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Highlights on Finance Bill 2026

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This document summarizes significant changes proposed to be brought to statute vide the Finance Bill, 2026 (the Bill).

Effective date of applicability of these changes will be July 1, 2026, unless otherwise mentioned.

Nothing contained in this document shall be construed as our advice in general or on a given case, accordingly, for ascertaining any effect of these changes in general or particular, the wordings in the Bill should carefully be examined, taking into consideration the applicable laws and regulations, and precise advice should be sought before taking any decision based on, or acting up on any of the contents hereof.

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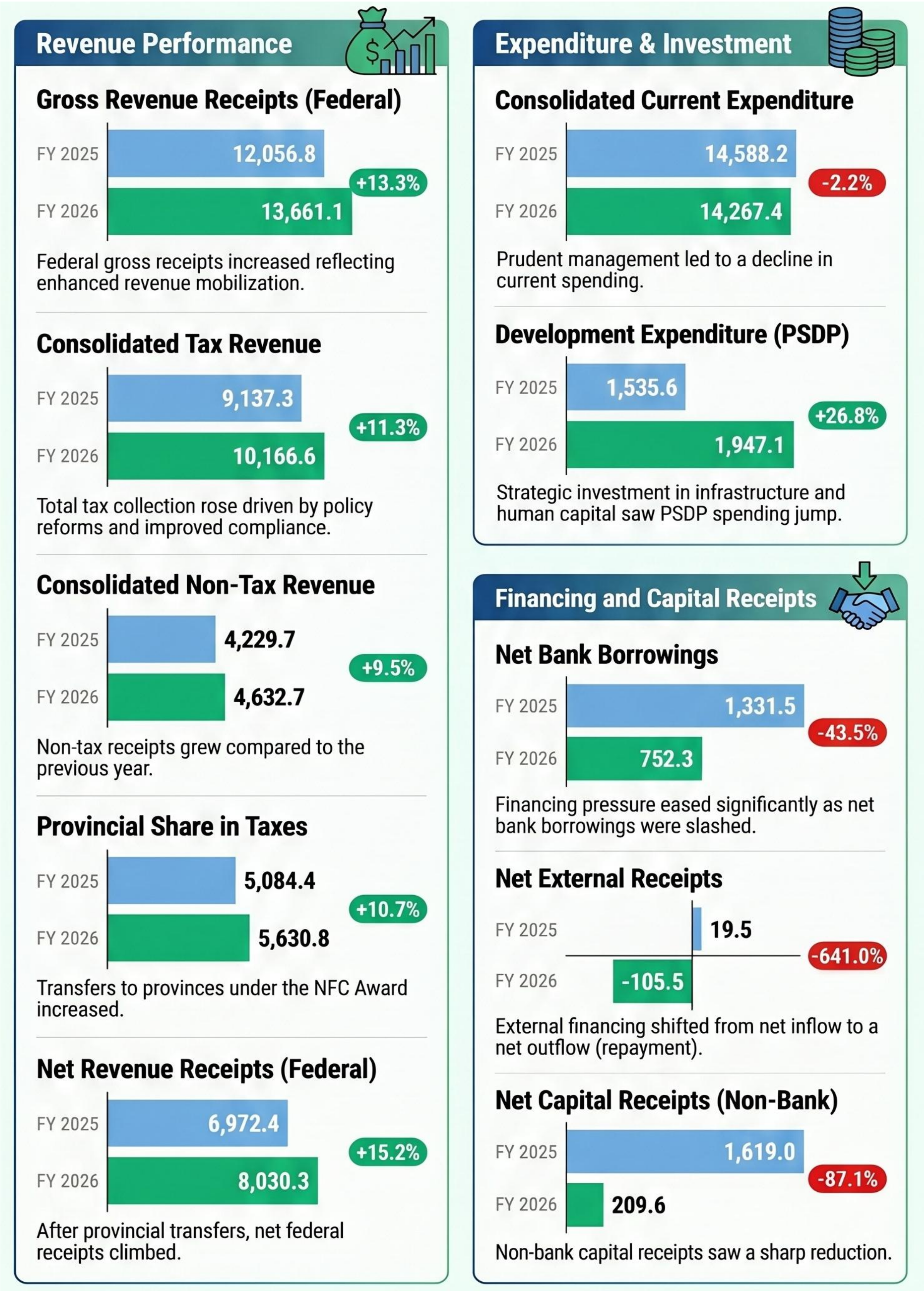
June 13, 2026

SECTION 1 BUDGET AT A GLANCE



Note: The above info-graphs compares key fiscal indicators for the current reporting period (July–March FY 2026) against the corresponding period of the previous year.

SECTION 2 OVERVIEW OF THE ECONOMY

The Pakistan Economic Survey for 2025-26 presents a narrative of an economy that is not only recovering but actively accelerating. In a global landscape defined by "persistent policy uncertainty" and trade tensions, Pakistan managed to push its GDP growth to 3.70 percent in FY 2026, up from 3.18 percent the previous year. This growth is framed as a result of disciplined macroeconomic management and the successful implementation of reforms under the IMF's Extended Fund Facility (EFF).

The Global and Macroeconomic Context

The global economy grew by an estimated 3.4 percent in 2025, but the outlook for 2026 has become more cautious due to Middle East conflicts and disruptions in energy supply routes. While advanced economies like the US saw moderate growth, China's expansion is expected to slow due to trade tariffs. Against this backdrop, Pakistan's economy reached a total value of Rupees 126.9 trillion (452.1billion) USD. A significant indicator of stability was the exchange rate, which remained remarkably steady at approximately rupees 280−281 per US dollar throughout the period. This stability combined with improved economic activity allowed per capita income to rise to $ 1,901.

Production Pillars: Agriculture and Manufacturing

The real sector demonstrated notable resilience. Despite the devastating 2025 floods, the agriculture sector grew by 2.89 percent. This was largely due to a "better than expected" performance in crops like sugarcane (+6.2%), wheat (+4.3%), and rice (+2.8%), which helped offset losses in the cotton and maize sectors. Livestock, a critical sub-sector, also expanded by 3.75 percent, supported by new policy initiatives like the National Meat Sector Transformation and Export Council.

In the industrial domain, manufacturing saw a robust growth of 6.6 percent, driven by a 6.1 percent surge in Large-Scale Manufacturing (LSM). This revival was attributed to easing monetary policy and a stable exchange rate. Notably, the mining and quarrying sector recorded its first positive growth (0.4%) since 2021, signaling a potential turnaround in the extraction of minerals like rock salt and magnesite.

Fiscal Discipline and Financial Markets

One of the most striking developments in the survey is the improvement in fiscal health. The fiscal deficit narrowed dramatically to 0.7 percent of GDP (July-March FY 2026) from 2.6 percent in the previous year. This was achieved through a combination of 10.7 percent growth in total revenue and a significant 23.2 percent decline in markup payments. Consequently, the primary surplus rose to 3.2 percent of GDP.

The financial sector mirrored this optimism. Broad Money (M2) grew by 15.4 percent, and private sector credit increased by rupees 934.1 billion, reflecting improved business sentiment. Pakistan's capital markets also "performed well compared to major global stock markets," with the KSE-100 index growing by 18.4 percent. This was further supported by the increasing maturity of Shariah-compliant instruments, which now make up 64 percent of the total market capitalization.

External Sector, Debt, and Energy

The external sector remained stable, with the current account showing a marginal surplus of $ 72 million. While the merchandise trade deficit widened to US $ 27.9 billion due to rising imports for domestic recovery, workers′ remittances remained a "key source of external sector support," growing by 8.2 percent to US $ 30.3 billion.

Total public debt stood at rupees 83,285 billion by March 2026. However, the growth of this debt slowed to 3.4 percent compared to 6.7 percent in the prior year. The government's strategy shifted toward medium-to-long-term instruments and fixed-rate debt, which increased from 19.0 percent to 27.6 percent of government securities, thereby reducing interest rate risks.

In energy, there was a strategic move toward sustainability. Total installed capacity reached 49,651 MW, with 50.8 percent now coming from "cleaner sources" such as hydel, nuclear, and renewables. Despite higher import volumes for petroleum products, the energy mix is gradually diversifying to reduce reliance on volatile international oil prices.

Social Progress and the Climate Reality

The survey highlights significant improvements in human capital. The literacy rate rose to 63 percent, and the percentage of out-of-school children dropped from 38 percent to 28 percent nationally. Health indicators also improved, with life expectancy reaching 67.8 years and immunization coverage hitting 73 percent. The IT sector emerged as a modern engine of growth, with ICT export remittances rising to $3.38 billion and tech freelancer exports surging by 51 percent. However, these gains are tempered by social and environmental challenges. The national poverty headcount rose to 28.9 percent due to inflation and climate shocks. The 2025 floods were particularly catastrophic, causing rupees 822 billion in damages and displacing over 4 million people. The survey notes that Pakistan contributes less than 1 percent to global emissions but remains on the "frontline of a global climate crisis". In response, the government has launched resilience strategies like the Monsoon 2026 Strategic Plan and increased pro-poor spending to rupees 4.66 trillion to protect the most vulnerable.

Key Indicators

- Pakistan's economy gained momentum in FY 2026, reaching a GDP growth rate of 3.70 percent, up from 3.18 percent the previous year.
- This growth occurred while the global economy expanded by roughly 3.4 percent in 2025, though global growth is expected to slow to 3.1 percent in 2026 due to regional conflicts.
- The total value of the economy at current market prices reached rupees 126.9 trillion ($452.1 billion).
- On an individual level, per capita income saw a healthy increase to $1,901, compared to $1,751 the year before.
- A major pillar of stability was the exchange rate, which remained remarkably steady, averaging approximately rupees 280-281 per US dollar.
- Despite the severe disruption of the 2025 floods, the agriculture sector still managed to grow by 2.89 percent.
- This agricultural growth was led by sugarcane (+6.2%), wheat (+4.3%), and rice (+2.8%), which helped offset lower yields in cotton and maize.
- The livestock sector expanded by 3.75 percent, supported by new initiatives like the National Meat Sector Transformation and Export Council.
- Manufacturing saw a robust growth of 6.6 percent, driven specifically by a 6.1 percent surge in Large-Scale Manufacturing (LSM).
- For the first time since 2021, the mining and quarrying sector recorded positive growth (0.4%) after four consecutive years of contraction.
- The government significantly narrowed the fiscal deficit to 0.7 percent of GDP, a major improvement from the 2.6 percent recorded the previous year.
- Pakistan achieved a primary surplus of 3.2 percent of GDP, bolstered by improved revenue collection and a decline in interest payments.
- The equity market was a standout performer, with the KSE-100 index growing by 18.4 percent, outperforming many major global markets.
- Islamic finance has become mainstream, with 64 percent of the total market capitalization on the Pakistan Stock Exchange now being Shariah-compliant.
- Workers' remittances remained a vital source of support, rising 8.2 percent to a total of $30.3 billion.
- The tech sector is thriving; ICT export remittances reached $3.38 billion, while tech freelancer exports alone surged by 51 percent.
- Public debt growth slowed to 3.4 percent (down from 6.7%), and the government successfully shifted more of its debt into safer, fixed-rate instruments.
- Pakistan is moving toward sustainability, with 50.8 percent of its total electricity capacity now coming from hydel, nuclear, and renewable sources.
- The national literacy rate rose to 63 percent, and the percentage of out-of-school children dropped from 38 percent to 28 percent.

- Life expectancy in the country has risen to 67.8 years, while national immunization coverage reached 73 percent.
- Despite the growth, inflation averaged 6.2 percent for the period, and the poverty headcount rose to 28.9 percent due to various economic and climate shocks.
- Pakistan remains highly vulnerable to climate change; the 2025 floods caused rupees 822 billion in damages, illustrating the high environmental cost the country faces.

Growth & Investment

- Pakistan's economy picked up some much-needed speed, with GDP growth reaching 3.70% in FY 2026, a solid step up from the 3.18% we saw last year.
- Despite facing summer floods, the agriculture sector nearly doubled its growth rate to 2.89%, proving it remains a resilient backbone for the country.
- The services sector has really become the economy's main engine, growing by 4.09% and contributing more to our national growth than farming and industry combined.
- Large-Scale Manufacturing (LSM) made a dramatic U-turn, jumping to 6.11% growth after actually shrinking by 0.69% in the previous year.
- One of the biggest reliefs for businesses was the stable exchange rate, which averaged around rupees 280.65 per dollar, helping to keep costs predictable.
- Overseas Pakistanis sent home a massive $30.3 billion in just nine months an 8.2% increase that acted as a vital stabilizer for the nation's finances.
- We're seeing more money in people's pockets on average, with per capita income climbing to $1,901, up from $1,751 last year.
- The digital economy is taking off; ICT exports grew by nearly 20%, showing that Pakistan is carving out a bigger space in the global tech market.
- The government managed to achieve a primary surplus of 3.2% of GDP, a sign of much tighter control over the budget and better tax collection.
- Foreign exchange reserves were bolstered to $20.6 billion by mid-April 2026, providing a much healthier cushion against global economic shocks.
- Private investment grew by 12.8%, suggesting that local business owners are starting to feel more confident about putting their money to work.
- While regional tensions pushed energy costs up, the government and State Bank worked to keep headline inflation largely within single digits for most of the year.

Description	FY 2025 (Revised)	FY 2026 (Provisional)
Gross Domestic Product (GDP)	3.18%	3.70%
Agriculture Sector	1.53%	2.89%
Industrial Sector	5.56%	3.51%
Manufacturing	1.96%	6.61%
Services Sector	3.14%	4.09%
Commodity Producing Sector	3.24%	3.16%
Total Investment (% of GDP)	14.42%	14.38%
National Savings (% of GDP)	14.89%	14.13%
Per Capita Income (US $)	$1,751	$1,901

Agriculture

The agriculture sector has shown impressive grit this year, navigating through the aftermath of the 2025 floods to post a solid recovery. Here are key takeaways that capture the current state of the sector:

- The overall agriculture sector grew by 2.89 percent in FY 2026, a significant jump from the 1.53 percent growth recorded last year.
- Crops: After shrinking by 1.01 percent last year, the crop sub-sector returned to positive territory with 1.44 percent growth, largely because flood damages were less severe than feared.
- Livestock: This sub-sector continues to be the backbone of rural life, growing by 3.75 percent and contributing a massive 62.4 percent to the total agricultural value.

- Sugarcane and Wheat: Sugarcane led the way with a 6.2 percent production increase, while wheat grew by 4.3 percent to reach 29.61 million tons.
- Cotton and Maize Hurdles: It wasn't all good news; cotton production dipped slightly by 0.5 percent and maize fell by 2.7 percent, mostly due to localized flood impacts and farmers shifting to other crops.
- Banks and financial institutions really stepped up, disbursing rupees 2,161.6 billion in credit through March 2026 a 15 percent increase over the same period last year.
- Despite some price hikes, overall fertilizer use (offtake) increased by 11.4 percent, showing that farmers are investing more in their soil to boost yields.
- With new councils established under the Prime Minister, the government is aiming to push meat exports from 500 million to USD 700 million by 2028.
- Irrigation water availability for the Rabi (winter) season improved to 31.4 MAF, which was a major help for the wheat crop's performance.
- Agriculture remains indispensable to the national economy, providing jobs for 33.1 percent of the workforce and contributing 23.4 percent to the total GDP.

Agriculture Sector Growth Comparison

Description	FY 2025 (Revised)	FY 2026 (Provisional)
Overall Agriculture	1.53%	2.89%
Crops	-1.01%	1.44%
Livestock	2.95%	3.75%
Forestry	2.88%	2.02%
Fishing	1.43%	1.66%

Manufacturing and Mining

The manufacturing and mining sectors have emerged as key drivers of Pakistan's economic recovery in FY 2026, collectively contributing 13.5 percent to the GDP. The following points highlight the critical developments and shifts within these industries:

- The overall manufacturing sector recorded a strong 6.6 percent growth in FY 2026, a significant jump from the 2.0 percent seen the previous year.
- Large-Scale Manufacturing (LSM), which makes up 67.4 percent of the manufacturing sector, surged by 6.48 percent after contracting by 1.86 percent last year.
- Impact of monetary easing, this industrial revival was largely supported by a decline in the policy rate to 10.5 percent by December 2025, which reduced borrowing costs and improved liquidity for businesses.
- Small-Scale Manufacturing (SSM) maintained a steady and robust growth momentum of 8.5 percent.
- Out of 22 industrial groups, 16 recorded positive growth during the July-March period, indicating a healthy recovery across various segments.
- The food group grew by 9.8 percent, driven primarily by a 31.0 percent increase in sugar production following better crop harvests.
- The automobile sector witnessed a massive 61.7 percent growth, reflecting restored consumer confidence and stable exchange rates.
- While textile growth was moderate at 0.75 percent, a 20.9 percent increase in textile machinery imports suggests the industry is actively modernizing for future expansion.
- The apparel sector grew by 6.6 percent, supported by a 5.9 percent increase in export quantity to international markets.
- After four consecutive years of contraction, the mining and quarrying sector finally turned positive with a 0.4 percent growth.
- High growth was recorded in specific minerals, most notably Magnesite (+164.8%) and Rock Salt (+109.9%).
- Furniture production staged a remarkable comeback, growing by 20.5 percent after a devastating 61.1 percent collapse the previous year.

- The cement industry recorded 9.7 percent growth, with capacity utilization rising to 60.2 percent due to higher domestic construction activity.
- Despite the progress, the sector faces risks from geopolitical tensions and rising global energy prices, which could increase production and transport costs.

Industrial Performance Comparison

Description	FY 2025 (July-Mar)	FY 2026 (July-Mar)
LSM Growth Rate	-1.86%	6.48%
Textile Growth	2.46%	0.75%
Wearing Apparel	7.62%	6.60%
Furniture	-61.07%	20.45%
Leather Products	1.29%	-2.25%
Fertilizer	-1.34%	-1.02%
Pharmaceutical	2.30%	-5.14%
Mining & Quarrying	-3.7%	0.4%

Fiscal Development

The fiscal landscape in Pakistan for 2025-26 tells a story of push toward stabilization. Despite facing challenges like early-year floods and regional tensions, the government managed to tighten the belt while simultaneously bringing in more revenue. Here are key takeaways regarding Pakistan's fiscal health from the latest survey:

- The overall fiscal deficit was slashed to just 0.7 percent of GDP during the first nine months of FY 2026, a major improvement from the 2.6 percent recorded in the same period last year.
- Pakistan achieved a primary surplus of 3.2 percent of GDP (rupees 4,091.5 billion), showing the country is more than capable of covering its non-interest expenses.
- Total expenditure declined by 4.2 percent, dropping to rupees 15,655.6 billion.
- Interest Rate Relief, a standout feature was the 23.2 percent drop in markup payments.
- Total revenue grew by a solid 10.7 percent, reaching nearly rupees 14.8 trillion.
- Tax collection grew by 11.3 percent, hitting over rupees 10.1 trillion.
- Non-tax receipts rose by 9.5 percent, with major contributions coming from the petroleum levy.
- The government managed to increase development expenditure by 18.7 percent, focusing on completing existing infrastructure projects.
- Direct taxes now account for nearly half (49.3 percent) of total FBR collections.
- A new modernization plan is underway, using digitalization and AI-based audits to broaden the tax base and minimize human interaction.
- Agricultural Tax Reform, in a significant move, provinces have updated legislation to align Agriculture Income Tax with standard corporate and personal regimes.

Fiscal Comparison: (Rupees in Billions)

Description	FY 2025 (Jul-Mar)	FY 2026 (Jul-Mar)	Comparison
Total Revenue	13,367.0	14,799.3	+10.7%
Tax Revenues	9,137.3	10,166.6	+11.3%
Non-Tax Revenues	4,229.7	4,632.7	+9.5%
Total Expenditure	16,337.0	15,655.6	-4.2%
Current Expenditure	14,588.2	14,267.4	-2.2%
Development Expenditure*	1,543.2	1,831.8	+18.7%
Fiscal Deficit (as % of GDP)	2.6%	0.7%	Strengthening
Primary Surplus (as % of GDP)	3.0%	3.2%	Improving

**Includes net lending to PSEs as categorized in the consolidated accounts*

Money and Credit

The State Bank of Pakistan (SBP) worked to support economic recovery while keeping a close eye on global volatility and inflation. Here are key points that capture the essence of Pakistan's monetary landscape this year:

- After a period of easing, the SBP raised the policy rate to 11.5% in April 2026 to anchor inflation expectations following renewed Middle East tensions.
- Broad Money (M2) grew by 15.4% year-over-year, driven by a combination of stronger foreign reserves and domestic credit expansion.
- There was a notable revival in business confidence, with private sector credit surging by rupees 934.1 billion, primarily for working capital and new investments.
- The government significantly reduced its reliance on central bank funding, retiring a massive rupees 1,939.3 billion in debt back to the SBP.
- Businesses saw some relief as the Weighted Average Lending Rate dropped to 11.4%, down from 12.4% just a year ago.
- Pakistan's external position strengthened, with foreign exchange reserves climbing to $21.3 billion by the end of March 2026.
- The SBP granted licenses to several Digital Retail Banks, including the country's first-ever Islamic digital bank, pushing the nation toward a "less-cash" economy.
- Consumer lending more than doubled to rupees 146.2 billion, as lower financing costs encouraged people to buy cars and use credit cards.
- The "Ghar Ho Tu Apna" program increased home loan limits to rupees 10 million, successfully turning a previous contraction in house building loans into growth.
- Financing for small and medium enterprises grew by nearly 38% over the last two years, reaching rupees 882 billion as of late 2025.
- Islamic banking is becoming a powerhouse, now accounting for 27.8% of all bank deposits in the country.
- New incentive schemes were launched to promote sustainability, including zero-interest financing for E-Bikes and E-Rickshaws.
- The banking industry remains incredibly resilient, with after-tax profits rising to rupees 716 billion and capital levels (CAR) sitting comfortably at 20.8%.
- A new move allows exchange companies to disburse home remittances through the Raast platform, making the process faster and more transparent.

Monetary Comparison: July–March (FY 2025 vs. FY 2026) (Rupees in Billions)

Description	FY 2025 (Jul-Mar)	FY 2026 (Jul-Mar)	Trend
Policy Rate (as of April)	13.0%*	11.5%	Lower
Broad Money (M2) Flows	1,604.1	2,740.6	+70.8%
Net Foreign Assets (NFA) Flows	1,162.7	816.7	Moderating
Net Domestic Assets (NDA) Flows	441.4	1,924.0	Sharp Rise
Private Sector Credit Flows	767.6	934.1	Strengthening
Weighted Average Lending Rate (March)	12.4%	11.4%	Improving
Weighted Average Deposit Rate (March)	5.0%	4.6%	Declining

**FY 2025 Policy Rate reflects the position in December 2024 for a comparative annual look.*

Capital Markets and Corporate Sector

Pakistan's capital markets and corporate sector saw a period of significant growth and structural modernization during the first nine months of FY 2026. Strengthening macroeconomic fundamentals and increased investor confidence helped the Pakistan Stock Exchange (PSX) outperform many global indices. Some key points from Capital Markets and Corporate Sector:

- The benchmark KSE-100 index registered a robust growth of 18.4 percent during the review period, rising from 125,627 to 148,743 points.
- On January 23, 2026, the index touched its highest level ever recorded, closing at 189,167 points.
- The average daily traded volume on the PSX jumped to 1,206 million shares, compared to 834 million shares in the previous year.
- Total market capitalization reached rupees 16,534 billion ($59.23 billion) by the end of March 2026, marking an 8.5 percent increase.
- Commercial Banks (25.1%) and Oil & Gas Exploration Companies (15.9%) remain the heavyweights, together accounting for over 40 percent of the total market capitalization.
- Shariah-compliant securities have matured significantly, now representing 64 percent (rupees 10.6 trillion) of the total listed market capitalization.
- Local investors recorded a net buying position of rupees 182.6 billion, effectively absorbing $650 million in offloaded securities from foreign sellers.
- Despite changes in profit rates, the National Savings Schemes (NSS) saw a net inflow of rupees 226.7 billion, with a total portfolio reaching rupees 3.6 trillion.
- CDNS launched the "National Savings Digital" app, which already has 90,000 active users and has issued 350,000 debit cards.
- The Pakistan Mercantile Exchange (PMEX) saw a 41 percent increase in traded value, reaching rupees 9,238 billion.
- Electronic Warehouse Receipts (EWRs) are gaining ground, with 67 percent used as collateral for bank financing to improve farmer credit access.
- A total of 31,986 new companies were registered, bringing the national total of registered businesses to 294,101.
- A major milestone was achieved on February 9, 2026, when the market successfully transitioned to a T+1 settlement cycle to align with global practices.
- The KSE-100 outperformed most major Asian markets, though it trailed the exceptional 64.5 percent growth seen in South Korea's KOSPI.

Capital Market Performance Comparison (Rupees in Billions)

Description	FY 2025 (Revised/End-June)	FY 2026 (Jul-Mar)
KSE-100 Index (Points)	125,627.31	148,743.31
Market Capitalization	15,239.54	16,534.35
Fund Mobilized at PSX	*Not Specified*	18.31
Net Investment in NSS	259.07	226.69
Incorporation of Companies (Number)	*Not Specified*	31,986
Commodities Contracts (Rupees in Trillion)	6.54	9.24

Inflation

Inflationary trends in Pakistan for FY 2026 showed a slight upward move compared to the previous year, much of this was driven by specific global events rather than a broad-based domestic price spiral.

- National CPI inflation averaged 6.2 percent during the July-April FY 2026 period, showing a slight increase from the exceptionally low 4.7 percent recorded in the same period last year.
- Much of the reported increase toward the end of the fiscal year—such as the 10.9 percent spike in April—was due to the "base effect" of having extremely low inflation (0.3 percent) in April 2025.
- A major turning point occurred in February 2026 when escalating Middle East conflict disrupted energy supply chains, causing an immediate ripple effect on domestic fuel and transport costs.
- Unlike previous years, inflation in 2026 was pushed primarily by non-food items like energy, electricity, and transport, rather than food prices.

- Urban core inflation (excluding food and energy) dropped to 7.2 percent from 8.8 percent the year before.
- The cooling of prices was even more visible in rural areas, where core inflation fell significantly from 11.6 percent to 8.2 percent.
- Food inflation remained relatively contained throughout the year due to improved crop yields and better supply chain monitoring, providing much-needed relief to households.
- The "Housing, Water, Electricity, Gas and Other Fuels" group remained a heavy contributor to the CPI basket, posting a 7.3 percent increase.
- The Wholesale Price Index (WPI) remained remarkably stable at 2.3 percent, indicating that producer-level cost pressures were largely contained for most of the year.
- The Sensitive Price Indicator (SPI), which tracks 51 essential daily items, actually slowed down to 4.1 percent compared to 4.9 percent last year.
- To protect the public from rising oil prices, the government introduced the Prime Minister's Austerity Fund 2026, targeting subsidies for public transport and freight vehicles.
- Global energy prices were projected to rise by 19 percent in 2026, directly impacting Pakistan as a net importer of petroleum and LNG.
- Federal and provincial authorities conducted over 32,000 inspections in Islamabad alone to curb hoarding and ensure essential goods were sold at notified prices.
- The launch of digital dashboards and "Sasta Bazaars" (particularly during Ramzan) helped maintain the supply of 16 essential items at concessional rates.

Inflation Comparison

Description	FY 2025 (Jul-Apr)	FY 2026 (Jul-Apr)
Consumer Price Index (CPI)	4.7%	6.2%
CPI Urban	5.7%	6.3%
CPI Rural	3.3%	6.1%
Core Urban (Non-Food/Energy)	8.8%	7.2%
Core Rural (Non-Food/Energy)	11.6%	8.2%
Sensitive Price Indicator (SPI)	4.9%	4.1%
Wholesale Price Index (WPI)	2.2%	2.3%
FAO Food Price Index	3.3%	2.0%

Trade and Payments

- Pakistan's external account remained resilient during FY 2026, despite the emergence of a Middle East crisis in early 2026.
- The current account posted a surplus of US $72 million for the July-March period.
- Workers' remittances grew by 8.2 percent, reaching US $30.3 billion, and continued to serve as the nation's most reliable external financing source.
- Services exports were bolstered by a 19.8 percent surge in the IT sector, which now accounts for over 46 percent of total services exports.
- Merchandise exports declined by 5.8 percent, primarily due to lower food exports (especially rice) and regional trade disruptions along the western border.
- Goods imports rose by 7.8 percent to US $50.7 billion, reflecting a recovery in domestic industrial activity and higher demand for production-related raw materials.
- Despite global volatility, the petroleum import bill declined by 5.9 percent, largely due to a 29.7 percent reduction in LNG imports as alternative energy sources like solar grew.
- National reserves strengthened significantly to US $21.8 billion by end-March 2026, supported by official inflows and central bank interbank purchases.

- Pakistan successfully raised US $750 million through a Eurobond and launched its inaugural Panda Bond in China, raising RMB 1.75 billion to diversify financing sources.
- Net FDI stood at US $1.4 billion, with the power and financial sectors receiving the majority of long-term investment.
- The headline FDI figure was dampened by a one-off US $465.5 million divestment in the telecommunications sector around December 2025.
- Under the new National Tariff Policy 2025-30, the government reduced duties on nearly 7,500 items to enhance export competitiveness and lower industrial input costs.

External Sector Comparison

Description	Jul-Mar FY 2025	Jul-Mar FY 2026	Year-on-Year Trend
Current Account Balance	US $1,674 million	US $72 million	Surplus Narrowed
Exports (Goods FOB)	US $24.70 billion	US $23.27 billion	-5.8%
Imports (Goods FOB)	US $43.38 billion	US $46.78 billion	+7.8%
Trade Deficit (Goods)	US $18.68 billion	US $23.52 billion	+25.9%
Workers' Remittances	US $28.03 billion	US $30.32 billion	+8.2%
Foreign Direct Investment	US $1.86 billion	US $1.36 billion	-26.9%*

**The decline in Foreign Direct Investment was primarily attributed to a specific one-off divestment in the telecom sector by a Norway-based company.*

Public Debt

The administration of Pakistan's public debt during FY 2026 has focused on improving the maturity profile and reducing interest rate risks through a shift toward longer-term, fixed-rate instruments.

- The growth of total public debt slowed significantly to 3.4 percent in the first nine months of FY 2026, compared to a much higher 6.7 percent in the same period last year.
- In a major fiscal win, the YoY interest expense declined by 23 percent, dropping to rupees 4,948 billion as the government reduced its reliance on expensive short-term borrowing.
- To rationalize costs, the government conducted strategic buybacks of rupees 2.1 trillion worth of debt securities.
- The government intentionally financed the fiscal deficit primarily through domestic sources, which helped strengthen external sector stability and reduced the need for new foreign loans.
- To shield the budget from interest rate hikes, the share of Fixed Rate Debt in government securities was pushed up significantly from 20 percent to 27.6 percent.
- The Average Time to Maturity (ATM) for domestic debt reached 3.86 years, indicating a successful move away from the "rollover risk" of short-term debt.
- The share of Shariah-compliant instruments in the debt portfolio rose to 14.5 percent, with approximately rupees 2.25 trillion raised through Sukuk issuances alone.
- The government introduced new 15-year zero-coupon PIBs and 10-year zero-coupon Sukuks to attract institutional investors and extend the debt runway.
- Multilateral loans (like those from the World Bank and ADB) remain the largest part of the external debt, making up 46 percent of the total.
- The external portfolio includes US $9.9 billion in IMF debt, which recently included a US $1.2 billion tranche under the Extended Fund Facility (EFF).
- Currency risk has been better managed as the share of external debt in the total public debt stabilized at 31 percent.
- Market confidence remained high, evidenced by a bid-to-cover ratio of 4.2X for PIBs, with investors offering over rupees 22.5 trillion against a target of just rupees 5.1 trillion.

Public Debt Comparison

Description	End-June 2025	End-March 2026
Total Public Debt (rupees in billion)	80,518	83,285
Domestic Debt (rupees in billion)	54,472	57,566
External Public Debt (rupees in billion)	26,047	25,720
External Public Debt (US $ billion)	91.8	92.2
Reduction in Stock of T-Bills (rupees in trillion)	-	2.1
ATM of Domestic Debt (Years)	3.80	3.86
ATM of External Debt (Years)	6.10	6.10

Note: The reduction in T-bill stock was achieved through strategic liability management operations (LMOs) to rationalize debt servicing costs

Education

- Education is recognized as the ultimate foundation, with global data showing it has contributed to 50 percent of economic growth and a 40 percent reduction in extreme poverty over the last five decades.
- The national literacy rate has improved to 63 percent, with a notable narrowing of the gender gap—male literacy stands at 73 percent and female literacy at 54 percent.
- Interestingly, numeracy stands higher at 79 percent than literacy (63%), suggesting that basic mathematical skills are improving faster than reading abilities.
- In a major success, the percentage of out-of-school children dropped significantly from 38 percent in 2023 to 28 percent in 2025.
- Overall school attendance (for those aged 10+) has climbed from 61 percent to 67 percent, with rural areas showing the most encouraging progress.
- The university network has grown to 278 institutions (163 public and 115 private), reflecting a push to accommodate the nation's youth bulge.
- The higher education sector now boasts 24,366 Ph.D. faculty members, making up roughly 37.6 percent of the total full-time teaching staff.
- Through the Prime Minister's Laptop Scheme, 74,427 laptops have already been distributed to top-performing students across the country as of April 2026.
- While disparities remain, rural female literacy showed the most significant improvement this year, acting as a key driver for the overall literacy increase.
- Technical and vocational training is being prioritized through NAVTTC, which trained over 100,000 youth in high-tech and industrial trades during FY 2025.
- Major regional programs like Punjab's "Schools of Eminence" and Sindh's "STEAM" initiatives are targeting quality improvements and infrastructure rehabilitation.
- Despite financial constraints, the government spent rupees 962.0 billion on education in FY 2025, prioritizing current expenditure to keep the massive system running.

Education Sector Key Comparison

Indicator	Previous Reference	Current (FY 2025/26)
National Literacy Rate	61% (FY 2023)	63%
Total Universities	239 (FY 2024)	278
Education Expenditure (rupees in Billion)	1,251.1 (FY 2023)	962.0 (FY 2025)
HEC PSDP Allocation (rupees in Billion)	39.49 (Original)	34.91 (Revised)
Ph.D. Faculty Members	*Not Specified*	24,366

**Note: The total education expenditure for FY 2025 (rupees 962 billion) is lower than the peak of FY 2023 (rupees 1,251 billion), partly due to the completion of certain large-scale post-flood rehabilitation projects and tighter fiscal management*

Health and Nutrition

- The government has approved the draft National Health and Population Policy (2026–2035), which moves beyond the previous vision to focus on universal health coverage, climate change impacts, and multi-sectoral health determinants.
- Pakistan has seen a steady rise in life expectancy at birth, which reached 67.8 years in 2024, up from 66.5 years in 2018.
- Significant progress has been made in child health, with infant mortality dropping to 47 per 1,000 live births and immunization coverage increasing to 73 percent.
- The healthcare workforce is expanding; notably, the number of registered doctors grew by 5.3 percent in 2025, reaching a total of 336,582.
- Pakistan was recognized as a "Champion Country" at the first-ever Global Caregiver Forum for its pioneering work in Early Childhood Development.
- Major national programs are underway to combat the high burden of diseases, including the Prime Minister's Programme for Elimination of Hepatitis-C, which targets 50 percent of the eligible population for screening and treatment.
- To fix fragmented data systems, the government is developing a National Digital Health Hub and a real-time dashboard for the Benazir Nashonuma Programme to improve transparency and decision-making.
- While stunting prevention programs are active, the survey highlights a decline in the consumption of protein-rich staples like milk, meat, and pulses due to rising food prices and income constraints.

Health Sector Comparison

Description	Previous Year (2024 / FY24)	Current Year (2025 / FY25)
Public Health Expenditure (as % of GDP)	0.9%	0.8%
Health Sector PSDP Allocation (rupees in billion)	_Data not specified_	19.375 (for FY 2026)
Hospitals	1,934	1,934 (P)
Basic Health Units	5,746	5,746 (P)
Infant Mortality Rate (Per 1,000 Births)*	60 (2018-19)	47 (2024-25 PSLM)
Life Expectancy (Years)	66.5 (2018)	67.8 (2024)
Registered Doctors	319,572	336,582 (P)

Population Labour Force and Employment

The country is navigating a significant demographic transition characterized by a massive youth population and shifting labor market dynamics. Here are the key takeaways and a comparison of recent performance indicators.

- Pakistan's population reached 252.09 million in 2025, growing at a rate of 2.07 percent, which continues to drive the need for expanded social services.
- The country has a distinctly young profile; approximately 66.03 percent of the population is under the age of 30, representing a significant potential "demographic dividend" if properly utilized.
- More than half of the population (56.9 percent) falls within the productive working-age bracket of 15 to 64 years.
- The population is composed of 129.64 million males and 122.45 million females, with Punjab remaining the most populous province at 133.36 million people.
- The total labor force grew to 83.1 million in 2024-25, up from 71.8 million during the 2020-21 survey period.
- Employment is gradually moving away from agriculture (which dropped from 37.4% to 33.1%) toward the services and trade sectors.
- Despite job growth, the unemployment rate increased to 7.1 percent, with the number of unemployed individuals rising to 5.9 million.

- There was a sharp rise in workers seeking jobs abroad, with 762,499 registrations in 2025—primarily driven by demand in Saudi Arabia.
- The Prime Minister's Youth Business & Agriculture Loan Scheme disbursed rupees 58 billion to over 114,000 beneficiaries in the first eight months of FY2026 alone.
- NAVTTC has trained over 100,000 youth in high-tech and industrial trades to align local talent with international market standards.
- Under the Prime Minister's Youth Laptop Scheme, 72,000 laptops were distributed on merit during the July–March FY2026 period to support freelancing and digital skills.
- The government enacted the ICT Domestic Violence Act 2026 and expanded the "Helpline 1099" to better protect women and children through digital systems.

Population Labour Force and Employment Comparative Performance

Description	Previous Year 2024 / FY24)	Current Year (2025 / FY25)
Population Size	246.97 Million	252.09 Million
Unemployment Rate	6.3% (LFS 2020-21)*	7.1%
Workers Registered for Employment Abroad	677,988	762,499
Loan Disbursement (PM Loan Scheme)	*Total since 2013:* rupees 304 Billion	rupees 58 Billion (Jul-Feb FY26)
Loan Beneficiaries (PM Loan Scheme)	*Total since 2013:* 535,233	114,815 (Jul-Feb FY26)

**Note: The survey compares the latest Labour Force Survey (2024-25) against the 2020-21 data, as it is the most recent official comparative benchmark provided. Workers registered abroad for 2024 is the aggregate of the major destinations shown in the survey's comparative charts.*

Transport and Communication

The transport and communications sector has seen significant infrastructure investment and operational recovery. Here are the key points followed by the comparison table.

- The government has allocated rupees 333 billion to the transport and communications sector for FY 2026 to enhance regional trade and connectivity.
- The National Highway Authority (NHA) currently manages a massive network of 14,480 kilometers, which includes 48 national highways, motorways, and strategic roads.
- Major projects like the Karachi-Quetta-Chaman Road (over rupees 415 billion) and the Hyderabad-Sukkur Motorway (Rs 363.7 billion) have received formal approval for expansion and rehabilitation.
- Under the China-Pakistan Economic Corridor, significant work is moving forward on the Karakoram Highway realignment and the Eastbay Expressway to link Gwadar Port with the international airport.
- During the first nine months of FY 2026, Pakistan Railways transported 24.16 million passengers and moved 4,839 million tonne-kilometers of freight.
- A major milestone was reached in 2025 when the European Union Aviation Safety Agency lifted its ban, allowing PIA to resume flights to key destinations like Paris and Manchester.
- Both Karachi Port and Port Qasim saw growth in cargo handling, with Port Qasim specifically recording an 8 percent increase in throughput.
- Pakistan Post has modernized its operations by launching a mobile app for tracking and pickup, helping improve its global Universal Postal Union ranking to Level 6.
- The electronic media landscape has expanded to include 142 domestic satellite TV channels and 240 licensed FM radio stations.
- Pakistan Broadcasting Corporation (PBC) has significantly boosted its digital presence, now streaming more than 50 stations online to engage younger audiences.

Transport and Communication Sector Comparison

Description	Previous Year (FY 2025)	Current Year (FY 2026*)
NHA's Network Length (KM)	~12,122 (Historical Base)	14,480
Pak Railways Passenger Traffic (mn)	39.70 (Full Year)	24.16
Pak Railways Freight Traffic (tonne Km mn)	7,724 (Full Year)	4,839
PNSC Group's Profit after Tax (Rs mn)	15,400 (Jul-Mar)	7,506
Cargo Handling at Ports (mn tonne)	74.21 (Jul-Mar)**	78.45
Pakistan Post's Network (Post Offices)	6,973 (Full Year)	9,695
Broadcasting Network (TV Stations)*	141 (Total)	142

Notes: **Current year figures generally reflect the July–March provisional period unless otherwise stated. **The Port Cargo figure is a combined total for Karachi Port, Port Qasim, and Gwadar Port. ***Broadcasting network data refers to total PEMRA licensed satellite TV stations.*

Energy

The energy sector is undergoing a major transition toward indigenous and renewable sources to ensure long-term economic resilience. Below are the key findings and a performance comparison:

- Pakistan's total installed electricity generation capacity reached 49,651 MW by March 2026, marking an 8.5 percent increase from the previous year.
- Hydel, nuclear, and renewable sources collectively account for over half (50.8 percent) of the total installed capacity.
- The share of thermal power in the energy mix has declined significantly, dropping from 56.7 percent last year to 49.2 percent this year.
- Total electricity generation during the first nine months of FY 2026 stood at 92,835 GWh, a slight increase over the 89,809 GWh produced in the same period last year.
- There was a notable shift in usage as industrial electricity consumption rose to 26,205 GWh, increasing its national share from 26.3 percent to 31.5 percent.
- Electricity usage in the agricultural sector plummeted by 42.3 percent, likely due to a massive shift toward solar-powered tube wells.
- Solar power adoption at the consumer level is booming, with net-metering now contributing 7,319 MW to the national grid.
- Overall consumption of petroleum products rose by 3.5 percent, reaching 13.64 million tonnes, driven largely by increased demand in the transport sector.
- The transport sector now accounts for 82.5 percent of the total demand for petroleum, reflecting higher mobility and trade activity.
- Average gas consumption fell to 2,929 Mmcfd as the country continues to struggle with the depletion of indigenous reserves and high costs of imported LNG.
- Thar coal has become the cornerstone of energy security, with domestic coal production and its use in power generation seeing significant growth.
- Nuclear power remains a critical "base load" source, contributing 18.5 percent of the total electricity generated while avoiding millions of tonnes of CO_2 emissions.

Energy Sector Comparison

Description	Previous Year (July-Mar FY 2025)	Current Year (July-Mar FY 2026)
Total Installed Capacity (MW)	45,782	49,651
Total Generation (GWh)	89,809	92,835
Electricity Consumption (GWh)	80,111	83,143
Petroleum Consumption (Million Tonnes)	13.17	13.64
Gas Consumption (Mmcfd)	3,143	2,929
Coal Consumption (Million Tonnes)	16.17	21.41

Information Technology and Telecommunication

The Information Technology and Telecommunications sector as a primary engine for the country's economic transformation, emphasizing its role in export diversification and digital sovereignty.

- ICT export remittances have surged to US$ 3.38 billion during the first nine months of FY 2026, marking a nearly 20 percent increase over the same period last year.
- The IT industry achieved a massive trade surplus of US$ 2.91 billion, which accounts for roughly 86 percent of the sector's total export remittances.
- Remittances from tech freelancers jumped by 51 percent, reaching US$ 856.3 million, supported by massive training programs like Digi-Skills, which has conducted over 5.14 million trainings.
- The government introduced the Pakistan AI Policy 2025, aiming to train 200,000 individuals annually and integrate AI into healthcare, agriculture, and governance.
- March 2026 was a landmark month with the successful 5G spectrum auction, generating approximately US$ 509.6 million (Rs 142.6 billion) in revenue from major operators.
- The Pakistan Software Export Board (PSEB) now manages over 50 Software Technology Parks covering 1.9 million square feet, with a major new IT park in Islamabad set for completion in 2026.
- Broadband penetration has climbed to 64.2 percent, a dramatic rise from just 32.6 percent in 2019, reflecting the rapid digitization of society.
- Pakistan's mobile manufacturing ecosystem has matured significantly; over 95 percent of devices used on local networks are now manufactured within the country.
- Pakistan has maintained its "G5 Regulator Advanced Level" status from the ITU, ranking among the world's most sophisticated telecom regulators.
- Pakistan was recognized by GSMA as the top-performing country globally for narrowing the mobile internet gender gap, which dropped from 38 percent to 25 percent in just one year.
- The government finalized the Pakistan Information Security Framework 2025, establishing mandatory security controls across federal and provincial entities.
- Through the "Pakistan Asan Khidmat" app, the government has digitized citizen services like vehicle tax and driving permits, generating Rs 1.9 billion in revenue.

IT & Telecom Sector Comparison

Description	Previous Year (FY 2025*)	Current Year (FY 2026*)
IT & ITeS Companies (Regd. with SECP/PSEB)	*Not specified for FY25*	34,420 (as of Mar 2026)
IT Exports (US$ million)	2,829	3,388
Trade Surplus of IT and ITeS (US$ million)	2,433	2,911
Freelancers' Remittances (US$ million)	567.5	856.3
Broadband Subscribers (million)	150	161 (as of Mar 2026)
Total Telecom Subscribers (million)	200.3	207.22 (as of Mar 2026)

Note: *Export and remittance data refers to the July–March period for both years to ensure a direct comparison. Subscriber data compares the end of FY 2025 with the status as of March 2026.*

Social Protection

The Pakistan Economic Survey 2025-26 details a critical period for the country's social safety nets, highlighting how the government is attempting to buffer the population against rising poverty and external economic shocks through expanded financial allocations and digital reforms. Here are the key highlights of Social Protection:

- National poverty has unfortunately seen a reversal in its long-term declining trend, increasing from 21.9 percent in 2018-19 to 28.9 percent in 2024-25 due to overlapping economic and climate shocks.
- Income disparities have grown alongside poverty, with the national Gini coefficient rising from 28.4 to 32.7, signaling a more uneven distribution of household welfare.
- Total pro-poor expenditures grew by nearly 9.6 percent, reaching Rs 4.66 trillion during the first nine months of the fiscal year.

- There was a massive 250 percent surge in spending related to natural calamities and disasters, reflecting a strong public response to climate-related emergencies.
- The Benazir Income Support Programme (BISP) remains the cornerstone of social safety, now covering 10.20 million unconditional cash transfer (UCT) beneficiaries.
- BISP's conditional cash transfers (CCT) for education and nutrition have expanded to 6.59 million beneficiaries, focusing on school-going children and maternal health.
- A major reform is the rollout of Social Protection Wallets, which aims to move 10 million households to a transparent, CNIC-linked digital payment system.
- PBM provided critical support to 3.22 million people, specifically targeting orphans, widows, and those requiring catastrophic medical treatment.
- Despite higher poverty, there were notable gains in literacy (up to 63%) and internet access (which doubled to 70%), alongside a decline in infant mortality.
- The Employees' Old-Age Benefits Institution (EOBI) reported an 11.47 percent increase in contribution collection, supporting over 322,000 active old-age pensioners.
- The microfinance sector saw its credit value jump by 58.85 percent, providing a critical financial lifeline for low-income and underserved households.

Social Protection Comparison

Description	Previous Year (FY 2024-25)	Current Year (FY 2025-26*)
BISP Budgetary Allocation (rupees in billion)	598.09	722.49
BISP Amount Released/Disbursed (rupees in billion)	598.72	540.27
PBM Programs Disbursement (rupees billion)	5.86 (Full Year Base)**	6.56
Social Security & Welfare Spending (rupees in billion)*	574.13	822.21

*Note: *Current Year figures for disbursements generally cover the July–March period unless specified otherwise.**PBM previous year figure derived from the comparative growth context of the broader "Social Security & Welfare" category which includes PBM.*

Climate Change

The country is facing an intensifying climate reality, balancing its status as a minor emitter with its position as one of the world's most vulnerable nations. Key Highlights from the Climate Change Report.

- 2025 was recorded as the second warmest year in 65 years, with a national mean temperature of 23.9 °C, which is 1.09 °C above the long-term average.
- Despite contributing less than 1 percent to global greenhouse gas emissions, Pakistan remains on the "frontline" of the global crisis due to its unique geography and exposure to extremes.
- Recent floods were exceptionally widespread, hitting all four provinces and causing an estimated Rs 822 billion (US $2.9 billion) in damages.
- Pakistan was ranked as the most polluted country in the world in 2025, with air pollution causing an estimated 22,000 deaths annually.
- Under the new NDC 3.0, Pakistan aims to reduce its projected emissions by 50 percent by 2035, though 33 percent of this goal depends on international support.
- The government launched the Pakistan Climate Prosperity Plan (CPP), which outlines an investment requirement of roughly US $1.6 trillion by 2050 to transition to a green economy.
- The Green Pakistan Programme has achieved a cumulative plantation of over 2.25 billion trees, restoring approximately 700,000 hectares of land.
- To ensure transparency, the government is developing a Climate Finance Dashboard to track every dollar of climate-related spending from both national and international sources.

- Punjab has led the way with advanced tech solutions, including the "Hawk Eye" surveillance system for real-time pollution monitoring and the use of thermal night-vision drones.
- Pakistan successfully operationalized US $500 million in climate and disaster resilience funding through the ADB and is implementing a supplementary carbon levy on petroleum.

Climate and Environmental Comparison

Description	Previous Year (2024 / FY24)	Current Year (2025 / FY25)
Annual Mean Temperature	22.81 °C (Long-term Average)	23.9 °C (2025)
Air Quality (Avg. PM2.5)	73.9 µg/m³ (2024)	67.3 µg/m³ (2025)
Monsoon Rainfall	140.5 mm (Historical Normal)	172.8 mm (23% Above Normal)
Total Flood Damages (US $)	$30+ Billion (2022 Floods)	$2.9 Billion (2025 Floods)
Cumulative Plantation (Plants)	2.25 Billion (Dec 2025)	2.28 Billion (Mar 2026)
GDP Growth Target (FY 2026)	4.2% (Initial Target)	3.5% - 3.9% (Revised post-floods)

SECTION 3 SALIENT FEATURES

Income Tax

Relief measures

1. Reducing the salaried tax slabs to ease the rate at the middle bands, with the highest 35% marginal rate now applying only above income of Rs. 7M.
2. Withdrawing the 9% surcharge on salaried individuals earning above Rs. 10M, further easing the burden on higher-salaried persons.
3. Making the tax on digital-transaction proceeds adjustable, rather than final, for persons whose turnover exceeds Rs. 200M, relieving larger e-commerce sellers from final-tax treatment on thin margins.
4. Omitting section 7E, the tax on deemed income from immovable property, consequent to the Federal Constitutional Court declaring the provision ultra vires ab initio.
5. Introducing a 10% tax credit for investment in integration and digital-invoicing infrastructure, replacing the earlier point-of-sale credit.
6. Reducing the advance tax on the sale or transfer of immovable property from the higher/ graduated scale to a lower/ flat 2.75%.
7. Reducing the advance tax on the purchase of immovable property from the higher/ graduated scale to a lower/ flat 1.25%, irrespective of the value of the property acquired.
8. Substantially reducing the advance tax on foreign transactions through credit and debit cards from 5% to 0.5%.
9. Omitting the advance tax on foreign-produced TV plays and advertisements.
10. Reducing the withholding rate on services not otherwise specified from 15% to 14%.
11. Doing away with the 1% additional advance tax collected by banks from exporters, though the minimum tax is correspondingly raised to 1.25%.
12. Extending the reduced 0.25% rate on export proceeds of IT and IT-enabled services from tax year 2026 to tax year 2029.
13. Excluding payments to specified pass-through entities from the recently introduced withholding on gain from debt securities.
14. Raising the trader turnover threshold for becoming a withholding agent u/s 153 from Rs. 100M to Rs. 200M.
15. Exemption criteria broadened beyond account holder's overseas Pakistani status to all holders of designated non-resident value accounts regulated by the SBP.
16. Extending the 10% final-tax treatment on profit on debt from Federal Government debt instruments purchased via FCVA, FCBVA, NRVA and NRBVA to all persons instead of individuals only.

Revenue measures

1. Recasting the super tax on high earning persons u/s 4C around defined sectors and two income thresholds.
2. Introducing tax on payouts, surrender values and maturity proceeds from life insurance and family takaful arrangements, computed on the gross payout reduced by premiums paid and treated as a final tax, except on death, disability or after seven years.
3. Disallowing up to 5% of the expenditure of any person who fails to install an electronic resource or to act as an integrated enterprise.
4. Imposing a new 5% withholding tax on the gross revenues earned by persons from social-media and similar online platforms.
5. Raising the minimum tax on distributors of pharmaceutical products, fast-moving consumer goods and cigarettes from 0.25% to 0.5%, while narrowing the eligible base and dropping retailers and several goods categories.
6. Increasing the withholding rate on the broad band of specified services u/s 153 from 6% to 7%.
7. Increasing the withholding rate on services rendered by software engineers and developers working independently from 6% to 15%.
8. Fixing the withholding on terminal and port services at 12%.
9. Withdrawing the withholding-tax exemption for manufacturers of iron and steel products, so that payments to them become subject to deduction u/s 153.
10. Withdrawing the exemption for companies operating Trading Houses, so that payments received by them become subject to deduction u/s 153.

Other/ regulatory measures

1. Adding definitions of an algorithmic settlement mechanism, an authorized shipping agent and an electronically readable format.

2. Fixing the cost of inherited immovable property at its fair market value at the date of death of the predecessor.
3. Providing for non-recognition of gain on transmission of assets on death and on a family settlement.
4. Recognizing limited liability partnerships within the definitions and the AOPs framework u/s 80 and 92.
5. Introducing a special fixed-tax procedure for small traders and shopkeepers.
6. Providing for computation of capital gains on listed securities by the National Clearing Company of Pakistan Limited.
7. Requiring returns u/s 114 to be filed electronically, with financial statements in a machine-readable format.
8. Introducing faceless audit and assessment, faceless appeals, an algorithmic settlement mechanism and a revamped alternative dispute resolution.
9. Constituting an independent case scrutiny committee as a merits filter before departmental references and appeals are taken to the superior courts.
10. Imposing joint and several liability on an authorized shipping agent of a non-resident ship owner or charterer.
11. Requiring banking companies and Electronic Money Institutions to report large-account information to a Central Data Hub for algorithmic cross-matching, overriding the banking-secrecy statutes.
12. Enhancing the penalties and extending the list of offences and raising the late-filer surcharge for remaining on the active taxpayers' list.

Sales Tax

Relief measures

1. Introducing exemptions for contraceptives, female sanitary products, the import of specified vessels and bullet proof vehicles for the Shanghai Cooperation Organization summit and for protection against terrorism.
2. Restoring and extending the exemption on newsprint, books and magazines and extending the time-limited exemption.
3. Exempting specified machinery for the upgradation of existing refineries and imports by Karachi Shipyard and Engineering Works Limited.
4. Extending the reduced-rate entry for electric vehicles to 2027 and charging electric transport buses and trucks at 1%.

Revenue measures

1. Bringing a wide range of retail-packed consumer goods, from vegetable oils, pasta, sauces and confectionary to footwear, crockery, cosmetics and ceramic sanitaryware, within the retail-price regime.
2. Enhancing several penalties and introducing new offences directed at simulated and fictitious invoicing and at input-tax mismatch and failure to reverse credit.
3. Levying a 3% value addition tax on imported goods supplied in the same state, with prosecution where same-state supply exceeds 50% of imports despite a manufacturing-consumption waiver.
4. Extending sales-tax withholding to associations of persons and individuals and introducing withholding at four times the tax on conversion charges in toll manufacturing.

Other/ regulatory measures

1. Adding definitions of an advance receipt invoice, an algorithmic settlement mechanism, an electronic invoicing system, the National faceless center and a production monitoring system and recasting the Tier-1 retailer definition around a Rs. 200M turnover threshold.
2. Collecting tax on the steel sector on the basis of electricity consumption, with monthly automated refunds for those who integrate.
3. Introducing faceless audit and assessment, faceless jurisdiction, faceless appeals, an algorithmic settlement mechanism, an independent case scrutiny committee and a National faceless center, supported by a new Directorate General (Field Compliance).
4. Making electronic invoicing with a verifiable and unique FBR invoice number mandatory, extended to exempt supplies, with blacklisting for invoicing and integration defaults.
5. Recasting the production-monitoring regime to include production-monitoring systems and video analytics, with seizure and confiscation of unmonitored goods and providing for auction of confiscated goods.
6. Recasting the audit of sales tax affairs, including re-audit, inventory re-valuation and a formal audit report and permitting intra-sector data sharing.

Federal Excise Duty

Relief measures

1. Substantially reducing the duty on club, business and first-class air tickets.
2. Reducing the duty on acetate tow from Rs. 44,000 to Rs. 10,000/ kg and carving low-sugar hydration and electrolyte drinks out of the charge on aerated waters.
3. Exempting the import of bullet proof vehicles, in the specified circumstances.

Revenue measure

1. Introducing a Special Excise Duty, levied through the new Table-IA of the First Schedule, on imported motor vehicles at 40% and 41% ad valorem.
2. Steeply increasing the duty on e-liquids for electric cigarettes to Rs. 16,500/ kg.
3. Introducing a new duty of Rs. 80/ liter on petroleum solvents (naphtha, white spirit and solvent oil).

Other/ regulatory measures

1. Adding definitions of an algorithmic settlement mechanism, an electronic invoicing system, the National faceless center and a production monitoring system.
2. Applying faceless and algorithmic-settlement machinery to federal excise and constituting an independent case scrutiny committee.
3. Making invoicing with a verifiable and unique FBR invoice number mandatory and recasting the monitoring regime to include production-monitoring and video analytics.
4. Extending seizure and confiscation to goods that evade the production-monitoring regime, recasting the audit and substituting departmental nomenclature in several sections.
5. Revising the cigarette brand-variant restriction so that a new variant may not be priced below the lowest price of the existing brand.

Customs

Relief measure

Extending the life of exemption notifications placed before the National Assembly by a further year, to June 30, 2027.

Revenue measures

1. Raising the penalty on a port authority that fails to entertain a delay and detention certificate from Rs. 500K to Rs. 10M and introducing a new offence for tampering with goods held at a State Warehouse.
2. Empowering the Collector to reduce and not merely waive, the penalty on goods not cleared in time, with the power to notify the regime moving to the Board.
3. Empowering a Special Judge to freeze the assets of an accused believed to have illegally moved funds into or out of Pakistan.

Other/ regulatory measures

1. Defining a State Warehouse for goods detained, seized or confiscated and recognizing scanning as a means of checking goods at clearance.
2. Introducing faceless adjudication, an independent case scrutiny committee and an additional mode of service under the Code of Civil Procedure.

Petroleum Levy

Regulatory measures

1. Recasting the definitions of a company and a refinery from fixed lists in the 2nd and 4th Schedules to functional descriptions, drawing in oil marketing companies and used-oil reclaimers and omitting both Schedules.
2. Making payment of the Petroleum Levy & Climate Support Levy a condition of the OGRA license u/s 3(1) and omitting the existing land-revenue recovery route.
3. Introducing a late payment surcharge, measured by the monthly weighted financing cost of Government domestic borrowings and a dedicated recovery mechanism through the Commissioner (Inland Revenue), which bars any extension or instalments and ousts challenge to recovery irregularities.
4. Submission of monthly statements to the Board and an annual audited certificate to the Petroleum Division.

CVT

Relief measure

Abolishing CVT on foreign assets of resident individuals, so that the tax survives only on motor vehicles held in Pakistan.

SECTION 4 INCOME TAX

1. SALARIED INDIVIDUALS [Division I Part I First Schd.]

Salaried individuals are presently taxed under a progressive slab structure under Division I of Part I of the First Schedule, the lowest taxable slab being charged at 5% and the highest marginal rate of 35% applying to income exceeding Rs. 4,100,000. The Bill seeks to substitute these slabs, easing the rate at the lower-middle bands while applying the 35% marginal rate only above income of Rs. 7,000,000. The existing and proposed rates compare as under:

Existing Tax Rates

Taxable Income | Rs.		**Rate of Tax**		
From	To			
Up to 600,000		0%		
600,001	1,200,000	1% of amount exceeding Rs.600,000		
1,200,001	2,200,000	Rs.6,000	PLUS	11% of the amount exceeding Rs.1,200,000
2,200,001	3,200,000	Rs.116,000	PLUS	23% of the amount exceeding Rs. 2,200,000
3,200,001	4,100,000	Rs.346,000	PLUS	30% of the amount exceeding Rs. 3,200,000
Above 4,100,000		Rs.616,000	PLUS	35% of the amount exceeding Rs.4,100,000

Proposed Tax Rates

Taxable Income | Rs.		**Rate of Tax**		
From	To			
Up to 600,000		0%		
600,001	1,200,000	1% of amount exceeding Rs.600,000		
1,200,001	2,200,000	Rs.6,000	PLUS	11% of the amount exceeding Rs.1,200,000
2,200,001	3,200,000	Rs.116,000	PLUS	20% of the amount exceeding Rs.2,200,000
3,200,001	4,100,000	Rs.316,000	PLUS	25% of the amount exceeding Rs.3,200,000
4,100,001	5,600,000	Rs. 541,000	PLUS	29% of the amount exceeding Rs.4,100,000
5,600,001	7,000,000	Rs. 976,000	PLUS	32% of the amount exceeding Rs.5,600,000
Above 7,000,000		Rs.1,424,000	PLUS	35% of the amount exceeding Rs. 7,000,000

Moreover, in addition to the relief proposed in the slab rates, the **surcharge** of 9% levied under section 4AB on salaried individuals whose income exceeded Rs. 10,000,000 in a tax year has also been proposed to be withdrawn, further easing the burden on higher-salaried individuals.

2. SUPER TAX ON HIGH EARNING PERSONS [Section 4C | Division IIB Part I First Schd.]

Super tax is presently charged on high earning persons at progressive rates. The Bill seeks to substitute the Table, recasting the charge around defined sectors and two income thresholds as under:

Existing Tax Rates

Taxable Income | Rs.		**Rate of Tax**
From	To	
Up to 150M		0%
Above 150M	200M	1%
Above 200M	250M	1.5%
Above 250M	300M	2.5%
Above 300M	350M	3.5%
Above 350M	400M	5.5%
Above 400M	500M	7.5%
Above 500M		10%

Proposed Tax Rates

Category		**Rate of Tax**
Banking companies	Where income exceeds Rs. 150M	10%
E&P companies		
Persons deriving income from sale of fertilizers		
Other taxpayers	Where income exceeds Rs. 500M	8%

3. DEFINITIONS

Algorithmic settlement mechanism [Section 2(1AA) | Section 134B]

There is presently no defined concept of an algorithmic settlement mechanism in the Ordinance. The Bill seeks to insert a new clause (1AA) tying the expression to the mechanism proposed under section 134B, which underpins the digitally operated settlement offer regime.

Authorized shipping agent [Section 2(6A) | Section 143]

The Ordinance presently taxes the shipping income of a non-resident under section 143 without a defined intermediary on whom the obligations are fastened. The Bill seeks to insert a detailed new definition of an authorized shipping agent, being a person in Pakistan authorized, expressly or impliedly, by a non-resident ship owner, charterer or operator who is responsible for the receipt, collection, control or accounting of total freight and related amounts, undertakes manifest filing or cargo reporting and furnishes the return under section 143. Such an agent has been proposed to be treated as the representative of the non-resident under section 172, to be made jointly and severally liable for the tax and all related obligations, proceedings, assessments and recovery and to be subject to section 172(3). This definition forms the foundation of the authorized shipping agent regime introduced through the proposed amendments to section 143.

Electronically readable format [Section 2(19DA)]

The Ordinance presently does not define the form in which data or statements are to be furnished electronically. The Bill seeks to insert a new clause (19DA) covering any digital format in which data is structured so that it can be automatically read, extracted, validated and processed by computer systems without human intervention, including spreadsheet formats such as CSV or XLSX, XML, XBRL and JSON, but excluding formats primarily designed for human readability such as PDF, scanned images or photographs. This definition supports the proposed requirement that companies file financial statements with their return only in an electronically readable format.

4. CHARGE OF TAX

Withdrawal of surcharge on high-income salaried persons [Section 4AB]

Section 4AB, inserted by the Finance Act, 2024, imposes a surcharge over and above the income tax otherwise payable: ten percent of the tax for individuals and AOPs where taxable income exceeds Rs. 10 million, with a proviso applying a reduced nine percent to salaried individuals in the same band.

It has been sought to substitute the proviso so that, for a salaried individual, no surcharge shall be payable. The ten percent surcharge on other individuals and on AOPs above Rs. 10 million is left undisturbed.

It is noted that the Bill also corrects a drafting slip, substituting the heading reference "(4AB)" with "4AB"; an acknowledgement that the section was mis-captioned when first inserted. For high-earning salaried taxpayers the removal of the nine percent surcharge, taken with the re-cut slabs above, is a meaningful reduction in the aggregate burden.

Tax on payments for digital transactions made adjustable
[Section 6A | Div IVA, Part I, First Sch.]

Section 6A, introduced by the Finance Act, 2025, charges tax on persons receiving payment for digitally ordered goods or services delivered from within Pakistan through locally operated online platforms, at the rates in Division IVA. As originally cast the levy operates without an express statement of its character for larger sellers.

It has been sought to add sub-section (3) providing that, notwithstanding section 8, the tax under section 6A on a person whose turnover exceeds Rs. 200 million shall be adjustable. The effect is to relieve larger e-commerce sellers from final-tax treatment, allowing the tax to be set against their normal liability; a recognition that a final tax on gross receipts over-taxes the thin margins of sizeable businesses. The rate language in Division IVA is correspondingly amended, substituting “ordered” for “delivered”.

Tax on deemed income from immovable property [Section 7E | Div VIIIC, Part I, First Sch.]

Section 7E, inserted by the Finance Act, 2022, treats a resident person as having derived income equal to five percent of the fair market value of capital assets in Pakistan held on the last day of the tax year, taxed at the rate in Division VIIIC, subject to a long list of exclusions. Since its introduction it has been among the most litigated provisions of the Ordinance, its vires having been challenged in several High Courts.

It has been sought to omit section 7E altogether consequent to the recent judgement passed by the honorable Federal Constitutional Court, whereby the provisions of section 7E were declared as ultra-vires ab-initio. Accordingly, corresponding omissions of the rate Division VIIIC and of the cross-references to 7E in section 8 have also been proposed.

Payouts by life insurance business [Section 7G & 151B | Div IC, Part III, First Sch.]

There is at present no charging provision directed specifically at the proceeds of life insurance and family takaful arrangements in the hands of the individual policyholder.

The Bill seeks to insert a new section 7G to impose, for tax year 2026 and onwards, a tax at the rate specified in the new Division IC of Part III of the First Schedule on every individual who receives any payout, benefit, surrender value, maturity proceeds or similar payment from a life insurance business on account of an insurance policy, family takaful certificate, plan or similar arrangement. The amount liable to tax has been proposed to be the gross payout reduced by the aggregate premiums or contributions paid. The charge does not apply where the payout is made on account of death or disability of the insured or participant or after completion of seven years from issuance and the tax has been proposed to be treated as final tax on the income arising. Section 8 has been amended consequentially to substitute the reference to 7E with 7G. The proposed rates are as under:

Timing of payout / benefit	Rate of tax
Within one year from issuance of the policy/ certificate/ plan	15%
After one year but before completion of seven years	10%

It is noted that the death, disability and seven-year carve-outs appear intended to protect genuine protection-oriented policies, taxing principally those products surrendered or encashed as short-term investment vehicles. Consequent withholding mechanism has also been proposed vide a newly inserted section 151B.

5. DEDUCTIONS AND TAX CREDITS

Disallowance for failure to integrate [Section 21(r)]

Section 21 enumerates the deductions that are not allowed in computing income from business. The Bill seeks to substitute clause (r) so as to disallow up to 5% of the expenditure claimed by any person who fails to install an electronic resource or to act as an integrated enterprise as required by law, subject to the method, manner and procedure as may be prescribed. The measure thereby adds a deductibility consequence to reinforce the integration and electronic-invoicing obligations appearing elsewhere in the Bill.

6. TAX ON TAXABLE INCOME

Rationalization of minimum-tax withholding rates [Section 53A | First Schedule]

There is presently no general power enabling the Federal Government to scale down minimum-tax withholdings on grounds of economic viability. The Bill seeks to insert a new section 53A empowering the Federal Government to reduce the rate of any withholding tax in the nature of minimum tax in the First Schedule, other than the minimum tax under section 113, up to 1% on the basis of economic viability for persons or classes of persons, subject to such restrictions and limitations as may be specified. All such amendments are to be placed before the National Assembly in the financial year. It is noted that the provision affords the executive a calibrated relieving power, tempered by a parliamentary reporting safeguard.

7. TAX CREDITS

Tax credit for integration [Section 64D | Division I and II Part I First Schd.]

Section 64D presently provides a tax credit regime directed principally at point-of-sale integration by retailers. The Bill seeks to substitute the section so that any person required, under the Ordinance, the Sales Tax Act, 1990 or the Federal Excise Act, 2005, to integrate with the Board's computerized system for real-time production monitoring or for the recording or reporting of sales or receipts is entitled to a tax credit on expenditure incurred exclusively on the purchase, acquisition, installation or implementation of qualifying equipment, hardware, software or other electronic components. The credit has been proposed to equal 10% of the amount actually invested in the year of installation and configuration, is not allowable against operation and maintenance expenses and is available only against normal tax under Division I or Division II of Part I of the First Schedule. The credit is thereby broadened beyond point-of-sale retail integration to all integration mandated across the three statutes.

8. COMMON RULES

Cost of inherited immovable property [Section 76(8A) | Section 68(5)]

It has been sought to add sub-section (8A) fixing the cost of inherited immovable property at its fair market value on the day of the death of the original owner, determined under section 68(5). This gives a clear stepped-up basis and removes the uncertainty attending a later disposal.

Transmission on death and family settlement [Section 79]

Section 79 provides that the transmission of an asset to a beneficiary on the death of a person is not treated as a disposal giving rise to a gain. The Bill seeks to insert an explanation in clause (b) of section 79(1) to clarify that such transmission shall also include transmission by reason of family settlement amongst family members consequent upon the death. The clarification thereby places family settlements following a death within the non-recognition treatment, avoiding an inadvertent disposal charge.

9. PROVISIONS GOVERNING PERSONS

Limited liability partnerships [Section 80(2)(a) and Section 92]

The Ordinance presently taxes associations of persons under section 92, without express provision for limited liability partnerships within the definition of person. The Bill seeks to insert limited liability partnership within the definition of person in clause (a) of section 80(2). In section 92, the explanation in sub-section (1) has been proposed to be omitted and a new sub-section (4A) inserted to provide that, where the income of a limited liability partnership is exempt from tax, the amount received by a member in that capacity shall be taxable in the hands of the member. Limited liability partnerships are thereby brought squarely within the framework of the Ordinance, with a look-through charge on members where the partnership's own income is exempt.

10. SPECIAL INDUSTRIES

Special procedure for small traders and shopkeepers [Section 99B]

Section 99B empowers the Board, with the Minister's approval, to prescribe a special procedure for the scope and payment of tax, filing of return and assessment for small traders and shopkeepers in specified areas.

It has been sought to widen the prescribable matters to include rate and payment of tax including fixed tax, filing of return and audit. The enlargement gives statutory footing to a fixed-tax style scheme for small traders and retailers, evidently the vehicle for the "Fixed Tax" scheme announced with the budget, enabling a turnover-based or fixed levy and a tailored audit regime to be notified administratively rather than through primary legislation.

Capital gains computation by NCCPL [Section 100B | Section 37A]

Section 100B presently requires the National Clearing Company of Pakistan Limited (NCCPL), to compute and collect the capital gains tax on the disposal of listed securities for specified categories of persons. It has been sought that NCCPL, in the case of a banking company, insurance company and mutual funds, shall compute and determine the capital gain as per the mechanism prescribed under section 37A, while those entities continue to deposit tax on the gain under the otherwise applicable provisions. The collection mechanism is thereby realigned for the specified financial entities while preserving their existing deposit obligations.

11. MINIMUM TAX

Distributors of pharmaceutical products, fast moving consumer goods and cigarettes [Section 113 | Div IX Part I First Schd.]

It has been sought to omit distributors of pharmaceutical products, fast moving consumer goods and cigarettes from the list of sectors which are currently subject to minimum tax at 0.25%, thereby proposing to subject these distributors to incidence of minimum tax at the standard rate 1.25%.

Distributors, dealers and wholesalers of specified goods [Section 113 | Clause (24D) Part IV Second Sch.]

Clause (24D) presently prescribes a reduced minimum tax rate of 0.25% under section 113 for distributors, dealers, sub-dealers, wholesalers and retailers engaged in the sale of fast moving consumer goods (FMCGs), fertilizer, locally manufactured mobile phones, sugar, electronics (excluding imported mobile phones), cement, steel and edible oil, subject to the condition that the taxpayer appears on the Active Taxpayers Lists (ATL) maintained under both the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001. A proviso further restricts the benefit for Tier-1 retailers, making it available only where such retailers are integrated with the Board's computerized system for real-time reporting of sales.

The Bill proposes to substitute the clause and thereby:

a. Increase the concessional minimum tax rate from 0.25% to 0.5%;
b. Restrict the category of eligible persons to distributors, dealers, sub-dealers and wholesalers, thereby excluding retailers;

c. Revise the list of qualifying goods to packaged food, fertilizer, locally manufactured mobile phones, sugar and electronics, replacing the broader FMCG category with packaged food and omitting cement, steel and edible oil; and
d. Delete the proviso relating to Tier-1 retailer integration, which becomes redundant following the exclusion of retailers from the scope of the clause.

The requirement that the taxpayer appear on the ATL under both the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 remains unchanged.

Accordingly, the amendment has a twofold effect: (i) it doubles the concessional minimum tax rate from 0.25% to 0.5% for the remaining eligible taxpayers, and (ii) it significantly narrows the scope of the concession by excluding retailers and certain product categories. Persons no longer falling within clause (24D) would cease to qualify for the preferential rate and would become subject to the minimum tax provisions otherwise applicable under section 113.

12. RETURNS

Filing of returns and electronically readable statements [Section 114]

Section 114 governs returns. Sub-section (2A) prescribes the manner of electronic filing; sub-sections (6) and (6A) govern revised returns, ordinarily requiring the Commissioner’s approval.

It has been sought to substitute sub-section (2A) to provide for electronic filing on IRIS as prescribed, with a proviso that, for companies, from tax year 2026 the financial statements accompanying the return shall be filed only in electronically readable file format; and to allow, through sub-section (6) and a new sub-section (6B), a taxpayer who avails a settlement under the algorithmic settlement mechanism to file a revised return without the Commissioner’s approval, on payment of the tax determined and with no separate penalty or default surcharge.

It is noted that the machine-readable requirement, taken with the new Explanation to S. No. 35 of section 182, which deems illegible image-file or password-protected financials to be “blank or incomplete”, compels companies to abandon scanned or PDF financials, on pain of penalty. The proposed amendment calls companies to review their reporting systems well ahead of the tax year 2026 filing.

13. PROCEDURE

Faceless audit and assessment [Section 122E | Sections 177, 214C and 227E]

Audit and assessment under the Ordinance are presently conducted by the territorial Commissioner having jurisdiction over the taxpayer. The Bill seeks to insert a new section 122E to permit any audit under sections 177 or 214C, any order under section 111, any assessment under the relevant Part and rectification under section 221 to be made in a faceless manner for such persons, incomes or cases as may be specified by the Board. Where an opportunity of being heard is to be provided or a statement under oath obtained, it is to be conducted through e-hearing under the proposed section 227E and the identity of the conducting officer, including facial and voice identity, is to be kept confidential.

Faceless appeals [Section 129A | Sections 127, 128 and 129]

An appeal against an order presently lies to the Commissioner (Appeals) under section 127, heard in the ordinary course. The Bill seeks to insert a new section 129A to permit any appeal filed under section 127 to be processed through the National faceless center as may be prescribed by the Board, with the provisions of sections 127, 128 and 129 applying to such faceless appeals accordingly.

Independent case scrutiny committee [Section 133A | Section 133]

A reference to the High Court under section 133 or an appeal or review before the apex courts, may presently be filed by the Commissioner without an institutional merits filter. The Bill seeks to insert a new section 133A to require that such a reference, appeal or review be filed by the Commissioner only after approval by an independent case scrutiny committee constituted by the Board. The committee is to comprise a retired judge of the superior courts as chairman, an advocate having not less than fifteen years' experience in tax and commercial litigation and a senior serving or retired officer of the FBR of BS 20 or above. Its recommendations are to be binding upon the Commissioner having jurisdiction and members and the Commissioner are protected from suit in respect of decisions made. It is noted that the measure introduces an independent merits filter intended to curb the pursuit of unmeritorious litigation by the department.

Alternative dispute resolution [Section 134A]

Section 134A provides for the resolution of disputes through a committee, which on the present framework ceases to function on dissolution or on a member becoming unavailable. The Bill seeks to amend the section to allow the committee, notwithstanding its dissolution, to rectify a mistake apparent from the record on its own motion or as brought to its notice, within thirty days. Further provisos have been proposed to enable reconstitution of the committee where a member becomes unavailable, the Chairman of the Board appointing a replacement within fifteen days, with a further sixty days allowed to conclude and an overall floor of ninety days from original constitution. The amendments thereby cure procedural gaps that previously frustrated proceedings on a member's departure or on an apparent error surfacing after dissolution.

Algorithmic settlement mechanism [Section 134B | Section 114(6)]

The Ordinance presently provides no automated mechanism for the settlement of tax proceedings short of the regular assessment and dispute-resolution channels. The Bill seeks to insert a new section 134B empowering the Board to establish a digitally operated algorithmic settlement mechanism for settlement of tax proceedings at any stage before an assessment or amended assessment under sections 121, 122 or 122E, through revision of return under section 114(6). Where the mechanism presents a system-generated settlement offer, calculated by reference to the stage of proceedings, the taxpayer's compliance history, the nature and character of the discrepancy and any other basis the Board may consider relevant, the taxpayer may, within ten days, accept the offer on IRIS, deposit the amount along with a revised return and incorporate the settled amount. On acceptance, the underlying notice of audit selection, notice under section 111, audit report under section 177(6) or notice under section 122(9), as the case may be, stands abated, without precluding proceedings on any other issue or tax year. It is noted that the mechanism introduces a technology-driven, formula-based settlement pathway intended to resolve disputes quickly and at scale, with finality limited to the settled discrepancy.

Non-resident ship owner or charterer [Section 143 | Section 2(6A)]

Section 143 presently taxes the shipping income of a non-resident ship owner or charterer, the tax being collected before port clearance. The Bill seeks to amend the section throughout to bring the authorized shipping agent defined in section 2(6A) within its scope. Only one return is to be furnished for each vessel or voyage, covering the total freight and all related amounts attributable to the ship and the master or authorized shipping agent responsible for manifest filing and freight handling is to furnish that return, no other person being permitted to do so. The agent has been proposed to be made jointly and severally liable and the port clearance under sub-section (5) has been conditioned on electronic confirmation that the return has been filed and tax paid. Responsibility for the non-resident freight tax is thereby consolidated on the authorized shipping agent or master, with single-return filing per voyage and a clearance lever to enforce compliance.

14. PAYMENTS TO NON-RESIDENTS [Section 152(1DA)]

Every banking company maintaining a Foreign Currency Value Account (FCVA) or a non-resident Pakistani Rupee Value Account (NRVA) of a non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) deducts tax from capital gain arising on the disposal of debt instruments and government securities and certificates (including Shariah compliant variant) invested through aforesaid accounts at the lower rate of 10% specified in Division II of Part III of the First Schedule.

It has now been proposed to broaden the scope of this lower rate benefit to all type of account holders.

15. PAYMENTS FOR SERVICES [Section 153 | Div III Part III First Schd.]

It has been sought to re-band and revise the withholding rates for services as tabulated below:

Nature of Payment	*Rate of Tax*		*Remarks*
	Existing	*Proposed*	
Transport | Freight forwarding | Air cargo services | Courier | Manpower outsourcing | Hotel services | Security guard | Software development | Tracking services | Advertising (other than by print/ electronic media) | Share registrar services | Engineering/ Architectural services | Warehousing | Services rendered by AMCs | Data services | Telecom. infrastructure (tower) services | Car rentals | Building maintenance | Services rendered by PSEL & PMEL | Inspection, certification & testing | Training services | Oilfield services | Telecom | Collateral management | Travel & tours | REIT management | NCCPL services	6%	7%	Rate increased
IT services and IT enabled services	4%	4%	No change
Professional services rendered by certain individuals working independently | e.g. doctors, lawyers, architects, accountants.	15%	15%	No change
Professional services rendered by software engineers or developers working independently	6%	15%	Rate increased
Payment for advertising services made electronic and print media	1.5%	1.5%	No change
Other cases	15%	14%	Rate decreased

16. EXPORTS

Tax collected from exporters [Section 147(6C) & 154 | Div IV Part III First Sch.]

The Finance Act 2025 mandated Banks to collect 1% advance from exporters in addition to 1% tax u/s 154. While it has been sought to do away with this 1% advance tax collection, it has also been proposed to increase the rate of minimum tax u/s 154 to 1.25%

Export of IT and IT-enabled services [Section 154A | Div IVA Part III First Sch.]

Division IVA grants a reduced 0.25% rate on export proceeds of computer software, IT or IT-enabled services by persons registered with the Pakistan Software Export Board, expressed to run for tax years 2024 up to tax year 2026. It has been sought to substitute “2029” for “2026”, extending the concession by three years, consistent with the budget announcement extending the IT-sector incentives to June 2029.

Advance tax on sale or transfer of immovable property

[Section 236C | Div X, Part IV, First Sch.]

The rate of advance tax collected under section 236C on the sale or transfer of immovable property, is presently a value-based slab of 4.5%, 5% and 5.5% as consideration rises through Rs. 50M and Rs. 100M. The proposed move from a graduated 4.5% to 5.5% scale to a flat 2.75% is sought as a substantial reduction in the advance-tax on sale of immovable property:

Gross consideration	Existing Rate	Proposed Rate
Up to Rs 50M	4.5%	
Rs 50M – 100M	5%	2.75%
Above Rs 100M	5.5%	

Advance tax on purchase of immovable property

[Section 236K | Div XVIII, Part IV, First Sch.]

Division XVIII fixes the rate collected under section 236K on purchase, presently a value-based slab of 1.5%, 2% and 2.5%, which is now being proposed at a flat rate irrespective of the fair market value of the property acquired:

Fair market value	Existing Rate	Proposed Rate
Up to Rs 50M	1.5%	
Rs 50M – 100M	2%	1.25%
Above Rs 100M	2.5%	

Advance tax on amounts remitted abroad via cards

[Section 236Y | Div XXVII, Part IV, First Sch.]

It has been sought to substantially reduce the advance tax collected on foreign transactions carried on credit and debit cards from existing 5% to 0.5%.

Omission of advance tax on TV plays and advertisements

[Section 236CA | Div XA, Part IV, First Sch.]

It has been sought to abolish the advance tax collected at varied scale on foreign-produced TV drama serial/ play or an advertisement starring foreign actors.

17. WITHHOLDING ON REVENUES FROM SOCIAL MEDIA PLATFORMS

[Section 154B | Div IIIAB, Part III, First Sch.]

Income of digital content creators and social media influencers, typically received as inward remittances through banking channels, has had no dedicated collection provision.

It has been sought to insert section 154B requiring every banking and non-banking financial institution, on crediting an amount representing revenues received from social media platforms (platforms such as YouTube, Facebook, Instagram and TikTok), to deduct tax at the new Division IIIAB rate of 5% minimum tax for a resident on the ATL and final tax for a non-resident without a permanent establishment. A consequential reference is added in section 169(1)(b).

It is noted that the obligation is cast on the bank or financial institution at the point of credit, which presupposes that the institution can identify a given inward remittance as “social media” revenue; a characterization that banking channels are not presently equipped to make with certainty, and which the promised implementing rules will need to address if the provision is to work in practice.

18. GAIN ARISING ON DISPOSAL OF CERTAIN DEBT SECURITIES

[Section 151A | Div IIIAA, Part III, First Sch.]

Custodian of debt securities, including banks, responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of holder of a debt security, other than debt securities made through registered stock exchange and which are settled through NCCPL, are required to withhold 15% tax on the gross amount of capital gain upon disposal of debt securities including government securities on the gross amount of capital gain. It has now been sought to enhance this withholding rate to 20%.

19. EXEMPTION OR LOWER RATE CERTIFICATE [Section 159]

The Commissioner is empowered to issue an exemption or lower-rate certificate where tax is not deductible or is deductible at a reduced rate. The Bill seeks to insert new sub-sections (1C) and (1D) to section 159 so that a person distributing 90% or more of its accounting income amongst unit, certificate or shareholders, in accordance with clause (99) of Part I of the Second Schedule, for the last three years and NPOs issued approval under sub-clause (c) of clause (36) of section 2, shall be eligible for issuance of an exemption certificate for the subsequent whole tax year. Qualifying pass-through and approved entities thereby obtain streamlined, full-year exemption certification, reducing repeated administrative applications.

20. PROCEDURE

Reporting of financial transaction data by banking companies and financial institutions

[Section 165AB]

The reporting of bank account information to the tax authorities is presently constrained by the secrecy provisions of the banking and economic-reforms statutes. The Bill seeks to insert a new section 165AB, notwithstanding the secrecy provisions of the Banking Companies Ordinance, 1962, the State Bank of Pakistan Act, 1956 and the Protection of Economic Reforms Act, 1992, to require every banking company and Electronic Money Institution to upload to a Central Data Hub, for algorithmic cross-matching of tax and bank information, the information of account holders having deposits or withdrawals exceeding Rs. 100 million during a reporting period, specifying particulars of deposits or withdrawals including opening and closing balances, peak credits and total credits. The information is to be processed digitally and is not to be visible to the income tax authorities during cross-matching and only on a gross mismatch is it to be fed into the Compliance Risk Management system, with further proceedings conducted by the National faceless center. The section defines reporting period as each of the two six-month halves of a financial year, together with the specified date, peak credits, accounts, Central Data Hub maintained through PRAL and compliance risk management.

It is noted that, while the section overrides banking secrecy to a material extent, it seeks to preserve confidentiality through privacy-preserving, algorithmic cross-matching and an express bar on disclosure or misuse save as provided in the section.

Records [Section 174(5)]

It has been sought to empower the Board to require any person or class of persons to install and use a prescribed electronic resource or to act as an integrated enterprise, for receiving, storing, matching and accessing transaction information bearing on tax liability.

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

It has been proposed to bring the State Bank of Pakistan, microfinance banks and Electronic Money Institutions within the data-sharing framework and to empower the State Bank to establish, operate and maintain a secure centralized virtual repository of banking data on the basis of unique identifiers. These provisions together build the infrastructure on which the banking data exchange under section 165AB relies.

Audit [Section 177]

It has been sought to insert a new sub-section (6B), empowering the Commissioner, having regard to the nature, complexity or volume of accounts, doubts about their correctness, multiplicity of transactions or the specialized nature of the business, with the Chief Commissioner's prior approval and a hearing, to direct that the accounts be re-audited by an accountant, the inventory re-valued by a cost accountant, and actuarial values determined by an actuary, each from a Board-nominated panel. The department is thereby equipped to test complex accounts through independent professionals

Offences and penalties [Section 182]

The Bill seeks to recast and substantially enhance the penalty Table. The Explanation against S. No. 1 has been proposed to be substituted to define tax payable as the higher of the tax chargeable on assessment, including under the proposed section 122E or the highest tax payable by the person in any of the three immediately preceding tax years for which returns were filed. The new offences and enhancements proposed are summarized below:

S. No.	Offences	Penalties	Section Ref.
2A	Failure to install or, having installed, to use, maintain or operate in the prescribed manner a prescribed electronic resource required under section 174(5) or tampering with, disabling or circumventing such resource.	Rs. 1 million for the first default and Rs. 2 million for each subsequent default.	174(5)
2B	Failure by an integrated organization under section 175A, without reasonable cause, to integrate its IT platform, share data, provide complete and timely data, designate a focal person or remedy a deficiency within thirty days of written notice.	Rs. 500,000 for the first default and Rs. 1 million for each subsequent default, imposed on the principal officer of the integrated organization.	175A
8	Enhancement of existing penalty amounts in sub-entries (a), (b) and (c).	Substituted to one hundred, two hundred and three respectively, for twenty-five, fifty and one.	177
10	Various	Substituted to five hundred for twenty-five and 100% for 50%.	114, 116, 174, 176, 177, 118
12	Concealment of income or furnishing inaccurate particulars of income, including suppression of any income/ amount chargeable to tax, claiming of any deduction for any expenditure not actually incurred or any act referred to in Section 111(1), in the course of any proceeding under the Ordinance	Substituted to million for hundred thousand.	20, 111 and General
15	Failure to collect or deduct tax as required under any provision of the Ordinance or failure to pay the tax collected or deducted as required u/s 160	Substituted to five hundred for forty, with an additional Rs. 500,000 personal penalty on the principal officer of a company.	Div. II or Div III, excluding section 153(2A)
35	Failure by a person, including a company, to fully state particulars or furnishing illegible, scanned or password-protected financial statements, which are deemed to be furnished as blank or incomplete documents.	A penalty of Rs.500,000 or 10% of the tax chargeable on the taxable income, whichever is higher	114(2)
36	Claiming a credit for tax withheld at source in excess of the amount verifiably deducted and deposited by the withholding agent, as confirmed through the Board's computerized system or otherwise.	A penalty equal to the amount of the excess credit claimed.	168

Restoration to the Active Taxpayers' List [Section 182A]

Section 182A provides for a surcharge payable by a person seeking restoration to the Active Taxpayers' List after late filing. The Bill seeks to amend the proviso to clause (a) of section 182A(1) to raise the specified amounts, as compared below:

Taxpayer Type	Existing Surcharge	Proposed Surcharge
Company	Rs. 20,000	Rs. 100,000
Association of persons	Rs. 10,000	Rs. 50,000
Individual	Rs. 1,000	Rs. 25,000

21. ADMINISTRATION

Faceless jurisdiction of income tax authorities [Section 209B]

Jurisdiction over a taxpayer presently vests in the territorial Commissioner under section 209, with delegation notified under section 210. The Bill seeks to insert a new section 209B providing that the Inland Revenue authorities appointed in the National faceless center shall perform such functions and exercise such powers as are assigned to them through algorithms developed by the Board, in respect of such persons or classes of persons and tax years as may be assigned. The jurisdiction so assigned may be exclusive or concurrent, the Board may transfer jurisdiction back to the territorial Commissioner, the Chief Commissioner in the center may request physical verification through the territorial authorities and the identity of the faceless authority is to be kept confidential from the taxpayer and the authorized representative. Crucially, no notice, order, demand or assessment passed by an authority at the National faceless center may be called in question or set aside merely on the ground that such authority lacked territorial jurisdiction under section 209, lacked notified delegation under section 210 or because its identity was kept confidential. It is noted that section 209B forms the jurisdictional cornerstone of the faceless regime, insulating faceless actions from challenge on jurisdiction or anonymity grounds.

Disclosure of information, audit mentors and sectoral experts [Sections 216 and 222]

Public servants are presently bound to maintain the confidentiality of taxpayer information under section 216, subject to specified exclusions and audit assistance is engaged through auditors under section 222. The Bill seeks to amend section 216(3) to permit disclosure to auditors, audit mentors and sectoral experts engaged on a contractual basis or through a third party, including a payroll firm, subject to a non-disclosure agreement and to provide for disclosure of anonymized taxpayer data to researchers and specialists. Section 222 has been proposed to be amended to replace auditors with audit mentors and sectoral experts. The confidentiality regime is thereby adapted to accommodate the new audit mentor model and controlled research access to anonymized data.

National faceless center [Section 227D]

Section 227D presently provides for an electronic or automated mechanism in limited terms. The Bill seeks to substitute the section to establish the National faceless center, comprising a Director General and as many wings and units as required, with the Board empowered to design algorithms for assigning cases, the functions of audit, assessment and quality control performed within the center and all communications among the units or with the taxpayer conducted electronically. The institutional architecture for faceless administration is thereby formally created.

Directorate General (Field Compliance), Inland Revenue [Section 228A]

The Ordinance presently provides for various directorates general, without a dedicated enforcement directorate. The Bill seeks to insert a new section 228A to establish the Directorate General (Field Compliance), Inland Revenue, with the Board empowered to notify its functions and jurisdiction, signaling a sharper enforcement posture within Inland Revenue.

22. EXEMPTIONS FROM TOTAL INCOME [Second Schedule Part I]

Charitable and welfare institutions eligible for tax credit [Clause (57)]

Clause (57) of Part I lists, in the Table to its sub-clause (4), the institutions donations to which qualify for tax credit under section 61. The Bill seeks to substitute, against Sr. No. (xiii), the "National Endowment Scholarship for Talent (NEST)" with the "Pakistan Education Endowment Fund", and to add five new institutions, namely:

a. Pakistan Red Crescent Society,
b. Shaheen Foundation,
c. Dawat-e-Hadiya,
d. Bahria Foundation, and
e. Sindh Institute of Urology and Transplantation.

Foreign currency accounts [Clause (78)]

Clause (78) presently exempts any profit on debt derived from foreign currency accounts held with authorized banks in accordance with the "Foreign Currency Accounts Scheme" introduced by the State Bank of Pakistan. The Bill seeks to substitute "any foreign currency account scheme(s)" for "Foreign Currency Account Scheme", widening the exemption to profit on debt under any such scheme rather than a single named one.

Non-resident rupee accounts [Clause (79)]

Clause (79) presently exempts any profit on debt derived from a rupee account held with a scheduled bank in Pakistan by a non-resident individual holding a Pakistan Origin Card (POC), National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC), where the deposits are made exclusively from foreign exchange remitted into the account. The Bill seeks to substitute the eligible holder with a person maintaining a Non-Resident Pakistani Rupee Value Account (NRVA) or Non-Resident Business Value Account (NRBVA) under the scheme introduced by the State Bank of Pakistan. The profit-on-debt exemption is thereby re-anchored to the State Bank's non-resident value accounts in place of the POC/NICOP/CNIC criterion.

23. REDUCTION IN TAX RATES [Second Schedule Part II]

Profit on debt from Federal Government instruments [Clause (5AA) | Section 152(2)]

Clause (5AA) presently fixes the rate of tax to be deducted under sub-section (2) of section 152, in respect of payments to an individual on account of profit on debt earned from a debt instrument (conventional or Shariah compliant) issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a Non-Resident Rupee Account Repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan, at ten percent of the gross amount, the tax so deducted being final tax. The Bill seeks to substitute "person" for "individual" and to replace "or a foreign currency account" with the full suite of accounts; viz. the Foreign Currency Value Account (FCVA), Foreign Currency Business Value Account (FCBVA), Non-Resident Rupee Value Account (NRVA) and Non-Resident Rupee Business Value Account (NRBVA). The ten percent final-tax concession on Federal Government debt-instrument profit is thereby extended from individuals to all persons, and the qualifying account types aligned with the State Bank's non-resident account scheme.

Terminal and port services [Clause (24CC) | Section 153(1)(b)]

The Bill seeks to insert a new clause (24CC) fixing the rate of tax to be deducted under clause (b) of sub-section (1) of section 153 from a person rendering terminal or port service at twelve percent of the gross amount of the payment.

Distributors of specified goods [Clause (24D) | Section 113]

Clause (24D) presently fixes the rate of minimum tax under section 113 at 0.25% for distributors, dealers, sub-dealers, wholesalers and retailers of fast moving consumer goods, fertilizer, locally manufactured mobile phones, sugar, electronics (excluding imported mobile phones), cement, steel and edible oil, conditional on the beneficiaries appearing on the active taxpayers' lists under both the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001, and, by a proviso, with the benefit available to Tier-1 retailers only where they are integrated with the Board's computerized system for real-time reporting.

The Bill seeks to substitute the clause so that the rate is raised to 0.5% and the scope is narrowed in three respects: the persons covered are confined to distributors, dealers, sub-dealers and wholesalers (retailers being dropped); the goods covered become packaged food, fertilizer, locally manufactured mobile phones, sugar and electronics (fast moving consumer goods being replaced by packaged food, and cement, steel, edible oil and the imported-mobile-phone carve-out being removed); and the Tier-1 retailer integration proviso is omitted. The dual-statute ATL condition is retained.

It is noted that the change is, in substance, an increase in the preferential rate, a doubling from 0.25% to 0.5%, coupled with a contraction of the eligible base, so that affected distributors face a higher minimum tax while retailers and several goods categories fall out of the preferential regime altogether and revert to the standard minimum-tax rate.

24. EXEMPTIONS FROM SPECIFIC PROVISIONS [Second Schedule Part IV]

Manufacturers of iron and steel products [Clause (46A) | Section 153(3)]

Clause (46A) presently provides that the provisions of sub-section (3) of section 153 shall not apply to any payment received by a manufacturer of iron and steel products relating to the sale of goods manufactured by them; the effect being that tax deducted from such a manufacturer is not treated as minimum tax. The Bill seeks to omit clause (46A). On omission, payments to iron and steel manufacturers lose this protection and the deduction under section 153 reverts to minimum-tax treatment in their hands, increasing their effective tax cost.

Pass-through entities | withholding scope [Clause (47B) | Section 151A]

Clause (47B) exempts specified pass-through entities, NIT, collective investment schemes, approved pension and gratuity funds, REIT schemes and the like, from certain withholding provisions. The Bill seeks to insert a reference to section 151A in the list, so that the recently introduced withholding on gain from debt securities does not apply to payments made to these entities.

Companies operating Trading Houses [Clause (57) | Section 153]

Clause (57) presently exempts from section 153 a company operating a Trading House which satisfies the prescribed conditions (paid-up capital exceeding Rs. 250 million, fixed assets exceeding Rs. 300 million at the close of the tax year, computerized records of imports and sales, a system for issuance of 100% cash receipts on sales, presentation of accounts for tax audit every year and registration under the Sales Tax Act, 1990) with a proviso applying a minimum tax under section 113 at 0.5% up to tax year 2021 and one percent thereafter. The Bill seeks to omit clause (57). On omission, qualifying Trading Houses lose the exemption from section 153, so that payments received by them become subject to deduction in the ordinary course.

Non-resident accounts | exemption from ATL rules [Clause (111AB) | Section 100BA, Tenth Sch.]

Clause (111AB) presently relieves a non-resident individual holding a POC, NICOP or CNIC and maintaining an FCVA or NRVA from section 100BA and rule 1 of the Tenth Schedule (the non-ATL regime). The Bill seeks to recast it to cover the full suite of FCVA, FCBVA, NRVA and NRBVA accounts, removing the POC/NICOP/CNIC condition. Genuine non-resident account holders are thereby kept outside the higher non-filer rates.

Non-resident accounts | return-filing relief [Clause (114A) | Sections 114(1)(ae) & 181]

The Bill seeks to substitute clause (114A) so that the requirement to file a return under clause (ae) of section 114(1) and the requirement of an NTN under section 181 shall not apply to a person maintaining an FCVA, FCBVA, NRVA or NRBVA with authorized banks in Pakistan, subject to a proviso that the relief is lost if the person has Pakistan-source taxable income other than the following: profit on debt on these accounts; profit on debt on Government of Pakistan securities (conventional or Shariah compliant) funded from these accounts; capital gain on disposal of immovable property acquired from FCVA or NRVA proceeds; capital gain on disposal of PSX-traded securities and mutual-fund units acquired from these accounts; or dividend income from such securities and funds. The relief from filing and registration is thereby confined to non-residents whose Pakistan footprint is limited to these passive, account-funded income streams.

Trader turnover threshold for withholding agent u/s 153 [Clause (115) | Section 153]

Clause (115) of Part IV currently provides that section 153 shall not apply, as a prescribed person, to individual traders having turnover up to Rs. 100 million. Read with section 153(7)(i), under which an individual becomes a prescribed person (and thus a withholding agent) upon attaining turnover of Rs. 100 million or more, the current position is that individual traders with turnover of Rs. 100 million and above are required to withhold tax under section 153. The Bill proposes to substitute “two” for “one”, increasing the threshold to Rs. 200 million, so that only individual traders with turnover of Rs. 200 million and above remain subject to the withholding obligation.

Although framed as an expansion of an exemption, the proposal effectively narrows the pool of withholding agents. Since traders with turnover of Rs. 200 million and above represent a subset of those with turnover of Rs. 100 million and above, individual traders in the Rs. 100 million to Rs. 200 million range, currently liable to withhold under section 153, would cease to be prescribed persons and fall outside the withholding regime. The resulting relief to such traders would correspondingly reduce the section 153 withholding base.

25. CAPITAL GAINS ON SECURITIES [EIGHTH SCHEDULE]

Omission of the opt-out from the NCCPL mechanism [Rule 5]

Rule 5 of the Eighth Schedule presently permits a person who does not wish to have the capital gains on listed securities computed and the tax collected by NCCPL under the Schedule to opt out, by filing an irrevocable option to NCCPL after obtaining the Commissioner’s prior approval, in which case rule 2 (sources of investment) does not apply to him. The Bill seeks to omit rule 5. On omission, the option to step outside the NCCPL computation-and-collection mechanism is withdrawn, so that all persons to whom section 100B applies are brought uniformly within the Schedule, with no election to be assessed otherwise.

26. RULES FOR PERSONS NOT APPEARING ON ATL [Tenth Schedule]

Omission of the late-filer rate regime [Rule 1A | Section 236C]

Rule 1A presently prescribes higher rates of collection for a person who appears on the active taxpayers’ list but has not filed the return by the due date under section 118 (or as extended under section 119 or 214A), a “late filer”, fixing, for collection under section 236C on the sale or transfer of immovable property, a value-based scale of 7.5%, 8.5% and 9.5% as the consideration rises through Rs. 50 million and Rs. 100 million. The Bill seeks to omit rule 1A. On omission, the separate late-filer surcharge rates fall away, which should be read together with the proposed flat 2.75% rate for section 236C under Division X of Part IV of the First Schedule.

Omission of the section 37A carve-out [Rule 10(y) | Section 37A]

Rule 10 lists the withholding and collection provisions to which the enhanced non-filer rates of the Tenth Schedule do not apply. Clause (y) presently carves out tax collected under section 37A on the disposal of securities acquired on and from 1 July 2025. The Bill seeks to omit clause (y), so that the enhanced non-filer rate treatment of the Tenth Schedule will apply to such collection under section 37A in the case of persons not appearing on the active taxpayers’ list.

SECTION 5 SALES TAX & FEDERAL EXCISE DUTY

1. SALES TAX ACT, 1990

Definitions

Advance receipt invoice **[Section 2(1AA)]**

There is presently no concept of an advance receipt invoice in the Act. The Bill seeks to insert a new clause (1AA) defining an advance receipt invoice as an invoice in the format as may be notified by the Board from time to time. The definition underpins the proposed requirement, appearing in sections 23 Act, that registered persons issue advance receipt invoice, against exempt supplies.

Algorithmic settlement mechanism **[Section 2(1AAA) | Section 26AAA]**

There is presently no defined concept of an algorithmic settlement mechanism in the Act. The Bill seeks to insert a new clause (1AAA) tying the expression to the mechanism provided under section 26AAA of the Act.

It is noted that the substantive algorithmic settlement mechanism is in fact inserted by the Bill as section 47AA, not section 26AAA and no section 26AAA is introduced. The cross-reference in the definition therefore appears to be a drafting error that should be corrected at the Act stage.

Electronic invoicing system **[Section 2(9AB)]**

The Bill seeks to insert a new clause (9AB), after the omitted clause (9AA), defining an electronic invoicing system as such electronic system or mechanism as may be prescribed or approved by the Board for issuance and recording of sales tax invoices in electronic form. The definition supports the electronic-invoicing and integration obligations sought to be introduced vide the Bill.

National faceless center **[Section 2(17A) | Section 32C]**

The Bill seeks to insert a new clause (17A) defining the National faceless center by reference to the center established under the new section 32C of the Act. The definition is the anchor for the faceless audit, assessment, jurisdiction and appeal provisions proposed to be introduced by the Bill.

Production monitoring system **[Section 2(22)(1A)]**

The Bill seeks to insert a new clause, numbered (22)(1A), defining a production monitoring system as any system or technology used for monitoring production and sale of goods, whether in real time or otherwise, including such systems or technologies as may be prescribed by the Board.

Tier-1 retailer **[Section 2(43A)]**

Clause (43A) defines a Tier-1 retailer by reference to a set of categories. The Bill seeks to recast that set: in sub-clause (d), the wholesaler-cum-retailer category is confined to those having turnover of more than two hundred million rupees; sub-clauses (f) (point-of-sale card acceptance) and (g) (the section 236G or 236H withholding threshold) are omitted; a new sub-clause (gb) is inserted; and a proviso is added to sub-clause (h) empowering the Board to exclude any person or class of persons by notification. The existing and proposed positions compare as under.

Sub-cl.	Category	Position under the Bill
(d)	Wholesaler-cum-retailer engaged in bulk import and supply on wholesale and retail basis	Confined to those having turnover of more than Rs. 200 million
(f)	Retailer who has acquired point of sale for card payments	Omitted
(g)	Retailer whose deductible withholding under sections 236G or 236H exceeded the Board-notified threshold	Omitted
(gb)	A retailer having turnover exceeding Rs. 200 million, either by declaration or from worked-back value of turnover from tax deduction under sections 236G or 236H during the immediately preceding twelve months	Inserted
(h)	Any other person or class of persons as prescribed by the Board	Proviso added empowering the Board to exclude any person or class by notification

It is noted that the recast shifts the Tier-1 test for wholesaler-cum-retailers and retailers onto an explicit turnover threshold of Rs. 200 million, replacing the earlier card-acquisition and withholding-based triggers and gives the Board an express power to carve out persons or classes from the Tier-1 net.

Time of supply [Section 2(44)]

Clause (44) fixes the time of supply, for a supply of goods other than under a hire-purchase agreement, as the time the goods are delivered or made available to the recipient, or the time any payment is received, whichever is earlier. The Bill seeks to add an Explanation clarifying that goods are delivered or made available when they become ready for dispatch from the business premises, including but not limited to a factory, warehouse, godown or branch. The clarification fixes the point at which the supply and hence the tax point, arises, foreclosing disputes over the meaning of delivery.

Value of supply [Section 2(46)(j)]

Sub-clause (j) of clause (46) empowers the Board to fix the value of supply for specified goods. The Bill seeks to add to the first proviso a power for the Board, for the purpose of valuation, to use the valuation of such goods as notified by the Pakistan Bureau of Statistics immediately before the start of the tax period and to outsource the function of valuation of goods to a third party in the manner prescribed. The amendment seeks to introduce an external, statistics-based reference for Board-fixed values and contemplates third-party valuation.

Tax on electricity consumption for steel sector [Section 6(2)]

Section 6(2) governs the time and manner of payment of tax. The Bill seeks to add a proviso that, in the case of steel melters, steel re-rollers and composite units, the tax shall be collected on the basis of per-unit electricity consumption at the rate prescribed by the Board through notification. The tax so collected is adjustable and any excess is to be refunded on a monthly basis through the Board's automated refund system to those registered persons who integrate with the Board's prescribed production-monitoring and digital-invoicing systems. The amendment ties an electricity-based collection for the steel sector to integration, with monthly automated refunds as the incentive to integrate.

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Adjustable input tax limit linked to integration [Section 8B(1)]

Subject to provisos, section 8B(1) caps the input tax a registered person may adjust against output tax in a tax period. The Bill seeks to add another proviso empowering the Board to reduce or enhance that limit for any registered person on the basis of compliance or non-compliance with the production-monitoring, digital-invoicing, e-bilty, POS or any other electronic system prescribed by the Board for digital integration. The input-tax adjustment ceiling thereby becomes a lever, tightened or relaxed according to a registered person's integration compliance.

Debit and credit notes [Section 9]

Section 9 provides for the issuance of debit and credit notes and the consequent adjustment of tax. The Bill seeks to add a proviso that the issuance of debit and credit notes shall be governed by the mechanism, including electronic adjustments, as may be prescribed by the Board. The amendment brings note-based adjustments within a prescribed, potentially electronic, mechanism.

Faceless audit and assessment [Section 11H | Sections 25, 72B, 11E, 57]

Audit and assessment under the Act are presently conducted by the officer of Inland Revenue having jurisdiction. The Bill seeks to insert a new section 11H enabling any audit under sections 25 and 72B, any order under section 11E and rectification under section 57, in respect of cases specified by the Board, to be made in a faceless manner as prescribed. Where an opportunity of being heard is to be given or a statement under oath taken under section 37, it is to be conducted through E-hearing and the identity of the officer conducting the E-hearing, including facial and voice identity, is to be kept confidential. The provision mirrors, for sales tax, the faceless assessment regime introduced in the Income Tax Ordinance.

Blacklisting for invoicing and integration defaults [Section 21(2)]

Section 21(2) empowers the Commissioner to blacklist a registered person who issues fake invoices, evades tax or commits other specified defaults. The Bill seeks to insert, after the word “invoices”, a reference to a person who has committed non-compliance of sub-sections (5) and (6) of section 23 or of section 40C, bringing failure to comply with the electronic-invoicing and monitoring obligations within the grounds for blacklisting.

Mandatory electronic invoicing with unique FBR invoice number [Section 23(1)]

Section 23(1) presently requires a registered person making a taxable supply to issue a serially numbered tax invoice. The Bill seeks to substitute this so that a registered person making a taxable supply as well as an exempt supply shall issue a tax invoice, including an advance receipt invoice, bearing a verifiable and unique FBR invoice number. The existing provisos in clause (b) are substituted with provisos empowering the Board to notify the persons who may issue an advance receipt invoice within the notified system and providing that the condition of a verifiable and unique FBR invoice number shall apply from a time notified by the Board. The amendment extends invoicing to exempt supplies and moves the system toward centrally-numbered, verifiable electronic invoices, though the unique-number condition awaits notification.

Audit of sales tax affairs [Section 25]

Section 25 governs the audit of sales tax affairs. The Bill seeks to insert a new sub-section (8A) empowering the Commissioner, having regard to the nature and complexity of the accounts, their volume, doubts about their correctness, the multiplicity of transactions or the specialized nature of the business activity and the interests of the revenue, after a reasonable opportunity of being heard and with the previous approval of the Chief Commissioner, to direct the registered person to get the accounts re-audited by an accountant or the inventory re-valued by a cost accountant, each from a Board-nominated panel.

A newly proposed sub-section (8B) requires the officer, after completing the audit and obtaining the registered person's explanation on all issues raised, to issue an audit report containing the audit observations and findings. The amendments equip the department to test complex accounts through independent professionals and formalize the audit report as a distinct step.

Consequent on the new audit-report step, the Bill seeks, in sub-section (9), to substitute the words “issuing the audit report” for “completion of the audit”, so that the post-audit timeline runs from issuance of the report.

Moreover, in sub-section (11), the Bill proposes to substitute “deposits” for “wishes to deposit” and in the second proviso substitutes “fifty percent” for “full amount”, so that a registered person who deposits the tax and fifty percent of the penalty after a show cause notice may have the proceedings concluded, in place of the earlier requirement to deposit the full amount of penalty.

Faceless jurisdiction [Section 30AA | Sections 30, 32]

Jurisdiction over a registered person presently vests in the officer of Inland Revenue under section 30, with delegation under section 32. The Bill seeks to insert a new section 30AA vesting the authorities appointed in the National faceless center with such functions and powers as are assigned through algorithms developed by the Board, in respect of specified persons or classes for specified tax periods. The jurisdiction may be exclusive or concurrent; the Board may transfer it back to the territorial officer; the Chief Commissioner in the center may request physical verification through the territorial authorities; the identity of the faceless authority is kept confidential; and no notice, order or communication may be called in question or set aside merely because the authority lacked section 30 jurisdiction or section 32 delegation or because its identity was kept confidential.

It is noted that sub-section (6) immune faceless actions from challenge on jurisdiction or anonymity grounds, in terms materially identical to the corresponding income-tax provision (section 209B) and the same due-process questions attend it.

Directorate General (Field Compliance), Inland Revenue [Section 30DDDB | Section 30]

The Bill seeks to insert a new section 30DDDB establishing the Directorate General (Field Compliance), Inland Revenue, consisting of a Director General and such other officers as the Board may appoint, with the Board empowered by notification to specify its functions and jurisdiction and to confer on it the powers of authorities under section 30. The directorate is intended to anchor the physical-verification and field-compliance side of the otherwise faceless system, paralleling the corresponding income-tax directorate.

National faceless center [Section 32C]

It has been sought to insert a new section 32C empowering the Board to establish a National Faceless Center and specify its jurisdiction, powers and functions. The center is to comprise a Director General and as many officers of Inland Revenue and support staff as the Board deems fit; the Board may design algorithms to assign functions and jurisdiction; the center is to comprise as many wings and units as prescribed; the functions of audit, assessment and quality control in a given case and tax period are to be performed by separate officers; and all communications are to be by electronic means. The section is the institutional foundation of the sales-tax faceless regime and is the center to which the definition in section 2(17A) and the faceless audit, jurisdiction and appeal provisions, all refer.

Offences and penalties [Section 33]

Section 33 tabulates the offences and penalties under the Act. The Bill seeks to enhance several penalties and to add new offences directed at simulated invoicing and input-tax mismatch. Proposed changes are tabulated below:

S.No	Offence	Existing penalty	Proposed penalty
1	Failure to furnish a return within the due date	Rs 10,000; proviso Rs 200 per day if filed within ten days	Rs 50,000; proviso Rs 2,000 per day
2	Failure to issue an invoice when required	Rs 5,000 or 3% of tax involved, whichever higher	Rs 25,000 or 5% of tax involved, whichever higher
3	Un-authorized issue of an invoice specifying tax	Rs 10,000 or 5% of tax involved	Rs 50,000 or 10% of tax involved
5	Failure to deposit tax due in time or manner	Rs 10,000 or 5%; proviso Rs 500 per day if paid within ten days	Rs 50,000 or 5%; proviso Rs 5,000 per day
7	Specified default (column 2 figure)	Rs 10,000	Rs 50,000
8	Failure to maintain required records	Higher of Rs. 10,000 or 5% of tax	Higher of Rs. 50,000 or 5% of tax
25	Failure to register/ integrate for monitoring, tracking, reporting or recording of sales and production (substituted)	Up to Rs 1 million; premises sealed if default continues after two months	Up to Rs 1 million; second penalty up to Rs 5 million if default continues after one month; premises liable to be sealed with or without penalty

New offences proposed to be inserted (S. Nos. 29, 30 and 31)

S.No	Offence	Penalty	Sec. ref.
29	Issuing a tax invoice for a simulated or fictitious transaction, or one for which no actual supply took place, as established after notice and adjudication (with publication on a public simulated invoice issuers register, automatic reversal of counterparties' input tax credit from the date of listing and de-listing on full payment and demonstrated compliance)	Penalty equal to the face value of the simulated or fictitious invoice(s)	2(37)
30	Input tax credit that the Board's computerized system identifies as unmatched to corresponding output tax declared by the supplier for the same or proximate period, confirmed after notice and hearing	20% of the unmatched input tax, in addition to reversal of the inadmissible credit and default surcharge under section 34	7, 8A

S.No	Offence	Penalty	Sec. ref.
31	Failure to reverse, within sixty days of the listing, input tax credit claimed on invoices of a person subsequently placed on the simulated invoice issuers register under S. No. 29	20% of the unreversed input tax credit, in addition to reversal and default surcharge under section 34	7, 8A, 33 (S.No.29)

The default-surcharge provisions are engaged by the new penalty entries above; it should be noted that default surcharge under section 34 continues to apply in addition to the input-tax reversals and penalties prescribed in the new S. Nos. 30 and 31.

Monitoring or tracking by electronic means [Section 40C(2), (3) & (6)]

Section 40C provides for electronic monitoring of the production and sale of specified goods. The Bill seeks to substitute sub-sections (2) and (3) from a date prescribed by the Board, no taxable goods may be removed or sold by the manufacturer or any other person unless affixed with tax stamps, banderoles, stickers or labels, or monitored through a production-monitoring system, video analytics or other prescribed mechanism; and such stamps, labels and production-monitoring equipment are to be acquired from a licensee appointed by the Board.

Moreover, a newly proposed sub-section (6) provides that any taxable goods for which monitoring, tracking or identification has been prescribed but which are dealt with without the prescribed stamps or monitoring shall be liable to seizure and confiscation, along with the conveyance used. The amendment widens the monitoring regime beyond stamping to production-monitoring and video analytics and adds a seizure-and-confiscation consequence.

Sale of confiscated goods by auction [Section 40F]

The Bill seeks to insert a new section 40F providing that goods confiscated under the Act shall be sold by public auction, which may be conducted through electronic means as prescribed, subject to the Public Procurement Regulatory Authority Rules, 2014. The sale proceeds are to be applied first to the expenses of sale, then to the sales tax and other dues including penalty and surcharge and the balance (excluding goods liable to outright confiscation) paid to the owner if claimed within six months, failing which it is deposited into the treasury, with the importer's share in a goods-declaration case capped at the declared value. The provision supplies a structured, PPRA-compliant disposal route for confiscated goods.

Faceless appeals [Section 45C | Section 45B]

An appeal presently lies to the Commissioner (Appeals) under section 45B, heard in the ordinary course. The Bill seeks to insert a new section 45C permitting any appeal filed under section 45B to be processed through the National faceless center as prescribed, with the provisions of section 45B applying to such faceless appeals accordingly. The first appellate stage is thereby brought within the faceless framework.

Algorithmic settlement mechanism [Section 47AA | Sections 11D, 11E]

There is presently no automated mechanism for the settlement of sales tax proceedings. The Bill seeks to insert a new section 47AA empowering the Board to establish a digitally operated algorithmic settlement mechanism for the settlement of tax proceedings at any stage before an order under section 11D or 11E. The system computes a settlement offer by reference to the stage of proceedings, the registered person's compliance history, the nature and character of the discrepancy and any other basis the Board considers relevant; a registered person who opts in has ten days to accept the offer on IRIS and deposit the amount, whereupon the issues confronted through a notice or audit report stand abated, without precluding proceedings on any other issue or tax period. The mechanism mirrors the income-tax algorithmic settlement mechanism.

It is noted that the criteria for the system-generated offer include “any other basis the Board may consider relevant”, an open-ended residual that leaves the computation insufficiently bounded by statute, the same observation that attends the corresponding income-tax provision.

Independent case scrutiny committee [Section 47AAA | Section 47]

A reference to the High Court under section 47 or an appeal or review before the Federal Constitutional Court or the Supreme Court, may presently be filed by the Commissioner without an institutional merits filter. The Bill seeks to insert a new section 47AAA requiring that such a filing be made only after approval by an independent case scrutiny committee constituted by the Board, comprising a retired judge of the superior courts as Chairman, an advocate of not less than fifteen years' experience in tax and commercial litigation and a senior serving or retired FBR officer (BS-20 or above). The committee's recommendations are binding on the Commissioner and its members and the Commissioner are protected from suit. The measure is a merits filter intended to curb unmeritorious departmental litigation, identical in design to the income-tax committee under section 133A.

Data sharing within a sector [Section 56B(3)]

Section 56B obliges public servants to keep taxpayer information confidential. The Bill seeks to add a new sub-section (3) empowering the Board, notwithstanding sub-section (1), to share data contained in the sales tax returns of registered persons belonging to a sector among all registered persons of the same sector, under strict non-disclosure agreements, to create market equity and enhance tax compliance, subject to Board-specified conditions. The amendment carves an exception into the confidentiality regime to permit intra-sector data sharing.

Goods chargeable on retail price [Third Schedule]

The Third Schedule lists goods on which sales tax is charged on the basis of retail price. The Bill seeks to add, after Serial No. 55, new Serial Nos. 56 to 75, bringing a wide range of retail-packed consumer goods within the retail-price regime, as tabulated below. A Note provides that where the Federal Government has notified a rate higher than eighteen percent, that higher rate shall continue to apply after inclusion in the Third Schedule.

Sr.	Description	Heading Nos. of the First Sch. to the Customs Act
56	Vegetable and animal fats and oils, sold in retail packing	Respective headings
56	Sugar confectionary, sold in retail packing	Respective headings
57	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing	19.02
58	Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing	Respective headings
59	Fermented beverages, sold in retail packing	Respective headings
60	Petroleum jelly, paraffin wax, micro-crystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar	27.12

Sr.	Description	Heading Nos. of the First Sch. to the Customs Act
	products obtained by synthesis or by other processes, whether or not coloured, sold in retail packing	
61	Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale	38.08
62	Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing	39.19, 39.20, 39.21
63	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing	Chapter 39
64	Trunks, suit-cases, vanity-cases, executive-cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping-bags, wallets, purses, map-cases, cigarette-cases, tobacco-pouches, tool bags, sports bags, bottle-cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper, put up for retail sale	42.02
65	Footwear (all types)	Respective headings
66	Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing	Respective headings
67	Crockery items, sold in retail packing	Respective headings
68	Car and automobile accessories, sold in retail packing	Respective headings
69	Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing	Respective headings
70	Preparations for use on the hair, sold in retail packing	33.05
71	Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties, sold in retail packing	33.07
72	Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface-coloured, surface-decorated or printed, in rolls or sheets, put up for retail sale	4803.0000, 48.18
73	Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations, sold in retail packing	20.07, 20.08
74	Household utensils, including stainless steel, aluminum, melamine and other utensils and tableware	Respective headings
75	Ceramic products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale	69.10

It is noted that the Bill repeats the serial number "56" against two distinct entries (vegetable and animal fats and oils, and sugar confectionary), an apparent numbering slip that should be corrected at the Act stage. Substantively, the wide extension of the retail-price regime to these consumer-goods categories brings their tax base onto printed retail price rather than transaction value, with the eighteen-percent (or higher notified) rate applying.

Exemptions [Sixth Schedule, Table-1]

Table-1 of the Sixth Schedule lists goods exempt from sales tax. The Bill seeks to substitute Serial No. 32 (newsprint and books) to read "Newsprint, books, and magazines but excluding brochures, leaflets and directories" against headings 4902.1000 and 4902.9000; to extend the time-limited exemption at Serial No. 157 by substituting "2027" for "2026"; to substitute Serial No. 181 (PIACL aircraft and parts) with an expanded entry and heading list; and to add new Serial Nos. 182 to 185, as tabulated below:

Sr.	Description	Heading Nos. of the First Sch. to the Customs Act
32 (subst.)	Newsprint, books, and magazines but excluding brochures, leaflets and directories	4902.1000, 4902.9000
157	Existing time-limited exemption, period extended from June 2026 to June 2027 for Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers: (i) Small cars/SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	Respective headings
181 (subst.)	Import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL), with provisos confining imports to operational and maintenance requirements and requiring ground-handling equipment, service and operation vehicles, catering equipment and fuel trucks not manufactured locally to be used within airport premises	8802.1200, 8802.3000, 8802.4000, 8801.0000, 8802.2000, 8804.0000, 8805.2900, 8807.3000, 9104.0010, 8544.2000, 7007.1900 and 9931
182	Contraceptives	3926.9020, 4014.1000
183	Female sanitary pads / tampons	9619.0030
184	Import of tankers; dredgers; floating or submersible drilling or production platforms; other floating structures and vessels; other vessels for the transportation of goods, excluding cruise ships, excursion boats and similar vessels principally designed for the transport of persons and ferry-boats of all kinds. Quantity to be approved by the Ministry of Maritime Affairs	8901.2000, 8905.1000, 8905.2000, 8905.9000, 8901.9000
185	Import of bullet proof vehicles by (i) the Federal Government for logistic arrangements for the Shanghai Cooperation Organization (SCO) summit, subject to prior approval of the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control; and (ii) the Federal or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to Federal Government approval	Respective heading

Exemptions for refineries and shipyard [Sixth Schedule, Table-3 (Annexure)]

The Bill seeks to add, after Serial No. 22 in the Annexure to Table-3, new Serial Nos. 23 and 24, exempting specified machinery and equipment imports as tabulated below:

Sr.	Description	Heading Nos. of the First Sch. to the Customs Act	Conditions
23	Import of the following machinery / equipment for upgradation of existing refineries: 1. Reactors; 2. Shell and Tube Exchangers; 3. Vessels (Strippers / Separators / K.O. Drums); 4. Trim Coolers; 5. Air Coolers (Condensers); 6. Fired Heaters; 7. Centrifugal Pumps; 8. Reciprocating Pumps; 9. Centrifugal Compressors; 10. Reciprocating Compressors; 11. Steam Reformer Furnaces; 12. Filters.	8419.8990, 8419.5000, 8418.6990, 8417.8000, 8413.7090, 8413.5000, 8414.8090, 8421.3990	Imported directly by the refinery after approval by the division concerned; imports essentially for expansion, balancing, modernization and rehabilitation of existing refineries; quantity per refinery approved by the Ministry of Petroleum and Natural Resources
24	Import of machinery, equipment, raw materials, components and other capital goods by Karachi Shipyard and Engineering Works Limited	Respective headings as approved by the concerned Division	The concerned Division to certify (per Annex-B) that the imported goods are a bona fide requirement; relevant information furnished online to the Pakistan Customs Computerized System under section 155D of the Customs Act, 1969

Reduced rates and conditions [Eighth Schedule, Table-1]

Table-1 of the Eighth Schedule lists goods chargeable at reduced rates subject to conditions. The Bill seeks to extend the time-limited entry at Serial No. 71 by substituting “30th June, 2027” for “30th June, 2026” and to substitute Serial No. 80, as tabulated below.

Sr.	Description	Heading Nos. of the First Sch. to the Customs Act	Rate
71	Following locally manufactured or assembled electric vehicles (4 wheelers), if supplied locally: (i) Small cars/ SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below Existing reduced-rate entry, time limit extended from 30 June 2026 to 30 June 2027	Respective Heading	1%
80 (subst.)	EV transport buses of 25 seats or more and electric trucks in CBU condition	8702.4090, 8704.6030	1%

Withholding of sales tax [Eleventh Schedule]

The Eleventh Schedule prescribes the persons obliged to withhold sales tax and the extent of deduction. The Bill seeks to amend Serial No. 4 by adding, after "companies", the words "association of persons and individuals", widening the class of withholding agents in that entry; and to add a new Serial No. 14, as tabulated below.

S.No	Withholding agent	Supplier category	Rate / extent of deduction
4 (amended)	Existing withholding agent class extended to add "association of persons and individuals" after "companies"	Persons other than Active Taxpayers (No Change)	5% of gross value of supplies (No Change)
14	Registered persons engaged in toll manufacturing	Person other than a registered person	Four times of the tax charged on conversion charges

Value addition tax on imports [Twelfth Schedule]

The Twelfth Schedule provides for value addition tax on imported goods, with procedure and conditions. The Bill seeks to add, after sub-clause (i) of clause (2) under the heading "Procedure and Conditions", provisos providing that the manufacturer shall be liable to pay 3% value addition tax on an ad valorem basis, along with default surcharge, where the imported goods are supplied in the same state, whether in the same packing, repacked or in bulk; and that where the benefit of waiver of the 3% value addition tax is availed on a declaration that the goods are imported for in-house consumption in the manufacturing process, but the goods are not so used and are instead supplied in the same state and such supply exceeds 50% of total imports in a financial year, the person shall be liable to prosecution. The amendment closes a gap whereby goods imported under a manufacturing-consumption waiver were on-sold in the same state without the value addition tax.

2. FEDERAL EXCISE ACT, 2005

Definitions

Algorithmic settlement mechanism [Section 2(2A) | Section 26AAA, Sales Tax Act]

The Bill seeks to insert a new clause (2A) defining an algorithmic settlement mechanism by reference to the algorithmic settlement mechanism provided under section 26AAA of the Sales Tax Act, 1990. The definition supports the settlement machinery borrowed by the new section 7A.

It is noted that, as with the corresponding sales-tax definition, the algorithmic settlement mechanism is tied to "section 26AAA of the Sales Tax Act, 1990", whereas the mechanism is in fact inserted in that Act as section 47AA; the cross-reference appears to be in error and should be corrected at the Act stage.

Electronic invoicing system [Section 2(9b)]

The Bill seeks to insert a new clause (9b) defining an electronic invoicing system as such electronic system or mechanism as may be prescribed or approved by the Board for issuance and recording of sales tax invoices in electronic form. The definition mirrors the corresponding sales-tax definition and supports the substituted invoicing obligation in section 18.

National faceless center [Section 2(16A1) | Section 32C, Sales Tax Act]

The Bill seeks to insert a new clause (16A1) defining the National Faceless Center by reference to the center established under section 32C of the Sales Tax Act, 1990. The definition is the anchor for the faceless audit, assessment and appeal mechanism applied to the Federal Excise Act by the new section 7A.

Production monitoring system [Section 2(19b)]

The Bill seeks to insert a new clause (19b) defining a Production Monitoring System as any system or technology used for monitoring production and sale of goods, whether in real time or otherwise, including such systems or technologies as may be prescribed by the Board. The definition feeds the substituted section 45A monitoring regime and the related seizure and confiscation provisions in sections 26 and 27.

Special Excise Duty [Section 3(3B) | First Sch., Table-IA]

Section 3 is the charging provision. The Bill seeks to insert a new sub-section (3B) providing that, notwithstanding anything in the section, a Special Excise Duty shall be levied and collected, in addition to the duty under sub-section (1), on such goods as are listed in the new Table-IA of the First Schedule at the rates specified therein, with the Board empowered to prescribe the time, mechanism, procedure, mode and manner of collection. The new Table-IA (discussed under the First Schedule below) carries the Special Excise Duty on imported motor vehicles.

National faceless center and application of Sales Tax Act provisions [Section 7A]

There is presently no faceless mechanism under the Federal Excise Act. The Bill seeks to insert a new section 7A providing that audit and assessment proceedings under the Act may be conducted in a faceless manner by the National faceless center, with the provisions of the Sales Tax Act, 1990 relating to the establishment, assignment of jurisdiction, conduct of audit, assessment and appeals applying mutatis mutandis; and empowering the Board to establish a digitally operated algorithmic settlement mechanism for settlement of proceedings at any stage before an order is passed, the sales-tax algorithmic settlement provisions applying mutatis mutandis. The Federal Excise Act thereby borrows the sales-tax faceless and settlement machinery wholesale.

Mandatory invoicing with unique FBR invoice number [Section 18(1)]

Section 18(1) prescribes the particulars of an invoice. The Bill seeks to substitute it so that a registered person shall issue, for each transaction, an invoice including an advance receipt invoice, bearing a verifiable and unique FBR invoice number, at the time of clearance or sale of goods (including goods chargeable at zero per cent) or the providing or rendering of services, carrying the prescribed particulars in Urdu or English. Provisos empower the Board to notify the persons who may issue an advance receipt invoice and provide that the unique-invoice-number condition shall apply from a time notified by the Board. The amendment aligns FED invoicing with the sales-tax electronic-invoicing regime.

Substitution of departmental nomenclature [Sections 19(2)(a), 33(1), 43A, 44(3)]

The Bill makes the same nomenclature change in four discrete sections, substituting “Officer of Inland Revenue” for “Federal Excise officer”. The four are discussed together as the change is identical in each: in clause (a) of sub-section (2) of section 19 (offences relating to plant and machinery); in sub-section (1) of section 33 (power to summon persons to give evidence and produce documents); in section 43A (reference to High Court); and in sub-section (3) of section 44 (recovery of unpaid duty). Each substitution reflects the integration of the federal excise function within the Inland Revenue Service and carries no change of substance.

Penalty for tampering with monitoring systems [Section 19(4)]

Section 19(4) penalizes interference with electronic monitoring. The Bill seeks to substitute it so that any person who, without the Commissioner's approval, destroys, damages, erases or manipulates data stored in or used in connection with a computer or system used for the electronic monitoring of production, manufacture, sales, clearance or stocks, including a production-monitoring or video-analytics system, with the purpose or effect of reducing, avoiding or evading duty or defeating the Act, shall be liable to a fine of up to seventy-five thousand rupees or ten times the duty involved, whichever is higher and to imprisonment of up to five years or both. The penalty is recast around the new production-monitoring infrastructure introduced by the substituted section 45A discussed below.

Seizure of unmonitored and non-duty-paid goods [Section 26(1)]

Section 26(1) provides for the seizure of certain goods. The Bill seeks to substitute it so that counterfeit cigarettes or beverages manufactured or produced unlawfully, other dutiable goods on which duty has not been paid, goods without (or with counterfeit) tax stamps, banderoles, stickers, labels or barcodes required under section 45A and goods required to be monitored through a production-monitoring system under the Act but manufactured, produced, transported, removed or otherwise dealt with without such monitoring, shall be liable to seizure along with the conveyance used for their movement, carriage or transportation. The seizure power is thereby extended to goods that evade the production-monitoring regime, not merely the stamping regime.

Confiscation of unmonitored and non-duty-paid goods [Section 27(1)]

Section 27(1) provides for the confiscation of seized goods. The Bill seeks to substitute it in terms parallel to the substituted section 26(1) above, so that cigarettes or beverages seized for counterfeiting, goods without (or with counterfeit) tax stamps, banderoles, stickers, labels or barcodes required under section 45A and goods dealt with without the prescribed production-monitoring, shall be liable to outright confiscation and destruction in the manner prescribed in sub-section (10) of section 19. Read with section 26(1), the two provisions extend both seizure and confiscation to goods that evade the production-monitoring regime.

Independent case scrutiny committee [Section 34AA | Section 34A]

A reference to the High Court under section 34A or an appeal or review before the Federal Constitutional Court or the Supreme Court, may presently be filed by the Commissioner without an institutional merits filter. The Bill seeks to insert a new section 34AA requiring such a filing to be made only after approval by an independent case scrutiny committee constituted by the Board, comprising a retired judge of the superior courts as Chairman, an advocate of not less than fifteen years' experience in duty and commercial litigation and a senior serving or retired FBR officer (BS-20 or above), with binding recommendations and protection from suit. The committee mirrors those introduced in the Income Tax Ordinance and the Sales Tax Act.

Monitoring or tracking by electronic or other means [Section 45A]

The Bill seeks to substitute section 45A so that the Board may, by notification, specify any registered person or class or any goods or services or class, in respect of which monitoring or tracking of production, sales, clearance, stocks or other related activity may be implemented through electronic or other means; that from a prescribed date no excisable goods may be removed or sold without affixing tax stamps, banderoles, stickers, labels, barcodes, a production-monitoring system, video analytics or other prescribed mechanism; and that such items and equipment shall be acquired from a licensee appointed by the Board. The provision widens the FED monitoring regime to production-monitoring and video analytics, paralleling the substituted section 40C of the Sales Tax Act.

Audit [Section 46]

It has been sought to substitute sub-sections (1), (2) and (2A) of section 46 so that an authorized officer of Inland Revenue may, after advance written notice, audit the records of any registered person; where the Commissioner has information or sufficient evidence of fraud or evasion, an officer not below Assistant Commissioner may audit at any time in a year; and after completing the audit and obtaining the registered person's explanation on all issues raised, the officer shall issue an audit report containing observations and findings. New sub-sections provide for audit proceedings by video link (2B), the passing of an order under section 14 after issuance of the audit report (2C) and a re-audit and inventory re-valuation power (3A) on the same complexity-based grounds, with Chief Commissioner approval, that the Bill introduces for sales tax. The proviso to sub-section (3) is substituted to allow a registered person who deposits the duty and default surcharge, before a show cause notice, to pay twenty-five percent of the penalty and after a show cause notice, fifty percent of the penalty, in which case proceedings abate.

Excisable goods [First Schedule, Table-1]

Table-1 of the First Schedule lists excisable goods and the duty rates. The Bill seeks to make the following changes, including a reduction on acetate tow, a steep increase on e-liquids, time-limit extensions, a new EV duty slab, the recast of the aerated-waters description, a substituted lubricating-oil entry, a new petroleum-solvents entry and a revised brand-variant restriction.

S.No	Description	Existing rate	Proposed rate
7a	Acetate tow	Rs 44,000 per kg	Rs 10,000 per kg
8a	E-liquids by whatsoever name called for electric cigarette kits	Higher of Rupees 10,000 per kg 6 or 65% of retail price	Rs 16,500 per kg

S.No	Description	Existing rate	Proposed rate
55	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), 4[and till the 30th day of June, 2026 electric vehicles (4 wheelers)] including station wagons and racing cars: (a) of cylinder capacity up to 1000cc (b) of cylinder capacity from 1001cc to 1799cc (c) of cylinder capacity 1800cc to 3000cc (d) of cylinder capacity exceeding 3001cc Period extended from June 30, 2026 to June 30, 2027	2.5% ad val 10% ad val. 30% ad val. 40% ad val.	No Change
55A (new)	Electric cars, electric SUVs and electric pickup vehicles, imported for personal use in CBU condition, of import value including Customs Duty: (a) not exceeding PKR 20M; (b) exceeding PKR 20 million and up to PKR 30M; (c) exceeding PKR 30 M	N/A	0%; 30%; 40%
55B	Locally manufactured or assembled motor cars, SUVs and other motor vehicles, excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2026 electric vehicles (4 wheelers) including station wagons and racing cars: (a) of cylinder capacity up to 1300cc (b) of cylinder capacity from 1301cc to 2000cc (c) of cylinder capacity 2001cc and above Period extended from June 30, 2026 to June 30, 2027	2.5 % ad val. 5% ad val. 10% ad val.	No Change
59	Aerated-waters description recast: “excluding mineral and aerated waters” substituted by “excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener” Description amended (carve-out for low-sugar hydration / electrolyte drinks)	20% of Retail Price	No Change
63 (subst.)	Lubricating oil and base lubricating oils [2710.1951, 2710.1952, 2710.1953, 2710.1993]	5% ad val.	No Change in Rate. Base lubricating oils now included
65 (new)	(i) Petroleum top Naphtha [2710.1942]; (ii) White Spirit / Mineral Turpentine Oil (MTT) [2710.1240]; (iii) Solvent Oil [2710.1250]	N/A	Rs 80 per liter

In addition, the Bill substitutes Restriction-2 to Table-1 (brand variants at different price points), providing that no manufacturer or importer of cigarettes may introduce or sell a new variant of an existing brand at a price lower than the lowest actual price of the existing brand, with the current minimum price being the lowest price of the existing brand on the day of the Budget announcement of the current financial year and an Explanation defining a brand variant as any cigarette brand with an identical name, trademark, design, pattern or unique distinguishing mark associated with an existing brand.

Special Excise Duty on imported vehicles [First Schedule, Table-IA (new)]

Consequent on the new section 3(3B), the Bill inserts a new Table-IA prescribing the Special Excise Duty on imported motor vehicles, as tabulated below.

S.No	Description	Rate of duty (ad valorem)
1	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of heading 87.02), and till 30 June 2027 electric vehicles (4 wheelers), including station wagons, double cabin (4x4) pickup vehicles and racing cars [87.03, 8704.2190, 8704.3190]:	
	(a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc;	40%
	(b) of cylinder capacity exceeding 3000cc	41%

Duty on services | Air tickets [First Schedule, Table-II]

Table-II lists excisable services. The Bill seeks to substitute, against Serial No. 3, sub-clause (ii) of clause (b) and the related rate entries, fixing the duty on club, business and first-class air tickets issued on or after 1 July 2026, as tabulated below.

Existing

IATA Traffic Conference Area	Rate of duty
Facilities for travel (a) Services provided or rendered in respect of travel by air of passengers within the territorial jurisdiction of Pakistan	
(i) Long routes	Rs.1,500
(ii) Short routes Explanation: For the purpose of this entry, “Long routes” means journeys exceeding 500 kilometers, short routes means the remaining journeys, other than socio-economic route as defined in S. No. 9 of Table II of the Third Schedule. Routes exempt from duty as on 1st July, 2014 shall, however, remain exempt.	Rs.900
(b) Services provided or rendered in respect of travel by air of passengers embarking on international journey from Pakistan,– (i) Economy and economy plus air tickets	Rs.12,500
(ii) Club, business and first class air tickets	
a. IATA Traffic Conference Area 1 (North, Central, South America and Environs)	Rs.350,000
b. IATA Traffic Conference Area 2 I. Middle East and Africa	Rs.105,000
II. Europe	Rs.210,000
c. IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)	Rs.210,000

Proposed

IATA Traffic Conference Area	Rate of duty
IATA Traffic Conference Area 1 | North, Central, South America and Environs	Rs 50,000
IATA Traffic Conference Area 2 | Middle East and Africa	Rs 25,000
IATA Traffic Conference Area 2 | Europe	Rs 40,000
IATA Traffic Conference Area 3 | Far East, Australia, New Zealand and Pacific Islands	Rs 40,000

Goods on which duty is collectible under sales tax mode with entitlement for adjustment with sales tax and vice versa [Second Schedule]

The Bill seeks to insert the new Serial No. 5 in the Second Schedule for the following imported and locally produced items:

No.	Description	Heading/ Sub-heading No.
(i)	Petroleum top Naphtha	2710.1942
(ii)	White Spirit/Mineral Turpentine Oil (MTT)	2710.1240
(iii)	Solvent Oil	2710.1250

Conditional exemptions [Third Schedule, Table-I]

The Bill seeks to insert, after Serial No. 27 in Table-I of the Third Schedule, a new Serial No. 28 conditionally exempting the import of bullet proof vehicles by:

(i)	the Federal Government for logistic arrangements for the Shanghai Cooperation Organization (SCO) summit, subject to prior approval of the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control; and
(ii)	the Federal or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to Federal Government approval, against the respective heading. The entry mirrors the corresponding new exemption in the Sixth Schedule to the Sales Tax Act.

SECTION 6 CUSTOMS DUTY

1. Definitions

State warehouse **[Section 2(ssssa)]**

The Act does not at present specify where goods that have been detained, seized or confiscated are to be kept. The Bill seeks to fill that gap by adding a new clause (ssssa) defining a State Warehouse as any place that the Collector of Customs authorizes for storing such goods. The definition matters because the Bill simultaneously creates a new offence, discussed under section 156 below, for tampering with goods lying at a State warehouse, so the term needed a settled meaning.

2. General power to exempt from customs-duties **[Section 19(5)]**

The second proviso to sub-section (5) of section 19 provides that exemption notifications issued on or after July 1, 2016 and placed before the National Assembly as required under section 19(4) continue to remain in force till June 30, 2026. The Bill seeks to extend the life of these exemptions till June 30, 2027, giving the beneficiaries of the existing concessions a further year before the notifications lapse.

3. False statement, error, etc. **[Section 32(3) & (3A)]**

Where duty has escaped levy, been short-levied or been refunded by mistake, section 32 empowers the department to serve a recovery notice on the person liable, the first proviso to sub-section (3) and the proviso to sub-section (3A) presently opening with the words “in a case”. The Bill seeks to delete those two words in both provisos. The change is one of drafting tidiness, the phrase adds nothing to the meaning, and it leaves the recovery mechanism otherwise untouched.

4. Checking of goods declaration by the Customs **[Section 80(4)]**

When a goods declaration is filed, section 80 lets the customs authorities check the goods before clearing them, and sub-section (4) presently speaks only of goods being “examined”. Modern clearance increasingly relies on non-intrusive scanning rather than physically opening consignments. The Bill seeks to recognize this by adding the word “scanned” alongside “examined” in sub-section (4), and the words “or scanned” in its proviso, so that a consignment cleared on the strength of a scan stands on the same footing as one physically examined.

5. Procedure in case of goods not cleared or warehoused or transshipped or exported or removed from the port after unloading or filling of declaration **[Section 82(1) & (2)]**

Section 82 deals with goods that are not cleared, warehoused, transshipped, exported or removed within the time allowed, and presently leaves it to the Federal Government to notify the penalties the owner must bear, with the Collector able to waive the penalty in unavoidable circumstances. The Bill seeks to make three changes. First, the power to notify penalties shifts from the Federal Government to the Board. Second, the Collector may now not only waive but also reduce the penalty, a middle option that was previously unavailable, and the Board may frame rules governing how this works, including an appeal against an imposed penalty and the stations or goods to which the penalty regime will not apply. Third, a new proviso lets the Board authorize any person to auction the auctionable goods in the manner it notifies, opening the door to outsourced auctioning. The thrust is to move day-to-day control of the regime to the Board and to soften its edges with a power to reduce, rather than only waive, penalties.

6. Punishment for offences [Section 156(1)]

The Table in section 156(1) is the catalogue of customs offences and their penalties. The Bill seeks to sharpen three of its entries, the most significant being a tenfold rise in the penalty on port authorities that ignore a delay and detention certificate, and a new offence aimed at the pilferage of goods held in custody. The changes are set out below.

S.No	Offence / amendment	Penalty
7A	Where an agency, person or port authority managing or owning a customs port, airport, land customs station or container freight station fails to entertain a delay and detention certificate issued by the officer of Customs, the penalty is raised steeply	"five hundred thousand" raised to "ten million" rupees
62A (new)	A new offence for any person found involved in, or abetting, the removal, substitution, damage or other tampering with any goods, whether or not confiscated, lying at a place authorized by the Collector as a State warehouse	Penalty up to two times the value of the goods; on conviction by a Special Judge, also imprisonment up to five years, or fine, or both
83	The entry is recast so that the offence reads: an officer of any authority who is duty bound under section 170 to deposit the impugned goods with customs but neglects to do so	As per the existing entry against S. No. 83

7. Extent of confiscation [Section 157(2)]

Section 157 authorizes the customs authorities to seize and deal with smuggled goods. The Bill seeks to add an Explanation to clarify that, for this purpose, "removal" covers, and is to be treated as having always covered, every act of carrying, transporting, depositing, harboring, keeping, concealing or retailing smuggled goods, or any other act involving their movement. The effect is to put beyond argument that the seizure power reaches not just the person physically moving smuggled goods but everyone along the chain who handles or stores them.

It is noted that the Explanation is expressed to have "always included" these acts, that is, to operate for the past as well as the future, a retrospective reach that may be tested where it enlarges liability for conduct that predates the amendment.

8. Procedure in respect of things seized on suspicion by the police [Section 170]

As it stands, section 170 deals only with goods that the police seize on suspicion of theft, requiring the police officer to tell the nearest custom-house and, once the case ends, to deposit the goods there. The Bill seeks to replace the section with a broader rule, recast under the heading "Procedure in respect of goods seized or detained by other authorities". Under the new section, whenever any authority, not just the police, seizes or detains goods that are liable to confiscation under the Customs Act, the customs authorities, once they confirm the goods are so liable, are to inform that authority in writing, and that authority is then bound to hand the goods over to customs for processing under the Act, regardless of any proceedings of its own that may be pending. The provision closes a gap whereby goods caught up with other agencies could sit outside the customs net.

9. Power of adjudication | Faceless adjudication introduced [Section 179(6)]

Section 179 sets out who adjudicates customs cases and at what monetary limits. The Bill seeks to add a new sub-section (6) letting the Board notify a procedure for faceless adjudication, under which a case is decided without any face-to-face contact between the adjudicating officer and the person concerned, the proceedings being conducted virtually in the manner the Board prescribes. The amendment brings customs into line with the faceless adjudication, assessment and appeal mechanisms the Bill introduces across the income-tax, sales-tax and federal-excise statutes.

10. Cognizance of offences by Special Judges | Freezing of assets [Section 185A(6)]

Section 185A allows a Special Judge to take cognizance of offences under the Act. The Bill seeks to add a new sub-section (6) empowering that judge, where during a trial he has reasonable grounds to believe the accused has illegally moved funds into or out of Pakistan, to order the freezing of the accused's assets, whether the assets are held by the accused or by someone else on his behalf. The measure gives the trial court a direct means of preserving assets while a customs prosecution with a cross-border money trail runs its course.

11. Independent case scrutiny committee [Section 196JJ | Section 196J]

At present nothing screens the merits of a customs case before the department takes it to the superior courts, a practice that has been criticized for generating litigation of little value. The Bill seeks to insert a new section 196JJ providing that a civil petition, reference, petition for leave to appeal or review petition before the High Court, the Federal Constitutional Court or the Supreme Court may be filed by the Collector or Director of Customs, or an authorized officer not below Deputy Collector or Deputy Director, only after an independent case scrutiny committee has approved it. The committee, constituted by the Board, is to consist of a retired judge of the superior judiciary as Chairman, an advocate of at least fifteen years' standing in customs and commercial litigation before the High Court or Supreme Court, and a serving or retired officer not below Director or Collector of Customs, its recommendations binding on the department and its members protected from suit. The committee completes a uniform litigation filter that the Bill also introduces in the Income Tax Ordinance, the Sales Tax Act and the Federal Excise Act.

12. Service of order, decision, etc. [Section 215(d)]

Section 215 lists the ways in which an order, decision, summons or notice may be served, presently by tendering it or sending it by post or courier, by affixing it on the custom-house notice board, or, for electronic orders, by sending it from the Customs Computerized System. The Bill seeks to add one more route, by adding a new clause (d), allowing service in the manner prescribed for a summons under the Code of Civil Procedure, 1908. The reader simply has an additional, court-recognized mode of service available.

SECTION 7 Petroleum Levy

Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961 (XXV of 1961)

1. Definitions

Company **[Section 2(w)]**

Presently, a “company” liable to the levy is one that is named in the Second Schedule, a fixed list of oil companies. The Bill seeks to replace that list-based meaning with a functional one: a company will be an oil marketing company, and will also include a person who manufactures, refines or reclaims lubricating oil from used lubricating oil under a licence granted by OGRA. The shift matters because it ties liability to what a business actually does rather than to whether it happens to appear on a schedule, and it expressly draws used-oil reclaimers into the net. It also explains why the Second Schedule is being omitted, discussed below.

Oil Marketing Company and OGRA **[Section 2(4E) & (4F)]**

To support the recast definition of a company, the Bill seeks to insert two new definitions after the omitted clause (4D).

An Oil Marketing Company	is defined as a company, other than a lubricant marketing company, that buys or obtains petroleum products from refineries, blending plants or sources abroad and sells, distributes or markets them, directly or through its agents or dealers, at its dispensing outlets or filling stations.
OGRA	is defined as the Oil and Gas Regulatory Authority established under the OGRA Ordinance, 2002. These give precise content to the terms the new company definition relies on.

Refinery **[Section 2(7)]**

In the same way as the company definition, a “refinery” presently means a refinery specified in the Fourth Schedule, again a fixed list. The Bill seeks to substitute a functional definition as a refinery is a facility or industrial plant where crude oil is refined to produce petroleum products.

As with the company definition, liability follows the activity rather than a place on a list, and the change is the reason the Fourth Schedule is being omitted.

2. Levy made a condition of the OGRA licence **[Section 3(1) & (3)]**

Section 3(1) presently simply requires every company, refinery and licensee to pay the Petroleum Levy and Climate Support Levy at the rates the Federal Government notifies. The Bill seeks to substitute it so that, in addition, payment of the two levies is deemed to be a condition of the OGRA licence of every company, refinery or licensee from the date the licence is issued. Tying payment to the licence gives OGRA a direct regulatory lever, a defaulter risks its licence, not merely a recovery action. Consequentially, the Bill omits sub-section (3), which presently makes unpaid amounts recoverable as an arrear of land revenue, because the new sections 3B and 3C, discussed below, replace that recovery route with a more detailed mechanism.

It is noted that the export exemption in sub-section (2) and the Climate Support Levy rates in sub-section (4), Rs 2.5 per liter on motor spirit and high-speed diesel for 2025-26 rising to Rs 5 for 2026-27, with a corresponding charge on furnace oil, are left untouched by the Bill.

3. Late payment surcharge [Section 3B]

There is at present no dedicated surcharge for late payment of the levies within the Ordinance itself. The Bill seeks to add a new section 3B providing that where the Petroleum Levy and Climate Support Levy are not paid by the due date, taken as the date of filing the sales tax or federal excise return for local production, and the date of paying customs duty for imported products, the defaulting company, refinery or licensee must pay, on top of the amount due, a late payment surcharge calculated in the manner specified in section 40D(1) of the Public Finance Management Act, 2019, that is, an amount equal to the monthly weighted financing cost of the Government's domestic borrowings for the period of default. The provision puts a clear price on delay and fixes exactly when the clock starts.

4. Recovery of amounts due [Section 3B]

The Bill seeks to add a new section 3C setting out a fuller recovery mechanism. If the levies or the late payment surcharge remains unpaid for ninety days, the department responsible for collection may ask the Commissioner (Inland Revenue) to recover the amount in the same way as income tax arrears under Part IV of Chapter X of the Income Tax Ordinance, 2001. The department may pursue the levies and the surcharge separately or together. Two features stand out for the reader. First, the Commissioner is expressly barred from granting any extension of time or allowing payment in instalments, so there is no room to negotiate the timing of recovery. Second, the section provides that any irregularity or infirmity in the recovery proceedings cannot be challenged before a tribunal or court, and requires the Commissioner to report progress to the finance and petroleum divisions every fortnight, explaining in writing any failure to recover. The section also reaches backwards: amounts that fell due before the Finance Act, 2026 under sections 40B and 40D of the Public Finance Management Act, 2019 are made recoverable under this new section.

It is noted that the bar on challenging any irregularity or infirmity in the recovery proceedings before a tribunal or court ousts the ordinary supervisory jurisdiction over how recovery is conducted, a far-reaching exclusion that may be tested on constitutional grounds.

5. Monthly statements and an annual audited certificate [Section 4A]

The Ordinance does not presently require ongoing reporting of levy payments. The Bill seeks to insert a new section 4A on two levels. Every company, refinery or licensee must file a monthly statement with the Federal Board of Revenue on the Petroleum Levy and Climate Support Levy paid on sales of petroleum products, supported by documentary evidence including the monthly sales invoice and anything else the department asks for. In addition, each must give the Petroleum Division an annual audited certificate, issued by an authorized audit firm, confirming the accuracy of the levies accrued and paid, an authorized audit firm being one registered with the Audit Oversight Board under the Securities and Exchange Commission of Pakistan Act, 1997. The cost of that audit falls on the company, refinery or licensee. The provision builds a monthly and annual paper trail, with the audit cost placed on the obligor.

6. Omission of the Second and Fourth Schedules [Second & Fourth Schedules]

The Second Schedule is the fixed list of companies, and the Fourth Schedule the fixed list of refineries, by reference to which the Ordinance presently identifies who is liable. The Bill seeks to omit both. The omission is the natural consequence of recasting the definitions of “company” and “refinery”, discussed above, from named lists to functional descriptions, once liability turns on what a business does, the lists serve no purpose and are removed.

SECTION 8 Capital Value Tax

Section 8 of the Finance Act, 2022

The Bill proposes abolish the Capital Value Tax (CVT) on foreign assets of resident individuals, currently levied at 1% on foreign assets exceeding Rs. 100 million

As a result, CVT will apply only to qualifying motor vehicles held in Pakistan, while resident individuals will no longer be liable to pay CVT on their foreign assets. The effect of this proposal, if approved, will be prospective in nature and does not address the treatment of tax already paid or pending assessments and litigation relating to prior years, leaving such matters to be governed by the existing legal framework.

SECTION 9 RATES FOR WITHHOLDING (INCOME) TAX

Effective July 1, 2026 | Proposed

LINK TO DOWNLOAD: https://tagco.pk/wp-content/uploads/2026/06/tax-2027.pdf

SCAN TO DOWNLOAD

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