



Parker Russell-A.J.S.

CHARTERED ACCOUNTANTS

BUDGET BRIEF 2026

**CROOKED GROWTH.
UNEQUAL TOMORROW.**

**ONE BUDGET.
TWO REALITIES.
UNEQUAL OUTCOMES.**



- RISING COSTS
- HIGH TAX BURDEN
- LIMITED RELIEF
- FEWER OPPORTUNITIES

- TAX INCENTIVES
- SUBSIDIES & RELIEFS
- EASY ACCESS
- MORE PRIVILEGES

PREAMBLE

At Parker Russell A.J.S. Chartered Accountants, we are pleased to present our analysis of the Finance Bill 2026, a significant legislative initiative that seeks to modernize Pakistan's fiscal framework, broaden the tax base, and enhance transparency through technology-driven reforms.

The Finance Bill 2026 proposes extensive amendments to the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, the Federal Excise Act, 2005, the Customs Act, 1969, and other related fiscal laws. The proposed changes introduce important developments in tax administration, compliance procedures, digitalization, enforcement mechanisms, and sector-specific taxation measures that are expected to have a far-reaching impact on businesses, investors, and individual taxpayers.

This publication has been prepared to provide our clients, business partners, and stakeholders with a concise yet comprehensive overview of the key proposals contained in the Bill. Our objective is to highlight the principal amendments, explain their practical implications, and assist readers in understanding the potential impact on their operations, compliance obligations, and strategic decision-making.

As Pakistan continues its transition towards a more digitized and transparent tax environment, it is essential for taxpayers to remain informed and prepared for the evolving regulatory landscape. We trust that this guide will serve as a valuable resource in navigating the proposed changes and planning accordingly.

We remain available to discuss any aspect of the Finance Bill 2026 and to assist organizations in assessing its implications and implementing the necessary measures to ensure compliance and optimize tax efficiency.

We welcome your feedback.

Team Parker Russell Pakistan.

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BUDGET AT A GLANCE

Resources	2026-27 BUDGETED (Rs. in Billion)	2025-26 BUDGETED (Rs. in Billion)	2025-26 REVISED (Rs. in Billion)
Total tax revenue	15,264	14,131	12,983
Non-tax revenue	5,336	5,147	5,093
Total federal resources	20,600	19,278	18,076
Less: provincial share in federal taxes	(8,848)	(8,206)	(7,592)
Net federal resources	11,751	11,072	10,485
Deficit financing	7,020	6,501	5,157
Total resources	18,771	17,573	15,642

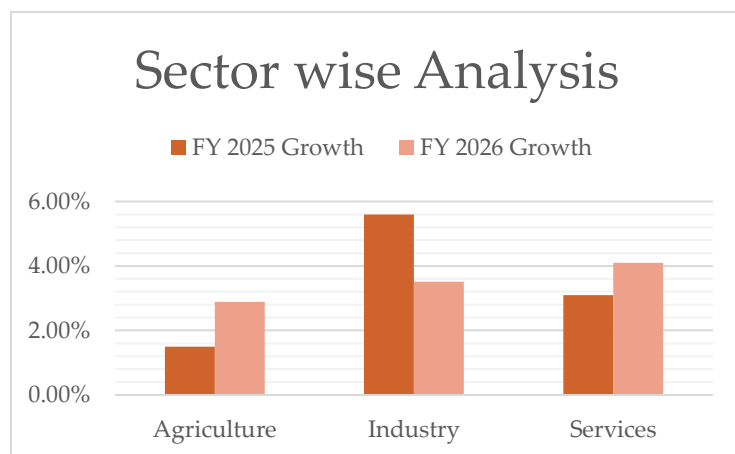
Resource Allocation:

Expenditures	2026-27 BUDGETED (Rs. in Billion)	2025-26 BUDGETED (Rs. in Billion)	2025-26 REVISED (Rs. in Billion)
Interest payments	8,054	8,207	6,937
Pension	1,169	1,055	1,055
Defense Affairs & Services	3,000	2,550	2,588
Grants & Transfers	2,680	1,928	1,971
Subsidies	1,091	1,186	1,157
Running of Civil Govt.	1,071	971	1,021
Provision for Emergency and others	430	389	276
Development & Net Lending	1,276	1,287	637
Total Expenditures	18,771	17,573	15,642

ECONOMIC INDICATORS (FY 2025 VS. FY 2026)

Sector	Indicator	FY 2025	FY 2026	Trend
Macro View	Gross Domestic Product Size (USD Billion)	408	452	↑
	Gross Domestic Product Growth Rate (%)	3.2%	3.7%	↑
	Per Capita Income (USD)	1,751	1,901	↑
	Average Inflation Rate (%)	4.7%	6.2%	↓
Trade Operations	Imports (USD Billion)	48.6	50.7	↓
	Exports (USD Billion)	27.3	22.7	↓
	Trade Deficit (USD Billion)	(21.3)	(28.0)	↓
Fiscal Operations	Revenue (PKR Billion)	13,370	14,799	↑
	Expenditure (PKR Billion)	16,340	15,660	↑
	Fiscal Deficit (PKR Billion)	(2,970)	(861)	↑
	Primary Balance (% of GDP)	3.0%	3.2%	↑
Monetary Sector	Policy Rate (%)	11.0%	11.5%	↓
	Broad Money Growth (%)	4.5%	6.8%	↑
	Private Sector Credit (PKR Billion)	767.6	934.1	↑
	Agricultural Credit (PKR Billion)	1,880	2,162	↑
External Sector	Current Account Balance (USD Billion)	1.7	0.1	↓
	Workers' Remittances (USD Billion)	31.2	30.3	↓
	Foreign Direct Investment (USD Billion)	1.9	1.4	↓
	Foreign Exchange Reserves (USD Billion)	16.6	22.6	↑
	Exchange Rate (PKR / USD)	278.7	281.1	↓

SECTOR WISE GROWTH



Pakistan's economic growth during FY 2026 was primarily driven by improvements in the **services and agriculture sectors**, while **industrial growth moderated significantly** compared to the previous year. The agriculture sector recorded growth of **2.89%**, up from **1.5%** in FY 2025, reflecting improved crop production and recovery in agricultural activities.

Sector	FY 2025 Growth	FY 2026 Growth	Change
Agriculture	1.5%	2.89%	▲ 1.39%
Industry	5.6%	3.51%	▼ 2.09%
Services	3.1%	4.10%	▲ 1.00%

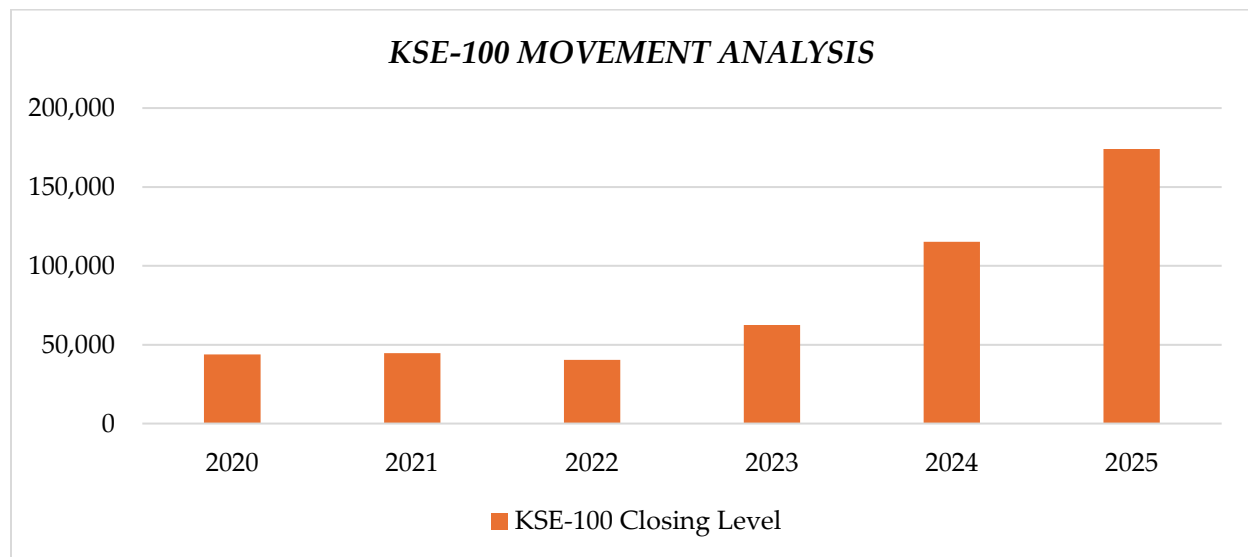
The services sector remained the largest contributor to overall economic expansion, growing by **4.1%** compared to **3.1%** in the preceding year, supported by stronger performance in trade, transport, communications and financial services.

In contrast, the industrial sector slowed to **3.51%** from **5.6%** in FY 2025, indicating continued challenges in manufacturing, energy costs and investment activity. Despite the moderation in industrial output, the overall economy benefited from broader growth across multiple sectors, resulting in a more balanced growth profile compared to the previous year. Continued policy support and structural reforms will be essential to strengthen industrial competitiveness and sustain economic growth in the coming years.

CAPITAL MARKETS

Pakistan’s capital market delivered an exceptional performance during FY 2025-26, supported by improving macroeconomic indicators, easing inflationary pressures and growing investor confidence. The benchmark KSE-100 Index increased from approximately 126,000 points at the close of FY 2025 to around 169,000 points during FY 2026, reflecting a gain of nearly 35 percent. Investor sentiment remained strong throughout the year, driving the market to a historic peak of approximately 191,000 points in January 2026. The rally was underpinned by improved economic stability, strengthening external indicators and expectations of a more favorable business environment.

The movement during past years is as follows:



OUTLOOK FOR FY 2027

Area	FY 2027 Outlook	Assessment
Economic Growth	Growth is expected to strengthen gradually, supported by improved macroeconomic stability, recovery in manufacturing activity and increased private sector participation.	● Moderately Positive
Inflation	Inflation is expected to remain within the range of 8%–9%, although global energy prices and exchange rate movements remain key risks.	● Moderate Risk
Monetary Policy	A gradual easing cycle may continue if inflation remains contained; however, policy decisions will remain data dependent.	● Supportive
Fiscal Position	Continued fiscal consolidation is expected under the IMF programme, with emphasis on revenue enhancement and expenditure discipline.	● Improving
Public Debt	Debt growth is expected to moderate further, supported by lower fiscal deficits and improved debt management practices.	● Improving
External Sector	Current account stability is expected to continue, supported by remittances and reserve accumulation.	● Stable
Foreign Exchange Reserves	Reserve levels are expected to strengthen further through multilateral inflows, remittances and improved external account management.	● Strengthening
Exchange Rate	The Pakistani Rupee is expected to remain broadly stable, although some depreciation may occur under a market-based exchange rate regime.	● Stable with Downside Risk
Exports	Gradual recovery is anticipated, particularly in textiles, information technology services and value-added manufacturing sectors.	● Improving
Imports	Import growth is likely to increase in line with economic recovery and industrial activity, particularly for machinery and raw materials.	● Increasing

Foreign Direct Investment	Investment inflows are expected to improve gradually as investor confidence strengthens and reforms continue.	● Recovering
Agriculture	Stable growth is anticipated, subject to weather conditions and climate-related risks.	● Positive
Manufacturing	Continued recovery in large-scale manufacturing is expected, supported by lower financing costs and stronger domestic demand.	● Positive
Information Technology Sector	The sector is expected to remain among the fastest-growing segments of the economy, driven by exports and digital transformation initiatives.	● Strong Growth Potential
Capital Markets	Equity markets are expected to remain supported by improving earnings, economic stability and investor confidence.	● Positive
Employment	Job creation is expected to improve gradually; however, unemployment may remain elevated relative to regional peers.	● Gradual Improvement
Business Environment	Confidence is expected to improve, provided policy consistency, political stability and reform implementation continue.	● Improving

BUDGET HIGHLIGHTS

Income Tax

- The proposed amendments rationalize tax slabs for salaried taxpayers, reducing the tax burden across various income levels.
- The Finance Bill 2026 proposes the abolition of surcharge on salaried individuals earning more than Rs. 10 million annually.
- Section 7E relating to deemed rental income on capital assets is proposed to be abolished.
- Capital Value Tax on foreign movable and immovable assets of resident Pakistanis is proposed to be withdrawn.
- The Finance Bill 2026 proposes to abolish Super Tax for persons with income up to Rs. 500 million. For taxpayers earning above this threshold, the rate is proposed to be reduced from 10% to 8%, except for banking, petroleum exploration and production, mineral, and fertilizer sectors.
- The Finance Bill 2026 proposes the introduction of withholding tax on income earned by digital content creators and social media influencers through platforms such as YouTube, Facebook, Instagram, and TikTok.
- Advance tax on payments on foreign television plays and advertisements is proposed to be withdrawn.
- Advance tax rates on sellers under section 236C is proposed to be reduced to 2.75% and for buyers under section 236K is proposed to be reduced to 1.25%.
- Advance tax on exports at the rate of 1% is proposed to be abolished whereas minimum tax is proposed to be enhanced from 1% to 1.25.
- Advance tax on foreign remittances outward made through debit, credit and prepaid cards is proposed to be reduced from 5% to 0.5%.
- The Finance Bill 2026 proposes to extend the reduced tax rate of 0.25% for exporters of IT and IT-enabled services until Tax Year 2029.
- Tax deducted on e-commerce transactions shall be adjustable for sellers having turnover exceeding Rs.200 million.
- A tax credit equal to 10% of the investment made in electronic resources for integration with FBR computerized systems is proposed to be introduced to facilitate documentation and digital compliance.
- The Finance Bill 2026 proposes to reduce the withholding tax rate on payments for terminal and port services from 15% to 12% under section 153.
- The Finance Bill 2026 proposes the establishment of a National Faceless Centre to conduct audits,

assessments, and appeals through a technology-driven framework, promoting transparency and minimizing direct taxpayer interaction.

- An independent mechanism is proposed to be introduced for scrutiny of departmental litigation to improve quality and consistency of tax litigation.
- The Finance Bill 2026 proposes mandatory electronic reporting of high-value deposits and withdrawals by banks and Electronic Money Institutions for automated comparison with taxpayers' declared income.
- The Finance Bill 2026 proposes to broaden income tax exemptions by extending relief to additional charitable and welfare organizations.
- Income of qualifying Special Purpose Vehicles established for asset-backed securitization are proposed to be exempted to facilitate capital market development.
- The Finance Bill 2026 proposes to increase the turnover threshold for withholding tax exemption available to small traders from Rs. 100 million to Rs. 200 million.
- The Finance Bill 2026 proposes to allow eligible funds and non-profit organizations to obtain exemption certificates valid for the entire financial year, subject to prescribed conditions.
- The law is proposed to clarify determination of cost of inherited immovable property and tax treatment of family settlements after death.
- A new section is proposed to be inserted in relation to individuals receiving proceeds net of contribution from life insurance. These proceeds will now be subject to final tax.
- The Finance Bill 2026 proposes to expand the scope of specified service providers and increase the applicable tax rate from 6% to 7%.
- The reduced minimum tax rate for distributors, dealers, sub-dealers and wholesalers of specified sectors is proposed to be enhanced from 0.25% to 0.5%.
- The Finance Bill 2026 empowers the Board to require specified persons to integrate their business systems with electronic reporting platforms for real-time transaction monitoring. Non-compliance may result in disallowance of up to 5% of related expenditure.
- Penalties under section 182 are proposed to be increased.
- The Finance Bill 2026 proposes an automated settlement mechanism enabling taxpayers to resolve identified discrepancies through a technology-driven process without incurring penalties or default surcharge.

Sales Tax

- The Finance Bill 2026 introduces new concepts including advance receipt invoices, automated settlement mechanisms, electronic invoicing systems, the National Faceless Centre, and production monitoring systems to enhance digital tax administration and compliance.
- Retailers exceeding Rs. 200 million turnover are proposed to be included in Tier-1 category.
- Goods shall be deemed to be delivered once they are made ready for dispatch from business premises including factory, warehouse or branch.
- The Board to determine valuation of goods based on Pakistan Bureau of Statistics data or through third-party outsourced valuation mechanisms.
- Introduction of electricity consumption-based taxation mechanism is proposed for steel sector.
- Empowerment of FBR to enhance or restrict input tax adjustment limits based on compliance behavior.
- The Finance Bill 2026 proposes to regulate the issuance of debit and credit notes through prescribed electronic systems, including automated adjustment mechanisms.
- The Finance Bill 2026 proposes enhanced measures to combat fake and flying invoices and strengthen enforcement against tax fraud and related non-compliance.
- Taxable and exempt supplies to be supported by tax invoices including advance receipt invoices with verifiable and unique FBR invoice number.
- The Finance Bill 2026 proposes to empower the Commissioner to order re-audits of accounts or re-valuations of inventory through nominated accountants or cost accountants where significant discrepancies or complexities are identified.
- Introduction of faceless jurisdiction enabling tax authorities at the National Faceless Centre to perform functions and exercise powers based on automated allocation through algorithms.
- The Finance Bill 2026 proposes to rationalize penalty provisions by enhancing existing penalties and introducing new offences related to non-integration, fake invoicing, inadmissible input tax claims, and other compliance violations.
- Extension of concessional regime up to 30 June 2027 and rationalization of EV taxation through 1% sales tax on EV buses and electric trucks.
- The Finance Bill 2026 proposes to strengthen the value addition tax regime through the introduction of a 3% tax on imported goods sold in the same condition, along with stricter

monitoring, enforcement measures, and surcharges for misuse.

Federal Excise Duty

- A new Special Excise Duty (SED) is imposed on goods specified in Table-IA of the First Schedule at prescribed rates.
- Every registered person shall issue invoices, including advance receipt invoices, bearing a unique and verifiable FBR invoice number for taxable supplies, services, and zero-rated goods.
- The FBR may require electronic monitoring and tracking of excisable goods through prescribed tax-marking and production monitoring systems, and no such goods may be sold or removed without compliance with the notified tracking mechanism.
- The Finance Bill 2026 proposes reduced penalties for voluntary compliance, whereby only 25% of the penalty is payable if duty and default surcharge are settled before issuance of a show cause notice, and 50% if settled thereafter, with proceedings concluded upon payment.
- Federal Excise Duty on acetate tow is proposed to be reduced from Rs. 44,000 per kg to Rs. 10,000 per kg.
- Federal Excise Duty on e-liquids is increased to Rs. 16,500 per kg.

- Existing exemptions and concessions are proposed to be extended till 30 June 2027.
- Federal Excise Duty on imported CBU electric vehicles for personal use is set at 0% up to Rs. 20 million, 30% for Rs. 20–30 million, and 40% above Rs. 30 million.
- A Federal Excise Duty of 5% ad valorem is proposed to be imposed on lubricating oil and base lubricating oils.
- A Federal Excise Duty of Rs. 80 per liter is proposed on industrial solvents, including Petroleum Top Naphtha, White Spirit/Mineral Turpentine Oil, and Solvent Oil.
- A Special Excise Duty is proposed on specified imported vehicles until 30 June 2027 at 40% ad valorem for engine capacity above 2000cc up to 3000cc and 41% for above 3000cc.
- The Finance Bill 2026 proposes the imposition of a fixed duty on Club, Business, and First-Class air travel, ranging from Rs. 25,000 to Rs. 50,000 depending on the destination region.

Customs Act

- The Finance Bill 2026 proposes a phased reduction in Customs Duty on 92 tariff lines of industrial input goods, lowering duty rates to support industrial growth and reduce input costs.
- The Finance Bill 2026 proposes a broad reduction in Additional

Customs Duty rates across numerous tariff lines, including the complete removal of ACD on selected goods to facilitate trade and lower import costs.

- Regulatory Duty rates exceeding 20% are proposed to be capped at 20% for 359 tariff lines.
- Regulatory Duty rates between 1% and 20% across 1,555 tariff lines are proposed either to be reduced by 20% or eliminated.
- Full exemption custom duty, additional custom duty, and regulatory duty is proposed on the import of agricultural machinery.
- Introduction of 15 new PCT Codes and amendment of two descriptions are proposed for trade facilitation and statistical purposes.
- The expiry date for specific tax exemptions granted under section 19(5) are proposed to be extended for another year from 2026 to 2027.
- Threshold of exemption for framing mis declaration cases is proposed to be based solely on the total revenue involved irrespective of the number in Goods Declaration.
- The Finance Bill 2026 proposes to increase the maximum penalty for non-compliance by terminal operators from Rs. 500,000 to Rs. 10 million.
- The Finance Bill 2026 proposes stringent penalties for unauthorized removal, substitution, or tampering

of goods in a State Warehouse, including fines of up to twice the value of the goods and imprisonment of up to five years.

- Section 170 is proposed to be substituted to hand over any confiscated goods to Custom Authority for processing, irrespective of any other pending legal proceedings.
- The Finance Bill 2026 proposes the establishment of a committee, chaired by a retired judge, to scrutinize and approve high-level legal filings before the High Courts and Supreme Court, with the objective of reducing unnecessary litigation.

AMENDMENTS IN INCOME TAX ORDINANCE, 2001

Section 2, Definitions;

Clause (1AA) Algorithmic Settlement Mechanism

The finance bill has proposed to add the definition “algorithmic settlement mechanism” means algorithmic settlement mechanism provided **under section 134B** of this Ordinance;”

Clause (5) “Assessment”;

The bill has proposed to amend definition of “assessment” by substituting the word “and amended assessment” with “amended assessment and faceless assessment”.

Clause (6) Authorized Shipping Agents;

The finance bill has proposed to define e-commerce “Authorized Shipping Agents” means a person in Pakistan

who is authorized, expressly or impliedly, by a non-resident ship owner, charterer or operator to act on its behalf in respect of a vessel, and who in relation to such vessel or voyage –

- a) is responsible for the receipt, collection, control or accounting of total freight and any related amounts, and undertakes or is responsible for documentation, manifest filing, or reporting of cargo or total freight, including having, directly or indirectly, the control, custody or disposal of any freight or

related receipts attributable to such vessel or voyage; and

- b) furnishes the return under section 143 of this Ordinance, in respect of such vessel or voyage and such person shall, for the purposes of this Ordinance –
 - i) be treated as the representative of the non-resident under section 172;
 - ii) be jointly and severally liable for payment of tax and all obligations, proceedings, assessments and recovery in respect of such vessel or voyage; and
 - iii) be treated as such, and the provisions of sub-section (3) of section 172 shall apply accordingly;”

Clause (19DA) Electronically Readable Format;

It has been proposed to define “electronically readable format” means any digital format in which data is structured so that it can be automatically read, extracted, validated and 47 processed by computer systems without human intervention, including spreadsheet formats (such as CSV or XLSX), XML, XBRL, JSON, and other structured or semi-structured data formats but excluding formats primarily designed for human

readability, such as PDF, scanned images or photographs;";

Clause (22A) – Fast Moving Consumer Goods

Omission:

The Finance Bill proposes to omit clause (22A), which defines "fast moving consumer goods" as consumer goods supplied in retail marketing to meet the daily demand of consumers, excluding durable goods.

The proposed omission would remove the definition of "fast moving consumer goods" from the Income Tax Ordinance, 2001. As a result, any provisions, rules, notifications, or procedures that specifically rely on this defined term may require interpretation based on their ordinary meaning or any alternative definition prescribed elsewhere in the tax framework. The proposal may also indicate a move away from a separate compliance or reporting treatment previously applicable to fast moving consumer goods under the Ordinance.

Clause (30A) – Board's Computerized System Through a Licensed Integrator

Amendment:

The expression "Board through approved fiscal electronic device and software" has been substituted with "Board's computerized system through a licensed integrator".

Effect of Amendment:

The amendment replaces the approved fiscal electronic device and software framework with a licensed integrator model. Taxpayers required to integrate with the Board's systems will now be required to connect through licensed integrators, thereby aligning income tax reporting mechanisms with the technology framework prescribed under the Sales Tax Act, 1990.

Clause (30D) – Licensed Integrator

Amendment

A new clause has been inserted defining "Licensed Integrator" to have the same meaning as assigned under clause (15A) of section 2 of the Sales Tax Act, 1990.

Effect of Amendment:

The insertion adopts the definition already used in the Sales Tax Act, 1990, ensuring consistency across tax statutes and establishing a uniform regulatory framework for entities engaged in integration with the Board's computerized system, particularly those involved in real-time data transmission linked to POS (Point of Sale) integration.

Clause (35) (1A) – National Faceless Center

Insertion:

A new clause has been inserted defining "National Faceless Center" with reference to section 227D of the Income Tax Ordinance, 2001.

“National faceless center” means the National faceless center as defined in section 32C of the Sales Tax Act,1990 (VII of 1990)

Effect of Insertion:

The insertion formally recognizes the National Faceless Center within the definition clause of the Ordinance. This supports the implementation of technology-driven and centralized tax administration by facilitating faceless proceedings and reducing direct interaction between taxpayers and tax authorities.

Clause (42AA) – PRAL

Insertion:

A new clause has been inserted defining “PRAL” as Pakistan Revenue Automation (Pvt.) Limited, a State-Owned Enterprise assigned functions relating to software development and maintenance of the Board’s IT infrastructure.

Effect of Insertion:

The amendment formally recognizes PRAL within the Ordinance and provides statutory support for its role in developing, maintaining, and supporting the Board’s information technology infrastructure and digital tax administration systems.

Section 4AB, Surcharge;

The bill has proposed to substitute in the heading, for expression “(4AB), the expression “4AB” and proposed to remove the surcharge previously charged at rate of 9%.

Effect of Substitution:

Section 6A, Tax on payments for digital transactions in e-commerce platforms

The finance bill has proposed to add a sub-section

Insertion:

(3) Notwithstanding the provisions of section 8, the tax imposed under this section on a person, whose turnover in a tax year exceeds two hundred million rupees shall be adjustable.”;

The proposed amendment would allow taxpayers with annual turnover exceeding Rs. 200 million to claim adjustment of tax collected under section 6A against their final income tax liability. This would reduce the tax cost for large e-commerce businesses by converting the levy from a minimum or final tax into an adjustable tax, thereby improving cash flow and avoiding excessive taxation. This brings such taxpayers in line with the retailer relief scheme, which already provides a similar benefit by allowing adjustability of tax against final liability rather than treating it as a minimum or final tax.

Section 7E, Tax on deemed Income

Section 7E has been proposed to be omitted

The proposed omission would abolish the deemed income tax regime applicable to immovable properties situated in Pakistan. Consequently, resident persons holding specified capital assets would no longer be treated as deriving deemed income equal to

five percent of the fair market value of such assets, and the corresponding tax liability under Division VIIIIC of Part I of the First Schedule would cease to apply.

The proposal would provide relief to individuals and entities owning immovable properties that were previously subject to tax under section 7E despite not generating any actual income. Property owners would no longer be required to determine the fair market value of capital assets for the purposes of computing deemed income, thereby reducing compliance and documentation requirements.

The omission would also eliminate the need to evaluate various exclusions and exemptions available under section 7E, including those relating to a single capital asset, business premises, agricultural land, properties generating taxable income, recently acquired properties, and specified government-allotted properties.

The proposed withdrawal may improve liquidity for taxpayers holding non-income-generating properties, as tax would no longer be imposed solely on the basis of ownership of immovable assets. Real estate investors and high-net-worth individuals owning multiple properties may particularly benefit from the removal of the deemed income charge.

The proposal is also expected to reduce litigation and disputes relating to the determination of fair market value, interpretation of exemptions, applicability to

active and non-active taxpayers, and the constitutional validity of taxing notional income in the absence of actual economic gain.

Following the omission, income arising from immovable properties would continue to be taxed under the relevant provisions of the Ordinance where actual taxable income is derived, including income from property, capital gains, business income, and other applicable charging provisions.

The same had been declared ultra vires by the FCC in its judgment.

7G. Tax on certain payments by life insurance business

The finance bill has proposed to insert a new section “

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

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

(3) The provisions of sub-section (1) shall not apply where the payout or benefit is made—
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(a) on account of death of the insured or participant;

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

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

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

Section 8, General provisions relating to taxes imposed under sections 1[2[3[5, 5A, 5AA, 6, 6A,] 7, 7A, 7B and 7E];

The finance bill proposes to categorize Tax Imposed via section 7G as to be Final Tax by replacing the words of 7E the section reference of which has been omitted with 7G section the reference of which has been added occurring in section 8 title and in sub-section (1).

Section 21, Deductions not allowed;

Clause (r) substituted;

Currently, any expenditure attributable to sales claimed by any person who is required to integrate but fails to integrate his business with the Board through approved fiscal electronic device and software: Provided that disallowance of expenditure under this clause shall **not exceed eight percent** of the allowable deduction.

It is replaced with up to **five percent** of the expenditure claimed by any person, who fails to install electronic resource or to act as an integrated enterprise as required by law, subject to the method, manner, and procedure as may be prescribed;”

The proposed amendment broadens the scope of the disallowance provision by extending it beyond businesses integrated through fiscal electronic devices and software to all persons required to install electronic resources or operate as integrated enterprises under the prescribed framework. While the maximum disallowance has been reduced from eight percent to five percent, the amendment strengthens enforcement of digital integration requirements and may bring a wider range of taxpayers within its ambit. Taxpayers failing to comply with electronic integration requirements may face partial denial of deductible expenditure, resulting in a higher taxable income and tax liability.

Section 53A, Rationalization of rates of withholding taxes in the nature of minimum tax;

The finance bill proposes to add following section “53A Rationalization of rates of withholding taxes in the nature of minimum tax”

- (1) The Federal Government may reduce the rate of any of the withholding taxes in the nature of minimum tax as given in First Schedule of this Ordinance, other than minimum tax chargeable

under section 113 of this Ordinance, up to 1% on the basis of economic viability in cases of persons or class of persons, subject to such restrictions and limitations as the Federal Government may specify.

- (2) The Federal Government shall place before the National Assembly all amendments made in rates of withholding taxes in the First Schedule, in a financial year under this section

Section 64D, Tax credit for integration;

Sub-section (1)

The finance bill has proposed to substitute sub-section (1) currently which is:

(1) Any person who is required to integrate with Board's computerized system for real time reporting of sale or receipt, shall be entitled to tax credit in respect of the amount invested in purchase of point-of-sale machine.

(2) The amount of tax credit allowed under sub-section (1) for a tax year in which point of sale machine is installed, integrated and configured with the Board's computerized system shall be lesser of—

- (a) amount actually invested in purchase of point-of-sale machine; or
- (b) rupees one hundred and fifty thousand per machine.

(3) For the purpose of this section, the term point of sale machine means a machine meant for processing and recording the sale transactions for goods or services, either in cash or through credit and debit cards or online payments in an internet enabled environment.]

Proposed section 64-D is:

- (1) Any person required, under this Ordinance, the Sales Tax Act, 1990 or the Federal Excise Act, 2005, to integrate with the computerized system of the Board for real time production monitoring, or for the recording or reporting of sales or receipts, shall be entitled to a tax credit in respect of expenditure incurred exclusively on the purchase, acquisition, installation or implementation of such equipment, hardware, software or other electronic components as are directly and exclusively utilized for the purposes of such integration: Provided that the Board may prescribe limitations, conditions, and restrictions for availing the tax credit under this section. (2) The amount of tax credit allowed under sub-section (1) for a tax year in which electronic resource is installed, integrated and configured with the Board's computerized system shall be ten percent of the amount actually invested in the electronic resource. (3) Such tax credit shall not be allowable against

operation and maintenance expenses related to such electronic resource. (4) This tax credit shall be available only against normal tax payable under Division I or Division II of Part I of the First Schedule.”;

Section 76, Property acquired through Inheritance;

Sub-section (8A)

The finance bill proposes introduction of sub-section 8A:

“(8A) Where an immovable property is acquired by an individual through inheritance, the cost of such property in the hands of that individual shall be the fair market value of the property as provided under sub-section (5) of section 68 of this Ordinance on the day of the death of the original owner.”

The proposed amendment would provide relief to heirs by treating the fair market value of the property on the date of the original owner's death as the cost of acquisition for tax purposes. Consequently, any future capital gain on disposal of the inherited property would be computed with reference to the property's market value at the time of inheritance rather than its historical acquisition cost in the hands of the deceased. This would reduce the taxable capital gain arising on a subsequent sale and result in a lower tax burden for the inheritor while also simplifying the determination of cost for inherited properties.

Section 79, Non-Recognition Rules;

Sub-section (1)

The finance bill has proposed to add an explanation clause “Explanation: For the removal of doubt, it is clarified that transmission of an asset, in the nature of immovable property, to a beneficiary on the death of a person shall also include the transmission of assets by reason of family settlement amongst the family members consequent upon death of the person.”

The proposed explanation seeks to clarify that transfers of inherited immovable property made through family settlements following the death of a family member will qualify for non-recognition treatment under section 79. Consequently, such transfers would not be treated as taxable disposals giving rise to capital gains or losses merely because the property is distributed among legal heirs through a family settlement arrangement. The amendment is expected to reduce disputes regarding the tax treatment of inherited properties, provide certainty to taxpayers, and facilitate the smooth distribution of estate assets among family members without triggering unintended tax consequences.

Section 80, Person;

Sub-section (2)

The finance bill proposes to insert word limited liability partnership” along with word “association of persons”.

This insertion has been made in the context that, under the LLP Act, an LLP is treated as a "body corporate," and the definition of "company" under the Ordinance includes anybody corporate. This created an interpretational dispute as to whether an LLP should be classified and taxed as a company or as an association of persons, which this amendment now resolves by expressly clarifying its treatment under the residency provisions applicable to associations of persons.

The proposed amendment would expressly include limited liability partnerships (LLPs) within the residency rules applicable to associations of persons under the Income Tax Ordinance, 2001. This would provide legal certainty regarding the tax residency status of LLPs and ensure that LLPs formed or managed in Pakistan are subject to tax in accordance with the same residency principles applicable to other associations of persons. The amendment is intended to remove ambiguity and align the tax treatment of LLPs with the evolving legal framework governing business entities in Pakistan.

Section 92, Principle of taxation of association of persons;

The finance bill has proposed to omit following existing explanation "Explanation: – For removal of doubt it is clarified that if the income of association of persons is exempt and no tax is payable under the Ordinance due to this exemption, the share received in the capacity as member

out of the income of the association shall remain exempt"

And proposed to insert new sub-section:

"(4A) Where the income of a limited liability partnership is exempt from tax, the amount received by a member of a limited liability partnership in the capacity as a member of such partnership shall be taxable in the hands of the member of such partnership."

The proposed amendment changes the tax treatment of income distributed by exempt limited liability partnerships. Under the existing law, exempt income earned by an association of persons generally retains its exempt character when distributed to members. However, the proposed insertion of sub-section (4A) would require members of an LLP to pay tax on distributions received from an LLP even where the LLP itself enjoys an exemption from tax. Consequently, the tax benefit available at the LLP level would no longer automatically pass through to its members. The amendment appears intended to prevent the use of exempt LLP structures for passing tax-free income to partners and ensures that such income is brought into the tax net at the member level.

99B. Special procedure for small traders and shopkeepers;

The Finance Bill has proposed to substitute the expression "and payment of tax, filing of return", with the expression", rate and payment of tax including fixed tax, filing of return, audit".

Section 99B is being amended to substitute the expression "and payment of tax, filing of return" with the expression "rate and payment of tax including fixed tax, filing of return, audit."

Effect of the amendment:

The scope of the special procedure that the Board (with approval of the Minister-in-charge) may prescribe for small traders and shopkeepers is being significantly widened. Previously, the special procedure could only cover the scope and payment of tax and the filing of return. After this amendment, it will additionally and expressly cover:

The rate of tax applicable to such small traders and shopkeepers – meaning a specific, possibly fixed, rate structure can now be prescribed under this special scheme rather than relying on the general tax rates under the Ordinance.

Fixed tax –explicitly empowering the Board to prescribe a fixed tax regime (a predetermined lump-sum amount) for small traders/shopkeepers, instead of tax computed on actual income or turnover.

Audit – empowering the Board to prescribe a separate audit mechanism/procedure specifically for this category, distinct from the general audit provisions of the Ordinance.

The proposed amendment expands the powers of the Board to prescribe special procedures for small traders and shopkeepers. In addition to determining the scope and payment of tax, the Board would

also be empowered to prescribe tax rates, including fixed tax regimes, as well as procedures relating to filing of returns and audit. This amendment provides greater flexibility to design simplified taxation frameworks for small businesses and may facilitate the introduction of fixed tax schemes and specialized audit mechanisms for specified categories of taxpayers.

Section 114, Return of Income;

The finance bill has proposed to substitute, namely;

“(2A) A return of income shall be filed electronically on IRIS as may be prescribed by the Board for the purpose of sub section (1) and sub-section (1A) of this section and the Board may, by notification in the official Gazette, make rules for such filing and determine the process of verification, digital signatures and other matters relating to electronic filing of returns, statements or documents, etc.

Provided that in case of companies for tax year, 2026 and onwards the financial statements accompanying the return shall only be filed in electronically readable file format.”;

Also, it has proposed to insert after the word “therein”, the expression, “or avails a settlement offered by algorithmic settlement mechanism”.

Moreover, it has proposed to insert following subsection;

“(6B) Notwithstanding anything contained in sub-sections (6) and (6A) of this section, if a taxpayer avails a settlement offered by the algorithmic settlement mechanism, he may file a revised return, and the —

- a) approval of Commissioner shall not be required to file the revised return;
- b) taxpayer shall pay the amount of tax determined by the mechanism and no separate penalty or default surcharge shall be payable; and
- c) return so filed shall be accompanied by such documents as required under sub-section (6) and shall be treated as revised return under this section.”;

The proposed amendments introduce an algorithmic settlement mechanism within the return revision framework under section 114. Taxpayers accepting a settlement offered through the mechanism would be permitted to revise their returns, and such revised returns may be filed without prior approval of the Commissioner. The amendments further provide that payment of the tax determined by the mechanism would settle the matter without the imposition of separate penalty or default surcharge. Overall, the proposals are expected to encourage voluntary compliance, facilitate the correction of tax declarations through automated processes, reduce administrative intervention, and support the Board’s transition towards technology-driven tax administration under the Income Tax Ordinance, 2001.

Section 122E, Faceless Audit and Assessment;

The finance bill has proposed to introduce new section **122E. Faceless audit and assessment.** – (1) Notwithstanding anything to the contrary contained in any other provision of this Ordinance, any audit under sections 177 or 214C, any order made under section 111, any assessment under this Part and rectification under section 221, with respect to the cases referred to in sub-section (2), may be made in a faceless manner as may be prescribed by the Board. (2) The faceless assessment under sub-section (1) shall be made in respect of such persons or class of persons, or incomes or class of incomes, or cases or class of cases, as may be specified by the Board. (3) The provisions of section 177 shall apply to the audit conducted in faceless manner under this section: Provided that where opportunity of being heard is to be provided to the taxpayer during the course of this audit or a statement under oath is required to be obtained from a taxpayer or any other person under section 176 of this Ordinance, the same shall be done through E-hearing under section 227E of this Ordinance: Provided further that the identity of the officer, including facial and voice identity, conducting such E-hearing shall be kept confidential.”;

The proposed insertion would introduce a technology-driven framework for audit and assessment proceedings by reducing direct interaction between taxpayers and tax authorities. The amendment is expected to enhance transparency, standardization, and

administrative efficiency in tax proceedings, while minimizing discretion and facilitating centralized case management through digital platforms under the Income Tax Ordinance, 2001.

Section 129A, Faceless appeals;

The finance bill has inserted a new section namely:

“129A. Faceless appeals. – (1) Notwithstanding anything contained in this Ordinance, any appeal filed under section 127 may be processed through the National faceless center as may be prescribed by the Board. 55 (2) The provisions of sections 127, 128, and 129 of this Ordinance, shall apply to faceless appeals accordingly.”;

The proposed insertion would extend the faceless tax administration framework to appellate proceedings by enabling appeals to be processed through the National Faceless Center. The amendment is expected to improve efficiency, consistency, and transparency in the disposal of appeals, while reducing physical interaction between taxpayers and tax authorities and supporting a centralized, technology-driven appellate system under the Income Tax Ordinance, 2001.

Section 133A, Independent case scrutiny committee;

The finance bill has inserted a new sub-section namely:

(a) After sub-section (10), the following new sub-section shall be inserted:

"(10A) Notwithstanding the dissolution of the committee, the committee may, by an order in writing, rectify any mistake apparent from the record on its own motion or any mistake brought to its notice by the taxpayer or the Commissioner, within thirty days of the receipt of the decision of the committee by the taxpayer or the Commissioner, as the case may be."

(b) In sub-section (11), in the proviso, for the full stop at the end, a colon shall be substituted and the following provisos shall be added:

"Provided further that where, at any stage of the proceedings, any member of the committee becomes unavailable or is unable to perform his functions for any reason whatsoever, the Chairman of the Board shall, within fifteen days of the occurrence of such vacancy, appoint another person in accordance with the provisions of sub-section (3) of this section to fill such vacancy, and the committee so reconstituted shall continue to function subject to the same terms, conditions and limitations as were applicable to the original committee:

Provided also that upon such reconstitution, the committee shall be allowed a further period of sixty days to conclude the proceedings and perform its functions under this section:

Provided also that the total period available to the committee, including the period already consumed prior to such reconstitution, shall in no case be less than

ninety days from the date of its original constitution."

The proposed amendments strengthen the ADR framework by enabling correction of apparent mistakes in ADRC decisions even after dissolution of the committee and by ensuring continuity of proceedings where a committee member becomes unavailable. The amendments are expected to reduce procedural delays, prevent disruption of ADR proceedings, and improve the effectiveness and finality of dispute resolution under the Income Tax Ordinance, 2001.

Section 134B, Algorithmic settlement mechanism;

The finance bill has proposed to insert new sub-section, namely;

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

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

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

(a) the stage of proceedings at which settlement is offered;

(b) the taxpayer's compliance history, as maintained in FBR's data;

(c) the nature and character of the discrepancy, including whether it involves a valuation or legal interpretation dispute, unexplained income or assets, or concealment; and

(d) any other basis the Board may consider relevant to ensure revenue adequacy and equitable treatment of taxpayers.

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

(a) accept the settlement offer on IRIS;

(b) deposit the settlement offer amount along with the revised return; and

(c) revise the relevant return of income to incorporate the settled amount.

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

(6) Revision of return consequent upon acceptance of an offer under sub-section (4)

of this section shall not preclude proceedings in respect of any other issue or discrepancy not covered by the settlement offer, nor shall it affect proceedings for any other tax year.

The proposed insertion introduces a technology-driven dispute resolution mechanism that would enable taxpayers to settle identified discrepancies through automated settlement offers before completion of assessment proceedings. The amendment is expected to encourage voluntary compliance, expedite resolution of tax disputes, reduce litigation and administrative costs, and improve revenue collection through early settlement of cases. At the same time, by limiting the effect of settlement to specified issues and tax years, the proposal preserves the Board's authority to continue proceedings in respect of unrelated matters under the Income Tax Ordinance, 2001.

Section 143, Non-Resident Ship Owner or Charterer;

The Finance Bill proposes to amend section 143 by extending various obligations and responsibilities under the section to authorized shipping agents, as defined in section 2(6A). The amendment further proposes the insertion of new sub-sections (1A) and (1B) to provide that only one return shall be furnished for each vessel or voyage covering the total freight and all related amounts attributable to the ship, and that such return shall be furnished only by the master of the ship or the authorized shipping agent responsible for manifest filing and

freight handling. The proposed amendments also introduce joint and several liability of the master of the ship and the authorized shipping agent for tax obligations under the section, require electronic confirmation of filing and payment before grant of port clearance, and make consequential amendments throughout the section to recognize the role of authorized shipping agents.

The finance bill has proposed amendments namely: -

(a) In sub-section (1), after the word "**ship**", occurring for the second time, the expression "**, or the authorized shipping agent as defined in clause (6A) of section 2,**" shall be inserted.

(b) After sub-section (1), amended as aforesaid, the following new sub-sections shall be inserted:

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

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

(c) In sub-section (2):

(i) After the word "**ship**", occurring for the first time, the expression "**or authorized shipping agent**" shall be inserted; and

(ii) After the word "**master**", the words "**or authorized shipping agent**" shall be inserted.

(d) In sub-section (3), for the words "**shall be**", the words "**or authorized shipping agent shall be jointly and severally**" shall be substituted.

(e) In sub-section (4), after the word "**ship**", occurring for the second time, the words "**or authorized shipping agent**" shall be inserted, and after the word "**charterer**", occurring for the second time, the expression "**or authorized shipping agent**" shall be inserted.

(f) In sub-section (5), after the word "**Commissioner**", occurring at the end, the words "**and electronic confirmation of filing of return and payment of tax under this section has been received in the prescribed manner**" shall be inserted.

(g) In sub-section (6), after the word "**ship**", occurring for the second time, the words "**or authorized shipping agent**" shall be inserted.

The proposed amendments would formalize the role of authorized shipping agents in the tax compliance framework applicable to non-resident ship owners and charterers. By designating a single responsible person for filing returns for each vessel or voyage, introducing joint and several liability, and linking port clearance with electronic

confirmation of return filing and tax payment, the amendments are expected to strengthen compliance, improve accountability, reduce duplication of reporting, and facilitate more effective monitoring and collection of tax from international shipping operations under the Income Tax Ordinance, 2001.

Section 147, Advance Tax;

The finance bill has proposed to omit sub-section (6C) of the Income Tax Ordinance, 2001, namely;

6C) Notwithstanding anything contained in this Ordinance, the persons specified in sub-sections (1), (3), (3A), (3B) and (3C) of section 154 shall, at the time of realization of foreign exchange proceeds, or realization of the proceeds on account of sale of goods, or export of goods, or at the time of making payment to an indirect exporter, or clearing of goods exported, respectively, deduct or collect, as the case may be, advance income tax under this section at the rate of one percent of such foreign exchange proceeds, or export proceeds, or exports, or payment, in addition to tax collectable or deductible under section 154 of this Ordinance.

The proposed omission would eliminate the additional one percent advance income tax applicable to export-related transactions under section 154. As a result, exporters and other persons operating within the export chain would no longer be subject to this additional tax collection mechanism, reducing the upfront tax burden and

improving cash flows. The amendment is also expected to simplify withholding tax compliance relating to exports under the Income Tax Ordinance, 2001.

The proposed omission would eliminate the additional one percent advance income tax applicable to export-related transactions under section 154. As a result, exporters and other persons operating within the export chain would no longer be subject to this additional tax collection mechanism, reducing the upfront tax burden and improving cash flows. The amendment is also expected to simplify withholding tax compliance relating to exports under the Income Tax Ordinance, 2001.

Unresolved Anomaly: Minimum Tax under Sections 154 and 113

While this amendment offers meaningful relief to exporters in managing their cash flows, it does not address a fundamental anomaly that continues to distort the tax treatment of export income. Exporters remain simultaneously subject to:

- 1% minimum tax under section 154 applicable at the time of realization of export proceeds; and
- 1.25% minimum tax under section 113 applicable on turnover.

This dual minimum tax exposure creates an inequitable overlap, as exporters may effectively bear a higher minimum tax incidence compared to other taxpayers, without any mechanism for cross-adjustment between the two provisions.

Recommended Approach:

A more effective and equitable resolution would be to make the tax deducted under section 154 adjustable against the tax liability rather than treating it as a minimum in isolation. This structural reform would:

Eliminate the anomaly between sections 154 and 113;

Align the treatment of export income with broader principles of equity and neutrality in the tax system.

Until this underlying anomaly is addressed, the benefit of omitting sub-section (6C) will remain partial, and exporters will continue to face an uneven minimum tax burden relative to other sectors.

Section 151B, Certain payments by life insurance companies and takaful operators;

The finance bill has proposed to insert new section namely;

Section 151B – Certain Payments by Life Insurance Companies and Takaful Operators

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

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

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

(a) is made on account of death of the insured or participant;

(b) is made on account of disability of the insured or participant; or

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

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

The proposed insertion would introduce a dedicated withholding tax regime for gains derived from life insurance and family takaful products. The amendment is expected to bring investment-related returns arising from early surrender, maturity, or similar payouts within the tax net while excluding payments made on account of death, disability, and long-term policies held for more than seven years. The measure would enhance tax collection at source, provide certainty regarding the tax treatment of insurance and takaful proceeds, and encourage longer-term participation in life insurance and takaful products under the Income Tax Ordinance, 2001.

Section 152(1DA), Capital Gain on investments through Value Account;

The Finance bill has proposed amendment of following section;

(25) In section 152, for sub-section (1DA), the following shall be substituted:

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

The proposed amendment expands and clarifies the withholding tax mechanism applicable to capital gains earned through specified foreign currency and non-resident rupee value accounts. It brings all major categories of debt instruments and Government securities, including Shariah-compliant instruments, within the tax deduction framework, thereby ensuring uniform tax treatment and strengthening tax collection at source through banking channels under the Income Tax Ordinance, 2001.

Section 154B – Withholding Tax on Revenues Received from Social Media Platforms

(1) Every banking and non-banking financial institution shall, at the time of credit or

receipt of any amount in an account of a person, deduct tax at the rate specified in Division IIIAB of Part III of the First Schedule, where such amount represents revenues received from social media platforms.

(2) For the purposes of this section:

(a) "Digital content creator" or "social media influencer" means any individual or entity deriving income from the creation, publication, or monetization of content on digital platforms, including but not limited to YouTube, Facebook, Instagram, TikTok, or other similar platforms.

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

(3) The tax deducted under this section shall be:

(a) Minimum tax in the case of a resident person; and

(b) Final tax in the case of a non-resident person not having a permanent establishment in Pakistan.

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

The proposed amendment brings revenues earned by digital content creators and social media influencers within a formal

withholding tax framework by requiring deduction at the banking stage. The measure is expected to improve tax documentation of digital economy earnings, widen the tax base, and enhance compliance by capturing cross-border and platform-based income flows through financial institutions under the Income Tax Ordinance, 2001.

Section 159, Exemption or lower rate certificate

After sub-section (1B), the following new sub-sections shall be inserted:

"(1C) Where a person has distributed ninety percent or more of its accounting income amongst the unit or certificate holders or shareholders, as the case may be, in accordance with the provisions of clause (99) of Part I of the Second Schedule for the last three years, the person shall be eligible for issuance of an exemption certificate under sub-section (1), and the certificate shall be issued for the subsequent whole tax year.

(1D) Where a person has been issued approval under the provisions of sub-clause (c) of clause (36) of section 2 of this Ordinance for a tax year, the person shall be eligible for issuance of an exemption certificate under sub-section (1), and the certificate shall be issued for the said whole tax year."

The proposed amendments introduce a facilitative framework for issuance of exemption certificates to entities with consistent distribution of income or regulatory approval status. The measures are expected to streamline access to

exemption certificates for qualifying collective investment and similar entities, reduce administrative delays, and ensure alignment between tax exemption certification and existing regulatory and distribution requirements under the Income Tax Ordinance, 2001.

Section 165AB – Reporting of Financial Transaction Data by Banking Companies and Financial Institutions

The proposed amendment establishes a centralized, technology-driven financial data reporting and risk analysis framework by integrating banking and tax information through a secure Central Data Hub. The measure is expected to enhance detection of high-value financial discrepancies, strengthen data-driven compliance risk profiling, and improve coordination between financial institutions and tax authorities while maintaining confidentiality safeguards. It would enable automated identification of potential underreporting or mismatches in income and assets, thereby supporting enforcement and broadening the tax base under the Income Tax Ordinance, 2001.

The proposed amendment establishes a centralized, technology-driven financial data reporting and risk analysis framework by integrating banking and tax information through a secure Central Data Hub. The measure is expected to enhance detection of high-value financial discrepancies, strengthen data-driven compliance risk profiling, and improve coordination

between financial institutions and tax authorities while maintaining confidentiality safeguards. It would enable automated identification of potential underreporting or mismatches in income and assets, thereby supporting enforcement, improving transparency, and broadening the tax base under the Income Tax Ordinance, 2001.

Amendment in Section 169

In section 169, in sub-section (1), clause (b), after the expression "154A", the expression:

", clause (b) of sub-section (3) of section 154B," shall be inserted.

Effect of the amendment: Tax deducted under clause (b) of sub-section (3) of section 154B (i.e., withholding tax on social media revenues received by a non-resident person not having a permanent establishment in Pakistan) will be treated as final tax under section 169.

Section 174, Records

The Finance Bill 2026 has proposed substitution of sub-section (5) of Section 174 replacing the existing provision relating to Electronic Tax Registers with a broader and more comprehensive provision empowering the Board to prescribe electronic resources and require integration of enterprises for tax monitoring purposes.

Substitution of Sub-section (5)

The existing sub-section (5) has been substituted with the following:

"(5) The Board may require any person or class of persons to install and use an electronic resource of such type and description as may be prescribed, or to act as an integrated enterprise through a notification in the official Gazette for the purpose of receiving, storing, matching and accessing information regarding any transaction that has a bearing on the tax liability of such person."

Effect of Substitution:

Previously sub-section (5) empowered only the Commissioner to require individual persons to install an Electronic Tax Register. The substitution transfers this power to the Board, extends it to classes of persons, replaces the narrow concept of Electronic Tax Register with the broader term electronic resource and adds the concept of integrated enterprise. The expanded functions of receiving, storing, matching and accessing transaction information reflect a shift towards a fully integrated digital monitoring framework aligned with the broader technology driven compliance reforms introduced throughout the Finance Bill 2026.

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

The Finance Bill 2026 has proposed multiple amendments to sub-section (1) of Section 175AA expanding the scope of banking and tax information exchange by bringing the State Bank of Pakistan, Microfinance banks and Electronic Money Institutions within the framework and introducing a new

centralized virtual repository of banking data.

Amendments to Clause (a)

(i) After the word "with" occurring for the first time, the words "the State Bank of Pakistan and" have been inserted.

(ii) After the word "the" occurring for the fourth time, the expression "State Bank's Central Data Repository (by any name) and" has been inserted and the word "and" at the end has been omitted.

Amendments to Clause (b)

The words "State Bank of Pakistan, Microfinance banks, and Electronic Money Institutions (EMIs) and" have been inserted and the full stop at the end has been substituted with "; and."

Insertion of New Clause (c)

"(c) the State Bank of Pakistan may establish, operate and maintain a secure centralized virtual repository of banking data, comprising such information, records, and financial transactions of persons maintained by Scheduled banks on the basis of unique identifiers, as may be prescribed by the Board and collect and provide data and results as per clauses (a) and (b) of this sub-section."

Effect of Insertion:

The amendments expand the banking and tax information exchange framework by formally including the State Bank of

Pakistan, Microfinance banks and Electronic Money Institutions alongside scheduled banks, empowering the State Bank to establish a centralized virtual repository of banking data for cross matching with tax declarations through algorithm based analysis, significantly strengthening the Board's capacity to detect high risk persons across all formal financial channels.

Section 177, Audit

The Finance Bill 2026 has proposed insertion of a new sub-section (6B) in Section 177 empowering the Commissioner to order re-audit of accounts, re-valuation of inventory and actuarial determination of values during audit proceedings. This mirrors the corresponding provision introduced through sub-section (8A) of Section 25 of the Sales Tax Act, 1990 and extends the same framework to income tax audit proceedings with an additional ground of actuarial valuation.

Insertion of Sub-section (6B)

The following new sub-section has been inserted after sub-section (6A):

"(6B) If, at any stage of the proceedings before him, if the Commissioner is of the opinion that having regard to,

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

and interests of the revenue, is of the opinion that it is necessary so to do, he may, after giving the taxpayer a reasonable opportunity of being heard, and with the previous approval of the Chief Commissioner, direct the taxpayer to get either or all of the following to get the:

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

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

(iii) actuarial values in the accounts determined by an actuary and to furnish a report of such valuation duly signed and verified by such actuary including answers to the specific queries as the Commissioner may require.

Explanation: The accountant, the cost accountant, or actuary as referred to in sub-section (6B) shall be nominated by the Commissioner for the purposes of this sub-section from amongst the panel of such accountants, valuers, or actuaries nominated by the Board."

Effect of Insertion:

Sub-section (6B) empowers the Commissioner to order re-audit of accounts, re-valuation of inventory or actuarial

determination of values during audit proceedings where accounts are found complex, voluminous, doubtful or involve specialized business activity, subject to prior approval of the Chief Commissioner and a reasonable opportunity of hearing to the taxpayer. The inclusion of actuarial valuation as an additional ground goes beyond the corresponding provision in the Sales Tax Act, reflecting the more complex financial structures encountered in income tax proceedings. All appointees must be drawn from a Board nominated panel ensuring independence and accountability.

Section 182, Offences and penalties

The finance bill to substitute this explanation:

For the purposes of this entry, it is declared that the expression "tax payable" means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under section 120, 121, 122 or 122D;]

Proposed explanation is;

“Explanation. – For the purposes of this entry, it is declared that the expression "tax payable" means the higher of – (i) (ii) (b) tax chargeable on the taxable income on the basis of assessment made or treated to have been made under sections 120, 121, 122, 122D, or 122E; or the highest tax payable by the person in any of the three immediately preceding tax years for which returns of income were duly filed.”;

The amendment inserts new Serial Nos. 2A and 2B in the penalty table to strengthen the Federal Board of Revenue's (FBR) digital compliance and data integration framework. Under Serial No. 2A, a penalty of Rs. 1 million for the first default and Rs. 2 million for each subsequent default is imposed on persons who fail to install, operate, maintain, or properly use electronic resources prescribed under section 174(5), or who tamper with, disable, or circumvent such systems. Under Serial No. 2B, a penalty of Rs. 500,000 for the first default and Rs. 1 million for each subsequent default is imposed on the principal officer of an integrated organization that fails to integrate its IT systems, share required data, provide accurate and timely information, designate a focal person, or remedy identified deficiencies under section 175A. The amendment further introduces a comprehensive definition of "principal officer" to ensure accountability rests with the individual exercising overall executive responsibility. The measure is expected to enhance the effectiveness of FBR's digital tax administration, improve the quality and availability of third-party data, and encourage timely compliance by taxpayers and integrated organizations, while increasing governance and compliance responsibilities for affected entities.

S. No.	Default / Description	Penalty	Section
2A	Where any person, having been required by	One million rupees for the first default, and two	174(5)

<p>the Board under sub-section (5) of section 174 to install and use an electronic resource of the type and description prescribed for the purpose of storing and accessing information regarding any transaction that has a bearing on the tax liability of such person, fails to install such electronic resource within the time specified, or having installed it, fails to use, maintain, or operate it in the prescribed manner, or tampers with, disables, or circumvents such electronic resource.</p>	<p>million rupees for each subsequent default.</p>
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<p>2B Where any agency, authority, institution, or organization that is an integrated organization within the meaning of section 175A, or has been notified as such by the Board, fails without reasonable cause to —</p> <p>(a) integrate its IT platform such data interface as notified by the Board within the time specified; or</p> <p>(b) share data of the categories and in the manner required under section 175A or the rules made thereunder; or</p> <p>(c) provide complete,</p>	<p>A penalty of five hundred thousand rupees for the first default and one million rupees for each subsequent default shall be imposed on the principal officer of the integrated organization.</p> <p>"principal officer" for this purpose, means the person who, at the time of the default or during the period of continuing default, holds overall executive responsibility for the administration and functioning of the integrated organization, by whatever title or designation that person may be referred to under this ordinance, rules, or instrument constituting or</p>	<p>175A</p>
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<p>accurate, and timely data as required; or</p> <p>(d) designate a focal person as required; or</p> <p>(e) remedy a deficiency or non-compliance within thirty days of a written notice by the Board identifying the deficiency.</p>	<p>governing that organization, including but not limited to the Governor, Chairman, Chief Executive Officer, Director General, Managing Director, Secretary, or Principal Accounting Officer, as the case may be; where executive responsibility is shared between two or more persons by virtue of a collegiate body or board structure, the "principal officer" shall be the person who, within that body, holds specific responsibility for regulatory compliance, data governance, or information technology; and the absence of a formal designation, or a vacancy</p>	
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		<p>in the office, shall not relieve the person actually exercising the functions of the principal officer from liability under this section.</p>	
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- (a) Where a taxpayer who, without any reasonable cause, in non-compliance with provisions of section 177 –
 - (a) fails to produce the record of documents on receipt of first notice. (Such person shall pay a penalty of 7[twenty-five] thousand rupees;)
 - (b) b) fails to produce the record or documents on receipt of second notice; (such person shall pay a penalty of 8[fifty] thousand rupees)
 - (c) c) Fails to produce the record or documents on receipt of third notice (such person shall pay a penalty of 1[one hundred] thousand rupees)

Amendment proposed by Finance Bill:

against S. No. 8,— (i) under this in sub-entry (a), in column (3), for the expression "twenty five", the words "one hundred" shall be substituted; (ii) (iii) (d) in sub-entry (b), in column (3), for the word "fifty", the words "two hundred " shall be substituted; and in sub-entry (c), in column (3), for the word "one", the word "three" shall be substituted;

Effect of Amendment:

The amendment substantially increases penalties for non-compliance under section 177 by raising the amount for failure to produce record after first notice from twenty five thousand to one hundred thousand rupees for second notice from fifty thousand to two hundred thousand rupees and for third notice from one hundred thousand to three hundred thousand rupees This strengthens enforcement and significantly raises the financial risk of repeated noncompliance which is expected to improve taxpayer responsiveness and documentation compliance while also increasing the cost burden for those who fail to cooperate with tax authorities repeatedly.

The amendment significantly increases the penalty for making false or misleading statements or furnishing incorrect information to tax authorities by raising the fixed penalty from twenty five thousand rupees to five hundred thousand rupees and increasing the variable penalty from fifty percent to one hundred percent of the tax shortfall This change sharply escalates the financial consequences of misreporting or concealment and is aimed at strengthening deterrence against tax fraud and improving the accuracy honesty and reliability of taxpayer disclosures to Inland Revenue authorities

The amendment substantially increases the penalty for concealment of income or furnishing inaccurate particulars by replacing the existing fixed amount of one hundred thousand rupees with one million rupees while keeping the additional penalty equal to the tax sought to be evaded unchanged This change significantly raises the minimum financial consequence for tax evasion related misconduct thereby strengthening deterrence against underreporting and false declarations and encouraging greater accuracy transparency and compliance in income reporting before tax authorities and appellate forums

Proposed **below**
against S. No. 15, in column (3), for the word "forty", the expression "five hundred" shall be substituted and for the full stop occurring at the end a colon shall be substituted and thereafter the following new proviso shall be added, namely: – "Provided that where the defaulter in such case is a company, its Principal Officer shall be personally liable to pay an additional penalty of five hundred thousand rupees for such offense.";

The amendment substantially enhances enforcement for tax withholding failures by increasing the fixed penalty from **forty thousand** rupees to **five hundred thousand** rupees and by introducing an additional proviso that imposes a separate personal penalty of five

hundred thousand rupees on the Principal Officer of a company in case the defaulter is a corporate entity This not only raises the financial cost of non-compliance significantly but also extends liability to responsible officers thereby strengthening accountability improving tax deduction and collection discipline and reducing corporate level avoidance of withholding obligation.

against S. No. 35, in column (2), – (i) (ii) for the word " company", the expression " person, including a company" shall be substituted; and after paragraph (c), the following Explanation shall be inserted, namely: – "Explanation. – For the purposes of this entry, audited financial statements furnished in the form of image files, scanned documents, or password-protected files that are illegible or otherwise inaccessible to the concerned Inland Revenue authority shall be deemed to have been furnished as blank or incomplete documents."; and

The amendment broadens the scope of penalty by replacing the term "company" with "person including a company," thereby extending applicability to a wider category of taxpayers and not just corporate entities Additionally it introduces an Explanation that treats audited financial statements submitted in unusable formats such as scanned images illegible files or password protected documents as equivalent to blank or incomplete

submissions This strengthens compliance enforcement by closing technical loopholes in filing requirements and ensuring that only properly accessible and verifiable financial records are considered valid submissions to tax authorities.

after S. No. 35, amended as aforesaid, the following new S. Nos. and entries relating thereto in columns (2), (3) and (4) shall be added, namely: –

Sr. No 36 Offence Description

Where a person claims a credit in respect of tax withheld at source under any provision of this Ordinance in excess of the verifiably amount deducted and deposited by the withholding agent, as confirmed through the Board's computerized system or otherwise

Penalty:

Such person shall pay a penalty equal to the amount of excess credit claimed

Section 182A, Return not filed within due date

The Finance Bill 2026 has proposed enhancement of the surcharge payable by persons seeking inclusion in the active taxpayers list after filing a return beyond the due date under Section 182A. The surcharge amounts for all three categories of taxpayers have been significantly increased.

Against Sr. No 8 Substitution in Proviso of Clause (a)

(a) In paragraph (i), the word "twenty" has been substituted with "one hundred."

(b) In paragraph (ii), the word "ten" has been substituted with "fifty."

(c) In paragraph (iii), the word "one" has been substituted with "twenty-five."

Previously the surcharge for late filers seeking active taxpayer status was twenty thousand rupees for companies, ten thousand rupees for associations of persons and one thousand rupees for individuals. After this amendment the surcharge has been increased to one hundred thousand rupees for companies, fifty thousand rupees for associations of persons and twenty-five thousand rupees for individuals.

Effect of Increase in Penalty:

The amendment significantly enhances the financial consequence for late filing of income tax returns by increasing the surcharge across all taxpayer categories, with the individual surcharge increased twentyfold, the association of persons surcharge increased fivefold and the company surcharge increased fivefold, reflecting the legislature's firm resolve to enforce timely return filing compliance.

The enhancement of penalty thresholds and durations significantly increases the monetary consequences of default. It would act as a stronger deterrent against non-compliance and reinforce timely adherence to procedural and reporting requirements under the penalty regime.

against S. No. 12, in column (3), for the words "hundred thousand", the word "million" shall be substituted;

The increase in penalty magnitude from hundred thousand to million rupees materially enhances the punitive impact for non-compliance. This would particularly affect high-value taxpayers and strengthen enforcement effectiveness.

The proposed increase in penalty levels and introduction of personal liability for principal officers of companies significantly strengthens enforcement. It is expected to enhance corporate accountability and ensure personal responsibility of management for tax-related defaults.

The amendment broadens the scope of penalty applicability and clarifies that illegible or inaccessible digital filings will be treated as non-compliant submissions. This would enforce higher standards of electronic filing quality and discourage submission of defective audit documentation.

The new penalty provision introduces strict consequences for claiming excess withholding tax credit beyond verified amounts. It is expected to curb inflated credit claims, improve accuracy of tax refunds and credits, and strengthen system-based verification under the Income Tax Ordinance, 2001.

Section 209A, Uniform

The Finance Bill 2026 has proposed omission of Section 209A in its entirety. Section 209A previously empowered the Board to prescribe rules for wearing of uniform by officers and staff of the Inland Revenue

Service of Pakistan through notification in the official gazette.

Amendment -- Omission of Section 209A

Section 209A, which provided for prescription of uniform rules for officers and staff of the Inland Revenue Service of Pakistan, has been omitted in its entirety.

Effect of Omission:

The omission of Section 209A from the Income Tax Ordinance removes the uniform provision from this Ordinance as the subject matter has been separately and more appropriately incorporated through the insertion of Section 237C, which now exclusively governs the prescription of uniform rules for Inland Revenue Service officers and staff, consolidating the provision under a single dedicated section.

Section 209B, Faceless jurisdiction of income-tax authorities

The following new section has been inserted after Section 209A:

"209B. Faceless jurisdiction of income-tax authorities. (1) Notwithstanding anything contained in this Ordinance, the Inland Revenue tax authorities appointed in National faceless center shall perform all or such functions, and exercise all or such powers under this Ordinance as may be assigned to them in respect of such persons, or classes of persons, for such tax years of a person through algorithms developed by the Board.

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

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

(4) The Chief Commissioner appointed in the National faceless center may request the Board to direct the Commissioner having jurisdiction under section 209 or any other Income Tax Authority, as it may deem fit to conduct physical verification including nature and size of the business, assets, investments, expenditures, and any other information or verification required by the Chief Commissioner for conducting any proceedings assigned to the National faceless center:

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

(5) Notwithstanding anything contained in any law for the time being in force, the identity of the authority exercising jurisdiction in the National faceless center

shall be kept confidential from the taxpayer, the authorized representative of the taxpayer, and any unauthorized person.

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

Effect of Insertion:

Section 209B establishes faceless jurisdiction for income tax authorities through the National Faceless Centre, with jurisdiction assigned via Board developed algorithms on an exclusive or concurrent basis. The Board retains power to transfer jurisdiction back to regular commissioners and to order physical verification through algorithm-based allocation. The identity of the authority is mandatorily kept confidential and no proceeding can be invalidated on grounds of jurisdictional defect, lack of delegation or confidentiality of identity, providing strong legal protection to the faceless system and bringing the income tax regime in full alignment with the faceless framework introduced under the Sales Tax Act, 1990.

Section 216, Disclosure of information by a public servant

The Finance Bill 2026 has proposed two amendments to sub-section (3) of Section 216 expanding the categories of persons to whom confidential tax information may be disclosed and broadening the institutions eligible to receive anonymized taxpayer data for research purposes.

Substitution of Clause (ba)

The existing clause (ba) has been substituted with the following:

"(ba) to an auditor, audit mentors and sectoral experts appointed on contractual basis or engaged through a third party including a payroll firm in the Federal Board of Revenue, after a non-disclosure agreement is made with such auditor as may be prescribed, to assist any authority mentioned in clauses (b) to (g) of sub-section (1) of section 207."

Effect of Substitution:

The substitution expands permissible disclosure beyond auditors to now include audit mentors and sectoral experts, aligning Section 216 with the expanded appointment powers introduced through the amendment to Section 222, subject to mandatory non-disclosure agreements.

Substitution in Clause (ke)

The words "and international" have been substituted with ", international research institutions and international."

Effect of Substitution:

International research institutions have been added alongside recognized universities and international donor agencies as eligible recipients of anonymized taxpayer data, broadening the scope of permissible disclosure for research and policy analysis purposes.

Section 222, Appointment of Expert

The Finance Bill 2026 has proposed insertion of an expression in sub-section (2) of Section 222 expanding the categories of persons that the Board may appoint on contractual basis or through third party arrangements for carrying out the purposes of the Ordinance.

Insertion in Sub-section (2)

In sub-section (2), after the word "auditors" occurring for the first time, the expression ", audit mentors and sectoral experts" has been inserted.

Previously the Board was empowered to appoint auditors on contractual basis or through third party arrangements. After this amendment the Board may now additionally appoint audit mentors and sectoral experts alongside auditors subject to the existing cap of two thousand persons in total.

Effect of Insertion:

The amendment broadens the Board's appointment powers under Section 222 by formally recognizing audit mentors and sectoral experts as distinct categories of appointees, enabling the Board to engage specialized human resources with sector specific knowledge and mentoring

capabilities to support and enhance the quality of audit functions carried out under the Ordinance.

Section 227D, Automated impersonal tax regime

The Finance Bill 2026 has proposed substitution of Section 227D in its entirety, replacing the previous limited automated impersonal tax regime with a comprehensive National Faceless Centre framework mirroring the corresponding provision introduced through Section 32C of the Sales Tax Act, 1990.

Substitution of Section 227D

The existing Section 227D has been substituted with the following:

"227D. National faceless center. (1) Notwithstanding anything to the contrary contained in any of the provisions of this Ordinance, the Board may, for the purposes of proceedings under this Ordinance in faceless manner, establish a National faceless center and specify its jurisdiction, powers and functions.

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

(3) The Board may design algorithms for assigning any function or jurisdiction under

this section to any of the authorities mentioned in sub-section (2).

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

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

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

Effect of Substitution:

The substitution replaces the previous limited regime restricted to low-risk taxpayers with a full National Faceless Centre applicable to all proceedings under the Ordinance, operating through algorithm-based case assignment, mandatory separation of audit and assessment functions and exclusively electronic communications, bringing the income tax faceless framework in alignment with the Sales Tax Act, 1990.

Section 228, The Directorate General of Internal Audit

The Finance Bill 2026 has proposed insertion of a new Section 228A establishing the Directorate General (Field Compliance) Inland Revenue under the Income Tax Ordinance, 2001. This insertion mirrors the corresponding amendment made to the

Sales Tax Act through the insertion of Section 30DDDB, reflecting the legislature's intent to create a unified and dedicated field compliance directorate across both the income tax and sales tax regimes.

Insertion of New Section 228A

The following new section has been inserted after Section 228:

"228A. Directorate General (Field Compliance), Inland Revenue. (1) The Directorate General (Field Compliance) Inland Revenue shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Board, may by notification in the official Gazette, appoint.

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

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

(b) confer the powers of authorities specified in section 207 upon the Directorate General and its officers."

Effect of Insertion:

The new section establishes a dedicated Directorate General for Field Compliance under the Income Tax Ordinance, empowering the Board to define its composition, functions and jurisdiction through official gazette notifications. By conferring powers of authorities under section 207 upon this directorate, field compliance officers are vested with full

statutory authority to carry out enforcement activities under the income tax regime, strengthening on ground compliance operations and creating an institutionally parallel structure to that established under the Sales Tax Act.

Section 231B, Advance Tax on Motor Vehicle

The Finance Bill 2026 has proposed two amendments to sub-section (6) of Section 231B relating to the definition of date of first registration for the purposes of advance tax on motor vehicles. The amendments streamline the provisions by adding a conjunction after clause (b) and omitting clause (c).

Substitution in Sub-section (6)

(i) In clause (b), after the semi colon occurring at the end, the word "and" has been added.

(ii) Clause (c) has been omitted.

Previously clause (c) provided that the date of first registration in case of acquisition of an unregistered vehicle from the Federal or a Provincial Government shall be the last day of the year of manufacture. After this amendment clause (c) has been omitted and clause (b) now connects directly to clause (d) through the addition of the word "and."

Effect

The omission of clause (c) removes the special treatment accorded to unregistered vehicles acquired from the Federal or Provincial Government for the purposes of determining the date of first registration.

Such vehicles will now fall under the residual clause (d) whereby the date of first registration shall be determined by the Excise and Taxation Department, bringing them within the general registration framework and eliminating a specific concession that previously extended the effective registration date to the last day of the year of manufacture.

Section 236CA, Advance tax on TV plays and advertisements

The Finance Bill 2026 has proposed omission of Section 236CA in its entirety. This section previously dealt with collection of advance tax on foreign TV drama serials, dubbed plays and advertisements featuring foreign actors certified by any licensing authority for screening on landing rights channels.

Omission of Section 236CA

Section 236CA, which provided for collection of advance tax by any licensing authority certifying foreign TV drama serials, dubbed plays or commercials featuring foreign actors for screening on landing rights channels, has been omitted in its entirety.

Effect of Omission:

The omission of Section 236CA removes the advance tax collection obligation previously imposed on licensing authorities certifying foreign TV content and advertisements for landing rights channels. This effectively eliminates the minimum tax treatment that was applicable to income arising from such foreign drama serials, plays and

advertisements, potentially easing the regulatory and tax burden on the foreign content broadcasting sector in Pakistan.

Section 237C, Uniform

The Finance Bill 2026 has proposed insertion of a new Section 237C empowering the Board to prescribe rules for wearing of uniform by officers and staff of the Inland Revenue Service of Pakistan. This is an administrative reform aimed at bringing uniformity, professionalism and institutional identity to the Inland Revenue Service.

Insertion of New Section 237C

The following new section has been inserted after Section 237B:

"237C. Uniform. The Board may by notification in the official Gazette, prescribe rules for wearing of uniform by officers and staff of Inland Revenue Service of Pakistan."

Effect of Insertion:

The insertion empowers the Board to introduce and regulate a formal uniform for all officers and staff of the Inland Revenue Service through gazette notification. This reform serves to enhance the institutional identity and professional image of the Inland Revenue Service, facilitate public recognition of tax officials in the field particularly in the context of expanded field compliance operations introduced through the newly established Directorate General (Field Compliance), and promote discipline and uniformity within the service.

First Schedule

The Finance Bill 2026 has proposed substitution of the existing Table under clause (2) of Division I of Part I of the First Schedule relating to income tax rates applicable to salaried individuals. The new Table revises the tax slabs and applicable rates.

S. No.	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 + 20% 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. 316,000 + 25% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 4,100,000 but does not exceed Rs. 5,600,000	Rs. 541,000 + 29% of the amount exceeding Rs. 4,100,000
7	Where taxable income exceeds Rs. 5,600,000 but	Rs. 976,000 + 32% of the amount

	does not exceed Rs. 7,000,000	exceeding Rs. 5,600,000
8	Where taxable income exceeds Rs. 7,000,000	Rs. 1,424,000 + 35% of the amount exceeding Rs. 7,000,000

Substitution of Table in Division IIB

The existing Table in Division IIB has been substituted with the following:

TABLE

S. No.	Description	Rate of Tax
1	Income of a banking company exceeding Rs. 150 million	10% of the income
2	Income of a person, whose income is computed as per Part I of the Fifth Schedule, exceeding Rs. 150 million, so far as it does not exceed the limit specified in rule 4 of that Part	10% of the income
3	Income of a person, engaged in deriving income from sale of any kind of fertilizer, exceeding Rs. 150 million	10% of the income
4	Income of a person other than those mentioned in S. No. 1, 2 and 3, exceeding Rs. 500 million	8% of the income

Substitution in Division IVA

The word "delivered" has been substituted with the word "ordered."

Effect: The trigger point has been shifted from the date of delivery to the date of order, advancing the point at which the applicable obligation or rate becomes effective.

Insertion in Division VII

In the third proviso of Division VII, after the word "shall", the words "charge and" have been inserted.

Effect of Insertion: The relevant authority shall now both charge and collect the advance tax on motor vehicles, removing any ambiguity as to whether the obligation extends to the charging stage in addition to collection.

The Finance Bill 2026 has proposed multiple amendments to Parts III and IV of the First Schedule including insertion of new Divisions, substitution of existing rates and provisions and omission of certain Divisions, collectively overhauling withholding tax rates and structures across various sectors.

Omission in Division IX

The Finance Bill has omitted entry no (a) in Sr. No 3 in Division IX that reads as:

(a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes; Previously, distributors of pharmaceutical products, FMCG, and cigarettes enjoyed a reduced minimum tax rate of 0.25% under section 113. With the omission of this entry, these persons now fall under the general minimum tax rate of 1.25% under section 113.

Withholding tax under section 153 unaffected:

This omission relates only to the minimum tax regime under section 113. It does not affect the separate concessionary withholding tax rate under section 153(1)(a), which remains governed by clause (24C) of Part II of the Second Schedule.

Under clause (24C), the withholding tax rate for distributors, dealers, sub-dealers, wholesalers, and retailers of fast moving consumer goods, fertilizer, electronics (excluding mobile phones), sugar, cement, steel, and edible oil – as recipients of payment – continues to be 0.25% of the gross amount of payment, subject to the condition that the recipient appears on the Active Taxpayers' List under the Sales Tax Act.

Effect of Omission:

Withholding tax deducted under section 153(1)(a) on such payments: remains 0.25% (per clause 24C, unaffected).

Minimum tax liability under section 113: now 1.25% (general rate), instead of the previously available 0.25%.

So, while the withholding deduction at source stays at 0.25%, it will no longer discharge the minimum tax liability the taxpayer will now be subject to the general minimum tax rate of 1.25% under section 113, with the 0.25% withheld being adjustable/creditable against this higher minimum tax liability (and any shortfall payable accordingly).

Amendment (i) -- Insertion of Division IC

After the omitted Division IB, the following new Division has been inserted:

Division IC -- Certain Payments by Life Insurance Companies and Takaful Operators

S. No.	Description	Rate of Tax
1	Where payout or benefit is made within one year from the date of issuance of the life insurance policy, family takaful certificate or plan	15%
2	Where payout or benefit is made after one year but before completion of seven years from the date of issuance of the life insurance policy, family takaful certificate or plan	10%

Amendment (ii) -- Amendments to Division III

The following changes have been made to paragraph (2) of Division III:

S. No.	Nature of Service	Rate of Tax
(i)	General services	7% (revised from 6%)
(ii)	Independent professional services (doctors, lawyers, architects, accountants, software engineers or developers, working independently)	15%
(iii)	Advertising services for electronic and print media	1.5% of gross amount

(iv)	Services other than those covered above	14% of gross amount
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Amendment (iii) -- Revision in Division

IIIAA

Division	Previous Rate	Revised Rate
Division IIIAA	15%	20%

Amendment (iv) -- Insertion of Division

IIIAB

Division IIIAB -- Withholding Tax on Revenues Received from Social Media Platforms

Clause	Person	Rate of Tax
(a)	Resident persons whose name appearing in the Active Taxpayers List	5%
(b)	Non-resident persons (Final Tax)	5%

Note: Tax collected under clause (b) shall be final tax.

Amendments (v) to (x) -- Rate Revisions, Extensions and Omissions

Amendment	Division / Provision	Previous Position	Revised Position
(v)	Division IV -- Paragraphs (1) and (3)	1%	1.25%

(vi)	Division IVA -- Timeline for S. No. 1	2026	2029
(vii)	Division X -- Advance tax on sale or transfer of immovable property (Section 236C)	Previous rate	2.75% of gross consideration
(viii)	Division XVIII -- Advance tax on purchase of immovable property (Section 236K)	Previous rate	1.25% of fair market value
(ix)	Division XXVII	5%	0.5%
(x)	Division XA	Applicable	Omitted in entirety

Second Schedule

The Finance Bill 2026 has proposed multiple amendments to Parts I, II and IV of the Second Schedule covering exemptions, reduced rates and conditions, reflecting policy adjustments relating to charitable organizations, foreign currency accounts, non-resident Pakistanis and various sector specific tax rates.

Amendment (a) -- Part I

(i) Clause (57), Sub-clause (4) -- Approved Charitable Institutions

Changes to Table under Sub-clause (4)

Sr. No.	Previous Entry	Revised / New Entry	Nature
xiii	National Endowment Scholarship for Talent (NEST)	Pakistan Education Endowment Fund	Substituted
liii	--	Pakistan Crescent Society	New Entry
liv	--	Shaheen Foundation established by Pakistan Air Force	New Entry
lv	--	Dawat-e-Hadiya	New Entry
lvi	--	Bahria Foundation established by Pakistan Navy	New Entry
lvii	--	Sindh Institute of Urology and Transplantation	New Entry

(ii) Clause (78) -- Foreign Currency Account Scheme

Previous Expression	Substituted Expression
Foreign Currency Account Scheme	any foreign currency account scheme(s)

(iii) Clause (79) -- Non-Resident Person Definition

Previous Expression	Substituted Expression
Non-resident individual holding a	A person maintaining a Non-

Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC)	Resident Pakistani Rupee Value Account (NRVA) or Non-Resident Business Value Account (NRBVA) under the scheme introduced by the State Bank of Pakistan
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Amendment (b) -- Part II

(i) Clause (5AA) -- Scope Expansion

Element	Previous	Revised
Taxpayer Category	Individual	Person
Account Types Covered	Foreign currency account	FCVA, FCBVA, NRVA, NRBVA

(ii) New Clause (24CC) -- Terminal and Port Services

Provision	Rate
Tax under clause (b) of sub-section (1) of section 153 deducted from a person rendering terminal or port service	12% of gross amount of payment

(iii) Substituted Clause (24D) -- Minimum Tax for Distributors and Wholesalers

Category	Previous Rate	Revised Rate
Distributors, dealers, sub-dealers and wholesalers of packaged food, fertilizer, locally manufactured mobile phones, sugar and electronics (subject	Previous rate	0.5%

to active taxpayer status under Sales Tax Act 1990 and Income Tax Ordinance 2001)		
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Amendment (c) -- Part IV

(i) to (iv) and (vii) -- Miscellaneous Amendments

Amdt.	Clause	Nature of Change
(i)	Clause (12A)	Word 'to' (second occurrence) substituted with 'by'
(ii)	Clause (47B)	Expression '151A,' inserted after '151,'
(iii)	Clause (46A)	Omitted in entirety
(iv)	Clause (57)	Omitted in entirety
(v)	Clause (111AB)	Non-resident account definition expanded to include FCVA, FCBVA, NRVA and NRBVA
(vii)	Clause (115)	Word 'one' substituted with 'two'

(vi) Substituted Clause (114A) -- Exemption from Return Filing for Foreign Currency Account Holders

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

Eight Schedule

The Finance Bill 2026 has proposed omission of rule 5 of the Eighth Schedule which previously allowed persons to opt out of the special tax determination and payment regime by filing an irrevocable option with NCCPL after obtaining prior approval of the Commissioner.

Amendment - Omission of Rule 5

Provision	Previous Position	Position after Amendment
Rule 5 -- Eighth Schedule	Persons could file an irrevocable option with NCCPL after obtaining prior approval of the Commissioner to opt out of the tax determination and payment regime under the Eighth Schedule, upon which the provisions of rule 2 would not apply.	Omitted in its entirety. The opt out mechanism is no longer available. The special tax regime under the Eighth Schedule is now mandatory for all covered persons.

Effect of the Amendment

Before Amendment	After Amendment
Opt out mechanism available via irrevocable option filed with NCCPL	No opt out mechanism available
Prior Commissioner approval required for opting out	Commissioner approval no longer relevant as opt out is abolished

Rule 2 did not apply to persons who successfully opted out	Rule 2 applies uniformly to all covered persons without exception
Capital gains tax regime on securities applied selectively	Capital gains tax regime on securities applies mandatorily to all covered persons

	from 1st July 2025 was excluded from applicability of the Tenth Schedule	to the standard withholding tax framework under the Tenth Schedule.
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Tenth Schedule

The Finance Bill 2026 has proposed two amendments to the Tenth Schedule by omitting rule 1A in its entirety and omitting clause (y) of rule 10.

Summary of Amendments

Amdt .	Provision	Previous Position	Position after Amendment
(a)	Rule 1A -- Tenth Schedule	Higher rates of tax collection under sections 236C and 236K applicable to active taxpayers list persons who had not filed return by due date	Omitted in entirety. Standard rates apply uniformly to all taxpayers without distinction based on return filing status.
(b)	Clause (y) of Rule 10 - - Tenth Schedule	Tax collected under section 37A on disposal of securities acquired on and	Omitted. Tax collected under section 37A on disposal of such securities is now subject

Amendment (a) -- Omission of Rule 1A

Before Amendment	After Amendment
Higher rate of 7.5%, 8.5% or 9.5% (based on consideration) applicable under section 236C for active taxpayers who did not file return by due date	Standard rate of 2.75% under section 236C applies to all persons without distinction
Higher rate of 4.5%, 5.5% or 6.5% (based on fair market value) applicable under section 236K for active taxpayers who did not file return by due date	Standard rate of 1.25% under section 236K applies to all persons without distinction
Exception available for persons who filed returns timely for all of last three preceding tax years	No such exception required as higher rate regime has been abolished entirely

Amendment (b) -- Omission of Clause (y) of Rule 10

Before Amendment	After Amendment
Tax collected under section 37A on disposal of securities acquired on and from 1st July 2025 was excluded from the Tenth Schedule regime	Tax collected under section 37A on disposal of such securities now falls within the Tenth Schedule regime

Tenth Schedule did not apply to such transactions	Standard withholding tax framework of the Tenth Schedule applies to all such transactions
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AMENDMENTS IN SALES TAX ACT, 1990

Section 2, Definitions;

The Finance Bill 2026 has proposed multiple amendments to Section 2 of the Sales Tax Act introducing several new definitions and modifying existing ones to align the definitional framework with the new digital, faceless and algorithmic mechanisms introduced throughout the Act.

Insertion of Clauses (1AA) and (1AAA)

The Finance bill has proposed to insert clause (1A) which reads as:

"(1AA) advance receipt invoice means an invoice in the format as may be notified by the Board from time to time.

And clause 1AAA which reads as:

(1AAA) algorithmic settlement mechanism means algorithmic settlement mechanism provided under section 26AAA of this Act."

Effect of Insertion: Two new definitions have been introduced to provide statutory recognition to the advance receipt invoice introduced through amendments to Section 23 and the algorithmic settlement mechanism introduced through Section 47AA, anchoring both concepts within the definitional framework of the Act.

Insertion of Clause (9AB)

After the omitted clause (9AA), the Finance bill has proposed following new clause to be inserted:

"(9AB) electronic invoicing system means such electronic system or mechanism as may be prescribed or approved by the Board for issuance and recording of sales tax invoices in electronic form."

Effect of Insertion:

The insertion provides a formal statutory definition for electronic invoicing system, supporting the broader digital invoicing reforms introduced through amendments to Section 23 and giving the Board authority to prescribe or approve such systems.

Insertion of Clause (17A)

The Finance Bill has proposed to insert After clause (17), the following new clause:

"(17A) National faceless center means National faceless center as defined in section 32C of the Act."

Effect of Insertion:

The insertion formally defines the National Faceless Centre within the definitions section, cross referencing Section 32C and providing a clear statutory anchor for the faceless regime introduced throughout the Act.

Insertion of Clause (22) (1A)

The Finance Bill has proposed to insert after clause (22), the following new clause:

"(22) (1A) production monitoring system means any system or technology, used for the purposes of monitoring production and sale of goods, whether in real-time or otherwise including such systems or technologies as may be prescribed by the Board from time to time."

Effect of Insertion:

The insertion provides a formal definition for production monitoring system, supporting the monitoring and tracking reforms introduced through amendments to Section 40C and giving the Board authority to prescribe qualifying systems and technologies.

Amendments to Clause (43A) - Tier-1 Retailer

The following amendments have been proposed to clause (43A) via Finance Bill:

(i) In sub-clause (d), after the expression "wholesaler-cum-retailer", the expression "having turnover more than two hundred million" has been inserted.

Previously any wholesaler-cum-retailer engaged in bulk import and supply of consumer goods qualified as a Tier-1 retailer. After this amendment only those wholesaler-cum-retailers having turnover exceeding two hundred million rupees shall qualify, narrowing the scope of this sub-clause.

(ii) Sub-clauses (f) and (g) have been omitted.

(iii) After omitted sub-clause (ga), the following new sub-clause has been inserted:

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

(iv) In sub-clause (h), the full stop at the end has been substituted with a colon and the following proviso has been added:

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

Effect of Amendment:

The amendments rationalize the definition of Tier-1 retailer by introducing a clear turnover threshold of two hundred million rupees as the primary criterion, replacing the omitted sub-clauses (f) and (g) with a more objective and verifiable turnover based test under new sub-clause (gb). The Board is also empowered to exclude any person or class of persons from Tier-1 status through notification, providing administrative flexibility in implementation.

Addition of Explanation to Clause (44)(a)

The Finance Bill has inserted the following explanation has been added:

"Explanation. For the removal of doubt, the term goods are delivered or made available

mean the goods become ready for dispatch from the business premises including but not limited to factory, warehouse, godown or branch."

Effect of Insertion:

The explanation clarifies the time of supply for goods by specifying that delivery or making available of goods occurs when they become ready for dispatch from the business premises, removing ambiguity around the trigger point for the time of supply and ensuring consistent application across different types of business premises.

Amendment to Clause (46)(j)

In clause (46), in sub-clause (j), in the first proviso, the colon at the end has been substituted with a full stop and the following expression has been added:

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

Effect of Amendment:

The amendment empowers the Board to use Pakistan Bureau of Statistics valuations as a reference for valuing used vehicles and to outsource valuation functions to third parties, introducing greater objectivity and transparency in the valuation process while

reducing the potential for disputes over declared values.

Section 6, Time and Manner of Payment

The Finance Bill 2026 has proposed insertion of a new proviso in sub-section (2) of Section 6 introducing a special mode of sales tax collection for steel melters, steel re-rollers and composite units. This amendment introduces an electricity consumption-based tax collection mechanism for the steel sector, replacing the conventional transaction-based collection method with a more verifiable and production linked approach.

After the first proviso in sub-section (2), the full stop has been substituted with a colon and the following new proviso has been added:

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

Effect of Insertion:

The amendment introduces a sector specific electricity consumption-based tax collection mechanism for steel melters, re-rollers and composite units, addressing the

longstanding challenge of under-reporting of production in the steel sector. The tax collected on this basis remains adjustable and excess amounts are refundable on a monthly basis through the Board's automated refund system, however this benefit is exclusively available to those registered persons who integrate with the Board's prescribed production monitoring and digital invoicing systems, creating a strong incentive for technology adoption and compliance within the steel sector.

Section 8B, Adjustable Input tax

Finance Bill has proposed to insert a new third proviso which reads as:

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

Effect of Insertion:

Previously the Board could only exclude persons from the 90% input tax adjustment limit. Now the Board is additionally empowered to reduce or enhance that limit for any registered person based on their level of digital compliance. Specifically:

1. Compliant persons — those integrated with production monitoring, digital invoicing, e-bilty, POS or other prescribed electronic systems — may be

rewarded with an enhanced input tax adjustment limit.

2. Non-compliant persons — those failing to integrate with such systems — may face a reduced input tax adjustment limit as a penalty.

This amendment effectively uses input tax adjustment as a lever to enforce digital integration and compliance with the Board's electronic systems.

Section 9, Debit and Credit Note

The Finance Bill 2026 has proposed insertion of a proviso in Section 9 governing the issuance of debit and credit notes. This amendment empowers the Board to prescribe a formal mechanism including electronic adjustments for issuance of debit and credit notes, bringing this process within a structured and digitally governed framework.

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

Effect of Insertion:

Previously the issuance of debit and credit notes was subject only to such conditions and limitations as the Board may impose without any specific reference to an electronic mechanism. The amendment empowers the Board to prescribe a comprehensive mechanism including electronic adjustments for this process,

aligning the debit and credit note regime with the broader digital invoicing and monitoring reforms introduced through the Finance Bill 2026 and ensuring greater transparency and auditability in post supply adjustments.

Section 11H, Faceless audit and assessment

The Finance Bill 2026 has proposed insertion of a new Section 11H introducing faceless audit and assessment as a formal mode of conducting audit and assessment proceedings under the Sales Tax Act. This insertion completes the faceless regime framework introduced through Sections 30AA, 32C and 45C by extending the faceless mechanism to audit, assessment and rectification proceedings.

The following new section has been inserted after Section 11G:

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

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

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

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

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

Effect of Insertion: Section 11H extends the faceless framework to audit under sections 25 and 72B, assessment orders under section 11E and rectification under section 57, enabling these proceedings to be conducted without any direct physical interface between the taxpayer and the tax authority. All procedural safeguards under section 25 remain applicable and where hearings or sworn statements are required they shall be conducted through E-hearing, with the officer's identity including facial and voice identity kept strictly confidential, ensuring both taxpayer rights and the integrity of the faceless system are simultaneously protected.

Section 21, De-registration, blacklisting and suspension of registration

The Finance Bill 2026 has proposed to insert an additional ground for suspension and blacklisting in Sub-section (2) of Section 21.

Through this insertion, non-compliance with registration obligations under Section 23 and monitoring requirements under Section 40C has been brought on equal footing with fake invoicing and tax fraud.

In Sub-section (2) of Section 21, after the word "invoices", the following expression has been newly inserted:

", has committed non-compliance of sub-sections (5) and (6) of section 23 or section 40C"

Amended Sub-section (2) Now Reads as:

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

Effect of the Amendment:

Previously, suspension or blacklisting under this sub-section was limited to cases of fake invoices or tax fraud. The Finance Bill 2025 adds a third ground, being non-compliance with Sub-sections (5) and (6) of Section 23 relating to registration obligations and Section 40C relating to installation of tracking and monitoring systems. This means procedural lapses in these areas can now independently trigger suspension or blacklisting, elevating monitoring

compliance to the level of a critical statutory obligation.

Section 23, Tax Invoices

The Finance Bill 2026 has proposed two amendments to Sub-section (1) of Section 23. The first amendment expands the scope of invoice issuance to include exempt supplies and introduces a verifiable and unique FBR invoice number along with advance receipt invoices. The second amendment substitutes the existing provisos in clause (b) with revised provisions governing advance receipt invoices and the applicability of the FBR invoice number requirement.

The existing provisos after the Explanation in clause (b) have been substituted with the following:

"Provided that the Board may notify any person or class of persons who may be allowed to issue an advance receipt invoice within the notified system: Provided further that the condition of verifiable and unique FBR invoice number shall be applicable from a time as notified by the Board."

The substituted provisos remove the earlier conditions relating to NIC and NTN and replace them with provisions that empower the Board to notify persons eligible to issue advance receipt invoices and to determine the effective date for the FBR invoice number requirement, providing flexibility in implementation.

Section 25, Audit of sales tax affairs

The Finance Bill 2026 has proposed multiple amendments to Section 25 dealing with audit of sales tax affairs. Two new sub-sections have been inserted empowering the Commissioner to order re-audit of accounts and requiring issuance of a formal audit report. Further amendments have been made to sub-sections (9) and (11) to refine the audit completion trigger and ease the condition for availing reduced penalty.

Insertion of Sub-sections (8A) and (8B)

The following new sub-sections have been inserted after sub-section (8):

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

(a) the nature and complexity of the accounts; or (b) volume of the accounts; or (c) doubts about the correctness of the accounts; or (d) multiplicity of transactions in the accounts; or (e) specialized nature of business activity of the registered person,

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

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

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

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

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

Effect

Sub-section (8A) empowers the Commissioner to order re-audit of accounts or re-valuation of inventory during audit proceedings where accounts are found complex, doubtful or involve specialized business activity, subject to prior approval of the Chief Commissioner. Sub-section (8B) mandates issuance of a formal audit report after obtaining the registered person's explanation, formalizing the audit process and ensuring transparency before any order is passed.

Substitution in Sub-section (9)

The words "completion of the audit" have been substituted with the words "issuing the audit report."

Effect of Insertion:

The trigger for passing an order under section 11E has been shifted from completion of audit to issuance of the audit report, anchoring the procedural timeline to a clearly defined and documented event introduced through the newly inserted sub-section (8B).

Substitution in Sub-section (11)

(a) The words "wishes to deposit" have been substituted with the word "deposits."

Effect of Substitution:

The benefit under sub-section (11) is now conditional upon actual deposit of tax rather than a mere expressed intention, ensuring the concession is available only to those who genuinely make payment.

(b) In the second proviso, the words "full amount" has been substituted with the words "fifty percent."

Effect of Substitution:

The requirement of depositing the full amount has been reduced to fifty percent, providing relief to registered persons during audit proceedings while still ensuring a meaningful deposit as a condition for availing the concession.

Section 30AA, Faceless jurisdiction

The Finance Bill 2026 has proposed insertion of a new Section 30AA introducing the concept of faceless jurisdiction in the sales tax regime. This is a landmark structural reform whereby Inland Revenue authorities

operating through a National Faceless Center shall exercise jurisdiction over registered persons through algorithm-based assignment, removing the element of human discretion from jurisdictional allocation and bringing anonymity into tax proceedings.

The following new section has been inserted after Section 30A:

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

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

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

(4) The Chief Commissioner appointed in the National faceless center may request the Board to direct the officer of Inland Revenue having jurisdiction under section 30 or any other Authority under this Act, as it may deem fit, to conduct physical verification

including nature and size of the business, assets, investments, expenditures, and any other information or verification required by the Chief Commissioner for conducting any proceedings assigned to the National faceless center: Provided that the Board may exercise its power of allocation of verification through an algorithm based system.

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

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

Effect of Insertion:

Section 30AA introduces faceless jurisdiction as a new mode of tax administration whereby Inland Revenue authorities at the National Faceless Center are assigned jurisdiction through Board developed algorithms, eliminating human discretion and potential for corruption in jurisdictional

allocation. The Board retains flexibility to transfer jurisdiction back to regular officers under section 30 and to order physical verification through algorithm-based allocation where required. Most significantly, the identity of the authority exercising jurisdiction is mandatorily kept confidential and no proceeding can be invalidated merely on grounds of jurisdictional defect, lack of delegation or confidentiality of identity, providing strong legal protection to the faceless system against procedural challenges.

Section 30DDDB. Directorate General (Field Compliance) Inland Revenue

The finance bill has proposed to insert a new section namely: -

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

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

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

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

Effect of Insertion:

The new section creates a dedicated Directorate General for Field Compliance under the Inland Revenue, empowering the Board to define its functions, jurisdiction and officer composition through official gazette notifications. By conferring powers of authorities under section 30 upon this directorate, the amendment ensures that field compliance officers possess full statutory authority to carry out enforcement activities, filling an institutional gap and strengthening on ground tax compliance operations across the country.

Section 32C, Audit by Special Audit Panels

The finance bill has proposed to insert a new section namely: -

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

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

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

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

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

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

Effect of Insertion:

Section 32C provides the institutional backbone for the faceless tax administration system introduced through Section 30AA. The Board is empowered to establish the Centre, define its jurisdiction and design algorithms for assigning functions and jurisdiction to its officers, removing human discretion from case allocation entirely. A critical safeguard has been built into subsection (5) whereby audit, assessment and quality control functions in any specific case must be performed by separate officers, ensuring independence and reducing the risk of bias or collusion. All communications within the Centre and with registered persons are mandated to be conducted through electronic means, ensuring a fully documented and transparent trail of all proceedings while eliminating direct human contact between taxpayers and tax authorities.

Section 33, Offence and penalties

The Finance Bill 2026 has proposed enhancement of penalties under S. No. 1 of the Table in Section 33 relating to failure to furnish a return within the due date. The amendment significantly increases the base penalty as well as the daily default penalty, signaling a stricter approach towards return filing compliance.

Substitution in Sr. No. 1, Column (2)

(i) The word "ten" has been substituted with the word "fifty."

Previously the penalty for failure to furnish a return within the due date was ten thousand rupees. After this amendment the penalty has been increased to fifty thousand rupees.

(ii) In the proviso, the word "hundred" has been substituted with the word "thousand."

Previously where a person filed a return within ten days of the due date, the penalty was two hundred rupees for each day of default. After this amendment the daily penalty has been increased to two thousand rupees per day of default.

Effect of Substitution:

The amendment drastically enhances the financial consequences for late filing of returns. The base penalty has been increased fivefold from ten thousand to fifty thousand rupees and the daily default penalty has been increased tenfold from two hundred to two thousand rupees per day. This reflects the legislature's intent to treat return filing

obligations with utmost seriousness and to deter habitual non-filers through significantly heavier financial consequences.

The Finance Bill 2026 has proposed enhancement of the penalty under S. No. 2 of the Table in Section 33 relating to failure to issue an invoice when required under the Act. Both the fixed penalty amount and the percentage-based penalty have been increased, reflecting the legislature's intent to enforce invoice issuance obligations more strictly.

Substitution in S. No. 2, Column (2)

The expression "five thousand rupees or three per cent" has been substituted with the expression "twenty-five thousand rupees or five per cent."

Previously the penalty for failure to issue an invoice was five thousand rupees or three per cent of the amount of tax involved whichever is higher. After this amendment the penalty has been increased to twenty-five thousand rupees or five per cent of the amount of tax involved whichever is higher.

Effect of Substitution:

The amendment increases the fixed penalty fivefold from five thousand to twenty-five thousand rupees and raises the percentage-based penalty from three per cent to five per cent of the tax involved. This substantial enhancement reflects the legislature's resolve to treat non-issuance of invoices as a serious compliance failure, particularly in the context of the broader invoicing reforms

introduced through amendments to Section 23.

The Finance Bill 2026 has proposed enhancement of penalties under S. No. 3, 5, 7 and 8 of the Table in Section 33. These amendments form part of a broader penalty rationalization exercise aimed at strengthening tax compliance by significantly increasing financial consequences for various defaults under the Act.

Amendment S. No. 3 -- Unauthorized Issuance of Invoice

(i) The word "ten" has been substituted with the word "fifty."

(ii) The word "five" has been substituted with the word "ten."

Previously the penalty for unauthorized issuance of an invoice was ten thousand rupees or five per cent of the amount of tax involved whichever is higher. After this amendment the penalty has been increased to fifty thousand rupees or ten per cent of the amount of tax involved whichever is higher.

Effect of Substitution:

The fixed penalty has been increased fivefold and the percentage-based penalty has been doubled, reflecting the serious nature of unauthorized invoice issuance which directly facilitates tax fraud and fake invoicing schemes.

Amendment Sr. No. 5 -- Failure to Deposit Tax

(i) The expression "ten thousand rupees or five per cent of the amount of the tax involved, whichever is higher" has been substituted with the expression "fifty thousand rupees or five per cent of the amount of the tax involved, whichever is higher."

(ii) In the first proviso, the word "hundred" has been substituted with the word "thousand."

Previously the penalty for failure to deposit tax was ten thousand rupees or five per cent of the tax involved whichever is higher and the daily default penalty in the first proviso was five hundred rupees per day. After this amendment the base penalty has been increased to fifty thousand rupees while the percentage remains at five per cent and the daily default penalty has been increased to five thousand rupees per day.

Effect of Substitution:

The fivefold increase in the base penalty and tenfold increase in the daily default penalty reflects the legislature's intent to treat non-payment of tax as a grave fiscal offence, ensuring that the cost of default far outweighs any benefit derived from delayed payment.

Amendment Sr. No. 7 -- Failure to Apply for Registration

The word "ten" has been substituted with the word "fifty."

Previously the penalty for failure to apply for registration was ten thousand rupees or

five per cent of the tax involved whichever is higher. After this amendment the fixed penalty has been increased to fifty thousand rupees while the percentage component remains unchanged.

Effect of Substitution:

The fivefold increase in the fixed penalty strengthens the deterrence against operating as an unregistered person, supporting the broader objective of expanding the tax base and bringing more persons within the formal sales tax net.

Amendment Sr. No. 8 -- Failure to Maintain Records

The word "ten" has been substituted with the word "fifty."

Previously the penalty for failure to maintain required records was ten thousand rupees or five per cent of the tax involved whichever is higher. After this amendment the fixed penalty has been increased to fifty thousand rupees while the percentage component remains unchanged.

Effect of Substitution:

The enhanced penalty underscores the critical importance of record keeping in the sales tax regime, as proper records form the foundation of audit, assessment and enforcement proceedings. The increase serves as a strong deterrent against deliberate destruction or non-maintenance of statutory records.

The Finance Bill 2026 has proposed substitution of S. No. 25 of the Table in

Section 33 relating to failure to integrate business with the Board's computerized system. The amendment restructures the penalty regime for this offence by introducing a graduated penalty structure and strengthening the sealing powers of Inland Revenue officers.

Amendment Substitution of Sr. No. 25

The existing S. No. 25 in column (1) and its related entries in column (2) have been substituted with the following:

"25. Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under this Act, and if registered, fails to integrate in the manner as required under law within the stipulated time as notified by the Board.

Such person shall be liable to pay a penalty up to one million rupees, if he continues to commit the offence after one month of the imposition of first penalty, he shall be liable to second penalty of up to five million rupees. Notwithstanding, his business premises shall be liable to be sealed with or without imposition of penalty by an officer of Inland Revenue in the manner as may be prescribed."

Effect of Substitution:

The amendment introduces a two-tier penalty structure replacing the previous single penalty, reducing the grace period from two months to one month and adding

a second penalty of up to five million rupees for continued non-compliance. The sealing of business premises has been made independent of penalty imposition, empowering officers to seal premises with or without first imposing a penalty.

The Finance Bill 2026 has proposed insertion of three new serial numbers being S. No. 29, 30 and 31 in the Table of Section 33. These insertions introduce a comprehensive penalty framework targeting simulated and fictitious invoicing, unmatched input tax credits and failure to reverse inadmissible credits, forming a critical part of the legislature's broader effort to combat invoice fraud and strengthen the integrity of the input tax credit mechanism.

Amendment Insertion of Sr. No. 29, 30 and 31

The following new serial numbers and entries have been added after S. No. 28:

"29. Where any registered person issues a simulated or fictitious invoice or invoices.

(i) Such person shall pay a penalty equal to the face value of the simulated or fictitious invoice or invoices for a transaction which is simulated or fictitious, or for which no actual supply of goods or services has taken place, as established after notice and adjudication.

(ii) The Board shall, after issuance of a show cause notice and an opportunity of being heard, place the name and registration number of such person on a publicly accessible simulated invoice issuers register

maintained on the Board's computerized system.

(iii) Any input tax credit claimed by a counterparty on the basis of invoices issued by a person on the simulated invoice issuers register shall be reversed automatically and treated as inadmissible with effect from the date of listing.

(iv) Listing on the register shall be removed upon full payment of the penalty and default surcharge, and upon satisfactory demonstration of compliance.

30. Where the Board's computerized system identifies that input tax credit claimed by a registered person in respect of any tax period cannot be matched to corresponding output tax declared by the supplier for the same or approximate tax period, and such mismatch is confirmed after issuance of notice and provision of opportunity of being heard.

Such person shall pay a penalty of twenty per cent of the unmatched input tax amount, in addition to reversal of the inadmissible credit and payment of default surcharge under section 34.

31. Where a registered person has claimed input tax credit on the basis of invoices issued by a person who is subsequently placed on the simulated invoice issuers register under S. No. 29, and such registered person fails to reverse the inadmissible input tax credit within sixty days of the listing of the invoice issuer on the register.

Such person shall pay a penalty of twenty per cent of the unreversed input tax credit, in addition to the reversal of such credit and default surcharge under section 34."

Effect of Insertion:

These three insertions collectively establish a comprehensive anti-fraud invoicing framework. Issuers of simulated invoices face a penalty equal to the full-face value of the fraudulent invoice and are listed on a publicly accessible register with automatic reversal of all counterparty input tax credits from the date of listing. Unmatched input tax credits detected through the Board's system attract a twenty per cent penalty in addition to reversal and default surcharge while counterparties who fail to reverse credits linked to listed issuers within sixty days face an identical twenty per cent penalty, ensuring that the consequences of invoice fraud extend across the entire supply chain.

Section 40C, Monitoring or Tracking by Electronic or other means

The Finance Bill 2026 has proposed two amendments to Section 40C dealing with monitoring and tracking of taxable goods through electronic or other means. The first amendment substitutes sub-sections (2) and (3) to broaden the scope of prescribed monitoring mechanisms and simplify the acquisition process for monitoring equipment. The second amendment inserts a new sub-section (6) introducing seizure and confiscation as consequences for non-

compliance with prescribed monitoring requirements.

Substitution of Sub-sections (2) and (3)

The following has been substituted in place of the existing sub-sections (2) and (3):

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

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

Effect of Substitution:

Previously sub-section (2) required affixing of tax stamps, banderols, stickers, labels or barcodes as the sole monitoring mechanism. The substituted provision expands this to include Production Monitoring Systems, video analytics and any other prescribed monitoring mechanism, reflecting technological advancement in compliance tools. Sub-section (3) has been simplified by removing the reference to Board approved pricing and cost of equipment installed by the licensee, streamlining the acquisition process.

Insertion of Sub-section (6)

The following new sub-section has been added after the omitted sub-section (5):

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

Effect of Insertion:

The insertion of sub-section (6) introduces seizure and confiscation as direct enforcement consequences for non-compliance with prescribed monitoring and tracking requirements. Notably the confiscation extends not only to the non-compliant goods but also to the conveyance used for their movement, significantly raising the stakes for violations and providing authorities with a powerful enforcement tool to deter circumvention of the monitoring regime.

Section 40F, Sale of confiscated goods by auction

The Finance Bill has inserted new section namely: -

"40F. Sale of confiscated goods by auction. (1)
Where any goods liable to confiscation under

any provision of this Act have been confiscated, these goods, without prejudice to other action specified against such goods, shall be sold by public auction.

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

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

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

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

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

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

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

Effect of Insertion:

Section 40F introduces a structured mechanism for disposal of confiscated goods

through public auction, including through electronic means, subject to Public Procurement Regulatory Authority Rules 2014. Sale proceeds are applied in a defined order covering auction expenses first, then government dues, with any remaining balance returned to the owner within six months failing which it is deposited into the government treasury.

Section 45C, Faceless Appeals

The Finance Bill has inserted new section namely: -

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

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

Effect of Insertion:

Section 45C extends the faceless framework to appellate proceedings, allowing appeals under Section 45B to be processed through the National Faceless Center as prescribed by the Board. All existing procedural safeguards under Section 45B remain applicable, ensuring that the transition to faceless appeals does not compromise the appellant's statutory rights while eliminating direct contact between taxpayers and appellate authorities, thereby reducing the risk of undue influence and promoting transparency in the appeals process.

Section 47AA, Algorithmic settlement mechanism

The Finance Bill has inserted new section namely: -

"47AA. Algorithmic settlement mechanism.

(1) Notwithstanding anything contained in this Act, the Board may establish digitally operated algorithmic settlement mechanism for settlement of tax proceedings at any stage before any order under sections 11D or 11E of the Act.

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

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

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

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

(5) The issues confronted to the registered person, if any, through a notice or an audit report under this Act shall stand abated if the

registered person deposits the settlement amount as provided in sub-section (4).

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

Effect of Insertion:

Section 47AA introduces a technology driven pre-order settlement mechanism whereby the Board's system generates a settlement offer based on compliance history, stage of proceedings and nature of discrepancy. A registered person accepting the offer must deposit the amount within ten days through IRIS upon which all issues covered by the offer stand abated, though proceedings for uncovered issues or other tax periods remain unaffected.

Section 47AAA, Independent case scrutiny committee

The Finance Bill has inserted new section namely: -

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

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

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

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

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

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

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

(7) The Committee constituted under this sub-section shall exercise its powers and

functions with effect from the date of its constitution as notified by the Board."

Effect of Insertion:

Section 47AAA establishes a mandatory pre-litigation filter whereby the Commissioner Inland Revenue cannot file a reference or appeal before the High Court, Federal Constitutional Court or Supreme Court without prior approval of an independent scrutiny committee comprising a retired judge, an experienced tax advocate and a senior FBR officer. The committee's recommendations are binding on the Commissioner, significantly curbing unnecessary and frivolous litigation by the tax authorities while providing immunity to committee members for decisions made in good faith.

Section 56B, Real-time access to information and databases

The Finance Bill 2026 has proposed insertion of a new sub-section (3) in Section 56B creating a limited exception to the general confidentiality rule by empowering the Board to share sector specific sales tax data amongst registered persons of the same sector for promoting market equity and tax compliance.

Amendment -- Insertion of Sub-section (3)

The following new sub-section has been added after sub-section (2):

"(3) Notwithstanding anything contained in sub-section (1), the Board shall have the power to share data contained in Sales Tax

returns of registered persons belonging to a sector amongst all registered persons of the same sector under strict non-disclosure agreements to create market equity and to enhance tax compliance subject to such limitations, restrictions and conditions as may be specified by the Board."

Effect of Substitution:

The amendment creates a controlled exception to the confidentiality regime under Section 56B allowing the Board to share sector specific sales tax return data amongst peers of the same sector under strict non-disclosure agreements, enabling businesses to benchmark their declarations against sector comparators and discouraging under-reporting while the Board retains authority to impose necessary limitations and conditions.

Third Schedule

The Finance Bill 2026 has proposed insertion of twenty new serial numbers being S. No. 56 to 75 in the Table of the Third Schedule. This is a significant expansion of the Third Schedule bringing a wide range of consumer goods under the retail price-based sales tax regime, ensuring that sales tax is charged on the printed retail price rather than the transaction value, thereby broadening the tax base and curbing under-invoicing across multiple sectors.

S. No.	Description of Goods	PCT / Tariff Heading
56	Sugar confectionery, sold in retail packing	Respective headings

57	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagna, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing	19.02
58	Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing	Respective headings
59	Fermented beverages, sold in retail packing	Respective headings
60	Petroleum jelly, paraffin wax, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not colored, sold in retail packing	27.12
61	Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale	38.08
62	Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing	39.19, 39.20, 39.21
63	Tableware, kitchenware, plastic furniture, storage	Chapter 39

	items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing	
64	Trunks, suit-cases, vanity-cases, executive-cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping-bags, wallets, purses, map-cases, cigarette-cases, tobacco-pouches, tool bags, sports bags, bottle-cases, jewelry boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanized fiber or of paperboard, or wholly or mainly covered with such materials or with paper, put up for retail sale	42.02
65	Footwear (all types)	Respective headings
66	Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing	Respective headings
67	Crockery items, sold in retail packing	Respective headings

68	Car and automobile accessories, sold in retail packing	Respective headings
69	Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing	Respective headings
70	Preparations for use on the hair, sold in retail packing	33.05
71	Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorizers, whether or not perfumed or having disinfectant properties, sold in retail packing	33.07
72	Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibers, whether or not creped, crinkled, embossed, perforated, surface-colored, surface-decorated or printed, in rolls or sheets, put up for retail sale	4803.0000, 48.18
73	Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations, sold in retail packing	20.07, 20.08

74	Household utensils, including stainless steel, aluminum, melamine and other utensils and tableware	Respective headings
75	Ceramic products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale	69.10

Sixth Schedule – Table I

The Finance Bill 2026 has proposed multiple amendments to Table-1 of the Sixth Schedule including substitutions in existing serial numbers, extension of an exemption period, expansion of an existing exemption and insertion of five new serial numbers being S. No. 182 to 185, broadening the scope of exemptions available under the Act.

Substitution of Serial No. 32

The existing Serial No. 32 and its related entries have been substituted with the following:

"32. Newsprint, books, and magazines but excluding brochures, leaflets and directories. 4902.1000, and 4902.9000"

Substitution in Serial No. 157

Against Serial No. 157, in the corresponding column (2), the expression "2026" has been substituted with the expression "2027."

Substitution of Serial No. 181

The existing Serial No. 181 and its related entries have been substituted with the following:

"181. Import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL).

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

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

8802.1200, 8802.3000, 8802.4000, 8801.0000, 8802.2000, 8804.0000, 8805.2900, 8807.3000, 9104.0010, 8544.2000, 7007.1900 and 9931."

Amendment (iv) -- Insertion of Serial Nos. 182 to 185

The following new serial numbers have been added after Serial No. 181:

"182. Contraceptives. 3926.9020 and 4014.1000

183. Female Sanitary Pads and Tampons. 9619.0030

184. Import of Tankers, Dredgers, Floating or submersible drilling or production platforms, Other floating structures and vessels, and other vessels for the transportation of goods, excluding Cruise ships, excursion boats and similar vessels principally designed for the transport of persons and ferry-boats of all kinds. Provided that the quantity of

imported goods under this entry shall be approved by Ministry of Maritime Affairs. 8901.2000, 8905.1000, 8905.2000, 8905.9000, 8901.9000

185. Import of bullet proof vehicles by:

(i) the Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control; and

(ii) the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government. Respective heading."

Effect of Amendment:

The amendments collectively expand the exemption regime under the Sixth Schedule by adding magazines to the newsprint and books exemption, extending the electric vehicle CKD exemption by one year to June 2027, broadening the PIACL aircraft exemption to cover additional parts and ground support equipment with safeguards against misuse, and introducing fresh exemptions for contraceptives, female sanitary pads and tampons reflecting public health and gender equity objectives, maritime vessels subject to Ministry approval supporting the offshore energy sector, and bullet proof vehicles for government security arrangements subject to requisite approvals.

Sixth Schedule – Table III

The Finance Bill 2026 has proposed insertion of two new serial numbers being S. No. 23 and 24 in Table-3 of the Annexure to the Sixth Schedule. These insertions extend the concessionary regime to machinery and equipment imported for upgradation of existing refineries and to capital goods imported by Karachi Shipyard and Engineering Works Limited, supporting industrial modernization and strategic national infrastructure.

Insertion of Serial Nos. 23 and 24

The following new serial numbers and entries have been added after Serial No. 22:

"23. Import of following machinery and equipment for upgradation of existing refineries:

1. Reactors
2. Shell and Tube Exchangers
3. Vessels (Strippers, Separators, K.O. Drums)
4. Trim Coolers
5. Air Coolers (Condensers)
6. Fired Heaters
7. Centrifugal Pumps
8. Reciprocating Pumps
9. Centrifugal Compressors
10. Reciprocating Compressors
11. Steam Reformer Furnaces

12. Filters

Provided that all such imports shall be essentially made for expansion of balancing, modernization, and rehabilitation of existing refineries and the quantity imported by each refinery shall be approved by Ministry of Petroleum and Natural Resources. The goods shall be imported directly by the refinery after approval by the division concerned.

24. Import of machinery, equipment, raw materials, components and other capital goods, by Karachi Shipyard and Engineering Works Limited. Respective headings as approved by the concerned Division. The Division dealing with the subject matter shall certify in the prescribed manner and format as per Annex-B that the imported goods are bona fide requirement. The authorized officer of the Ministry shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969."

Effect of Insertion:

Serial No. 23 extends concessionary import treatment to twelve categories of specialized machinery and equipment required for balancing, modernization, rehabilitation and expansion of existing refineries, subject to quantity approval by the Ministry of Petroleum and Natural Resources and direct importation by the refinery itself, supporting the government's refinery upgradation

policy. Serial No. 24 grants a broad concessionary regime to Karachi Shipyard and Engineering Works Limited for import of machinery, equipment, raw materials and capital goods, subject to divisional certification and online reporting to the Pakistan Customs Computerized System, recognizing the strategic importance of the shipyard to national defense and maritime infrastructure.

Eight Schedule

Serial No. 71 Extension of Tax Concession Period

The date "30th June, 2026" has been replaced with "30th June, 2027".

Effect of Substitution:

The 1% sales tax concession on locally manufactured or assembled electric vehicles (small cars/SUVs with 50 KWh battery or below, and LCVs with 150 KWh battery or below) has been extended by one year from 30th June 2026 to 30th June 2027. This continues the tax relief for the EV industry for another year.

Serial No. 80 Substitution of EV Transport Entry

The previous entry at Serial No. 80 covering "EV transport buses of 25 seats or more in CBU condition" has been fully substituted with a new entry.

New Insertion:

"80. EV transport buses of 25 seats or more and electric trucks in CBU condition — HS Codes 8702.4090, 8704.6030 — 1%"

Effect of Insertion:

The scope of Serial No. 80 has been expanded to now include electric trucks alongside EV transport buses. Previously only buses of 25 seats or more in CBU condition were covered. Now electric trucks in CBU condition are also brought under the 1% sales tax concession, encouraging growth in the electric commercial vehicle sector.

Eleventh Schedule

Serial No. 4 Expansion of Withholding Agents

After the word "companies" a comma is added and the words "association of persons and individuals" are inserted.

The entry now reads — Companies, association of persons and individuals (excluding companies exporting surgical instruments).

Effect of Substitution:

Previously only companies were required to withhold 5% of the gross value of supplies. Now associations of persons and individuals are also brought within the withholding obligation. This significantly widens the withholding tax net to cover a larger category of buyers.

Serial No. 14 New Insertion for Toll Manufacturing

New Insertion:

"14. Registered persons engaged in toll manufacturing — Person other than registered person — four times of the tax charged on conversion charges."

Effect

This is a new entry specifically targeting toll manufacturing transactions. Where a registered person engaged in toll manufacturing supplies to an unregistered person, the withholding amount shall be four times the tax charged on conversion charges. This acts as a deterrent against unregistered persons using toll manufacturing to avoid tax and brings such transactions under strict withholding obligations.

Twelfth Schedule

Clause (2)(i) Value Addition Tax on Raw Materials

After sub-clause (i) of clause (2), a colon is added and two new provisos are inserted.

New Insertion:

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

Provided further that where —

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

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

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

(iv) such supply exceeds 50% of total imports in a financial year;

such person will be liable to prosecution."

Effect of Amendment:

This amendment addresses a common misuse of the raw material import exemption. Previously, manufacturers could import raw materials exempt from 3% value addition tax by claiming in-house consumption, but there was no penalty mechanism if those goods were later sold without processing.

Now two safeguards are introduced:

1. Recovery of Tax — If a manufacturer supplies imported goods in the same state without processing, the 3% value addition tax along with default surcharge becomes immediately payable.

2. Criminal Prosecution — If all four conditions are met simultaneously — exemption was availed, goods were not consumed in-house, goods were supplied as imported, and such supplies exceed 50% of total imports in a financial year — the person shall be liable to prosecution. This is a strong deterrent against misuse of the raw material import exemption.

AMENDMENTS IN FEDERAL EXCISE ACT, 2005

Section 2, Definitions

Clause 2A:

Finance bill has proposed to add a new clause (2A) after clause (2) which read as follows:

"(2A) 'algorithmic settlement mechanism' means algorithmic settlement mechanism provided under section 26AAA of the Sales Tax Act, 1990."

Effect of Insertion: This introduces a new defined term, "algorithmic settlement mechanism," by cross-reference to section 26AAA of the Sales Tax Act, 1990 meaning whatever mechanism is established under that provision applies here with the same meaning. This definition is foundational, signaling that the Ordinance will reference and rely on this algorithmic settlement mechanism (likely an automated system for settling tax/levy credits, refunds, or input-output adjustments) in subsequent operative provisions, linking this Ordinance's compliance/payment framework to the broader automated settlement infrastructure being built under the Sales Tax Act.

Clause 9A:

The Finance Bill has proposed to insert clause (9A) after clause (9) which read as follows:

"(9b) 'electronic invoicing system' means such electronic system or mechanism as may be prescribed or approved by the

Board for issuance and recording of sales tax invoices in electronic form."

Effect: This introduces a formal definition of "electronic invoicing system," defining it as any system or mechanism prescribed or approved by the Board for issuing and recording sales tax invoices electronically. This lays the legal groundwork for mandating or facilitating e-invoicing under the Sales Tax Act, giving the Board flexibility to prescribe or approve specific systems/platforms, and links to the broader digitization push (alongside the "algorithmic settlement mechanism" definition) aimed at improving real-time tax monitoring, reducing under-invoicing/fake invoices, and integrating sales tax compliance with automated verification systems.

Clause 16A1:

The Finance Bill has proposed to insert clause (16A1) after clause (16) which read as follows:

(16A1) 'National faceless center' means the National faceless center as defined in section 32C of the Sales Tax Act, 1990 (VII of 1990)."

Effect of Insertion: This introduces a new defined term, "National faceless center," by cross-reference to section 32C of the Sales Tax Act, 1990. It adopts the same meaning as defined there, indicating that this Ordinance will rely on and integrate with the National faceless center concept already established under the Sales Tax Act — likely a

centralized facility for conducting faceless (non-interactive, automated/remote) processing of tax matters, consistent with the broader move toward faceless adjudication and digitized administration seen across these amendments.

Clause 19b:

The Finance Bill has proposed to insert clause (19b) after clause (19a) which read as follows:

"(19b) 'production monitoring system' means any system or technology, used for the purposes of monitoring production and sale of goods, whether in real-time or otherwise, including such systems or technologies as may be prescribed by the Board from time to time."

Effect of Insertion: This introduces a broad, technology-neutral definition of "production monitoring system," covering any system or technology used to monitor production and sale of goods, whether real-time or not, and explicitly allowing the Board to prescribe additional/specific systems from time to time. This gives a statutory basis for deploying production monitoring tools (e.g., track-and-trace systems, electronic monitoring devices, production counters) across industries to curb under-reporting of production/sales, with flexibility for the Board to adapt to new technologies without requiring fresh legislation each time.

Section 3, Duties specified in the First Schedule to be levied

The Finance Bill has proposed to insert sub-section 3B after sub-section 3A which reads as:

"(3B) Notwithstanding anything contained in this section, there shall be levied and collected a Special Excise Duty in addition to duty imposed under sub-section (1), on such goods as listed in Table-IA of the First Schedule to this Act at the rates specified therein:

Provided that the Board may prescribe time, mechanism, procedure, mode and manner of collection for such duty."

Effect of Insertion: This introduces a new, additional levy "Special Excise Duty" chargeable on top of the regular excise duty under sub-section (1), but only on goods specifically listed in a new Table-IA of the First Schedule, at the rates specified therein. The override clause ("notwithstanding anything contained in this section") ensures it applies as a standalone, additional charge regardless of how the regular duty under sub-sections (1), (3), (3A), etc. is computed. The Board is given flexibility to prescribe the timing, mechanism, procedure, and mode of collection for this new duty — meaning the operational details will be fleshed out through Board rules/notifications rather than being fixed in the Act itself. The practical impact (which goods, what rates) depends on the contents of the new Table-IA, but the structural effect is the creation of a targeted, supplementary excise levy on a select category of goods.

Section 7A, National faceless center and application of the provisions of the Sales Tax Act, 1990

The Finance Bill has proposed to insert a new section 7A which read as follows" "(7A) National faceless center and application of the provisions of the Sales Tax Act, 1990.-

(1) Notwithstanding anything contained in this Act, the audit and assessment proceedings under the Act may be conducted in the faceless manner by the National faceless center.

(2) The provisions of the Sales Tax Act, 1990 (VII of 1990) relating to the establishment, assignment of jurisdiction, conduct of audit, assessment and appeals shall apply mutatis mutandis.

(3) Notwithstanding anything contained in this Act, the Board may establish digitally operated algorithmic settlement mechanism for settlement of proceedings at any stage before any order under this Act is passed and the provisions relating to algorithmic settlement mechanism of the Sales Tax Act, 1990 (VII of 1990) shall apply mutatis mutandis."

Effect of Insertion: This extends two key digital-administration mechanisms already established under the Sales Tax Act, 1990 to Federal Excise Duty proceedings. Sub-section (1)-(2) allow audit and assessment proceedings under the Federal Excise Act to be conducted "facelessly" through the National faceless center, with the Sales Tax Act's provisions on establishment,

jurisdiction, audit conduct, assessment, and appeals applying with necessary modifications (mutatis mutandis) — i.e., no separate parallel framework needs to be built; it borrows the Sales Tax Act's structure. Sub-section (3) similarly enables the Board to establish an "algorithmic settlement mechanism" (the term newly defined earlier) for settling Federal Excise proceedings at any stage before a final order, again applying the Sales Tax Act's corresponding provisions mutatis mutandis. Together, these bring Federal Excise administration in line with the faceless, technology-driven model being rolled out for Sales Tax aiming for consistency, reduced human interaction/discretion (and associated corruption risk), and faster dispute resolution.

Section 18, Invoices

The Finance Bill proposes to substitute sub-section (1) of section 18.

Previous position: A person registered under this Act shall issue for each transaction a serially numbered invoice at the time of clearance or sale of goods (including zero-rated goods) or services, containing particulars (a) to (g) seller details, buyer details, date, description/quantity, value exclusive of duty, duty amount, and value inclusive of duty. No requirement for advance receipt invoices, no FBR-issued unique invoice number, no specified language.

New position: A person registered under this Act shall issue for each transaction an invoice, including an advance receipt invoice, bearing a verifiable and unique FBR invoice number at the time of clearance or sale of goods (including zero-rated goods) or services, containing the same particulars (a) to (g) in Urdu or English language:

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

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

Effect of Substitution: Several changes are bundled in:

"Serially numbered invoice" is replaced with an invoice bearing a "verifiable and unique FBR invoice number" — shifting numbering control from the taxpayer's own sequential system to an FBR-generated/verifiable identifier, enabling real-time cross-checking and reducing fake/duplicate invoicing.

"Advance receipt invoice" is introduced as a recognized invoice type, covering situations where payment/receipt occurs before clearance or sale — the Board may notify which persons/classes can issue these under a notified system.

Invoices must now be issued in Urdu or English, formalizing language requirements (previously unspecified).

The FBR unique invoice number requirement is not immediate — it becomes applicable only from a date notified by the Board, giving businesses transition time and the Board flexibility to phase in implementation alongside the broader e-invoicing system (linked to the earlier "electronic invoicing system" definition).

Overall, this strengthens invoice traceability and integrates Federal Excise invoicing with FBR's digital verification infrastructure, while allowing a phased rollout.

Section 19, Offences, penalties, fines and allied matters

Amendment (a): In section 19, clause (a), sub-section (2) the words "Federal Excise officer" are proposed to be substituted with "Officer of Inland Revenue."

Previous position: "...required by this Act or rules made there under or by any Federal Excise officer to do so..."

New position: "...required by this Act or rules made there under or by any Officer of Inland Revenue to do so..."

Effect of Substitution: This aligns terminology with the broader Inland Revenue structure (which now administers Federal Excise alongside Sales Tax and Income Tax), replacing the older designation "Federal Excise officer" with "Officer of Inland Revenue." This is largely a harmonization/consolidation change reflecting the integrated tax administration setup, ensuring consistency across tax

statutes without altering the substantive obligation.

Amendment (b): The Finance Bill has proposed to substitute Sub-section (4).

Previous position: "Any person who, without the approval of the Commissioner, directly or otherwise destroys, damages, erases or otherwise manipulates data stored in or used in connection with a computer or otherwise uses a computer, the purpose or effect of which is to reduce, avoid or evade any liability to duty of excise which would otherwise have been imposed by this Act, or to defeat any provisions of this Act or rules made there under shall be guilty of an offence and shall be liable to fine which may extend to seventy five thousand rupees or ten times of the duty involved, whichever is higher and to punishment with imprisonment which may extend to five years or both."

New position: "Any person who, without the approval of the Commissioner, directly or otherwise destroys, damages, erases or otherwise manipulates data stored in or used in connection with a computer, equipment or system used for the electronic monitoring of production, manufacture, sales, clearance, stocks or any other related activity implemented under this Act and the rules made thereunder, including any production monitoring system, video analytics system or otherwise uses a computer, the purpose or effect of which is to reduce, avoid or evade any liability to duty of excise which would otherwise have been imposed by this Act, or

to defeat any provisions of this Act and rules made there under shall be guilty of an offence and shall be liable to fine which may extend to seventy five thousand rupees or ten times of the duty involved whichever is higher and punishment with imprisonment which may extend to five years or both."

Effect of substitution: The scope of the offence is significantly expanded beyond just "a computer" to explicitly include any "equipment or system used for the electronic monitoring of production, manufacture, sales, clearance, stocks or any other related activity," with specific mention of "production monitoring system" (the newly defined term) and "video analytics system." Tampering with, damaging, or manipulating these monitoring tools not just computers in the abstract without the Commissioner's approval now squarely falls within this offence, carrying the same penalty (fine up to Rs. 75,000 or ten times the duty involved, whichever is higher, plus up to five years' imprisonment, or both). This directly supports enforcement of the new production monitoring infrastructure being introduced across the Act, criminalizing efforts to disable or defeat such surveillance/monitoring systems used to track production and prevent duty evasion.

Section 26, Power to Seize

The Finance Bill has proposed to substitute sub-section (1) of section 26.

Previous position: "The counterfeited cigarettes or beverages which have been

manufactured or produced unlawfully and other dutiable goods on which duty of excise has not been paid in the manner as required under this Act and the rules made thereunder or such goods without affixing or affixing counterfeit tax stamps, bar codes, banderoles, stickers, labels or bar codes, as required under section 45A of this Act, shall be liable to seizure along with the conveyance, which has been used for the movement, carriage or transportation of such goods."

New position: Adds a third category "or goods which are required to be monitored through a production monitoring system under this Act and the rules made thereunder but are manufactured, produced, transported, removed or otherwise dealt with without such monitoring in the prescribed manner" — also liable to seizure along with the conveyance.

Effect of Substitution: A new ground for seizure is added. Previously, seizure (of goods and the conveyance) was limited to counterfeited cigarettes/beverages, unlawfully manufactured/produced goods, dutiable goods on which excise duty wasn't paid, or goods without proper tax stamps/banderoles/labels under section 45A. Now, goods that are required to be tracked under a "production monitoring system" (the newly defined term) but are manufactured, produced, transported, removed, or otherwise dealt with without going through that prescribed monitoring are also liable to seizure, along with the conveyance used.

This gives teeth to the production monitoring system mandate — bypassing or evading the monitoring system itself (even if duty might technically have been paid) now becomes an independent seizure-triggering violation, reinforcing compliance with the electronic/production monitoring infrastructure being rolled out across the Act.

Section 27, Confiscation of goods subject to federal excise duty

The Finance Bill has proposed to substitute sub-section (1) of section 27.

Previous position: "The cigarettes or beverages seized for the reasons of counterfeiting or such goods without affixing or affixing counterfeited tax stamps, banderoles, stickers, labels or barcodes, as required under section 45A of this Act shall be liable to outright confiscation and shall be destroyed in the manner prescribed in sub-section (10) of section 19."

New position: Adds a third category "or goods which are required to be monitored through a production monitoring system under this Act and the rules made thereunder but are manufactured, produced, transported, removed or otherwise dealt with without such monitoring in the prescribed manner" also liable to outright confiscation and destruction.

Effect of Substitution: Mirroring the amendment to section 26 (power to seize), this extends outright confiscation and destruction (under the section 19(10)

procedure) to goods that should have been tracked via a production monitoring system but were manufactured, produced, transported, removed, or dealt with without such monitoring. Previously, outright confiscation was limited to counterfeit cigarettes/beverages or goods lacking proper tax stamps/banderoles under section 45A. Now, bypassing the production monitoring system carries the same severe consequence outright confiscation and destruction making evasion of the monitoring infrastructure as serious, in terms of consequence, as counterfeiting or stamp violations, and strongly incentivizing compliance with the new monitoring regime.

Section 34AA, Independent case scrutiny committee

The Finance Bill has proposed to insert a new section 34AA which read as follows:

- (1) A reference under section 34A of the Act before the High Court, or an appeal or review before the Federal Constitutional Court or the Supreme Court of Pakistan shall only be filed by the Commissioner Inland Revenue after the same has been approved by an independent case scrutiny committee as constituted by the Board.
- (2) The Board may constitute one or more such committees and assigned them cases or classes of cases decided by the Appellate Tribunal Inland Revenue or the High Court, as the case may be.

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

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

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

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

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

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

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

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

Effect of Insertion: This mirrors the section 196JJ insertion in the Customs Act, applying the same gatekeeping model to Federal Excise litigation. References under section 34A before the High Court, and appeals/reviews before the Federal Constitutional Court or Supreme Court, can now only be filed by the Commissioner Inland Revenue after approval by an independent case scrutiny committee constituted by the Board. The committee chaired by a retired superior court judge, including a senior commercial litigation advocate (from a Board-notified panel) and a senior FBR officer (BS-20 or above) has binding recommendations on the Commissioner. Both committee members and the Commissioner are given immunity from suits, prosecution, or other legal proceedings over decisions made under this section, with the committee's operational details (procedure, remuneration) to be prescribed separately and the committee becoming operative from its date of constitution as notified by the Board. The overall effect is to filter and reduce unnecessary higher-court litigation by Inland Revenue, ensuring only vetted, merit-based cases proceed to the High Court/Supreme Court/Federal Constitutional Court.

Section 45A, Monitoring or tracking by electronic or other means

The Finance Bill proposed to substitute section 45A in its entirety.

Previous position:

(1) The Board's power to specify monitoring/tracking was limited to "any registered person or class of registered persons or any goods or class of goods" services were not covered.

(2) From a Board-prescribed date, no excisable goods could be removed/sold without affixing tax stamps, banderoles, stickers, labels, barcodes etc., in a Board-prescribed form/style/manner.

(3) Such tax stamps/banderoles/stickers/labels/barcodes had to be acquired from a Board-appointed licensee, at a price approved by the Board, which included the cost of equipment installed by the licensee at the registered person's premises.

New position:

(1) The Board's monitoring/tracking power now extends to "any goods or services or class of goods or services" explicitly including services, not just goods.

(2) The compliance requirement is expanded beyond physical markers (tax stamps, banderoles, stickers, labels, barcodes) to also include "production monitoring system, video analytics, etc." goods cannot be removed/sold without these as prescribed by the Board.

(3) These items now including "production monitoring equipment" must be acquired from a Board-appointed licensee, but the new text omits the earlier requirement that

the price be "approved by the Board" and that it specifically includes "the cost of equipment installed by such licensee."

Effect of Substitution: This is a substantial modernization and expansion of section 45A. First, by extending coverage to "services," the Board can now mandate monitoring/tracking mechanisms for service providers as well, not just goods manufacturers — significantly broadening the net (relevant given Federal Excise Duty's application to certain services). Second, by explicitly bringing in "production monitoring system" and "video analytics" alongside traditional physical tax stamps/banderoles, the law embraces digital/electronic surveillance technologies as compliance tools — directly tying into the new "production monitoring system" definition and the seizure/confiscation/offence provisions added elsewhere (sections 19(4), 26, 27) that specifically reference tampering with such systems. Third, the removal of the explicit "price approved by the Board" and "cost of equipment installed" language in sub-section (3) shifts pricing/equipment-cost arrangements with licensees to whatever terms the Board prescribes generally, rather than a fixed statutory formula giving the Board more flexibility but potentially less explicit statutory protection on pricing for registered persons procuring this equipment.

Section 46, Audit

The Finance Bill has proposed to substitute Sub-sections (1), (2), and (2A) of section 46 and insert new sub-sections (2B) and (2C) are added.

Previous position sub-section 1: "The officer of Inland Revenue authorized by the Board or the Commissioner by designation may, once in a year, after giving advance notice in writing, conduct audit of the records and documents of any person registered under this Act."

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

Effect of Substitution: The "once in a year" limit on routine audits is removed, allowing audits to be conducted as authorized without a once-yearly cap.

Previous position sub-section 2: Authorization required for an officer "not below the rank of Assistant Commissioner" where the Commissioner has information/evidence of fraud or evasion to conduct audit "at any time in a year."

New Position sub-section 2: Same wording, but "Federal Excise Officer" is replaced with "officer of Inland Revenue" (terminology harmonization), retaining the substance.

Previous Position sub-section 2A: After audit completion, officer obtains registered

person's explanation and then passes an order under section 14 directly — imposing duty, default surcharge, penalty, and recovery of erroneous refunds, in one step.

New Position sub-section 2A: After audit completion, the officer obtains the registered person's explanation and issues an audit report containing observations and findings a separate, intermediate step before any order.

Newly Inserted sub-section (2B): The Commissioner may conduct audit proceedings under sub-section (2) electronically via video links or other Board-prescribed facility.

Newly inserted sub-section (2C): After issuing the audit report, the officer of Inland Revenue may — if required — pass an order under section 14(2), after giving the registered person an opportunity of being heard under section 14(1), imposing duty, default surcharge, penalty, and recovery of erroneous refunds.

Effect of overall amendment: The audit-to-order process is restructured into distinct stages audit, then audit report (with findings), then (if needed) a formal order under section 14 with a proper hearing opportunity replacing the previous single-step process where the order followed directly from the audit explanation. This adds a procedural safeguard (separate report stage and hearing right under section 14(1)) before any duty/penalty order is passed, improving due process. The "once in a year"

audit restriction is also removed, and faceless/video-link audit proceedings are formally enabled for fraud-evasion cases.

The Finance Bill has proposed to substitute the proviso in sub-section 3:

Previous proviso: If a registered person deposits the unpaid/short-paid/evaded duty plus default surcharge during or after audit but before conclusion of original adjudication (or determination of liability under (2A)), he may deposit such amount plus 25% of the prescribed penalty, and proceedings abate.

Newly Inserted provisos:

First proviso: If deposited during or after audit but before issuance of show cause notice under section 14(1), deposit the amount plus 25% of the prescribed penalty.

Second proviso: If deposited after issuance of the show cause notice, deposit the amount plus 50% of the prescribed penalty, and proceedings abate.

Effect of Insertion: The trigger point for the reduced-penalty regime is recalibrated around the new show-cause-notice stage (introduced via the restructured (2A) -(2C) process) rather than "conclusion of original adjudication." A two-tier penalty reduction is introduced: 25% if settled before a show cause notice is issued (incentivizing early voluntary compliance), and 50% if settled after the show cause notice but presumably before adjudication concludes still offering a discount, but a smaller one, for later

settlement. This creates a stronger incentive to resolve audit findings early.

The Finance Bill has proposed to insert a new sub-section (3A) after the amended sub-section (3) which read as follows:

"(3A) If, at any stage of the proceedings before him, the Commissioner is of the opinion that having regard to (a) the nature and complexity of the accounts; or (b) volume of the accounts; or (c) doubts about the correctness of the accounts; or (d) multiplicity of transactions in the accounts; or (e) specialized nature of business activity of the registered person, and interests of the revenue, is of the opinion that it is necessary so to do, he may, after giving the registered person a reasonable opportunity of being heard, and with the previous approval of the Chief Commissioner, direct the registered person to get either any or all of the following:

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

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

Explanation: The accountant or cost accountant shall be nominated by the Commissioner from a Board-notified panel."

Effect of Insertion: This is a wholly new power for the Commissioner for complex, voluminous, doubtful, multi-transactional,

or specialized-business cases to direct, with Chief Commissioner approval and after a hearing, an independent re-audit by a chartered accountant and/or independent inventory re-valuation by a cost accountant (both selected from a Board-approved panel). This provides an additional verification layer for complex or suspect cases, supplementing the regular departmental audit with independent professional scrutiny, and gives the tax administration a stronger evidentiary basis where standard audits prove inadequate.

Amendments in First Schedule – Table 1

The Finance Bill has proposed to substitute "forty-four" with "Ten" in Sr.No. 7A, in column (4) (Rate of Duty)

So, the rate of duty for the item at Sr.No. 7A is changed from "forty-four [rupees/percent]" to "ten [rupees/percent]" – the unit (per kg, per cigarette, percentage, etc.)

Effect of Substitution: This represents a substantial reduction in the rate of duty for the goods covered under Sr.No. 7A from 44 to 10 (in whatever unit applies, e.g., rupees per kg or percent ad valorem). This is a significant tax-relief measure for that category of goods, likely lowering the cost burden on manufacturers/importers of that item and potentially reducing retail prices, while correspondingly reducing federal excise revenue collected from that category unless offset by volume increases.

Amendment: Against S.r No. 8A, in column (4) (Rate of Duty), the existing entry is substituted.

Previous position: "Rupees ten thousand per kg or sixty five percent of retail price whichever is higher."

New position: "Rupees sixteen thousand five hundred per kg."

Effect of Substitution: The rate of duty for E-liquids (by whatsoever name called, for electric cigarette kits) is changed in two ways: the rate is increased from Rs. 10,000 per kg to Rs. 16,500 per kg (a 65% increase), and the alternative "sixty five percent of retail price, whichever is higher" benchmark is removed entirely — leaving a single, flat specific rate of Rs. 16,500 per kg regardless of retail price. This significantly raises the duty burden on e-liquids/vaping products, simplifies the duty structure to a fixed per-kg rate, and removes the ad valorem comparison, which previously could result in a higher duty for premium/high-priced products.

Against Sr. No. 55 and 55B, in column (2) (Description of Goods): the expression "2026" is substituted with "2027."

So, both entries' descriptions, which currently read "...and till the 30th day of June, 2026 electric vehicles (4 wheelers) ...", will now read "...and till the 30th day of June, 2027 electric vehicles (4 wheelers) ..."

Effect of Substitution: This extends by one year the period during which electric vehicles (4 wheelers) both imported and

locally manufactured/assembled are covered/excluded under these entries (i.e., the cut-off date for the special treatment of electric vehicles is pushed from 30 June 2026 to 30 June 2027). In practical terms, this prolongs whatever duty treatment applies to electric 4-wheeled vehicles under Sr. No. 55 and 55B for an additional year, continuing the incentive/exemption period intended to support EV adoption.

New insertion: Sr. No. 55A is proposed to added after Sr. No. 55.

"55A. Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of import value including Custom Duty: -

- (a) Not exceeding PKR 20 million — Respective Heading — 0%
- (b) exceeding PKR 20 million and up to PKR 30 million — Respective Heading — 30%
- (c) exceeding PKR 30 million — Respective Heading — 40%"

Effect: This introduces a new, tiered duty structure specifically for electric cars, electric SUVs, and electric pickup vehicles imported in CBU (Completely Built Up) condition for personal use, based on import value (inclusive of Customs Duty):

Vehicles valued up to PKR 20 million attract 0% duty (full exemption) — encouraging import of more affordable/mass-market EVs.

Vehicles valued between PKR 20 million and PKR 30 million attract 30% duty.

Vehicles valued above PKR 30 million attract 40% duty.

This creates a progressive, value-based taxation regime for personal-use imported EVs: low-value EVs are incentivized with zero duty (supporting EV adoption for ordinary consumers), while higher-value/luxury EVs face substantial duty rates, ensuring the tax relief is targeted toward affordable EVs rather than high-end luxury imports, and generating revenue from premium EV imports.

Amendment: Against S.No. 59, in column (2) (Description of Goods): the words "excluding mineral and aerated waters" are substituted with "excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener."

Previous position: "Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral and aerated waters."

New position: "Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener."

Effect of Substitution: The exclusion list under Sr.No. 59 is expanded. Previously, only mineral and aerated waters were excluded from this duty (20% of retail price). Now, a new category "hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment" is also excluded, but only if they don't contain sugar exceeding 5g/100ml or artificial sweeteners. This carves out a specific exemption for low-sugar/no-artificial-sweetener hydration/electrolyte drinks (e.g., sports/oral rehydration solutions) from the 20% retail-price duty, while sugary versions of such drinks (sugar above 5g/100ml) or those with artificial sweeteners remain within the dutiable category along with other sugary fruit juices, syrups, squashes, and waters. This effectively incentivizes reformulation toward low-sugar hydration products by exempting them from this duty.

Amendment: S.No. 63 and its entries in columns (2), (3), and (4) are proposed to be substituted.

Previous position:

Column (2): "Lubricating oil"

Column (3): "2710.1951, 2710.1952 and 2710.1953"

Column (4): "Five percent ad valorem."

New position:

Column (2): "Lubricating oil and base lubricating oils"

Column (3): "2710.1951, 2710.1952, 2710.1953, 2710.1993"

Column (4): "Five percent ad valorem."

Effect of Substitution: The description in column (2) is broadened from "Lubricating oil" to "Lubricating oil and base lubricating oils" explicitly bringing base lubricating oils (the raw/unblended feedstock used to manufacture finished lubricants) within scope. Correspondingly, a new PCT heading, 2710.1993, is added to column (3), expanding the coverage of tariff codes subject to this duty. The rate itself (5% ad valorem) remains unchanged. The practical effect is to widen the tax base for this entry to capture base lubricating oils in addition to finished lubricating oil, ensuring that producers/importers of base oils (a category whose definition and licensing under OGRA was also addressed in earlier amendments) are subject to the same 5% ad valorem duty as finished lubricating oil.

The Finance Bill has proposed to insert S.No. 65 after S.No. 64.

"65

(i) Petroleum top Naphtha — 2710.1942 — Rs. 80 per liter

(ii) White Spirit/Mineral Turpentine Oil (MTT) — 2710.1240 — Rs. 80 per liter

(iii) Solvent Oil — 2710.1250 — Rs. 80 per liter"

Effect of Insertion: This introduces a new federal excise duty entry covering three petroleum-derived products — Petroleum

Top Naphtha, White Spirit/Mineral Turpentine Oil (MTT), and Solvent Oil — under their respective PCT headings, each subject to a flat specific duty of Rs. 80 per liter. Previously not separately listed in Table-I, these products are now brought within the excise net at a fixed per-liter rate. This widens the tax base to cover these solvent/industrial petroleum products, increasing their cost and likely generating additional federal excise revenue, while also potentially curbing their misuse as substitutes for taxed fuels (e.g., as adulterants).

The Finance Bill has proposed to substitute the Restriction-2 (Brand variants at different price points) in its entirety.

Previous position: "No manufacturer or importer of cigarette can introduce or sell a new cigarette brand variant at the same existing brand family at a price lower than the lowest actual price of the existing variant of the same brand family. For the purposes of this restriction, current minimum price variant of existing brand means the lowest price of a brand variant on the day of announcement of Budget of the current financial year. Explanation. For the purpose of this restriction, brand variant means any cigarette brand with similar logo, name, color, design, pattern or any unique distinguishing mark associated with an existing brand family."

New position: "No manufacturer or importer of cigarette can introduce or sell a new variant of the existing brand at a price

lower than the lowest actual price of the existing brand. For the purposes of this restriction, current minimum price of existing brand means the lowest price of an existing brand on the day of announcement of Budget of the current financial year. Explanation. For the purpose of this restriction, brand variant means any cigarette brand with identical name, trademark, design, pattern or any unique distinguishing mark associated with an existing brand."

Effect of Substitution: The terminology shifts from "brand family" to "existing brand," and the standard for what counts as a "brand variant" is tightened from "similar logo, name, color, design, pattern or any unique distinguishing mark" (a loose, broad similarity test) to "identical name, trademark, design, pattern or any unique distinguishing mark" (requiring identity, not mere similarity). The core restriction remains the same in substance a new variant cannot be priced below the lowest price of the existing brand as of the Budget announcement date but by narrowing the variant definition to "identical" rather than "similar," the scope of what triggers this restriction is reduced. This could make it easier for manufacturers to introduce genuinely new/distinct brands at lower prices without being deemed a "variant" of an existing brand (since only identical-feature variants are caught), potentially narrowing the anti-undercutting protection compared to the broader "similar" standard previously in place.

Table -IA:

New insertion: Table-IA is proposed to be added after Table-I, introducing a new "Special Excise Duty" framework (per the new section 3(3B) inserted earlier).

Sr.No.	Description of goods	Heading/sub-heading Number	Rate of duty
1.	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2027 electric vehicles (4 wheelers), including station wagons, double cabin (4x4) pickup vehicles and racing cars:	87.03, 8704.2190, 8704.3190	40% ad val.
	(a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc		
	(b) of cylinder capacity exceeding 3000cc		41% ad val.

Effect: This creates an entirely new "Special Excise Duty" category (Table-IA) for high-engine-capacity imported motor vehicles, applicable in addition to whatever duties already apply under Table-I (e.g., Sr.No. 55/55B's regular excise rates). Vehicles with cylinder capacity exceeding 2000cc up to 3000cc face an additional 40% ad valorem duty, while those exceeding 3000cc face 41%

these vehicles already carry the highest Table-I rates (40% under Sr.No. 55B). This effectively creates a steep, near-doubling of the excise burden on large-engine imported vehicles (luxury cars, large SUVs, double-cabin pickups, racing cars), and also explicitly extends to imported electric 4-wheelers until 30 June 2027 if they fall in these engine-capacity-equivalent or vehicle-type categories — significantly increasing the cost of high-end imported and large-engine vehicles, likely aimed at both revenue generation and discouraging luxury vehicle imports.

Amendments in First Schedule – Table II

Amendment: Against Sr. No. 3, column (2), sub-clause (ii) of clause (b) and the corresponding entries in column (4) are substituted.

Previous position: "(ii) Club, business and first-class air tickets issued on or after the 1st day of July, 2024:

(a) IATA Traffic Conference Area 1 (North, Central, South America and Environs) — Three hundred and fifty thousand rupees

(b)(I) IATA Traffic Conference Area 2, Middle East and Africa — One hundred and five thousand rupees

(b)(II) IATA Traffic Conference Area 2, Europe — Two hundred and ten thousand rupees

(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands) — Two hundred and ten thousand rupees"

New position: "(ii) Club, business and first-class air tickets issued on or after the 1st day of July, 2026:

(a) IATA Traffic Conference Area 1 (North, Central, South America and Environs) — Fifty thousand rupees

(b)(I) IATA Traffic Conference Area 2, Middle East and Africa — Twenty-five thousand rupees

(b)(II) IATA Traffic Conference Area 2, Europe — Forty thousand rupees

(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands) — Forty thousand rupees"

Effect of Substitution: This represents a major reduction in the federal excise duty applicable to Club, Business, and First-Class international air tickets (for tickets issued on or after 1 July 2026, replacing the earlier 1 July 2024 threshold):

Area 1 (Americas): reduced from Rs. 350,000 to Rs. 50,000 — an 86% cut.

Area 2 - Middle East/Africa: reduced from Rs. 105,000 to Rs. 25,000 — a 76% cut.

Area 2 - Europe: reduced from Rs. 210,000 to Rs. 40,000 — an 81% cut.

Area 3 (Far East/Australia/NZ/Pacific): reduced from Rs. 210,000 to Rs. 40,000 — an 81% cut.

This substantially lowers the duty burden on premium-class international air travel, likely intended to make Pakistan-originating premium travel more competitive/affordable, reduce diversion of

premium travelers to other hub airports, and stimulate demand for business/first-class travel from Pakistani airports, at the cost of reduced per-ticket excise revenue from this category.

Amendments in Second Schedule

New insertion: Sr. No. 5 is inserted in the Second Schedule, after the omitted Sr. No. 4, with entries in columns (1), (2), and (3).

"5. Imported and locally produced:

- (i) Petroleum top Naphtha – 2710.1942
- (ii) White Spirit/Mineral Turpentine Oil (MTT) – 2710.1240
- (iii) Solvent Oil – 2710.1250"

Effect of Insertion: This adds Petroleum Top Naphtha, White Spirit/Mineral Turpentine Oil (MTT), and Solvent Oil – both imported and locally produced – as a new entry under the Second Schedule, under their respective PCT headings (mirroring the same items and headings introduced as Sr. No. 65 in Table-I with the Rs. 80/liter excise duty). Depending on what the Second Schedule governs in this Act (typically items subject to a specific regulatory regime, such as licensing/registration or restriction requirements, or in some Federal Excise Act structures goods/services exempt or otherwise regulated), this insertion brings these three petroleum products formally within whatever regime the Second Schedule prescribes, ensuring both imported and domestically produced quantities of these solvent/industrial products are

captured closing any gap that might otherwise let locally produced volumes escape the regulatory net that now applies to their imported counterparts.

Amendments in Third Schedule – Table I

The Finance Bill has proposed to insert Sr. No. 28 in Table-I of the Third Schedule, after Sr. No. 27, with entries in columns (1), (2), and (3).

"28. Import of bullet proof vehicles by the:

- (i) Federal Government for logistical arrangements for Shanghai Cooperation Organization (SCO) summit, subject to prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control – Respective heading.
- (ii) Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government."

Effect of Insertion: This adds a new entry to the Third Schedule (which typically lists exemptions or special treatment categories) granting relief – under the "respective heading" – for the import of bullet-proof vehicles in two specific scenarios: (i) by the Federal Government for logistical arrangements related to the Shanghai Cooperation Organization (SCO) summit, contingent on prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control; and (ii) by

the Federal or a Provincial Government to protect a public functionary facing a determined terrorism threat, subject to Federal Government approval. This carves out a targeted, security-driven exemption/concession for armored vehicle imports tied to a major diplomatic event and to protective security needs for threatened officials, with built-in inter-ministerial approval safeguards to prevent misuse.

AMENDMENTS IN PETROLEUM PRODUCTS (PETROLEUM LEVY) ORDINANCE, 1961 (XXV OF 1961)

Section 2, Definitions

The Finance Bill proposes to substitute clause (1) of Section 2.

Previous position: "Company' means a company specified in the Second Schedule and includes a person engaged in the manufacturing, refining or reclaiming of lubricating oil from used lubricating oil."

New position: "'company' means an oil marketing company and includes a person engaged in the manufacturing, refining or reclaiming of lubricating oil from used lubricating oil under a license granted by OGRA."

Effect of Substitution: The definition of "company" is narrowed and re-anchored. Previously, "company" was tied to entities listed in the Second Schedule. Now it is specifically defined as an "oil marketing company," and the inclusion of lubricating-oil manufacturers/refiners/reclaimers is made conditional on holding a license granted by OGRA (Oil and Gas Regulatory Authority) – whereas previously no such licensing requirement was specified. This change ties the scope of "company" to OGRA's regulatory licensing framework, potentially excluding unlicensed lubricating-oil reclaimers/refiners from the definition and bringing the term in line with current sectoral regulation by OGRA.

New insertion: After the omitted clause (4D), clauses (4E) and (4F) are proposed to be inserted.

"(4E) 'Oil Marketing Company' means a company, other than lubricant marketing company, engaged in purchasing or obtaining of petroleum products from refineries or blending plants or through sources abroad for selling, distributing or marketing, directly through his agents or dealers at his dispensing outlets or filling stations; and

(4F) 'OGRA' means the Oil and Gas Regulatory Authority of Pakistan established under the Oil and Gas Regulatory Authority Ordinance, 2002 (Ordinance XVII of 2002)."

Effect of Insertion: These two new definitions give substantive content to terms used in the amended clause (1) "company" definition. "Oil Marketing Company" is now formally defined covering entities that procure petroleum products (from refineries, blending plants, or foreign sources) and sell/distribute/market them through agents, dealers, dispensing outlets, or filling stations, while expressly excluding lubricant marketing companies. "OGRA" is defined by reference to the Oil and Gas Regulatory Authority Ordinance, 2002, anchoring the licensing requirement introduced in clause (1) to a specific, recognized regulatory body. Together, these insertions make the new "company" definition operationally clear and legally enforceable.

Substitution of clause (7).

The Finance Bill has proposed to substitute clause 7.

Previous position: "'Refinery' means a refinery specified in the Fourth Schedule."

New position: "'refinery' means a facility or industrial plant where crude oil is refined to produce petroleum products."

Effect of Substitution: The definition of "refinery" is changed from a closed, list-based definition (referring to specific refineries named in the Fourth Schedule) to a generic, functional definition based on the activity performed — i.e., any facility or industrial plant that refines crude oil to produce petroleum products. This broadens the scope of "refinery" to automatically cover any entity meeting this functional description, without needing to be specifically listed in the Fourth Schedule, and removes dependence on schedule amendments to add or recognize new refineries.

Section 3

The Finance Bill has proposed to substitute sub-section (1) of section 3.

Previous position: "Every company, refinery and licensee shall pay to the Federal Government, a petroleum levy and climate support levy on petroleum products at such rates as may respectively be notified by the Federal Government in the official Gazette, from time to time."

New position: "The payment of Petroleum Levy and Climate Support Levy shall deemed to be a license condition of every company, refinery or licensee from the date of issue of license by OGRA and such company, refinery or licensee shall pay to the Federal Government, Petroleum levy

and Climate Support Levy on petroleum products at such rates as may respectively be notified by the Federal Government in the official Gazette, from time to time."

Effect of Substitution: Beyond the bare obligation to pay these levies, payment of the Petroleum Levy and Climate Support Levy is now elevated to a condition of the OGRA license itself, effective from the date the license is issued. This means non-payment is no longer just a financial default — it directly implicates the validity/standing of the entity's OGRA license, potentially exposing the company, refinery, or licensee to license suspension or cancellation proceedings by OGRA for breach of license conditions, in addition to the existing recovery mechanisms.

Sub-section (3) is proposed to be omitted.

Previous position: "Any amount due and payable under sub-section (1) and not paid within the time allowed by the Federal Government, or any officer authorized by it in that behalf, shall be recoverable as an arrear of land revenue."

New position: This sub-section is deleted entirely.

Effect of Omission: The specific recovery mechanism treating unpaid levy amounts as recoverable "as an arrear of land revenue" is removed from the Act. Combined with amendment (a), recovery/enforcement now appears to shift toward the license-condition route (i.e., regulatory action by OGRA against the licensee) rather than the land-revenue arrears recovery procedure, though this also potentially leaves a gap unless an

alternative recovery mechanism is provided elsewhere.

Section 3B, Late Payment Surcharge

The Finance Bill has proposed to insert Sections 3B after section 3A which read as follows:

"(1) Where any amount of the Petroleum Levy and Climate Support Levy are not paid within the prescribed due date i.e. the date of filing of Sales Tax or Federal Excise Returns in case of local production and date of payment of custom duty in case of imported products, the defaulting company, refinery or licensee shall, in addition to the amounts due, be liable to pay late payment surcharge calculated in the manner as specified in sub-section (1) of section 40D of the Public Finance Management Act, 2019."

Effect of Insertion: This introduces a defined trigger date for "default" tying it to existing, well-established compliance dates (Sales Tax/Federal Excise return filing for local production, or customs duty payment for imports) and imposes a late payment surcharge (calculated per PFMA 2019, section 40D(1)) on top of the principal levy amounts, creating a direct financial cost for delayed payment.

3C. Recovery of amounts due under this Ordinance.

The Finance Bill has proposed to insert Sections 3C after section 3B which read as follows:

"(1) Notwithstanding anything contained in the Public Finance Management Act, 2019 and subject to sub-section (2) of this Act, if the Petroleum Levy and Climate Support Levy due or the late payment

surcharge are not paid within ninety days, the relevant department responsible for collecting the Petroleum Levy and Climate Support Levy under sub-section (2) of section 3A of this Act, may request the Commissioner (Inland Revenue) to exercise powers of recovery in the same manner as income tax arrears under Part IV of Chapter X of the Income Tax Ordinance, 2001 (XLIX of 2001) or rules made thereunder in this behalf:

Provided that the Commissioner (Inland Revenue) shall have no authority to grant extension of time to the notice of recovery or allow payments of outstanding levies under this Ordinance including late payment surcharge in instalments of equal or varying amounts.

(2) The relevant department under sub-section (2) of section 3A of this Act, as it deems fit and proper, may either, separately or simultaneously, initiate recovery of the Petroleum Levy and Climate Support Levy, or, the late payment surcharge, as the case may be.

(3) Any irregularity or infirmity in the recovery proceedings under this section shall not be grounds of challenge before a tribunal or courts of law.

(4) The Commissioner (Inland Revenue) shall be bound to submit a report every fortnight to the divisions concerned to whom subjects of finance and petroleum are allocated under the Rules of Business, 1973 on the progress of recovery proceedings, and failure to recover the amounts due shall be explained in writing.

(5) Prior to commencement of the Finance Act, 2026, where any amount of the

Petroleum Levy and Climate Support Levy or the late payment surcharge are due under sections 40B and 40D of the Public Finance Management Act, 2019, it shall be recoverable under this section."

Effect: This establishes a robust, fast-track recovery mechanism for unpaid Petroleum Levy/Climate Support Levy and associated surcharges. After 90 days of non-payment, recovery can proceed using income tax arrears procedures under the Income Tax Ordinance, 2001 a powerful enforcement toolkit at the request of the relevant collecting department to the Commissioner (Inland Revenue). The Commissioner's discretion is deliberately restricted: no time extensions or installment plans can be granted, ensuring strict enforcement. Procedural defects in recovery proceedings are insulated from challenge before tribunals/courts (sub-section 3), and a fortnightly reporting/accountability mechanism to the relevant Finance and Petroleum Divisions is built in (sub-section 4) to monitor recovery progress. Sub-section (5) ensures continuity by bringing pre-existing dues under PFMA 2019 (sections 40B and 40D) into this new recovery framework, so past arrears aren't left outside the new mechanism.

Section 4A, Mandatory reporting mechanism for petroleum levy and climate support levy payments

The Finance Bill has proposed to insert Section 4A after Section 4 which read as follows:

(1) Every company, refinery or licensee under this Ordinance shall submit monthly statement regarding the payment of the Petroleum Levy and Climate Support Levy

on sale of petroleum products. The statement shall be supported by documentary evidence including monthly sales invoice submitted to the Federal Board of Revenue established under the Federal Board of Revenue Act, 2007 (Act No. IV of 2007) including any other document required by the relevant department from time to time.

(2) Every company, refinery or licensee under this Ordinance shall furnish an annual audited certificate to the Petroleum Division, issued by the Authorized Audit Firm, certifying the accuracy of the levy and or levies accrued and paid under this Ordinance.

Explanation: For purposes of this section, Authorized Audit Firm means an audit firm registered with the Audit Oversight Board under the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997).

(3) The costs and expenses of such audit shall be borne solely by the relevant company, refinery or licensee."

Effect of Insertion: This introduces a structured compliance and reporting regime for Petroleum Levy and Climate Support Levy. Companies, refineries, and licensees must now submit monthly statements of levy payments along with supporting documentation (including sales invoices filed with FBR) (sub-section 1), and additionally obtain and submit an annual audited certificate from an Audit Oversight Board-registered audit firm verifying the accuracy of levy amounts accrued and paid (sub-section 2). The cost of this mandatory audit falls entirely on the regulated entity (sub-section 3). This

creates an additional layer of ongoing regulatory oversight, increases compliance burden and cost on industry players, and provides authorities with independently verified data to cross-check levy payments and detect underpayment or evasion.

Second & Fourth Schedule

The Finance Bill has proposed to omit 2nd and 4th Schedule.

Effect of omission:

These schedules previously served as the statutory anchors for two key definitions now amended elsewhere in the Ordinance:

The Second Schedule was the list specifying which entities qualified as "Company" under the old clause (1) definition.

The Fourth Schedule was the list specifying which entities qualified as "Refinery" under the old clause (7) definition.

With clause (1) "company" now redefined functionally (an oil marketing company, plus licensed lubricating-oil manufacturers/refiners/reclaimers under OGRA license) and clause (7) "refinery" now redefined functionally (any facility/plant refining crude oil into petroleum products), these schedules become redundant — the definitions no longer depend on a fixed, named list of entities.

Omitting these schedules removes the need for periodic legislative amendment every time a new company or refinery enters the market or an existing one exits/changes status. Coverage of the Ordinance now automatically follows from whether an entity meets the functional/licensing criteria, rather than whether it has been formally added to a schedule making the levy regime more dynamic, self-updating, and harder to circumvent by entities that previously may have argued they fell outside the named schedules.

ABOLISHMENT OF CAPITAL VALUE TAX

The Finance Bill has proposed to omit several clauses from Section 8 Capital value tax:

These three omissions (sub-section (2)(b), sub-section (3)(c), and sub-section (13)(c)) collectively remove "foreign assets of a resident individual" from the Capital Value Tax (CVT) regime entirely.

Sub-section (2)(b) omission: Removes the charging provision that imposed CVT on foreign assets of a resident individual exceeding Rs. 100 million in aggregate value as of the last day of the tax year. Without this clause, foreign assets are no longer a taxable category under this section's CVT charge.

Sub-section (3)(c) omission: Removes the valuation rules that specified how foreign assets were to be valued (cost basis, or fair market value where cost couldn't be determined, converted to Rupees per SBP exchange rates). Since foreign assets are no longer chargeable to CVT, the valuation methodology for them becomes redundant and is removed.

Sub-section (13)(c) omission: Removes the definition of "foreign assets" itself – which had broadly covered movable/immovable assets held outside Pakistan (real estate, bank accounts, shares, bullion, cash, jewelry, offshore entity interests, dependents'-name assets, etc.). With the charging and valuation provisions gone, this definition is no longer needed.

Overall effect of Omission: Resident individuals' foreign assets are completely withdrawn from the scope of Capital Value Tax under this section. CVT now applies only to the remaining categories – high-engine-capacity/high-battery-capacity motor vehicles held in Pakistan (clause (a))

and any other assets the Federal Government may notify (clause (c), now likely realtered). This represents a significant rollback of what was previously a notable extension of CVT to offshore wealth of resident individuals, removing the compliance and disclosure burden tied to valuing and reporting foreign-held assets for CVT purposes, and reducing the tax base accordingly. It may reflect concerns about enforceability, double taxation issues, or pushback regarding taxation of offshore assets.

AMENDMENT IN THE CUSTOMS ACT, 1969 (IV of 1969)

Section 2, Definitions

New insertion — clause (ssssa) is being proposed to be inserted after (ssss):

"(ssssa) 'State warehouse' means any place authorized by the Collector of Customs to store the detained, seized or confiscated goods, as the case may be"

Effect of Amendment: This introduces a formal statutory definition of "State warehouse" for the first time. It legally designates the specific premises where detained, seized, or confiscated goods are to be stored, and confirms that only the Collector of Customs has the authority to authorize such places. This gives a clear legal basis for using such warehouses in customs proceedings and removes ambiguity about where such goods may officially be kept pending further action (e.g., adjudication, auction, disposal).

Section 19, General power to exempt from customs-duties

Proposed Finance Bill:

Finance Bill has proposed to substitute the figure "2026" with "2027" in section 19 sub-section 5.

Effect of Amendment: This extends the validity period of customs-duty exemption notifications issued on or after 1 July 2016 (and placed before the National Assembly) by one additional year — they will now continue to remain in force until 30 June 2027 (instead of 30 June 2026), unless earlier

rescinded by the Federal Government or the National Assembly. In effect, it gives the government one more year before these exemption notifications automatically lapse and need to be reissued or reconsidered.

Section 32, False statement, error, etc.

The finance bill has proposed to amend section 32.

Proposed Finance Bill:

(a) In sub-section (3), first proviso: the words "in a case" are proposed to be omitted. The proviso now reads "if the recoverable amount is less than twenty thousand rupees..." (instead of "if the recoverable amount in a case is less than twenty thousand rupees...").

(b) In sub-section (3A), proviso: the words "in a case" are similarly proposed to be omitted, so it reads "if the recoverable amount is less than one hundred thousand rupees..."

Effect of Amendment: This is a drafting/clarificatory change rather than a substantive rate or threshold change. By removing "in a case," the threshold (Rs. 20,000 under sub-section (3) and Rs. 1,00,000 under sub-section (3A)) is framed as applying to the recoverable amount generally, rather than being tied specifically to "a case" removing any potential ambiguity about whether the limit is assessed per case, per transaction, or per consignment, and

making the wording cleaner and more uniform.

Section 80, Checking of goods declaration by the Customs

The finance bill has proposed following amendment to Section 80 namely: -

Proposed Finance Bill:

(a) After "examined", a comma is proposed to be inserted, followed by "scanned" so "goods may be examined and assessed" becomes "goods may be examined, scanned and assessed".

(b) In the proviso, after "examined", "or scanned" is proposed to be inserted so "goods may be examined" becomes "goods may be examined or scanned".

Effect of Amendment: This formally adds "scanning" as a recognized method of checking goods alongside physical examination, both under the computerized selectivity criteria and for goods cleared through the green channel. It gives legal cover for Customs to use scanning (e.g., container/cargo scanners) as a basis for assessment or for green-channel verification, without necessarily requiring a full physical examination broadening the toolkit available to Customs while keeping the green-channel scanning subject to the Collector's prior approval.

Section 82, Procedure in case of goods not cleared or warehoused or transshipped or exported or removed from the port after unloading or filling of declaration

Proposed Finance Bill:

(a)(i) In sub-section (1), the words "Federal Government" are proposed to be substituted with "Board" so penalties under sub-section (1) will now be notified by the Board (FBR), instead of the Federal Government.

(a)(ii) In the first proviso, after "waive", the words "or reduce" are inserted, and the full stop is replaced with a colon, followed by a new second proviso:

"Provided further that the Board may notify the rules to regulate the implementation of above provisions, including the process of appeal against imposed penalties and the Customs stations, goods or class of goods, where the provisions of sub-section (1) shall not be applicable."

So, the first proviso now reads: the Collector of Customs may waive or reduce the penalty in unavoidable circumstances; and a new proviso empowers the Board to make rules governing this power, the appeal process against such penalties, and exemptions for specific stations/goods/classes of goods.

Insertion of Proviso in Sub-Section 2 after the 5th Proviso:

(b) In sub-section (2), after the fifth (existing last) proviso, a new proviso has been proposed to be inserted:

"Provided also that the Board may authorize any person, to auction any auctionable goods, in the manner as notified by the Board."

Effect of Amendment:

- Shifts authority for prescribing penalties under sub-section (1) from the Federal Government to the Board (FBR), making the process more administrative/streamlined and easier to amend via Board notifications rather than Federal Government action.
- Gives the Collector of Customs greater flexibility penalties can now be reduced, not just waived, in unavoidable circumstances.
- Empowers the Board to frame detailed rules for implementing these penalty provisions, set up an appeal mechanism against imposed penalties, and exempt certain Customs stations or categories of goods from sub-section (1) altogether adding regulatory flexibility and procedural clarity.
- Allows the Board to authorize private persons/entities (not just government auctioneers) to conduct auctions of auctionable goods, potentially speeding up disposal of seized/unclaimed goods and broadening the pool of authorized auctioneers.

Section 156, Offences and Penalties

The Finance Bill has proposed amendment against Sr. No. 7A, in the third column: "five hundred thousand" is proposed to be substituted with "ten million".

So, the penalty for failing to entertain a delay and detention certificate issued by a Customs officer is increased from "not

exceeding five hundred thousand Rupees" to "not exceeding ten million Rupees".

Effect of Amendment: This drastically increases the maximum penalty (a 20-fold increase, from Rs. 500,000 to Rs. 10,000,000) that can be imposed on agencies, persons, or port authorities (managing/owning customs ports, airports, land customs stations, or container freight stations) who fail to honor a delay and detention certificate issued by Customs. The substantially higher penalty acts as a much stronger deterrent, aiming to compel port authorities and related agencies to comply promptly with such certificates, which are typically used to waive demurrage/detention charges on importers/exporters for delays attributable to Customs procedures.

Proposed insertion of Sr. No. 62A added after Sr. No. 62:

"62A. If any person is found to be involved or abetting in the removal, substitution, damage or otherwise tempering with any goods, whether or not confiscated, at any such place as authorized by the Collector as a State Warehouse — such person shall be liable to a penalty not exceeding two times the value of the goods involved; and upon conviction by a Special Judge, shall further be liable to imprisonment for a period not exceeding five years, or fine or the both."

Effect of Insertion: This creates an entirely new offence and penalty specifically targeting tampering with goods (whether confiscated or not) stored in a "State

Warehouse" a term newly defined under clause (ssssa) discussed earlier. Any person involved in or abetting removal, substitution, damage, or other tampering with such goods faces:

a monetary penalty of up to twice the value of the goods involved, and

additionally, upon conviction by a Special Judge, imprisonment up to five years, or a fine, or both.

This significantly strengthens deterrence and accountability over the integrity of goods held in State Warehouses, closing a previous gap where no specific penal provision existed for such tampering, and ties enforcement directly to the newly introduced State Warehouse concept.

Amendment: The Finance Bill proposes to substitute Column 2 against Sr. No. 83.

Previous position: "any police-officer, whose duty it is, under section 170, to send a written notice or cause goods to be conveyed to a custom-house, neglects so to do."

New position: "If an officer of any authority who is duty bound under section 170 to deposit the impugned goods with customs, neglects so to do."

Effect of Substitution: The penalty under S.No. 83 is no longer limited to police officers; it now extends to officers of any authority who are duty-bound under section 170 to deposit goods with Customs but fail to do so. This broadens accountability for failure to deposit seized/impugned goods

with Customs to all enforcement agencies, not just the police.

Section 157, Extent of confiscation

The Finance Bill has proposed to add an Explanation after sub-section (2) of section 157.

Previous position: Section 157 had no explanation defining "removal."

New position: "Explanation: — The word 'removal' includes, and shall be deemed to have always included, every act of carrying, transporting, depositing, harboring, keeping, concealing, retailing, or any other act involving movement of smuggled goods."

Effect of Insertion: The term "removal" in sub-section (2) (in relation to conveyances liable to confiscation) is given a wide, retrospective definition covering not just transport but also depositing, harboring, keeping, concealing, or retailing smuggled goods. Conveyances used for any of these acts will also be liable to confiscation under section 157(2), and this expanded meaning applies retroactively ("shall be deemed to have always included"), removing scope for arguing that earlier confiscations under a narrower reading of "removal" were invalid.

Section 170, Procedure in respect of goods seized or detained by other authorities

The Finance Bill has proposed to substitute section 170 in its entirety.

Previous position: Section 170, titled "Procedure in respect of things seized on

suspicion by the police," applied only to police officers, where things liable to confiscation were seized on suspicion of being stolen, and the police-officer could detain such things at a police-station or court until conclusion of the related complaint/inquiry/trial, sending notice to and ultimately depositing such things at the nearest custom-house.

New position: Section 170, retitled "Procedure in respect of goods seized or detained by other authorities," now provides that notwithstanding any other law, where goods liable to confiscation under this Act are detained or seized by any other authority for any violation — irrespective of pending proceedings under that authority's own laws — Customs, upon confirming the goods are liable to confiscation, shall intimate that authority in writing, and that authority shall be bound to deposit the goods with Customs for further processing under this Act.

Effect of Insertion: This is a complete overhaul of section 170's scope and rationale. Previously the provision was narrowly confined to police seizures on suspicion of theft, with goods held pending criminal proceedings before being sent to Customs. The new section applies to any authority (not just police) that seizes or detains goods on any ground of violation, regardless of whether that authority's own proceedings (e.g., under FIA, ANF, provincial agencies, etc.) are still pending. Once Customs confirms the goods are liable to confiscation under this Act, that authority is mandatorily

required to hand the goods over to Customs for processing under the Customs Act — overriding any other law and removing the previous condition of waiting for conclusion of other proceedings. This directly underpins the broadened Sr. No. 83 penalty (officer of "any authority" failing to deposit goods) and the new State Warehouse / clause 62A tampering offence, forming a coherent enforcement chain across these amendments.

Section 179, Power of adjudication

The finance bill has proposed to insert Sub-section (6) in Sec 179 which reads as follows:

"(6) Notwithstanding anything contained in this Act, or any other law for the time being in force, the Board may notify a procedure for faceless adjudication whereby adjudication proceedings shall be conducted without any face-to-face interaction between the adjudicating officer and the respondent. The virtual mode shall be in such manner as may be prescribed by the Board from time to time."

Effect of Insertion: This empowers the Board to introduce a "faceless adjudication" system, allowing adjudication proceedings to be conducted virtually/remotely without in-person interaction between the adjudicating officer and the respondent (importer/exporter or other affected party). The override clause ("notwithstanding anything contained in this Act, or any other law") ensures this can be implemented even if existing adjudication procedures

elsewhere in the Act presuppose physical hearings. The specific manner and mechanics of the virtual mode are left to be prescribed by the Board through rules/procedures issued from time to time, giving it operational flexibility to roll out and refine the system.

Section 185A, Cognizance of offences by Special Judges

The finance bill has proposed to insert a new sub-section (6) after sub-section (5) which reads as follows:

"(6) Where a Special Judge during trial of an offence punishable under this Act, is satisfied that there is any reasonable grounds for believing that the accused has committed an illegal transfer of funds into or out of Pakistan, he may order the freezing of the assets of the accused, whether in his possession or in the possession of any other person on his behalf."

Effect of Insertion: This grants Special Judges, during the trial of an offence under the Customs Act, the power to order freezing of an accused person's assets where there are reasonable grounds to believe the accused has illegally transferred funds into or out of Pakistan. Importantly, the freezing power extends not only to assets in the accused's own possession but also to assets held on his behalf by any other person preventing dissipation or concealment of assets through third parties (e.g., relatives, associates, or front entities) during the pendency of the trial.

Section 196JJ, Independent case scrutiny committee

The Finance Bill has proposed to insert Section 196JJ after section 196J.

"196JJ. Independent case scrutiny committee.- (1) Any Civil petition, reference, civil petition for leave to appeal or review petition before the High Court, the Federal Constitutional Court or the Supreme Court of Pakistan shall only be filed by the Collector or Director of Customs, or any officer of Customs not below the rank of Deputy Collector or Deputy Director authorized by the Collector or Director of Customs, in writing, subject to approval by an independent case scrutiny committee, as constituted by the Board under sub-section (3).

(2) The Board may constitute one or more such committees and assign them jurisdiction which shall exercise the powers and functions in a manner, and from the date, as may be notified by the Board.

(3) The independent case scrutiny committee shall comprise of the following Members, namely: —

(a) a retired judge of superior judiciary who shall also act as Chairman of the Committee;

(b) an advocate having not less than fifteen years of experience in customs and commercial litigation before the High Court or Supreme Court of Pakistan; and

(c) a serving or retired officer not below the rank of Director or Collector of Customs.

(4) The members shall receive such remuneration as may be prescribed by rules.

(5) Recommendations of the committee shall be binding upon the concerned Collector or Director of Customs.

(6) No suit, prosecution or other legal proceedings shall lie against the members of the committee in relation to the decisions made under this section."

Effect of Insertion: This introduces a mandatory gatekeeping mechanism before Customs can pursue litigation at the higher judicial forums (High Court, Federal Constitutional Court, Supreme Court). Filing of civil petitions, references, leave-to-appeal petitions, or review petitions can now only be done by senior Customs officers (Collector/Director or authorized Deputy Collector/Deputy Director), and only after approval by an independent committee chaired by a retired superior court judge, including a senior commercial litigation advocate and a senior Customs officer. The committee's recommendations bind the Collector/Director, effectively screening out weak or unnecessary appeals before they reach the courts, while its members are given immunity from suits or legal proceedings over their decisions.

Section 215, Service of order, decision, etc.

The Finance Bill proposes, in section 215, clause (c) for the full stop at the end, "; or"

shall be substituted, and thereafter a new clause (d) shall be added.

Previous position: Clause (c) ended with a full stop, with service limited to clauses (a) tendering/registered post/courier/other acknowledged transmission, (b) affixing on the notice board of the custom-house, and (c) electronic transmission via the Customs Computerized System.

New position: Clause (c) now ends with "; or", followed by new clause (d): "in the manner prescribed for service of a summons under the Code of Civil Procedure, 1908 (Act V of 1908)."

Effect of Insertion: A fourth mode of service is added service in the manner prescribed for summons under the CPC, 1908. This gives Customs an additional, legally recognized fallback method (e.g., substituted service, service by publication) for serving orders, decisions, notices, or summons where the existing modes are impractical or the recipient cannot be reached, strengthening the enforceability of service in difficult cases.

AMENDMENTS IN WEST PAKISTAN MOTOR VEHICLES TAXATION ACT, 1958

The Finance Bill 2026 proposes amendments to the Schedule of the West Pakistan Motor Vehicles Taxation Act, 1958, in its application to the Islamabad Capital Territory, by substituting Tables 2, 3, 4 and 5 with revised token tax rates effective 1 July 2026. The amendments do not disturb the substantive provisions of the Act relating to levy, recovery, penalties, or appeals — the reform is confined entirely to the rate structure. The details of amendment are as follows:

Sr.	Table	Category / Vehicle Type	Previous Position (2025 Amendment Bill)	New Position (Finance Bill 2026)	Effects & Implications
TABLE I / TABLE 2 — Token Tax on Motor Vehicles (Private)					
1	Table I / II	Engine up to 1000cc	Rs. 17,000/- flat (2025 Bill, Table I)	Rs. 20,000/- flat (FB 2026, Table 2)	Rs. 3,000 increase (17.6%). Highest fixed-rate bracket. Affects the most popular/affordable car segment in ICT.
2	Table I / II	1001cc – 1300cc	0.17% of Invoice Value (2025 Bill)	0.25% of Invoice Value (FB 2026)	Rate increased by 47%. On a Rs.4M car: Rs.6,800 → Rs.10,000. Significant jump for most common sedans/hatchbacks.
3	Table I / II	1301cc – 1500cc	0.17% of Invoice Value (2025 Bill)	0.25% of Invoice Value (FB 2026)	Same 47% rate increase. On a Rs.5M car: Rs.8,500 → Rs.12,500. Mid-range vehicles more heavily taxed.
4	Table I / II	1501cc – 2000cc	0.17% of Invoice Value (2025 Bill)	0.25% of Invoice Value (FB 2026)	Rate up 47%. On a Rs.7M car: Rs.11,900 → Rs.17,500. New bracket separately carved out from 1500-2500cc range.
5	Table I / II	2001cc – 2500cc	0.25% of Invoice Value (2025 Bill)	0.35% of Invoice Value (FB 2026)	Rate increased by 40%. On a Rs.9M car: Rs.22,500 → Rs.31,500. Premium segment bears significantly higher burden.
6	Table I / II	2501cc and above	0.25% of Invoice Value (2025 Bill)	0.35% of Invoice Value (FB 2026)	Rate increased by 40%. On a Rs.20M luxury car: Rs.50,000 → Rs.70,000. Strong progressive signal for high-end vehicles.
TABLE II / TABLE 3 — Motor Cabs					
7	Table II / III	Motor Cab – up to 1000cc	Rs. 600/- (2025 Bill, Table II – identical)	Rs. 600/- (FB 2026, Table 3 – unchanged)	No change. Rate retained at same level. Supports small-engine taxi operators and ride-hailing economy.
8	Table II / III	Motor Cab – 1001cc to 1300cc	Rs. 1,000/- (2025 Bill)	Rs. 1,000/- (FB 2026 – unchanged)	No change. Both instruments agree on this rate. Standard rate for common cab segment.
9	Table II / III	Motor Cab – 1301cc to 1500cc	Rs. 1,700/- (2025 Bill)	Rs. 1,700/- (FB 2026 – unchanged)	No change. Consistent across both bills. Acknowledges commercial use deserves lower rate than private equivalent.
10	Table II / III	Motor Cab – 1501cc to 2000cc	Rs. 2,500/- (2025 Bill)	Rs. 2,500/- (FB 2026 – unchanged)	No change. Rate stable across both amendments for this bracket.
11	Table II / III	Motor Cab – 2001cc to 2500cc	Rs. 3,400/- (2025 Bill)	Rs. 3,400/- (FB 2026 – unchanged)	No change. Both bills introduced and retained this new bracket for premium cabs.

12	Table II / III	Motor Cab – above 2500cc	Rs. 4,200/- (2025 Bill)	Rs. 4,200/- (FB 2026 – unchanged)	No change. Highest cab bracket retained identically. Motor cab rates fully preserved in Finance Bill 2026.
TABLE III / TABLE 4 – Public Service Vehicles (Per Seat Per Annum)					
13	Table III / IV	PSV – 8-seater	Rs. 350/- per seat (2025 Bill) = Rs. 2,800 total	Rs. 350/- per seat (FB 2026 – unchanged) = Rs. 2,800 total	No change. Rate retained. Small minibuses unaffected between the two instruments.
14	Table III / IV	PSV – 13-seater	Rs. 400/- per seat (2025 Bill) = Rs. 5,200 total	Rs. 400/- per seat (FB 2026 – unchanged) = Rs. 5,200 total	No change. School vans and minibuses face same cost under both bills.
15	Table III / IV	PSV – 15-seater	Rs. 500/- per seat (2025 Bill) = Rs. 7,500 total	Rs. 500/- per seat (FB 2026 – unchanged) = Rs. 7,500 total	No change. Mid-size passenger vans unaffected.
16	Table III / IV	PSV – 16-seater	Rs. 600/- per seat (2025 Bill) = Rs. 9,600 total	Rs. 600/- per seat (FB 2026 – unchanged) = Rs. 9,600 total	No change. Rate consistently adopted across both instruments.
17	Table III / IV	PSV – 42-seater	Rs. 700/- per seat (2025 Bill) = Rs. 29,400 total	Rs. 700/- per seat (FB 2026 – unchanged) = Rs. 29,400 total	No change. Medium-large buses bear same burden in both instruments.
18	Table III / IV	PSV – 52-seater	Rs. 850/- per seat (2025 Bill) = Rs. 44,200 total	Rs. 850/- per seat (FB 2026 – unchanged) = Rs. 44,200 total	No change. Largest PSV bracket unchanged. PSV structure fully preserved in Finance Bill 2026.
TABLE IV / TABLE 5 – Commercial / Loading Vehicles					
19	Table IV / V	Up to 1250 KG laden	Rs. 850/- (2025 Bill)	Rs. 500/- (FB 2026)	41% reduction. Finance Bill 2026 significantly lowers rate for lightest commercial vehicles. Relief for small traders and delivery operators.
20	Table IV / V	1250 KG to 2030 KG	Rs. 850/- (2025 Bill)	Rs. 1,000/- (FB 2026)	18% increase over 2025 Bill rate. Light goods vehicles face slightly higher rate in FB 2026.
21	Table IV / V	2030 KG to 4060 KG	Rs. 850/- (2025 Bill)	Rs. 1,000/- (FB 2026)	18% increase. Medium delivery vehicles pay more under Finance Bill 2026 compared to 2025 Amendment Bill.
22	Table IV / V	4060 KG to 6090 KG	Rs. 1,800/- (2025 Bill)	Rs. 6,600/- (FB 2026)	267% increase. Dramatic jump for this bracket. Finance Bill 2026 is far more aggressive for medium-heavy trucks.
23	Table IV / V	6090 KG to 8120 KG	Rs. 1,900/- (2025 Bill)	Rs. 6,600/- (FB 2026)	247% increase. Heaviest divergence between both instruments in proportional terms. Major cost increase for operators.
24	Table IV / V	Above 8120 KG (general)	Rs. 3,400/- (2025 Bill)	Rs. 12,000/- (FB 2026)	253% increase. Heavy trucks face tripling of rates compared to 2025 Bill proposal.
25	Table IV / V	8120 KG to 12000 KG (explicit)	Rs. 3,800/- (2025 Bill, Sr.7)	Rs. 12,000/- (FB 2026, Sr.7)	216% increase. Finance Bill 2026 again significantly higher. Note: overlap/ambiguity with Sr.6 entry in both instruments.
26	Table IV / V	12000 KG to 16000 KG (long trailer)	Rs. 5,100/- (2025 Bill)	Rs. 18,000/- (FB 2026)	253% increase. Long-haul transport faces steep cost escalation under Finance Bill 2026.
27	Table IV / V	Above 16000 KG	Rs. 6,800/- (2025 Bill)	Rs. 24,000/- (FB 2026)	253% increase. Heaviest trailers see the highest absolute rate increase. Inter-city freight costs likely to rise.

28	Table IV / V	(long trailer) Tractor (with trolley)	Rs. 2,200/- (2025 Bill)	Rs. 2,600/- (FB 2026)	18% increase. Modest rise for agricultural/construction tractors with trolleys.
29	Table IV / V	Tractor (without trolley)	Rs. 2,200/- (2025 Bill)	Rs. 2,600/- (FB 2026)	18% increase. Both sub-categories receive same rate in FB 2026, same as 2025 Bill. Marginal increase only.

Sources: WP Motor Vehicles Taxation (Amendment) Act 2025 Bill (National Assembly) | Finance Bill 2026 (Federal). Table numbers: 2025 Bill uses Table I-IV; Finance Bill 2026 uses Table 2-5 (equivalent). Rates in PKR per annum unless stated.

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