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Federal Budget 2025-26

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Foreword

Economic Outlook & Budget Update for Pakistan (2025-26)

We are delighted to share this publication with our valued clients and associates, providing insights into Pakistan's current economic outlook and the key amendments proposed in the Finance Bill 2025-26.

This memorandum aims to provide a general overview of the changes affecting businesses and individuals. Please note that this is not an exhaustive summary, and we recommend consulting the original text of the Bill, relevant provisions, and notifications for a comprehensive understanding.

The information presented in this publication is accurate to the best of our knowledge and belief at the time of issuance. However, this publication is for general information purposes only and should not be considered professional advice.

Before making any decisions or taking actions that may impact your finances or business, we recommend consulting a qualified professional advisor. If you have any questions or require further information regarding the budget announcements, please do not hesitate to contact our partners or the individuals listed in this publication.

We hope you find this guide informative and useful.

Best regards,

RSM Pakistan

Economy Overview

Global Economy

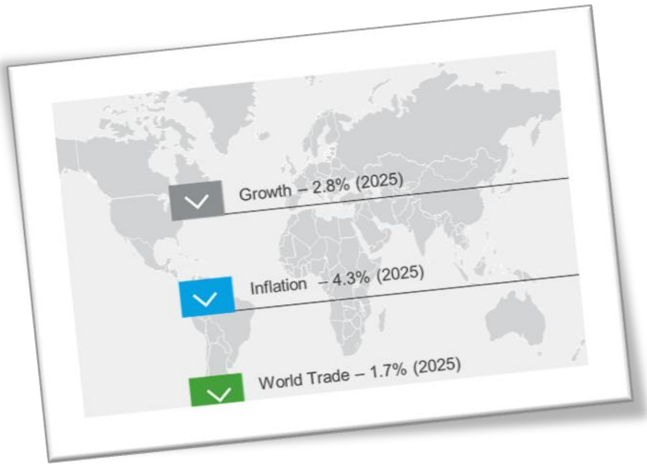
The global economy in 2025 is navigating a complex landscape of **moderate growth, policy uncertainty, and trade tensions**. According to the **IMF**, global growth is projected at **3.3%**, slightly below the historical average.

Inflation is expected to decline to **4.2%**, with advanced economies stabilizing faster than emerging markets. However, **heightened trade tensions**, particularly **higher U.S. tariffs**, are straining global supply chains and increasing production costs. The **World Bank** forecasts global growth at **2.7%**, warning that the economy is settling into a low-growth phase that may hinder long-term development.

Key risks include **geopolitical instability, climate change, and financial market volatility**. Central banks are cautiously adjusting monetary policies, balancing inflation control with economic stimulus. The **United Nations** warns that slower growth and rising costs could deepen inequalities, particularly in developing economies.

The global economy in 2025 is being shaped by several emerging trends that are influencing growth, trade, and innovation. Here are some key developments:

- **Technology-Driven Growth**: Emerging markets are rapidly adopting **AI, 5G, and blockchain** to drive innovation and economic expansion.
- **Sustainability Focus**: Green energy and **carbon-neutral policies** are central to economic strategies, with governments pushing for **renewable energy investments**.



- **Trade Policy Shifts**: Rising **trade barriers and tariffs**, particularly in the U.S., are affecting global supply chains and increasing production costs.
- **Monetary Policy Adjustments**: Central banks are cautiously **easing interest rates** to balance inflation control with economic stimulus.
- **Gaming Creator Economy Boom**: The **gaming industry** is experiencing exponential growth, driven by **blockchain gaming, virtual assets, and play-to-earn models**.
- **Geopolitical Uncertainty**: Political shifts and **elections worldwide** are influencing economic policies, trade agreements, and investment flows.
- **Investment in Emerging Markets**: Governments are reforming policies to **attract foreign investment** and streamline operations.

These trends indicate a **dynamic and evolving global economy**, where technology, sustainability, and policy decisions play crucial roles in shaping the future.

Pakistan Economy

Pakistan's economy demonstrated resilience in FY 2025, achieving a real GDP growth rate of 2.68%. This modest growth was driven by a rebound in the industrial sector, which expanded by 4.77%, and a services sector that grew by 2.91%. The agriculture sector, however, grew by a mere 0.56%, due to a decline in major crops. Despite these challenges, the economy showed significant improvement in key macroeconomic indicators, including a decline in inflation, a shift from a current account deficit to a surplus, and a narrowing of the fiscal deficit.

The government's efforts to stabilize the economy and implement structural reforms have started to bear fruit. The Economic Survey 2025 highlights the progress made in improving the business environment, increasing investment, and enhancing productivity. The survey also notes that the economy is poised to enter a take-off stage in the medium term, driven by a growing services sector, a rebounding industrial sector, and a recovering agriculture sector. Overall, Pakistan's economy is on a path of gradual recovery and stabilization, with a promising outlook for the future.

Pakistan's economy in 2025 is seeing growth in several **emerging sectors** that are driving investment and innovation. Some of the key industries gaining momentum includes:

- **Information Technology (IT) & E-commerce** – The IT sector is experiencing rapid expansion, with **software development, AI, and fintech** leading the way. E-commerce platforms are thriving due to increased internet penetration.
- **Renewable Energy** – Investments in **solar, wind, and hydropower** are growing as Pakistan shifts toward sustainable energy solutions.
- **Textile & Apparel Industry** – As Pakistan remains a major textile exporter, **modern machinery and eco-friendly production** are enhancing competitiveness.
- **Construction & Real Estate** – Urbanization and **CPEC-related infrastructure projects** are fuelling demand for housing and commercial spaces.
- **Financial Services & Digital Banking** – The rise of **mobile banking, fintech startups, and digital payment platforms** is transforming the financial landscape.
- **Agriculture & Agri-Tech** – Smart farming techniques, **precision agriculture, and organic produce exports** are making agriculture more efficient.
- **Healthcare & Biotechnology** – The healthcare sector is expanding with **telemedicine, biotech research, and pharmaceutical advancements**.

Economic Indicators

GDP Growth
2.68%

Inflation
4.7%
(decreased from 26% last year)

Primary Surplus
3% of GDP

Per Capita Income
US$1,824
(9.75%)

Investment-to-GDP Ratio
13.8%

Savings
14.1%
(as % of GDP)

Policy Rate
11%
(9.7% declined in 1 year)

Total Revenue
Rs.13.37T

Total Expenditure
Rs. 16.34T

Fiscal Deficit
2.6%
(as % of GDP)

Market Capitalization
38.5%

Remittances
31.2%

Exports
27.3%

Imports
48.6%

Foreign Reserves
16.6%
(as of May 27, 2025)

Performance Indicators

Services

GDP share 58.39% (2025)
Growth 2.91%

- Wholesale & Retail – 0.14%
- Transport & Storage – 2.2%
- Real Estate – 3.75%
- Hotel & Restaurant – 4.06%
- Information & Communication – 6.48%
- Finance & Insurance – 3.22%
- General Government – 9.92%
- Education – 4.43%
- Health & Social work – 3.71%
- Other Private Sector – 3.64%

Industrial

GDP share 18.07% (2025)
Growth 4.77%

- Minning & Quarrying 3.38%
- Manufacturing 1.34%
- Utilities 28.88%
- Construction 6.61%

Agriculture

GDP share 23.54% (2025)
Growth 0.6%

- Livestock 4.72%
- Forestry 3.03%
- Fishing 1.42%
- Crops 6.82%

Performance – Agriculture Sector

Pakistan's agriculture sector showed remarkable resilience in FY2025, achieving a growth rate of 0.56% despite challenging weather conditions. This growth was primarily driven by the livestock sector, which expanded by 4.72%.

However, the sector's contribution to the country's GDP declined slightly to 23.54% in FY2025, down from 24.03% in FY2024. The sector's performance was mixed, with:-

- **Livestock sector:** Growing by 4.72%, driven by increases in cattle, poultry, and dairy production.
- **Forestry sector:** Recording a growth rate of 3.03%, maintaining its steady contribution to the sector.
- **Fisheries sector:** Expanding by 1.42%, improving from 0.81% in the previous year.
- **Crop sub-sector:** Contracting by 6.82%, mainly due to a 13.49% decline in important crops and a 19.03% slump in cotton ginning.

The challenges faced by the sector include:-

- **Weather-related issues:** Adverse weather conditions, such as above-average monsoon rains and high temperatures, affected crop yields.
- **Pest outbreaks:** Pest outbreaks and diseases impacted crop production.
- **Structural challenges:** Underlying structural challenges, such as inefficient irrigation systems and limited access to credit, hindered sector growth.

To address these challenges, the government is pursuing a multi-pronged approach, focusing on improving irrigation efficiency, advancing seed sector reforms, and strengthening R&D and extension services.

The Annual National Development Programme (ANDP) has allocated a substantial PKR 3,483 billion for development projects. This includes PKR 1,100 billion for federal projects and PKR 2,383 billion for provincial initiatives, demonstrating a strong commitment to development spending and economic growth.

Performance – Industrial Sector

Pakistan's industrial sector made a strong comeback in FY 2025, growing by 4.77% after a lackluster performance the previous year. This rebound was largely driven by improvements in key sub-sectors, despite some areas still struggling.

Key Highlights

- **Mining and Quarrying:** This sector declined by 3.38%, mainly due to significant drops in crude oil (-14.72%) and natural gas (-7.05%) production. However, coal production saw a modest growth of 2.84%.
- **Manufacturing:** Despite a contraction in Large-Scale Manufacturing (LSM) by 1.53%, the manufacturing sector remained positive, thanks to gains in small-scale manufacturing and slaughtering.
- **LSM Performance:** The slowdown in LSM growth reflects mixed performance across key industries. While chemicals, iron and steel, electrical equipment, and fabricated metal products saw declines, strong growth was recorded in automobiles (40.0%), wearing apparel (7.62%), textiles (2.15%), and petroleum products (4.48%).
- **Electricity, Gas, and Water Supply:** This sector showed a remarkable recovery with 28.88% growth, reversing the previous year's decline of 19.86%. The growth was driven by increased real subsidies and a lower deflator.
- **Construction:** Construction activity posted a growth of 6.61%, compared to a contraction of 1.14% last year, due to a low base effect and higher public sector development spending on infrastructure projects.

Performance – Service Sector

The services sector in Pakistan demonstrated modest growth of 2.91% in FY 2025, slightly higher than the previous year's 2.19% growth. This growth was driven by mixed trends across various subsectors.

Key Growth Drivers

- **Information and Communication Services:** Recorded a strong growth of 6.48%, led by a surge in computer programming and consultancy (24%).
- **Public Administration and Social Security:** Rose by 9.92%, reflecting increased spending across all levels of government and lower inflation.
- **Education and Health Services:** Improved, growing by 4.43% and 3.71%, respectively, due to higher public spending and a lower deflator.
- **Other Private Services:** Grew by 3.64%, supported by increased activity in technical, professional, and engineering services.

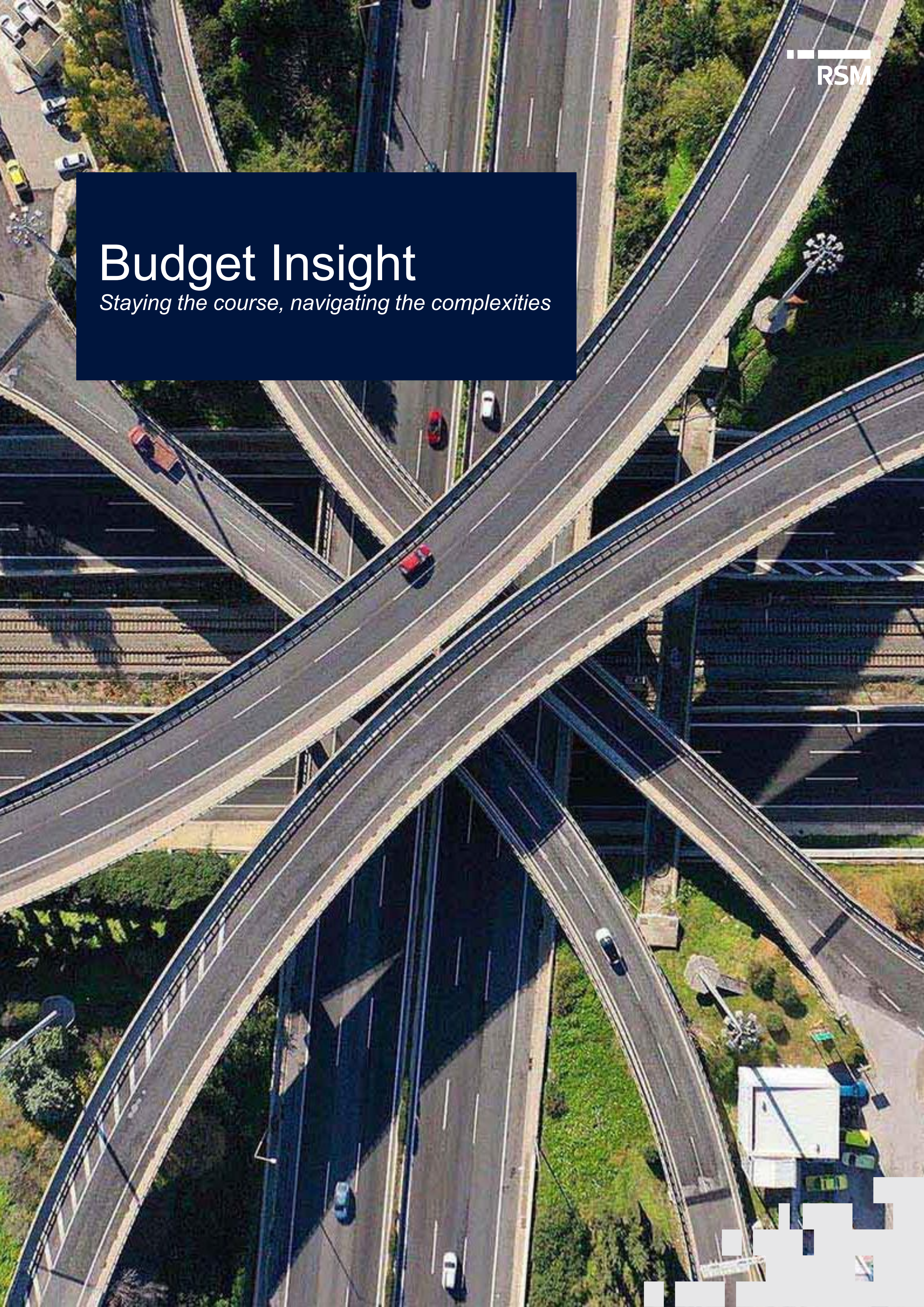
Challenged Sectors

- **Wholesale and Retail Trade (WRT):** Registered a marginal growth of 0.14%, impacted by declining agricultural output.
- **Transport and Storage:** Grew by 2.20%, driven mainly by water transport (9.57%) and air transport (9.31%), but offset by a 21.8% contraction in pipeline transport.

These mixed trends reflect the complexities of Pakistan's services sector, with some areas demonstrating resilience and growth, while others face challenges.

Budget Insight

Staying the course, navigating the complexities



Sector *Digital Commerce*

Definitions introduced

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

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

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

Digitally delivered services means any service delivered over the internet or electronic networks, where the delivery is automated and require minimal or no human intervention including music, audio and video streaming services, cloud services, online software applications services, services delivered through online inter-personal interaction i.e., tele medicines, e-learning etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility;
"courier service" means any specialized entity that provides fast, secure and often tracked transportation of documents, packages and small freight, typically offering door-to-door delivery solutions of goods within specific timeframes and in case of digitally ordered goods in e-commerce delivery and collection of cash (CoD) on behalf of the seller and such delivery service provider includes but not limited to –
(a) Logistics services;
(b) ride-haling services;
(c) food delivery platforms; and
(d) e-commerce services;

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

Digital Presence Proceeds Tax Act, 2025

This act introduces a tax framework for foreign vendors with significant digital presence in Pakistan, targeting revenues from digitally ordered services and goods. It aims to address tax base erosion due to digital transactions.

- 5% tax on proceeds from digitally ordered services and goods.
- Tax applies to foreign vendors with significant digital presence based on transaction volume and user engagement.
- Payment intermediaries are responsible for tax collection and remittance.

Sector Digital Commerce

Direct Taxes

Present Tax Structure

Platforms and intermediaries were not legally required to **file monthly tax statements** on behalf of sellers. There were **no mandatory requirements** for payment intermediaries or couriers to collect income tax.

Proposed Tax Structure

Chargeability and Withholding of Tax:

A new section 6A has been introduced in Income Tax Ordinance, 2001 and corresponding amendment in section 153 has also been made for taxing digital transactions, particularly in e-commerce. This includes tax withholding obligations for payment intermediaries and couriers involved in digital sales as follows:

Every payment intermediary shall collect tax from the gross amount payable digitally to the seller at

- 1% if gross amount does not exceed Rs. 10,000/-
- 2% if gross amount exceeds Rs. 10,000/- but does not exceed Rs. 20,000/-
- 0.25% if the gross amount exceeds Rs. 20,000/-.

Every courier business shall collect tax from the gross amount payable on cash on delivery to the seller at

- 0.25% On supply of electronic and electrical goods
- 2% On supply of clothing, articles, apparels, garments etc.
- 2% on other goods.

The collected will be full and final tax liability of the supplier.

Penalty:

Marketplace allowing unregistered persons to use its services

Penalty of five lac rupees for first default

Penalty of one million rupees for each subsequent default.

Where a banking company or payment gateway or a courier service provider, fails to deduct tax at the time of making payment to a seller as required under section 160, such person shall pay a penalty equal to two hundred percent of the amount of tax involved.

Indirect Taxes

Present Tax Structure

Online marketplaces were responsible to withhold and deposit 1% sales tax on local supplies made by non-active taxpayer vendors. There were no mandatory requirements for payment intermediaries or couriers to collect sales tax.

Sector *Digital Commerce*

Proposed Tax Structure

Registration: Online marketplaces, websites or software applications have been barred from allowing unregistered persons (as it is mandatory for them to get registered with FBR) to use their services to carry out e-commerce transactions (section 14(1A) & (1B)).

Compliance: Online marketplaces, payment intermediaries and couriers are required to file monthly statement indicating the supplier-wise amount paid and tax due and such other information for taxable supplies of digitally ordered goods (section 26).

Penalty:

1. Failure to file monthly statement
   i. Penalty of five lac rupees for first default
   ii. Penalty of one million rupees for each subsequent default.
2. Allowing unregistered persons to use its services

i. Penalty of five lac rupees for first default

ii. Penalty of one million rupees for each subsequent default.

Withholding: Serial No. 8 of 11th Schedule of the Sales Tax Act, 1990 has been substituted and now:

- **Payment intermediaries** (e.g. banks, payment gateways) and
- **Courier companies** on cash on delivery transactions must collect **2% sales tax** from persons (whether active or inactive) supplying digitally ordered goods from within Pakistan through online marketplace. These intermediaries now act as **tax withholding agents**.

Introduction of Digital Enforcement Stations

Digital Enforcement Stations are to be established to enhance the prevention of smuggling and illicit trade. The Board will have the authority to designate locations and create operational rules.

Digital Enforcement Stations will be set up at strategic locations.

The Board can hire retired armed forces personnel for staffing.

Rules for operations and technological enablement will be established.

Overall Impact:

The proposed amendments will increase the compliance burden of online marketplaces and payment intermediaries, but the expected benefits are as under:

- It will make **tax collection automatic** through digital channels,
- It will bring **unregistered sellers** into the tax net,
- It will place **accountability on platforms and intermediaries**,
- It will reduce room for **sales tax evasion** in digital commerce.

Sector Agriculture

While agricultural income is constitutionally exempt from federal income tax, it is subject to provincial taxation under respective local laws. Enforcement varies widely, and the exemption requires strict substantiation under Section 41 of the Income Tax Ordinance. Budget 2025 has not introduced major changes in this area, but scrutiny on fake agricultural claims is expected to intensify.

Existing Tax regime
Agriculture income is legally taxable, but it is exempt from federal income tax and instead taxed at the provincial level Article 142 of the Constitution.

Federal Income Tax Exemption
Under Section 41 of the Income Tax Ordinance, 2001, agricultural income is exempt from federal tax. However, to claim this exemption, the taxpayer must: Prove the income qualifies as agricultural income (defined in Section 41 & 2(1)(b)) File an exemption claim, often alongside provincial evidence (land ownership, revenue record, etc.)

Provincial Taxation Applies
Each province has its own agricultural income tax law:

Province	Applicable law	Tax Mechanism
Punjab	Punjab Agricultural Income Tax Act, 1997	Tax on landholding or net income (whichever is higher)
Sindh	Sindh Agricultural Income Tax Act, 2000	Similar to Punjab
KPK	West Pakistan Land Revenue Act (modified)	Fixed rate per acre + income-based
Balochistan	Balochistan Land Revenue Act	Minimal enforcement

Documentation Required

To claim exemption from federal tax, the taxpayer must:

- Provide land ownership record (Fard)
- File returns under provincial law
- Get a certificate from the provincial revenue authority (esp. in Punjab and Sindh)

Sector *Agriculture*

Common Issues

- Misuse: Some high-income individuals route income through "agriculture" to avoid federal tax.
- FBR scrutiny: Increasingly strict checks on whether the income truly qualifies under Section 41.

Proposed amendment:

The amendments related to the agriculture sector in the Income Tax Ordinance, 2001, include the following:

Taxation and Compliance:

1. Exemption for Agricultural Produce:

Purchases directly from growers are exempt from the 10% disallowance of expenditure for transactions with non-National Tax Number (NTN) holders (Section 21(q)).

2. Restriction on Cash Payments:

Payments exceeding Rs. 200,000 against a single invoice must be made through banking channels or digital means; otherwise, 50% of the expenditure will be disallowed (Section 21(s)).

Reporting and Assessment:

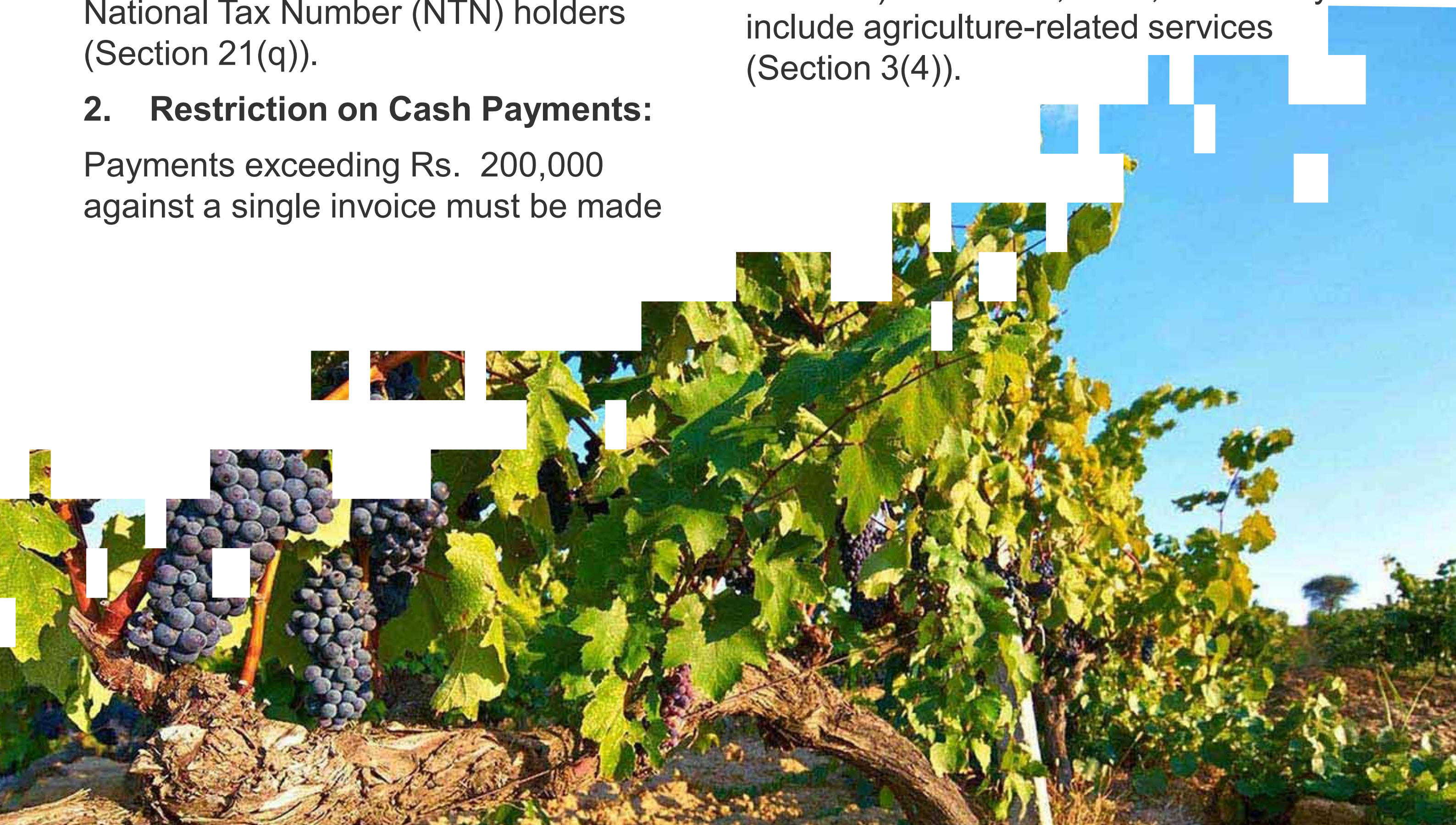
1. Assessment of Sales Tax Liability:

Inland Revenue officers can assess sales tax liability based on purchase data obtained under Section 236G of the Income Tax Ordinance, 2001, for persons liable to register but failing to furnish returns (Section 11D(5)).

Miscellaneous:

Negative List of Services:

The Board may specify a negative list of services exempt from tax under the Islamabad Capital Territory (Tax on Services) Ordinance, 2001, which may include agriculture-related services (Section 3(4)).



Sector *Real Sector*

Income Tax

Section 15:

The powers of Inland Revenue Officers to determine fair market rent are restricted to commercial properties only. A flat 4% of the FBR-notified value is to be treated as fair market rent unless justified otherwise.

Section 56:

Business losses can no longer be adjusted against income from property.

Section 63A (New):

Introduces tax credit on interest paid on low-cost housing loans for:

- A house with a land area up to 2,500 sq. ft., or
- A flat with a total area up to 2,000 sq. ft.

Advance Tax on Sale and Purchase of Property:

Section 236C (Sale): Increased tax rates for filers:

- Up to Rs. 50 million: 4.5% (previously 3%)
- Rs. 50–100 million: 5% (previously 3.5%)
- Over Rs. 100 million: 5.5% (previously 4%)

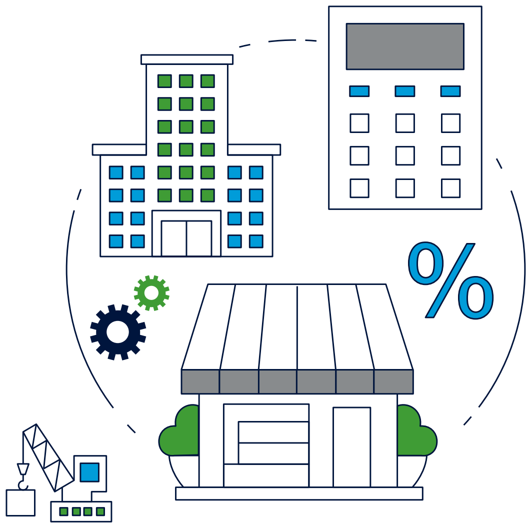
Section 236K (Purchase):

Reduced tax rates for filers:

- Up to Rs. 50 million: 1.5% (previously 3%)
- Rs. 50–100 million: 2% (previously 3.5%)
- Over Rs. 100 million: 2.5% (previously 4%)

Stamp Duty:

For filer 1% of value of immovable property and 2% for non filer. Previously it was 2% for urban properties and 3% for other properties.



Sector Health & Education

The health and education services sector for income tax purposes comes within the definition of the charitable purposes defined in the Section 2 of the Income Tax Ordinance 2001. Most of the hospitals and educational institutions previously registered themselves as trust, society or for non profit entities. They not only were earning the fees but also attracted voluntary contributions and donations because such donations or contributions also provided tax credits to the donors as well and on the other side were previously exempt in the hands of such institutions. Recognizing the need section 2(36) was introduced and all the exemptions of charitable purpose were withdrawn while on the other side 100% tax credit was allowed for those who were compliant with the tax law. Not only that but for the purpose of tax credit u/s 100C of the Ordinance such institutions had to proof themselves that they are actually non profit entities. Another step was taken whereby in order to be recognized as non profit organization under income tax law they were required to get evaluated from the Pakistan Center for Philanthropy(PCP), an institution establish to evaluate their activities and financial to ensure that they are not working for the benefits of their owners and are not working for the profits. Once the PCP issue certificate they can then apply for the status of Non profit organization u/s 2(36) of the Ordinance. Initially any charitable organization could get the benefit of tax credit u/s 100C but in the recent year it has been made compulsory to register u/s 2(36) as NPO to avail that tax credit. It has resulted in bringing such health and educational institutions within the tax net who could not prove themselves to be NPO from the PCP and tax department and their income is treated as business income.

Having said the above still there was exemption under clause 61 of the second schedule to the Ordinance to various hospitals and educational institutions without any requirement of registering u/s 2(36). In the current budget it has been also made compulsory for such organizations to get the status of NPO u/s 2(36) of the Ordinance to avail this exemption.

Another important area is that most of such persons receive cash fee and hospitals make payments to the doctors and consultants in cash. The proposed measures in the current budget reflects that the board is also cognizant of this fact and it has been proposed to introduced punitive measures like disallowance of cash expenditure and also not allowing credit of imputed income for cash transactions in this budget.

Under the existing regime the provincial tax departments have also brought the health sector into the ambit of sales tax on services. The KPK sales tax is applicable on the health services and also the Sindh revenue board initially proposed tax in the budget but later didn't confirm.

Taxation of Individual - *snapshot*

The Budget proposes several significant amendments affecting Individuals

Salaried Individuals

Tax rates for salaried individuals with income up to Rs. 3,200,000 have been reduced. These changes aim to support the lower and middle-income segments of the population.

Annual Taxable Income	Tax Year 2025 Tax Expense	Tax Year 2026 Tax Expense (proposed)	Impact	
--------------------------Rupees---------------------------				%
600,000	0	0	0	0
1,200,000	30,000	6,000	-24,000	-80.00%
2,200,000	180,000	116,000	-64,000	-35.56%
3,200,000	430,000	346,000	-84,000	-19.53%
4,100,000	700,000	616,000	-84,000	-12.00%

S. No.	Taxable Income	Rates 2024-25	Taxable Income	Rates 2025-26
1	Where the taxable income does not exceed Rs 600,000	Nil	Where the taxable income does not exceed Rs 600,000	Nil
2	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	5% of the amount exceeding Rs 600,000	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	1% of the amount exceeding Rs 600,000
3	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs 1,200,000	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,200,000	Rs. 6,000 + 11% of the amount exceeding Rs 1,200,000
4	Where the taxable income exceeds Rs 2,200,000 but does not exceed Rs 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs 2,200,000	Where the taxable income exceeds Rs 2,200,000 but does not exceed Rs 3,200,000	Rs. 116,000 + 23% of the amount exceeding Rs 2,200,000
5	Where the taxable income exceeds Rs 3,200,000 but does not exceed Rs 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs 3,200,000	Where the taxable income exceeds Rs 3,200,000 but does not exceed Rs 4,100,000	Rs. 346,000 + 30% of the amount exceeding Rs 3,200,000
6	Where the taxable income exceeds Rs 4,100,000	Rs 700,000 + 35% of the amount exceeding Rs 4,100,000	Where the taxable income exceeds Rs 4,100,000	Rs 616,000 + 35% of the amount exceeding Rs 4,100,000

Additionally, the surcharge rate for salaried individuals is proposed to be decreased from 10% to 9% for taxable income exceeding Rs.10 million.

Tax Credit – Interest on House loan

A tax credit to individuals who take out a loan from a scheduled bank, financial institution, or government entity to construct or acquire a personal house. The tax credit is applicable for the profit on debt or share in rent paid on the loan, provided the house meets specific criteria:

- House: up to 2,500 square feet
- Flat area: up to 2,000 square feet

Teachers & Researchers

The Government has decided to restore the 25% rebate against tax payable, effective retrospectively from Tax Year 2023 to Tax Year 2025. This move aims to provide relief and recognition to the hard work of educators and researchers in the country.

Pensioners

For individuals below 70 years, pension income above Rs. 10,000,000 is taxed at a flat rate of 5%. Pension income not exceeding Rs. 10,000,000 is not taxable.

Taxation of Individuals

Income from property under section 15: The proposed amendment seeks to change the valuation of annual rental value of the commercial property for the purpose of calculation of income from property. Previously the rent received or receivable was taken as the rental income now through proposed amendment a benchmark has been set for commercial property that 4% of the market value of the property shall be taken as the rent unless otherwise justified.

Profit on debt under section 7B and 151: The profit on debt received from banking company or financial institution under Section 7B was taxed as separate class of income under the head income from other sources. The same treatment continues for the individual, however, the rate of tax has been increased from 15% to 20%.

The rate of tax for deduction under section 151 on yield or profit paid by banking company or financial institution has been increased to 20% from 15%, while intact (15%) for other cases.

Pension and Annuity – Part of salary income separate tax rate: Previously the pension was exempt from tax but under the proposed amendment, pension received in excess of Rs. 10 million will be subjected to tax as separate class at specific tax rate.

Withholding tax on pensions is introduced through Finance Act 2025. Any person responsible for paying pension or annuity, or any supplement to a pension or annuity or commutation of pension to a former employee who is below the age of seventy years and deriving pension income during a tax year in which the payment exceeds rupees ten million, shall at the time of payment, deduct tax from the amount which is over and above rupees ten million at following rate;

Description	Rate of tax
Where the amount of pension received does not exceed rupees ten million.	0%
Where the amount of pension received exceed rupees ten million.	5% of the amount exceeding Rs. 10 million.

Tax relief to Salaried individuals

"Tax slab rates reduced by 2% to 4% for individuals earning monthly salary in the range of Rs. 50,000 to Rs.266,666 providing relief to lower and middle class employees. For those earning higher income the tax on initial Rs. 3.2 Million tax is reduced by Rs.84,000 p.a (Rs. 7,000 per month). For high earning salaried individuals (Rs. 10 million or more p.a) 1% relief is provided by reducing surcharge from 10% to 9%.

Taxation of Individuals

Tax credit for interest paid on Low-cost Housing Loan: New section 63A has been introduced vide Finance Act 2025. According to the proposed section an individual shall be entitled to a tax credit for a tax year in respect of any profit on debt or share in rent or share in appreciation for value of house paid by the person in the year on a loan by a scheduled bank or any other financial institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the Local Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the person utilizes the loan for the construction (including land) or acquisition of one personal house having land area up to two thousand five hundred square feet or flat having total area up to two thousand square feet.

To facilitate the house financing a tax credit has been introduced. The individual may be allowed a lower of markup on loans or 30% of taxable income on defined area limits.

Advance tax on cash withdrawal: Rate of advance tax for non- filers on cash withdrawals have been increased from 0.6% to 0.8%.

Advance tax on Sale/transfer of immoveable properties 236C: The proposed tax reforms for 2025-2026 increase the tax rates under section 236C for persons selling or transferring the immovable properties. Comparison is illustrated below in tubular form;

Slabs	Tax Rate 2024-25	Tax Rate 2025-26	% Change (+/-)
Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	4.5%	1.5%
Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5%	1.5%
Where the gross amount of the consideration received exceeds Rs. 100 million.	4 %	5.5 %	1.5%

Advance tax on purchase/transfer of immoveable properties 236K; The proposed tax reforms for 2025-2026 significantly decreases the tax rates under section 236K for persons purchasing immovable properties. Comparison is illustrated below in tubular form;

Slabs	Tax Rate 2024-25	Tax Rate 2025-26	% Change (+/-)
Where the fair market value does not exceed Rs. 50 million	3%	1.5%	-1.5%
Where the exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	2%	-1.5%
Where the exceeds Rs. 100 million.	4 %	2.5 %	-1.5%

The tax on sale and purchase of properties is adjustable tax. The government has put the burden of tax on the seller by increasing the withholding tax rate by 1.5% and reducing tax by same ratio on the buyer. It will create a purchasing trend and would result in improving the activities in real estate.

Super tax on high earning persons under section 4C: The proposed tax reforms for 2025-2026 slightly decrease super tax by 0.5% for high earning income persons.

Income Tax - Amendments

General Clauses

2 (7). Banking Company The phrase *“and includes any body corporate which transacts the business of banking in Pakistan”* is proposed to be omitted.

Implication:
Entities which are established under specific laws and carrying out the business of banking in Pakistan such as Microfinance Banks, Digital Banks, and Investment Banks will no longer be classified as "banking companies" under the Seventh Schedule of the Income Tax Ordinance. Only commercial banks licensed under the Banking Companies Ordinance, 1962, will remain subject to the provisions of the Seventh Schedule.

Exclusions form Non-Profit Organizations: Section 2(36) & 18

The definition of "Non-Profit Organization" under section 2(36) is proposed to be amended to exclude recreational clubs formed for amateur sports where the membership fee exceeds one million rupees for any class of new membership.

Furthermore, section 18 clarifies that income derived by recreational clubs shall be taxable under the provisions of the Ordinance.

4AB. Tax on Taxable Income: For salaried individuals with taxable income exceeding Rs. 10 million, the rate of surcharge is proposed to be reduced from 10% to 9%.

21. Deductions not allowed: In the case of purchases from unregistered persons, 10% of the claimed expenditure is proposed to be disallowed.

If payment is received in cash exceeding Rs. 200,000 against a single sales invoice, 50% of the related expenditure will be disallowed.

22. Depreciation It is proposed that depreciation on capital assets shall not be allowed unless the applicable withholding taxes are properly deducted and deposited.

24. Amortization of Intangibles For intangible assets with an indeterminable useful life, the standard amortization period is proposed to be reduced from 25 years to 15 years.

59B. Group Relief It is proposed that group relief shall only be available where all group companies operate under the same (normal) tax regime. Groups with companies under different tax regimes will no longer be eligible.

65F. Tax Credit for Certain Person Coal mining projects in Sindh are now permitted to supply coal to any sector of the economy, not just power generation. Income from such supply will be taxed, but the projects will remain eligible for a 100% tax credit on income derived from coal supply to power generation projects.

113. Minimum Tax on the Income of Certain Persons It is proposed that the carry forward period for minimum tax be reduced from three years to two years.

Income Tax - Amendments

General Clauses

114C. Restriction on economic transactions by certain persons: The proposed section aims to impose restrictions on the following transactions by persons who are non-filers or do not possess sufficient declared funds with the Federal Board of Revenue, subject to specified exceptions or exclusions:

- Purchase of motor vehicles;
- Purchase of immovable property (subject to a threshold to be prescribed by the Board); and
- Opening or operation/maintenance of existing accounts with banking institutions

122. Amendment of Assessment: The proposed amendment seeks to remove the current time limit of 180 days for completion of audit proceedings.

124. Assessment giving effect to an order: The proposed amendment seeks to insert a new subsection whereby the Commissioner will not be required to pass an appeal effect order prior to initiating recovery proceedings, where the assessment order has been confirmed by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court, as the case may be.

Furthermore, another subsection is proposed, under which, in cases where an order is partly set aside and/or modified by the Appellate Tribunal, High Court, or Supreme Court, the Commissioner shall issue an appeal effect order limited to the extent of the matters confirmed by the respective appellate authority. The amount determined therein shall be recovered from the taxpayer accordingly.

140. Recovery of tax from persons holding money on behalf of a taxpayer: The amendment proposes to empower the department to recover tax demand immediately or within time specified in the notice, where the issue giving rise to the tax payable is already decided by High Court or Supreme Court of Pakistan.

Further, if any appeal is decided by the High Court in favour of the department, the recovery of tax demand would be made after seven days from the date of the order from the High Court.

149. Salary: The amendment proposes to withhold tax by the payer of the pension or annuity or commutation of pension to former employee below the age of seventy years and deriving pension, if such payment is in excess of Rs. 10 million at the rate 5% from such excess amount alongwith surcharge under section 4AB. This amendment corresponds to Section 11 whereby persons receiving retirement benefits in excess of rupees ten million has otherwise been made taxable.

151A. Gain arising on disposal of certain debt securities: The bill proposes to introduce a new section for withholding of income tax on certain debt securities other than those which are traded through stock exchange and cleared through NCCPL, the gain for the purpose of withholding tax shall be calculated/computed as per section 37A(1A).

Income Tax - Amendments

General Clauses

175AA. Exchange of banking and tax information related to high-risk persons: The proposed amendment seeks to introduce a new section, allowing the FBR to share the particulars and returned data alongwith database algorithms of high-risk persons with the banking companies and banking companies are bound to share specific information, including bank account numbers and related transactions undertaken, if the banking information is at variance with the algorithm provided. The use of data so shared is restricted to be used for tax and related purposes only.

175C. Posting of Officer of Inland Revenue: The proposed amendment seeks to empower the Board or the Chief Commissioner to post an Inland Revenue Officer, or any other official working under their control, to monitor the production, supply, or rendering of services and to collect information necessary for determining the tax liability under the Ordinance.

207. Income Tax Authorities: The proposed amendment seeks to include auditors appointed by the FBR in the list of Income Tax Authorities, thereby granting them the powers conferred under the Ordinance.

214A. Condonation of time limit: The proposed amendment seeks to empower the Board to grant an extension of up to two years in cases affected by time limitations. Furthermore, if the potential revenue loss is significant, the Board may grant a further extension as it deems appropriate.

216. Disclosure of information by a public servant: The newly proposed section seeks to provide legal provision for sharing of information relating to taxpayers with the auditors appointed by the Board, the Tax Policy Office, and to recognized universities and international donor agencies.

218. Service of notices and other documents: The proposed amendment seeks to expand the scope of electronic service of notices to include all persons - namely Individuals, Associations of Persons, and Companies - thereby deeming such electronically served notices as duly served for all taxpayers.

222. Appointment of Expert: The proposed amendment seeks to empower the Board to appoint the auditors on contractual basis or through a third-party arrangement. However, the total number of auditors appointed shall not be more than two thousand.

226. Computation of limitation period: The proposed amendment seeks to introduce the Alternate Dispute Resolution Committee (ADRC) as an entity for the purposes of excluding the time period of any limitation where the matter has been stayed by or the matter remained pending before the ADRC.

231AB. Advance Tax on Cash Withdrawal: The proposed amendment seeks to enhance the rate of tax from 0.6% to 0.8% on cash withdrawal for the non-filers.

Income Tax - Amendments

Appeals

126A. Pecuniary Jurisdictions in Appeals: This section was introduced through Finance Act 2024 whereby the right of appeal where the tax demand did not exceed twenty million rupees was made liable to be challenged before Commissioner (Appeals) where after the next forum of appeal was High Court.

Further, the jurisdiction of filing of the appeal in cases where the tax demand exceeded twenty million rupees lied with the Appellate Tribunal where after the same could be challenge before the High Court.

In both the above cases, the taxpayer was withdrawn with the right of one appellate forum i.e. either commissioner (Appeals) or Appellate Tribunal. Now the current amendment seeks to delete the current section reinstating the right of taxpayer available to him prior to said amendment i.e. first appeal shall be filed before the Commissioner of Income tax (Appeals) and second appeal with ATIR.

127. Appeal of the Commissioner (Appeals): The proposed amendment seeks to provide the right of appeal before commissioner (Appeals) to State-Owned Enterprise (SOE) which was previously revoked through Finance Act 2024.

Further, the current amendment proposes to provide the taxpayer with an option to surrender his right of appeal before the Commissioner (Appeals) by able to lodge an appeal before the Appellate Tribunal directly.

130. Eligibility as member of Appellate Tribunal: The proposed amendment aims to make a technical correction in the eligibility criteria for a Chartered Accountant to become a member of the Appellate Tribunal. It seeks to broaden the scope of qualifying experience by including employment under a practicing Chartered Accountant, whereas previously, only experience as a practicing Chartered Accountant was considered.

131. Appeal to the Appellate Tribunal: The proposed amendment aims to provide the taxpayer with an option to surrender the right of appeal before the Appellate Tribunal, allowing either the taxpayer or the Commissioner, if aggrieved by the decision of the Commissioner (Appeals), to file a reference directly before the High Court.

133. Reference to High Court: The proposed amendment seeks to reinstate the appeal rights that were restricted by the Finance Act 2024, which had removed access to either the Commissioner (Appeals) or the Appellate Tribunal for taxpayers. This amendment reverts to the original appellate structure, restoring both forums. Consequently, the change that allowed the High Court to decide on questions of fact has also been reversed.

Income Tax – Amendments in Schedules

FIRST SCHEDULE

PART I

DIVISION I

Rates of Tax for Individuals: The proposed tax reforms for the year 2025–2026 introduce taxation on annuity and pension income, which was previously exempt. While the reforms suggest a significant reduction in tax rates across various income brackets for salaried individuals, it is important to note that no actual changes have been made to the tax rates applicable to non - salaried individuals and Associations of Persons (AOPs).

The bill seeks to insert in clause (1):

"Provided further that where an individual is driving income under the head income from other source on account of any annuity or pension such individuals shall be charged to tax on his annuity or pension income received at the rate provided in proviso to clause (2) of this Division."

The bill seeks to substitute the previous rates mentioned in Clause (2) with following:

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

"*Provided that in case of an individual deriving income solely from pension annuity supplement to the pension or annuity and commutation of pension from former employer for the tax year the rate of tax on such annuity or pension income or computation of pension shall be set out in the following table"*

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

Income Tax – Amendments in Schedules

FIRST SCHEDULE

A comparison of the proposed rates with the existing rates is tabulated below:

S. No.	Taxable Income	Rates 2024-2025	Taxable Income	Rates 2025-2026
1	Where the taxable income does not exceed Rs 600,000/-	Nill	Where the taxable income does not exceed Rs 600,000/-	Nill
2	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000/-	5% of the amount exceeding Rs 600,000/-	Where the taxable income exceeds Rs 600,000 but does not exceed Rs 1,200,000	1% of the amount exceeding Rs 600,000/-
3	Where the taxable income exceeds Rs 1,200,000 but does not exceed Rs 2,200,000/-	Rs. 30,000 + 15% of the amount exceeding Rs 1,200,000/-	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000/-	Rs. 6,000 + 11% of the amount exceeding Rs. 1,200,000/-
4	Where the taxable income exceeds Rs 2,200,000 but does not exceed Rs 3,200,000/-	Rs. 180,000 + 25% of the amount exceeding Rs 2,200,000/-	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000/-	Rs. 116,000 + 23% of the amount exceeding Rs. 2,200,000/-
5	Where the taxable income exceeds Rs 3,200,000 but does not exceed Rs 4,100,000/-	Rs. 430,000 + 30% of the amount exceeding Rs 3,200,000/-	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000/-	Rs. 346,000 + 30% of the amount exceeding Rs. 3,200,000/-
6	Where the taxable income exceeds Rs 4,100,000/-	Rs 700,000 + 35% of the amount exceeding Rs 4,100,000/-	Where taxable income exceeds Rs. 4,100,000/-	Rs. 616,000 + 35% of the amount exceeding Rs. 4,100,000/-

As a result of above amendments in the rates the tax will reduce from the previous year on annual income given in the last two columns of the following table in absolute and percentage terms respectively at different starting slabs of salary income:

Annual Taxable Income	Tax Year 2025 Tax Expense	Tax Year 2026 Tax Expense (proposed)	Difference	Percentage (%)
600,000	0.00	0.00	0.00	0.00
1,200,000	30,000	6,000	(24,000)	(80.00)
2,200,000	180,000	116,000	(64,000)	(35.56)
3,200,000	430,000	346,000	(84,000)	(19.53)
4,100,000	700,000	616,000	(84,000)	(12.00)

Income Tax – Amendments in Schedules

FIRST SCHEDULE

Salary Tax Calculation
2024 vs 2025
Amount in PKR

Monthly Taxable Salary	Annual Salary	Annual Tax 2024-25	Annual Tax 2025-26	Monthly Tax 2024-25	Monthly Tax 2025-26	Decrease per month
50,000	600,000	-	-	-	-	-
100,000	1,200,000	30,000	6,000	2,500	500	(2,000)
150,000	1,800,000	120,000	72,000	10,000	6,000	(4,000)
200,000	2,400,000	230,000	162,000	19,167	13,500	(5,667)
225,000	2,700,000	305,000	231,000	25,417	19,250	(6,167)
250,000	3,000,000	380,000	300,000	31,667	25,000	(6,667)
300,000	3,600,000	550,000	466,000	45,833	38,833	(7,000)
350,000	4,200,000	735,000	651,000	61,250	54,250	(7,000)
400,000	4,800,000	945,000	861,000	78,750	71,750	(7,000)
450,000	5,400,000	1,155,000	1,071,000	96,250	89,250	(7,000)
500,000	6,000,000	1,365,000	1,281,000	113,750	106,750	(7,000)
550,000	6,600,000	1,575,000	1,491,000	131,250	124,250	(7,000)
600,000	7,200,000	1,785,000	1,701,000	148,750	141,750	(7,000)
800,000	9,600,000	2,625,000	2,541,000	218,750	211,750	(7,000)
1,000,000	12,000,000	3,811,500	3,685,290	317,625	307,108	(10,518)
1,500,000	18,000,000	6,121,500	5,974,290	510,125	497,858	(12,268)
2,000,000	24,000,000	8,431,500	8,263,290	702,625	688,608	(14,018)
2,500,000	30,000,000	10,741,500	10,552,290	895,125	879,358	(15,768)
2,800,000	33,600,000	12,127,500	11,925,690	1,010,625	993,808	(16,818)
3,000,000	36,000,000	13,051,500	12,841,290	1,087,625	1,070,108	(17,518)

Income Tax – Amendments in Schedules

FIRST SCHEDULE

DIVISION IIB

Super Tax on High Earning Persons: The proposed tax reforms for the fiscal year 2025–2026 introduce a slight reduction of 0.5% in super tax rates across various income brackets. The effect of proposed amendment are tabulated below:

S. No.	Income Bracket	2022 Rate	2023–2025 Rate	2026 Onwards Rate	Differential (2026 vs 2025)
1	Where income does not exceed Rs. 150 million	0% of the income	0% of the income	0% of the income	No change
2	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income	1% of the income	1% of the income	No change
3	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income	2% of the income	1.5% of the income	-0.5%
4	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income	3% of the income	2.5% of the income	-0.5%
5	Where income exceeds Rs. 300 million but does not exceed Rs. 350 million	4% of the income	4% of the income	3.5% of the income	-0.5%
6	Where income exceeds rupees Rs. 350 million but does not exceed Rs. 400 million	4% of the income	6% of the income	5.5% of the income	-0.5%
7	Where income exceeds Rs. 400 million but does not exceed Rs. 500 million	4% of the income	8% of the income	7.5% of the income	-0.5%
8	Where income exceeds Rs. 500 million	4% of the income	10% of the income	10% of the income	No change

DIVISION III

Rate of Tax on dividend: The tax on dividend income of the Mutual Fund is rationalized according to the proportion of its investment.

Dividend issued by	Existing tax rate	Proposed tax rate
REIT	15%	15%
Mutual funds	25%(if more than 50% income from profit on debt) otherwise 15%	Proportionate of investment in debt and equity investment – 25% on debt securities and 15% on equity securities.

Income Tax – Amendments in Schedules

FIRST SCHEDULE

DIVISION IIIA

Rate for Profit on Debt: The Bill seeks to substitute Division IIIA. The rate of tax for profit on debt imposed under section 7B shall be –

- 20% of the yield or profit paid by a banking company or financial institution on an account or deposit maintained with such company or institution; and
- 15% of the yield or profit in cases other than those mentioned in clause (a).;

DIVISION IV

Rate of Tax on Certain Payments: The Bill seeks to insert new words "or fee of offshore digital services" after the word "services

DIVISION IVA

Rate of Tax on Payments for Digital Transactions in E-commerce Platforms: The Bill seeks to insert a new division IVA namely *"Rate of Tax on Payments for Digital Transactions in E-commerce Platforms"*

The rate of tax imposed under section 6A on payment for digitally ordered goods or digitally delivered services through e-commerce platforms including websites shall be in case of payment through

Digital Means or banking channels by payment intermediary:

S. No.	Description	Tax Rate
1	Where the amount paid does not exceed rupees ten thousand	1% of gross amount paid
2	Where the amount paid exceeds rupees ten thousand but does not exceed rupees twenty thousand	2% of gross amount paid
3	Where the amount paid exceeds rupees twenty thousand	0.25% of gross amount paid

Cash on Delivery by courier service:

S. No.	Description	Tax Rate
1	On supply of electronic and electrical goods	0.25% of gross amount paid
2	On supply of clothing, apparels, garments, etc.	2% of gross amount paid
3	On supply of other goods not listed above	1% of gross amount paid

Income Tax – Amendments in Schedules

FIRST SCHEDULE

DIVISION IIIAA

Gain Arising on Disposal of Certain Debt Securities: The Bill seeks to insert new Division after Division IIIA namely Division IIIAA

"The rate of tax to be deducted under section 151A shall be 15% of the gross amount of the capital gain."

DIVISION II

Payment to Non-Resident: The Bill proposes to amend the tax rate specified in clause (b) of sub-section (2A) of section 152, substituting it from 4% to 8%.

After that amendment the Bill seek to insert a new proviso stating:

"Provided that the rate of tax shall be 4% in case of IT services and IT enabled services as defined in section 2."

The Bill seeks to substitute the following in sub-paragraph (ii) of paragraph 5 that
"(ii) in case of rendering of or providing of services other than sub-paragraph (i) shall be 15% of the gross amount payable."

The Bill seeks to substitute in sub-paragraph (i) of paragraph 6 that "15% tax of the gross amount payable in case of sports person."

DIVISION III

Payment for Goods or Services: The Bill seeks to amend sub-paragraph (i) of paragraph 2 by substituting the tax rate for specified services from 4% to 6%. However, as per the newly added proviso (b), the rate shall remain 4% in the case of IT services and IT-enabled services.

The bill seeks to substitute sub-paragraph (ii) of paragraph 2 that in case on rendering of services other than specified services mentioned in sub-paragraph (i) shall be 15% of gross amount payable.

The bill seeks to substitute sub-paragraph (i) of paragraph 3 that in case of sportsperson 15% tax shall be charged on gross amount payable (in Tax Year 2025 it was 10%).

After the aforesaid amendment in paragraph 3 the following new paragraph shall be added

"(3A) The rate of tax to be deducted from a payment referred to in sub-section (2A) of section153 for digitally ordered goods or digitally delivered services through e-commerce platforms including websites shall be in case of payment through –"

Income Tax – Amendments in Schedules

Digital Means or banking channels by payment intermediary:

S. No.	Description	Tax Rate
1	Where the amount paid does not exceed rupees ten thousand	1% of the gross amount paid
2	Where the amount paid exceeds rupees ten thousand but does not exceed rupees twenty thousand	2% of the gross amount paid
3	Where the amount paid exceeds rupees twenty thousand	0.25% of the gross amount paid

Cash on Delivery by courier service:

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

PART IV - DEDUCTION OR COLLECTION OF ADVANCE TAX

DIVISION X

Advance Tax on Sale or Transfer of Immovable Property: The Bill seeks to amend Division X by specifying that the rate of tax to be collected under section 236C shall be as set out in the following table.

S. No.	Amount	Tax Rate (2025)	Tax Rate (2026)	Change
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	4.5%	1.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5%	1.5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	5.5%	1.5%

DIVISION XVIII

Advance Tax on Purchase of Immovable Property: The Bill seeks to amend Division XVIII by specifying that the rate of tax to be collected under section 236K shall be as set out in the following table.

S. No.	Amount	Tax Rate (2025)	Tax Rate (2026)	Change
1	Where the fair market value does not exceed Rs. 50 million	3%	1.5%	1.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	2%	1.5%
3	Where the fair market value exceeds Rs. 100 million	4%	2.5%	1.5%

Income Tax – Amendments in Schedules

SECOND SCHEDULE

PART I

Omission of clauses (8), (9) and (12) of Part I of the Second Schedule: The bill seeks to omit the clauses (8), (9) and (12) of Part I of the Second Schedule to the Income Tax Ordinance, 2001. Before omission the clauses are as under;

- **"(8)** Any pension received by a citizen of Pakistan from a former employer, other than where a person continues to work for the employer (or an associate of employer). Provided that where the person receives more than one such pension, the exemption applies only to the higher of the pensions received."
- **"(9)** Any pension:
- received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service."
- **"(12)** Any payment in the nature of commutation of pension received from Government or under any pension scheme approved by the 6 [Board] for the purpose of this clause."

Amendment in clause (13) of Part I of the Second Schedule: The bill proposes to amend the clause (13) of Part I of the Second Schedule whereby omitting the words "or commutation of pension". After the proposed amendment this clause shall be read as under:

"**(13)** Any income representing any payment received by way of gratuity ( ) by an employee on his retirement or, in the event of his death, by his heirs as does not exceed:

- in the case of an employee of the Government, a 1 [Local Government], a statutory body or corporation established by any law for the time being in force, the amount receivable in accordance with the rules and conditions of the employee's services;
- any amount receivable from any gratuity fund approved by the Commissioner in accordance with the rules in Part III of the Sixth Schedule;
- in the case of any other employee, the amount not exceeding 2 [three] hundred thousand rupees receivable under any scheme applicable to all employees of the employer and approved by the 3 [Board] for the purposes of this sub-clause; and
- in the case of any employee to whom sub-clause (i), (ii) and (iii) do not apply, fifty per cent of the amount receivable or seventy-five thousand rupees, whichever is the less:

Income Tax – Amendments in Schedules

SECOND SCHEDULE

PART I

Omission of clauses (23A) and (23C) of Part I of the Second Schedule: The bill seeks to omit the clauses (23A) and (23C) of Part I of the Second Schedule to the Income Tax Ordinance, 2001. Before omission the clauses are as under;

“(23A) the accumulated balance upto 5 [50] % received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person’s-

- ❑ retirement; or
- ❑ disability rendering him unable to work; or
- ❑ death by his nominated survivors.”

“(23C) Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005.”

Clause (66) of Part I of the Second Schedule - Amendment

The bill seeks to amend the Clause (66) of Part I of the Second Schedule whereby any income derived by given categories of NPOs will be exempt subject to compliance of conditions laid out under Section 100C

Clause (98AA) in Part I – New Insertion The bill has seeks to insert a new clause (98AA) after omitted clause (98A) of Part I of the Second Schedule as under:

“(98AA) Any Income derived by ICC Business Corporation (IBC) or International Cricket Council (ICC) or employees, officials, agents and representatives of IBC and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IBC partners and media representatives, other than persons who are resident of Pakistan, from ICC champions Trophy, 2025 hosted in Pakistan.”

Clause (126E) in Part I - Amendment: The bill proposes to amend the clause (126E) of Part I of the Second Schedule whereby granting tax exemption till June 30, 2035. Earlier the exemption is allowed for ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operations. According to amendment now this clause shall be as under:

“(126E) Income derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 (XX of 2012) for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operation **or upto 30th day of June, 2035,whichever is earlier** and for a period of ten years to a developer of zone starting from the date of signing of the development agreement in the special economic zone as announced by the Federal Government]

Income Tax – Amendments in Schedules

SECOND SCHEDULE

PART I

Amendment in Sub-clause (b) of Clause (126EA) in Part I – Amendment: The bill proposes to amend the clause (126EA) of Part I of the Second Schedule whereby granting tax exemption till June 30, 2035. Earlier the exemption is allowed for ten years starting from the date issuance of license by the special technology zone authority. According to amendment now this clause shall be as under:

"(126EA) Profits and gains derived by:

(b) zone Enterprises as defined in the Special Technology Zones Authority Act, 2021 (XVII of 2021) for a period of ten years from the date of issuance of license by the Special Technology Zone Authority or up the 30th day of June, 2035, whichever is earlier"

Clause (145A) in Part I – Amendment: The bill seeks to amend the clause (145A) of Part I of the Second Schedule whereby granting exemption from June 30, 2025 to June 30, 2026. The amended clause shall be read as under:

"(145A) Any income which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018) of any individual domiciled or company and association of persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June, 2018 to the 30th day of June, **2026."**

Clause (151) in Part I – Amendment: The bill proposes to amend the clause (151) of Part I of the Second Schedule whereby inserted a proviso. The amended clause shall be read as under:

"(151) Any income derived by a person from cinema operations for five years from the commencement of cinema operations**;**

"Provided that the exemption under this clause shall be available to a person till 30th June, 2030 or five years from commencement of cinema operations whichever is earlier."

Clause (152) in Part I – Omission: The bill seeks to omit the clause (152) in Part I of the Second Schedule. Before this clause is as under;

"(152) Profits and gains derived between the first day of July, 2022 and the thirtieth day of June, 2025 both days inclusive, by a venture capital company and venture capital fund registered under relevant Venture Capital Companies and Funds Management Rules issued by Securities and Exchange Commission of Pakistan."

Income Tax – Amendments in Schedules

SECOND SCHEDULE

PART II

Clauses (9AC) and (24CA) in Part II – Omission: The proposed bill seeks to omit the clauses (9AC) and (24CA) in Part II of the Second Schedule. Before omission these are as under:

"(9AC) Subject to quota allotment by Commerce Division, tax under section 148 shall be collected at the rate of 0.25% on import of raw sugar imported by sugar mills from the 26th day of January, 2021 to the 30th day of June, 2021 both days inclusive provided that such imports shall not exceed fifty thousand metric tons per sugar mill and three hundred thousand metric tons in aggregate by the sugar industry."

"(24CA) The rate of tax under clause (a) of sub-section (1) of section 153 in case of a person, other than a company, as a recipient of payment for goods supplied to Utility Stores Corporation of Pakistan shall be 1.5% of the gross amount of payment in respect of supply of tea, spices, salt, dry milk, sugar, pulses wheat flour and ghee for the period commencing from the 7th day of April, 2020 and ending on 30th day of September, 2020.
Provided that this clause shall not be applicable to supply of tea, spices, salt and dry milk which are sold under a brand name.

Provided further that this clause shall not be applicable where rate of tax under clause (a) of sub-section (1) of section 153 is less than 1.5% of the gross amount of payment under any provisions of the Ordinance."

PART III

Clause (3A) in Part III – New Insertion: The bill propose to insert a new clause (3A) after omitted clause (3) in Part III of the Second Schedule as under:

"(3A) The tax payable by a full-time teacher or a researcher, employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government research institution, shall be reduced by an amount equal to 25% of tax payable on his income from salary.

Provided that this clause shall not apply to teacher of medical profession who derive income from private medical practice or who receive share of consideration received from patients:

Provided further that the provision of this clause shall be deemed to have been in force with effect from the first day of July, 2022 and shall cease to have effect after tax year 2025."

Here it pertinent to mention that this is already in existence in Clause (2) of Part III of Second Schedule.

Income Tax – Amendments in Schedules

SECOND SCHEDULE

PART IV

Clauses (12F), (12G) and (12J) in Part IV – Omission: The bill seeks to omit in clauses (12F), (12G) and (12J) in Part IV of the Second Schedule. However, before omission these clauses are given as under:

"(12F) The provision of section 148 shall not apply on import of 1.5 million tons of wheat having PCT Heading 1001.1900 and 1001.9900 in pursuance of Cabinet Decision in case No.399/23/2020 dated the 16th June, 2020."

"(12G) The provisions of section 148 shall, in pursuance of the Cabinet Decision in case No. 541/30/2020 dated the 4th August, 2020, not apply on import by the Trading Corporation of Pakistan of 300,000 metric tons of white sugar having PCT heading 1701.9910,1701.9920, specification B."

"(12J) The provisions of section 148 shall, in pursuance of the Cabinet Decision in case No. 34/02/2021, dated the 12th January, 2021, not apply on import of three hundred thousand metric tons of wheat through tendering process by the Trading Corporation of Pakistan."

Clause (56) in Part IV- New Insertion: The bill propose to insert a new sub-clause (xx) after sub-clause (xix) in clause (56) in Part IV of the Second Schedule, namely: -

"**(xx)** Import of Cystagon, Cysta drops and Trientine capsules"

Clauses (105A) in Part IV- Substitution: The bill proposes to amend the clause (105A) in Part IV whereby granting immunity from selection of cases for audit for three years instead of four years. The amended clause shall be read as under:

"(105A) The provisions of section 177 and 214C **for selection of a person for audit shall not apply whose income tax affairs have been selected for audit in any of the preceding three tax years**:

Provided that the Commissioner may select a person under section 177 for audit with approval of the Board."

Clauses (109A) and (110) in Part IV-Amendment: The bill proposes to amend the clause (109A) and (110) in Part IV of the Second Schedule whereby granted tax exemption from specific provisions till June 30, 2026. Earlier it was till June 30, 2025.

Income Tax – Amendments in Schedules

SEVENTH SCHEDULE

Clause (aa), Rule (1) – New Insertion

The bill seeks to insert new clause (aa) after the clause (a) in Rule (1) of the Seventh Schedule whereby given the treatment of amortization as under;

(aa) Where a taxpayer incurs expenditure on leasehold improvements in respect of leased or rented property, the amount so incurred, as reflected in the audited accounts, shall be capitalized and amortized at the rate of ten percent (10%) per annum:

amortization under this clause shall commence from the date on which the leasehold improvements are first put to use by the taxpayer; and

in the event of termination of the lease prior to the completion of the amortization period, the unamortized balance of the capitalized leasehold improvements shall be allowed as a deduction in the tax year in which such termination occurs, after setting off any proceeds received from the disposal or transfer of such leasehold improvements.";

Clause (ba), Rule (1) – New Insertion

The bill seeks to insert new clause (ba) after the clause (b) in Rule (1) of the Seventh Schedule whereby given the treatment of the depreciation on right of use assets as under;

(ba) Notwithstanding anything contained in any applicable financial reporting standard, including the IFRS 16, the depreciation on right-of-use assets and the finance cost relating thereto shall not be admissible as a deduction. In lieu thereof, the actual rent expense incurred during the tax year shall be allowed as an expense, subject to the condition that the banking company furnishes a certificate from its external auditor to the effect that such rent expense has been actually incurred during the tax year.

Provided that, in view of the implementation of IFRS 16 with effect from the tax year 2020, where a banking company has claimed excess deductions on account of right-of-use asset depreciation and related finance costs in prior tax years, the differential amount, being the excess of such deductions over the actual rent expense incurred, shall be offered to tax in the tax year 2025.

Provided further that where the deduction claimed on this account in prior tax years is less than the actual rent expense incurred the differential amount shall be allowed as admissible expense in tax year 2025.

The bill also proposes that the adjustments specified in the foregoing provisos shall be duly certified by the external auditor of the banking companies."

Income Tax – Amendments in Schedules

SEVENTH SCHEDULE

New Proviso in Clause (c), Rule (1) – New Insertion

The bill seeks to insert new proviso in clause (c), rule (1) whereby it is proposed to be mandatory that the certificate from the external auditor shall be on the prescribed format containing certain mandatory information. Further, the said certificate must be on the letter head of the firm and on the given format, signed by the audit firm and signing partner.

For the understanding, certificate shall contain the required information like the amount of provision, category-wise, allowed in accordance with the Prudential Regulations issued by the State Bank of Pakistan; the amount of provision, category-wise, allowed in accordance with the Prudential Regulations issued by the State Bank of Pakistan.

The certificate shall be issued specifically for the purpose of compliance with the proviso to Rule 1(c) of the Seventh Schedule to the Income Tax Ordinance, 2001, as applicable for the tax year 2025 and onwards.

Income Tax – Amendments in Schedules

TENTH SCHEDULE

Proviso 2: Column (1) of Table in Rule-1(i):

The bill seeks to reduce rates of deduction or collection for the purchase of immovable properties under section 236K of the Income Tax Ordinance, 2001 as under:

Sr No.	Fair Market Value of Immovable Property	New Proposed Rates	Existing Rates
(1)	(2)	(3)	
1.	Where the fair market value does not exceed Rs. 50 million	10.5%	12%
2.	Where the market value exceeds Rs. 50 million, but does not exceed Rs. 100 million	14.5%	16%
3.	Where the fair market value exceeds Rs. 100 million	18.5%	20%

Proviso 3: Column (1) of the Table in Rule-1(ii):

The bill proposed to enhance the tax rate of tax on S. No. 2 and tax rate on S. No. 1 and entries related thereto shall be omitted.

Sr No.	Section	Description	New Proposed Tax Rates	Existing Tax Rates
(1)	(2)	(3)	(4)	
1.	151	On yield or profit on debt	Omitted	35%
2.	236C	On the gross amount of consideration received on sale or transfer of immoveable property	11.5%	10%

Amendment in Clause (a) of Table in Rule 1A:

The bill proposed to enhance tax rates to be collected under section 236C as under:

Sr No.	Fair Market Value of Immoveable Property	New Proposed Rates	Existing Rates
(1)	(2)	(3)	
1.	Where the fair market value does not exceed Rs. 50 million	4.5%	6%
2.	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	5.5%	7%
3.	Where the fair market value exceeds Rs. 100 million	6.5%	8%

Income Tax – Amendments in Schedules

TENTH SCHEDULE

Amendment in Clause (b) of Table in Rule 1A:

The bill proposed to enhance tax rates to be collected under section 236K as under:

Sr No.	Fair Market Value of Immoveable Property	New Proposed Rates	Existing Rates
(1)	(2)	(3)	
1.	Where the fair market value does not exceed Rs. 50 million	4.5%	6%
2.	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	5.5%	7%
3.	Where the fair market value exceeds Rs. 100 million	6.5%	8%

Rule-10 of Sub Rule(y):

The bill proposed to amend the sub rule (y) of Rule-10 of the tenth schedule as under:

(y) Tax collected under section 37A on disposal of securities acquired on and from 1st day of July 2025:

Sales Tax - Amendments

New concepts introduced

Abettor

A new term “Abettor” is being introduced in the Act, which defines as a person who abets or connive in tax fraud. Such act may include following:

- Misuse of registered person’s Unique User identifier and passwords
- Preparing invoices for false claims of input tax adjustment
- Allowing use of bank account held or operated by him
- Obtaining sales tax registration number for the purposes of paper transactions

Penal provisions have also been proposed on such acts of abettor, which are applicable upon conviction be a Special Judge, such penalty can be an imprisonment for term of up to 10 years or fine to the extent of ten million rupees or both.

Cargo Tracking System and E-Bilty

Concept of monitoring and tracking of goods was introduced by inserting Section 40 (C) of the Act and by introducing rules under “Electronic Monitoring, tracking and tracing of Specified goods and licensing thereof”.

The term Cargo Tracking System is now being defined as “Electronic monitoring and tracking of goods transported across the territory of Pakistan.

Further, a new term of E-Bilty is being defined as “a digital transport document generated through the Cargo Tracking system”.

By proposed amendment in Section 23 of the Act, the registered person is now required to ensure the generation and linkage of tax invoice with E-Bilty generated under Section 40 (C) of the Act for the goods being supplied or transported. In this way the tracking and tracing of goods is being proposed to be more comprehensive and interlinked.

Other Miscellaneous Clauses

Definition of Tax Fraud

Definition of tax Fraud is being proposed to be replaced with a new definition. This new definition contains some of the old clauses and it proposed to add some new cluses, such new clauses are directed to cover offences which are related to

- Using or preparing false, forged and fictitious documents, statements and invoices
- False claims of input tax credit based on fictitious transactions
- Generating fake input tax through manipulation of return filing system and making fake entries in the sales tax returns.
- Making fictitious compliance of section 73

Sales Tax - Amendments

Limiting the Input Tax Allowance: An amendment is being proposed to limit the Input Tax allowance available to a registered person, by the Board which may use data based automated risk management system to defer certain input tax or fix higher or lower limits of input tax adjustment.

However, the registered person is being allowed to file application to Commissioner to contest the action so taken. The Commissioner is to decide the case within thirty days of such application.

Best Judgement Assessment: A new clause is proposed to be added to allow to assess the sales tax liability of a persons based on information collected through Section 236G of the Income Tax Ordinance, which pertains to advance tax deducted by Manufacturer and Commercial Importer at the time of sales to distributors, dealers and wholesalers.

Now, it is proposed that the if a person who is required to be registered on basis of tac withheld under section 236G does not file return upon notice, an officer of inland revenue may assess sales tax liability on value addition on any reasonable basis.

Assessment of Tax and recovery of tax not levied or short levied or erroneously refunded: The clause (1) of Section 11 E is being substituted. The change mainly pertains to not include the tax against which proceedings under section 37 A (Power to arrest and Prosecute) are already in process.

Bar on operations of bank accounts: A new section is proposed to be added to enforce registration of persons who are liable to be registered but are not registering. The Commissioners are now being proposed to be empowered to direct banking companies, scheduled banks and other financial institutions to bar operation of bank accounts of any person who fails to get registered for the purposes of the Sales Tax Act.

However, upon registration such bar on operation of bank account will be removed by the Commissioner.

Further, the person aggrieved by the order of the Commissioner may file appeal before Chief Commissioner Inland Revenue against such order.

Sales Tax - Amendments

Bar on transfer of Immovable Property: A new section is proposed to be added to enforce registration of persons who are liable to be registered but are not registering. The Commissioners are now being proposed to be empowered to direct the property registering authority to bar transfer of immovable property of any person who fails to get registered for the purposes of the Sales Tax Act.

However, upon registration such bar on transfer of immovable property will be removed by the Commissioner.

Further, the person aggrieved by the order of the Commissioner may file appeal before Chief Commissioner Inland Revenue against such order.

Coercive actions for non-registration: A new section is proposed to be added to enforce registration of persons who are liable to be registered but are not registering. The Chief Commissioners are now being proposed to be empowered to:

- Seal the business premises
- Seize moveable property: or
- Appoint a receiver for the management of the taxable activity of a person

However, such actions are not to be carried out unless:

- Public notice is issued specifying the date from which the premises shall be sealed, or moveable property is attached or a receiver if appointed for the management of the taxable activity
- A committee comprising Chief Commissioner, concerned commissioner and representative from Chamber of Commerce or Trade bodies provides an opportunity of being heard to the person through open court
- Such decision is made public by placement on the Board's website and newspaper.

However, upon registration such appointment of receiver will be removed by the Chief Commissioner.

Further, the person aggrieved by the order of the Chief Commissioner may file appeal before Board against such order.

De-registration, blacklisting and suspension of registration: A new subsection is being inserted which require the Commissioner the issue Show cause notice to the registered persons within fifteen days of issuance of order of suspension of registration. Further, the commissioner is required to provide an opportunity to heard after receipt of reply of show cause notice.

Further, If the Commissioner is satisfied with the reply he may order for revoking the suspension or pass a appealable speaking order within thirty days after receipt of reply of show cause notice.

Sales Tax - Amendments

Tax Invoice: A power is being devolved to the Board which may require any person or class of persons to integrate their electronic invoicing system with the Board's computerized system for real time reporting of sales.

Such integration is to be made by licensed integrators. Further, the Tier 1 retailors are to integrate their sales as and when prescribed by the Board.

32B. Appointment of experts and auditors: This new section is being proposed to be added, which gives power to Board or the Commissioner to appoint as many experts as may be deemed necessary for the purposes of assistance in audit, investigation, litigation or valuation.

Further, the Board may appoint as many auditors as may deem fit but not more than 2,000 auditors through direct or through third party including pay roll firm as may be deemed necessary.

37. Power to summon persons to give evidence and produce documents in inquiries under the Act: A new subsection (4) is being proposed to be inserted to give power of Civil Court trying a suit under the Code of Civil Procedures, 1908 to the officer of Inland Revenue, in respect of following:

- ❑ Summoning and enforcing the attendance of any person
- ❑ Requiring the discovery and production of documents and receiving evidence on affidavits.

37AA. Power to arrest: The proposed bill seeks to introduce the new section through which intends to elaborately prescribe the manner in which an arrest can be made of the person of the company involved in the tax fraud i.e. every Director, Chief Executive Officer or the Chief Financial Officer.

Further, it has been proposed that the Commissioner may release the person immediately, if he feels that the arrest has been made mala fidely or the arrest has been made on in sufficient evidence, while having the power to refer the case to Chief Commissioner of such an arrest for inquiry of the officer.

37B. Procedure to be followed on arrest of a person: The proposed amendment seeks to more elaborately prescribe the manner in which the person would be produced before the Special Judge within twenty-four hours of arrest alongwith the powers of granting a bail or not and the maximum tenure of 14 days remand. Further, the section also proposes the manner in which the record of the documents and arrest to be kept by the inquiry officer including the submission of final report before the Special Judge regarding the tax fraud foe which the arrest has been made.

Sales Tax - Amendments

37BB. Compounding of offences: The proposed new insertion of this section proposes to allow acquittal of the accused person by compounding the offence of tax evasion alongwith the penalty and default surcharge, if the person agrees to pay the aforesaid defaulted amount. However, such compounding will not be allowed if the accused has been convicted and the appeal is pending before the High Court unless the compounding and acquittal thereto is allowed by the High Court.

38B. Obligations to produce documents and provide information: The proposed amendment seeks to insert subsection by enhancing the scope of information sharing by including internet service providers, telecommunication companies and Pakistan Telecommunication Authority to furnish the requisite information as would be required.

40C. Monitoring and Tracking by electronic and other means:

The proposed amendment seeks to enhance the scope of monitoring through installation of production monitoring and video analytics.

56B. Disclosure of information by a public servant

The newly proposed section seeks to provide legal provision for sharing of information relating to taxpayers with the auditors/expert appointed by the Board.

58C. Inspection of audit firm

The newly proposed amendment seeks to empower the Chief Commissioner Inland Revenue to refer the audit firm, after getting approval from the Board, for inspection to Audit Oversight Board, if he believes that the audited accounts do not reflect true and fair view of sales and purchases and related tax liability.

73. Certain transactions not admissible

The proposed amendment seeks to empower board and the Federal Minister-In-Charge to prescribe the threshold of disallowance in respect of the supplies made to the unregistered person which is currently prescribed at one hundred million rupees in a financial year or ten million rupees in a tax period.

74. Condonation of time-limit

The proposed amendment seeks to empower the Board to grant an extension of up to two years in cases affected by time limitations. Furthermore, if the potential revenue loss is significant, the Board may grant a further extension as it deems appropriate.

Sales Tax – Amendments in Schedules

THIRD SCHEDULE

The proposed amendment seeks to add the below items in the list of third schedule which will be taxed at retail price.

Sr. No.	Description
1.	Import of pet food including of dogs and cats sold in retail packing.
2.	Import of coffee sold in retail packing.
3.	Import of chocolates sold in retail packing.
4.	Import of cereal bars sold in retail packing.

SIXTH SCHEDULE

The proposed amendment seeks to omit below items in the list of 6th Schedule in Table 1.

Sr. No.	Description
151.	(a) Supplies; and (b) imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan, − as made till 894 [30th June, 2025], to which the provisions of the Act or the notifications issued thereunder, would have not applied had Article 247 of the Constitution not been omitted under the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018) Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities on presentation of a 895 [pay order] for the amount of sales tax payable under the Sales Tax Act, 1990, and the same shall be returned to the importer after presentation 896 [, within six months,] of a consumption or installation certificate, as the case may be, in respect of goods imported as issued by the Commissioner Inland Revenue having jurisdiction. Provided further that if plant, machinery and equipment, on which exemption is availed under this serial number, is transferred or supplied outside the tribal areas, the tax exempted shall be paid at applicable rate on residual value.
164.	Photovoltaic cells whether or not assembled in modules or made up into panels.

Sales Tax – Amendments in Schedules

SIXTH SCHEDULE

The proposed amendment seeks to add below items in the list of 6th Schedule in Table 1 & 2.

Sr. No.	Description
TABLE 1	
181.	Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL).
152.	The time period has been extended from 2025 to 2026 in Sr. No. 152 which is related to the supplies of electricity.
179.	The exemption previously available on the import of Cystagon, Cystadrops, and Trientine capsules solely for personal use in Sr. No. 179 has now been broadened. Under the proposed amendment, all types of imports of these medicines are now exempt from tax, regardless of whether they are for personal or commercial use.
TABLE 2	
57.	The proposed amendment seeks to substitute the following in Sr. No. 57; Iron and steel scrap excluding: supplied by manufacturer cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel Melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order; and supplied directly by the importer (verifiable from the goods declaration form) to a registered steel Melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order.

Sales Tax – Amendments in Schedules

EIGHTH SCHEDULE

The proposed amendment seeks to omit below items in the list of 8th Schedule.

Sr. No.	Description
53.	The list of Cinematographic equipment imported during the period commencing on the1st day of July 2018 and ending on the 30th day of June,2023.
72.	Motorcars

The proposed amendment seeks to omit below items in the list of 8th Schedule.

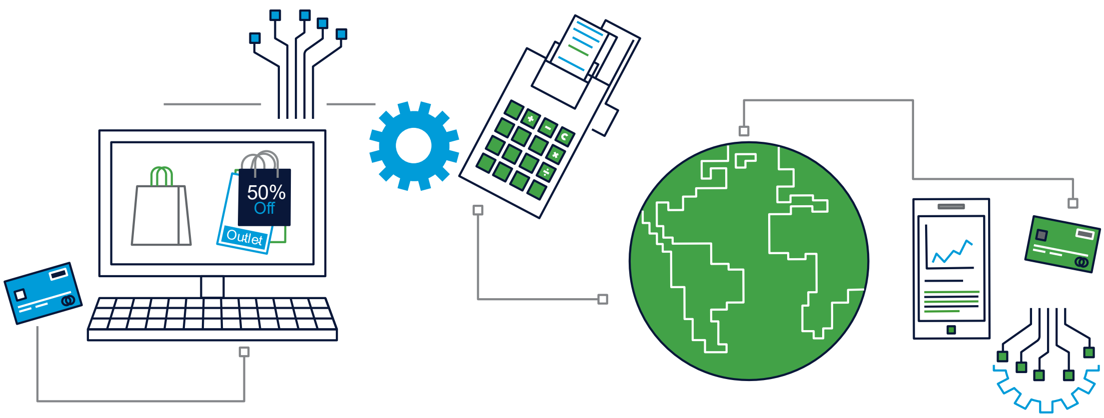
Sr. No.	Description	
89.	i) imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan; and ii) supplies within the tribal areas. Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO. Provided further that if plant, machinery and equipment, on which reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas, the differential amount of tax shall be paid at applicable rate.	10% (for 2025-26) 12% (for 2026-27) 14% (for 2027-28) 16% (for 2028-29)

Sales Tax – Amendments in Schedules

ELEVENTH SCHEDULE

The proposed amendment seeks to substitute the Sr. No. 8 of the 11TH Schedule.

Sr. No.	Description	
	Old Provision	
Online Market Place	Payment intermediaries and couriers in respect of digitally ordered goods from within Pakistan.	[1]% of gross value of supplies: Provided that the provisions of this entry shall be effective from the date as notified by the Board.]
	New Provision	
Payment intermediaries and couriers in respect of digitally ordered goods from within Pakistan.	Persons supplying digitally ordered goods from within Pakistan through online market place, website, software applications	2% of gross value of Supplies



Federal Excise – Amendments

Clause (e) Added to Broaden Excise Duty Scope

The amendment to Section 3(5) has also proposed that adds a new clause to clarify who will be responsible for paying excise duty in situations not already covered by the existing law. Previously, the law specified that the duty must be paid by the manufacturer (for locally produced goods), the importer (for imported goods), or the service provider (for services rendered in Pakistan). Now, a new clause (e) has been added " in any other case, of the person as may be specified under the provisions of this Act." allowing the government to decide who will pay the duty according to the rules.

Expanded Powers to Seize Goods Without Proper Tax Stamps

An amendment has also been proposed to Section 26 of the Federal Excise Act to give more power to authorities to seize goods. Earlier, only illegally made fake cigarettes, drinks, and other dutiable goods without paid excise duty could be seized, along with the vehicle carrying them. Now, the law also allows seizure of goods that **do not have proper tax stamps, barcodes, stickers, or labels — or have fake ones** — as required under Section 45A. This means if such goods are found, both the goods and the vehicle used to transport them (including all its parts) can be taken by the authorities. The purpose of this change is to stop tax cheating through the use of fake or missing tax stamps.

Expanded Powers to Confiscated Goods Without Proper Tax Stamps

An amendment has also been proposed to Section 27 of the Federal Excise Act to make rules stricter against fake or untaxed goods, like cigarettes and drinks. Before, only fake cigarettes or beverages could be taken (confiscated) and destroyed. Now, any goods that do not have proper tax stamps, barcodes, or labels — or have fake ones — can also be confiscated. Also, the law now allows the government to give power to other federal or provincial officers (not just tax officers) to check, seize, and take action against such goods. This will help stop tax avoidance and the sale of fake or unregistered products more effectively.

Federal Excise – Amendments

Removal of Monetary Limits for Tax Appeals

An amendment has also been proposed to section 33 Earlier, only cases involving tax or refund amounts up to Rs. 5 million could be appealed to the Commissioner (Appeals). Now, after the amendment, this limit has been removed — so anyone (except Excise Officers and State-Owned Enterprises) can file an appeal regardless of the amount. This gives more people the right to appeal larger tax cases. A registered person now has also the option to file an appeal directly with the Appellate Tribunal Inland Revenue, without first going through the Commissioner (Appeals).

Abolition of 33A Titled Pecuniary Jurisdiction

Section 33A titled pecuniary jurisdiction in appeal defines monetary limits for filing appeals---restricting appeals to the Commissioner (Appeals) for the cases up to 5 million, and to the appellate tribunal for the amount exceeding that. It also outlines the process for transferring and deciding such cases. This structure is now being proposed to be omitted, effectively removing the pecuniary threshold.

Removal of Direct Reference to High Court after Commissioner Appeal Order

An amendment has also been proposed in section 34, allowing direct reference to the High Court after the commissioner's appeal order has been removed from Section 34. Now, appeals will be filed with the Appellate Tribunal after the commissioner's appeal order, not directly to the High Court.

Revised Process for High Court References

The amendment to Section 34A has also been proposed which changes the process for filing a reference to the High Court. Previously, a reference could be filed within 30 days of receiving an order from either the Appellate Tribunal or the Commissioner (Appeals), and it could be based on a question of law or a mixed question of law and fact. After the amendment, a reference can now only be filed against an order of the Appellate Tribunal, not the Commissioner (Appeals), and it must be made within 60 days. Additionally, the reference must be based strictly on a question of law. This change also ensures that only legal questions reach the High Court.

Federal Excise – Amendments

Abolition of Federal Excise Duty on Transfer of Immovable Property

Previously, the Federal Excise Duty (FED) imposed on the allotment or transfer of immovable property—such as commercial property, open plots, or residential property on first allotment or transfer.

Description	Tax Rate
Allotment or transfer of commercial property; OR First allotment or first transfer of open plots or residential property by any developer or builder.	
(i) Buyer is on Active Taxpayer List (section 181A Income Tax Ordinance, 2001) at acquisition date.	3% of gross consideration
(ii) Buyer has not filed income tax return by due date (Rule 1A, Tenth Schedule Income Tax Ordinance, 2001).	5% of gross consideration
(iii) Buyer is NOT on Active Taxpayer List (section 181A Income Tax Ordinance, 2001) at acquisition date.	7% of gross consideration

Now the Federal Excise Duty on transfer of property proposed to be abolished

Customs Act, 1969 - Key Amendments

Section 2 – Definitions:

The Bill proposes to amend section 2 of the Custom Act, 1969 whereby inserted new definitions as under;

1. Cargo Tracking System

After clause **(ea)**, a new clause (eb) inserted to give the definition of Cargo Tracking System as under;

(eb) “Cargo Tracking System” means a digital system notified by the Board for electronic monitoring and transshipment goods transported within or across the territory of Pakistan for the purpose of enforcement, compliance and prevention of smuggling.

2. e-bilty

After clause (kka), a new clause (kkaa) inserted to give the definition of e-bilty as under

(kkaa) “e-bilty” means the digital document generated through cargo tracking system to be accompanied with the transport carrying import, export, transit and transshipment goods transported within or across the territory of Pakistan

Section 3A – Amendment:

The Bill proposes to amend section 3A of the Customs Act, 1969 whereby merge Directorate General of I&I and Risk Management System. It shall consist of Director General and many Directors, Additional Directors, Deputy/ Assistant directors and such other officers as the board may appoint through the official Gazette notification. It shall also have powers assigned under the Anti-Money Laundering Act, 2010 and rules or regulations made thereunder.

Section 3B – Amendment:

The Bill seeks to amend section 3B to rename “Directorate General of Internal Audit” as “Directorate General of Custom Auction”. It shall consist of Director General and many Directors, Additional Directors, Deputy/ Assistant directors and such other officers as the board may appoint through the official Gazette notification.

Section 3BBB – Amendment:

The Bill seeks to amend section 3BBB to rename “Directorate General of RMS” as “Directorate General of Communications and Public Relations, Customs”. It shall consist of Director General and as many Directors, Additional Directors, Deputy/ Assistant directors and such other officers as the board may appoint through the official Gazette notification.

Section 3DD – Amendment:

The Bill seeks to amend section 3DD to rename “Directorate General of Post Clearance Audit (PCA)” as “Directorate General of Post Clearance Audit and Internal Audit (PCA & IA)”.

Customs Act, 1969 - Key Amendments

Section 3F – New Insertion

The Bill seeks to insert new section 3F to provide legal coverage to Board to hire services of technology specialists, Auditors, Accountants and goods Evaluators on short term contract not exceeding two years on prescribed terms and conditions. The Board may rehire the services of such person subject to satisfactory achievement of key performance benchmarks.

Section 19(5) - Amendment

The Bill seeks to amend this section to give continuity to the notifications issued under this section during the financial year. In this section, in second proviso for the figure within “2025” the figure “2026” proposed to be substituted. Accordingly, all notifications issued on or after July 1st 2016 and placed before National Assembly shall continue to be enforced till June 30th 2026.

Section 19C – Amendment

The Bill seeks to amend section 19C whereby the words “does not exceed five thousand” the words “through post or courier does not exceed five hundred” shall be substituted. Hence on this value no duties and taxes shall be demanded as per directives of the Board.

Section 32(3A) - Amendment and New Insertion

The Bill seeks to amend this section to reduce volume of litigation/contravention cases. Through this amendment in sub-section (3A) in the proviso words “twenty thousand” the words “one hundred thousand” shall be substituted and after the word “action” the words “if he deposits the recoverable amount” shall be inserted.

Section 79(1) - Amendment

The Bill seeks to amend this section to provide legal coverage for abolishing the mandatory requirement of prepayment of duty and taxes on GDs in case of goods declaration filed prior to birthing of vessel or cross-over event of vehicle. He shall have the option to pay his liability of duty, taxes and other charges on completion of assessment.

Section 80(6) - New Insertion

The Bill seeks to insert a new sub-section (6) in section 80 to provide legal cover to centralized assessment unit and centralized examination unit. Accordingly, after sub-section (5) this new sub-section shall be added as under

“(6) Subject to such condition, limitations or restrictions, the Board may by special order constitute centralized assessment unit and centralized examination unit at such places as it may deem appropriate subject to certain provisos.

Customs Act, 1969 - Key Amendments

Section 82 - Amendment

The Bill seeks to amend this section to reduce port congestion and dwell time by proposing penalties. Accordingly, the amended section shall be as under;

(1) The owner of the goods shall be liable to such penalties as may be notified by the Federal Government in the following cases, namely: -

(a) goods declaration is not filed for home-consumption or warehousing or transshipment within ten days of the arrival of goods at a customs station;

(b) for the goods declaration filed prior to berthing of the vessel, the goods are not removed from the customs station after payment of leviable duty and taxes, within three days of completion of assessment and berthing of the vessel;

(c) for the goods declaration filed after berthing of vessel, the goods are not removed from the customs station for home-consumption or warehousing or transshipment within three days of the clearance of the goods declaration; and

(d) the goods are not loaded on the conveyance for export within fifteen days of the entry in the port.

(2) Such goods may, after due notice to the owner, if his address could be ascertained, or after due notice to the carrier, shipping or customs agent, custodian of the goods, as the case may be, be sold in auction or taken into custody by Customs and removed from the port to a Customs warehouse for auction under the order of the Assistant Collector of Customs notwithstanding the fact that adjudication of the case under section 179, or an appeal or special customs reference application under section 193, 194 or 196 as the case may be, or a proceeding is pending in any court subject to certain provisos.

Section 83(1) - Amendment

The Bill seeks to amend sub-section (1) of section 83 to explain the clearance through custom computerized systems. Accordingly in proviso after the word documents the expression" after payment of duty, taxes and others charges thereon" shall be inserted.

Customs Act, 1969 - Key Amendments

Section 83(C) - New Insertion

The bill seeks to insert this new section 83(C) introducing cargo tracking system and e-bilty mechanism for movement of goods from and to a sea port, land border station, inland dry port or inland movement shall be required to electronically generate, carry, display or validate and e-bilty through the cargo tracking system. The Board may prescribe the manner and procedure to implement the same. In case of any violation the goods, owner shall be liable to fine, detention, seizure and confiscation under this act.

Section 156 – Amendment

The Bill seeks to amend serial no.64 and 105 of the table of section 156 for violation of section 127 and 129(A) and for violation related to e-bilty mechanism. The proposed amendments shall be as under;

Against serial no.64 for expression section 128 or 129 the expression section 127 or 128 or 129 or 129(a) shall be substituted

Against serial no.105 after sub-serial number (viii) the following new sub-serials shall be added:

Section 157(2) – Omission

The Bill seeks to omit proviso to sub-section (2) of section 157 to remove provision of allowing release of vehicles liable to be confiscated against bank guarantee.

Section 179(3) – Amendment

The Bill seeks to amend first proviso to sub-section (3) of 179 to rationalize the time period for adjudication of smuggled goods and goods lying at the port. Accordingly, the adjudication period shall be increased from thirty to forty-five days.

(ix)	If any person who- fails to generate, carry, display or validate an e-bilty and any tracking devices ancillary thereto for inland movement of goods; or intentionally avoids to generate, carry, display or validate an e-bilty and any tracking devices ancillary thereto; or tampers with the e-bilty or any tracking devices ancillary thereto or affixes tracking device issued for one conveyance on another.	Such person shall be liable to a penalty of fifty thousand rupees for the first contravention and rupees five hundred thousand for the second contravention; and thereafter he shall be liable to a penalty of rupees one million and confiscation of the goods and conveyance and upon conviction by a Special Judge liable to imprisonment not exceeding six months.;	83C

Customs Act, 1969 - Key Amendments

Section 179(4) – Amendment

The Bill seeks to amend sub-section (4) of 179 for granting extension in time period in exceptional circumstances for deciding adjudication cases after reasons to be recorded in writing.

Section 187 - Amendment

The Bill seeks to amend section 187 to elaborate the burden of proof by checking the presentation of irrelevant import documents before adjudication authorities including license or goods declaration or sales tax invoice on his name.

Section 187A - New Insertion

The Bill seeks to insert a new section 187A to define the legal character of a tempered vehicle. Accordingly, where any vehicle is detained or seized under this Act or the rules made thereunder and such vehicle upon forensic examination is found to be having a tampered chassis number or cut and weld chassis or chassis number filled with welding material or re-stamped or body changed, such vehicle shall be presumed to be smuggled, even if registered with any Motor Registration Authority, and shall be liable to confiscation.

Section 193 - New Proviso

The bill seeks to add new proviso to section 193 to minimize the misuse of unlawful claiming ownership of ceased goods before Collector Appeals whereby "provided that no Appeal shall be preferred against an order passed if the aggrieved person did not appear before the adjudicating authority despite sufficient opportunity of hearing.

Section 194A - Amendment and New Proviso

The bill seeks to amend sub-section (2) of section 194A to rationalize the time limit from thirty days to forty-five days for filing of Appeal before the Custom Appellate Tribunal.

The bill seeks to insert new proviso to sub-section (5) of section 194A to secure Government revenue where stay is granted by the Appellate Tribunal subject to payment of fifty percent of the recoverable amount from the aggrieved person.

The bill also seeks to amend proviso to sub-section (6) of section 194A 193 to minimize the misuse of unlawful claiming ownership of ceased goods before Collector Appeals whereby "provided that no Appeal shall be preferred against an order passed if the aggrieved person did not appear before the adjudicating authority despite sufficient opportunity of hearing.

Customs Act, 1969 - Key Amendments

Section 195(1) - Amendment

The bill seeks to amend this section empowering Director Generals and Directors to re-open the cases in their respective jurisdictions.

Section 196(1) - Amendment

The bill seeks to amend this section to rationalize the time period of thirty days for filing of reference to the high court.

Section 196(6) - Amendment

The bill seeks to amend this sub-section (6) of section 196 to further strengthen filing of references against the order of Appellate Tribunal subject to payment of fifty percent of the recoverable amount from the aggrieved person.

Section 201(1) - Amendment

The bill seeks to amend this sub-section (1) of section 201 to allow auction through authorized agent as well with the consent of the owner.

Section 201(3) - New Insertion

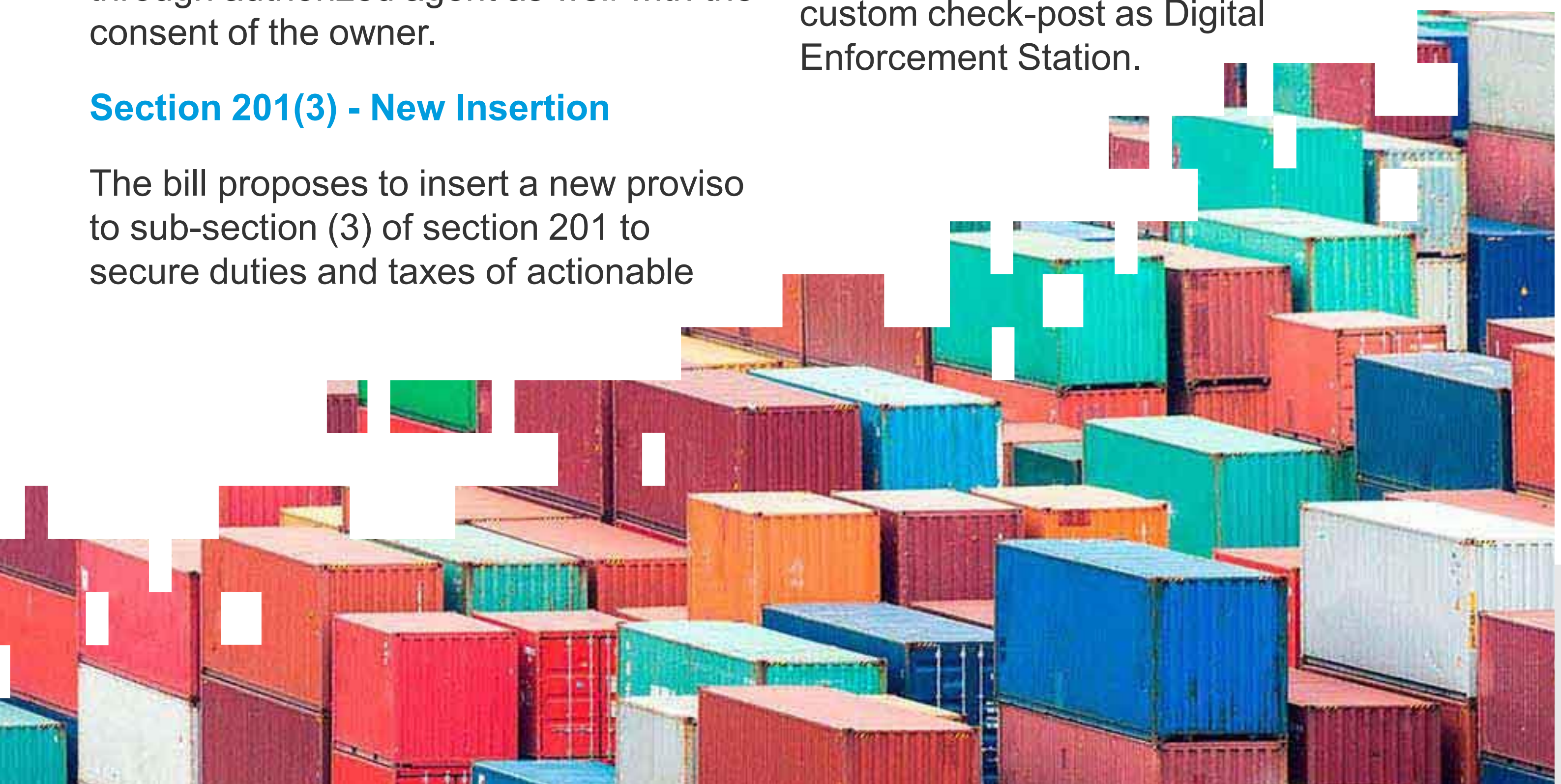
The bill proposes to insert a new proviso to sub-section (3) of section 201 to secure duties and taxes of actionable goods where stay is granted by court subject to payment of fifty percent of the recoverable amount from the aggrieved person.

Section 225 - New Insertion

The bill seeks to add this new section 225 to establish custom commands funds for allocations made by Federal Government for Anti-smuggling activities subject to the manners prescribed by the Board for utilization of the funds and impose any condition, limitation or restriction as it may deems necessary.

Section 226 - New Insertion

The bill seeks to add this new section 226 to provide legal coverage to Digital Enforcement Stations at such locations as Board deems appropriate for the prevention of smuggling and illicit trade. The Board may notify any existing custom check-post as Digital Enforcement Station.



Other Laws – Key Amendments

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

Section 3 of the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 deals with the Scope of Services. Following Insertions has been made in Finance Act, 2025

Section 3 (i) – Insertion: In sub-section 1, the bill seeks to inset the new proviso stated as under:

"Provided further that from such date and in such mode and manner, as may be prescribed through a general order by the Board, any service provider as mentioned in Table 1 and Table 2 of the Schedule shall integrate his businesses with the Board's computerized system for real-time reporting of provision of services."

Section 3 (ii) – Insertion: In clause (d) of sub section (2A), the bill seeks to insert expression "147 & 163" of the Sales Tax Act 1990, after the expression "48" of the ICT (tax on services) ordinance, 2001.

With this proposed amendment following further categories shall be subject to 15% ICT sales tax on services:

Expression 147: Goods supplied to German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit) GIZ.

Expression 163: Goods imported by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder; and agreements by the Federal Government.

Provided that such goods are charged to zero-rate of customs duty under the Customs Act, 1969 (IV of 1969), and the conditions laid therein.

Provided further that exemption under this serial shall be available with effect from the 15th day of January 2022.

Section 3 (iii) – Insertion: After sub section 3, the bill seeks to insert a new sub section stated as under:

"Notwithstanding the provisions of this section, the Board may, whenever deemed necessary, shall subject to such conditions, restrictions and limitations, specify a Negative List of services exempt from tax under this Ordinance, Table-3 to the Schedule, by notification in the official Gazette."

Other Laws – Key Amendments

THE STAMP ACT, 1899 (II of 1899)

To the extent of the Islamabad Capital Territory, the bill seeks to propose the following amendment in stamp duty;

On conveyance as defined under clause (10) of section 2 of the Stamp Act, 1899 not being a transfer charged or exempted under Article 62, the stamp duty shall be levied for filers and non-filers as under;

For filers as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	1% of the value of the immovable property
For non-filers as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	2% of the value of the immovable property

Currently these rates are as under;

Conveyance as defined under sub-section (10) of section 2 not being a transfer charged or exempted under Article 62; any instrument or set of instruments relating to a future flow transaction for fund raising by any bank or financial institution, including but not limited to__ any instrument involving a conveyance, whether by way of assignment, transfer, sale or another manner, of rights, titles or interests relating to bank accounts, receivables or cash flows, whether in foreign currency or Pakistani Rupees, in existence or which are to come into existence in future; or any other instrument setting out the terms and conditions pertaining to such future flow transaction; and	Rs 1000/-
in any other case	4% of the value of the property

Other Laws – Amendments

Amendments to Registration Act, 1908

The Registration Act has been amended to remove the cap on stamp duty for property conveyance. This allows for more flexibility in the assessment of property values.

The phrase "not exceeding one percent of the value of the property conveyed" has been omitted from section 78.

This change facilitates a more adaptable approach to property registration fees.

Introduction of Carbon Levy

A new Carbon Levy has been introduced, which will be implemented in two phases for Motor Spirit, High-Speed Diesel, and Furnace Oil. The levy aims to address environmental concerns related to fuel consumption.

Carbon Levy set at Rs. 2.5 per liter for FY 2025-26, increasing to Rs. 5 for FY 2026-27.

Furnace Oil will also incur a similar levy of Rs. 2.5 per liter, increasing to Rs. 5.

The levy is in addition to the existing Petroleum Levy.

New Energy Vehicles Adoption Levy Act, 2025

This act imposes a levy on internal combustion engine vehicles to promote the adoption of new energy vehicles. It aims to encourage environmentally friendly transportation options.

Levy applies to manufacturers and importers of internal combustion engine vehicles.

The Federal Government can revise levy rates and categories.

Proceeds from the levy will fund initiatives promoting new energy vehicles.

Contact Us

Lahore

Avais Chambers
1/C - 5, Sikander Malhi Road,
Canal Park, Gulberg II,
Lahore.
T: (042) 3587 2731
(042) 3587 2732 – 33

Karachi

Suite No.407, Progressive
Plaza, Beaumont Road,
Karachi
T: (021) 3565 5975-6

Islamabad

1st Floor, Plot# 18/B/1,
Chohan Plaza, G8 Markaz,
Islamabad Capital Territory
T: (051) 234 0490-93

Faisalabad

478-D, Peoples Colony No.
1 Faisalabad
T: (041) 854 1165

Peshawar

Suit # 6, Block-A, 2nd
Floor, Cantonment Plaza,
Fakhr-e-Alam Road,
Peshawar Cantt.
T: (091) 527 8310

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