedure as the Board may by notification in the official Gazette, prescribe.

**1.14 Tax Invoices. [ Section 23(3)]**

The Bill proposes to (i) insert expression in sub-section (1) of section 23; and (ii) substitute existing provisos in clause (b) thereof. It has been noticed that clause (b) of sub-section (1) was previously substituted through Finance Act, 2019; and the substituted clause (b) contained an Explanation and a proviso. Another proviso was added in clause (b) through Finance Supplementary Act, 2022 [assented on 15.01.2022]; however clause (b) including Explanation and two provisos has been substituted through Finance Act 2022; and w.e.f. 01.07.2022, clause (b) reads as follows:

(b) name, address and registration number of the recipient and in case of supplies by manufacturer or importer to unregistered distributor, the NIC or NTN of such unregistered distributors, as the case may.

FBR website still exhibits clause (b) of sub-section (1) of section 23 which has been substituted through Finance Act, 2022. Now it has been proposed to substitute provisos [which are not available on statute book w.e.f. 01.07.2022] with two new provisos.

The Bill proposes to substitute words "supply shall issue a serially numbered tax invoice" with the words " as well as exempt supply shall issue a tax invoice including an advance receipt invoice, bearing a verifiable and unique FBR invoice number" and in clause (b) , after the explanation, for the existing provisos, the following shall be substituted

"Provided that the Board may notify any person or class of persons who may be allowed to issue an advance receipt invoice within the notified system:

Provided further that the condition of verifiable and unique FBR invoice number shall be applicable from a time as notified by the Board."

The invoicing regime is proposed to be expanded to cover exempt supplies as well as advance-receipt invoices. In addition, every invoice will be required to carry a unique and verifiable invoice number generated through the FBR system to ensure authenticity, traceability, and improved compliance oversight.

After the proposed amendment section 23 shall be read as follows:

23. Tax Invoices.– (1) A registered person making a taxable as well as exempt supply shall issue a tax invoice including an advance receipt invoice, bearing a verifiable and unique FBR invoice number at the time of supply of goods containing the following particulars in Urdu or English language,] namely: –

(a) name, address and registration number of the supplier;

(b) name, address and registration number of the recipient and in case of supplies by manufacturer or importer to unregistered distributor, the NIC or NTN of such unregistered distributors, as the case may.

**Explanation.** – For the purpose of this clause, ordinary consumer means a person who is buying the goods for his own consumption and not for the purpose of re-sale or processing:

Provided that the Board may notify any person or class of persons who may be allowed to issue an advance receipt invoice within the notified system:
Provided further that the condition of verifiable and unique FBR invoice number shall be applicable from a time as notified by the Board.";
(c) date of issue of invoice;
(d) description including count, denier and construction in case of textile yarn and fabric, and quantity of goods;
(e) value exclusive of tax;
(f) amount of sales tax; and
(g) value inclusive of tax:

Provided that the Board may, by notification in the official Gazette, specify such modified invoices for different persons or classes of persons;

Provided further that not more than one tax invoice shall be issued for a taxable supply also that where any goods are transported or supplied, the registered person shall ensure the generation and linkage of the tax invoice with the e-Bilty generated under section 40C of this Act and section 83C of the Customs Act, 1969.

(2) No person other than a registered person or a person paying retail tax shall issue an invoice under this section.

(3) A registered person making a taxable supply shall, subject to such conditions, restrictions and limitations as the Board may, by notification in the official Gazette, specify to issue electronic invoices.

(4) The Board may, by notification in the Official Gazette, prescribe the manner and procedure for regulating the issuance and authentication of tax invoices.]

(5) The Board through notification in the official Gazette, may require any person or class of persons to integrate their electronic invoicing system with the Board's Computerized System for real time reporting of sales in such mode and manner and from such date as may be specified therein.

(6) Licensed integrator shall integrate electronic invoicing system of registered persons referred to in sub-section (5) in such mode and manner as may be prescribed:

Provided that from such date, and in such mode and manner, as prescribed by the Board, all Tier-1 retailers shall integrate their retail outlets with Board's computerized system for real-time reporting of sales.

**1.15 Audit of sales tax affairs [ Section 25 (8A) & (8B)]**

The Bill proposes to introduce a re-audit mechanism under which, with the prior approval of the Chief Commissioner, the Commissioner IR may order a re-audit of a taxpayer's financial statements or inventory valuation by approved professionals in specified circumstances.

The Bill further proposes that an audit report be issued prior to the initiation of post-audit proceedings. In addition, the mandatory pre-deposit requirement for filing an appeal against a penalty is proposed to be reduced to a maximum of 50% in specified cases.

The proposed new subsections (8A) and (8B), shall be read as follows:

"(8A) If, at any stage of the proceedings before him, if the Commissioner is of the opinion that having regard to, —

(a) the nature and complexity of the accounts; or
(b) volume of the accounts; or
(c) doubts about the correctness of the accounts; or
(d) multiplicity of transactions in the accounts; or

(e) specialized nature of business activity of the registered person, and interests of the revenue, is of the opinion that it is necessary so to do, he may, after giving the registered person a reasonable opportunity of being heard, and with the previous approval of the Chief Commissioner, direct the registered person to get either any or all of the following:—

(i) accounts re-audited by an accountant, and to furnish a report of such audit duly signed and verified by such accountant including answers to the specific queries as the Commissioner may require; or

(ii) inventory re-valued by a cost accountant, and to furnish a report of such inventory valuation duly signed and verified by such cost accountant including answers to the specific queries as the Officer of Inland Revenue may require;

Explanation:- The accountant or the cost accountant, as referred to in this sub-section shall be nominated by the Commissioner for the purposes of the said sub-section from amongst the panel of such accountants or cost accountants nominated by the Board."; and

(8B) After completion of the audit, the officer of Inland Revenue shall, after obtaining the registered person's explanation on all the issues raised in the audit, issue an audit report containing audit observations and finding.";

The bill further proposes to substitute the words in sub-section (9) "completion of audit" the words "issuing the audit report".

After the proposed amendments the Section 25 shall be read as follows:

25. **Audit of sales tax affairs.–** (1) The Commissioner on the basis of reasons to be recorded in writing, may direct the officer of Inland Revenue not below the rank of Assistant Commissioner to conduct audit of sales tax affairs of any registered person and issue a notice to such registered person intimating him regarding audit of sales tax affairs.

***Explanation.-*** For the removal of doubt, it is declared that the powers of the Commissioner to direct conduct of audit and to issue a notice under this sub-section are independent of the powers of the Board under section 72B and nothing contained in section 72B restricts the powers of the Commissioner to direct conduct of audit and to issue notice under this sub-section.

(2) The Commissioner shall communicate the reasons referred to in sub-section (1) to the registered person whose audit is to be conducted through the notice under sub-section (1).

***Explanation.-*** For the removal of doubt, it is declared that the Commissioner may not provide an opportunity of hearing before issuance of notice under sub-section (1).
(3) The reasons referred to in sub-section (1) shall be based on scrutiny of the available records including sales tax and federal excise returns, income tax returns and withholding statements, financial statements or third party information:

Provided that the reasons shall not include the mere verification of input tax, output tax, refund claim and compliance of legal provisions without identifying risk factors that require such verification.

(4) Subsequent to the issuance of notice under sub-section (1), the officer of Inland Revenue, may call for any record or documents including record maintained under this Act, the rules made thereunder or any other law for the time being in force for conducting audit of the sales tax affairs of the person. Where such record or documents have been kept on electronic data, the registered person shall allow authorize officer of Inland Revenue access to the use of machine and software on which such data is kept and the officer of Inland Revenue may obtain duly attested hard copies of such information or data from the registered person:

Provided that the officer of Inland Revenue shall not call for record or documents of the registered person after expiry of six years from the end of the financial year to which they relate.

(5) The officer of Inland Revenue may require the registered person to attend his office in person or through an authorized representative. The registered person shall produce such accounts, documents or any evidence as the officer of Inland Revenue may consider necessary.

(6) The officer of Inland Revenue not below the rank of Assistant Commissioner may conduct or cause to be conducted such enquiry and obtain such information from any third party as he considers appropriate.

(7) The officer of Inland Revenue not below the rank of Assistant Commissioner shall conduct audit of the sales tax affairs to verify the correctness or otherwise of the declared tax liability, output tax, input tax claimed, tax paid, refund claimed, stocks consumed or available for ascertaining compliance or otherwise with the provisions of this Act and the rules made thereunder on the basis of the record and evidence obtained under sub-sections (5) or (6).

(8) The officer of Inland Revenue may conduct audit proceedings electronically through video links, or any other facility as may be prescribed by the Board.

"(8A) If, at any stage of the proceedings before him, if the Commissioner is of the opinion that having regard to, —

(a) the nature and complexity of the accounts; or
(b) volume of the accounts; or
(c) doubts about the correctness of the accounts; or
(d) multiplicity of transactions in the accounts; or

(e) specialized nature of business activity of the registered person, and interests of the revenue, is of the opinion that it is necessary so to do, he may, after giving the registered person a reasonable opportunity of being heard, and with the previous approval of the Chief Commissioner, direct the registered person to get either any or all of the following:—

(iii) accounts re-audited by an accountant, and to furnish a report of such audit duly signed and verified by such accountant including answers to the specific queries as the Commissioner may require; or

(iv) inventory re-valued by a cost accountant, and to furnish a report of such inventory valuation duly signed and verified by such cost accountant including answers to the specific queries as the Officer of Inland Revenue may require;

Explanation:- The accountant or the cost accountant, as referred to in this sub-section shall be nominated by the Commissioner for the purposes of the said sub-section from amongst the panel of such accountants or cost accountants nominated by the Board."; and

(8B) After completion of the audit, the officer of Inland Revenue shall, after obtaining the registered person's explanation on all the issues raised in the audit, issue an audit report containing audit observations and finding.";

(9) After issuing the audit report, the officer of Inland Revenue may, if required pass an order under section 11E, after providing an opportunity of being heard to the registered person under sub-section (1) of section 11E.

(10) Notwithstanding anything contained in sub-sections (7) and (9) where a registered person fails to produce before the officer of Inland 75 Revenue, any accounts, documents or records required to be maintained under this Act or the rules made thereunder or any other relevant document electronically kept record, electronic machine or any other evidence that may be required by the officer of Inland Revenue for the purpose of audit. The officer of Inland Revenue may proceed to make best judgment assessment under section 11D of this Act.

(11) Notwithstanding the penalties prescribed in section 33, if a registered person deposits the amount of tax short paid or amount of tax evaded along with default surcharge voluntarily, whenever it comes to his notice, before receipt of notice of audit, no penalty shall be recovered from him:

Provided that if a registered person wishes to deposit the amount of tax short paid or amount of tax evaded along with default surcharge during the audit, or at any time before issuance of show cause notice under section 11E, he may deposit the evaded amount of tax, default surcharge under section 34, and twenty five percent of the penalty payable under section 33:

Provided further that if a registered person wishes to deposit the amount of tax short paid or amount of tax evaded along with default surcharge after issuance of show cause notice under section 11E, he shall deposit the evaded amount of tax, default surcharge under section 34, and fifty percent of the penalty payable under section 33 and thereafter, the show cause notice, shall stand abated.

## 1.16 Faceless jurisdiction [ Section 30AA]

The Bill proposes to insert a new section, 30AA, which shall be read as under:

"30AA.Faceless jurisdiction. – (1) Notwithstanding anything contained in this Act, the Inland Revenue tax authorities appointed in National faceless center shall perform all or such functions, and exercise all or such powers under this Act as may be assigned to them in respect of such persons, or classes of persons, for such tax periods of a person through algorithms developed by the Board.

(2) The jurisdiction so assigned may be exclusive or concurrent.

(3) The Board may transfer jurisdictions in respect of persons or classes of persons, for a specific tax period, for which the jurisdiction has already been assigned under this section, from National faceless center to the officer of Inland Revenue having jurisdiction under section 30 of this Act, on the recommendation of the Chief Commissioner or on its own accord.

(4) The Chief Commissioner appointed in the National faceless center may request the Board to direct the officer of Inland Revenue having jurisdiction under section 30 or any other Authority under this Act, as it may deem fit, to conduct physical verification including nature and size of the business, assets, investments, expenditures, and any other information or verification required by the Chief Commissioner for conducting any proceedings assigned to the National faceless centre:

Provided that the Board may exercise its power of allocation of verification through an algorithm based system.

(5) Notwithstanding anything contained in any law for the time being in force, the identity of the authority exercising jurisdiction in the National faceless centre shall be kept confidential from the registered person, the authorized representative of the registered person, and any unauthorized person.

(6) No notice, order , or other communication by an authority appointed at the National faceless centre shall be called in question or set aside merely on the ground that such authority did not have jurisdiction over the taxpayer under section 30 of this Act, or lack of notified delegation of power under section 32 of this Act, or because of the fact that identity of the authority has been kept confidential from the taxpayer as per sub-section (5).

Through this proposed amendment a new jurisdictional framework proposes for proceedings conducted through the National Faceless Centre. The framework provides for centralized case allocation, transfer of cases between faceless and field formations, and physical verification by field officers where required, while ensuring confidentiality of the officers involved in the proceedings.

## 1.17 Director General (Field Compliance) Inland Revenue [Section 30DDDB]

The Bill proposes to insert a new section 30DDDB which shall read as follows:

"30DDDB. Directorate General (Field Compliance) Inland Revenue.– (1) The Directorate General (Field Compliance) Inland Revenue shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

(2) The Board may, by notification in the official Gazette,--

(a) specify the functions and jurisdiction of the Directorate General and its officers; and

(b) confer the powers of authorities specified in section 30 upon the Directorate General and its officers."

## 1.18 National faceless Centre [Section 32C]

The Bill proposes to insert a new section 32C which shall read as follows:

"32C. National faceless centre.– (1) Notwithstanding anything to the contrary contained in any of the provisions of this Act, the Board may, for the purposes of proceedings under this Act in faceless manner, establish a National faceless center (hereinafter referred to as "the Centre") and specify its jurisdiction, powers, and functions.

(2) The centre shall comprise a Director General and as many officers of Inland Revenue along with support staff, as the Board may deem fit for the purposes of this section.

(3) The Board may design algorithms for assigning any function or jurisdiction under this section to any of the authorities mentioned in sub-section (2).

(4) The centre shall comprise as many wings and units as may be prescribed by the Board.

(5) The functions of audit, assessment, and quality control in a specific case for a specific tax period shall be performed by separate officers.

(6) All communications, among the units, or with the registered person, or an authorized representative of the registered persons, or with any other person with respect to the information or documents or evidence or any other details, as may be necessary, shall be through electronic means."

## 1.19 Offences, penalties and punishment [Section 33]

The Bill proposes to significantly strengthens the penalty regime by substantially increasing penalties for non-compliance relating to filing of returns, issuance of invoices, registration, maintenance of records, payment of tax, and digital integration requirements. The proposed increase in the minimum penalty prescribed u/s 33, is as under:

| Entry No. | Offence | Existing Penalty | Proposed Penalty |
|---|---|---|---|
| 1 | Failure to furnish a return within the due date *(section 26)*. | Rs 10,000 (and, if filed within ten days of the due date, Rs 200 per day of default). | Rs 50,000 (and, for late filing within ten days, Rs 2,000 per day of default). |
| 2 | Failure to issue an invoice when required under the ST Act (section 23). | Rs 5,000 or 3% of the tax involved, whichever is higher. | Rs 25,000 or 5% of the tax involved, whichever is higher. |
| 3 | Unauthorized issuance of an invoice in which an amount of tax is specified (sections 3, 7 and 23). | Rs 10,000 or 5% of the tax involved, whichever is higher. | Rs 50,000 or 10% of the tax involved, whichever is higher. |
| 5 | Failure to deposit the tax due (or any part thereof) within the time or manner prescribed (sections 3, 6, 7 and 48). | Rs 10,000 or 5% of the tax involved (and, if paid within ten days of the due date, Rs 500 per day of default). | Rs 50,000 or 5% of the tax involved (and, if paid within ten days of the due date, Rs. 5,000 per day of default). |
| 7 | Failure to apply for registration before making taxable supplies, where required to be registered (section 14). | Rs 10,000 or 5% of the tax involved, whichever is higher. | Rs 50,000 or 5% of the tax involved, whichever is higher. |
| 8 | Failure to maintain records required under the ST Act or rules made thereunder (sections 22 and 24). | Rs 10,000 or 5% of the tax involved, whichever is higher. | Rs 50,000 or 5% of the tax involved, whichever is higher. |

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

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

**The Bill proposes to substitute the existing entry, as under:**

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

The bill proposes to insert following new entries:

| Entry No. | Offence | Proposed penalty |
|---|---|---|
| 29 | Where any registered person issues a tax invoice for a transaction which is simulated or fictitious, or for which no actual supply of goods or services has taken place, as established after notice and adjudication. | (i) Such person shall pay a penalty equal to the face value of the simulated or fictitious invoice or invoices.<br><br>(ii) The Board shall, after issuance of a show cause notice and an opportunity of being heard, place the name and registration number of such person on a publicly accessible simulated invoice issuers register maintained on the Board's computerized system.<br><br>(iii) Any input tax credit claimed by a counterparty on the basis of invoices issued by a person on the simulated invoice issuers register shall be reversed automatically and treated as inadmissible with effect from the date of listing.<br><br>(iv) Listing on the register shall be removed upon full payment of the penalty and default surcharge, and upon satisfactory demonstration of compliance. |
| 30 | Where the Board's computerized system identifies that input tax credit claimed by a registered person in respect of any tax period cannot be matched to corresponding output tax declared by the supplier for the same or proximate tax period, and such mismatch is confirmed after issuance of notice and provision of opportunity of being heard. | Such person shall pay a penalty of 20% of the unmatched input tax amount, in addition to reversal of the inadmissible credit and payment of default surcharge under section 34. |

| | | |
|---|---|---|
| 31 | Where a registered person has claimed input tax credit on the basis of invoices issued by a person who is subsequently placed on the simulated invoice issuers register under S. No. 29, and such registered person fails to reverse the inadmissible input tax credit within sixty days of the listing of the invoice issuer on the register. | Such person shall pay a penalty of 20% of the unreversed input tax credit, in addition to the reversal of such credit and default surcharge under section 34. |

## 1.20 Monitoring or tracking by electronic by other means [Section 40C]

The bill proposes to substitute sub-section (2) (3) and addition of sub-section (6).

The Bill proposes to empower the authorities to seize and confiscate taxable goods, along with the conveyance used for their movement or transportation, where such goods are manufactured, produced, removed, transported, or supplied without affixing the prescribed tax stamps, banderoles, stickers, labels, barcodes, or without complying with the prescribed monitoring-system requirements.

After the proposed amendments section 40C shall be read as follows:

(1) Subject to such conditions, restrictions, and procedures, as it may being fit to impose or specified, the Board may, by notification in the official Gazette, specify any registered person or class of registered persons or any good or class of goods in respect of which monitoring or tracking of production, sales, clearances, stocks or any other related activity may be implemented through electronic or other means as may be prescribed.

(2) From such date as may be prescribed by the Board, no taxable goods shall be removed or sold by the manufacturer or any other person unless such goods are affixed with tax stamps, band role stickers or labels are monitored through a Production Monitoring System, video analytics or any other prescribed monitoring mechanism, etc. in any such form, style and manner as may be prescribed by the Board in this behalf

(3) Such tax stamps, banderols, stickers, labels, barcodes, production monitoring equipment etc., shall be acquired by the registered person referred to in sub-section (2) from a licensee appointed by the Board.

(4) Notwithstanding anything contained in this Act or any other law for the time being in force, the provisions of section 83C of the Customs Act, 1969 shall mutatis mutandis apply.

(5) Omitted through Finance Act 2025.

(6) Any taxable goods in respect of which monitoring, tracking or identification has been prescribed under this Act or rules made thereunder, which are manufactured, produced, removed, transported, supplied or otherwise dealt with or without affixing the prescribed tax stamps, banderoles, stickers, labels, barcodes or without compliance with the prescribed monitoring system, shall be liable to seizure and confiscation in the prescribed manner, along with the conveyance used for the movement, carriage or transportation of such goods.

## 1.21 Sale of confiscated goods by auction [Section 40F]

The bill proposes to prescribe a procedure to dealt with the confiscated goods through insertion of a new section 40F which shall be read as under:

40F. Sale of confiscated goods by auction.– (1) Where any goods liable to confiscation under any provision of this Act have been confiscated, these goods, without prejudice to other action specified against such goods, shall be sold by public auction.

(2) The goods may be sold under sub-section (1) through electronic means, as prescribed by the Board.

(3) For the purpose of sub-sections (1) and (2) of this section, the Board shall be bound by Public Procurement Regulatory Authority Rules, 2014.

(4) The sale proceeds shall be applied to the following purposes in their respective order, namely:-

(a) first to pay the expenses of the sale;

(b) then to pay the sales tax, other taxes and dues including penalty and surcharge payable to the Federal Government in respect of such goods; and

(c) the balance in respect of confiscated goods excluding those liable for outright confiscation, if any, shall be paid to the owner of the goods, provided he applies for it within six months of the sale of the goods failing which the balance amount shall be deposited into government treasury:

Provided that, in case wherein goods declaration has been filed, the share of importer in sale proceeds shall not exceed the declared value of the goods.

## 1.22 Faceless appeals [Section 45C]

The Bill proposed to insert a new section 45C to dealt with faceless appeal, which shall read as under:

45C. Faceless appeals. –

(1) Notwithstanding anything contained in this Act, any appeal filed under section 45B of this Act may be processed through the National faceless center as may be prescribed by the Board.

(2) The provisions of section 45B of this Act, shall apply to faceless appeals accordingly.

### 1.23 Algorithmic settlement mechanism [Section 47AA]

The Bill proposed to insert a new section 47AA, which shall read as under:

47AA. Algorithmic settlement mechanism.- (1) Notwithstanding anything contained in this Act, the Board may establish digitally operated algorithmic settlement mechanism (hereinafter referred to as "the mechanism") for settlement of tax proceedings at any stage before any order under sections 11D or 11E of the Act.

(2) In case, the mechanism calculates and presents to the registered person a settlement offer as per the criteria provided under sub-section (3), the registered person may avail the offer as provided in sub-section (4).

(3) The system generated settlement offer shall be calculated on the basis including but not limited to:

(a) the stage of proceedings at which settlement is offered;
(b) the registered person's compliance history, as maintained in FBR's data;
(c) the nature and character of the discrepancy; and
(d) any other basis the Board may consider relevant.

(4) A registered person who opts to avail this mechanism shall within ten days from the date of settlement offer to accept the settlement offer on IRIS and deposit the settlement offer amount.

(5) The issues confronted to the registered person, if any, through a notice or an audit report under this Act shall stand abated if the registered person deposits the settlement amount as provided in sub-section (4).

(6) Payment of tax consequent upon acceptance of offer under sub-section (4) of this section shall not preclude proceedings in respect of any other issue or discrepancy not covered by the settlement offer, nor shall it affect proceedings for any other tax period.

### 1.24 Independent case scrutiny committee [Section 47AAA]

The Bill proposed to insert a new section 47AAA which shall read as under:

"47AAA. Independent case scrutiny committee. – (1) A reference under section 47 before the High Court, or an appeal or review before the Federal Constitutional Court or the Supreme Court of Pakistan, as the case may be, shall only be filed by the Commissioner Inland Revenue after the same has been approved by an independent case scrutiny committee as constituted by the Board.

(2) The Board may constitute one or more such committees and assigned them cases or classes of cases decided by the Appellate Tribunal Inland Revenue or the High Court as the case may be.

(3) The Committee shall comprise of the following Members as nominated by the Board – (a) a retired judge of Supreme Court of Pakistan, the Federal Constitutional Court, or any of the High Courts of Pakistan who shall also act as Chairman of the Committee; (b) an Advocate having not less than fifteen years of experience in tax and commercial litigation before the High Court or Supreme Court of Pakistan, to be nominated from a panel notified by the Board from time to time; and (c) a senior serving or retired officer of the FBR (BS 20 or above).

(4) The powers, functions, and procedure of the Committee along with remuneration of its Members shall be governed as prescribed.

(5) Recommendations of the committee shall be binding upon the Commissioner Inland Revenue having jurisdiction over the case.

(6) Notwithstanding anything contained in any other law for the time being in force, no suit, prosecution, or other legal proceedings shall lie against the Members of the Committee and the Commissioner Inland Revenue having jurisdiction over the case, in relation to the decisions made under this section.;

(7) The Committee constituted under this sub-section shall exercise its powers and functions with effect from the date of its constitution as notified by the Board.

### 1.25 Disclosure of information by a public servant [Section 56B(3)]

The Bill proposes to insert a new sub-section (3) in section 56B empowering the Board to share data contained in the sales tax returns of registered persons operating within the same sector with all other registered persons of that sector. Such data sharing would be subject to strict non-disclosure agreements and is intended to promote market equity and strengthen tax compliance.

After the insertion section 56B(2) which shall read as under:

56B. Disclosure of information by a public servant.— (1) Any information acquired under any provision of this Act shall be confidential and no public servant, expert or auditors appointed under section 32B shall disclose any such information, except as provided under section 216 of the Income Tax Ordinance, 2001 (XLIX of 2001).

(2) Notwithstanding anything contained in sub-section (1) and the Freedom of Information Ordinance, 2002 (XCVI of 2002), any information received or supplied in pursuance of bilateral or multilateral agreements with government of foreign countries for exchange of information under section 56A shall be confidential.

(3) Notwithstanding anything contained in sub-section (1), the Board shall have the power to share data contained in Sales Tax returns of registered persons belonging to a sector amongst all registered persons of the same sector under strict non-disclosure agreements to create market equity and to enhance tax compliance subject to such limitations, restrictions and conditions as may be specified by the Board.

**2. THE THIRD SCHEDULE:** Additions in Third Schedule:

**Levy of sales tax on the basis of retail price –** Insertion of new Sr. Nos. 56 to 75 in Third Schedule [Sr. No. 56 has been written twice therefore the total number serial numbers proposed to be added shall be 56 to 76]:

In terms of section 3(2)(a) of the Act, the taxable supplies specified in the Third Schedule shall be subjected to sales tax on the basis of retail price as has been defined in clause (27) of section 2 of the Act as is proposed to be amended.

The Bill proposes to add following new serial numbers in Third Schedule and by virtue of these additions, the goods specified therein shall be subjected to sales tax on the basis of retail price.

| Sr. No. | Description | PCT Heading |
|---|---|---|
| (1) | (2) | (3) |
| 56. | Vegetable and animal fats and oils, sold in retail packing. | Respective headings |
| 56. | Sugar Confectionary, sold in retail packing. | Respective headings |
| 57. | Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing | 19.02 |
| 58. | Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings ; mustard flour and meal and prepared mustard, sold in retail packing. | Respective headings |
| 59. | Fermented beverages, sold in retail packing | Respective headings |
| 60. | Petroleum jelly, paraffin wax, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not coloured, sold in retail packing | 27.12 |
| 61. | Insecticides, rodenticides, fungicides, herbicides, anti- sprouting products and plant-growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale. | 38.08 |
| 62. | Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing. | 39.19,39.20,39.21 |
| 63. | Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing. | Chapter 39 |
| 64. | Trunks, suit- cases, vanity- cases, executive- cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters | 42.02 |

| | | |
|---|---|---|
| | and similar containers; travelling- bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping- bags, wallets, purses, map-cases, cigarette- cases, tobacco- pouches, tool bags, sports bags, bottle- cases, jewellery boxes, powder boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper, put up for retail sale. | |
| 65. | Footwear (all types) | Respective headings |
| 66. | Bathroom accessories and bath items, Sanitary ware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing | Respective headings |
| 67. | Crockery Items, sold in retail packing | Respective headings |
| 68. | Car and automobile accessories, sold in retail packing | Respective headings |
| 69. | Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing | Respective headings |
| 70. | Preparations for use on the hair, sold in retail packing. | 33.05 |
| 71. | Pre- shave, shaving or after- shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties, sold in retail packing. | 33.07 |
| 72. | Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface- colored, surface decorated or printed, in rolls or sheets, put up for retail sale. | 4803.0000, 48.18 |
| 73. | Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations, sold in retail packing. | 20.07, 20.08 |
| 74. | Household utensils, including Stainless steel, aluminum, melamine and other utensils and tableware. | Respective headings |
| 75. | Ceramic Products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale. | 69.10 |

Note: Where the Federal Government has notified that the sales tax shall be charged, levied and paid at a rate higher than eighteen percent, the same rate shall continue to be charged, levied and paid after their inclusion under the Third Schedule.

## 3. THE SIXTH SCHEDULE:

**Exemption of sales tax on imports or supplies** – Omission / addition / amendments in Table 1 of Sixth Schedule:

3.1 In terms of Sr. No. 32, exemption of sales tax is available on import or supply of "Newsprint and books but excluding brochures, leaflets and directories of respective headings". The Bill proposes to substitute Sr. No. 32. In terms of proposed Sr. No. 32, , exemption of sales tax is available on import or supply of "Newsprint, books and magazines but excluding brochures, leaflets and directories of PCT headings 4902.1000 and 4902.9000".

3.2 <u>Extension in exemption of sales tax on import of CKD of electric vehicles till 30.06.2027</u>: In terms of Sr. No. 157, exemption of sales tax has been given on "import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30th June, 2026:

(i) Small cars/SUVs with 50 Kwh battery or below; and

(ii) Light commercial vehicles (LCVs) with 150 kwh battery or below.

The Bill proposes to extend the exemption of sales tax on import of CKD kits of above referred electric vehicles till 30.06.2027.

3.3 <u>Exemption on Sales Tax on import or lease of air crafts and parts by PIA:- Substitution of Sr. No. 181</u>: Through Finance Act, 2025 a new Sr. No. 181 was added in Table 1 which granted exemption of sales tax on Import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL) of PCT headings 8802.1200; 8802.3000 and 8802.4000. The Bill proposes to substitute 181 and in terms of proposed Sr. No. 181, exemption of sales tax shall be available on "import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL) of PCT headings 8802.1200,8802.3000 ,8802.4000 8801.0000, 8802.2000, 8804.0000 ,8805.2900 ,8807.3000, 9104.0010 ,8544.2000, 7007.1900 and 9931:

Provided that the custom authorities shall ensure that the quantities of things imported are limited to the requirements of materials and articles to be used in operations and maintenance of the aircrafts operated by the airline:

Provided further that the ground handling equipment, service and operation vehicles, catering equipment and fuel trucks, not manufactured locally, and imported shall be used within airport premises as aforesaid.

3.4 The Bill proposes to add following new serial numbers in Table 1 of Sixth Schedule and by virtue of these additions, the goods specified therein shall be exempt from sales tax on import or supply thereof.

| Sr. No. | Description | PCT Heading |
|---|---|---|
| (1) | (2) | (3) |
| 182. | Contraceptives | 3926.9020 and 4014.100 |
| 183. | Female Sanitary Pads / Tampon | 9619.0030 |
| 184. | Import of:<br>– Tankers,<br>– Dredgers,<br>– Floating or submersible drilling, or production platforms,<br>– Others floating structures and vessels.<br>– Other vessels for the transportation of goods Excluding Cruise ships, excursion boats and similar vessels principally designed for the transport of persons; ferry-boats of all kinds<br>Provided that the quantity of imported goods under this entry shall be approved by Ministry of Maritime Affairs | 8901.2000<br>8905.1000<br>8905.2000<br>8905.9000<br>8901.9000 |
| 185. | Import of bullet proof vehicles by the:<br>(i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO)<br>summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control<br>(ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government. | Respective headings |

**Exemption of sales tax on imports or supplies** – <u>Omission / addition / amendments in Table 3 of Sixth Schedule:</u>

3.5 Exemption of sales tax on “imports or supplies”--- Amendments in Table 3 of the Sixth Schedule. The Bill proposes to add following new serial numbers in Table 3 of Sixth Schedule and by virtue of these additions, the goods specified therein shall be exempt from sales tax.

| Sr. No. | Description | PCT Heading | Conditions |
|---|---|---|---|
| **(1)** | **(2)** | **(3)** | **(4)** |
| 23 | Import of following machinery/ equipment for upgradation of existing refineries:<br>1. Reactors,<br>2. Shell and Tube Exchangers,<br>3.Vessels (Strippers/ Separators/ K.O. Drums),<br>4. Trim Coolers,<br>5. Air Coolers (Condensers),<br>6. Fired Heaters,<br>7. Centrifugal Pumps,<br>8. Reciprocating Pumps,<br>9.Centrifugal Compressors,<br>10.Reciprocating Compressors,<br>11. Steam Reformer Furnaces,<br>12 Filters,<br>Provided that all such imports shall be essentially made for expansion balancing, modernization, and rehabilitation of existing refineries and the quantity imported by each refinery shall be approved by Ministry of Petroleum and Natural Resources. | 8419.8990<br>8419.5000<br>8419.8990<br>8418.6990<br>8419.8990<br>8417.8000<br>8413.7090<br>8413.5000<br>8414.8090<br>8414.8090<br>8417.8000<br>8421.3990 | The goods shall be imported directly by refinery after approval by the division concerned. |
| 24 | Import of machinery, equipment, raw materials, components and other capital goods, by Karachi Shipyard and Engineering Works Limited. | Respective headings as approved by the concerned Division. | The Division dealing with the subject matter shall certify in the prescribed manner and format as per Annex-B that the imported goods are bona fide |

| | | | |
|---|---|---|---|
| | | | requirement. The authorized officer of the Ministry shall furnish all relevant Information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969. |

## 4. EIGHTH SCHECULE

**Higher / lower rates of sales tax –** Omission / addition / amendments in Table of Eighth Schedule:

In terms of section 3(2)(aa) of the Act, the goods specified in the Eighth Schedule shall be charged to sales tax at such rates and subject to such conditions as specified therein.

4.1 Reduced rate of sales tax shall remain applicable on locally assembled electric vehicles: In terms of Sr. No. 71 following locally manufactured or assembled electric vehicles (4 wheelers) are subjected reduce rate of 1% sales tax till 30.6.2026:

(i) Small cars/SUVs with 50 Kwh battery or below; and
(ii) Light commercial vehicles (LCVs) with 150 kwh battery or below.

The Bill proposes to extend the benefit of reduced rate of sales tax on above referred electric vehicles till 30.06.2027.

4.2 In terms of Sr. No. 80 "EV transport buses of 25 seats or more in CBU condition of respective heading" are subjected to reduce rate of 1% sales tax. The Bill proposes to substitute Sr. No. 80. As per substituted Sr. No. 80, "EV transport buses of 25 seats or more and electric trucks in CBU condition of PCT 8702.4090 & 8702.6030" shall be subjected to reduce rate of 1% sales tax

## 5. THE ELVENTH SCHEDULE

**Withholding of sales tax –** Amendments / additions in Eleventh Schedule:

In terms of section 3(7) of the Act, the rates for withholding of sales tax have been prescribed in Eleventh Schedule.

5.1 In terms of Sr. No. 4 of the Table of Eleventh Schedule, Companies as defined in the Income Tax Ordinance, 2001 excluding companies exporting surgical instruments, have been declared as withholding agents and are obliged to withhold 5% of gross value of supplies from the payment made to the supplier whose name has been removed from Active Taxpayers List of FBR. The Bill proposes to include "association of persons and individuals" in the category of withholding agents within the meaning of Sr. No. 4 who shall be obliged to withhold 5% of gross value of supplies from the payment made to the supplier whose name has been removed from Active Taxpayers List of FBR.

5.2 The Bill proposes to insert a new Sr. No. 14 in the Table. As per proposed Sr. No. 14 "registered persons engaged in toll manufacturing, being withholding agents, shall be obliged to deduct four times of the tax charged on conversion charges from the person other than registered person.

**6. THE TWELFTH SCHEDULE**

**Value addition tax –** Amendments in Twelfth Schedule:

**Value addition tax on import of goods:** Addition of proviso in sub clause (i) of clause (2) under heading "Procedures and Conditions" of Twelfth Schedule: In terms of section 7A(2) read with Twelfth Schedule of the Act, all imported goods are subjected to value addition tax at the rate of 3% in addition to standard / reduced rate of sales tax however goods specified in sub clauses (i) to (xiv) of clause (2) under heading "Procedures and Conditions" shall be excluded from levy of value addition tax. The Bill proposes to insert 2 provisos after sub clause (1). After insertion these provisos, value addition tax shall not be charged on Raw materials and intermediary goods imported by a manufacturer for in-house consumption excluding compressor scrap (PCT heading 7204.4940), motor scrap (PCT heading 7204.4990) and copper cable cutting scrap (PCT heading 7404.0090):

Provided that the manufacturer shall be liable to pay 3% value addition tax on ad valorem basis, along with default surcharge in case the imported goods are supplied in the same state whether in the same packing, repacked, or in bulk:

Provided further that where-

(i) benefit of waiver of 3% value addition tax is availed, declaring that the goods are imported for in-house consumption in manufacturing process;

(ii) such imported goods are not used for in-house consumption;

(iii) imported goods are supplied in the same state whether in the same packing, repacked, or in bulk; and

(iv) such supply exceeds 50% of total imports in a financial year;
such person will be liable to prosecution.

## COMMENTS ON AMENDMENTS PROPOSED VIDE FINANCE BILL 2026 IN THE FEDERAL EXCISE ACT, 2005

**1. "Algorithmic settlement mechanism" (Section 2 -Clause 2A )**

This facilitation measure proposes the introduction of a new digital system enabling the Federal Board of Revenue (FBR) to offer settlement options for tax disputes, taking into account the taxpayer's compliance history and the nature of the discrepancies identified. Taxpayers will have the opportunity to avail themselves of this facility before the issuance of a final order under the relevant provisions of the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, or the Federal Excise Act, 2005. The initiative represents a notable step towards the digitalization and modernization of the pre-assessment dispute resolution framework, with the potential to enhance efficiency, transparency, and voluntary compliance.

Under the proposed mechanism, a registered person/taxpayer will be provided with an option through the IRIS portal to accept or reject a settlement offer made by the tax authorities. The acceptance of such an offer will be required within ten days from the date of its issuance, and the taxpayer/registered person will be obligated to deposit the agreed settlement amount within the prescribed timeframe.

Upon acceptance of the settlement offer and payment of the settlement amount, the issues raised in the relevant notice and/or audit report shall stand resolved and no further proceedings shall be initiated in respect of those specific matters. However, the settlement shall not preclude the tax authorities from initiating separate proceedings in relation to any other discrepancies, omissions, or issues subsequently identified that were not covered by the settlement.

**2. "Electronic invoicing system" (Section 2 -Clause 9b)**

The Bill proposes the insertion of a new clause after clause (9A) of Section 2 to provide for an electronic system or mechanism, as may be prescribed or approved by the Board, for the issuance and maintenance of sales tax invoices in electronic form.

This proposed amendment reflects the Government's continued emphasis on digitalization of the tax administration framework. The introduction of electronic invoicing is expected to enhance transparency, improve the accuracy and reliability of transactional records, strengthen documentation of economic activities, and facilitate real-time monitoring and compliance. Consequently, the measure is likely to contribute towards broadening the tax base and reducing opportunities for tax evasion through improved record-keeping and verification mechanisms.

## 3. "National faceless center" (Section 2 -Clause 16A1 & Section 7A)

The Bill seeks the insertion of a new clause after clause (16) of Section 2, along with the introduction of a new Section 7A, to establish a National Faceless Centre in line with the framework already provided under Section 32C of the Sales Tax Act, 1990.

Under the proposed mechanism, audit and assessment proceedings under the Act will be conducted through a faceless and technology-driven system administered by the National Faceless Centre. The initiative aims to eliminate direct physical interaction between taxpayers and Inland Revenue officials, thereby promoting transparency, consistency, efficiency, and reduced administrative discretion in tax administration.

The proposed framework is expected to encompass a broad range of tax proceedings, including audits, assessments, rectification matters, and appeals before the first appellate forum. By leveraging digital processes and centralized case management, the system seeks to enhance taxpayer facilitation while ensuring uniform application of tax laws across the country.

Furthermore, it is proposed that the relevant provisions of the Sales Tax Act, 1990 relating to the establishment of the National Faceless Centre, assignment of jurisdiction, conduct of audits, assessments, and appellate proceedings shall apply, mutatis mutandis, to proceedings under the Act. This approach is intended to ensure consistency and harmonization across the tax administration framework.

## 4. "Production Monitoring & Tracking system (Section 2 Clause (19b) & Section 45A)

The Bill proposes the insertion of a new clause after clause (19A) of Section 2 and the substitution of Section 45A of the Federal Excise Act, 2005, with the objective of establishing a comprehensive monitoring and tracking system for production units operating under the Federal Excise regime.

The proposed amendment seeks to align the monitoring framework under the Federal Excise Act, 2005 with the digital compliance measures already introduced under the Sales Tax Act, 1990. In this regard, manufacturers may be required to install and operate technology-based monitoring systems or integrated solutions obtained from Board-approved or licensed service providers for the purpose of monitoring production, sales, clearances, inventories, and other related activities.

Furthermore, the Board is proposed to be empowered, through notification in the Official Gazette, to specify any registered person or class of registered persons, or any goods, services, or classes thereof, in respect of which electronic monitoring or tracking mechanisms may be implemented. Such monitoring may extend to production, sales, clearances, stock movements, and other relevant business activities through electronic or other prescribed means.

The Bill also proposes that no excisable goods shall be removed, cleared, or sold by a manufacturer or any other person unless the prescribed identification and monitoring features have been affixed or integrated. These may include tax stamps, banderoles, stickers, labels, barcodes, production monitoring systems, video analytics, or any other technology-based authentication and tracking mechanisms, in such form and manner as may be prescribed by the Board.

**5. "Special Excise Duty (Section 3 Sub-Section 3B)**

The finance bill seeks to insert sub-section (3B), namely:-

"(3B) Notwithstanding anything contained in this section, there shall be levied and collected a Special Excise Duty in addition to duty imposed under sub-section (1), on such goods as listed in Table-IA of the First Schedule to this Act at the rates specified therein: Provided that the Board may prescribe time, mechanism, procedure, mode and manner of collection for such duty.";

By virtue of this insertion, the Board has been empowered to levy and collect Special Excise Duty in addition to FED listed in First Schedule to the Act.

**6. "Invoicing (Section 18 Sub-Section 1)**

The Bill proposes the substitution of sub-section (1) of Section 18, introducing a revised invoicing framework that incorporates the concepts of advance receipt invoices and zero-rated tax invoices, in addition to the existing standard invoicing mechanism applicable to taxable supplies.

Under the proposed amendments, the current system of issuing serially numbered invoices is to be replaced with a more robust system based on verifiable and unique invoice numbers, which will be implemented from a date to be notified by the Board. This change is intended to enhance traceability, authenticity, and integration of invoices within the digital tax ecosystem.

It is further proposed that the Board may, through notification, specify any person or class of persons who may be authorized to issue advance receipt invoices under the prescribed system. Additionally, the requirement of a verifiable and unique FBR invoice number shall become applicable from a date to be notified by the Board, allowing for phased implementation of the new invoicing regime.

**7. "Offence, penalties, and fines (Section 19 Sub-Section 4)**

Section 19(4) deals with Offence, penalties and fines related to destroy damage, erase or otherwise manipulates of stored data in computers. Now by virtue of this substitution. The scope has been widened to include equipment or system used for the electronic monitoring of production, manufacture, sales, clearance, stocks or any other related activity implemented under this Act and the rules made thereunder, including any production monitoring system, video analytics system.

However the offence and penalty propose to be unchanged as fine may extend to seventy-five thousand rupees or ten times of the duty involved whichever is higher and punishment with imprisonment which may extend to five years or both.

**8. "Power to Seize (Section 26 Sub-Section 1) & "Confiscation of goods subject to federal excise duty" (Section 27 Sub Section 1)**

Section 26 deals with power to seize goods and section 27 provides confiscation of goods subject to Federal Excise Duty.

Some specific amendments had already been introduced through Tax laws (Amendment) Ordinance, 2025 in May 2025 which are ratified through Finance Act, 2025. By virtue of these amendments the board created deterrence on such dutiable goods manufactured or produced without affixing or affixing counterfeited tax stamps, banderols, stickers, labels or barcodes to be made liable to seizure along with the conveyance used for movement of such goods as required under section 45A for monitoring or tracking by electronic or other means.

Furthermore, such seized goods were also made liable to outright confiscation. These coercive measures were taken to harmonize the identical measure proposed in other corresponding taxation statutes. Previously manufacturing units of such goods were not brought under monitoring system. The bill seeks to include all such goods which are required to be monitored through a production monitoring system under the Act and the rules made thereunder but are manufactured, produced, transported, removed or otherwise dealt with without such monitoring in the prescribed manner, shall be liable to seizure along with the conveyance, which has been used for the movement, carriage or transportation of such goods."

**9. <u>Independent case scrutiny committee (Section 34AA.)</u>**

The bill seeks to insert a new section at harmony with other taxation by formulating an **<u>independent case scrutiny committee</u>** as defined hereunder:

(1)A reference under section 34A of the Act before the High Court, or an appeal or review before the Federal Constitutional Court or the Supreme Court of Pakistan shall only be filed by the Commissioner Inland Revenue after the same has been approved by an independent case scrutiny committee as constituted by the Board.

(2) The Board may constitute one or more such committees and assigned them cases or classes of cases decided by the Appellate Tribunal Inland Revenue or the High Court, as the case may be.

(3) The Committee shall comprise of the following Members as nominated by the Board –

(a) a retired judge of the Supreme Court of Pakistan, the Federal Constitutional Court, or any of High Court who shall also act as Chairman of the Committee;

(b) an Advocate having not less than fifteen years of experience in duty and commercial litigation before the High Court or Supreme Court of Pakistan, to be nominated from a panel notified by the Board from time to time; and

(c) a senior serving or retired officer of the FBR (BS 20 or above).

(4) The powers, functions, and procedure of the Committee along with remuneration of its Members shall be governed as may be prescribed.

(5) Recommendations of the committee shall be binding upon the Commissioner Inland Revenue having jurisdiction over the case.

(6) Notwithstanding anything contained in any other law for the time being in force, no suit, prosecution, or other legal proceedings shall lie against the Members of the committee and the Commissioner Inland Revenue having jurisdiction over the case, in relation to the decisions made under this section.

(7) The committee constituted under this sub-section shall exercise its powers and functions with effect from the date of its constitution as notified by the Board."

**10. <u>Audit (Section 46 Sub-Section 1, 2 and 2A)</u>**

Section 46 deals with audit of Federal Excise Duty affairs of the taxpayers. The Board has revamped the audit procedures by making following amendments:

"(1) The officer of Inland Revenue authorized by the Board or the Commissioner may, after giving advance notice in writing, conduct audit of the records and documents of any person registered under this Act.

(2) In case the Commissioner has information or sufficient evidence showing that such registered person is involved in fraud or evasion of duty, he may authorize an officer of Inland Revenue not below the rank of Assistant Commissioner, to conduct audit at any time in a year.

(2A) After completion of the audit under this section of any other provisions of this Act, the officer of Inland Revenue shall, after obtaining the registered person's explanation on all the issues raised in the audit, issue an audit report containing audit observations and finding.

(2B) For the purpose of sub-section (2), the Commissioner may conduct audit proceedings electronically through video links, or any other facility as prescribed by the Board.";

(2C) After issuing the audit report under this section or any other provision of law, the officer of Inland Revenue may, if required pass an order under sub-section (2) of section 14, after providing an opportunity of being heard to the registered person under sub section (1) of section 14, imposing the amount of duty as per law, charging default surcharge, imposing penalty and recovery of any amount erroneously refunded.";

Further the proposed amendments also empowers the Commissioner, at any stage of proceedings, to require a registered person to undertake a re-audit of accounts or revaluation of inventory where, having regard to the nature and complexity of accounts, volume of transactions, doubts regarding correctness of accounts, multiplicity of transactions, or the specialized nature of business activity, the Commissioner is of the view that such action is necessary in the interest of revenue.

This power may be exercised only after providing the registered person with a reasonable opportunity of being heard and obtaining prior approval of the Chief Commissioner, thereby introducing a procedural safeguard against arbitrary exercise of discretion.

Under the proposed framework, the Commissioner may direct that the accounts be re-audited by an accountant and/or inventory be revalued by a cost accountant, with a requirement to submit duly signed and verified reports, including responses to specific queries raised by the tax authorities. The professionals for this purpose are to be nominated by the Commissioner from a panel of accountants and cost accountants approved by the Board.

It is also proposed that assessment proceedings will stand abated subject to payment of duty along with default surcharge and 25% of prescribed penalty is deposited during/after audit but before issuance of show cause notice; or duty along with default surcharge and 50% of prescribed penalty is deposited after issuance of show cause notice.

**Note:**

All other proposed changes in respective Schedules to the Federal Excise Act, 2005 have been discussed separately and we have placed our comments in respective columns of schedules tabulated below:

# PROPOSED AMENDMENTS IN TABLE III OF FIRST SCHEDULE OF THE FEDERAL EXCISE ACT 2005

## PROPOSED AMENDMENTS IN TABLE I OF FIRST SCHEDULE OF THE FEDERAL EXCISE ACT 2005.

| Sr. No. | Sr No. in Table | Existing | | Proposed amendments | | Comments |
|---|---|---|---|---|---|---|
| | | Description | Rate of duty | Description | Rate of duty | |
| 1 | 7a | "Acetate tow" Under respective heading | "Rupees forty four thousand per kg" | "Acetate tow" Under respective heading | "Rupees ten thousand per kg" | The Bill proposes a reduction in Federal Excise Duty (FED) on "Acetate Tow," a fibre primarily used in the manufacturing of cigarette filters, which appears to lack strong policy justification. In contrast, "E-liquids," being nicotine-containing products used as an alternative to conventional tobacco, are proposed to be subjected to an increased rate of FED.<br><br>While the reduction in duty on Acetate Tow may be viewed as economically inconsistent with public health objectives, the proposed increase in FED on E-liquids reflects a positive regulatory stance aimed at discouraging the consumption of harmful and addictive substances. This approach aligns with broader public health considerations by discouraging the use of tobacco-related products and promoting healthier alternatives through fiscal measures. |
| 2 | 8a | E-liquids by whatsoever name called, for electric cigarette kits | "Rupees ten thousand per kg or sixty five percent of retail price whichever is higher" | Same | "Rupees sixteen thousand Five Hundred per kg" | |
| | 55 | Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), 4[and till the 30th day of June, 2026 electric vehicles (4 wheelers)] including station wagons and racing cars<br>(a) of cylinder capacity up to 1000cc (b) of cylinder capacity from 1001cc to 1799cc (c) of cylinder capacity 1800cc to 3000cc (d) of cylinder capacity exceeding 3001cc | (a) 2.5% ad val<br>(b) [10]% ad val.<br>(c) [30]% ad val.<br>(d) [40]% ad val.] | No change | | The bill seeks to continue these rates for the year 2027 |
| | 55A | New insertion | | Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of import value including custom Duty:-<br><br>(a) Not exceeding PKR 20 million<br>(b) exceeding PKR 20 million and up to PKR 30 million<br>(c) exceeding PKR 30 million | ,(a)0 %<br>(b)30%<br>(c)40% . | the bill seeks to introduce FED on imported vehicles to enlarge the scope of FED and mentioned slabs are being proposed. |
| | 55B | Locally manufactured or assembled motor cars, SUVs and other motor vehicles, excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2026 electric vehicles (4 wheelers) including station wagons and racing cars: (a) of cylinder capacity up to 1300cc (b) of cylinder capacity from 1301cc to 2000cc (c) of cylinder capacity 2001cc and above | ,(a)2.5 % ad val.<br>(b)5% ad val.<br>(c)10% ad val. | No change | | The bill seeks to continue these rates for the year 2027 |
| | 59 | Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral and aerated waters | Twenty percent of retail price | Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener. | N0 change | previously sugary fruit juices, syrups and squashes, waters were charged to FED @ 20% of retail price with the exclusion of mineral and aerated waters and the exclusion is being enhanced to exclude hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener. |
| | | Lubricating oil | Five percent ad valorem.] | Lubricating oil and base lubricating oils | N0 change | The bill seeks to include other base lubricating oils under the ambit of FED |
| | 65 | New insertion | | (i) Petroleum top Naphtha<br>(ii) White Spirit/Mineral Turpentine Oil (MTT)<br>(iii) Solvent Oil | (i) Rs. 80 per liter<br>(II)Rs.80 per liter<br>(iii)Rs.80 per liter | The bill seeks to include these petroleum products .under the ambit of FED |

| Sr. No. | Sr No. in Table | Existing | | Proposed amendments | | Comments |
|---|---|---|---|---|---|---|
| | | Description | Rate of duty | Description | Rate of duty | |
| 1 | 7a | "Acetate tow" Under respective heading | "Rupees forty four thousand per kg" | "Acetate tow" Under respective heading | "Rupees ten thousand per kg" | The Bill proposes a reduction in Federal Excise Duty (FED) on "Acetate Tow," a fibre primarily used in the manufacturing of cigarette filters, which appears to lack strong policy justification. In contrast, "E-liquids," being nicotine-containing products used as an alternative to conventional tobacco, are proposed to be subjected to an increased rate of FED.<br><br>While the reduction in duty on Acetate Tow may be viewed as economically inconsistent with public health objectives, the proposed increase in FED on E-liquids reflects a positive regulatory stance aimed at discouraging the consumption of harmful and addictive substances. This approach aligns with broader public health considerations by discouraging the use of tobacco-related products and promoting healthier alternatives through fiscal measures. |
| 2 | 8a | E-liquids by whatsoever name called, for electric cigarette kits | "Rupees ten thousand per kg or sixty five percent of retail price whichever is higher" | Same | "Rupees sixteen thousand Five Hundred per kg" | |
| | 55 | Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), 4[and till the 30th day of June, 2026 electric vehicles (4 wheelers)] including station wagons and racing cars (a) of cylinder capacity up to 1000cc (b) of cylinder capacity from 1001cc to 1799cc (c) of cylinder capacity 1800cc to 3000cc (d) of cylinder capacity exceeding 3001cc | (a) 2.5% ad val<br>(b) [10]% ad val.<br>(c) [30]% ad val.<br>(d) [40]% ad val.] | No change | | The bill seeks to continue these rates for the year 2027 |
| | 55A | New insertion | | Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of import value including custom Duty:-<br><br>(a) Not exceeding PKR 20 million<br>(b) exceeding PKR 20 million and up to PKR 30 million<br>(c) exceeding PKR 30 million | ,(a)0 %<br>(b)30%<br>(c)40% . | the bill seeks to introduce FED on imported vehicles to enlarge the scope of FED and mentioned slabs are being proposed. |
| | 55B | Locally manufactured or assembled motor cars, SUVs and other motor vehicles, excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2026 electric vehicles (4 wheelers) including station wagons and racing cars: (a) of cylinder capacity up to 1300cc (b) of cylinder capacity from 1301cc to 2000cc (c) of cylinder capacity 2001cc and above | ,(a)2.5 % ad val.<br>(b)5% ad val.<br>(c)10% ad val. | No change | | The bill seeks to continue these rates for the year 2027 |
| | 59 | Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral and aerated waters | Twenty percent of retail price | Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener. | N0 change | previously sugary fruit juices, syrups and squashes, waters were charged to FED @ 20% of retail price with the exclusion of mineral and aerated waters and the exclusion is being enhanced to exclude hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener. |
| | | Lubricating oil | Five percent ad valorem.] | Lubricating oil and base lubricating oils | N0 change | The bill seeks to include other base lubricating oils under the ambit of FED |
| | 65 | New insertion | | (i) Petroleum top Naphtha<br>(ii) White Spirit/Mineral Turpentine Oil (MTT)<br>(iii) Solvent Oil | (i) Rs. 80 per liter<br>(II)Rs.80 per liter (iii)Rs.80 per liter | The bill seeks to include these petroleum products .under the ambit of FED |

# PROPOSED NEW TABLE IA OF FIRST SCHEDULE OF THE FEDERAL EXCISE ACT 2005.

| Sr. No. | Sr No. in Table | Existing Description | Existing Rate of duty | Proposed amendments Description | Proposed amendments Rate of duty | Comments |
|---|---|---|---|---|---|---|
| 1 | 23 | New insertion | New insertion | Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2027 electric wheelers) including station wagons, double cabin (4x4) pickup vehicles and racing cars: (a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc (b) of cylinder capacity exceeding 3000cc vehicles (4 | (a)40% ad val (b)41% ad val. | The Bill seeks to introduce FED on imported car and SUV exceeding 2000C to encourage local industry. |

## PROPOSED AMENDMENTS IN TABLE II FIRST SCHEDULE OF THE FEDERAL EXCISE ACT 2005.

| Sr. No. | Sr No. in Table | Existing Description | Existing Rate of duty | Proposed amendments Description | Proposed amendments Rate of duty | Comments |
|---|---|---|---|---|---|---|
| 1 | 23 | (ii) Club, business and first class air tickets issued on or after the 1st day of July, 2024 (a) IATA Traffic Conference Area 1 (North, Central, South America and Environs) (b) IATA Traffic Conference Area 2 (I) Middle East and Africa (II) Europe (c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands) | (a) Three hundred and fifty thousand rupees (b)(I) One hundred and five thousand rupees (b)((II) Two hundred and ten thousand rupees (c) Two hundred and ten thousand rupees] | No change | (a) Fifty Thousand rupees (b)(i) Twenty Five thousands rupees (b)((II) Two hundred and ten thousand rupees (c) Two hundred and ten thousand rupees] | This proposed amendment will facilitate the people travelling through business and club classes who can already have enough sources to bear such taxes and levies. |

# PROPOSED AMENDMENTS IN THE THIRD SCHEDULE TABLE I OF THE FEDERAL EXCISE ACT 2005.

| No. | in Table | Description | Rate of duty | Description | Rate of duty | |
|---|---|---|---|---|---|---|
| | | | | | | |
| 1 | 28 | New insertion | New insertion | Import of bullet proof vehicles by the: i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control (ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government | | The Bill seeks to introduce exemptions on the bullet proof vehicles logistic arrangements for Shanghai Cooperation Organization (SCO and to encounter threat for terrorism subject to approval by the federal government. |

## COMMENTS ON PROPOSED AMENDMENTS OF WEST PAKISTAN MOTOR VEHICLES TAXATION ACT, 1958

The Bill proposes to substitute the token-tax tables applicable in the Islamabad Capital Territory. Token tax is set at Rs. 20,000 for private motor vehicles for engines up to 1000cc and at 0.25% of the invoice value for engines from 1001cc to 2000cc and 0.35% of the invoice value above 2000cc. Revised rates are also fixed for motor cabs, public service vehicles and commercial or loading vehicles. The rates shift from fixed engine-capacity slabs to a value-based charge for the private vehicles. The tax on a vehicle above 1000cc rises with its invoice value.

The rates for motor cabs, public-service vehicles and commercial vehicles are also proposed to be likewise substituted in the Schedule. The Schedule consisting of following tables:

Table 2-Token tax on motor vehicle

Table 3- Token tax for motor cabs

Table 4 -Token Tax for public service vehicle

Table 5- Token tax for commercial/loading Vehicles.

# TEXT OF FINANCE BILL – 2026

For convenience, the complete text of Finance Bill 2026

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