

# Tax memorandum 2025

Comments on changes  
in Fiscal Laws

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## THE FINANCE BILL 2025

This Memorandum summarizes an overview of economy for the year 2024-2025 and the important changes proposed through the Finance Bill 2025. The Memorandum contains comments on the budget and the Finance Bill 2025, including highlights of the changes in the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, the Federal Excise Act, 2005, the Customs Act, 1969 and other laws. The amendments proposed through the Income Tax Ordinance, 2001 and through other laws are intended to be effective once the Parliament and the President of Pakistan have accorded their assent and thereafter, would be effective from July 01, 2025 i.e. the tax year 2026 unless otherwise indicated.

This Memorandum is intended to provide general guidance to the readers on the important changes proposed through the bill and should not be considered as a substitute for specific advice relating to a particular enactment. For considering the precise effect of a proposed change, reference should be made to the appropriate wordings in the relevant statutes and the notifications issued where relevant.

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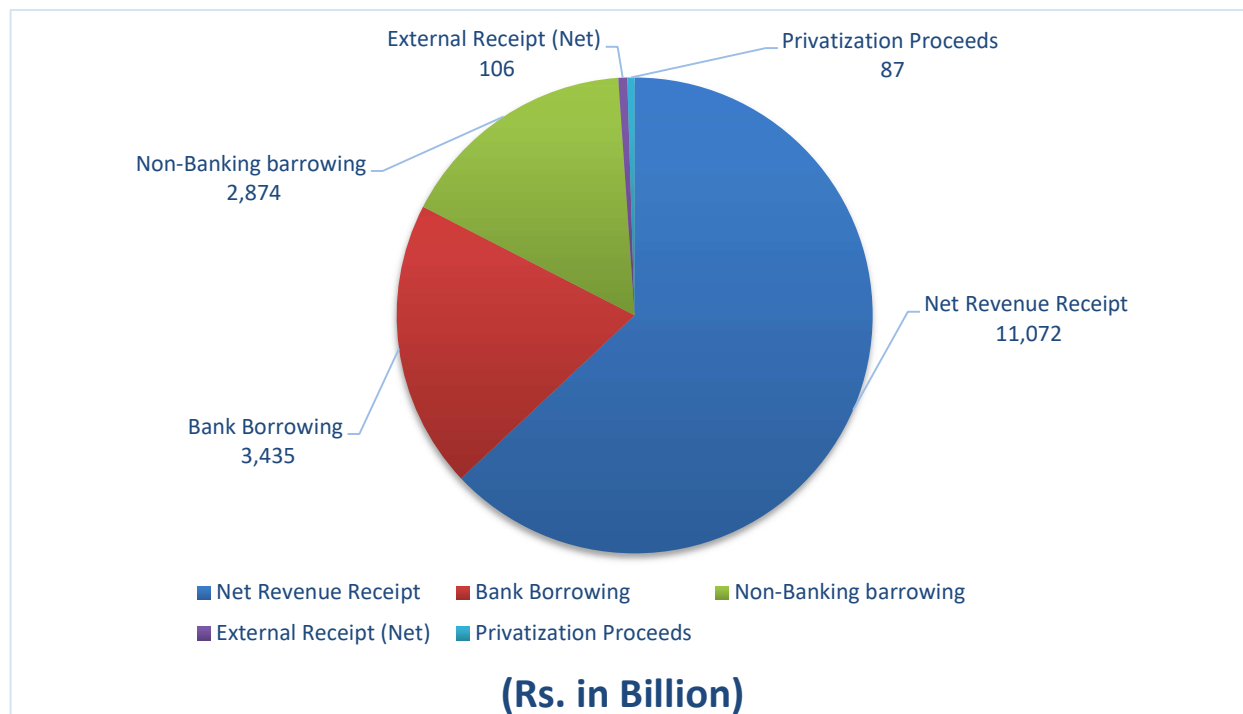
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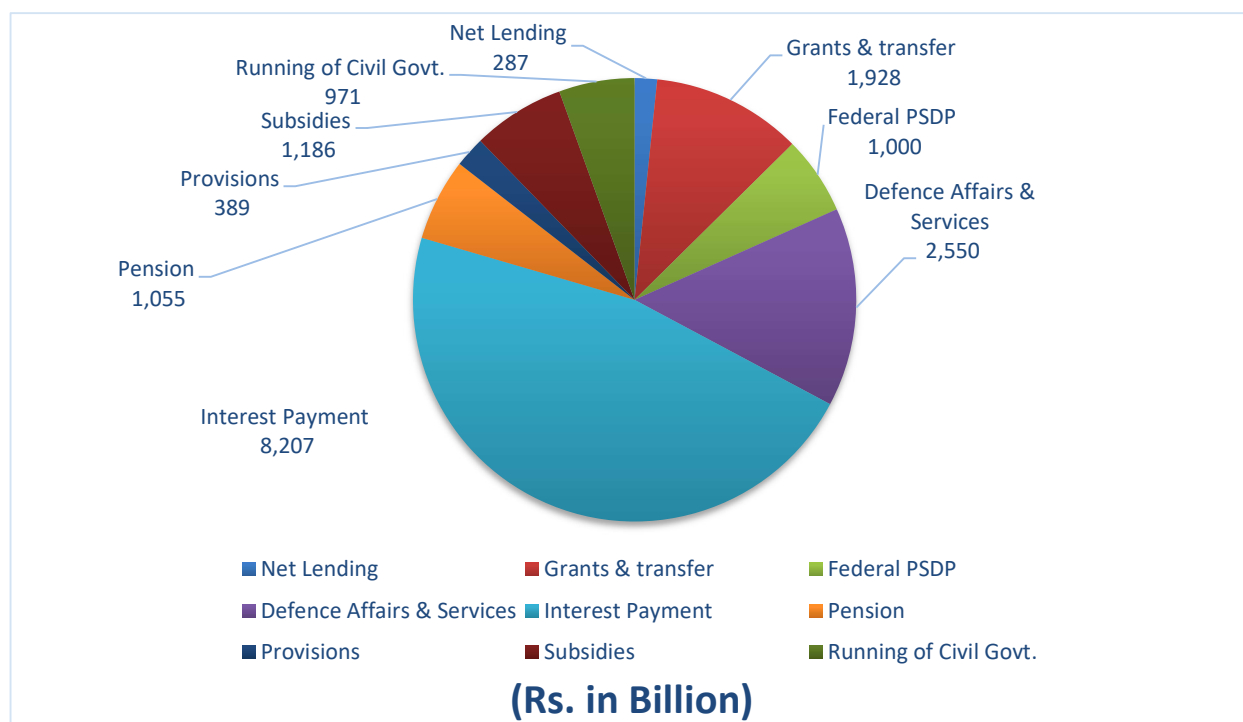
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## BUDGET AT A GLANCE

	2024-2025		2025- 2026	
	Rupees. in Billion	%	Rupees. in Billion	%
<b>Sources (A+B+C+D+E)</b>	<b>18,877</b>	<b>100</b>	<b>17,573</b>	<b>100</b>
<b>A – Net Revenue Receipts</b>	<b>10,377</b>	<b>54.98</b>	<b>11,072</b>	<b>63.01</b>
Tax Revenue (Direct & Indirect taxes)	12,970	68.71	14,131	80.41
Non-Tax Revenue	4,845	25.67	5,147	29.29
Provincial Share	(7,438)	(39.40)	(8,206)	(46.69)
<b>B – Net External Receipts</b>	<b>666</b>	<b>3.53</b>	<b>106</b>	<b>0.60</b>
<b>C – Privatization Proceeds</b>	<b>30</b>	<b>0.16</b>	<b>87</b>	<b>0.50</b>
<b>D – Bank Borrowings</b>	<b>5,142</b>	<b>27.24</b>	<b>3,435</b>	<b>19.55</b>
<b>E – Non-Banking Borrowings</b>	<b>2,662</b>	<b>14.10</b>	<b>2,874</b>	<b>16.35</b>
<b>Expenditures (A+B)</b>	<b>18,877</b>	<b>100</b>	<b>17,573</b>	<b>100</b>
<b>A – Current Expenditures</b>	<b>17,203</b>	<b>91.13</b>	<b>16,286</b>	<b>92.68</b>
Interest payment	9,775	51.78	8,207	46.70
Pension	1,014	5.37	1,055	6.00
Defense Affairs and Services	2,122	11.24	2,550	14.51
Grants and Transfers to Provinces & Others	1,777	9.41	1,928	10.97
Subsidies	1,363	7.22	1,186	6.75
Provisions	313	1.66	389	2.21
Running of Civil Government	839	4.44	971	5.53
<b>B - Development Expenditures</b>	<b>1,674</b>	<b>8.87</b>	<b>1,287</b>	<b>7.32</b>
Federal PSDP	1,400	7.42	1,000	5.69
Net Lending	274	1.45	287	1.63



Source: Federal Budget 2025-26, Ministry of Finance.

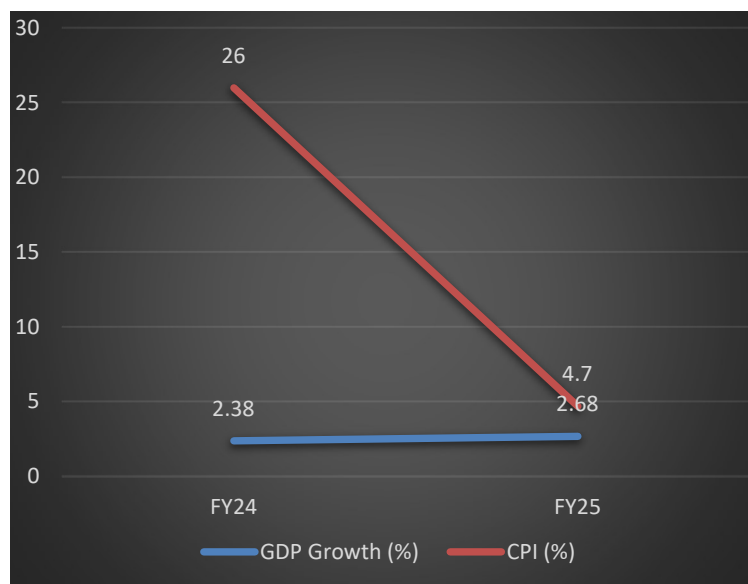


Source: Federal Budget 2025-26, Ministry of Finance.

## ECONOMIC REVIEW

### Overview

The fiscal year 2024–25 indicated modest economic recovery as compared to the previous year following a period of significant macroeconomic stress. Amid persistent challenges, the economy managed to regain modest momentum, driven primarily by a rebound in agriculture, a stabilizing current account and sustained inflows from remittances. The Government’s continued engagement with International Monetary Fund (IMF) and implementation of reform measures particularly in the energy, taxation, and public finance sectors - helped restore a degree of fiscal discipline and investor confidence. However, economic growth remained below potential, constrained by a tight monetary environment, low industrial output and limited fiscal space. During the current financial year, the GDP grew by 0.3% and average inflation CPI fell by 21.3% as compared to last year as depicted below:

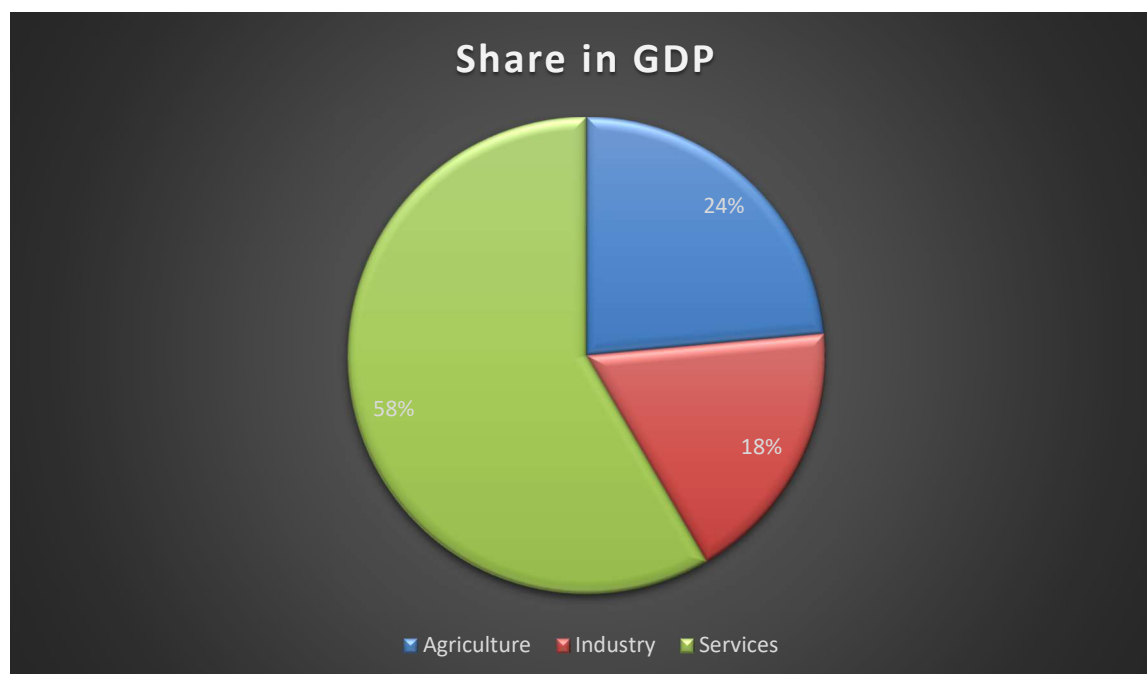


Pakistan’s economic performance in FY25 underscores a period of fragile stabilization. While certain sectors showed signs of improvement, structural constraints, inflationary pressures and fiscal imbalances continued to weigh on overall growth. The key highlights of Pakistan’s economy during FY25 are as follows:

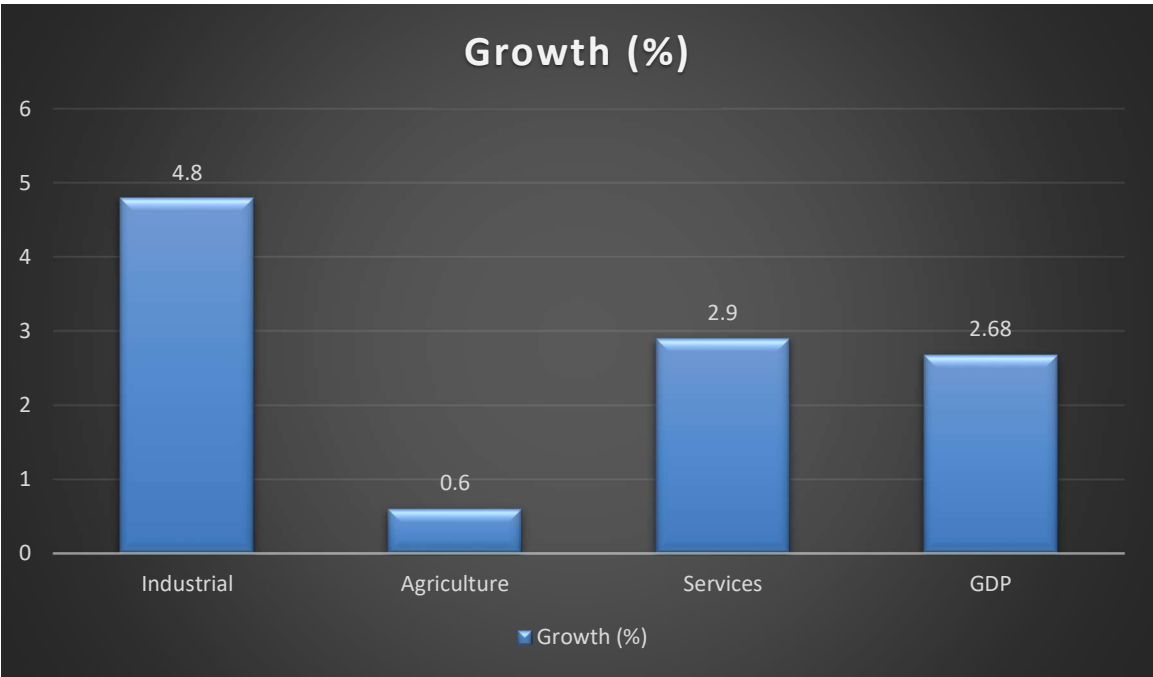
	Period	FY25	FY24	Change from FY24
Tax collection (Rs. in billions)	Jul-March	9,1373.3	7,262.5	↑ 25.8%
Exports (USD in billions)	Jul-Apr	27.3	25.7	↑ 6.2%
Imports (USD in billions)	Jul-Apr	48.6	43.4	↑ 12%
Current Account Surplus / (Deficit) (USD in billions)	Jul-Apr	1.9	(1.3)	↑ 246%
Foreign Exchange Reserves (USD in billions)	Jul-Apr	16.6	13.3	↑ 24.8%
Remittances (USD in billions)	Jul-May	31.2	23.8	↑ 31.1%
Net Foreign Direct Investment (USD in millions)	Jul-Apr	1,785	1,835	↓ 2.7%
Policy rate (%)	May	11	22	↓ 50%
KSE-100 index (Points)	Jul-Mar	117,807	78,445	↑ 50.2%

### 🔄 GDP analysis

Pakistan's GDP is driven by three main sectors: agriculture, industry and services. Each contributes a distinct share to the national economy, with services being the largest contributor as reflected in the below chart:



The Industrial sector was the leading sector recording robust growth of 4.8%, contributing to the GDP growth of 2.68%. Other factors that led to this economic stability include services and tax. The trend during FY25 in these sectors is shown below:



Industry – leads growth

<b>Sharp growth</b>
Electricity, gas, and water supply surged by 28.9%, driven by increased subsidies.
<b>Manufacturing</b>
Large-scale manufacturing contracted by 1.5% (July–March) and was compensated by small-scale manufacturing, which grew modestly by 1.3% in FY25.
<b>Resilient sectors</b>
Textiles, apparel, coke, pharmaceuticals and automobiles showed resilience.
<b>Mining</b>
Mining contracted by 3.4%, an improvement from last year’s 4% decline, with strong growth in sulphur, dolomite, and limestone.

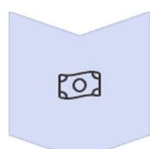
## Services – steady and stable

<b>Strong performance</b>
Services grew by 2.91%, led by information, communication, finance and public administration.
<b>New companies</b>
3,137 new service companies incorporated in July-March FY25.
<b>Trade surplus</b>
IT and telecom posted a US\$2.43 billion trade surplus, up by 21.6%.

## Agriculture – slow and resilient

<b>Overall growth</b>
Agriculture grew by 0.56% in FY25, showing modest resilience.
<b>Major crop decline</b>
Major crops declined by 13.49% due to reduced cultivation and adverse weather.
<b>Livestock expansion</b>
Livestock expanded by 4.72%, contributing 63.6% to the sector.
<b>Other crops</b>
Other crops rose by 4.78%, offsetting some losses.

## ➡ Fiscal Development and Capital Market



### Fiscal performance

Pakistan recorded its first fiscal surplus in 24 years in Q1 2025 with total revenues rose by 36.7%.



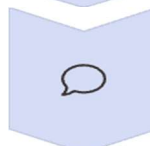
### Inflation

Average inflation for July–April FY25 fell to 4.7% from 26%



### Trade and payments

A US\$1.9 billion surplus reversed last year's deficit.



### Capital markets

The KSE-100 index surged 50.2%, boosting investor confidence.

## Fiscal performance

In FY25, Pakistan recorded its first fiscal surplus in 24 years during Q1, amounting to Rs 1.896 trillion (1.7% of GDP). The fiscal deficit improved to 2.6% of GDP during July–March, down from 3.7% in previous years. Total revenues rose by 36.7% to Rs 13.37 trillion, driven by a 68% increase in non-tax revenues and a 25.8% rise in tax collection to Rs 9.14 trillion, whereas, total expenditure grew by 19.4% to Rs 16.34 trillion highlighting improved fiscal coordination and reform momentum.

## Inflation

Inflation eased sharply in April 2025, with CPI dropping to 0.3% from 17.3% a year earlier, marking the sixth straight month of year-on-year decline. Average inflation for July–April FY25 fell to 4.7% from 26% in the same period last year. Both urban and rural areas saw significant reductions in food and core inflation, while non-food inflation remained relatively higher. The Wholesale Price Index rose by 2.2% and the Sensitive Price Indicator dropped to 4.9%, both markedly lower than last year. The decline reflects effective monetary and fiscal policies, stable food supplies, and government measures to control prices and ease the burden on consumers.

## Trade and payments

During July–April FY25, Pakistan posted a current account surplus of US\$ 1.9 billion, reversing a US\$ 1.3 billion deficit from the same period last year. This improvement was supported by a 31% surge in remittances to US\$ 31.2 billion, including a record US\$ 4.1 billion in March. However, the trade deficit in goods widened to US\$ 21.3 billion due to faster import growth (11.8%) compared to exports (6.8%). The services deficit rose slightly to US\$ 2.5 billion, while the primary income deficit grew to US\$ 7.1 billion amid higher dividend and interest payments. Net FDI declined slightly to US\$ 1.79 billion and the financial account recorded a net outflow of US\$ 1.6 billion due to reduced external borrowing. Foreign exchange reserves increased to US\$ 16.64 billion by late May 2025, supporting exchange rate stability, with the average rate at Rs 278.72/US\$.

## Capital markets

Between July and March FY25, Pakistan's financial markets showed robust performance, with the KSE-100 index surging by 50.2% amid improved investor confidence driven by macroeconomic stability, strong corporate earnings, a declining policy rate and the successful IMF program review. The Pakistan Stock Exchange's market capitalization rose by 38.5% to Rs 14,374 billion, with six new company listings bringing the total to 527. National Savings Schemes saw a turnaround with net inflows of Rs 171.3 billion, while 3,609 new companies were incorporated with the SECP, particularly in IT, trading, and services, raising Rs 66.6 billion. Additionally, PMEX recorded a 60% rise in commodity futures trading value, totaling Rs 6.54 trillion across 5.88 million contracts.

## ➡ Future Economic Outlook

Building on the stabilization efforts of FY25, Pakistan's economy is expected to show moderate improvement in FY26, provided key reforms remain on track. GDP growth is projected to accelerate to 3.5%-4.5%, driven by a recovery in agriculture, improved industrial activity, and easing inflationary pressures. The agriculture sector, which accounts for nearly a quarter of GDP, is likely to benefit from better crop yields and government support, while industry and services could see a boost from lower interest rates and improved energy availability. Inflation, which had surged in previous years, is expected to moderate further to 10-12%, assuming stable exchange rates, disciplined monetary policy and favorable global commodity prices.

The IMF will also play a pivotal role in Pakistan's FY26 economic stability and reform agenda. Following the 2023 Stand-By Arrangement, a potential new Extended Fund Facility (EFF) is expected to enforce fiscal consolidation, monetary discipline and structural reforms - addressing inflation, deficits and external imbalances. While these measures may constrain short-term growth, they aim to establish sustainable recovery fundamentals. Beyond stabilization, the IMF is likely to push reforms in energy sector viability, SOE restructuring and tax base expansion - key to transitioning Pakistan from crisis management to long-term growth. The Government's ability to navigate these reforms amid political pressures will determine FY26's economic trajectory and future resilience.

## ➡ Recommendations

To ensure sustainable economic growth, Pakistan must address structural weaknesses while leveraging emerging opportunities. Below are key policy recommendations:

- Enforce documentation of the informal economy and bring untaxed sectors (retail, wholesale, agriculture) into the tax net.
- Negotiate longer maturities and concessional terms with creditors.
- Implementing an exchange rate regime that aligns with economic fundamentals to stabilize the value of the Pakistani Rupee and foster confidence in the currency's stability.
- A reduction in interest rates could serve as a crucial catalyst for Pakistan's economic revival by stimulating business activity and private sector investment

## THE FINANCE BILL 2025-HIGHLIGHTS

### INCOME TAX ORDINANCE, 2001

- Pension exceeding Rs.10 million for former employees, under seventy years of age, are now subject to withholding tax at 5%.
- Exemption of pension income, provided under different clauses of Part I of the Second Schedule, are proposed to be withdrawn.
- Relief available to full-time teachers and researchers are withdrawn from July 01, 2025.
- 5% tax levied on "digitally delivered services" and "e-commerce" are introduced to expand the tax net to online services and marketplaces, including online interfaces facilitating direct buyer-seller interactions.
- A new section 151A is proposed for withholding tax @ 15% on capital gains from disposal of debt securities.
- Withholding tax rate for rendering of services is increased to 15% for both corporate and non-corporate service providers.
- The withholding tax rate for specified services, subject to reduced withholding tax rate, are also increased from 4% to 6% for resident service providers and 4% to 8% for non-resident service providers.
- Withholding tax rate on payments to sports persons is enhanced to 10% by 5%.
- Non-filers will now be subject to withholding tax at 0.8% on the aggregate amount of cash withdrawals exceeding PKR 50,000 in a single day.
- Tax rate is enhanced to 20% on interest paid by banking companies or financial institutions on accounts or deposits maintained.
- Dividend income from mutual funds in debt securities will be taxed @ 25%
- 50% of expenditure claimed in respect of sales is to be disallowed, if taxpayer receives payment exceeding Rs 200,000 otherwise than through banking channel or digital means.
- Depreciation for capital assets will be disallowed if withholding tax on their acquisition was not deducted and deposited under sections 152 or 153 as the case may be.
- The useful life for amortizing intangibles without an ascertainable life is reduced from 25 years to 15 years.

- The business losses cannot be adjusted against income from property.
- Carry-forward limit for minimum tax under section 113 is reduced to two years.
- The Commissioner is empowered to recover tax demand without an appeal effect order.
- Penalties, for failure related to withholding statements filing, are enhanced from Rs 5,000 to Rs.50,000.
- Advance tax enhanced on sale of immovable property on seller for filer, for late filers and non-filers.
- Tax relief is provided to low income salaried taxpayers by reducing tax rate.
- The surcharge rate for salaried individuals with taxable income over Rs 10 million is reduced by 1%.
- Super tax rate is reduced by 0.5% for all categories of taxpayer income slabs exceeding Rs 200 million.
- Tax credit is extended for acquisition of house in respect of interest, profit, rent, or appreciation value of a house.
- Dividend income from mutual funds are to be taxed at 15% in case of investment on mutual equities market.
- Tax exemption for FATA / PATA regions is extended up to June 30, 2026.
- Exemption provided to Special Economic Zone, Zone Enterprises, Developers, Co-Developers till June 30, 2035, irrespective of the date of commencement of operations.
- Income exempted of non-resident individuals and entities associated with the ICC Champions Trophy 2025.
- Advance tax on purchase of immovable property for filers, late filers and non-filers are reduced.
- A minimum rental value on commercial properties is prescribed at 4% of their fair market value.
- Group tax relief can be availed on income taxed at normal tax regime.
- Timeline for passing amended assessment order after the issuance of notice for amendment of assessment is withdrawn.

## THE SALES TAX ACT, 1990

- Withholding tax rate for e-commerce supplies proposed to be increased from 1% to 2% as final tax
- Withdrawal of exemption on import/supply of solar panels, to provide level playing field to local manufacturers.
- Retail price adjustment of beverages, mineral water, juices and aerated water capped at 5%.
- The scope of term “tax fraud” is broadened to cover various kinds of frauds including those involving technology.
- Withdrawal of exemption of sales tax on supplies and import of plant and machinery by the industrial units located in the erstwhile FATA/PATA by charging sales tax in the phased way from 10% to 16% over four years
- Sales tax exemption for aircraft import or lease by PIA to facilitate its privatization process.
- Strengthening of e-commerce sales tax collection by involving Banks & payment gateways for digital transactions and Courier companies for COD transactions.
- Tax fraud cases to be tried in special courts.
- Empowerment of FBR to limit input tax adjustment in suspicious or fake transactions based on parameters and risk profiling.
- Introduction of sections 14AC, 14AD and 14AE to target non-filers through Freezing of bank accounts, blocking of property transfers and seizure of assets and sealing of premises respectively.
- Appointment of experts/auditors authorized to assist in audits, litigation, and valuation.
- Implementation of licensed e-invoicing system to enforce documentation at the transaction level.
- Restoration of Appeal Framework independent of monetary threshold.
- E-commerce definitions enhanced to include digital activities; online marketplaces and intermediaries formalized in tax framework.
- Power of Chief Commissioner Inland Revenue for referring the audit firm to Audit Oversight Board for inspection to verify sales tax liability subject to prior approval of FBR.

- Structural changes in the assessment provisions by introducing best judgement assessments, withholding assessments and limitation for assessments.
- Changes in the audit provisions by introducing investigative audit covering tax frauds along with the specific framework.
- Implementation of e-invoicing system to be introduced through licensed integrator for the registered persons.
- Change in default surcharge rate from 12% per annum to KIBOR + 3% per annum.

## **FEDERAL EXCISE DUTY**

- Procedure for filing appeals streamlined; pecuniary jurisdiction of Commissioner (Appeals) withdrawn; option to file appeal directly before Appellate Tribunal Inland Revenue introduced.
- FBR empowered to authorize officers from other departments to perform enforcement functions under Sections 26 and 27 of the Act.
- Dutiable goods without proper tax stamps, banderols, stickers, labels or barcodes to be seized and confiscated along with the conveyance used for movement.
- Withdrawal of FED on allotment and transfer of residential and commercial plots imposed through the Finance Act, 2024.

## **THE CUSTOMS ACT, 1969**

- Introduction of Cargo Tracking System and E-bilty Mechanism to electronically monitor movement of Cargo.
- Revised declaration filing procedures permitting submission of import documents without payment of duties.
- Modified timelines for resolving disputes and submitting appeals to streamline legal processes.
- Authorization to temporarily employ technical experts and financial professionals for specific projects.

- Existing limit of Rs. 20,000/- for initiating contravention proceedings is proposed to be enhanced to Rs. 100,000/- in order to reduce litigation.
- Financial penalties imposed on abandoned shipments that exceed allowable storage periods at ports.
- Creation of a special operations fund financed by seized assets to support enforcement activities.
- New limitations on destruction of imported goods at ports, allowing only legitimate requests covering up to 10% of shipments.
- Legal modifications to prevent fraudulent attempts to reclaim confiscated property through delayed appeals.
- Custom duty rates of 3%, 11%, and 16% are proposed to be adjusted to new rates of 5%, 10%, and 15% respectively.
- Customs duty on high-speed diesel oil increased from 0% to 10%.
- Customs duty on natural gas and re-rollable steel increased from 0% to 5%.

## SUMMARY OF CHANGES IN THE INCOME TAX ORDINANCE, 2001

### Section

#### **2(7) Banking company**

The bill seeks to omit from the definition of banking company the phrase “and includes any body corporate which transacts the business of banking in Pakistan”. The proposed amendment would not have any impact as the definition of the banking company for income tax purposes is the same as defined in the Banking Companies Ordinance, 1962 which in itself is a comprehensive definition.

#### **2(17C) Digitally delivered services**

The bill seeks to define “digitally delivered services” to mean:

- any service delivered over the internet or electronic networks, where the delivery is automated and require minimal or no human intervention including:
  - music, audio and video streaming services
  - cloud services
  - on-line software applications services
  - services delivered through on-line inter-personal interaction i.e., tele medicines and e-learning etc.
  - On-line banking services
  - architectural design services
  - research and consultancy reports
  - accounting services in the form of digital files
  - or any other on-line facility.

The above definitions has been prescribed for taxing on-line delivery of goods and services by the service providers in Pakistan. The proposed insertion of new section 6A provides the detailed mechanism of taxing receipts from goods and services.

## Section

### **2(19AA) E-Commerce**

The bill seeks to insert definition of “E-commerce” to mean:

- sale or purchase of goods and services conducted over computer networks
- by methods specifically designed for the purpose of receiving or placing of orders
- transactions undertaken through websites, mobile applications or on-line marketplace having digital ordering features by using either mobile phone, iPad, Tablet or automated computer-to-computer ordering system

The on-line marketplace has also been defined separately through sub-section (38B) of section 2 of the Ordinance. The above definitions will provide clarity in respect of taxation of payments made digitally termed as E-commerce transactions.

### **6A,8, 39, 153(2A) & Div. IVA, Part- 1, 1<sup>st</sup> Sch Tax on payments on digital transactions in e-Commerce**

The salient features of e-commerce taxation are proposed as follows:

- On payments received by individuals or businesses delivering digitally ordered goods or services through Pakistan-based on-line platforms-marketplaces or websites
- This tax is levied on the total gross receipts
- The tax imposed or deducted is full and final discharge of tax liability of a person engaged in the activity
- Exports undertaken through e-commerce will continue to be taxed as export proceeds under section 154A of the Ordinance instead of this section
- The responsibility of collecting this tax is entrusted to payment intermediaries and courier services when processing digital payments or cash-on-delivery (CoD) transactions through local e-commerce platforms
- To eliminate ambiguity and ensure clarity, they have been defined as:

“courier service” means any specialized entity that provides fast, secure and often tracked transportation of documents, packages and small freight, typically offering door-to-door delivery solutions

of goods within specific timeframes and in case of digitally ordered goods in e-commerce delivery and collection of cash (CoD) on behalf of the seller and such delivery service provider includes but not limited to –

- Logistics services;
- ride-hailing services;
- food delivery platforms; and
- e-commerce service.

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

- If the tax has already been collected by the payment intermediaries or courier services under section 153(2A) of the Ordinance, then tax is not once again required to be deducted by the withholding tax agent under section 153(1) of the Ordinance against the supplies of goods and provision of services.
- The rate of tax-imposed on payments for digitally ordered goods or digitally delivered services through e-commerce platforms, including websites, shall be as follows:

**(i) Payments through digital means or banking channels by a payment intermediary:**

Description	Tax rate
• Where the amount paid does not exceed PKR 10,000	1% of the gross amount paid
• Where the amount paid exceeds PKR 10,000 but does not exceed PKR 20,000	2% of the gross amount paid
• Where the amount paid exceeds PKR 20,000	0.25% of the gross amount paid

## Section

### (ii) Payments via cash on delivery by courier services:

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

### 38(B) On-line marketplace

The proposed amendment seeks to expand and enlarge the definition of on-line marketplace to include:

- online interface that facilitates, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services
- with or without the platform taking economic ownership of the goods or providing or rendering the services.

Thus, those who were involved in e-commerce without proper registration and filing of tax returns will now be in tax net. A detailed mechanism is provided for by way of insertion of new section 6A.

This is a positive change as informal businesses will be documented and brought in tax net.

### 2(36) & Tax on Recreational club income

18

A 'Non-profit Organization' as defined in section 2(36) of the Ordinance includes an entity for the promotion of amateur sports. The proposed amendment excludes such recreational clubs which charge membership fee exceeding one million for any class of new members. By implication clubs charging less than one million from new members will continue to enjoy the status of the non-profit organization and those charging one million and above will become taxable.

## **Section**

A consequential change is also proposed in the explanation appended to 18(1)(b) whereby the recreational club charging Rs one million from new members shall be taxable as income deriving from business.

### **4AB Surcharge reduced on salary income**

By virtue of the Finance Act, 2024, surcharge at the rate of ten percent of the income tax was imposed on every individual and association of person where taxable income exceeds Rs. ten million. The bill seeks to reduce the surcharge from ten percent to nine percent on individuals only driving income chargeable to tax under the head “salary”.

Although it is a relief measure for salaried class of taxpayers but not sufficient considering the high cost of living and standard of living of such class of persons are expected to maintain.

### **15 Minimum value for fair market value rent for commercial properties**

Section 15 provides the taxation of rental income. The sub-section (4) of section 15 provides that where rent received or receivable is less than fair market rent for the property the person shall be treated as having received the fair market rent for the period. However, presently the provision of law does not provide any basis or formula for the determination of fair market rent rather it was discretionary on the part of the taxation officer to determine such value.

The bill seeks to insert the proviso to provide for the mechanism for the determination of minimum value of fair market rent for commercial properties which shall be four percent of fair market value per annum of the commercial property as provided under section 68 of the Ordinance.

As per sub-section (4) of section 68 of the Ordinance the Federal Board of Revenue by notification from time to time determine the fair market value of immovable property of the area or areas.

### **21 Deductions not allowed**

**21(q)** The clause (q) was inserted through the Finance Act, 2020 limiting the allowable expenditure made by industrial undertaking attributable to sales made to the persons required to be registered but not registered under the Sales Tax Act, 1990 in proportion to the turnover for the tax year with the limitation that disallowance shall not exceed ten percent of total deductions claimed. The Board has the authority to exempt persons or classes of person from the purview of this clause subject to conditions and limitations.

## **Section**

The bill by way of substitution seeks to extend the scope to all types of taxpayers, not being holders of national Tax Number, instead of industrial undertaking not registered under the Sales Tax Act 1990. However, this clause shall not apply on agricultural produced directly purchased from the growers.

The proposed amendment seeks to enlarge the tax net as the non NTN holders will be compelled to seek registration under pressure from the business entities to protect their own interest of disallowances of expenditure.

- 21(s)** The bill seeks to insert a new clause in section 21 by virtue of which expenditure attributable to sales up to fifty percent will be disallowed to any person who receive the payment exceeding Rs. 200,000 otherwise then through banking channel or digital means against the single invoice containing one or more than one transaction of supply of goods or provision of services.

The intention behind on proposed insertion to document economy by discouraging cash transactions. This is the right step towards documentation of the economy to expand the tax net.

## **22 Depreciation**

The bill proposes to insert a proviso to section 22(1) of the Ordinance stipulating disallowance of depreciation on the additions to capital assets where tax deductions under the withholding tax provisions of sections 152, or 153 as the case may, have not been deducted and deposited in the treasury.

The non-compliant taxpayers will not be able to claim tax depreciation on capital assets as an admissible deduction in the year of purchase and all subsequent tax years.

## **24 Intangibles**

Under the existing provisions of amortization of intangible assets which does not have ascertainable useful life was to be amortized over twenty-five years. The bill seeks to reduce this period to fifteen years.

## **56 Set off of losses**

The section allows set-off of loss sustained by a person for any tax year under any head of income specified under section 11 of the Ordinance against income under any head of income excluding salary income. The bill seeks to also exclude set-off of business loss against property income. Similar provision existed in law till 2013 and was restored by the Finance Act, 2021.

## **Section**

It is a harsh amendment and is against the law of equity.

### **59B(ba) Group Relief**

The sub-section (2) of section 59B of the Ordinance stipulates certain conditions for loss to be surrendered by the subsidiary company against the income from business of the holding company or another subsidiary company. The bill proposes to add one more condition whereby group relief can only be availed by the company whose income from business is chargeable to tax at the corporate rate provided in the Division II of Part 1 of the First Schedule to Ordinance.

### **63A Tax credit for interest paid on Low-cost Housing Loan**

The bill proposes to insert a new section which provides for a tax credit in respect of profit on debt or share in rent or appreciation for the value of house paid by a person for the purpose of construction including land or acquisition of one personal house. The conditions are:

- The Land area up to two thousand five hundred square feet or flat having total area up to two thousand square feet.
- The loan is obtained from a schedule bank or any other financial institution regulated by the Securities and Exchange Commission of Pakistan, advanced by the Government or the Local Government or the statutory body or a public listed company on a registered stock exchange in Pakistan.
- The basis of tax credit is proportionate to tax assessed, taxable income and lesser of profit on debt paid or thirty percent of the person's taxable income for the year.
- Individuals who can claim profit on debt as a deductible expense under section 15A are not eligible for a tax credit under this section.
- Individuals will not be able claim tax credit under this provision for another house or apartment for the next fifteen tax years.

### **75A Purchase of assets through banking channel**

Currently, digital mode of payment is not an acceptable mode of payment for the purpose of:

- eligibility of any allowance under sections 22, 23, 24 and 25 of the Ordinance, and

## Section

- treating at such amount as part of cost for acquisition of asset.

The bill seeks to include digital payments as an acceptable mode of payment which is a positive change.

### **113 Minimum tax carry forward on the income of certain persons**

Through the Finance Act, 2021 allowed the minimum tax to be carried forward for five years which was reduced to three years through the Finance Act 2022.

The proposed substitution restricts the carry forward of minimum tax to two years.

This is a harsh amendment as such levy of minimum tax in itself is an added burden for the taxpayers.

### **114C Restriction on economic transactions by certain persons**

The proposed insertion has introduced a new terminology of an 'eligible person' for the purposes of:

- booking, purchase or registration of a motor vehicle.
- registering, recording or attesting transfer of any immovable property.
- individual authorized to sell securities, including debt securities and mutual funds, are prohibited from selling, opening accounts, or clearing transactions of these securities.
- a banking company shall avoid opening or maintaining securities accounts, except for Asaan and Pensioner accounts, in their name as may be notified by the Board.
- limit cash withdrawals from individual bank accounts to a certain amount as notified periodically by the board.

The law further provides that 'ineligible person' shall mean a person who is not an eligible person.

A person will be considered as an eligible person for the above purposes shall mean a person who has field:

- income tax return for the latest tax year and have sufficient resources in the wealth statement for individual and financial statement for a company and an association of person; or

- sources of investment and expenditure statement declaring sufficient resources and furnishing explanation thereof for purchase of motor vehicle, property or investment in purchasing of securities/mutual funds. It shall mean a declaration filed by a person on the Board's web portal identifying the sources of funds for such a transaction.

The eligible person shall include his immediate family members, namely his parents, spouse and dependent children.

The law stipulates 'sufficient resources' as follows:

- **For individuals**

One hundred and thirty percent of the cash and equivalent assets comprising cash denominated in local or foreign currency, fair market value of gold, net realizable value of stocks, bonds, receivables or any other cash equivalent asset as may be prescribed, declared by a person either in his sources of investment and expenditure statement, or wealth statement filed for the latest tax year.

- **For association of person and company**

Have cash and equivalent assets, declared in the financial statements attached with the income tax return for the latest tax year

The law has defined certain prohibited economic transactions stated above and also has given exclusion therefrom such as:

- purchase of all rikshaws, motorcycle and tractors;
- purchase of a pick-up vehicle having engine capacity up to 800 CC;
- purchase of such motor vehicles other than those mentioned in clauses (a) and (b), trucks and buses subject to restrictions and limitations as may be notified by the Board from time to time;
- investment in securities up to such limit as may be notified by the Board from time to time; and
- transactions made by a non-resident person or a public company except for cash withdrawal from bank when notified by the Board.

## Section

The proposed change is meant to document the economy in an effective manner. With these provisions implemented, it will be difficult for the tax evaders to be out of the tax net. In the past also the concept of filer and non-filer was introduced in the statute book through the Finance Act, 2014 had renamed such persons as "Active Taxpayers". One measure did help to an extent improve the taxpayer enrollment, but the results were far from satisfactory. Strict monitoring of the proposed measures will positively contribute towards enlarging tax net and documentation of economy.

### **120 Assessments**

The bill proposes to introduce the concept of automated adjusted assessment to arrive at the correct amount of total income, taxable income and tax payable after making adjustments for arithmetical errors, incorrect claims, disallowances of any loss, deductible allowances or tax credits.

### **122 Amendment of assessments**

The bill proposes to remove 180-days time limitation prescribed for concluding the amendment assessment proceedings. The removal of time frame will not compel the taxation officer to expeditiously conclude amendment proceedings once initiated.

due to any reason including on account of stay, ADRC proceedings, agreed assessment proceedings under section 122D or time taken by the taxpayers through adjournment. The existing laws were meant to expedite the disposal of proceedings in an efficient manner. The removal of time frame will not be a compulsion on the taxation officers to expediently conclude amendment proceeding once initiated.

### **124 (4A) Assessment giving effect to an order & (4B)**

The bill seeks to insert two sub-sections in section 124 of the Ordinance. As per proposed sub-section(4A) where the Commissioner Appeal, the Appellate Tribunal, the High Court and Supreme Court have upheld the appeal against resulting the confirmation of tax payable. In the given situation the Commissioner shall proceed to recover the amount of tax payable and no appeal effect order is required to be issued. Whereas the sub-section 4B provide that where order is partly set-aside, confirmed or modified by the Appellate Tribunal, High Court or Supreme Court the Commissioner shall issue an appeal effect order on the issues confirmed or modified excluding the matters that have been set-aside or remanded and determined the tax payable on the issues that have been confirmed or modified and shall recover the amount under the provision of the Ordinance.

## Section

### **126A Pecuniary jurisdiction in appeals**

By virtue of Tax Laws (Amendment) Act, 2024 section 126A was inserted providing for pecuniary jurisdictions in appeals to the Commissioner (Appeals) and to the Appellate Tribunal Inland Revenue. The bill seeks to omit this section from the statute book.

### **127 & 131 Appeal to the Commissioner (Appeals)/Appellate Tribunal**

The bill proposes to withdraw amendments introduced through the Tax Law (Amendment) Act, 2024 which had prescribed pecuniary thresholds for filing appeals before Commissioner Appeals and Appellate Tribunal. Under the proposed amendment, the aggrieved person, excluding State-Owned Enterprises (SOEs) has been granted the following options:

- Either directly file an appeal before the Commissioner Appeals, or
- Surrender the right of appeal before the Commissioner Appeals and directly lodge an appeal before the Appellate Tribunal.

Consequential amendment is also proposed by substitution of section 131(1).

### **130 Appellate tribunal**

Previously, the criteria for appointment of chartered accountant as Member of the Appellate Tribunal was ten years practice professionally as a chartered accountant. Now this scope has been enlarged to include:

- a chartered accountant in practice, either individually or in a firm of Chartered Accountants, within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961); or
- a chartered accountant, within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961), and has been in employment of a Chartered Accountant in practice at least for a period of ten years.

## Section

### **133 Reference to the High Court**

The bill seeks to withdraw the amendment introduced via the Tax Law (Amendment) Act, 2024 and proposes to introduce the following changes regarding filing of reference before the High Court:

- the timeframe for filing a reference is extended to 60 days from the date of communication of the order, as opposed to 30 days stipulated under the existing provisions of the Ordinance
- the Order of Appellate Tribunal can only be challenged before the High Court whereas under the existing law, the order of Commissioner (Appeals) is also appealable before the High Court

References filed shall be limited exclusively to questions of law that may arise, in contrast to the current provisions whereby both mixed question of law and facts arising from the order can be contested before the High Court

### **134A Alternative dispute resolution**

Under the existing law, it is mandatory for an aggrieved SOE to apply to the Board for the appointment of a Committee for the resolution of any dispute and withdraw all such pending litigation and cases immediately. Further, if the Committee fails to decide the dispute within 60 days, the Board shall dissolve the Committee enabling the SOE to file an appeal with the Tribunal.

The bill now proposes that, if the Committee fails to decide the dispute within 60 days, the Board shall reappoint a Committee which shall decide the dispute within a period of 60 days. The bill further proposes that in case, the reappointed Committee also fails to decide the matter within 60 days, the matter shall then be decided by the Appellate Authority.

### **138 & 140 Recovery of tax out of property and through arrest of taxpayer/persons holding money on behalf of a taxpayer**

The Tax Laws (Amendments) Ordinance, 2025 inserted a new non-obstante sub-section giving overriding effect to all other provisions, law, rules or judicial pronouncements which specifies that where a tax matter has been decided by the High Court or the Supreme Court, any tax payable as a result of that decision becomes either immediately payable or within the time specified in the notice issued by the income tax authority.

## **Section**

The bill proposes insertion of a new proviso to effectuate recovery proceedings after seven days from the date of the order of High Court favouring the tax department.

### **149 Tax on salary**

The bill proposes to obligate every person responsible for paying pension, annuity, or any supplement to pension or annuity or commutation of pension to a former employee below

the age of 70 years, to deduct income tax @ 5% as prescribed in Division I of Part I of the First Schedule of the Ordinance on the amount exceeding Rs. 10 million at the time of payment including surcharge levied u/s 4AB at the rate of 9%. In determining the tax to be deducted, the person responsible for making the payment shall consider and give effect to the following amounts incurred during the year:

- tax withheld from the former employee under other heads
- tax credits relating to charitable donations and contributions to approved pension funds
- any excess deduction or deficiency arising out of any previous deduction
- failure to make deduction during the year

### **151A Gain arising on disposal of certain debt securities**

The bill proposes the insertion of a new section requiring every custodian of debt securities, including a banking company maintaining an Investor Portfolio Securities Account on behalf of a debt security holder, to withhold tax @ 15% at the time of disposal of such debt securities, including government securities. This tax shall be deducted on the gross amount of capital gain arising to the holder shall be calculated in accordance with the formula provided in Section 37A(1A) of the Ordinance.

The bills also provides that the above provision shall not apply on disposal of debt securities which are executed through a registered stock exchange and settled via the National Clearing Company of Pakistan Limited (NCCPL).

### **152 Payments to non-residents**

- 1C** Under the existing provisions, every banking company or the financial institution remitting the fee for offshore digital services are obligated to withhold tax at the rate of 15% prescribed in Division IV, Part I to the First Schedule.

## Section

The bill proposes to exclude recipients of such fee from withholding tax provisions, liable to be taxed under the proposed Digital Presence Proceeds Tax Act, 2025 in the Finance Bill.

- ID** Under the existing provisions, banking companies or financial institutions maintaining special convertible rupee account for non-resident companies having no permanent establishment in Pakistan are required to deduct tax @ 10% on capital gains arising on disposal of debt instruments and government securities including T-bills and Pakistan investment bond.

The bill now proposes to enhance the tax withholding rates for capital gain arising on disposal of such instruments/securities to 20%, where the holding period is less than twelve months.

### **165C Furnishing of information by online marketplace, payment intermediary and courier services**

The bill proposes to insert a new section requiring every payment intermediary and courier service, responsible for collecting tax u/s 153(2A) to submit a quarterly withholding statement to the Commissioner in addition to the statements required to be submitted u/s 165. This statement must be furnished in the prescribed form and shall include the following details related to the sale of digitally ordered goods and services:

- name, identification number (NTN/CNIC) and address of the seller;
- transaction date, unique identifier (invoice number) and total transaction value;
- the total amount of tax deducted at the time of payments to the seller;
- any other particular may be prescribed;

Additionally, every online marketplace operating in Pakistan is also obligated to submit a monthly statement containing:

- name, address, Sales Tax and Income Tax registration number of all vendors registered on its platform supplying digitally ordered goods and services in e-commerce,
- transactional and aggregated quantum of seller's monthly turnover; and
- the amount deposited into the vendor's bank account against such sale transactions

## **Section**

The proposed insertions also stipulate that the provisions of the section 165 regarding due dates of filing, revision of the statements, power of Commissioner and Board to call for statements, extension of time to furnish the statement after due date, filing of annual statement and reconciliation of the amounts mentioned in annual statement with the amounts in return, audited accounts or financial statements shall apply mutatis mutandis.

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

The bill proposes to insert a new section empowering the Board to share the following information with scheduled banks in Pakistan:

- turnover, income including taxable income, for one or more tax years,
- identification data including bank account numbers declared in the income tax return, wealth statement, financial statement;
- any other document to the Board, in respect of persons or classes of persons, along with data-based algorithms, as may be prescribed.

The bill proposes that the scheduled banks shall provide to the Board, name, account number of such persons where the banking information is at variance with the data algorithms provided by the Board.

The proposed insertion stipulate that provisions of this newly inserted section will override any law in force including Banking Companies Ordinance, 1962 (LVII of 1962), regulations made under the State Bank of Pakistan Act, 1956 (XXXIII of 1956) and provisions of section 216 of the Ordinance. It is also stipulated in the proposed section that this information shall only be used for tax purposes.

### **175C Posting of Officer of Inland Revenue**

The bill proposes to empower Board or Chief Commissioner to post an Officer of Inland Revenue or other authorized officials to the premises of any person or class of such persons for the purposes of monitoring production, supply of goods, rendering/ providing of services and stock of goods not sold at any time for determining tax payable under this Ordinance.

### **181 Taxpayer's registration**

The bill proposes to insert a new sub-section mandating every person engaged in selling digitally ordered goods or services from within Pakistan, whether operating through online market place or courier services, to apply for registration in the prescribed form and manner.

## Section

The bill further prohibits all online marketplaces and courier services operating within Pakistan, to allow use of their platforms to any vendor unless such vendor is duly registered under both the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

### 182 Offences and penalties

The bill proposes to insert certain new penalty as under:

Sr No.	Offences	Penalties	Section of the Ordinance to which offence has reference
3B	Where an online marketplace allows an unregistered vendor, whether resident or non-resident involved in e-commerce business supplying digitally ordered goods or services, who is required to register under Sales Tax Act 1990 and Income Tax Ordinance, 2001, under section 181 before using the platform.	Such online marketplace or a courier service provider shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default.	181(1A)
12B	Where a banking company or payment gateway or a courier service provider, as the case may be, fails to deduct tax at the time of making payment to a seller, or fails to pay the tax deducted as required under section 160, with respect to digitally ordered goods or rendering or providing of digitally delivered services using e-commerce platform.	Such person shall pay a penalty equal to hundred percent of the amount of tax involved.	153(2A)
15A	Any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to registered under	Such seller shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default.	181

	Sales Tax Act, 1990 and Income Tax Ordinance, 2001, fails to registered under the aforementioned statues.		
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Proposed substitutions in existing penalties are listed below:

Sr No.	Offences	Penalties	Section of the Ordinance to which offence has reference
<b>1A</b>	Where any person fails to furnish a statement as required under section <b><u>165, 165A, 165B or 165C</u></b> within the due date.	Such person shall pay a penalty of <b><u>Rs. 50,000</u></b> if the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within ninety days from the due date for filing the statement and, in all other cases, a penalty of Rs.2500 for each day of default from the due date subject to a minimum penalty of Rs. 10,000:  Provided that where it stands established that no tax was required to be deducted or collected during the relevant period, minimum amount of penalty shall be ten thousand Rupees.”;	<b><u>165, 165A, 165B or 165C</u></b>
<b>15</b>	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.	Such person shall pay a penalty of forty thousand rupees or the 10% of the amount of tax which-ever is higher.	Division II or Division III <b><u>excluding sub-section (2A) of section 153</u></b> of Part V of Chapter X or Chapter XII

## Section

### **207 & 216 & 222 Income tax authorities/ disclosure of information by a public servant/ appointment of expert**

The bill proposes to empower the Board to appoint as many auditors not exceeding two thousand, on contractual basis or through a third-party arrangement after signing a non-disclosure agreement with the Board under the provisions of section 216.

The auditors so appointed shall be treated as part of the tax hierarchy.

New insertions are proposed to bind sharing of information by Tax Policy Office for the purposes of processing and analyzing data for research and policy analysis and recognized universities and international donor agencies subject to the conditions that before sharing, the taxpayer's data shall be anonymized.

### **214A Condonation of time limit**

Currently, the Board is empowered to condone time limit prescribed under any provisions of the Ordinance or rules made thereunder which also includes condonation by the Board even after the lapse/expiry of the prescribed such time or period for making an application or performing any required act.

The bill proposes to restrict the maximum period of extension that may be granted under this section by the Board or the Commissioner to two years in aggregate.

The bill further proposes that a committee of members, as notified by the Board, may condone the limitation period beyond two years only in cases where:

- There is reason to believe that a significant loss to the exchequer has occurred due to any act of omission or commission by the person or the Commissioner, and
- After providing the concerned person a reasonable opportunity of being heard.

### **231AB Advance tax on cash withdrawals**

The bill proposes to increase the advance tax deduction rate from 0.6% to 0.8% on the total amount of daily cash withdrawals exceeding Rs. 50,000 by persons who are not included in the Active Taxpayers List (ATL).

# THE FINANCE BILL-2025

## INCOME TAX ORDINANCE, 2001

### FIRST SCHEDULE Part-I Division-I

**Clause (1)** The bill proposes to insert new proviso after the first proviso at the end of Table-I. An individual receiving annuity or pension income taxable under the head "Income from Other Sources" shall be charged to tax at the rate specified in the proviso to clause (2) of this Division.

**Clause (2)** The bill proposes to substitute the existing tax slab rates for individual salaried class of taxpayers as follows:

**Table**

	<b>Taxable Income</b>	<b>Rate of Tax</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
1.	Where taxable income does not exceed Rs. 600,000/-	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1200,000	1% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 6,000 + 11% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs.116,000 + 23% of the amount exceeding Rs. 2,200,000
5.	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 346,000 + 30% of the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 4,100,000	Rs. 616,000 + 35% of the amount exceeding Rs. 4,100,000

Impact of tax relief / burden for salaried individuals as a result of the proposed changes are:

S. No.	Taxable Income	Tax liability		Tax savings / (tax burden)	Tax savings / (tax burden)
		Existing	Proposed		
	Rs.	Rs.	Rs.	Rs.	%
1	3,000,000	380,000	300,000	80,000	21%
2	5,000,000	1,015,000	931,000	84,000	8%
3	10,000,000	2,765,000	2,681,000	84,000	3%
4	15,000,000	4,515,000	4,431,000	84,000	2%
5	25,000,000	8,015,000	7,931,000	84,000	1%

The bill proposes to insert new proviso at the end of the table in clause (2). An individual deriving income solely from pension, annuity, pension supplements, or commutation of pension from a former employer for the tax year shall be subject to tax on such income at the rates specified in the following table:

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

The aforesaid proviso providing rates of taxation in case of individual deriving income **solely** from the aforementioned sources i.e. pension/annuity etc. It looks that the rates would not be applicable where the individual derives income from sources other than pension/annuity etc. meaning thereby there's a drafting error which needs to be addressed.

## Division IIB Super tax on high earning persons

The bill proposes to substitute the existing table of super tax under section 4C:

S. No	Income under section 4C	Rate of Tax		
		For tax year 2022	For tax years 2023, 2024 and 2025	For tax year 2026 and onwards
1	Where income does not exceed Rs. 150 million	0% of the income	0% of the income	0% of the income
2	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income	1% of the income	1% of the income

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

**Division-III  
Clause (ba)  
Section  
150**

**Rate of Dividend Tax**

The bill proposes to insert new clause to provide specific tax rates for mutual funds based on the nature of their investments. Under this clause, income derived by mutual funds is subject to tax at the rate of 25% on the portion attributable to average annual investments in debt securities, and at the rate of 15% on the portion attributable to average annual investments in equities.

**Division  
IIIA  
Rate for  
Profit on  
Debt**

**Rate of Profit on Debt**

The bill proposes to impose categories of the tax rate under section 7B instead of flat rate 15% which are as under: -

- (a) 20% of yield or profit paid by a banking company/financial institution on account or deposit with such company or institutions.
- (b) 15% of the yield of the profit incase of other those mentioned in clause (a).

**Division IV**  
**Section 6**      **Rate of Tax on Certain payments**

The bill proposes to enhance the rate of tax on “fee of offshore digital services” from 10% to 15%.

**Part-III**  
**Division-I**      **Deduction of taxes at source**  
                      **Advance tax on dividend**

- Income of mutual funds is subject to withholding tax attributable to average annual investments in debt securities to be withheld at the rate of 25%.
- Income attributable to average annual investments in equities to be withheld at the rate of 15%.

**Division-IA**      **Profit on debt**

The tax will be withheld at the rate: -

- (a) 20% of yield or profit paid by a banking company/financial institution on account or deposit with such company or institutions.
- (b) 15% of the yield of the profit in-case of other those mentioned in clause (a)

**Division**  
**IIIAA**  
**Section**  
**151A**      **Gain arising on disposal of certain debt securities**

The bill proposes the withholding tax under newly insert section 151A at the rate 15% of the amount of the capital gain.

**Division II**  
**Section**  
**152**      **Payment to non-resident**

**Paragraph**  
**5(i)**

The bill proposes to enhance the withholding tax rate from 4% to 8% on payments in respect of services received from non-resident as referred in clause (b) of sub-section (2A) of section 152.

The bill further proposes the insertion of new proviso the rate of withholding tax shall be 4% in case of IT services and IT enabled services.

**Paragraph**  
**5(ii)**

The bill proposes the flat rate at 15% for the withholding tax in respect of the payments other than those in sub-para (i) of paragraph (5) previously categorized as 9% for companies and 11% for other cases.

**Paragraph**  
**6(i)**

The bill proposes to enhance the tax to be withheld at the rate of 15% instead of 10% in case of sports persons.

**Division III Payments for Goods or Services****Section****153(i)(b)****Paragraph****2(i)**

The bill proposes to enhance the withholding tax rate

The rate of tax to be deducted shall be 6% instead of 4% on payments in respect of services received from resident persons.

The bill further seeks insertion of new proviso the rate of withholding tax shall be 4% in case of IT services and IT enabled services.

**Paragraph****2(ii)**

The tax shall be withheld at the enhanced flat rate of 15% in respect of the payments other than in sub-clause (i) of clause (2) previously categorized at 9% for companies and 11% for other cases.

**Section****153(i)(c)**

The bill proposes to enhance the withholding tax rate from 10% to 15% in case of sports person.

**Part IV****Advance tax on sale or transfer of immovable property****Division X****Section****236C**

The bill proposes to enhance the rate of tax to be collected under section 236C as follows: -

S. No.	Amount	Tax Rate	
		Existing	Proposed
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	4.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	5.5%

**Advance tax on purchase of immovable property****Division****XVIII****Section****236K**

The bill seeks to reduce the rate of tax to be collected under section 236K as follows: -

S. No.	Amount	Tax Rate	
		Existing	Proposed
1	Where the fair market value does not exceed Rs. 50 million	3%	1.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	2%
3	Where the fair market value exceeds Rs. 100 million	4%	2.5%

## SECOND SCHEDULE

The bill proposes the following measures:

### **Second Schedule   Exemptions and tax concessions**

#### **Part 1   Exemptions from total income**

#### **Clauses 8, 9, 12 & 13   Withdrawal of exemption on pension income**

The bill proposes to tax pension income at the rates prescribed under the First Schedule. Consequential amendments have been proposed to omit Clauses (8), (9) & (12) providing exemption to pension received by a citizen of Pakistan, pension received by member of the Armed Forces of Pakistan, Federal Government and Provincial Government and any payment in the nature of commutation of pension received from the Government or any other pension scheme approved by the Board.

Clause (13) providing exemption to gratuity and commutation of pension has also been proposed to be restricted only to gratuity by deleting the words commutation of pension.

#### **Clauses 23A & 23C   Withdrawal of tax exemption on Voluntary Pension System**

The bill also proposes to omit clauses (23A) and (23C) exempting the funds received from pension fund manager under the Voluntary Pension System Rules, 2005.

#### **Clause 66   Exemption of income derived by institutions, foundations, societies, boards, trusts and funds**

Previously, any income derived by the entities listed in Table 1 was exempt without any condition whereas any income derived by the entities listed in Table 2 was exempt upon fulfilment of conditions specified in Section 100C.

The bill proposes to merge both the tables, now all entities would require approval under section 100C in order to avail exemption of their income/(s).

The bill further seeks to add the following entities in the table:

- Beaconhouse National University
- Federal Ziauddin University

- Army Officers Benevolent Fund/Benevolent Fund/ Bereaved Family Scheme
- Punjab Police Welfare Foundation Lahore

**Clause 98AA      Exemption of income earned from ICC Champions Trophy, 2025**

The bill proposes to exempt any income derived by ICC Business Corporation (IBC) or International Cricket Council (ICC) or employees, officials, agents and representatives of IBC and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IBC partners and media representatives from ICC Champions Trophy, 2025 hosted in Pakistan. The aforesaid proposed exemption would only be available to the persons other than the persons who are resident of Pakistan.

**Clause 126E      Exemption of income of Special Economic Zone (SEZ) Entities**

Income derived by SEZ enterprise was exempt for a period of ten years starting from the date the developer certifies that the enterprise has commenced commercial operation.

The bill seeks to introduce a sunset period for the aforesaid exemption till June 30<sup>th</sup>, 2035. Now, the exemption would be available for a period of ten years starting from the date of commencement of commercial production or 30<sup>th</sup> day of June, 2035, whichever is earlier.

**Clause 126EA      Exemption of profits & gains of Special Technology Zone (STZ) entities**

Profits and gains derived by STZ enterprise were exempt for a period of ten years starting from the date of issuance of license by the STZ Authority.

The bill seeks to introduce a sunset period for the aforesaid exemption till June 30<sup>th</sup>, 2035. Now, the exemption would be available for a period of ten years starting from the date of issuance of license or 30<sup>th</sup> day of June, 2035, whichever is earlier.

**Clause 145A      Exemption to former FATA and PATA regions**

Exemption granted to individuals domiciled or company and AOP resident in the Tribal areas forming part of KPK and Balochistan under paragraph (d) of Article 246 of the Constitution with effect from July 1<sup>st</sup>, 2018 to June 30<sup>th</sup>, 2025.

The bill proposes to extend the aforesaid exemption till June 30<sup>th</sup>, 2026.

**Clause 151      Income derived by a person from Cinema Operations**

Any income derived by a person from cinema operations was exempt from tax for five years from the commencement of cinema operations.

The bill proposes to sunset the aforesaid exemption by insertion of a proviso that the exemption shall be available till June 30<sup>th</sup>, 2030 or five years from the commencement of cinema operations, whichever is earlier.

**Clause 152      Profits and gains derived by Venture Capital Company and Venture Capital Fund**

Profits and gains derived from July 1, 2022 to June 30, 2025 by venture capital company and venture capital fund registered under Venture Capital Companies and Fund Management Rules issued by SECP were exempt from tax.

The bill seeks to omit the aforesaid Clause now being redundant.

**PART II      Reduction in tax rates**

**Clause 9AC      Import of raw sugar imported by sugar mills**

Import of raw sugar by sugar mills from January 26, 2021 to June 30, 2021, subject to quota allotment by Commerce Division, was allowed at a reduced rate of tax @ 0.25% at import stage.

The bill seeks to omit the aforesaid Clause now being redundant.

**Clause 24CA      Goods supplied to utility stores**

Supply of tea, spices, salt, dry milk, sugar, pulses, wheat floor and ghee by a person, other than a company, to Utility Stores Corporation of Pakistan from April 7<sup>th</sup>, 2020 to September 30<sup>th</sup>, 2020 was subject to reduce rate of withholding tax @ 1.5%.

The bill seeks to omit the aforesaid Clause now being redundant.

**PART III      Reduction in tax liability**

### **Clause 3A      Revival of tax credit to full-time teachers and researchers**

Through the Finance Act, 2021, Clauses (2), (7) and (8) of Part III of the Second Schedule were omitted. However, the omitted Clause (2) of part III was different and did not pertain to the Clause (2) related to the tax reduction in case of teachers/researchers giving rise to the controversy. FBR claimed that the aforesaid clause was deleted by the Finance Act, 2021 and deleted the aforesaid clause from the versions of the Income Tax Ordinance, 2001 uploaded on its website. However, return forms notified by FBR for tax years 2022, 2023 & 2024 and uploaded on IRIS allowed the aforesaid tax credit. The controversy further evolved when the Finance Bill, 2024 sought to withdraw tax credit by proposing to omit the aforesaid provision. However, the provision was not deleted through the Finance Act, 2024 as proposed in the Finance Bill, 2024.

According to the taxpayers the rebate is available from tax years 2022 to 2024 whereas the FBR is of the view that it has been deleted from the Statute Book through Finance Act, 2021, giving rise to the unnecessary litigation.

The bill proposes by way of insertion of Clause (3A) in Part III of the Second Schedule is an attempt to end the controversy being created whereby it has also been proposed by insertion of a further proviso that the said Clause shall be deemed to have been in force with effect from July 1<sup>st</sup>, 2022 and shall cease to have effect after tax year 2025.

### **Part IV      Exemption from specific provisions**

#### **Clauses 12F, 12G & 12J      Non-applicability of advance tax collection on imports of wheat and white sugar in pursuance of Cabinet Decisions**

Import of 1.5 million tons of wheat in pursuance of Cabinet Decision in case No. 399/23/2020 dated June 16<sup>th</sup>, 2020, import of 300,000 metric tons of white sugar by Trading Corporation of Pakistan in pursuance of Cabinet Decision in case No. 541/30/2020 dated August 4<sup>th</sup>, 2020 and import of 300,000 metric tons of wheat by Trading Corporation of Pakistan in pursuance of Cabinet Decision in case No. 34/02/2021 dated January 12<sup>th</sup>, 2021 were allowed without payment of advance tax at import stage.

The bill seeks to omit the aforesaid Clauses now being redundant.

### **Clause 56      Import of Cystagon, Cysta drops and Trientine capsules**

The bill seeks to insert the aforesaid medicines in the list of goods whose imports are allowed without payment of tax at import stage.

**Clause 105A      Audit of income tax affairs**

A person whose income tax affairs have been audited in any of the four preceding tax years was excluded from selection of audit under Section 177 and 214C.

The bill seeks to curtail the aforesaid limitation of audit selection from four years to three years.

**Clause 109A &      Extension of exemption to former FATA and PATA region  
110**

Since the income tax exemption granted to individuals domiciled or company and AOP resident in the Tribal areas forming part of KPK and Balochistan under paragraph (d) of Article 246 of the Constitution is proposed to be extended till June 30, 2026, considering the amendments proposed in Clause 145A of Part I of the Second Schedule. Therefore, in light of the aforesaid proposed amendment, exemption from provisions of income tax deduction and collection at source is also being proposed to be extended till June 30, 2026.

**SEVENTH SCHEDULE**

The bill proposes the following means:

**RULE 1**                      The Seventh Schedule to the Ordinance stipulates to the rules related to the computation of taxable income and tax payable thereon by the banking companies. The factual basis is that the income, profits and gains of a banking company shall be taken to be the balance of the income from all sources before tax, as disclosed in the annual accounts required to be furnished to the State Bank of Pakistan (SBP), subject to the adjustments required under sub-rule (a) to (h) of the rule (1).

**Clause (aa)                      Amortization of Leasehold Improvements:**

Currently, clause (a) specifies that deduction shall be allowed in respect of depreciation, initial allowance and amortization under sections 22, 23 and 24 provided that accounting depreciation, initial allowance or amortization deduction shall be added to the income.

The bill now seeks to insert a new clause (aa) whereby it clarifies that any expenditure incurred on leasehold improvements in respect of leased or rented property is to be capitalised and amortised at the rate of 10 percent annually. Amortization will commence from the date the leasehold improvements are first used by the taxpayer.

In the event of termination of lease before the completion of the amortisation period, the un-amortised balance of the capitalized leasehold improvements shall be allowed as a deduction in the tax year such termination occurs after setting off any proceeds received from the disposal or transfer of such leasehold improvements.

**Clause (ba)**

**Deduction in respect of right of use assets:**

The bill seeks to insert a new clause to clarify that the depreciation on right of use assets and finance cost would not be allowed as a deduction, whereas actual rent expense incurred during the tax year shall be allowed as an expenditure. However, certificate from external auditor needs to be furnished in this respect by the taxpayer.

In view of implementation of IFRS 16, where a banking company has claimed excess deductions on account of leased assets in respect of depreciation and finance cost in the previous years, the differential amount in excess over the actual rent expense would be subject to tax in the tax year 2025. Conversely, if the amount claimed is less than the actual rent expense, the differential shall be allowed as an expense / deduction in the tax year 2025.

All the above adjustments need to be certified by the external auditors of the banking company.

**Clause (c)**

**Auditors certificate**

The bill now seeks to insert a new proviso whereby it has specified certain new requirements to be part of external auditor's certificate tabulating the amount of provision category-wise in the following parameters:

- Provision allowed in accordance with the Prudential Regulations issued by the State Bank of Pakistan;
- Provision recognized under IFRS 9;
- Provision as disclosed in the annual audited accounts; and
- Provision eligible for deduction under clauses (c), (d), (da), (e) and (f) of Rule 1 of the Schedule. The certificate shall specifically identify and certify such amount confirming its consistency with the applicable regulatory framework, the Seventh Schedule and financial reporting standards.

The bill also seeks to insert an explanation that in case of non-filing of above-mentioned certificate or in-complete filing, provision under Rule 1(c) of the Schedule would not be allowable.

The bill also seeks to insert new sub-clauses (iv) and (v) whereby it specifies that only non performing advances classified as “loss” in accordance with the Prudential regulations issued by the State Bank of Pakistan shall be an allowable expense and any provision including general provision which is not in accordance with such Prudential Regulations shall not be admissible in computing taxable income of a banking company.

The bill also seeks to insert a clause (fa) whereby certificate of the auditors is specified laid out.

#### **Clause (g) IFRS 9**

Currently, the sub-rule (g) does not consider any adjustments made in the annual accounts pertaining to the application of International Accounting Standards or policy or any guidelines or instructions of the State Bank of Pakistan.

The bill also seeks to insert the words “subject to the aforesaid clauses of Rule 1 of the Schedule” before the word “Adjustment” for clarity purposes.

The bill proposes to specify ‘IFRS 9’.

The bill has also inserted a proviso whereby it has specified that the above amendments would apply from the tax year 2025 and onwards.

## **TENTH SCHEDULE**

**The bill proposes the following measures:**

### **Section Rules for persons not appearing in the Active Taxpayers’ List**

#### **Rule 1 Rate of deduction or collection of tax**

The bill proposes to reduce the withholding tax rates on purchase of immovable property from persons not appearing in active taxpayers’ list as under:

<b>S. No.</b>	<b>Fair Market Value of Immovable Property</b>	<b>Existing Tax Rate</b>	<b>Proposed Tax Rate</b>
1	Where the fair market value does not exceed Rs. 50 million	12%	<b>10.5%</b>

2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	16%	<b>14.5%</b>
3	Where the fair market value exceeds Rs. 100 million	20%	<b>18.5%</b>

The bill proposes to omit the withholding tax rate of 35% on profit on debt from for persons not appearing in active taxpayers' list with corresponding amendment of deduction in prescribed in Part-I of the First Schedule.

The bill proposes to enhance withholding tax rate from 10% to 11.5% on sale of immovable property from persons not appearing in active taxpayers' list.

**Rule 1A 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**

The bill proposes to enhance withholding tax rates on sale of immovable property from persons who are late filers of income tax return as under:

S. No.	Gross Amount of Consideration Received	Existing Tax Rate	Proposed Tax Rate
1	Where the gross amount of consideration received does not exceed Rs. 50 million	6%	<b>7.5%</b>
2	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	<b>8.5%</b>
3	Where the gross amount of consideration received exceeds Rs. 100 million	8%	<b>9.5%</b>

The bill proposes to reduce withholding tax rates on purchase of immovable property from persons who are late filers of income tax return as under:

S. No.	Fair Market Value of Immovable Property	Existing Tax Rate	Proposed Tax Rate
1	Where the fair market value does not exceed Rs. 50 million	6%	<b>4.5%</b>
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	<b>5.5%</b>
3	Where the fair market value exceeds Rs. 100 million	8%	<b>6.5%</b>

## **Rule 10      Non-application of provisions of Tenth Schedule**

The bill proposes that the provisions of Tenth Schedule shall not apply on tax collectible or deductible in case of tax under section 37A on disposal of securities acquired on and from 1<sup>st</sup> day of July, 2025. By virtue of the aforesaid amendment, 100% increase in tax deduction rates will become applicable on disposal of securities acquired before 30 June, 2025 by non-active taxpayers which previously were excluded from the ambit of Tenth Schedule. The aforesaid amendment if passed could lead to litigation.

## SUMMARY OF CHANGES IN THE SALES TAX ACT, 1990

### Section

#### 2(1))

#### **Abettor**

The bill seeks to insert the definition of abettor who abets or connives in the tax fraud or in the commission of any offence liable for prosecution under the Sales Tax Act, 1990 and includes the person who:

- misuses unique user identifier and passwords assigned to registered persons for submission of sales tax returns including its annexures or who unauthorizedly changes their tax profile;
- involved in the preparation of fake invoices for false claim of input taxes;
- uses bank account held or operated by him for the purpose of tax fraud or offences liable for prosecution as well as maintaining or operating bank account in the name of other registered persons; or
- obtains or causes to obtain the sales tax registration number with the malafide intent for the purpose of fake paper-based transaction without the economic substance and involving lack of presence of any taxable activity.

#### 2(4A)

#### **Cargo tracking system**

The bill proposes to insert the definition of cargo tracking system as a digital system for the electronic monitoring and tracking of goods transported across the territory of Pakistan for the tax compliance, enforcement and prevention of tax evasion.

#### 2(5AC)

#### **Courier**

The bill seeks to insert the definition of courier as the entity engaged in the delivery of goods and collection of cash on behalf of the seller. It also specifies logistic services, ride-hailing services, food delivery platforms and e-commerce delivery services within its ambit.

## Section

### **2(9A) E-bilty**

The bill proposes to substitute the clause with the definition of e-bilty as the digital transport document during the movement of goods managed through the cargo tracking system as prescribed by the Board.

### **2(9AC) E-Commerce**

The bill seeks to insert the definition of E-Commerce as the effectuation of sales, purchases or services through placement of orders by digital means including websites, mobile applications or on-line marketplace.

### **2(18A) On-line marketplace**

The bill proposes to substitute the definition of on-line marketplace by specifying the platforms that facilitate digital transactions between multiple buyers and sellers, irrespective of whether the platform holds economic ownership of the goods.

The proposed change seeks to broaden and clarify the definition of “on-line marketplace” to encompass multi-seller digital platforms that facilitate transactions, with or without taking economic ownership of goods.

### **2(21) Payment intermediary**

The bill seeks to substitute the clause with the proposed definition which aims to formally recognize banking companies, licensed foreign exchange companies, and payment gateway/fintech service providers as payment intermediaries involved in fund transfers between two or more parties, without being the ultimate source of the funds.

This insertion reflects the government’s increasing focus on Pakistan’s growing digital economy, and implicitly paves the way for placing compliance obligations on such intermediaries—particularly in their potential role as withholding and collection agents for tax purposes.

### **2(27) Retail price**

The bill proposes to insert the certain provisos covering:

- a) to introduce a limit on the extent to which manufacturers or distributors of beverages and similar consumer drinks can adjust their declared retail prices by deducting costs such as cooling or related handling charges.

## Section

the amendment seeks to restrict such reductions to no more than 5% of the consumer-facing price that already includes sales tax and federal excise duty. This move appears to target pricing manipulations used to lower the tax base for aerated drinks, juices, bottled water, and related products.

- b) empowerment of the FBR to fix retail prices of specified goods in third schedule through official gazette;
- c) lastly, for imported goods covered under the Third Schedule, the bill introduces a minimum retail price threshold set at 130% of the customs value (inclusive of customs duty and federal excise duty), to ensure a fair and consistent value base for taxation.

Collectively, these proposed changes reflect step towards more structured and controlled governance approach to retail price.

## 2(37)

### Tax fraud

The bill proposes to substitute the existing definition of “tax fraud”. The key focus is on the following instances which were not explicitly mentioned in the current definition:

- a) using or preparing false, forged and fictitious documents including returns, its annexures and invoices;
- b) suppression and non payment of withholding taxes beyond the period of three months;
- c) generating fake input through manipulation of return filing system and making fake entries in return/annexures;
- d) making fictitious compliance of section 73 including routing of payment back to the registered person.

FBR may consider issuing clarificatory guidelines to distinguish fraud from procedural lapses to avoid overreach.

## Section

### **3(1)(C), 3(7A),3(9A) Supply of digitally ordered goods by online market place**

The bill seeks to insert the clause 3(1)(c) which aims to shift the tax collection and payment responsibility for e-commerce transactions from the marketplace operator to intermediaries involved in electronic payment or physical delivery of goods. This marks a significant departure from the current regime under the Sales Tax Act, 1990, where the primary liability rests with the on-line marketplace operator for withholding sales tax on the transaction.

As covered under the proposed definition of payment intermediary and courier supra, the obligation is proposed to be shifted to:

- Payment intermediaries (banks, fintechs, exchange companies) for digital payments, and
- Courier/delivery companies for cash on delivery (CoD) transactions

Aligning with the above, the sub-section 3(7A) is proposed to be inserted, wherein, the tax so collected and deposited will be treated as final discharge of tax liability for the supplies covered under this mechanism for the online marketplace, the vendors supplying the goods, websites or software applications effectuating such transactions.

To ensure administrative closure, no input tax adjustment is proposed to be allowed. This treatment mirrors presumptive regimes often used for hard-to-tax sectors and simplifies compliance where traceability of sellers and full audit trails are difficult.

Additionally, the proposed amendment is also suggested in sub-section (9A) which deals with tier-1 retailers by excluding from its scope those sales already falling under this new sub-section (7A), to avoid duplication of sales tax liability.

### **8B(4) Limit on adjustable input tax**

The bill seeks to empower the FBR to regulate input tax adjustment by using a data-driven automated risk management system, allowing it to defer or restrict input tax claims based on pre-set parameters or risk profiling.

## Section

The proviso proposes a remedy mechanism, allowing the affected registered person to contest the decision before the concerned Commissioner, who shall decide the case within 30 days.

While it appears to enhance administrative efficiency, it also introduces uncertainty for compliant taxpayers, as legitimate input tax claims could be delayed or partially disallowed unless clear and justified risk parameters are designed and implemented. Further, the limit of days may be taken as directory and not binding or else it will enhance the tax litigations.

### **11(D) Best judgement assessment**

Though the proposed change, the persons who are required to be registered under clause (25) of section 2 of the Sales Tax Act, 1990 based on the taxable status as indicated via withholding under Section 236G of the Income Tax Ordinance, 2001 and who fails to respond to a notice nor furnish a return. The Officer of Inland Revenue is empowered to assess the sales tax liability based on value addition, using reasonable methods and data such as purchases disclosed through 236G withholding records.

This is a targeted enforcement tool aimed at capturing non-filers and unregistered persons whose business activity is evident from income tax withholding data. The move is administratively effective, but FBR should ensure the reasonableness and consistency of assumptions used for value addition to avoid arbitrary assessments and litigation.

### **11E Assessment of tax and recovery of tax not levied**

The bill proposes to substitute the section with the apparent distinction between the cases initiated under section 37A of the Sales Tax Act, 1990 or not. Through the proposed change, the applicability of the section is not extended to the proceedings initiated under section 37A of the Sales Tax Act, 1990 relating to arrest and prosecution proceedings emanating from tax fraud which is also proposed to be substituted and discussed below in sequence.

While empowering officers to recover evaded revenue is necessary, it is strongly recommended that such powers be subject to objective benchmarks, internal approval processes, or risk-based parameters.

## Section

### **11(G) Limitation of assessment**

The bill seeks to enhance the timeline for the issuance of order under sections 11D, 11E and 11F from 120 days to 180 days.

This appears to provide benefit to the taxpayers especially in the cases under best judgement assessments to present their case within extended time.

**14(1A)&(1B),14(2A)** The proposed amendments arise significantly tighten the compliance framework for digital and e-commerce arms businesses. By introducing sub-sections (1A) and (1B), the law explicitly mandates that any person, including non-residents, selling digitally ordered goods from within Pakistan through an online platform must apply for sales tax registration.

Furthermore, on-line marketplaces and couriers are prohibited from facilitating transactions for any person not registered under both sales tax and income tax laws, thereby shifting part of the enforcement responsibility to digital intermediaries.

The proposed insertion of the new sub-section after (2) allows the Commissioner Inland Revenue to forcibly register any person found liable to be registered but who fails to do so voluntarily. This discretionary authority is intended to close registration gaps and bring more e-commerce operators into the formal tax net.

These are strong compliance-enhancing measures, clearly aimed at formalizing the digital economy, broadening the tax base, and reducing sales tax evasion. However, success depends on clear rules, digital infrastructure support, and adequate outreach, especially for non-resident sellers. While effective from an enforcement standpoint, the measures should be accompanied by guidelines and transitional support to avoid disruption for genuine small sellers or startups.

### **14AC Bar on operations of bank accounts**

The proposed insertion introduces a significant enforcement mechanism by empowering the Commissioner Inland Revenue to bar the operation of bank accounts of persons who fail to obtain mandatory sales tax registration from such date, the Board may by notification in the official gazette specifies.

## Section

This provision marks a substantial expansion of administrative powers, effectively allowing tax authorities to enforce registration compliance by restricting financial access.

The immediate restoration of banking operations upon registration, and the right to appeal to the Chief Commissioner within 30 days, are positive safeguards, though their practical effectiveness will depend on administrative responsiveness and clarity of criteria for invoking such powers.

### **14AD Bar on transfer of immovable property**

The proposed insertion empowers the Commissioner Inland Revenue to bar the transfer of immovable property of persons who fail to obtain sales tax registration from the date as notified by FBR. This measure is consistent with the banking restrictions introduced under section 14AC and is part of a broader push to enforce compliance through key business points.

This provision proposed to extend the compliance enforcement regime by enabling tax authorities to restrict property transfers of unregistered persons.

The immediate unblocking upon registration offers relief, and the right to appeal within 30 days provides a basic safeguard against administrative overreach. However, the lack of objective thresholds or due process requirements may raise concerns regarding the discretionary nature of this authority, especially where disputes arise over the registration liability itself. It is recommended that detailed implementation guidelines be issued to ensure that the power is exercised judiciously and uniformly.

### **14AE Other coercive actions for non-registration**

The bill proposes to introduce strong enforcement powers to compel registration under the Sales Tax Act, 1990 from the date as may be notified by FBR by notification in the Official Gazette. It authorizes the Chief Commissioner to take coercive actions against unregistered persons, including:

- Sealing business premises;
- Seizing movable property; and
- Appointing a receiver to manage taxable activity

## Section

The above action is subject to:

- Requirement of public notice before enforcement
- Opportunity to be heard via an open court comprising the Chief Commissioner, the Commissioner concerned, Chamber of Commerce representative and a trade body representative
- Mandatory publication of the decision to ensure transparency

The removal of restrictions upon registration is proposed within 2 working days.

The right to appeal to the Federal Board of Revenue (FBR) within 30 days also provides a channel for redress.

The measure is tax broadening measure which should be subject to clear SOPs and oversight mechanisms.

### 21(2A)(5)

#### **Suspension of registration**

This proposed insertion aims to introduces a defined procedural framework for handling suspension cases under the Sales Tax Act. It:

- Requires the Commissioner to issue a show cause notice within 15 days of suspending a registered person;
- Mandates a hearing opportunity for the taxpayer;
- Allows the Commissioner to either:
  - Revoke the suspension, or
  - Issue a speaking order for blacklisting (appealable), within 30 days of the receiving the reply.

Simultaneously, the sub-section (5) is proposed to be deleted as the above insertion effectively covers the mandate as specified under sub-section (5).

## Section

**23(1)(g),  
23(5),23(6)**

### **E-Bilty and E-Invoice integration**

By virtue of the insertion of new proviso in clause (g), the registered persons will now be mandated to link tax invoices with the e-Bilty system under section 40C of the Sales Tax Act and section 83C of the Customs Act. This will enable real-time tracking of the movement of taxable goods, aiming to curb under-invoicing, fake billing, and undocumented trade.

Further, through the proposed insertions of sub-sections (5) and (6), the FBR is empowered to require real-time integration of invoicing systems for any person or class of persons, ensuring seamless reporting and reducing the possibility of tax evasion. The mechanism involves third-party integrators to assist businesses in connecting their systems with FBR's system. This indicates a formalized and standardized implementation channel to support compliance.

It is pertinent to mention that FBR vide Notification Reference 709(I)/2025 dated April 22, 2025 has already directed to integrate E-Invoice through licensed integrators for corporate and non corporate registered persons. This effect is now being explicitly mentioned in this section.

The amendment also emphasizes that all Tier-1 retailers must integrate their systems for real-time reporting of sales, suggesting an aggressive push toward point-of-sale (POS) monitoring.

**26(1)**

### **Returns- reporting for online market place and payment intermediary**

The proposed changes introduce an explicit monthly reporting obligation for on-line marketplaces, payment intermediaries and couriers in relation to digitally ordered goods supplied from within Pakistan. This includes:

For ontime market places:

- Supplier-wise breakup of payments and taxes;
- Such other information of digitally ordered goods irrespective of economic ownership

## Section

For Payment Intermediary and Courier:

- Supplier-wise break-up of payments and taxes;
- Such other information for taxable supplies of digitally ordered goods through online market place, website and software application

There appears an anomaly that all the supplies is referring “from within” keeping in view the position that the supplies made outside Pakistan are considered as export under section 4 of the Sales Tax Act, 1990 and thus zero rated. FBR should clarify this position since supply irrespective of its mode cannot be considered for tax purpose if it is covered under the zero rated regime.

Further, there may be a potential problem in filing of the statements by the payment intermediary as there may be the data accessibility and interface issue and robust mechanism as practical with detailed guidelines would be required to make this transition.

### **26(3) Withdrawal of no approval condition for the revised return**

The bill proposes to withdraw the proviso wherein the condition for the approval is not required if the revised return is filed within 60 days having more tax liability or less refund claim.

This further tightens compliance by eliminating discretionary reporting relaxations.

### **30(j) Appointment of officers with other designations**

The proposed substitution seeks to explicitly recognize officers with other designations, including those from Directorates General, as officers of Inland Revenue. The explanatory clause clarifies this inclusion is not new, but rather declaratory in nature, implying such officers have always been deemed as authorities under this section.

This move appears to be aimed at removing interpretative ambiguity, especially in cases where proceedings initiated by Directorate officers were challenged for lack of jurisdiction. It strengthens the legal basis for enforcement actions initiated by Directorates such as Intelligence & Investigation, Audit, Internal Oversight, etc.

## Section

### 32B Appointment of experts and auditors

The proposed insertion seeks to empower the FBR and Commissioners to appoint experts as considered necessary. Further it is also proposed to empower the Board to appoint up to two thousand auditors, either directly or through third parties for purposes such as audit, investigation, litigation and valuation.

This provision significantly broadens the operational capacity of the tax administration by enabling outsourcing of technical functions, thereby addressing the chronic resource and skill constraints in complex audit and enforcement tasks. It mirrors modern international tax practices where external expertise is leveraged for specialized functions.

However, such delegation must be accompanied by strong regulatory oversight to avoid conflicts of interest, misuse of authority, or arbitrary assessments by third-party auditors. Proper terms, conditions, and limitations, as envisaged in the law, will be critical.

### 33(1) Offences fines and penalties

The bill seeks to make certain changes in offences, fines and penalties as follows:

Sr. No	Description	Penalty (Existing)	Penalty (Proposed)
<b>1A (New)</b>	Where any online marketplace, payment intermediary or courier fails to furnish prescribed monthly statement within due date	N/A	Such person shall be liable to pay:  (i) Penalty of five lac rupees for first default;  (ii) Penalty of one million rupees for each subsequent default.
<b>1B (New)</b>	Where any online marketplace, courier allow use of its services in the course of e-commerce by unregistered persons.	N/A	Such person shall be liable to pay:  (i) Penalty of five lac rupees for first default;  (ii) Penalty of one million rupees for each subsequent default.

11	Any person who, – (a) submits a false or forged document to any officer of Inland revenue]; or (b) destroys, alters, mutilates or falsifies the records including a sales tax invoice; or (c) Knowingly or fraudulently makes false statement, false declaration, false representation, false personification, gives any false information or issues or uses a document which is forged or false.	Such person shall pay a penalty of twenty-five thousand rupees or one hundred per cent of the amount of tax evaded or sought to be evaded, whichever is higher. Without prejudice to the above, he shall also be liable, upon conviction by a Special Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is less than one billion, and which may extend to ten years if the tax evaded or sought to be evaded is one billion and above and fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded, or with both.	Omitted
13	Any person who commits, causes to commit or attempts to commit the tax fraud as defined in section 2(37).	(a) The person who commits, causes to commit or attempts to commit the tax fraud shall pay a penalty of twenty-five thousand rupees or one hundred percent of the amount of tax evaded or sought to be evaded, whichever is higher. Without prejudice to the above, he shall also be liable, upon conviction by a Special	Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to ten years or with fine which may extend to ten million rupees, or with both and shall also be liable to pay the amount equal to the loss of tax caused as confirmed by the Special Judge from such amount reported under sub section (8) of

		<p>Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is less than one billion rupees, and which may extend to ten years if the tax evaded or sought to be evaded is one billion rupees and above, and fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded, or with both; and</p> <p>(b) The person who abets or connives in commissioning of tax fraud shall be liable, upon conviction by a Special Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is less than one billion rupees, and which may extend to ten years if the tax evaded or sought to be evaded is one billion rupees and above, and with fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded or with both.</p>	<p>section 37B, including one hundred percent penalty of tax loss and default surcharge under section 34 of the Act.</p>
<b>13A (New)</b>	Any person who abets or connives in committing tax fraud as defined in section	N/A	Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a

	2(37) or any offence warranting prosecution under the Act.		term which may extend to ten years or with fine which may extend to ten million rupees, or with both.
<b>22</b>	Any person who,- (a) knowingly and without lawful authority gains access to or attempts to gain access to the computerized system; or (b) unauthorizedly uses or discloses or publishes or otherwise disseminates information obtained from the computerized system; or (c) falsifies any record or information stored in the computerized system; or (d) knowingly or dishonestly damages or impairs the computerized system; or (e) knowingly or dishonestly damages or impairs any duplicate tape or disc or other medium on which any information obtained from the computerized system is kept or stored; or (f) unauthorizedly uses unique user identifier of any other registered use to authenticate a transmission of information to the computerized system; or	Such person shall pay a penalty of twenty-five thousand rupees or one hundred per cent of the amount of tax involved, whichever is higher.  Without prejudice to above, he shall also be liable, upon conviction by the Special Judge, to imprisonment for a term which may extend to one year, or with fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded, or with both.	Omitted

	(g) fails to comply with or contravenes any of the conditions prescribed for security of unique user identifier.		
<b>25B (New)</b>	Where any person fails to generate an e-bilty, or tampers with, misuses, or forges such document in contravention of sub-section (6) of section 40C.	N/A	Such person shall be liable to a penalty of fifty thousand rupees and recovery of any tax evaded through such contravention.

## Section

### 37 Power to summon persons to give evidence

The bill seeks to confer civil court powers on officers of Inland Revenue in relation to the suit under the Code of Civil Procedure, 1908 in respect of the following matters:

- Summoning and enforcing attendance of any person;
- examining persons under oath; and
- Demanding production of documents and Evidence on affidavits.

This measure aims to strengthen investigative authority under the Sales Tax Act, aligning with similar powers granted under income tax law and other fiscal statutes. It gives legal backing to enforcement and improves the evidentiary value of proceedings. However, safeguards are essential to prevent abuse of these quasi-judicial powers. The use of such powers must be justified, proportionate, and procedurally fair, particularly when dealing with compliant taxpayers or matters under genuine dispute.

### 37A Power to inquire and investigate offences

The bill proposes to substitute the section with the focus on the following:

- Initiation of the inquiry upon approval of commissioner based on the material evidence indicative of tax fraud or an offence warranting prosecution;
- The officer may use powers under sections 37, 38, 38A, 38B, 40, or any other relevant provision for data collection, access, and verification.
- After completion of the inquiry, the officer may:
  - provide the person opportunity of being heard; and
  - confront the person with evidence;

## Section

- If the reply is unsatisfactory or the person fails to respond:
  - The officer must document findings including the possibility and occurrence of tax fraud or any other offence involving prosecution and quantify loss of revenue; and
  - The Commissioner must approve the initiation of investigation after reviewing facts and giving written reasons.
- Upon approval, the substance of the offence must be recorded in a prescribed format aligning the process with documented investigation standard.
- The investigating officer, not below the rank of Assistant Commissioner, is empowered to:
  - Exercise powers similar to those of a police officer under the CPC.
  - However, these powers are subject to the provisions of the Sales Tax Act, 1990.

Two stage check from inquiry to investigation appears prudent and multiple level control highlights only genuine cases are subject to tax fraud related investigation.

The empowerment to exercise police-like powers underscores the need for strict SOPs, training of officers, and internal checks, to avoid potential overreach or harassment.

### **37AA Power to arrest**

The bill seeks to propose formalized arrest mechanism for the person involved in tax fraud or covering under prosecution:

- an officer of Inland Revenue may arrest a person during investigation if there is reasonable belief, based on material evidence, that the person committed or attempted to commit tax fraud or another offence warranting prosecution;
- prior written approval from the Commissioner is mandatory under this sub-section.

- in exceptional situations (e.g. risk of absconding), the officer may arrest without prior approval but must:
  - Immediately report to the Commissioner.
  - Provide a summary of material facts and grounds of arrest in writing.
- if the Commissioner finds the arrest unjustified or done with mala fide intent, they may:
  - Order immediate release of the accused;
  - Refer the matter to the Chief Commissioner for fact-finding inquiry
- if a company is involved in tax fraud, the directors, CEO, or CFO (or equivalent) may also be held personally liable and arrested, provided:

The officer of Inland Revenue has reason to believe they were personally responsible.

- however, such arrest does not absolve the company from its tax liabilities, default surcharge, and penalties.
- all arrests must be in line with the Code of Criminal Procedure, 1898, unless inconsistent with the Sales Tax Act.
- this integrates the tax framework with criminal due process norms, e.g. rights of the arrested, production before magistrate, etc.
- even abettors of tax fraud can be arrested if:
  - The officer (Assistant Commissioner or above) has material evidence, and
  - Obtains Commissioner's approval for both investigation and arrest.

The scope for arrest without prior approval raises concerns of potential misuse if not transparently documented or frequently audited. The extension of liability to senior officers of companies may raise business concerns and is likely to be contested unless safeguards against wrongful arrest are strictly enforced. This proposed amendment is expected to significantly strengthen the prosecutorial capabilities of tax authorities. However, the balance between enforcement and abuse prevention will hinge on:

- proper training of IR officers; and
- transparent internal guidelines compliance SOP for businesses in light of this provision.

## Section

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

The bill seeks to formalizes the post-arrest procedure of any person under the Sales Tax Act, 1990, providing a detailed process aligned with the Criminal Procedure Code (CPC).The key process is as follows:

- Any person arrested must be produced before the:
  - special Judge, or
  - nearest Judicial Magistrate (if no Special Judge nearby)
- within 24 hours of arrest, excluding travel time.
- the Special Judge may grant bail after hearing the prosecution and examining the record, or
- deny bail and send the accused to detention at a location deemed appropriate.
- future cancellation of bail is allowed if deemed necessary, but only after hearing the accused.
- if produced before a Magistrate:
  - the Magistrate may order temporary detention and set a date/time for production before the Special Judge.
  - alternatively, he may direct immediate transfer to the Special Judge.
- a Special Judge or Magistrate can remand the person to Inland Revenue's custody:
  - only upon written request by the investigating officer.
  - must review the record and hear the accused.
- the maximum remand period cannot exceed 14 days in total, even with extensions.
- if the Inland Revenue officer finds no sufficient evidence post-investigation:

- the person may be released on bond (with or without sureties).
- a report must be submitted to the Special Judge recommending discharge.
- full case report also goes to the Commissioner.
- after receiving the report:
  - the Special Judge may:
    - discharge the person, or
    - if sufficient ground exists, order trial and direct prosecution to present evidence.
- every arrest must be logged in a prescribed arrest register, detailing:
  - name, time, date, reasons for arrest,
  - evidence recovered,
  - witnesses, statements, and
  - daily investigation updates.
- the register (or certified copies) must be produced to the Special Judge on demand.
- after completing the investigation, the officer must:
  - submit a report through the Commissioner,
  - using the same format as a police challan (FIR final report),
  - indicating the total tax loss caused or attempted.
- a Magistrate of the First Class can record any statement or confession under Section 164 CPC, applying normal criminal evidentiary safeguards.
- the Board may, with approval of the Federal Minister-in-Charge:
  - authorize any other officer under its control to perform functions of an Inland Revenue officer under this section,

## Section

➤ subject to any conditions it may deem necessary.

- this proposed insertion attempts to tightly integrates tax enforcement with criminal law procedures, ensuring judicial involvement post-arrest.

taxpayers must ensure clean documentation, recordkeeping, and professional tax conduct to avoid exposure.

### **37BB Compounding of Offences**

The bill proposes to insert the section relating to compounding of offences in the following manner:

- a person accused of tax fraud or any other offence warranting prosecution except offence under clause 13A of section 33 and 34, the Commissioner would have the power to compound such offence;
- the compounding of offence shall not have any affect on the ongoing investigation or prosecution of:
  - abettors, or
  - those who connived in the tax fraud or prosecutable offence.
- once an offence is compounded:
  - it is treated as if the accused has been acquitted.
  - this acquittal is final and binding (subject to the exception below).
- if the accused has already been convicted and an appeal is pending before the High Court, then:
  - compounding is not allowed without prior permission (leave) of the High Court.

### **38B Obligation to produce documents**

The bill proposes to empower the Commissioner to seek in writing from Internet Service Providers, Telecommunication Companies and Pakistan Telecommunication Authority to provide subscriber information specifically related to Internet Protocol (IP) addresses in the context of tax fraud investigations.

## Section

This provision enhances the ability of tax authorities to trace digital footprints in e-commerce, online marketplaces, and digital payments, where tax evasion is suspected

### **40C Monitoring or tracking by electronic or other means**

The bill seeks to insert the production monitoring and video analytics system/connection alongside Barcodes etc as the prerequisite for the purpose of the supply of goods by manufacturers or other persons from such date as may be specified by Board in this respect.

Further, the amendment is proposed to include monitoring equipment to be acquired by registered person from the approved licensee.

The move revolves around mapping the goods with the interfaces and platforms to capture and analyze the real time data.

The bill also seeks to aligns enforcement mechanisms under Sales Tax Law with Customs Act as specified under section 83C of the Customs Act, 1969, which deals with electronic monitoring and security features in customs.

The sub-section 5 is proposed to be omitted as it is catered through the proposed insertion in section 23 discussed supra.

### **43A Pecuniary Jurisdiction in appeals**

The current section was inserted through the Finance Act, 2024 is now proposed to be omitted while proposed substitution is made in Section 45B discussed below.

### **45B Appeals against DCIR Order to Commissioner Appeals/ATIR**

The bill proposes to substitute the existing provision wherein any person excluding State-Owned Enterprises (SOEs) aggrieved by a decision or order passed under sections 10, 11A, 11D, 11E, 11F, 21, 33, 34, and 66 of the Act by an officer of Inland Revenue may prefer an appeal to the Commissioner Inland Revenue (Appeals) within thirty days from the date of receipt of such decision or order. However, an appeal submitted after the expiry of this thirty-day period may still be admitted by the Commissioner Inland Revenue (Appeals) if the appellant can demonstrate sufficient cause for the delay.

Additionally, the amendment introduces a new provision granting registered persons the option to bypass the first appellate stage and directly file an appeal before the Appellate Tribunal Inland Revenue, without availing the right of appeal before the Commissioner Inland Revenue (Appeals) under this section.

## Section

### **46 Appeals against Commissioner Appeals Order/DCIR Order to ATIR**

Any person, including an Inland Revenue officer not below the rank of Additional Commissioner, who is aggrieved by:

- an order of the Commissioner (Appeals), or
- an order by an officer of Inland Revenue (where the *second proviso to section 45B* applies, i.e., taxpayer directly approaches Tribunal),

may prefer an appeal to the Appellate Tribunal Inland Revenue (ATIR) within 30 days of receipt of the order.

The State-Owned Enterprises are generally excluded, unless the ADRC fails to decide the matter within the period of 60 days as specified under section 134A(11) of the Income Tax Ordinance, 2001 applies.

### **47 Appeal to the High Court**

This proposed amendment narrows the scope of appeal to High Courts by allowing only pure legal questions. It seeks to bring coherence to the appellate system by ensuring that High Courts function as interpreters of law rather than fact-reviewing bodies. However, this may result in technical barriers for taxpayers with genuine mixed-issue appeals since ATIR being the last appellate forum has already decided on the facts unless there is a case of the apparent mistake which can then be persuaded under rectification application.

### **56B Disclosure of information**

The bill proposes to explicitly bring experts and auditors appointed under section 32B in line with the public servants in maintaining the confidentiality of the information acquired under the provisions of the Act.

### **58B Inspection of audit firms**

A new section 58C is proposed to be inserted, allowing the Chief Commissioner Inland Revenue to refer a taxpayer's audit firm for inspection to the Audit Oversight Board, but only in cases where the taxpayer is subject to audit under the Companies Act, 2017.

This action can be taken if the Chief Commissioner has reason to believe that the audited financial statements do not present a true and fair view of sales, purchases, and related sales tax liabilities. However, such a referral requires prior approval from the Federal Board of Revenue (FBR).

## Section

This provision enhances regulatory accountability for audit firms and acts as a safeguard against misreporting or collusion in tax matters.

### **73 Certain transactions not admissible**

The bill proposes to remove the monetary limits for the supplies to the un-registered persons resulting in the non claim of their input taxes. This implies that FBR would be empowered to apply thresholds for business transactions through subordinate legislation keeping in view the risk profile of the person and industry dynamics.

However, it also centralizes significant discretion in the executive, which could lead to uncertainty or frequent changes unless appropriately balanced with transparent procedures.

### **74 Condonation of time limit**

The proposed amendment seeks to insert proviso to explicitly cap the maximum period of extension for the time limit specified under various provisions of the Act to two years in aggregate, regardless of what is stated elsewhere in the Sales Tax Act, other laws, or judicial/administrative decisions.

However, an exception is proposed to be introduced, if there are reasons to believe that a significant loss to the exchequer has occurred due to actions or omissions by either the registered person or Inland Revenue authorities (as defined under section 30), then a committee constituted by the FBR may condone the limitation beyond two years. This decision can be made after hearing the concerned person/authorities.

## Schedules

### Third Schedule Taxable Supplies

The bill proposes to insert the following items in the retail price regime:

#### *Proposed new additions in the Schedule*

Serial No.	List of items with broad detail	Respective Heading No.
52.	Import of pet food including of dogs and cats sold in retail packing	2309.1000
53.	Import of coffee sold in retail packing	0901.1100, 0901.1200, 0901.2100, 0901.2200, 0901.9000, 2101.1120
54.	Import of chocolates sold in retail packing	1704.9010, 1806.2090, 1806.3100, 1806.3200, 1806.9000
55.	Import of cereal bars sold in retail packing	1904.1010, 1904.1090, 1904.2000, 1904.3000, 1904.9000

### Sixth Schedule – Table-1: exemption on local supply or import of goods

The bill proposes to amend the Sixth Schedule to the Sales Tax Act, 1990 as follows:

#### *Proposed omission in existing headings*

Serial No.	List of items with broad detail	Respective Heading No.
151	The proposed bill seeks to withdraw the tax exemption on supplies and imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas.	Respective Headings
164	Photovoltaic cells whether or not assembled in modules or made up into panels (solar panels).	8541.4200 and 8541.4300

***Proposed substitution in existing headings***

<b>Serial No.</b>	<b>Description</b>	<b>Existing</b>	<b>Proposed</b>
<b>152</b>	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May 2018, but excluding steel and ghee or cooking oil industries.	30th June 2025	30th June 2026
<b>179</b>	Import of cystagon, cysta drops and trientine capsules. Tariff heading 3004.9099	for personal use only	Omitted

***Proposed new addition in the Schedule***

<b>Serial No.</b>	<b>List of items with broad detail</b>	<b>Respective Heading No.</b>
<b>181</b>	The proposed bill seeks to exempts sales tax on Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL)	8802.1200 8802.3000 8802.4000

**Sixth Schedule – Table-2: exemption on local supply**

The proposed bill seeks to rationalize the exemption on iron and steel scrap as follows:

***Proposed substitution in existing headings***

<b>Serial No.</b>	<b>Existing</b>	<b>Proposed</b>
<b>57</b>	Iron and steel scrap excluding supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021.	Iron and steel scrap excluding:– a) supplied by manufacturer cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel melter subject to such apportionment, conditions and

restrictions as may be specified by the Board through a Sales Tax General Order; and

- b) supplied directly by the importer (verifiable from the goods declaration form) to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order.

### **Eight Schedule – Table-1:**

The bill proposes to amend the Eight Schedule to the Sales Tax Act, 1990 as follows:

#### ***Proposed omission of existing headings***

<b>Serial No.</b>	<b>List of items with broad detail</b>
<b>53</b>	The bill seeks to remove the already withdrawn exemption of Cinematographic equipment imported during the period commencing from July 2018 to June 2023.
<b>72</b>	The proposed bill seeks to withdraw the reduced sales tax rate on the motor vehicles locally manufactured or assembled motorcars of cylinder capacity upto 850cc. Tariff Heading 87.03

#### ***Proposed substitution in existing headings***

<b>Serial No.</b>	<b>Goods</b>	<b>Existing Rate</b>	<b>Proposed Rate</b>
89	a) Imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan; and	N/A	From 10% to 16% (for 2025-26 to 2028-29 evenly each year)
	b) Supplies within the tribal areas		

Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO.

Provided further that if plant, machinery and equipment, on which reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas, the differential amount of tax shall be paid at applicable rate.

## **Eleventh Schedule**

### **Withholding of Sales Tax**

The bill proposes to amend the Eleventh Schedule to the Sales Tax Act, 1990 as under:

#### ***Proposed substitution in existing heading***

Consistent with the proposed changes in Section 14 read with section 26 of the Sales Tax Act, 1990, the consequential changes are being proposed in withholding sales tax regime by obligating payment intermediary and courier.

<b>Serial No.</b>	<b>Withholding agent</b>	<b>Supplier category</b>	<b>Rate or extent of deduction</b>
8	Payment intermediaries and couriers in respect of digitally ordered goods from within Pakistan.	Persons supplying digitally ordered goods from within Pakistan through online marketplace, website, software applications.	2% of gross value of supplies.

#### ***Previously existing heading***

<b>Serial No.</b>	<b>Withholding agent</b>	<b>Supplier category</b>	<b>Rate or extent of deduction</b>
8	Online marketplace	Persons other than active taxpayers.	1% of gross value of supplies: Provided that the provisions of this entry shall be effective from the date as notified by the Board.

## SUMMARY OF CHANGES IN THE FEDERAL EXCISE ACT, 2005

### Section

#### **3(5) Duties Specified in the First Schedule to be levied**

This section imposes the liability for the payment of duty on certain persons listed in clauses (a) to (d) under specified conditions. The bill proposes to insert a new clause (e), stipulating that in any case not covered by clauses (a) to (d), the duty shall be payable by the person, as may be specified under the provisions of the Act.

#### **26(1) Power to Seize**

Section 26 of the Act authorizes the seizure of counterfeit cigarettes, beverages, and other dutiable goods on which excise duty has not been paid. The proposed amendment seeks to extend this seizure authority to goods subject to monitoring and tracking under Section 45A(1) of the Act, where such goods are found:

- without affixing the required tax stamps, barcodes, banderoles, stickers, or labels as mandated under Section 45A(2); or
- with counterfeit versions of such stamps, barcodes, banderoles, stickers, or labels.

#### **27(1)(4) Confiscation of Goods Subject to Federal Excise Duty**

Section 27 of the Act authorizes the confiscation and destroying of seized counterfeit cigarettes or beverages. The proposed amendment seeks to extend this confiscation and destroying authority to dutiable goods subject to monitoring and tracking under Section 45A(1) of the Act, where such goods are found:

- without affixing the required tax stamps, barcodes, banderoles, stickers, or labels as mandated under Section 45A(2); or
- with counterfeit versions of such stamps, barcodes, banderoles, stickers, or labels.

The bill also proposes to insert a new subsection (4) in Section 27, stipulating that the Board may authorize any officer or employee of the Federal or Provincial Government to exercise the powers and perform the functions of an Inland Revenue officer under Sections 26 and 27(1) of the Act namely, the power to seize and the power to confiscate, respectively.

### **33 Appeals to the Commissioner (Appeals)**

**Chapter V** Earlier in May 2024, significant changes were brought through Tax Laws (Amendment) Act, 2024 in the provisions contained in Chapter V of the Act namely 'Powers, Adjudication and Appeals'. Through the said amendments, jurisdiction of appeals involving amount of tax/ refund equal to or less than five million was placed with Commissioner Appeals while exceeding such limit of five million was placed with Appellate Tribunal. The jurisdiction of second appeal against both the orders of Commissioner Appeals as well as Appellate Tribunal was placed with the respective High Court.

The bill proposes certain amendments in the aforesaid Chapter V of the Act to partly reverse the amendments brought through the aforementioned Tax Laws (Amendment) Act, 2024 as follows:

- The bill proposes to clarify the jurisdiction of the Commissioner (Appeals) by excluding State-Owned Enterprises (SOEs) from the category of persons entitled to file appeals before this authority. The amendment appears to be of clarificatory nature as the first proviso to Section 38 of the Act pronounce it mandatory for an SOE to apply to the Board for appointment of an Alternate Dispute Resolution Committee instead of filing of appeal at any appellate forum.
- The bill proposes to introduce a new Sub-Section 33(5) allowing a registered person an option to file appeal before Appellate Tribunal Inland Revenue directly without availing the forum of Commissioner (Appeals). Through this amendment, both the appellate forums of Commissioner Appeals as well as Appellate Tribunal have been made available.

#### **33A Pecuniary Jurisdiction in appeals**

The bill proposes to omit Section 33A. This section was earlier inserted vide Tax Laws (Amendment) Act, 2024 to prescribe pecuniary jurisdiction in Appeals. The omission coupled with insertion of Section 33(5) has majorly reversed the amendments made through the Tax Laws (Amendments) Act, 2024.

### **34 Appeal before Appellate Tribunal**

The bill proposes to substitute Section 34(1) with the following changes namely:

- Reference of omitted Section 33A has been removed

- Order passed by the Commissioner Inland Revenue under Section 35 of the Act has been included for filling of appeal under this section;
- Reference of newly inserted Section 33(5) has been inserted; and
- Submission of second appeal before high court has been excluded

#### **34A      Reference to the High Court**

The bill proposes to substitute Section 34A(1) extending the period for filing of reference before High Court on legal grounds from within thirty days to sixty days. The substituted version also proposes to exclude the order of Commissioner Appeals from ambit of such reference as the said orders are now appealable before Appellate Tribunal after omission of Section 33A.

#### **First Schedule Table III**

The allotment or transfer of specified immoveable properties were subject to Federal Excise Duty at the rate of 3%, 5% and 7% of the consideration depending upon status of the buyer as Filer, Late Filer and Non Filer respectively. The bill proposes to withdraw this charge.

## SUMMARY OF CHANGES IN THE CUSTOMS ACT, 1969

### Section

#### **2 Definitions**

##### **2(eb) Cargo tracking system**

The bill seeks to insert a new definition in the Act, for implementation of cargo tracking system which is defined as:

“cargo tracking system” means a digital system notified by the Board for electronic monitoring and tracking of import, export, transit and transshipment goods transported within or across the territory of Pakistan for the purposes of enforcement, compliance and prevention of smuggling

##### **2(kkaa) E-bilty**

The bill seeks to insert a new definition in the Act, for implementation of e-bilty mechanism for movement of goods which is defined as:

“e-bilty” means the digital document generated through cargo tracking system to be accompanied with the transport carrying import, export, transit and transshipment goods transported within or across the territory of Pakistan as per the format prescribed under the rules by the Board

#### **3A Directorate General of Intelligence and Risk Management, Customs**

The bill proposes substituting Section 3A to merge the Directorate General of Intelligence & Investigation (I&I) and the Directorate of the Risk Management System (RMS) into a unified Directorate General of Intelligence and Risk Management, Customs.

The new Directorate shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such other officers as the Board may, by notification in the Official Gazette, appoint. It will also retain all powers previously held by the defunct I&I Directorate under the Anti-Money Laundering Act, 2010 (VII of 2010) and its Rules/Regulations.

#### **3B Directorate General of Customs Auction**

The bill proposes substituting Section 3B to rename the "Directorate General of Internal Audit" as the "Directorate General of Customs Auction".

## Section

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

### **3BBB Directorate General of Communications and Public Relations, Customs**

The bill proposes substituting section 3BBB to rename the "Directorate General of Risk Management" as the " Directorate General of Communications and Public Relations, Customs".

The new Directorate shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and other officers as the Board may, by notification in the Official Gazette, appoint

### **3DD Directorate General of Post Clearance Audit and Internal Audit (PCA & IA)**

The bill seeks to amend Section 3DD to rename the "Directorate General of Post Clearance Audit (PCA)" as the "Directorate General of Post Clearance Audit and Internal Audit (PCA&IA)".

The renamed directorate will now encompass both post-clearance audit and internal audit functions.

### **3F Hiring of technology specialists, auditors, accountants and goods evaluators on short term contract**

The bill proposes to insert new section to authorize the Board for hiring of specialized professionals, including technology specialists, auditors, accountants, and goods evaluators on short term contractual basis.

Under the proposed provision, the Board would be empowered to hire aforesaid professionals for period not exceeding two years, with specific terms and conditions to be determined by the Board.

The section further stipulates that any rehiring of above professionals would be contingent upon their satisfactory achievement of key performance benchmarks. Further, these benchmarks would be constituted by an assessment committee comprising of both customs officers and relevant private sector experts, to be notified in the Official Gazette.

### **19 General power to exempt from Custom duties**

The Federal Government is empowered to grant exemption, vide Gazette Notification, from whole or part of customs duties including fine, penalty and any other charge on import or export of goods, in certain exceptional circumstances.

## **Section**

The bill proposes to extend the deadline to place all Notifications issued on or after the first day of July, 2016 till 30 June 2026 before the National Assembly otherwise the same would stand rescinded.

### **19C Minimal duties not to be demanded**

Currently, all imported goods valued below five thousand rupees are exempt from duties and taxes, subject to conditions prescribed by the Board.

The proposed substitution aims to restrict the exemption to imports valued below Rs. 500/- made through postal/courier service only to prevent misuse of the de minimis exemption.

### **27A Allowing mutilation or scrapping of goods**

The section 27A permits the mutilation or scrapping of specified goods at the request of the importer to be filed before filing the goods declaration. Once mutilated/scrapped, such goods are assessed for duty based on their altered form. A proviso already exists that prohibits scrapping or mutilation of goods imported in new condition, which must instead be taxed as new goods.

The bill now proposes to insert a new proviso whereby the permissible quantity eligible for scrapping/mutilation will be restricted to a maximum of 10% of the total imported goods.

### **32 Recovery of tax not levied / short levied or erroneously refunded**

The proposed substitution in proviso to Section 32(3A) seeks to streamline dispute resolution by significantly raising the monetary threshold for initiating recovery actions from Rs. 20,000 to Rs. 100,000 when duty discrepancies are identified through an audit or examination of an importer's or exporter's accounts or by any means other than an examination of the documents provided by the importer or exporter at the time the goods were imported or exported.

Additionally, it introduces a new condition allowing the authorities to take action for amounts below the aforesaid proposed threshold only if the party does not voluntarily deposit the recoverable amount. This change aims to reduce litigation.

### **79(1) Declaration for home consumption**

Currently, this sub-section mandates that importers must both assess and pay all applicable duties, taxes, and charges at the time of filing any goods declaration (GD).

## Section

The proposed insertion of the proviso aims to introduce an option to defer payment until completion of assessment from such date as to be notified by the Board, provided the GD is submitted before the physical berthing of a vessel or cross-over event of vehicle.

### **80(6) Centralized assessment and examination units**

The bill proposes to include a new sub-section (6) to empower the Board to constitute Centralized Assessment Unit (CAU) and Centralized Examination Unit (CEU) at such places as it may deem appropriate.

Key features of the Centralized Assessment Unit and Centralized Examination Unit, as enacted through proviso to said subsection, include:

- both the Centralized units may handle import, export, and transit consignments across all customs ports, inland stations, border stations, and airports.
- CAUs will operate as restricted areas accessible only to designated customs officers or personnel specifically authorized by the Chief Collector.
- assessments may be conducted digitally using the Customs Computerized System, supported by Artificial Intelligence tools for enhanced efficiency.

Furthermore, the Board will have the authority to prescribe operational procedures and conditions for assessments/examinations of goods to be conducted through the aforesaid units.

The proposal also includes a retrospective validation clause deeming any existing centralized units as having been properly constituted under this new provision.

### **82 Procedure in case of goods not cleared or warehoused or transhipped or exported or removed from the Port after unloading or filing of declaration**

Under the current provisions, goods not cleared within fifteen days (extendable by five days) may be auctioned or moved to customs warehouses.

The bill seeks to substitute the existing provision with a revised framework designed to reduce port congestion and dwell times by introducing stricter timelines and levy penalties for delayed clearance of goods to:

- goods declarations not filed within ten days of the arrival of goods at a custom station;

## Section

- Goods are not removed within three days of completion of assessment and berthing of the vessel in case of pre-arrival declarations;
- Goods are not removed within three days of clearance of the goods declaration in case of post-berthing declaration; and
- goods are not loaded on the conveyance for export within fifteen days of the entry in the port.

It is further proposed that goods not cleared within thirty days will face automatic confiscation.

The amendment maintains all existing protections and procedures, including:

- Special provisions for perishable goods, hazardous materials, and military stores which may be sold or destroyed at any time with proper authorization
- The requirement that auction proceeds from goods sold pending legal proceedings be held in deposit, with full refund (after deductions of duties, taxes transportation and other charges) if the goods are ultimately found not liable for confiscation
- The Collector's authority to order re-export of banned/restricted goods not cleared within sixty days
- Payment of custodian charges from sale proceeds when Customs removes goods for disposal
- The prohibition on releasing dutiable goods for home consumption without full duty payment

Right of the custom authority to auction goods with due notice.

### **83(1) Clearance through Customs Computerized System**

The bill proposes to amend the proviso to Section 83(1) to explicitly clarify that under the Customs Computerized System, automated clearance documents will only be generated after full payment of applicable duties, taxes, and other charges.

### **83C Cargo tracking system and e-bilty mechanism**

The bill proposes to insert new section to introduces Cargo Tracking System and e-Bilty Mechanism to digitally monitor the movement of goods across seaports, land borders, dry ports, and inland routes.

## Section

Under this proposed section, all stakeholders involved in goods transportation including consignors, transporters, shipping agents, freight forwarders, consignees, and suppliers must electronically generate, carry, display, or validate an e-Bilty through the designated tracking system.

The Federal Board of Revenue (FBR) is empowered to prescribe implementation procedures, employ tracking technologies, and impose fees for system maintenance.

Non-compliance shall result in fines, penalties, detention, seizure, or confiscation of goods/conveyances under the Customs Act.

Board has the authority to exempt the applicability of e-Bilty in case low-value goods, short-distance shipments, or any other good as may be specified.

### 144 Entry for goods imported or exported by post/courier

Currently, this section treats labels/declarations on postal goods as valid customs entries.

The bill proposes to expand the scope to the goods imported or exported through courier.

### 145 Rate of duty in respect of goods imported or exported by post/courier

The bill proposes to expand the application of duty rate provision to include courier shipments, which are currently only governing postal imports and exports. This amendment formally extends the same duty rate determination rules to courier shipments.

### 156 Offences and Penalties

Proposed additions in fines & penalties are listed below:

Sr No.	Description	Proposed Penalty
105 (ix)	If any person who- (i) fails to generate, carry, display or validate an e-bilty and any tracking devices ancillary thereto for inland movement of goods; or (ii) intentionally avoids to generate, carry, display or validate an e-bilty and any tracking devices ancillary thereto; or (iii) tampers with the e-bilty or any tracking devices ancillary thereto or affixes tracking device issued for one conveyance on another.	Such person shall be liable to a penalty of fifty thousand rupees for the first contravention and rupees five hundred thousand for the second contravention; and thereafter he shall be liable to a penalty of rupees one million and confiscation of the goods and conveyance and upon conviction by a Special Judge liable to imprisonment not exceeding six months;

## Section

Proposed substitutions in existing fines & penalties are listed below by highlighting and underling:

Sr No.	Offences	Penalties	Section of this Act to which offence has reference.
64	If any person contravenes any rule or condition relating to <u>section 127 or section 128 or section 129 or section 129A</u> , or makes an untrue declaration relating to transit goods or illegally removes or conceals any transit goods,	such person including the custodian and inland carrier shall be liable to a penalty up to twice the value of the goods and upon conviction by a Special Judge be further liable to imprisonment for a term not exceeding five years, and the goods in respect of which such offence has been committed shall also be liable to confiscation.	<u>127, 128, 129 and 129A</u>

### 157 Extent of Confiscation

The bill proposes to remove the proviso to Section 157(2), which allows the release of seized conveyances liable for confiscation if the owner provides a bank guarantee.

Accordingly, all conveyances used in transporting goods subject to confiscation will remain impounded throughout the adjudication process without exception.

### 169(6) Stay orders on confiscated goods auctions

The bill proposes to insert this new sub-section which mandates that no court shall grant a stay order on auction proceedings unless the petitioner furnishes either a pay order or a bank guarantee covering at least 50% of the reserve price of the goods, before the nazir of the court.

### 179(3)/(4) Power of adjudication

The proposed amendments seek to rationalize adjudication timelines and procedures for cases involving smuggled goods and goods detained at ports.

Currently, such cases must be decided within thirty days of issuing a show-cause notice, with an additional fifteen-day extension option exercisable by the Collector Adjudication in case of goods detained at ports.

## Section

The amendment extends this period to forty-five days, while introducing an additional fifteen-day extension option exercisable by the Collector Adjudication in case of smuggled goods.

The bill further proposes to enhance the Board's authority to regulate adjudication procedures (including case transfers and time extensions) by replacing phrase "in exceptional circumstance" with "as deemed appropriate after reasons to be recorded in writing", allowing more discretionary oversight.

### **187 Burden of proof**

Under the existing provision, when a person is accused of committing an offence under the Act, the burden lies on them to prove that they acted with lawful authority, such as under a permit, license, or similar document.

The bill proposes to add goods declaration and sales tax invoice issued in their name to the list of evidence that can be produced to substantiate the legality of their actions or to establish legitimate ownership of goods.

### **187A Presumption as to legal character of vehicle**

A new section is proposed to be inserted to define the legal character of a tampered vehicle. According to the bill, if a vehicle is detained or seized under the Customs Act and a forensic examination reveals that its chassis number has been tampered through cutting, welding, filling, re-stamping, or other body modifications, it will be presumed to be smuggled. This presumption will apply even if the vehicle is registered with a Motor Registration Authority, and such vehicles will be liable to confiscation under the law.

### **193 Appeals to the Collector (Appeals)**

The bill proposes to add a proviso which stipulates that no appeal may be filed against an order before the Collector (Appeals) if the aggrieved person did not appear before the original adjudicating authority despite having been given adequate opportunity of hearing.

### **194A Appeals to the Appellate Tribunal**

The bill proposes three key modifications to the appeals process before the Customs Appellate Tribunal.

First, the time limit for filing appeals is proposed to be extended from thirty days to forty-five days.

## **Section**

Second, a new requirement is proposed to be introduced whereby any stay order granted by the Tribunal shall be conditional upon furnishing either a pay order or bank guarantee for an amount not less than fifty percent of the recoverable amount, to be submitted before the registrar of the Tribunal by the Appellant.

Third, a restriction is proposed to be imposed preventing the filing of appeals in cases where the aggrieved party failed to appear before the original adjudicating authority despite having been provided adequate opportunity of hearing.

### **195 Re-examination of Proceedings**

The bill proposes to empower the Director Generals and Directors alongside the Board, Chief Collectors and Collectors of Customs to call for and examine the records of any proceedings under this Act regarding a decision or order passed by a subordinate officer within their respective jurisdictions.

The bill further seeks to clarify that the power to pass fresh orders under sub-section (1A) explicitly includes adjudication proceedings among the types of other proceedings/cases that may be reassigned for reconsideration/re-examination.

### **196 Reference to High Court**

The bill proposes two key amendments to the process of filing references before the Honourable High Court.

First, the time period for filing a reference is proposed to be clarified by stating that the 30-day limitation shall commence from the date of receipt of the Appellate Tribunal's order, rather than the date of the order itself.

Second, a new condition is proposed to be added for obtaining a stay against recovery of duty or taxes during the pendency of a reference on furnishing a pay order or bank guarantee equal to at-least fifty percent of the recoverable amount, to be submitted before the nazir of the court by the aggrieved person.

### **201 Customs Auction Process**

The bill proposes to expand the authorized methods of conducting auctions by allowing sales through authorized agents, in addition to the existing methods of public auction, tender, private offer, and in any other manner with the consent of the owner or his agent or custodian of the goods.

## Section

The bill further proposes insertion of a new sub-section which mandates that any party seeking a stay on an auction must furnish a pay order or bank guarantee equivalent to at least fifty percent of the reserve price of the goods which will be deposited before the nazir of the court.

### 225 Establishment of Customs Command Fund (CCF)

The bill seeks to insert new section for establishing the Customs Command Fund (CCF), for supporting anti-smuggling activities. The Fund will be financed from proportionate share of proceeds generated from the auction of confiscated smuggled goods and the said share will be notified by the Board in agreement with the Finance Division.

The Board will have the authority to prescribe detailed guidelines governing the Fund's utilization and any necessary conditions or restrictions.

### 226 Digital enforcement station(s)

The bill proposes to introduce new Section to empower the Board to declare places to be Digital Enforcement Stations, through official Gazette notifications, for the prevention of smuggling and illicit trade. The Board may notify any existing customs check-post as Digital Enforcement Station.

The provision also enables the Board to make rules for staffing, operations, and technological enablement of Digital Enforcement Station. Further, the bill also proposes to empower the Board (subject to rules) to hire retired junior-commissioned officers and soldiers of the armed forces for the purpose of this section.

## Schedule

### First Schedule

#### Proposed Changes in Custom Duty

**The government has put forward modifications to the existing customs duty structure as part of ongoing tariff reforms. Key proposed modifications include:**

**Revised Duty Structure:** The current duty rates of 3%, 11%, and 16% will be adjusted to new rates of 5%, 10%, and 15% respectively on certain items.

**Expanded Zero-Rating:** The bill proposes to extend concessional rate of Customs Duty @ 0% to additional 916 items across various chapters of the Pakistan Customs Tariff.

**Duty Reductions:** Import tariffs are proposed to be lowered for products classified under 2,624 different PCT codes.

**Significant Changes (+/- 5%) in rates of CD**

PCT CODE	Description	Existing Rate	Proposed rates
<b>Proposed increases in Custom Duty Rates</b>			
<b>2710.1931</b>	High-speed diesel oil	0	10
<b>2711.11</b>	Natural gas	0	5
<b>7204.101</b>	Re-rollable products (steel)	0	5
<b>7204.491</b>	Re-rollable products (steel)	0	5
<b>Proposed decrease in Custom Duty Rates</b>			
<b>3822.11</b>	Diagnostic reagents for malaria	11	0
<b>3822.12</b>	Diagnostic reagents for Zika/diseases	20	0
<b>4103.3</b>	Swine leather	20	0
<b>6815.11</b>	Carbon fibres	20	0
<b>6815.12</b>	Fabrics of Carbon fibres	20	0
<b>6815.13</b>	Other articles of Carbon fibres	20	0
<b>6815.19</b>	Other	20	0
<b>8901.1</b>	Cruise ships/ferries	11	0
<b>1502.1</b>	Tallow	11	5
<b>1805</b>	Cocoa powder (unsweetened)	11	5
<b>2309.9</b>	Animal feed additives	20	5
<b>2522.1</b>	Quicklime	16	5
<b>2522.2</b>	Slaked lime	16	5
<b>2522.3</b>	Hydraulic lime	16	5
<b>5205.11-5205.48</b>	Cotton yarns (various types)	11	5
<b>5206.11-5206.45</b>	Cotton yarns (other types)	11	5
<b>5207.1-5207.9</b>	Cotton fabrics	11	5
<b>802.11</b>	Nuts (in-shell)	16	10
<b>802.12</b>	Nuts (shelled)	20	10
<b>1901.2</b>	Baker's dough mixes	16	10
<b>3402.42</b>	Non-ionic surfactants	16	10
<b>603.11</b>	Roses	20	15
<b>603.12</b>	Carnations	20	15
<b>603.13</b>	Orchids	20	15
<b>603.14</b>	Chrysanthemums	20	15
<b>603.15</b>	Lilies	20	15
<b>603.19</b>	Other flowers	20	15
<b>603.9</b>	Other	20	15
<b>3907.7</b>	Poly(lactic acid)	20	5
<b>3904.22</b>	Plasticised PVC	20	15

## **Fifth Schedule**

### **Exemptions Through Amendments in Fifth Schedule**

As part of fiscal reforms to streamline and minimize cost of exemptions, the bill proposes the removal of 479 exemptions across Part-I, Part-III, and Part-VII of the Fifth Schedule.

#### **Part-I      Import of Plant, Machinery, Equipment and Apparatus, including Capital Goods for various industries/sectors**

The bill proposes to withdraw preferential 0% rate applicable to critical sectors under Part I of the Fifth Schedule. This includes exemptions for:

- Agricultural machinery and equipment
- Educational and scientific research equipment
- Mining and processing tools for marble, granite, and gemstones
- Renewable energy infrastructure (solar and other clean energy technologies)
- Nutritional enhancement devices for food fortification

Additionally, concessionary rates for the following are also proposed to be withdrawn:

- Medical diagnostic and therapeutic devices
- Capital goods for tourism development projects

#### **Part-III      Raw Materials/Inputs for Poultry and Textile Sector; Other Goods**

The Bill proposes to discontinue the current preferential tariff structure (0%–16%) applicable to textile industry raw materials specified in Part III of the Fifth Schedule including but not limited to:

- Polymer-based materials (e.g., PTA, medical-grade films)
- Natural fibers and hides
- Synthetic yarns and filaments
- Technical textiles and industrial components

## **Part-VII      Miscellaneous**

The Bill proposes to discontinue the current preferential tariff structure (0%–16%) applicable to a comprehensive range of commodities classified under Part VII of the Fifth Schedule including but not limited to:

- Agricultural commodities (live animals, fresh produce, pulses)
- Industrial raw materials (chemicals, metals, textiles)
- Manufacturing inputs (plastics, rubber products)  
Specialized equipment (medical devices, automotive components)

### **RD & ACD**

#### **Proposed Changes in Additional Custom Duty and Regulatory Duty**

Following amendments to regulatory structure have been announced through the Salient Features of the Budget Speech in respect of which the Notifications are to be issued:

##### **Regulatory Duty (RD):**

- Removal of Regulatory Duty on goods classified under 554 PCT codes.
- Reduction in Regulatory Duty rates on goods falling under 595 PCT codes.
- Decrease in the maximum Regulatory Duty rate from 90% to 50%.

##### **Additional Customs Duty (ACD):**

- Reduction of ACD from 2% to 0% on tariff slabs of 0%, 5%, and 10%, covering 4,383 tariff lines (excluding 95 tariff lines still subject to 2% ACD).
- Reduction of ACD from 4% to 2% on 518 tariff lines under the 15% tariff slab.
- Reduction of ACD from 6% to 4% on 2,166 tariff lines under the 20% tariff slab.
- Reduction of ACD from 7% to 6% on 468 tariff lines under tariff slabs above 20%.i. Regulatory duty (RD) on goods falling under 554 PCT codes removed.

## SUMMARY OF CHANGES IN THE ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

### Section

#### **3(1) Scope of tax**

The bill proposes to insert a proviso section 3(1) entrusting the Board with an authority to prescribe through a general order, any service providers as mentioned in Table 1 and Table 2 of the Schedule to integrate its business with the Board's computerized system for real-time reporting of provision of services.

This proposed clause appears to be aligned with the recent changes made through SRO 709(I)/2025 dated April 22, 2025.

#### **3(2A) Exemption from sales tax on services**

The proposed bill seeks to exempt the services provided to German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit) GIZ in line with the exemption provided to goods supply to the above under serial no. 147 of the Sixth Schedule to the Sales Tax Act, 1990.

Similarly, the proposed bill seeks to exempt the services imported by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder; and agreements by the Federal Government under certain conditions.

#### **3(4) Negative list of exempt service**

The bill proposes to insert a new Section 3(4) thereby empowering the Board to specify through notification in official Gazette a negative list of services exempt from charge of tax under the Ordinance.

## STAMP ACT, 1899

### Restructuring of stamp duty on conveyance

The proposed amendment introduces a unified and significantly reduced stamp duty rate on all conveyances of immovable property in Islamabad Capital Territory:

- All conveyances will now be subject to a percentage-based duty.
- The standard stamp duty rate for property transfers is reduced from the previous four percent 4% to either one percent 1% or two percent 2% of the property's value.
- A new distinction is introduced, directly linking stamp duty to income tax filing status:
  - For Filer: Stamp duty shall be levied at one percent of the value of the immovable property.
  - For Non-filers: Stamp duty shall be levied at two percent of the value of the immovable property.

## PETROLEUM PRODUCTS (PETROLEUM LEVY) ORDINANCE, 1961

### Introduction of carbon levy

The Finance bill has proposed amendment to the Petroleum Products (Petroleum Levy) ordinance 1961, by introducing **Carbon Levy** alongside the existing petroleum levy. Following major changes are proposed.

Petroleum Products	Unit	Proposed Carbon levy (Rupees per liter)	
		2025-2026	2026-2027
Motor spirit	Liter	2.5	5.0
High speed diesel	Liter	2.5	5.0
Furnace oil	Liter	2.5	5.0

### Power to modify items previously mentioned in fifth Schedule.

The proposed bill will empower the Federal Government to make any amendments or modifications in the items previously mentioned in the fifth schedule.

### Addition of furnace oil in list of petroleum products

The proposed bill will include furnace oil (Bunker "C") in the list of petroleum products inserting the said item in the first schedule.

## REGISTRATION ACT, 1908 (XVI OF 1908)

The proposed amendment removed the statutory cap of one percent 1% on fees for registering property documents under section 78(a) of the Registration Act, 1908 by omitting the phrase "not exceeding one percent of the value of the property conveyed", thus removes the upper limit that previously restricted the chargeability of the registration fees not being above 1% of the value of the property been set by the Government.

## GENERATION, TRANSMISSION AND DISTRIBUTION OF ELECTRIC POWER ACT, 1997 (XL OF 1997)

### Amendment in the electricity surcharge

The Finance bill has proposed amendment in the proviso of section 31(8) of the Act. The proposed amendment will empower the Federal Government to increase electricity surcharges on a case-to-case basis for a fixed period. This is an attempt to meet financial obligations related to electric power services, including payments for power purchases and obligations backed by sovereign guarantees.

## PUBLIC FINANCE MANAGEMENT ACT, 2019

### Definitions – Section 2

“(va) “ The Bill has proposed to define “**surplus profit**” as any surplus of receipts over the actual expenditure in a year, after payment of tax;”

### Broadening of Financial Oversight to All Public Entities:

The proposed amendment broadens the definition "public entities" as to include a vast range of government-established or funded bodies (from agencies to trusts, funded by taxes or the central budget) as well as any other entity whose activities may result in a financial commitment or other liability being incurred by the Government.

The proposed amendment in clauses (f) and (g) of section 30, Sub-section (2) by replacing the "autonomous entities" with "public entities" has significantly broadens the reach of the government's central financial management and control over public entities.

Much wider array of government-related organizations will explicitly be targeted for inclusion in the central budgetary and accounting framework. Furthermore, the government will pursue the usage of idle cash held by this significantly expanded group of "public entities." This move aims to centralize financial resources, improve fiscal discipline across the entire public sector, and ensure that all government-related funds are managed more coherently under the central treasury.

### **Shift in responsibility related to dissolution of special fund:**

The proposed amendment makes changes in section 32(3) by introducing a shift in responsibility for notifying the evaluation report of dissolved special funds and adds a new reporting requirement.

- The responsibility for notifying the "evaluation report" of a dissolved special fund now moves from the central Finance Division to the Concerned Division (i.e. the specific government division that managed the fund).
- The "Concerned Division" is now mandated to share that notified evaluation report with the Finance Division within three months of its official publication in the Gazette.
- The Finance Division is no longer explicitly responsible for notifying the "regulation" of such funds upon dissolution.

This change is an attempt to streamline the process by empowering the division directly responsible for the fund to handle the initial notification of its evaluation report upon dissolution. However, it maintains central oversight by requiring that division to promptly (within three months) provide that report to the Finance Division, ensuring transparency and central knowledge of the fund's closure and performance.

### **Proposed Amendment in self-generated revenue:**

- The proposed law applies to all "public entities" as defined in Section 36, which was previously applied in "autonomous entities."
- Previously all revenues generated by autonomous entities was automatically deposited into the central Treasury Single Account, public entities will manage their revenues under their *own* specific laws and rules, but this must be done in consultation with the Finance Division. This means their autonomy is now subject to a mandatory central advisory role.
- New requirement will be introduced according to which any such law, rules, regulation or statutory instruments of the Federal Government which is in force and have been issued without prior consultation of the Finance Division shall be submitted, by the concerned ministry or division to the Finance Division for review within six months. This will allow the central government to ensure consistency and control over all existing revenue management frameworks.
- A major new mandate will require all public entities to submit their fully approved budgets to the Finance Division and make them publicly available. This will significantly boost central monitoring and promotes public transparency over the financial plans of all government-related bodies.

### **Preparation of accounts:**

- The most important proposed change is the mandate for the Controller General of Accounts (CGA) to develop uniform accounting frameworks for *all* "public entities". These standards must align with international accounting principles after approval of Auditor General of Pakistan in consultation with key stakeholders, enhancing a move towards modern, globally recognized financial reporting for the public sector.
- A proposed requirement is that all public entities must publicly disclose their audited financial statements for the past three fiscal years within a period of six months. This goes beyond just submitting reports to the Finance Division; it means these financial details will be accessible to the general public, enhancing greater accountability.
- The proposed law acknowledges a transition period for adopting these new standards, which will be notified by the CGA in consultation with the Finance Division.

It mandates unprecedented levels of financial transparency by requiring a wide range of government-related bodies to publicly release their audited financial statements. This move aims to improve financial governance, comparability, and public trust in Government level.

### **Other proposed amendments:**

In section 39 (2), The term "autonomous entities" has been replaced with "public entities." This means the government is broadening its financial oversight and control to include a much wider range of public entities as defined in Section 36. Furthermore, the words "of Pakistan" will be added after "Auditor-General," officially standardizing the title to "Auditor General of Pakistan." This is primarily a clarification or formalization of the full designation.

Proposed amendment of Section 40D(2) which previously explicitly empowered the Finance Division to prescribe the detailed procedures for levying and collecting this surcharge. However, now such section has been omitted.

## ENACTMENT OF THE NEW DIGITAL PRESENCE PROCEEDS TAX ACT, 2025

### Section

#### Object of the law

The proposed bill seeks to introduce new Act namely ‘Enactment of the New Digital Presence Proceeds Tax Act, 2025’ (the Act). The Act responds to the tax challenges of the digital economy by taxing foreign digital businesses that derive revenue from Pakistani users without having a physical presence in the country. It aims to:

- Ensure fair taxation and protect Pakistan’s fiscal sovereignty.
- Address the mismatch between traditional tax rules (which rely on physical presence) and modern digital business models.
- Prevent tax base erosion caused by profits being shifted to low-tax jurisdictions.

## 2 Definitions

### (a) Authority

Commissioner of Inland Revenue, designated by the Federal Board of Revenue (FBR) has been assigned to the jurisdiction to implement and oversee the provision of the Act within a specified jurisdiction.

### (b) Digitally Delivered Services

- These are services provided over the internet or electronic networks.
- Delivery is typically automated, involving little to no human intervention.
- include:
  - Streaming services (audio/video/music)
  - Cloud services
  - Online software/applications
  - Remote interactive services such as telemedicine or e-learning
  - Online banking
  - Professional services delivered digitally,

## Section

### (c) E-commerce

- Refers to the buying or selling of goods/services over computer networks.
- Transactions are conducted using digital platforms (websites, mobile apps, etc.).
- Involves digital ordering systems, including mobile or automated computer-to-computer systems.

### (d) E-store

- An online platform (website or app) used for e-commerce.
- Facilitates the buying and selling of goods and services, including digital products.
- Operates through electronic transactions over the internet or similar networks.

### (e) On-line Marketplace

- Digital platforms that enable multiple buyers and sellers to interact.
- These platforms facilitate transactions (usually for a fee), but do not take ownership of the goods or services.
- The marketplace acts as a facilitator, not as the actual seller or provider.

### (f) Payment Intermediary

- Any third-party entity that enables or facilitates payment processing.
- Includes:
  - Banks
  - Financial institutions
  - Licensed exchange companies
  - Payment gateways
- These entities transfer funds or payment instructions between parties but are not the final payer or payee.

## Section

### 3 Chargeability and Scope

This section establishes the tax liability on foreign digital businesses having significant digital presence in Pakistan without a physical presence but still earn income through involving Pakistani users. Proceed of foreign vendors are attributable to Pakistan users based in Pakistan where -

- The transaction is carried out through foreign on-line marketplaces or e-store;
- They arise in connection with digital order services and goods, and
- A Pakistani user is a party to the transaction.

These are cumulative conditions, therefore, to attract the tax all the conditions have to be satisfied.

A Pakistani user refers to any individual or business entity that meets specific criteria suggesting a strong connection to Pakistan i.e.

a) Individual Users:

- Any person who normally resides in Pakistan.
- This means they live in Pakistan as their habitual residence, even if they are always not physically present.

b) Corporate Users:

- Any company that is either:
  - Established in Pakistan (i.e., incorporated locally), or
  - Has a permanent establishment in Pakistan (i.e., a fixed place of business such as a branch or office that carries out business activities in the country).

c) Payment Location:

- The digital order for goods or services must be paid for electronically from within Pakistan. This includes payments via Pakistani bank accounts, local credit/debit cards, mobile wallets, or any digital payment method originating in Pakistan

## Section

This status is essential because the tax on foreign vendors is triggered only when a Pakistani user is a party to the digital transaction.

The rate of as per the schedule appended to the Act is this tax is not stated directly in the section.

S. No.	Description	Rate of Tax
1.	<b>Services</b> (including social media advertisement)	<b>5% of the payment</b>
2.	<b>Goods</b> supplied by foreign providers	<b>5% of the payment</b>

This section has no application where payment for digitally ordered goods or delivered services is effectively connected with a permanent establishment in Pakistan of a non-resident person and goods supplied and services provided within Pakistan.

## 4 Significant Digital Presence in Pakistan

A foreign vendor is considered to have a significant digital presence in Pakistan if they make more than five digital transactions in a financial year with Pakistani users, and at least one of the following conditions is met:

- They have a Pakistani user base and collect user data.
- They bill or collect payments in Pakistani Rupees or via local payment methods.
- They are responsible for final delivery of goods or services to users in Pakistan.
- They provide after-sales support, such as repairs or maintenance.
- They engage in ongoing marketing or sales promotion targeting Pakistani customers.

## 5 Responsibility to Collect Digital Presence Proceeds Tax

Every payment intermediary including Banks, financial institutions, exchange companies, and payment gateways are obligated deduct tax when remitting payments abroad to foreign vendors for digitally ordered goods/services. These intermediaries shall not maintain or use bank accounts for remitting funds abroad unless tax has been deducted and deposited in the government treasury. The deducted tax must be deposited by the 7th day of the following month.

## Section

Customs authorities shall ensure that no Courier deliveries are allowed unless evidence of tax payment is provided when payment between buyer and seller is settled. However, Customs is not responsible for collecting sales tax or income tax on consignments where tax under this Act has already been paid.

## 6 Tax on On-line Advertisement Payments

Foreign vendors with digital presence in Pakistan must deduct tax at prescribed rate from any payment they make to social media or other online platforms for advertisement in Pakistan, if such payment is taxable under Section 3. Both the foreign vendor and the payment intermediary must deposit the deducted tax in the government treasury by the 7th of the following month.

### **Failure to Deduct or Deposit Tax and Recovery with Default Surcharge:**

- A person is personally liable if they:
  - Fail to deduct tax under Section 5(1) (remittance by intermediaries),
  - Fail to comply with Section 5(2) (remittance restriction without tax deposit),
  - Fail to comply with Section 6 (advertisement tax deduction),
  - Collect tax but fail to deposit it as required under Section 5(3) or Section 6(2).
- If liable, the person must pay:
  - The outstanding tax amount, plus
  - A default surcharge at KIBOR + 3% per annum, calculated on a daily basis for the duration of the default.
  - No recovery can be made without giving the person an opportunity of being heard.
- The recovery process will follow the tax recovery provisions in Part IV, Chapter X of the Income Tax Ordinance, 2001, applied mutatis mutandis (with necessary adjustments).

## Section

### **7 Reporting Obligations of Payment Intermediaries**

Every payment intermediary responsible for collecting tax under Section 5 must submit a quarterly statement to the Commissioner Inland Revenue, including:

- Name, CNIC, and address of the foreign vendor.
- Transaction details: date, invoice number, and total value.
- Total tax deducted under Sections 5 & 6.
- Any other required information as prescribed.

Intermediaries maintaining bank accounts for foreign vendors with digital presence in Pakistan must report:

- Total credits into the account.
- Total remittances made outside Pakistan during the quarter.

### **8 Reporting by social media & On-line Platforms**

Every social media or online platform with digital presence in Pakistan must file a quarterly statement with the tax authority. Contents of the Statement are:

- Client-wise details of both local and foreign vendors (with or without permanent establishment in Pakistan).
- The amount received for advertisements relayed in Pakistan through their platform.

### **9 Penalty for non-filing**

- A payment intermediary or social media platform that fails to file required statements under Sections 7 or 8 will face a penalty of PKR 1 million per default.

### **10 Suspension of Remittances**

Payment intermediaries must suspend remittances to foreign advertisers if the Commissioner reports that:

- The vendor has been advertising in Pakistan for 120 days continuously,
- Without paying the applicable tax.

This suspension is in addition to recovery actions under Section 7 for violating Section 6.

## Section

### 11 Appeals Process

A person can appeal a recovery order to the Appellate Tribunal Inland Revenue within 30 days of receiving the order.

Within 60 days of the Tribunal's order, either the aggrieved party or the Commissioner may file a reference to the High Court on a question of law, along with the full case record.

### 12 Administration

The Inland Revenue Department and its subordinate offices will serve as the regulators to implement and enforce this Act.

### 13 Power to make rules

The Federal Board of Revenue (FBR) has the power to make rules to:

- Enforce the Act effectively, and
- Resolve any difficulties or related matters.

## NEW ENERGY VEHICLES ADOPTION LEVY ACT, 2025

**Preamble** The bill introduces a levy on internal combustion engine (ICE) vehicles to encourage the transition toward New Energy Vehicles (NEVs) in Pakistan. It seeks to discourage fossil fuel reliance in the transport sector and use fiscal policy to support environmental goals.

The Act will apply to the entire country and will come into force immediately upon enactment

### Section 2

#### Definitions:

In this Act, unless the subject or context indicate otherwise, the following terms are defined as

- (a) **“Bus”** includes a motor vehicle

- designed or adapted to carry more than ten passengers at a time, in addition to the driver, whether for hire or otherwise, and
  - includes a van, mini-bus and coaster
- (b) **“Internal combustion engine motor vehicle”** means a motor vehicle powered wholly or partially by fossil fuels including petrol, diesel, compressed natural gas or liquefied petroleum gas;
- (c) **“Manufacturer”** means a person carrying out the business of assembly, manufacture, fabrication or production of motor vehicles in Pakistan
- (d) **“Motor vehicle”** means a vehicle propelled mechanically, electrically or other zero emission-based technology either partially or completely, adapted for use upon roads and includes motorcycles, rickshaws, cars, vans, SUVs, Jeeps, sedans, sub-urban vehicles, buses, loaders and trucks;
- (e) **“New energy motor vehicle”** means a motor vehicle that is powered—
- exclusively by an electric motor run on a rechargeable battery; or
  - by both an electric motor run on a rechargeable battery and an internal combustion engine, capable of achieving a range of no less than fifty kilometers under normal conditions exclusively running on electric motor by a single battery charge; or
  - hydrogen fuel cells or any other technology that produces zero tailpipe emission; and
- (f) **“Truck”** means a motor vehicle designed or adapted primarily
- for the carriage of goods or materials, having a payload capacity exceeding fifteen hundred kilograms and
  - includes a rigid or articulated truck, loader, delivery van, pickup and any other vehicle equipped with a goods-carrying body or container.

### 3 **New Energy Vehicle Levy**

This levy is to be collected and paid at the rate specified in the first schedule to the Federal Government by

- every manufacturer on every internal combustion engine motor vehicle manufactured or, as the case may be, assembled and supplied by him; and
- every person on every internal combustion engine motor vehicle imported by him into Pakistan.

**Exemptions:** The levy will not apply to:

- NEVs,
- ICE vehicles for export,
- Vehicles owned by diplomatic missions or privileged international organizations,
- Any other vehicle category exempted by government notification.

### 4 **Collection and refund etc. of levy**

Provisions of Customs and Sales Tax laws apply mutatis mutandis to the levy's collection, recovery, and refund, enhancing legal clarity and administrative uniformity.

### 5 **Use of levy**

All proceeds are to be used **exclusively for promoting NEV adoption** and other **related purposes**, as determined by the Federal Government.

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