FARUQ ALI & CO.
CHARTERED ACCOUNTANTS

NOTES ON FINANCE BILL 2026-27

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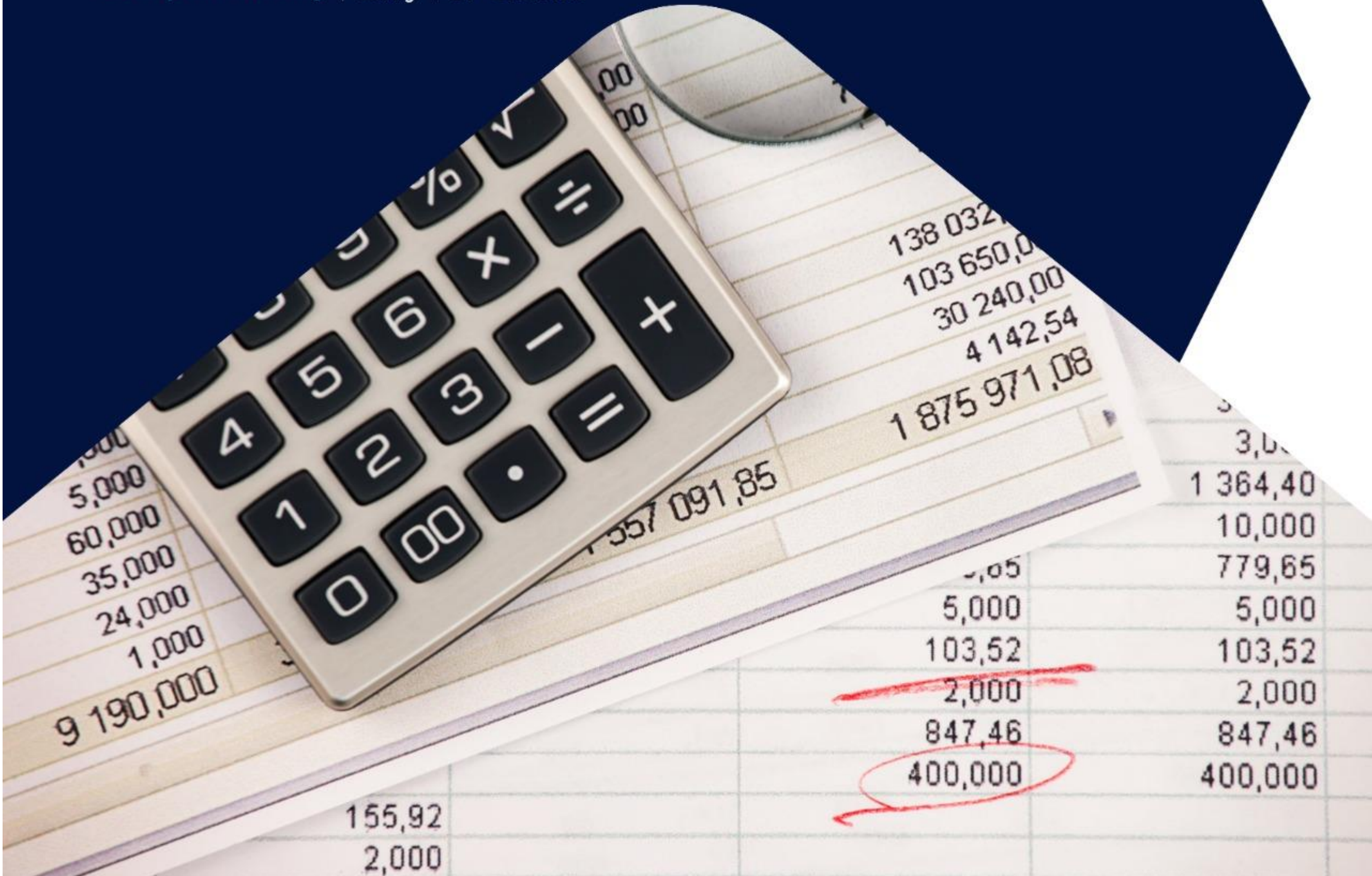

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MAJOR AMENDMENTS PROPOSED THROUGH FINANCE ACT, 2026

The Finance Bill, 2026 introduces several taxpayer-friendly measures aimed at reducing the tax burden on salaried individuals, property investors, and corporate taxpayers. The key reliefs proposed are summarized below:

1. REDUCTION IN TAX RATES FOR SALARIED INDIVIDUALS

The tax slabs applicable to individuals deriving more than 75% of their taxable income from salary have been rationalized. Tax rates for middle and upper-middle income salaried taxpayers have been reduced, with the maximum rate of 35% now applying only to income exceeding Rs. 7 million. This restructuring is expected to provide meaningful tax savings to salaried taxpayers.

2. ABOLITION OF SURCHARGE ON SALARIED PERSONS

The surcharge levied under section 4AB on salaried individuals having taxable income exceeding Rs. 10 million has been proposed to be withdrawn. Consequently, salaried taxpayers will no longer be subject to the additional surcharge of 9% of the income tax payable.

3. INCOME LIMIT FOR LEVY OF SUPER TAX INCREASED

The existing progressive super tax structure has been simplified and replaced with fixed rates. Banking companies, fertilizer manufacturers and Fifth Schedule companies will be subject to a flat super tax of 10% where taxable income exceeds Rs. 150 million, while other large taxpayers will be subject to a flat rate of 8% where income exceeds Rs. 500 million. This measure is expected to provide certainty and ease of computation.

4. SIGNIFICANT REDUCTION IN ADVANCE TAX ON SALE OF IMMOVABLE PROPERTY

Section 236C

The advance tax collectible on the sale or transfer of immovable property under section 236C has been substantially reduced from the existing rates of 4.5%, 5.5% and 6% to a flat rate of 2.75%, resulting in significant relief for property sellers.

5. SIGNIFICANT REDUCTION IN ADVANCE TAX ON PURCHASE OF IMMOVABLE PROPERTY

Section 236K

The advance tax collectible on the purchase of immovable property under section 236K has also been substantially reduced from the existing rates of 3%, 3.5% and 4% to a flat rate of 1.25%, thereby lowering transaction costs for property buyers.

6. OMISSION OF DEEMED INCOME TAX ON IMMOVABLE PROPERTY

Section 7E

The provisions relating to tax on deemed income from immovable property under section 7E have been proposed to be omitted. Consequently, the deemed rental income taxation regime applicable to specified immovable properties will cease to apply, providing substantial relief to property owners.

7. OMISSION OF ADVANCE TAX ON TV PLAYS AND ADVERTISEMENTS

Section 236CA

Section 236CA, which required collection of advance tax on foreign TV drama serials, dubbed plays and advertisements featuring foreign actors, has been proposed to be omitted. The withdrawal of this provision eliminates the advance tax burden previously imposed at the certification stage.

8. TAX DEDUCTION FROM EXPORTERS REDUCED WITH EXEMPTION FROM COLLECTION OF ADVANCE TAX ON REMITTANCE

Section 147,154

The rate of deduction of tax at import stage reduced to 1.25% as against existing 2%. The tax deduction on export proceeds shall be minimum & do not include any advance tax u/s. 147.

9. RATE OF TAX FOR INCLUSION IN ACTIVE TAXPAYER INCREASED

Section 182

Penalties for qualifying as an Active Taxpayer in case of late filing of return for individual, AOP & Companies enhance from Rs.1,000, 10,000 & 20,000 respectively to Rs. 25,000, Rs.50,000 & Rs.100,000 respectively.

10. CAPITAL VALUE TAX

Capital value tax on foreign assets abolished

AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Following are the highlights of the amendments in Income Tax Ordinance, 2001 proposed through the Finance bill 2026

ALGORITHM SETTLEMENT MECHANISM
Section 2(1A), 134B

The Ordinance already provides settlement option to the taxpayer in its amendment assessment proceedings under section 122 where notice under sub section 9 has been issued. Now a new digitally operated algorithmic settlement mechanism of tax proceeding is proposed to be introduced covering other amendment proceedings such as under section 121, or 122E of the Ordinance not at the option of the taxpayer but discretion of the Board through digitally offered settlement. As per the new settlement scheme before finalization of any order for assessment or amendment assessment the proceedings may be settled through revision of return under section 6 of section 114. The procedure & basis of settlement are proposed to be:

Basis of Settlement

The basis of offer for system generated settlement shall be :

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.

Procedure for acceptance of settlement by Taxpayer

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.

Status of notices issued

The issues confronted to the taxpayer through notice of selection of audit, a notice under section 111, an audit report under subsection (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).

PROCEDURE FOR FILING OF REVISED RETURN
Section 114(6B)

After agreement of settlement the taxpayer required to file revise return of income & pay the tax due thereon alongwith revised return.

a) Such revised return do not require approval from Commissioner for filing the same.

b) No penalty or default surcharge shall be levied on tax paid alongwith revised return of income.

c) Revised return should be accompanied by documents as required.

Exception from Settlement

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.

FACELESS ASSESSMENT & APPEALS PROCEEDINGS & ESTABLISHMENT OF NATIONAL FACELESS CENTRE
Section 2(5) & section 122E, 129A & 227D

To implement use of the Information Technology in the tax proceedings a proposed concept of faceless assessment & appeal has been introduced and for which a National Faceless Centre is also proposed to be establish.

Procedures to be followed for such proceedings are:

Faceless Audit and Assessment
Section 122E

Procedure of faceless audit & assessment is:

1) Will be applied in case of proceedings for Audit, amendment of assessment, proceedings u/s. 111 & rectification proceedings or as prescribed by the Board.

2) Assessment 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) In the case of faceless assessment proceedings under section 177, where opportunity of being heard is to be

provided to the taxpayer during the course of this audit or a statement under oath s required to be obtained from a taxpayer or any other person under section 176 of this Ordinance, the same shall be done through E-hearing.

4) The identity of the officer, including facial and voice, conducting E-hearing shall be kept confidential.

Faceless Appeals Before Commissioner Appeals
Section 129A

1) All appeals filed before the Commissioner Appeals shall be processed through the National faceless centre.

2) Hence filing, hearing, & decision of appeal shall be made through faceless appeal proceedings.

National Faceless Centre
Section 227D

1) In order to streamline the faceless proceedings, the Board shall:

   i) Establish National Faceless Centre (The Centre).

   ii) Laid down its jurisdiction, powers and functions.

   iii) Designate a Director General, as many Chief Commissioners, Commissioners, Additional Commissioners, Deputy Commissioners, Assistant Commissioners, and any of the Income Tax Authorities along with support staff, as deem fit.

   iv) Design algorithms for assigning any function or jurisdiction to any of the authorities.

   v) Prescribe as many wings and units of the Centre as may be prescribed by the Board.

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

3) 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.

FAST-MOVING CONSUMER GOOD
Section 2(22A) & Division IX Part I of First Schedule

Definition of Fast-Moving Consumer Goods has been deleted & simultaneously concessional rate of minimum turnover tax of 0.25% available to Distributors of Fast-Moving Consumer Goods has also been withdrawn.

AUTHORISED SHIPPING AGENT TO BE TREATED REPRESENTATIVE OF NON RESIDENT SHIP OWNER
Section 2(6A)

A new provision is proposed to be added according to which a Shipping Agent, who is expressly or impliedly, authorised by a non resident ship owner, charterer or operator to act on its behalf shall be treated as the representative of such non resident for purpose of this return.

However, to be treated as representative the Shipping agent must be responsible for:

1) 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

2) (b) furnishes the return under section 143 of this Ordinance, in respect of such vessel or voyage.

Such Agent shall be for the purposes of this Ordinance:

a) be jointly and severally liable for payment of tax and all obligations, proceedings, assessments and recovery in respect of such vessel or voyage; and

b) for all applicable provision of this Ordinance shall be treated as representative of such non-resident person.

SALARY PERSONS EXEMPT FROM PAYMENT OF SURCHARGE
Section 4AB

Presently every salaried individual deriving income from salaries exceeding Rs.10.000M in a tax year is liable to pay Surcharge @9% of the Income Tax imposed. Now through this proposed amendment this provision has been deleted and the salaried individual are exempt from levy of surcharge.

INCOME LIMIT FOR LEVY OF SUPER TAX INCREASED
Section 4C & Division IIB of Part I of First Schedule

It has been proposed that the minimum Income for levy of Super Tax to be increased from Rs.150.000M to Rs.500.000M. Hence taxpayers with income less than this limit will be exempt for this levy.

Revised rates & categories of taxpayers liable for levy are:

Category	Existing	Proposed
Banking Companies	Higher slab-based structure	Flat 10% where income exceeds Rs.150 million
Fertilizer Sector	Different slab structure	Flat 10% where income exceeds Rs.150 million
Fifth Schedule Companies	Rationalized	Flat 10% where income exceeds Rs.150 million
Other Large Persons	Slab-based	8% where income exceeds Rs.500 million

Impacts:

- Simplifies the existing Super Tax regime by replacing the progressive slab structure with fixed rates.
- Introduces greater certainty and ease in tax computation for taxpayers.
- Banking companies, fertilizer manufacturers, and Fifth Schedule entities will remain subject to a higher Super Tax rate of 10%.
- Other large taxpayers may benefit from a reduced Super Tax burden through the application of a flat 8% rate.

TAX ON PAYMENTS FOR DIGITAL TRANSACTIONS IN E-COMMERCE PLATFORMS TO BE ADJUSTABLE IN CERTAIN CASES

Section 6A & 8

Currently tax charged on E Commerce business is a final discharge of tax liability.

Now, it is proposed that such payment of tax shall be adjustable in cases where annual gross turnover exceeds Rupees Two Hundred Million.

TAX ON CERTAIN PAYMENTS BY LIFE INSURANCE BUSINESS

Section 7G, 151B & Div. 1C of Part III of First Schedule

Any person who receives any payout, benefit, surrender value, maturity proceeds or similar payment against a life insurance policy, family takaful certificate, plan or any similar arrangement shall be liable to tax at the following rates:

Sr. No	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%

The tax shall be deducted by the life insurance companies and takaful operators, at the time of making payment, on the net amount after deduction of aggregate amount of premiums or contribution by the policy holder or participant.

However, the following payments shall be exempt from deduction of tax:

a) on account of death of the insured or participant;

b) on account of disability of the insured or participant; or

c) after completion of seven years from the date of issuance of the policy, certificate or plan.

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

This provision of law is applicable with effect from tax year 2026, which means all such payments received during tax year 2025 & earlier were exempt from tax.

FIVE PERCENT TOTAL EXPENDITURE CLAIMED TO BE DISALLOWED IN CASE OF NON-INSTALLATION OF ELECTRONIC RESOURCE OR ACT AS AN INTEGRATED ENTERPRISE

Section 21(r)

A new provision is proposed to be added according to which in case a businessperson fails to integrate its system online with the Board than as a penal action 5% of the total expenditure claimed in a tax year shall be disallowed as inadmissible deduction.

TAX CREDIT FOR INTEGRATION WITH COMPUTERIZED SYSTEM OF FBR

Section 64D

Any person required, under Income Tax Ordinance, the Sales Tax Act, 1990 or the Federal Excise Act, 2005, to integrate with the computerized system of the Board for real time production monitoring, or for the recording or reporting of sales or receipts, shall be entitled to a tax credit at the rate of ten percent in respect of amount exclusively invested 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:

The tax credit shall not be allowed against operation and maintenance expenses related to such electronic resource.

Tax credit shall only be allowed against tax payable under normal rate of tax.

COST OF IMMOVABLE PROPERTY INHERITED
Section 76(8A)

Till now there is a dispute regarding value of immovable property acquired by a person on inheritance. It was generally practiced that the value of immovable property in the hands of the acquirer taken as per the cost of property declared by the deceased. This dispute creates problems in computing capital gain at the time of disposal of such property. Now an amendment has been proposed to resolve this dispute. Hence, as per the proposed amendment the value of immovable property acquired on inheritance shall be the fair market value of the property at the day or death of the original owner.

TRANSMISSION OF ASSET THROUGH FAMILY SETTLEMENT
Section 79(b)

Provision of section 79(b) of the Ordinance provide that no Capital Gain or loss deemed to arise in case of disposable of an asset by reason of the transmission of the asset to an executor or beneficiary on the death of a person.

Now it is proposed that Capital Gain or loss on sale of asset on transmission through family settlement amongst family members shall also be exempt from tax.

SHARE OF PROFIT FROM AN ASSOCIATION OF PERSON OR A LIMITED LIABILITY COMPANY IN THE HANDS OF MEMBER
Section 92 (1) & (4A)

The present law provides concession to the members of Association of person to treat the share received from the Association as exempt from tax irrespective of the fact that whether the income of the Association was exempt or taxable.

Now this exemption is proposed to be withdrawn. Hence, now the members declaring share of income from Association of person will be exempt in their hands only when the Association paid tax thereon.

CONCESSIONAL RATE OF MINIMUM TAX FOR CERTAIN DISTRIBUTORS WITHDRAWN
Section 113 & Division IX Part I of First Schedule

The distributors of Pharma products, Fast Moving Consumer Goods & Cigarettes are enjoying concessional rate of minimum tax of 0.25%. Now this concessional rate has been withdrawn. Hence, they will be liable to pay minimum tax at normal rates.

TAX DEDUCTION FROM EXPORTERS
Section 147, 154

Banks deduct tax @ 2% from exporters at the time of receipt of Export proceed. Out of this tax deducted 1% represent minimum tax & balance 1% adjustable advance tax.

Now the rate of deduction of tax has been reduced to 1.25% to be fully treated as minimum tax and no advance tax u/s. 147 is to be deducted by bank.

WITHHOLDING TAX ON REVENUES RECEIVED FROM SOCIAL MEDIA PLATFORMS
Section 154b

1) Every banking and non-banking financial institution is required to deduct tax at the time of credit or receipt of social media platform revenues into a person's account at the rate prescribed under Division IIIAB of Part III of the First Schedule I.E.

   a) 5% in case of resident persons whose name appearing in the Active Taxpayers' List; a

   b) 5% in case of non-resident person

2) Digital Content Creator / Social Media Influencer includes any individual or entity earning income through creation, publication or monetization of content on digital platforms. The list of platforms includes YouTube, Facebook, Instagram and TikTok.

3) Payment has been broadly defined to include any inward remittance, transfer or credit received through banking channels, including through intermediaries such as online payment service providers and digital financial platforms.

4) The tax deducted in the case of resident person is minimum while for the non-resident person not having a permanent establishment in Pakistan is final tax.

WITHHOLDING TAX ON REVENUES RECEIVED FROM SOCIAL MEDIA PLATFORMS
New Division is proposed to be inserted - DIVISION – IIIAB

Category	Rate
Resident ATL Persons	5%
Non-Residents	5% (Final Tax)

EXEMPTION OR LOWER CERTIFICATE
Sub-Sections 1c & 1d In Section

1) REIT Scheme or collective investment scheme entities seeking exemption under clause 99 Part I of the Second Schedule who distribute 90% of its accounting income

shall be automatically eligible upon 3-year distribution track.

2) Persons approved under sub-clause (c) of clause (36) of Section 2 being the definition of Non-Profit Organizations (NPOs) that have obtained formal approval from the Commissioner for their non-profit status is automatically eligible for an exemption certificate for the entirety of whole of tax year.

REPORTING OF FINANCIAL TRANSACTION DATA BY BANKING COMPANIES AND FINANCIAL INSTITUTIONS

Section 165ab

1) Every banking company and Electronic Money Institution (EMI) is required to electronically upload specified financial transaction data to the **Central Data Hub** for algorithmic cross-matching of tax and banking information.

2) This obligation expressly overrides the **Banking Companies Ordinance, 1962**, the **State Bank of Pakistan Act, 1956**, the **Protection of Economic Reforms Act, 1992**, and any other law for the time being in force.

3) The reporting requirement is triggered where an account holder's aggregate **deposits or withdrawals exceed Rs. 100 million** during a reporting period across one or more bank accounts.

4) The information is processed through an **automated system without direct human access by tax authorities during the cross-matching stage**, thereby maintaining banking confidentiality while enabling risk-based tax compliance checks. In cases of material mismatch, the system forwards the case to the **Compliance Risk Management (CRM) system** for further proceedings through the **National Faceless Centre**.

5) The required information includes details of deposits, withdrawals, opening and closing balances, peak credits, and total credits during the reporting period.

RECORDS

Section 174

1) Subsection (5) has been proposed to be substituted to broaden the scope of the Board's powers in relation to digital tax compliance systems. Previously, the provision empowered the **Commissioner** to require a person to install and use an **Electronic Tax Register** for recording transaction-related information affecting tax liability.

2) Under the amended provision, the authority is now vested in the **Board**, which may require any person or class of persons to install and use an **electronic resource of prescribed type and description**, or to operate as an **integrated enterprise** through notification in the official Gazette. The scope of the system is also expanded to include not only storage and access, but also **receiving and matching of transaction data** relevant to tax liability.

EXCHANGE OF BANKING AND TAX INFORMATION

Section 175AA

1) The inclusion of **Microfinance Banks and Electronic Money Institutions (EMIs)** is particularly significant, as entities that previously routed transactions through such channels or digital payment platforms to avoid detection now fall within the scope of the **algorithmic cross-matching framework**. This substantially broadens the tax net and reduces opportunities for informal or unreported financial activity through alternative banking channels.

2) Furthermore, the establishment of the **State Bank of Pakistan's Central Data Hub/Repository** transforms the information-sharing mechanism from a fragmented, institution-wise reporting structure into a **centralized and aggregated data architecture**. This shift significantly enhances the Federal Board of Revenue's (FBR) capacity to perform **comprehensive, system-driven cross-matching of financial and tax data**, enabling more effective identification of mismatches, underreporting, and non-compliance across the financial sector.

AUDIT

Section 177(6b)

1) A new **Sub-section (6B)** has been proposed to be inserted in Section 177, empowering the **Commissioner** to direct a taxpayer to obtain independent specialist reports during audit proceedings where the complexity or reliability of accounts requires examination beyond the scope of a standard audit.

2) This power may be exercised in cases involving factors such as the **nature and complexity of accounts, high volume of transactions, doubts regarding correctness of accounts, multiplicity of transactions, or the specialized nature of business activities**.

3) Before invoking this provision, the Commissioner is required to **provide the taxpayer a reasonable opportunity of being heard** and obtain **prior approval of the Chief Commissioner**, thereby ensuring procedural safeguards and supervisory oversight.

4) The amendment also enables the Commissioner to require specialist input in specific areas through reports prepared by professionals, including:

a) **Re-audit by an Accountant** for re-examination of accounts
b) **Inventory revaluation by a Cost Accountant**
c) **Actuarial valuation by an Actuary** for determination of actuarial values

5) The specialists are to be selected by the Commissioner from a **Board-approved panel**, ensuring professional competence and standardization.

6) This amendment strengthens audit powers by introducing expert-led verification mechanisms in complex cases, thereby enhancing the accuracy and reliability of tax assessments.

OFFENCES & PENALTIES

Section 182

S. No	Offence	Existing	Proposed
1	Late filing of return	Tax payable on asst. U/s. 120, 121, 122, 122D	Highest tax of last 3 years
2A	Failure to install/use/maintain electronic resource 174(5)	No such specific provision	Rs. 1,000,000 (first), Rs. 2,000,000 (subs.)
2B	Failure of integ. org. to share data (175A)	No such provision	Rs. 500,000 (first), Rs. 1,000,000 (subs.) on principal officer
8	Failure to produce records under audit (177)	Rs. 25,000 / 50,000 / 100,000 (1st/2nd/3rd)	Rs. 100,000 / 200,000 / 300,000
10	False or misleading statements	Rs. 25,000 or 50% tax shortfall	Rs. 500,000 or 100% tax shortfall
12	Concealment of income / inaccurate particulars	Rs. 100,000 or tax evaded	Rs. 1,000,000 or tax evaded
15	Failure to deduct/collect/deposit tax (160)	Rs. 40,000 or 10% tax involved	Rs. 500,000 or 10% tax involved + personal liability of Principal Officer (Rs. 500,000)
35	Incomplete/false return documents	Company & AOP only	Expanded to “any person including company” + incomplete financials treated as blank
36	Excess claim of tax credit	No such penalty	Penalty equal to excess tax credit claimed

RATE OF TAX FOR INCLUSION IN ACTIVE TAXPAYER LIST INCREASED

Section 182A

Currently if a taxpayer fails file return of income within the due date its name excluded from the active taxpayer list. For becoming active taxpayer a certain amount of tax has to be paid according to the status of the taxpayer now it is proposed to increased considerable the rate of tax. Comparative increase as under:

Comparative Position

Category of Person	Existing Position	Proposed Position	Impact
Company	20,000	100,000	Increase of 80,000
AOP	10,000	50,000	Increase of 40,000
Individual	1,000	25,000	Increase of 24,000

PROPOSED OMISSION

Section 209A

Section 209A empowered the **Board** to prescribe, through notification in the official Gazette, rules regarding the wearing of uniforms by officers and staff of the Inland Revenue Service of Pakistan.

With the omission of this provision, the legal basis for prescribing a uniform requirement for Inland Revenue Service personnel has been withdrawn. Consequently, the Board will no longer have statutory authority under this section to regulate or mandate uniforms through prescribed rules.

FACELESS JURISDICTION OF INCOME TAX AUTHORITIES

Insertion of Section 209B

1) Section 209B establishes the framework for **faceless jurisdiction** under the National Faceless Centre (NFC). Inland Revenue authorities appointed to the NFC are empowered to exercise such functions and powers under the Ordinance as assigned by the Board, in

respect of specified persons, classes of persons, or tax years, including through **algorithm-based selection**.

2) Jurisdiction may be **exclusive or concurrent**; in the latter case, unassigned powers remain with the jurisdictional Commissioner under Section 209. The Board may also **transfer jurisdiction** between the NFC and the Commissioner on the recommendation of the Chief Commissioner or on its own motion.

3) The Chief Commissioner may request **physical verification** from jurisdictional or other tax authorities regarding business operations, assets, and related matters, with such allocation also enabled through algorithmic processes.

4) The identity of officers working in the NFC shall remain **confidential** from taxpayers and unauthorized persons. Any notice, order, or assessment issued by the NFC shall not be invalid merely due to **territorial jurisdiction issues, lack of delegation, or officer anonymity**, ensuring legal validity of faceless proceedings.

CONFIDENTIALITY OF TAXPAYER INFORMATION

Section 216

1) Section 216 of the Income Tax Ordinance, 2001 governs the confidentiality of taxpayer information in the custody of tax authorities and restricts its disclosure, except in specified circumstances.

2) Sub-section (3), which provides a list of persons and authorities to whom taxpayer information may lawfully be disclosed, has been expanded to include **Audit Mentors and Sectoral Experts** within its scope of exceptions.

3) This amendment broadens the permissible channels for sharing taxpayer information in limited and controlled circumstances, enabling the involvement of specialized professionals in audit and technical evaluation processes. The inclusion is intended to support more informed and expert-driven tax assessments while remaining within the defined statutory framework for disclosure.

APPOINTMENT OF EXPERTS

Section 222

The list now includes Audit Mentors and Sectoral Experts which may be appointed by the Board on contractual basis or through a third-party arrangement.

DIRECTOR GENERAL (FIELD COMPLIANCE), INLAND REVENUE

Section 228A

1) A separate **Directorate General for Field Compliance** has been established under Section 228A, reflecting the Federal Board of Revenue's (FBR) recognition that **faceless assessment and digital enforcement require a supporting physical verification mechanism**.

2) The creation of this dedicated Directorate provides a **specialized and focused institutional structure for field compliance**, distinct from assessment functions, thereby strengthening enforcement through on-ground verification where required.

3) The Board is empowered to confer the powers of **Section 207 authorities** upon officers of the Directorate, enabling them to conduct investigations, issue notices, and take enforcement actions. This effectively equips the Directorate with full legal authority, transforming it into a **comprehensive field compliance institution rather than a purely investigative body.**

ADVANCE TAX ON MOTOR VEHICLES

Section 231B

Previously, buyers of old unregistered government vehicles could claim the five-year exemption from advance tax by reference to the (often distant) year of manufacture. The omission of clause (c) closes this avenue ensuring that advance tax is collected at the time of actual first registration regardless of the vehicle's age.

ADVANCE TAX ON TV PLAY AND ADVERTISEMENTS

Omission of Section 236CA

1) Section 236CA, which provided for the collection of advance tax by licensing authorities on **foreign TV drama serials, dubbed plays, and commercials featuring foreign actors** for screening on landing rights channels, has been omitted.

2) Previously, the provision required licensing authorities to collect advance tax at the rates specified in **Division XA of Part IV of the First Schedule** at the time of certification of such content for broadcast.

3) With this omission, the mechanism for collection of advance tax at the certification stage has been withdrawn. Consequently, such transactions will no longer be subject to advance tax under Section 236CA and will be governed by the general tax provisions applicable under the Ordinance.

UNIFORM

Section 237C

A new Section **237C** has been proposed to be inserted to empower the Board to prescribe, through notification in the official Gazette, rules relating to the **wearing of uniform by officers and staff of the Inland Revenue Service of Pakistan.**

PROPOSED AMENDMENTS IN FIRST SCHEDULE

FIRST SCHEDULE
PART - I
DIVISION – I

Rate for Individual income under head salary exceed 75% of his taxable Income- Comparative Tax Slabs

Taxable Income	Existing FY 2025-26	Proposed FY 2026-27	Relief
Up to Rs.600,000	0%	0%	-
600,001–1,200,000	1%	1%	-
1,200,001–2,200,000	11%	11%	-
2,200,001–3,200,000	23%	20%	3%
3,200,001–4,100,000	30%	25%	5%
4,100,001 and above	35%	New graduated slabs introduced	Tax relief through slab restructuring
4,100,001 – 5,600,000	35%	29%	6%
5,600,001–7,000,000	35%	32%	3%
Above 7,000,000	35%	35%	-

FIRST SCHEDULE
PART - I
DIVISION – IVA

Rate of Tax on Payments for Digital Transactions in E-commerce Platforms

For the word “delivered”, the word “ordered” shall be substituted.

FIRST SCHEDULE
PART - I
DIVISION – VII

Capital Gains on Disposal of Securities

In the third Proviso, after the word “shall”, the words “charge and” shall be inserted;

FIRST SCHEDULE
PART - I
DIVISION – VIIIC

Tax on Deemed Income u/s 7E

The division is proposed to be omitted

FIRST SCHEDULE
PART – I
DIVISION – IX

Minimum tax under Section 113

3(a) The Distributors of pharmaceutical products, fast moving consumer goods and cigarettes has been proposed to be omitted.

FIRST SCHEDULE
PART - III
DIVISION – III

Payment for Goods or Services Comparative Withholding Rates

Service Category	Existing rate	Proposed rate
General Services	6%	7%
Independent Professional Services (Doctors, Lawyers, Architects, Accountants, Software Engineers, etc.)	15%	15%
Advertising Services (Electronic & Print Media)	-	1.5%
Other Services	-	14%

Impact:

The proposed amendment revises the withholding tax regime for services by increasing the tax rate on general services from **6% to 7%**, while retaining the existing **15% rate for independent professional services**. Furthermore, separate withholding tax rates have been introduced for **advertising services (1.5%)** and **other services (14%)**, thereby broadening the classification of services and providing greater clarity regarding the applicable withholding tax treatment for different service sectors.

FIRST SCHEDULE
PART - III
DIVISION – IIIAA

Gain arising on disposal of certain debt securities

The rate of tax to be deducted under section 151A shall be 20% of the gross amount of the capital gain. Previously, this was 15%.

FIRST SCHEDULE
PART - III
DIVISION – IV

Comparative Position – Export Proceeds

Particulars	Existing Rate	Proposed Rate	Increase
Tax deductible under section 154 on export proceeds	1%	1.25%	0.25%
Tax deductible under section 153(2) on export indents, commissions, etc.	1%	1.25%	0.25%

FIRST SCHEDULE
PART - III
DIVISION – IVA

Exports of Services

Sr. No	Types of Receipts	Existing Rate of Tax	Proposed amendment
1	Export proceeds of Computer software or IT services or IT Enabled services by persons registered with Pakistan Export Board.	0.25% of proceeds [for tax years 2024 up to tax year 2026]	0.25% of proceeds [for tax years 2024 up to tax year 2029]

FIRST SCHEDULE
PART - IV
DIVISION – X

Advance tax on sale or transfer of immoveable property - Section 236C

The Table is proposed to be substituted as under:

Comparative Table

Existing Rate	Proposed Rate	Impact
4.5% / 5.5% / 6% (varying slabs)	Flat 2.75%	Significant reduction.

FIRST SCHEDULE
PART - IV
DIVISION – XVIII

Advance tax on purchase of immovable property – Section 236K

The Table is proposed to be substituted as under:

Comparative Table

Existing Rate	Proposed Rate	Impact
3% / 3.5% / 4% (Varying slabs)	Flat 1.25%	Significant reduction.

FIRST SCHEDULE
PART - IV
DIVISION – XXVII

Advance tax on amount remitted abroad through credit, debit or prepaid cards – Section 236Y

Existing Rate	Proposed Rate	Impact
5%	0.5%	4.5% Relief

FIRST SCHEDULE
PART - IV
DIVISION – XA

Advance Tax on TV plays and advertisements

It is proposed to be omitted.

PROPOSED AMENDMENTS IN SECOND SCHEDULE
Part I

Part I, Clause (57) in Sub Clause (4) in the Table in Column 1, Sr (xiii) has been substituted and after Sr No. Iiii entries are made

Sr. No	Name
(xiii)	Pakistan Education Endowment Funds
(Iiii)	Pakistan Red Crescent Society

Sr. No	Name
(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.

PROPOSED AMENDMENT IN CLAUSE 78

Previously, the definition specifically referred to the **"Foreign Currency Account Scheme"**, which suggested applicability to a particular scheme or a limited category of schemes. The amendment substitutes this reference with **"any foreign currency account scheme(s)"**, thereby broadening the scope of the provision to encompass all existing and future foreign currency account schemes that may be notified or introduced by the competent authority.

This change ensures that the tax treatment, exemptions, or benefits associated with foreign currency account schemes are not confined to a single scheme. Instead, the provision now automatically extends to any foreign currency account scheme in force from time to time, eliminating the need for subsequent legislative amendments whenever a new scheme is introduced. Consequently, the amendment enhances legal clarity, provides greater administrative flexibility, and future-proofs the law by ensuring uniform treatment across all foreign currency account schemes.

PROPOSED AMENDMENT IN CLAUSE 79

Previously, the provision applied to a **non-resident individual holding a POC, NICOP, or CNIC**, making eligibility dependent on the individual's nationality or identification status.

The amendment shifts the eligibility criteria to persons maintaining a **Non-Resident Pakistani Rupee Value Account (NRVA)** or **Non-Resident Business Value Account (NRBVA)** under the schemes prescribed by the **State Bank of Pakistan (SBP)**. Accordingly, entitlement to the benefit is now linked to the maintenance of specified banking accounts rather than the individual's identification status.

This change broadens and clarifies the scope of the provision by adopting an account-based approach. It aligns the tax treatment with the SBP's regulatory framework and is expected to facilitate greater banking and investment activity by overseas Pakistanis and other eligible non-residents through formal banking channels.

SECOND SCHEDULE
Part II
PROPOSED AMENDMENT IN CLAUSE 5AA

Previously, the provision applied only to an **individual** holding a **foreign currency account**, thereby limiting its scope to natural persons maintaining such accounts.

The amendment expands the scope by replacing the term **"individual"** with **"person"** and specifically recognizing **Foreign Currency Value Accounts (FCVA), Foreign Currency Business Value Accounts (FCBVA), Non-Resident Pakistani Rupee Value Accounts (NRVA), and Non-Resident Business Value Accounts (NRBVA)** in place of the generic reference to a foreign currency account.

This amendment broadens the applicability of the provision by extending its coverage to all eligible persons, including entities where applicable, and by incorporating the banking products introduced under the regulatory framework of the **State Bank of Pakistan**. The change provides greater clarity, aligns the law with current banking practices, and extends the benefit to a wider range of account holders operating through approved channels.

SECOND SCHEDULE
Part II
PROPOSED INSERTION OF CLAUSE 24CC

A new **Clause (24CC)** has been inserted to prescribe a specific withholding tax rate for persons providing **terminal or port services**. Under this provision, tax under **section 153(1)(b)** shall be deducted at the rate of **12% of the gross amount paid** for such services.

SECOND SCHEDULE
Part II
PROPOSED SUBSTITUTION OF CLAUSE 24D

Clause (24D) has been proposed to be substituted to prescribe a reduced **minimum tax rate of 0.5% under section 113(1)** for specified categories of taxpayers, namely **distributors, dealers, sub-dealers, wholesalers of fertilizer, packaged food, locally manufactured mobile phones, sugar, and electronics**.

The concessionary rate is available only where the taxpayer is included in the **Active Taxpayers Lists (ATL)** maintained under both the **Sales Tax Act, 1990** and the **Income Tax Ordinance, 2001**. Accordingly, taxpayers who fail to maintain active status under either law will not be eligible for the reduced minimum tax rate.

SECOND SCHEDULE
Part IV
PROPOSED AMENDMENT IN CLAUSE 12A

This amendment makes a drafting correction by substituting the word **"to"** with **"by"** at its second occurrence. The change is intended to align the wording of the provision with its original legislative intent and improve grammatical accuracy.

The amendment is purely clarificatory in nature and does not alter the substantive operation of the provision. It neither introduces any new tax liability nor modifies any existing tax rate, exemption, or compliance requirement. Rather, its purpose is to remove potential ambiguity, enhance legal clarity, and ensure that the provision is interpreted and applied in the manner originally intended by the legislature.

SECOND SCHEDULE
Part IV
PROPSOED AMENDMENT IN CLAUSE 47B

Clause (47B) has been amended by inserting the expression **"151A,"** immediately after the expression **"151,"**.

This amendment expands the scope of the provision to expressly include transactions or payments covered under **section 151A** alongside those already covered under **section 151**. The change appears to be consequential in nature, ensuring that the treatment, exemption, or applicability provided under Clause (47B) extends to the newly referenced section as well.

SECOND SCHEDULE
Part IV
PROPOSED OMISSION OF CLAUSE 57

- Clause 57 provided an exemption from the application of **section 153** to companies operating **Trading Houses**, subject to the fulfillment of prescribed conditions. With the omission of Clause 57, the special tax regime available to qualifying Trading Houses has been withdrawn. Consequently, such companies will no longer be exempt from the withholding tax provisions of section 153 and will become subject to the normal withholding tax framework applicable to their transactions. In addition, the concessional treatment relating to minimum tax under section 113 will no longer be available.

- The amendment effectively places Trading Houses on the same footing as other taxpayers by removing the preferential tax treatment previously granted to this sector. As a result, affected companies may experience an increase in tax deductions at source, higher compliance obligations, and potential cash flow implications arising from the application of the general provisions of the Income Tax Ordinance, 2001.

SECOND SCHEDULE
Part IV
PROPOSED AMENDMENT IN CLAUSE 111AB

The amendment broadens the scope of Clause 111AB by replacing the earlier identity-based eligibility criteria with an account-based framework. Instead of being limited to non-resident individuals holding a **POC, NICOP, or CNIC**, the provision now applies to persons maintaining **FCVA, FCBVA, NRVA, or NRBVA** accounts.

This change shifts the focus from the status of the account holder to participation in specified banking schemes regulated by the **State Bank of Pakistan (SBP)**. The amendment expands the category of eligible persons, aligns the provision with current banking practices, and facilitates greater participation by non-residents and business entities through approved foreign currency and value account schemes.

SECOND SCHEDULE
Part IV
PROPOSED SUBSTITUTION OF CLAUSE 114A

Clause 114A has been comprehensively substituted to expand and clarify the tax relief available to holders of **Foreign Currency Value Accounts (FCVA), Foreign Currency Business Value Accounts (FCBVA), Non-Resident Pakistani Rupee Value Accounts (NRVA), and Non-Resident Business Value Accounts (NRBVA)**.

Under the amended provision, such account holders are exempt from the filing requirements of **section 114(1)(ae)** and the registration requirements of **section 181**, provided they do not derive any other income taxable in Pakistan. The amendment also broadens the scope of eligible income by expressly covering **profit on debt, dividend income, and capital gains on securities and immovable property**, where the related investments are made through the specified accounts.

This amendment provides greater clarity and significantly enhances the tax facilitation regime for non-resident and foreign currency account holders. By reducing compliance obligations and expanding the range of qualifying income, it promotes investment through SBP-regulated account schemes while ensuring that persons earning other Pakistan-source taxable income remain subject to the normal tax regime.

SECOND SCHEDULE
Part IV
PROPOSED AMENDMENT IN OF CLAUSE 115

Clause 115 has been amended by substituting the word **"one"** with **"two"**, thereby increasing the turnover threshold from **Rs. 100 million to Rs. 200 million** for traders being individuals eligible for exemption from the application of **section 153**.

As a result of this amendment, individual traders having an annual turnover of up to **Rs. 200 million** may qualify as prescribed persons for the purposes of the clause and remain outside the withholding tax regime under section 153, subject to fulfillment of the prescribed conditions.

PROPOSED AMENDMENTS IN EIGHTH SCHEDULE
PROPOSED OMISSION OF RULE 5

Rule 5 previously allowed a person to opt out of the tax determination and payment mechanism prescribed under the Schedule by filing an **irrevocable option with the National Clearing Company of Pakistan Limited (NCCPL)** after obtaining prior approval from the Commissioner. Upon exercising such option, the provisions of Rule 2 would cease to apply to that person.

With the omission of Rule 5, taxpayers are no longer permitted to opt out of the prescribed tax determination and payment regime through the approval-based mechanism previously available. Consequently, the flexibility to elect an alternative tax treatment under the Schedule has been withdrawn.

PROPOSED AMENDMENTS IN TENTH SCHEDULE
PROPOSED OMISSION OF RULE 1A

Rule 1A prescribed enhanced rates of tax collection under **section 236C** for persons appearing on the **Active Taxpayers List (ATL)** who had not filed their income tax return by the applicable due date. The rule provided for graduated tax rates of **7.5%, 8.5%, and 9.5%**, depending upon the gross amount of consideration received from the disposal of immovable property.

With the omission of Rule 1A, the separate tax collection regime applicable to ATL persons who failed to file their returns within the prescribed time has been withdrawn. Consequently, such persons will no longer be subject to the enhanced rates specifically prescribed under this rule for transactions covered by section 236C.

TENTH SCHEDULE
PROPOSED OMISSION OF CLAUSE Y IN RULE 10

Clause (y) of Rule 10 excluded **tax collected under section 37A on the disposal of securities acquired on or after 1 July 2025** from the scope of the Schedule.

With the omission of this clause, tax collected under section 37A on the disposal of such securities will no longer remain outside the ambit of the Schedule. Consequently, these transactions may now be subject to the tax determination, collection, and adjustment mechanism prescribed under the Schedule.

THE SALES TAX ACT, 1990

Following amendments are proposed in Sales Tax Act, 1990;

TIER-1
Section 2(43A)

It is proposed to amend the definition of the Tier-1 Retailer as following and empower board to exclude any person or class of persons through a notification.

	Existing	Proposed
Retailer	Retailer who have acquired point of sale for accepting payment through or withholding tax under section 236G and 236H deductible under the Income Tax Ordinance.	a retailer having turnover exceeding two hundred million rupees either by way of declaration or from worked back value of turnover from tax deduction 14(f) (g) under section 236G or 236H of Income Tax Ordinance, 2001 (XLIV of 2001) during the immediately preceding twelve consecutive months; and”
wholesaler-cum-retailer	One who engaged in bulk supply of consumer goods on whole sale basis as well as retail basis.	One who engaged in bulk supply of consumer goods on whole sale basis as well as retail basis, with annual turnover exceeding 200 million.

TIME OF SUPPLY
Section 2(44)

It is proposed to clarify the scope of the time of supply by adding an explanation that the term "goods are delivered or made available" refers to the point at which the goods are ready for dispatch from the business premises, including but not limited to factories, warehouses, godowns, or branches. After the proposed amendments, when goods are ready for dispatch, a sales tax invoice should be issued and declared in the sales tax return.

VALUE OF SUPPLY
Section 2(46)

It is proposed to incorporate the method of valuation of goods, as notified by the Pakistan Bureau of Statistics, immediately prior to the commencement of the tax period.

TIME AND MANNER OF PAYMENT IN CASE OF SALES TAX ON STEEL SECTOR
Section 6(2)

It is proposed to include a new proviso stating that, in the case of steel melters, steel re-rollers, and composite units, the tax shall be levied based on the per unit electricity consumption at the rate prescribed by the Board through a notification in the official Gazette. The collected tax shall be adjustable, and any excess amount, if applicable, shall be refunded on a monthly basis through the Board’s automated refund system to registered entities that are integrated with the Board’s designated production monitoring and digital invoicing systems.

ADJUSTABLE INPUT TAX – FURTHER RESTRICTION ON ADJUSTABLE INPUT TAX
Section 8B

Currently, the input allowed under this section is 90%. However, it is proposed to introduce a new proviso to empower the Board to notify further reductions or increases to the limit specified in this sub-section for any registered person, based on their compliance or non-compliance with production monitoring, digital invoicing, e-billing, POS, or any other electronic system prescribed by the Board for digital data integration.

DEBIT AND CREDIT NOTE
Section 9

It is proposed to include a new proviso to authorize the board to establish a mechanism for the issuance and adjustment of debit and credit notes.

Faceless Assessment & Appeals proceedings & establishment of National Faceless

To facilitate the use of Information Technology in tax proceedings, a proposed concept of faceless assessment and appeal has been introduced, along with the establishment of a National Faceless Centre. The procedures to be followed for such proceedings are:

Faceless audit and assessment

Procedure of faceless audit & assessment is:

1) Will be applied in case of proceedings for Audit, amendment of assessment, proceedings & rectification proceedings or as prescribed by the Board.

2) Assessment 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) In the case of faceless assessment proceedings where opportunity of being heard is to be provided to the taxpayer during the course of this audit or a statement under oath s required to be obtained from a taxpayer or any other person of this Act, the same shall be done through E-hearing.

4) The identity of the officer, including facial and voice, conducting E-hearing shall be kept confidential.

Faceless appeals before Commissioner Appeals

1) All appeals filed before the Commissioner Appeals shall be processed through the National faceless centre.

2) Hence filing, hearing, & decision of appeal shall be made through faceless appeal proceedings.

NATIONAL FACELESS CENTRE

4) In order to streamline the faceless proceedings, the Board shall:

    vi) Establish National Faceless Centre (The Centre).

    vii) Laid down its jurisdiction, powers and functions.

    viii) Designate a Director General, as many Chief Commissioners, Commissioners, Additional Commissioners, Deputy Commissioners, Assistant Commissioners, and any of the Income Tax Authorities along with support staff, as deem fit.

    ix) Design algorithms for assigning any function or jurisdiction to any of the authorities.

    x) Prescribe as many wings and units of the Centre 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.

DE-REGISTRATION, BLACKLISTING AND SUSPENSION OF REGISTRATION
Section 21

It is proposed to authorize the Commissioner to de-register, blocklist, or suspend the registration of any individual who does not meet the requirements of the electronic invoice system or fails to adhere to the monitoring and tracking system.

TAX INVOICES
Section 23

It is proposed to amend this section to, in addition to the existing requirements, registered person require the issuance of a Sales Tax Invoice for exempt supplies and advance receipt invoices through digital invoicing integration, each bearing a verifiable and unique FBR invoice number.

AUDIT OF SALES TAX AFFAIRS
Section 25

It is proposed to insert sub-section 8A AND 8B to empower the Commissioner,

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

1) the nature and complexity of the accounts; or

2) volume of the accounts; or

3) doubts about the correctness of the accounts; or

4) multiplicity of transactions in the accounts; or

5) 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 18the registered person to get either any or all of the following:—
    a) 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

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

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

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

Currently, if the tax short-paid or evaded is paid along with the default surcharge after the issuance of a show-cause notice under section 11E of the ST Act, the entire penalty is waived.

It is proposed to limit such waiver of penalty to 50%.

OFFENCES, PENALTIES AND PUNISHMENT
Section 33

The proposed increase in penalties includes the following adjustments:

1) The fixed penalty is suggested to rise from Rs. 10,000 to Rs. 50,000. For returns filed within ten days after the due date, the daily penalty is proposed to increase from Rs. 200 per day to Rs. 2,000 per day.

2) The penalty for non-compliance is proposed to increase from Rs. 5,000 or 3% of the tax involved to Rs. 25,000 or 5% of the tax involved, whichever is higher.

3) The penalty may be increased from Rs. 10,000 or 5% of the tax involved to Rs. 50,000 or 10% of the tax involved, whichever is higher.

4) The fixed penalty is proposed to be increased from Rs. 10,000 to Rs. 50,000. Additionally, the daily default penalty within ten days is suggested to rise from Rs. 500 per day to Rs. 5,000 per day.

5) The penalty for non-compliance is proposed to rise from Rs. 10,000 to Rs. 50,000 or 5% of the tax involved, whichever is higher.

6) Currently, the law provides for a penalty of up to Rs. 1 million, with possible sealing of the premises after two months of continued default. The proposed changes introduce a second penalty of up to Rs. 5 million after one month of continued default and allow for sealing of business premises with or without prior penalty.

7) New penalties are proposed for registered persons who issue fake invoices without actual supply of goods or services. Such individuals will be liable to a penalty equal to the face value of the fictitious invoices. The Board will also publish the taxpayer's name and registration number on a publicly accessible "simulated invoice issuers register." Input tax claimed by parties based on these invoices will automatically be deemed inadmissible.

8) A new penalty of 20% of unmatched input tax is proposed where the Board's computerized system detects input tax claims that do not correspond with the supplier's declared output tax.

9) A further penalty of 20% of unreversed input tax is proposed if a taxpayer fails to reverse inadmissible input tax within sixty days of the supplier being listed on the simulated invoice issuers register.

MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS
Section 40C

It is proposed that taxable goods will be subject to seizure if prescribed monitoring, tracking, or identification measures are not implemented during carriage or transport.

Additionally, a penalty may be imposed under Section 33 of the Act.

SALE OF CONFISCATED GOODS BY AUCTION
Section 40F

It is proposed to introduce a new section establishing a mechanism for the sale of confiscated goods through public auctions in accordance with the Public Procurement Regulatory Authority Rules, 2014. The proceeds from the sale will be allocated as follows.

1) first to pay the expenses of the sale;

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

3) 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.";

ALGORITHMIC SETTLEMENT MECHANISM
Section 47AA

It is proposed to introduce a new concept of an algorithmic settlement mechanism for the IT sector, which may be utilized by taxpayers prior to the finalization of an order under the relevant provisions of the Sales Tax Act.

The system-generated settlement offer shall be calculated based on, but not limited to:

1) The stage of proceedings at which settlement is offered;

2) The registered person's compliance history, as maintained in FBR's data;

3) The nature and character of the discrepancy; and

4) Any other basis the Board may consider relevant.

5) 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.

6) 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).

7) 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 31covered by the settlement offer, nor shall it affect proceedings for any other tax period.

DISCLOSURE OF INFORMATION BY A PUBLIC SERVANT
Section 56B

It is proposed to authorize the Board to facilitate the sharing of data contained in the Sales Tax returns of registered persons within a sector among all registered persons of the same sector, under strict non-disclosure agreements. This measure aims to promote market equity and improve tax compliance, subject to such limitations, restrictions, and conditions as may be specified by the Board.

THIRD SCHEDULE
Sales Tax on Retail Price

It is proposed to add additional taxable goods to the schedule to apply the appropriate sales tax rate—whether standard, higher, or lower—based on the retail price.

"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.	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 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.	42.02
65.	Footwear (all types)	Respective headings
66.	Bathroom accessories and bath items, sanitaryware 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- coloured, 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";

SIXTH SCHEDULE

TABLE -1

1) It is proposed to amend serial number 32 of the Table-1 by inserting the Magazine as exempted supply in addition to Newsprint and books.

2) It is proposed to extend exemption on Import of CKD (in Kit Form) of electric vehicles (4 wheelers) by local manufacture till one more year till June 30, 2027 of following

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

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

3) It is proposed to insert new goods as exempted goods as following;

"182	Contraceptives	3926.9020 and 4014.1000
183	Female Sanitary Pads / Tampons	9619.0030
184	Import of: • Tankers, • Dredgers, • Floating or submersible drilling, or production • Platforms, • Others floating structures and vessels. • Other vessels for the transportation of goods Excluding Cruise ships, excursion boats and similar vessels principally designed for the transport of persons; ferry- boats of all kinds Provided that the quantity of imported goods under this entry shall be approved by Ministry of Maritime Affairs of imported goods under this entry shall be approved by Ministry of Maritime Affairs	8901.2000 8905.1000 8905.2000 8905.9000 8901.9000
185.	Import of bullet proof vehicles by the: i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government.	Respective heading."

TABLE -3

It is proposed to insert following goods in exemption regime.

"23	Import of following machinery/ equipment for upgradation of existing refineries: 1) Reactors, 2) Shell and Tube Exchangers, 3) Vessels (Strippers/ Separators/ K.O. Drums), 4) Trim Coolers,5. Air Coolers (Condensers), 5) Fired Heaters, 6) Centrifugal Pumps, 7) Reciprocating Pumps, 8) Centrifugal Compressors, 9) Reciprocating Compressors, 10) Steam Reformer Furnaces, 11) Filters, Provided that all such imports shall be essentially made for expansion of balancing, modernization, and rehabilitation of existing refineries and the quantity imported by each refinery shall be approved by Ministry of Petroleum and Natural Resources.	8419.8990, 8419.5000, 8419.8990, 8418.6990, 8419.8990, 8417.8000 8413.7090 8413.5000 8414.8090 8414.8090 8417.8000, 8421.3990	The goods shall be imported directly by the 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	The Division dealing with the subject matter shall certify in the prescribed

		Concerned Division.	manner and format as per Annex-B that the imported goods are bona fide requirement. The authorized officer of the Ministry shall 44 furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969.”;

EIGHTH SCHEDULE

It is proposed to amend following;

Serial number 71:- By virtue of amendment, reduced rate facility of 1% applicable to local supplies of locally manufactured or assembled electric vehicles (4 wheelers) being Small cars/SUVs with 50 Kwh battery or below and Light commercial vehicles (LCVs) with 150 kwh battery or below, to be extended from 30th June, 2026 to 30th June, 2027; and

Serial number 81:- After proposed amendment EV trucked also now under reduce rate of 1% along with EV transport buses of 25 seats or more in CBU condition.

ELEVENTH SCHEDULE
Withholding of Sales Tax

It is proposed to amend item no. 4 of this schedule, in addition to the companies, to include individuals and associates of persons as prescribed persons, thereby designating them as withholding agents for sales tax on purchases from non-active taxpayers.

It is proposed to insert new section no. 14 to specify that registered persons engaged in toll manufacturing shall act as sales tax withholding agents, responsible for withholding sales tax equivalent to four times the tax charged on conversion charges if the principal is an unregistered person.

TWELFTH SCHEDULE

It is proposed to insert a new proviso which states that if a manufacturer supplies such imported goods within the same state, they shall be required to pay the 3% value addition tax along with applicable default surcharges. The manufacturer is subject to prosecution if a waiver was granted based on a declaration of in-house consumption, but the goods were instead supplied within the same state and such supplies exceed 50% of the total imports in a financial year. In such cases, the manufacturer may be subject to prosecution.

CAPITAL VALUE TAX ACT, 2022

The Federal Government vide Clause 8 of Finance Act, 2022 imposed Capital Value Tax (CVT) @1% on the value of foreign asset exceeding Rs. 100 million at the end of the year held by a taxpayer. The levy remains matter of litigation by the taxpayers and still subjudice before FCC. Now, it is proposed to abolish the same. After this decision of Federal Government now it is to be seen what this will have bearing on the ongoing litigation.

FEDERAL EXCISE ACT, 2005

The Federal Excise measures for FY 2026-27 incorporate targeted relief on health-related and industrial goods, alongside new revenue measures on luxury vehicles, tobacco alternatives, and petroleum products.

KEY PROPOSED AMENDMENTS

General Changes		
Item	**Existing**	**Proposed**
E-liquid (electronic cigarettes)	Rs. 10,000/kg or 65% retail price (whichever higher)	Rs. 16,500/kg (simplified, removes 65% cap)
Acetate tow	Rs. 44,000/kg	Rs. 10,000/kg
Foreign travel	Higher rate	Reduced
Sports/electrolyte beverages (WHO compliant)	FED applicable	Exempt
Naphtha, solvent oil, turpentine	Not applicable	FED imposed
Base oil / lubricating oil	Lubricating oil only	Base oil and base lubricating oil added

Related to Vehicles	
Description	**Proposed duty / amendments**
Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of import including Duty:-	• Up Rs. 20 million – 0% • Rs. 20 M – Rs.30M – 30% • Exceeding Rs. 30 M– 40%
Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2027 electric vehicles (4 wheelers) including station wagons, double cabin (4x4) pickup vehicles and racing cars: a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc b) of cylinder capacity exceeding 3000cc	 40% ad val 41% ad val;
CKD kits for electric vehicles	Exemption Extended from 30.06.2026 to 30.06.2027

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