

UNPACKING BUDGET PROPOSALS - 2025

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COMMENTS ON BUDGET PROPOSALS - 2025

This memorandum has been prepared for the convenience, guidance and general knowledge of our valued clients and staff members and may be used as a ready reference to the proposed amendments mentioned in the **Finance Bill 2025 (Bill)**. The memorandum contains Budget – 2025 at a glance, salient features and comments on the changes proposed through this **Bill** in the taxation laws of the country. All changes are effective from July 01, 2025 unless otherwise specified in these comments.

The comments on the **Bill** represent our interpretation and understanding of the proposed amendments as contained therein. We recommend that the actual text of the **Bill** should be read in conjunction with these comments for a better understanding of the proposed changes and for considering the precise effect of a particular change. Further, reference should also be made to the specific wording in the relevant statutes.

These are general comments on the proposed amendments, which shall be enacted when the **Bill** is passed by the National Assembly; accordingly, for specific application of any part of this information, guidance / advice may be obtained separately in order to avoid any risk. The firm therefore accepts no liability for any action taken as a result of this commentary. We would be glad to entertain any further clarification regarding our comments.

The comments on **Budget Proposals - 2025** can also be accessed on / downloaded from the website of our firm - <http://www.krestonhb.com>

Dated: June 10, 2025

**KRESTON HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS**

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FEDERAL BUDGET AT A GLANCE IN COMPARATIVE FORM

	PROPOSED 2025-26	REVISED 2024-25	PROPOSED 2024-25
 Rs. in billion		
<u>Revenue</u>			
Tax Revenue	14,131	11,900	12,970
Non-Tax Revenue	5,147	4,902	4,845
a) Gross Revenue Receipts	19,278	16,802	17,815
b) Less: Provincial Share	(8,206)	(6,997)	(7,438)
Net Revenue Receipts (a-b)	11,072	9,805	10,377
<u>Expenditure</u>			
Current expenditure <i>(detailed below)</i>	16,286	16,391	17,203
Development expenditure	1,287	858	1,674
	17,573	17,249	18,877
Federal Budget Deficit (FED)	(6,501)	(7,444)	(8,500)
Less: Provincial Surplus	1,706	1,502	1,217
Net Deficit	(4,795)	(5,942)	(7,283)
The detail of current expenditure is as under:			
Markup on debt	8,207	8,946	9,775
Pension	1,055	1,014	1,014
Defense affairs & services	2,550	2,182	2,122
Grants & transfers (provinces and others)	1,928	1,761	1,777
Subsidies	1,186	1,379	1,363
Provision for contingencies	1,360	1,109	1,152
	16,286	16,391	17,203

SALIENT FEATURES OF AMENDMENT PROPOSED IN INCOME TAX ORDINANCE, 2001

A: REVENUE MEASURES

1. The Bill proposed to introduced “**Digital Transactions Proceeds Levy**” alongwith necessary changes in Income Tax Ordinance, 2001 to cover domestic vendors supplying digitally ordered goods and digitally delivered services. For this, the banks and courier services are also proposed to be designated as withholding agents.
2. It is proposed to increase the withholding tax rate for specified services from 4% to 6% with the exception of IT and IT enabled Services; and for other non- specified services, a flat 15% will be imposed, while on Sportsperson it is proposed to collect withholding tax @ 10% to 15%.
3. Certain provisions have been proposed regarding assessment of banking companies to be more disclosure oriented so as to determine true and fair income of the banking companies and tax payable thereon.
4. Tax rate on profit on debt has been proposed to be increased from 15% to 20%. The dividend tax rate has been enhanced to 25% & 15% on dividend from mutual funds.
5. The Finance Bill proposed to charge tax at the flat rate of 5% in case the pension income is received over and above of Rs. 10 million by an individual below the age of 70 years. However, there will be 0% tax rate on pension income not exceeding Rs. 10 million by an individual.
6. Adjustable withholding tax rate on cash withdrawal on non-filers proposed to be increased from 0.6% to 0.8%.
7. Custodian of debt securities other than Sukuk bonds has been proposed to act as withholding agent to prevent tax evasion due to coupon washing scheme.

B: RELIEF MEASURES

1. The Bill proposed to reduce the super tax rates under section 4C by half a percentage point for income slabs between Rs. 200 million to Rs. 500 million.
2. Tax rates for salaried individuals for income slab upto Rs. 3,500,000 has substantially reduced to provide relief to lower and middle tiers salary income. Similarly, surcharge rate proposed to be reduced from 10% to 9% alongwith marginal relief in tax rates to higher bracket salaried individuals also.
3. Income tax exemption alongwith withholding tax exemption for erstwhile FATA/PATA areas propose for extension for one year i.e. upto TY 2026.
4. There is a proposal of 25% rebate against tax payable by full time teachers and researchers that will be restored retrospectively i.e. from TY 2023 to TY 2025.
5. The Bill has also proposed a proportionate tax credit to profit on debt on loan obtained for construction or acquisition of a house of 250 sq. yd. (10 marlas) and a flat having 2000 sq ft. or less area.

C: STREAMLINING MEASURES

1. Powers of Officer of Inland Revenue to work out Fair Market Rent of a domestic or commercial property proposed to be curtailed to the extent of commercial properties. A flat 4% Fair Market Value (FMV) notified rates by Board or Deputy Collector proposed to be annual rental value of commercial properties unless actual rent declared justified through evidence.
2. It has been proposed that any purchase from an unregistered person will make the purchaser liable, shifting the focus to those buying from the unregulated market. In such cases, 10% of the purchase-related expenditure will be disallowed.
3. 50% of the expenditure related to purchases will be disallowed in case of payment is received in cash against a single invoiced sale transaction exceeding rupees two hundred thousand by a vendor.
4. Proportionate depreciation deduction disallowance for the tax year if withholding tax not deducted by the withholding agent. Disallowed amount will not become part of written down value of such capital assets.
5. No adjustment of brought forward accumulated business losses available to taxpayer in the first tax year and subsequent tax years under Normal Tax Regime after switching from prior applicable Final Tax Regime.
6. Period of amortization of an intangible asset having undeterminable useful life has been reduced from 25 years to 15 years.
7. Coal supply scope of person engaged in coal mining project in Sindh has been enhanced. Such person can now supply coal to any sector of economy and pay income tax on income from such supply and also can avail one hundred percent tax credit on supply to power generation projects..
8. Period of three years carry forward for adjustment of minimum tax on turnover has been reduced to two years.
9. Limitation period of 180 days provided for completing proceedings for amendment of assessment has been withdrawn.
10. Appeal procedure before appellate fora has been majorly reverted back to the period which was in vogue prior to Tax Laws (Amendment) Act, 2024.
11. Recovery proceeding for immediate payment or specified time limit in the notice against a taxpayer can only be initiated where the decisions at both the forums i.e. Appellate Tribunal and High Court, are against the taxpayer.
12. Board power to grant condonation has been restricted to an aggregated period of two years and in the case of huge revenue loss, the same can be extended for a longer period by processing through a committee.
13. All the entities in a group structure has been made mandatory to derive income chargeable under Normal Tax Regime for availing group relief.

14. Table (I) and Table (II) of clause (C66) of Part I of Second Schedule to the Ordinance listing entities granted complete exemption on any income and exemption subject to 100C provision respectively have been merged. Now all entities require approval under 100C to be declared as Non-Profit Organization and availing exemption against income.
15. Exemption to Special Economic Zone (SEZ) and Special Technology Zone (STZ) entities, developers has been restricted to TY 2035 or expiry of ten years exemption period, whichever is earlier.

D: PROCEDURAL MEASURES

1. All online marketplace, payment intermediary and courier service will file a statement to Commissioner sharing data of sellers involved in digitally ordered goods and digitally delivered services.
2. Online marketplace made responsible to get registered all sellers using their platform in e-commerce.
3. Sharing of taxpayer data with Tax Policy Office (TPO) and anonymized data with international donor and recognized universities have been allowed.

SALIENT FEATURES OF AMENDMENTS PROPOSED IN SALES TAX ACT, 1990

1. Cargo tracking system has been proposed to be introduced for real-time monitoring of goods in transit to control the issue of tax evasion.
2. Adjustment of chilling charges from retail price of aerated water, beverages, mineral water, or fruit juices has been proposed to be restricted to a uniform rate of 5%.
3. Retail price in case of imported goods shall not be less than 130% of the customs assessed value.
4. In respect of digitally ordered goods from within Pakistan, payment intermediary and courier have been proposed to be made liable to collect and pay sales tax.
5. FBR has been proposed to be empowered to defer certain input tax or fix higher or lower limit of input tax adjustment by using data based on risk management system.
6. Enforcement measures such as restriction on bank account operations, transfer of immovable property, sealing of business premises, seizure of movable property and the appointment of receiver have been proposed to be introduced to compel unregistered person to get itself registered.
7. Sales tax exemption available on supplies and import in erstwhile Tribal areas has been removed in a phased manner.
8. Sales tax exemption available on import or supply of solar panels withdrawn.
9. The mechanism governing inquiry, investigation and compounding of offences by Inland revenue officials, prior to trial by Special Judge, streamlined/rationalized, by introduction of certain checks and balances.
10. Two- tier appeal system is proposed to be reinstated and the pecuniary limits associated with different appellate forums are proposed to be done away with.
11. Chief Commissioner Inland Revenue is empowered to refer an audit firm to Audit Oversight Board for inspection in certain cases.

SALIENT FEATURES OF AMENDMENTS PROPOSED IN FEDERAL EXCISE ACT 2005

1. Through the proposed amendment dutiable goods manufactured or produced without affixing or affixing counterfeited tax stamps, banderols, stickers, labels or barcodes liable to seizure along with the conveyance used for movement of such goods. Furthermore, such seized goods are also made liable to outright confiscation.
2. The bill seeks to streamline the procedure for filing appeals to the Commissioner (Appeals), the Appellate Tribunal Inland Revenue, and references to the High Court. The pecuniary jurisdiction of the Commissioner (Appeals) has been withdrawn. However, a registered person will have the option to file an appeal directly with the Appellate Tribunal Inland Revenue without first availing the right of appeal before the Commissioner (Appeals).
3. Federal excise duty on the allotment and transfer of residential and commercial plots, imposed through the Finance Act, 2024, is now proposed to be withdrawn.
4. It is proposed that FBR may be empowered to authorize officers or employees from other departments within the Federal or Provincial Governments, through a notification in the official Gazette, to perform functions or exercise powers under section 26 (power to seize dutiable goods) and sub-section (1) of section 27 (confiscate dutiable goods) of the Act.

**1. Definition of Board scope extended
Section 2**

1.1 Clause 7- Banking Company

The Bill seeks to amend the definition of Banking Company to align with the definition of Banking Company as defined in the Banking Companies Ordinance, 1962 (LVII of 1962) by omitting the words “and includes any body corporate which transacts the business of banking in Pakistan.”

This amendment clarifies the scope.

1.2 Clause 17C- Digitally delivered Services.

To reflect the growing digital economy in Pakistan, the Bill seeks to broaden the coverage of digital delivery means and by inserting the new clause as follows:

“(17C) “digitally delivered services” means any service delivered over the internet or electronic networks, where the delivery is automated and require minimal or no human intervention including music, audio and video streaming services, cloud services, online software applications services, services delivered through online inter-personal interaction i.e., tele medicines, e-learning etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility”

1.3 Clause 19AA- E-Commerce

The Bill seeks to define the word “e-commerce” by providing the definition therefor as e-commerce word in already mentioned in Section 2 clause (38B) under the definition of “Online Market Place”. The proposed definition reads as:

“(19AA) “e-commerce” means sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using either mobile phone, iPad, Tablet or automated computer-to-computer ordering system;”

1.4 Clause 36- Non-profit organization

The Bill seeks to exclude the recreational clubs with membership fee exceeding one million for any class of new members from the definition of non-profit organization. This change broadens the tax net by subjecting such recreational clubs to taxation.

1.5 Clause 38B- Online Market Place

The Bill seeks to broaden the scope of online market place by inclusion the online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or providing or rendering the services that are being sold”.

**2. Surcharge on taxable income
Section 4AB**

A new section was introduced whereby any individual and association of persons were liable to pay surcharge @ 10% if their income is more than ten million rupees.

The Bill seeks to provide an insignificant relief and that too to only Salaried class by reducing the Surcharge rate from 10% to 9% i.e., only 1% reduction in the quantum of surcharge.

The salaried class was given to understand and was under impression of public news that greater tax reduction is likely as in these hyperinflationary conditions there are a number of salaried persons whose annual taxable salary exceeds ten million rupees.

**3. Tax on payment for digital transactions in e-commerce platforms
Sections 6A & 8.**

Recognizing the growth of digital transactions on e-commerce platforms, the Bill introduces a new tax chargeability provision on every person who receives payment for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplace or websites at slab rates in case of digital or banking channel based on value of supply ranging from 2% to 0.25% as well as Cash on delivery (COD) based on category of goods supplied ranging from 0.25% to 2%. Tax slab rate is given in the comment given in the heading "First schedule."

The Bill also by making amendments in section 8 and proposes to include chargeability under the new section 6A as final taxation by including the cross reference of said new section under section 8.

**4. Income from Property.
Section 15**

Hitherto, rent income earned from properties is subject to taxation at the amounts disclosed by the taxpayer though they are not subjected to below fair market values.

However, in the case of commercial properties, the Bill seeks to establish a minimum taxable rent under the head income from property, where the rent received or receivable is less than the fair market rent for the property. The Bill seeks to fix at 4% of fair market value per annum as provided in section 68 of the ordinance. However, the minimum value of fair market rent mentioned in above proviso shall not apply if any evidence proving otherwise is provided by the taxpayer to the satisfaction of the Commissioner.

**5. Income from Business.
Section 18**

As a consequential amendment in the definition of Non-profit organization, as already explained in the definition section, the Bill proposes to broaden the scope of income from business by inclusion "recreational club" by exclusion of these clubs from the ambit of non-profit organizations.

**6. Deductions not allowed.
Section 21**

6.1 Clause (q)

The Bill seeks to restrict the admissibility of deductions by disallowing the 10% of the claimed expenditure made attributable to purchases made from persons who do not have National Tax number Holders.

Further, the Bill proposes to exclude the agriculture produce directly purchased from the growers for this purpose and those exempt persons or classes of persons from this clause subject to such conditions and limitations as may be specified therein through notification in the official gazette.

6.2 Clause (r)

The Bill seeks to promote the use of banking channel and digital means by further expanding the scope of deductions not allowed by fixing the value of transaction receipt exceeding more than Rs. 200,000 otherwise through a banking channel or digital means against a single invoice containing one or more than one transaction of supply of goods or provisions of services.

Accordingly, non-receipt of these amounts, otherwise through banking channel or digital means will result in disallowance of Bonafide business expenditures.

**7. Depreciation
Section 22-**

The Bill seeks to disallow depreciation expense on addition of capital assets in all relevant tax years if the withholding tax under section 152 or 153 has not been deducted and deposited on purchase of the assets on which depreciation is to be claimed.

**8. Intangibles
Section 24**

The Bill seeks to reduce the useful life from 25 years to 15 years for the intangible assets that do not have an ascertainable useful life. Thus, intangible assets will be amortized in shorter periods than already provided in the law.

**9. Income from Other sources
Section 39**

As a consequential amendment reflecting the inclusion of digital means definition, the Bill proposes to include the digital means for the receipt amount/funds on account of loan, gift, or deposit. The amendment in this section was brought in order to avoid after thought and undocumented receipts of funds on these account and inclusion of digital means is also in the same spirit.

**10. Set off of losses.
Section 56**

Hitherto, Section 56 provides offsetting of business loss against income under any other head except income from capital gain and speculation.

However, the Bill henceforth seeks to restrict the adjustment of business loss against the income from property.

**11. Group relief – Adjustment of losses restricted only against income subject to chargeability under Division II of Part I of the First Schedule
Section 59B (2)**

The Bill seeks to limit the adjustment of assessed losses (excluding capital loss) of a subsidiary only against taxable income, of the holding company or any other group subsidiary, which is chargeable to tax under Division II of Part I of the First Schedule to the Ordinance, i.e., only against income subject to normal tax regime. Accordingly, following clause (ba) is proposed to be inserted in sub-section (2) of section 59B of the Ordinance.

“(ba) a company or companies within the group whose income from business is chargeable to tax under any provisions of this Ordinance other than Division II of Part I of the First Schedule to the Ordinance shall not be entitled to avail group relief;”

It seems that the Bill intends to provide that the holding company or any other subsidiary within a group having income subject to final tax regime and no active business income or any income subject to normal tax regime shall not be entitled claim adjustment of assessed losses of any subsidiary against its income. Also, it has been widely seen that the group formation comprises of an entity having significant income levels while the group acquires loss making entities to enlarge its presence vertically as well as geographically and the acquired entity initially incurs losses which later on becomes profitable. There are lot of practical examples are visible in our country as well as in our region while this is very common in Europe and west. In our view, the proposed amendment may restrict creation of large groups and is anti-corporation policy.

12. Tax credit for interest paid on Low-cost Housing Loan

The Bill proposes introduction of tax credit for individuals who pay profit on debt or share in rent or share of appreciation in the value of a house in respect of the loan / financing for construction (including land) or acquisition of one personal house obtained by a person from:

- i. a scheduled bank or
- ii. any other financial institution regulated by the Securities and Exchange Commission of Pakistan or
- iii. advanced by Government or the Local Government or
- iv. a statutory body or
- v. a public company listed on a registered stock exchange in Pakistan.

The proposed tax credit would be available only against loans used for constructing or acquiring:

- a) one personal house (up to 2,500 square feet) or
- b) flat (up to 2,000 square feet).

The amount of the tax credit would be calculated using the following formula.

$$A/B \times C,$$

where

A	is the assessed tax before applying this credit,
B	is taxable income, and
C	is the lower of total profit on debt paid or 30% of taxable income.

If an individual's profit on debt qualifies for deduction under Section 15A (Deductions in computing income chargeable under the head "Income from Property"), they are not eligible to claim this credit.

A person is restricted to claim this credit only once within fifteen years, prohibiting a second claim for another house or flat within **15 years**.

13. **Tax credit for certain persons. – Coal miners supplying coal to Power and Other sectors** **Section 65F(a).**

Presently sub-section (1) (a) of section 65F of the Ordinance, provides incentives of a tax credit equal to one hundred per cent of the tax payable under any provisions of the Ordinance including minimum, alternate corporate tax and final taxes to person engaged in coal mining projects in Sindh supplying coal **exclusively** to power generation projects, i.e., those coal miners who are solely supplying coal to power generation projects could benefit from the 100% tax credit.

However, through the Bill the removal of the word "**exclusively**" from the relevant clause has been proposed expanding tax relief eligibility for persons engaged in coal mining projects in Sindh: who would be supplying coal for power generation projects as well as for other purposes. However, tax credit would be allowable to the extent of their coal supply made to power generation projects whereas, tax shall be payable in respect of the sale of coal to other than power projects in accordance with the provision as prescribed in the Ordinance. This amendment would allow flexibility for coal mining projects in Sindh, enabling them to expand their supply chain without losing tax benefits. Also, this would limit coal imports for industrial purposes other than power generation. However, the said amendment might lead to sale of coal outside the province of Sindh (wherefrom the Coal is being extracted) ultimately causing exploitation of energy resources of Sindh without ultimate benefit to the people of Sindh.

14. **Purchase of assets through banking channel** **Section 75A**

Through the Bill the phrase "**or digital means**" is proposed to be inserted into the section heading, which now reads: "**Purchase of assets through banking channel or digital means.**" Additionally, in sub-section (1), clause (b), the words "**or through digital means**" have been proposed to be added after the word "**instrument.**"

This amendment aligns the provision with current financial practices by allowing asset purchases to be made not only through traditional banking instruments but also via digital payment methods, thereby facilitating speedy funds transfer.

**15. Tax credit for charitable organizations.
Section 100C.**

Presently income of non-profit organizations specified in table I of clause (66) (1) of part 1 of the Second Schedule is exempt from income whereas other non-profit organizations including those specified in table II clause (66) (2) of part 1 of the Second Schedule can avail 100% tax credit subject to compliance with conditions, as specified in the section 100C, relating to registration, timely filing of returns and withholding statements, and exclusive application of income for charitable purposes.

The Bill proposes that expression “**Table II of**” wherever appearing in section 100C, shall be omitted. A corresponding amendment is also proposed in the clause (66) of Part I of the Second Schedule whereby existing two sub-clauses and two table are proposed to be merged within a single Table, with additions and deletion of certain organizations, and income derived by the all institutions, foundations, societies, boards, trusts, and funds, listed in the proposed consolidated table shall now be entitled for tax credit under section 100C. The proposed amendment is likely to create undue hardship for NPOs who are exclusively engaged in providing healthcare facilities, educational facilities and other welfare institutions etc. who are now required to apply for approval as NPO and would also be required to comply the requirements as envisaged in section 100C.

**16. Minimum tax on the income of certain persons. – Restriction of carried forward minimum tax for two subsequent tax year
Section 113(2)(C).**

Presently if the minimum tax exceeded the actual tax liability, the excess amount is allowed to be carried forward for adjustment against future tax liabilities for up to three years. This period has now been proposed to be reduced to two years, allowing businesses to utilize excess minimum tax against normal tax liabilities of only two subsequent years.

It is the vested right of tax payers that the said restriction should apply prospectively for minimum tax paid in future tax years whereas unadjusted minimum tax for the tax years till 2025 should be available for adjustment in subsequent three years.

**17. Restriction on economic transactions by certain persons.
Section 114C.**

The Bill proposes a new section 114C in the Ordinance which supersedes the nomenclature of (filer / Non filer) with respect to certain economic transactions by ineligible persons as defined under the proposed section, reinforcing tax compliance and documentation requirements.

Under the proposed amendments, individuals who have not filed tax returns or demonstrated sufficient financial resources cannot:

- Book, purchase, or register motor vehicles except certain exclusions
- Get its property registered / transferred any immovable property of more than such value as may be notified
- Invest in securities or mutual funds,

- Open or maintain an already opened current or a saving bank or investor portfolio securities account, except Asaan account and Pensioner Account, in the name of such persons as may be notified by the Board; and
- Withdraw Cash from any of the bank accounts, exceeding the amount as may be notified by the Board from time to time.

Banks and financial institutions will now be required to enforce these restrictions by refusing account openings, limiting transactions, and regulating cash withdrawals beyond thresholds set by the Federal Board of Revenue (FBR). However, exemptions apply to certain vehicle categories, non-residents, and public companies as mentioned in the proposed Bill, ensuring the regulations focus on undocumented wealth rather than legitimate economic activity.

In the proposed section, the concept of immediate family members has been introduced which is in contrast to definition of “relative” as provided as specified in Section 85(5) of the ordinance. However, the definition of immediate family member has been restricted to parents, spouse and dependent children under whose name restricted economic transactions can be carried out by an eligible person.

***The proposed Section 114 is reproduced as under
“114C. Restriction on economic transactions by certain persons.***

(1) Notwithstanding anything contained in any law for the time being in force, —

- (a) any application, by any ineligible person, for booking, purchase or registration of a motor vehicle, shall not be accepted or processed by any manufacturer of a motor vehicle or vehicle registering authority of Excise and Taxation Department, as the case may be;*
- (b) any application or request by any ineligible person, to any authority responsible for registering, recording or attesting transfer of any immovable property, more than such value in aggregate in a tax year as may be notified by the Federal Government from time to time, shall not be accepted or processed by such authority:*

Provided that this clause shall not come into effect or no person shall be considered ineligible for the purpose of this clause unless a value is notified by the Federal Government

- (c) any person, authorized to sell securities including debt securities or units of mutual funds including a person authorized to open and maintain an account or clear such transactions, shall not sell, open an account or clear sale of securities, mutual funds, to an ineligible person being an individual or an association of persons; and*
- (d) a banking company shall —*
 - (i) not open or maintain an already opened current or a saving bank or investor portfolio securities account, except Asaan account and Pensioner Account, in the name of such persons as may be notified by the Board; and*
 - (ii) not allow cash withdrawal from any of the bank accounts of any person, exceeding the amount as may be notified by the Board from time to time;*

- (2) The provisions of sub-section (1) excluding those in the clause (d) shall not apply to —
- (a) purchase of all rikshaws, motorcycle and tractors;
 - (b) purchase of a pick-up vehicle having engine capacity up to 800 CC;
 - (c) purchase of such motor vehicles other than those mentioned in clauses (a) and (b), trucks and buses subject to restrictions and limitations as may be notified by the Board from time to time;
 - (d) investment in securities up to such limit as may be notified by the Board from time to time; and
 - (e) transactions made by a non-resident person or a public company except that mentioned in sub-clause (ii) of clause (d) of sub-section (1).
- (3) The sources of investment and expenditure statement filed by the person and sufficient resources mentioned in sub-section (5), shall not be construed as nature and source of income for the purposes of section 111.
- (4) All or any of the restrictions imposed under sub-section (1) shall come into force as the Board may by notification in the official Gazette appoint with the approval of the Federal Government.
- (5) For the purposes of this section, —
- (a) “eligible person” shall means a person who has filed —
 - (i) a return of income for the tax year immediately preceding the year of transaction mentioned in sub-section (1) and has sufficient resources in the wealth statement in case of an individual, or financial statement in case of a company or an association of persons, as the case may be, for such transaction; or
 - (ii) sources of investment and expenditure statement declaring sufficient resources and furnishing explanation thereof for a particular purchase or investment transaction covered in clauses (a), (b) and (c) of sub-section (1): Provided that in case of an individual, the eligible person shall include his immediate family members;
 - (b) “immediate family members” in respect of an individual, shall include his parents, spouse and dependent children;
 - (c) “ineligible person” shall mean a person who is not an eligible person as defined in clause (a) of this sub-section;
 - (d) “sources of investment and expenditure statement” shall mean a declaration by a person filed on the Board’s web portal, specifying the sources of funds for making such transaction; and

- (e) “sufficient resources” shall means one hundred and thirty percent of the cash and equivalent assets comprising cash denominated in local or foreign currency, fair market value of gold, net realizable value of stocks, bonds, receivables or any other cash equivalent asset as may be prescribed, declared by a person either in his sources of investment and expenditure statement, or wealth statement filed for the latest tax year and in the case of a company or association of persons, cash and equivalent assets, declared in the financial statements attached with the income tax return for the latest tax year:

Provided that where an asset mentioned in sub-section (1), other than its clause (d), has been purchased by way of exchange of capital assets already declared in the wealth statement, or financial statement, or sources of investment and expenditure statement, the disposal of such capital assets shall be treated to be part of cash equivalent assets to the extent of the value mentioned in the agreement.”;

18. Assessments.

Section 120 (1) (a) & (b)

The Bill proposes to restore expression “equal to the respective amounts adjusted under sub-section (2A)” in section 120 (1) (a) & (b) which was earlier omitted through Finance Act 2021.

Consequent to the proposed amendment, where a taxpayer has furnished a complete return of income (other than a revised return under sub-section (6) of section 114) for a tax year ending on or after the 1st day of July, 2002, the Commissioner shall be taken to have made an assessment of taxable income for that tax year, and the tax due thereon equal to the respective amounts adjusted under sub-section (2A), i.e., the amount adjusted through automated system to arrive at correct amounts of total income, taxable income and tax payable by making adjustments for-

- (i) any arithmetical error in the return;
- (ii) any incorrect claim, if such incorrect claim is apparent from any information in the return;
- (iii) disallowance of any loss, deductible allowance or tax credit under Parts VIII, IX and X respectively of Chapter III; and
- (iv) disallowance of carry forward of any loss under clause (b) of sub --section (I) of section 182A:

The proposed amendment would enable the commissioner to make aforementioned adjustments in the return filed by tax payer before order for deemed assessment.

19. Amendment of assessments. — Omission of provisions relating to time frame specified for making orders
Section 122 (9)

The Bills proposes to omit the existing two provisos in sub-section (9) of section 122 which requires that Order for amendment of assessments shall be made within one hundred and eighty days of issuance of show cause notice (show cause notice issued on or after the first day of July, 2021) or within such extended period as the Commissioner may, for reasons to be recorded in writing, so however, such extended period shall in no case exceed ninety days.

Provided that any period during which the proceedings are adjourned on account of a stay order or Alternative Dispute Resolution proceedings or agreed assessment proceedings under section 122D or the time taken through adjournment by the taxpayer not exceeding sixty days shall be excluded from the computation of the period as specified above.

With the omission of these provisos, there would be no time limitation of for making amended assessment order and inland revenue officer would be empowered to make order at their discretion without any time limitation after issuance of show cause notice.

20. Assessment giving effect to an order. — Empowerment to recover tax without appeal effect order and in case of partial order with appeal effect order
Section 124 (4A) & (4B)

The Bills proposes to that in section 124, after sub-section (4), the following new sub sections shall be inserted, namely: –

- (4A) *Where the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court has confirmed the tax payable as determined in the order appealed against no appeal effect order will be required to be issued and the Commissioner shall proceed to effect recovery.*
- (4B) *Subject to the provisions of sub-section (2) where the Appellate Tribunal, High Court or Supreme Court has partly set aside the order and confirmed or modified the order on some other issues that were subject matter of the appeal, the Commissioner shall issue an appeal effect order on the prescribed form determining the tax payable as a result of the confirmation or modification by the Appellate Tribunal, High Court or Supreme Court and excluding the tax payable on the matters that have been set aside or remanded and the tax payable on the basis of the issues that have been confirmed or modified shall be paid or recovered under the provisions of the Ordinance.*

Consequent to the proposed sub-section, the Commissioner has been empowered;

- To recover tax payable without appeal effect order in case the tax payable in the order against which appeal was filed has been confirmed by the Commissioner Appeal, Appellate Tribunal or Court.
- To recover tax payable by-passing appeal effect order in case the order has been partly set aside, or confirmed or modified.

21. Pecuniary jurisdiction in appeals – Jurisdictions for appeal based on monetary limits abolished
Section 126A

The Bill proposes to omit the section 126 A (Introduced in last year) which restricted the rights of appeals based on pecuniary limits, i.e.,

- (a) an appeal to the Commissioner (Appeals) shall lie where the value of assessment of tax or, as the case may be, refund of tax does not exceed twenty million rupees; or
- (b) an appeal to the Appellate Tribunal Inland Revenue shall lie where the value of assessment of tax or, as the case may be, refund of tax exceeds twenty million rupees.

Corresponding amendments are also proposed in sections 127 and 131. Consequent to the amendments the person right to appeal that was restricted has now been proposed to be restored and hence any aggrieved person may now file appeal before Commissioner Appeals or may opt to appeal directly in Appellate Tribunal as well.

The provision contained in section 126A of the Ordinance was inserted through The Tax Laws (Amendment) Act, 2024 and it created a lot of hassle as it created a monetary discrimination for filing appeal whereby the tax involved exceeds Rs 20 million or above was required to be contested before the Appellate Tribunal instead of Commissioner Appeals. Consequently, bundle of appeals pending before the Commissioner Appeals due to monetary restrictions were transferred to Appellate Tribunal and its is not known whether these appeals which are still pending before the Appellate Tribunal will be reverted back or not. Moreover, option of pleading before Commissioner Appeals and or before Appellate Tribunal would be available to the pending cases needs to be explained.

22. Appeal to the Commissioner (Appeals) – Option to file appeal directly before Appellate Tribunal Inland Revenue
Section 127 (1)

The Bill proposes to omit section 126A which restricted the right to appeal based on the pecuniary limits of assessed value and corresponding typographical amendment is proposed in section 127 (1) to omit the reference of section 126A therefrom.

Furthermore, the Bill proposes to add proviso in sub-section (1) of section 127 to provide aggrieved person the option to either file appeal before Commissioner Inland Revenue (Appeals) directly or may surrender his right of appeal before Commissioner Inland Revenue (Appeals) and avail the next statutory appellate forum by lodging the appeal directly before the Appellate Tribunal Inland Revenue.

This would entitle aggrieved person option to directly opt for appeal before Appellate Tribunal instead of first filing appeal before Commissioner Appeal.

**23. Appellate Tribunal – Chartered Accountants (CA) in employment of practicing CA / CAs entitled to be member of Appellate Tribunal
Section 130 (3)(b)**

Presently only Chartered Accountant in practice having experience of at least ten year of professional practice is entitled to be member of Appellate Tribunal. However, the Bill now proposes that not only the Chartered Accountant in Practice but any Chartered Accountant who has been in employment of a Chartered Accountant in practice at least for a period of ten years can also be appointed as member of Appellate Tribunal.

“Chartered Accountant means a Chartered Accountant, within the meaning of Chartered Accountants Ordinance, 1961 (X of 1961)”

**24. Appeal to the Appellate Tribunal – Option to appeal directly before Appellate Tribunal
Section 131 (1)**

Presently an aggrieved person, other than State Owned Enterprises (SOEs), can file appeal before Appellate Tribunal or a reference to High Court observing the pecuniary limits specified in section 126A of the Ordinance. However, corresponding to the proposed omission of section 126A, the Bill proposes to redraft sub-section (1) of section 131 as follows.

“ Where the taxpayer, or the Commissioner objects to an order passed by the Commissioner (Appeals), the taxpayer or Commissioner may appeal to the Appellate Tribunal against such order within thirty days of the receipt of such order:

Provided that the taxpayer may directly appeal against the order of the Officer Inland Revenue or the Commissioner as the case may be to the Appellate Tribunal by exercising the option as provided in sub-section (1) of section 127.”

Consequent to the proposed amendment aggrieved person, other than SOEs, may now prefer appeal to the Appellate Tribunal within thirty days of receipt of order. Also, person would be entitled to file appeal directly to Appellate Tribunal instead of Commissioner Appeals, if it opts to surrender its right to appeal before commissioner appeal.

**25. Reference to High Court
Section 133**

Increase the time limit for filing a reference to the High Court from thirty days to sixty days.

The extension from 30 to 60 days offers taxpayers and the department more reasonable time to prepare legal submissions. This aligns with due process and is a welcome move for both taxpayers and lawyers.

Omits references to the Commissioner (Appeals) and removes the phrase "mixed question of law and facts"

Removing references to Commissioner (Appeals) clarifies that references to the High Court are confined to orders of the Appellate Tribunal only, which is consistent with judicial hierarchy. This helps eliminate procedural ambiguities.

Limiting appeals strictly to questions of law reinforces the High Court's appellate jurisdiction and avoids re-litigation of factual matters. While this ensures judicial economy, it might limit relief where legal interpretation depends on factual nuance.

Ensures uniformity by omitting the same references from subsections (2) to (10), reinforcing the High Court's focus only on questions of law. Uniform deletion of obsolete or redundant phrases across subsections improves legislative clarity and reduces interpretational discrepancies.

**26. Alternate Dispute Resolution (ADR)
Section 134A**

Subsection (11) is amended to begin with "Subject to sub-section (11A), if...", setting the stage for exceptions related to state-owned enterprises (SOEs). These additions acknowledge the unique position of state-owned enterprises in tax disputes, potentially involving high fiscal stakes and public policy concerns.

Two new subsections added:

- (11A): In case of failure to decide a dispute within 60 days for SOEs, a new Committee shall be reappointed.
- (11B): If the reappointed Committee also fails within 60 days, subsection (11) (i.e., deemed resolution in line with taxpayer's stance) will apply.

**27. Immediate Tax Recovery After Court Decision
Section 138 –**

A new sub-section mandates that tax liabilities—determined under any provision or assessment order—become immediately recoverable or recoverable within a specified time upon a High Court or Supreme Court ruling in favor of the department, overriding any conflicting timelines set by laws or court decisions. A grace period of seven days is allowed where a High Court decision under Section 133 supports the department.

This amendment significantly accelerates the recovery process, reflecting a clear policy to enforce court-backed revenue claims without procedural delays. While it strengthens enforcement and boosts revenue security, it also raises due process concerns, particularly for taxpayers awaiting appellate review or final adjudication. Implementation should be monitored to ensure adequate safeguards against premature or unjustified recoveries.

**28. Enforcement of Recovery Post Court Decision
Section 140**

Sub-section (6A) provides that tax payable under an assessment order becomes immediately recoverable, or recoverable within the time specified by tax authorities, if a High Court or Supreme Court upholds the underlying tax issue, notwithstanding any other legal provisions or judgments. Like the amendment in Section 138, a seven-day grace period is included following a favorable High Court decision under Section 133.

This amendment reinforces the government's authority to expedite tax collection post-judicial confirmation but raises similar concerns around fairness and procedural safeguards.

**29. Tax on Pension and Annuity
Section 149**

New section has been inserted after sub-section (1) of section 149 related to the person being a former employee who is below the age of seventy years and deriving pension income during a tax year in which the payment exceeds rupees ten million having pension and annuity income shall be liable to pay tax at the rate provided in Division I of Part I of the First Schedule of the Ordinance which is 5% of the amount exceeding rupees ten million.

**30. Gain arising on disposal of certain debt securities: –
Section 151A.**

A new section introduced in the Bill imposes an obligation on every custodian of debt securities, including banking companies maintaining Investor Portfolio Securities (IPS) Accounts on behalf of holders of such securities, to deduct tax at the rate of 15% on the gross amount of capital gains arising from their disposal.

However, this provision shall not apply to disposals of debt securities carried out through a registered stock exchange and settled through the National Clearing Company of Pakistan Limited (NCCPL).

The capital gain arising to the holder on disposal of debt security mentioned in sub-section (1) shall be computed in accordance with the formula provided in sub-section (1A) of section 37A of the Ordinance

This section applies on debt securities disposed of by a person before the date of maturity while holding the same till the point of maturity, the yield thereon nevertheless will remain under the head income from profit on debt. The proposed amendment seems to have been introduced to bridge the loop of tax avoidance by the banking companies providing IPS services.

**31. Payment to non-resident person
Section 152
In sub-section 1(C)**

Currently, banks and financial institutions are required to deduct tax at the rate of 15% when remitting fees for offshore digital services to non-resident persons on behalf of a resident individual or a permanent establishment in Pakistan, where such income is taxable under Section 6 of the Ordinance.

The Bill proposes to exempt banks and financial institutions from deducting the aforementioned tax where the recipient is also subject to the Digital Presence Proceeds Levy, provided that the levy has been duly collected.

In sub section 1D

This sub-section related to the banking Companies or financial institution maintaining special convertible rupee account (SCRA) of a non-resident company having no permanent establishment in Pakistan.

The Bill proposes to create a tax edge whereby the banks and financial institutions shall act as withholding agents only in cases where they have maintained the account of the relevant taxpayer for a period not less than 12 months. Furthermore, the Bill proposes that where debt instruments and government securities—including treasury bills and Pakistan Investment Bonds—are held for a period of less than twelve months, tax shall be deducted at the rate of 20% instead of 10% on the gross amount of the payment, in accordance with Paragraph 2 of Division II of Part III of the First Schedule.

32. Insertion of Sub-sections (2A) and (2B) Section 153

The Bill proposes the insertion of a new sub-section (2A) in Section 153 of the Income Tax Ordinance, whereby:

- Every payment intermediary—when processing digital payments on behalf of sellers of digitally ordered goods or services through locally operated e-commerce platforms (including websites); and
- Every courier service—when collecting cash from buyers under Cash on Delivery (CoD) arrangements on behalf of sellers of such goods or services;

shall be required to collect tax at the rate specified in Division IVA of Part I of the First Schedule on the gross amount payable to the seller (inclusive of any sales tax, if applicable), and deposit the same into the government treasury.

Additionally, the Bill proposes that where tax is collected under the newly inserted sub-section (2A), no further tax shall be deducted under sub-section (1) of Section 153.

(2) e (ii), the following new clause shall be inserted, namely: –

“(iia) “courier service” means any specialized entity that provides fast, secure and often tracked transportation of documents, packages and small freight, typically offering door-to-door delivery solutions of goods within specific timeframes and in case of digitally ordered goods in e-commerce delivery and collection of cash (CoD) on behalf of the seller and such delivery service provider includes but not limited to –

- (a) Logistics services;
- (b) ride-hailing services;
- (c) food delivery; and
- (d) e-commerce services;

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

(3) in clause (iii), after the semi colon, appearing at the end, the word “and” shall be added;

**33. Furnishing of Information by Online Marketplace, Payment Intermediary, and Courier Service
Section 165C**

The newly introduced **Section 165C** in the Income Tax Ordinance imposes reporting obligations on digital economy intermediaries to strengthen tax compliance in the e-commerce sector.

- Applies to entities **collecting tax under Section 153(2A)** (e.g., banks, payment gateways, delivery companies).
- Required to file a **quarterly withholding tax statement** to the Commissioner.
- Must include:
 - Seller's name, NTN/CNIC, address
 - Transaction date, invoice number, total value
 - Amount of tax withheld
 - Other prescribed details

2. Monthly Reporting by Online Marketplaces

- Every e-commerce platform must submit a monthly statement.

3. Procedural Alignment with Section 165

- All relevant provisions of Section 165 (except subsections 1, 1A, and 6) will apply *mutatis mutandis*, covering:
 - Due dates
 - Filing revisions
 - Annual statements
 - Power of FBR/Commissioner to enforce compliance

**34. Exchange of Banking and Tax Information Related to High-Risk Persons
Section 175AA –**

This section enhances data-sharing between the Federal Board of Revenue (FBR) and scheduled banks to detect tax evasion or underreporting by high-risk taxpayers using data analytics and bank account monitoring.

(1) Notwithstanding anything contained in any law for the time being in force, including but not limited to the Banking Companies Ordinance, 1962 (LVII of 1962), section 216 of this Ordinance and any regulations made under the State Bank of Pakistan Act, 1956 (XXXIII of 1956), —

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

(b) the Scheduled banks shall provide to the Board particulars, such as name, account numbers of such persons where the banking information is at variance with the data algorithms provided under clause (a) of this sub-section.

(2) All information received under this section shall be used only for tax and related purposes and kept confidential.”;

35. Posting of Officer of Inland Revenue Section 175C

This new provision empowers the Federal Board of Revenue (FBR) or the Chief Commissioner to post Inland Revenue officers at the premises of any taxpayer to monitor:

- Production
- Supply of goods or services
- Unsold stock

This measure is aimed at real-time oversight for the purpose of determining accurate tax liability under the Ordinance.

This is a significant compliance enforcement tool that enhances the FBR’s ability to detect tax evasion or underreporting. However, its implementation must be balanced with safeguards to prevent undue intrusion or harassment. Clear SOPs, time-bound deployment, and audit trails should be established to protect taxpayer rights while empowering enforcement.

36. Mandatory Registration for E-Commerce Vendors Section 181

The amendment expands the scope of sub-section (1) to include persons selling digitally ordered goods or services via online marketplaces or courier services. A new sub-section (1A) requires such platforms to ensure that vendors are registered under both the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 before they are allowed to transact. This is a strong push toward formalizing the digital economy. By mandating registration through platforms, it shifts part of the enforcement responsibility to intermediaries. This can greatly broaden the tax base and improve compliance. However, its success depends on clear technical guidelines, enforcement mechanisms, and support for small sellers transitioning to formal registration.

37. Enhanced Penalties for Non-Compliance in E-Commerce Section 182

This amendment strengthens enforcement by:

- Increasing the penalty for failure to file statements under sections 165 to 165C from PKR 5,000 to PKR 50,000.
- Introducing new penalties:
 - (3B): Online marketplaces that allow unregistered vendors to transact face fines of PKR 500,000 (first default) and PKR 1,000,000 (subsequent defaults).

- (12B): Banking companies, payment gateways, or courier services that fail to deduct or deposit tax on digital transactions face a penalty equal to 100% of the tax involved.
- (15A): Sellers who fail to register under tax laws despite engaging in digital commerce are fined PKR 500,000 (first default) and PKR 1,000,000 (subsequent defaults).

These penalties introduce a high level of deterrence and signal a serious regulatory approach to digital commerce. By targeting intermediaries (marketplaces, banks, couriers) and vendors directly, the FBR aims to formalize the digital economy and ensure robust compliance. However, such heavy penalties should be accompanied by a clear compliance roadmap and awareness campaigns, especially for small and informal businesses transitioning online.

38. Inclusion of Contractual Auditors Section 207(1)

The amendment adds a new clause (m) to include “auditor appointed under section 222” in the list of authorities under sub-section (1). This follows the omission of “and” from clause (k) and the insertion of “and” after clause (l) for structural consistency.

By formally recognizing contractually appointed auditors under Section 222 as part of the income tax authorities, the amendment strengthens the FBR’s auditing capacity, especially in outsourced or third-party arrangements. This broadens the scope for specialized audits and improves administrative flexibility. However, it necessitates clear checks and balances, such as NDAs and independence standards, to maintain audit integrity and prevent misuse.

39. Cap on Time Extensions with Exception Clause Section 214A

Two new provisos are added to the existing provision:

- Limits the maximum aggregate extension period under Section 214A to two years, irrespective of any law or court ruling.
- Provides an exception: If there is reason to believe a significant loss to the exchequer occurred due to omission or commission by a taxpayer or a Commissioner, a Board-notified committee may allow further condonation after a fair hearing.

This amendment introduces a strict timeline for condonation of delay, addressing prolonged uncertainty in legal proceedings. It strikes a balance by allowing limited extensions to protect revenue in exceptional cases. The provision enhances discipline and predictability in tax administration but must be supported by clear criteria and transparency in invoking the exceptional override clause above the orders of the Honorable High Courts and Supreme Court of Pakistan, to avoid arbitrary use.

**40. Expanded Exceptions to Confidentiality of Taxpayer Information
Section 216(3)**

The amendment allows disclosure of taxpayer information in the following additional cases:

- (ba): To auditors appointed on a contractual basis or through third-party arrangements, such as payroll firms, provided they sign a non-disclosure agreement (NDA) and assist designated tax authorities.
- (kd): To the Tax Policy Office for research and policy analysis.
- (ke): To recognized universities and international donor agencies, with the requirement that taxpayer data is anonymized before sharing.

These changes reflect a data-driven, collaborative approach to policymaking and oversight, enabling broader participation in analysis and enforcement. They also ensure that confidentiality safeguards (NDAs, anonymization) are legally embedded. However, the FBR should ensure strict protocols and audits are in place to monitor access, prevent misuse, and maintain public trust in taxpayer confidentiality. The most important aspect is judging the integrity of users of data which is unlikely to be ensured as it is commonly seen that such appointments do not have a meritorious criteria and in the context of FBR is not too far past we have seen that tax data of serving high profile persons was leaked due to which Pakistani Taxpayer are suffering as the taxpayers data of period from 2013 and earlier was scratched from the system which resulted in to suffering of taxpayers as well as tax officials.

**41. Terminology Change from “Individual” to “Person”
Section 218(2)(d)**

The word “individual” is replaced with “person”, rectifying the ambit of the provision to apply not just to natural persons but also to entities such as companies, associations of persons, and other legal persons.

This is a technical correction that aligns the language with the common understanding under the Ordinance.

**42. Appointment of Contractual Auditors
Section 222**

The existing provision is renumbered as sub-section (1), and a new sub-section (2) is inserted, authorizing the Federal Board of Revenue (FBR) to:

- Appoint auditors on a contractual basis or through third-party arrangements, and
- Cap the total number of such auditors at 2,000.

This amendment reflects the FBR's strategy to enhance audit coverage by leveraging contractual and outsourced talent. It provides the necessary flexibility to meet operational needs without overexpanding the permanent workforce. However, to safeguard audit quality and taxpayer confidence, the FBR must implement strict oversight mechanisms, including training, monitoring, and conflict-of-interest controls for these third-party auditors.

**43. Amendment to Inclusion of ADRC in Recovery Suspension Framework
Section 226**

The phrase “Alternate Dispute Resolution Committee (ADRC)” is added after “Appellate Tribunal” in clause (b)(ii), indicating that recovery proceedings may also be suspended if a case is under consideration by the ADRC.

This amendment formally recognizes the ADRC process as a valid stage for the suspension of tax recovery, aligning it with other appellate forums. It enhances the credibility and functional weight of ADR mechanisms, providing taxpayers with a fair chance at resolution without facing immediate enforcement. The change improves procedural fairness, especially in pending dispute resolution scenarios.

**44. Increase in Advance Tax on Cash Withdrawals from Bank:
Section 231AB**

The advanced tax rate on cash withdrawals from bank by non-filers is proposed to be increased from 0.6% to 0.8%.

This increase aims to boost tax revenue and further discourage large-scale cash dealings by non-filers, thereby promoting financial transparency and formalization. While the hike may generate additional revenue, it could also place a higher burden on informal-sector participants and may incentivize further avoidance unless coupled with effective enforcement and facilitation of taxpayer registration. It may not be out of place to identify that the above tax is being avoided by businesses through a mechanized system of declaring one bank account to FBR as business bank account while CNIC based other bank accounts wherein high magnitude of transactions is being carried out relating to business which is not reported. In order to document the businesses instead of following petty paths of cash withdrawals tax and compromising the whole undocumented economy, emphasis should be made on identifying undeclared bank accounts of businesses wherein massive financial transactions are routed through.

COMMENTS ON AMENDMENTS PROPOSED VIDE FINANCE BILL 2025 IN THE INCOME TAX ORDINANCE, 2001 VIDE FINANCE BILL 2025- SCHEDULES

1.1 Taxability of Annuity or Pension or Commutation of pension- Above Rs. 10 million

(First Schedule- Part I, Division I, Clause (1) & Clause (2))
(Second Schedule- Part I, Clauses 8,9,12,13,23A and 23C)

The Bill proposes resulting changes in the clause as Annuity or Pension or Commutation of pension is no longer exempt from income tax. As a consequence, the Bill proposes slab rates for the taxability of Annuity or Pension income or commutation of pension as follows:

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

1.2 Reduced Tax Rates for Salaried Individuals (First Schedule- Part I, Division I, Clause (2))

The Bill proposes to revise the tax rates for salaried individuals with taxable income up to Rs. 3,200,000 to provide insignificant relief to the lower and middle-income tiers. Additionally, the surcharge rate applicable to salaried individuals is proposed to be reduced from 10% to 9%.

The comparative summary of existing and proposed rates is as follows:

Taxable Income (Rs.)	Existing Rate of Tax	Proposed Rate of Tax
Up to 600,000	0%	0%
600,001 – 1,200,000	5% of amount exceeding Rs. 600,000	1% of amount exceeding Rs. 600,000
1,200,001 – 2,200,000	Rs. 30,000 + 15% of amount exceeding Rs. 1,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
2,200,001 – 3,200,000	Rs. 180,000 + 25% of amount exceeding Rs. 2,200,000	Rs. 116,000 + 23% of amount exceeding Rs. 2,200,000
3,200,001 – 4,100,000	Rs. 430,000 + 30% of amount exceeding Rs. 3,200,000	Rs. 346,000 + 30% of amount exceeding Rs. 3,200,000
Above 4,100,000	Rs. 700,000 + 35% of amount exceeding Rs. 4,100,000	Rs. 616,000 + 35% of amount exceeding Rs. 4,100,000

Salary Tax Comparison						
2025 vs 2026						
Monthly Taxable Salary	Annual Salary	Total tax 2025	Total tax 2026	Monthly Tax 2025	Monthly Tax 2026	Decrease per month
50,000	600,000	-	-	-		-
100,000	1,200,000	30,000	6,000	2,500	500	(2,000)
150,000	1,800,000	120,000	72,000	10,000	6,000	(4,000)
200,000	2,400,000	230,000	162,000	19,167	13,500	(5,667)
225,000	2,700,000	305,000	231,000	25,417	19,250	(6,167)
250,000	3,000,000	380,000	300,000	31,667	25,000	(6,667)
300,000	3,600,000	550,000	466,000	45,833	38,833	(7,000)
350,000	4,200,000	735,000	651,000	61,250	54,250	(7,000)
400,000	4,800,000	945,000	861,000	78,750	71,750	(7,000)
450,000	5,400,000	1,155,000	1,071,000	96,250	89,250	(7,000)
500,000	6,000,000	1,365,000	1,281,000	113,750	106,750	(7,000)
550,000	6,600,000	1,575,000	1,491,000	131,250	124,250	(7,000)
600,000	7,200,000	1,785,000	1,701,000	148,750	141,750	(7,000)
800,000	9,600,000	2,625,000	2,541,000	218,750	211,750	(7,000)
1,000,000	12,000,000	3,811,500	3,692,850	317,625	307,738	(9,887)
1,500,000	18,000,000	6,121,500	5,981,850	510,125	498,488	(11,637)
2,000,000	24,000,000	8,431,500	8,270,850	702,625	689,238	(13,388)
2,500,000	30,000,000	10,741,500	10,559,850	895,125	879,988	(15,138)
2,800,000	33,600,000	12,127,500	11,933,250	1,010,625	994,438	(16,188)
3,000,000	36,000,000	13,051,500	12,848,850	1,087,625	1,070,738	(16,888)

1.3 Super Tax Rates (Section 4C) **(First Schedule- Part I, Division II B)**

The Bill proposes to reduce super tax rates by 0.5% for income slabs ranging between Rs. 200 million and Rs. 500 million for each respective slab for the tax year 2026 and onwards. This measure provides modest relief to high-income taxpayers falling within these brackets.

1.4 (Rate of Dividend Tax- Mutual Funds) **(First Schedule- Part I, Division III & Part III, Division I)**

The Bill proposes to rationalize the taxation of dividend income received from mutual funds by introducing a proportionate tax rate based on the underlying composition of the fund's income at the rate of 25% on the portion attributable to debt income and 15% on the portion attributable to equity income.

Previously, the dividend received from mutual funds was taxable at 15% irrespective of composition of debt or equity.

Similar rates for advance tax deduction have been proposed.

1.5 Rate for profit on debt- Under Section 7B and Tax Deduction **(First Schedule- Part I, Division IIIA & Part III, Division IA)**

The Bill seeks to increase the tax rate on profit on debt paid by banking companies or financial institutions from 15% to 20%. Similar rates for advance tax deduction have been proposed.

1.6 Rate of Tax on Certain payments- Fee of offshore digital services **(First Schedule- Part I, Division IV)**

The Bill seeks to clarify and clearly include the offshore digital services to be taxed at 15% instead of 10%.

1.7 Withholding tax on disposal of certain debt securities **(First Schedule- Part III, Division IIIAA)**

The Bill introduces a new withholding tax regime whereby capital gains arising on the sale of debt securities, where such sale is not executed through a stock exchange, shall be subject to withholding tax at the rate of 15%.

This measure seeks to ensure tax compliance and documentation of gains realized in the over-the-counter (OTC) market for debt instruments, thereby aligning the tax treatment of capital gains on debt securities with that applicable to other financial instruments.

1.8 Withholding tax on services- Payment to Non-residents (First Schedule- Part III, Division II)

The Bill proposes to enhance withholding tax rate for **specified services** has been increased from **4% to 8%** for non-resident persons with the exception of IT and IT-enabled services, which continue to benefit from the previous regime at **4%**.

Furthermore, the withholding tax rate for **all services other than specified services** has been raised to **15% including Sports person**, also the Bill proposes significant increase in withholding tax rate in case of Company from **9% to 15%**.

Withholding tax on services- Payment to Resident (First Schedule- Part III, Division III)

The Bill proposes to enhance the withholding tax rate for **specified services** has been increased from **4% to 6%** for resident persons with the exception of IT and IT-enabled services, and electronic and print media for advertising services, which continue to benefit from the previous regime at **4%** and **1.5%** respectively.

Furthermore, the withholding tax rate for **all services other than specified services** has been raised to **15% including Sports person** for resident persons, also the Bill proposes significant increase in withholding tax rate in case of Company from **9% to 15%**.

1.9 Advance tax on sale or transfer of immovable property For Active Taxpayers: Under Section 236C

(First Schedule- Part IV, Division X)

The Bill proposed advance tax rates on disposal of immovable property have been increased by 1.5% as follows:

S. No.	Gross Consideration (Rs.)	Proposed Rate	Existing Rate
1	Up to Rs. 50 million	3%	4.5%
2	Above Rs. 50 million up to Rs. 100 million	3.5%	5%
3	Above Rs. 100 million	4%	5.5%

For Non-Active Taxpayers: (Tenth Schedule- Rule I)

The Bill proposes an increase in advance tax rate on disposal of immovable property by 1.5% from 10% to 11.5% for persons not appearing in active taxpayer list.

For Late Filers: (Tenth Schedule- Rule IA)

The Bill proposed advance tax rates on disposal of immovable property have been increased by 1.5% as follows:

S. No.	Gross Consideration (Rs.)	Proposed Rate	Existing Rate
1	Up to Rs. 50 million	6%	7.5%
2	Above Rs. 50 million up to Rs. 100 million	7%	8.5%
3	Above Rs. 100 million	8%	9.5%

1.10 Advance tax on purchase of immovable property

For Active Taxpayers: Under Section 236k

(First Schedule- Part IV, Division XVIII)

The Bill proposed a reduction in advance tax rates by 1.5% on purchase of immovable as follows:

S. No.	Fair Market Value (Rs.)	Proposed Rate	Existing Rate
1	Up to Rs. 50 million	1.5%	3%
2	Above Rs. 50 million up to Rs. 100 million	2%	3.5%
3	Above Rs. 100 million	2.5%	4%

For Non-Active Taxpayers:

(Tenth Schedule- Rule I)

For persons not appearing on the Active Taxpayers' List, the Bill proposes the reduction of 1.5% in advance tax rates on purchase of immovable property as follows:

S. No.	Fair Market Value (Rs.)	Proposed Rate	Existing Rate
1	Up to Rs. 50 million	12%	10.5%
2	Above Rs. 50 million up to Rs. 100 million	16%	14.5%
3	Above Rs. 100 million	20%	18.5%

For Late Filers:

(Tenth Schedule- Rule IA)

The Bill proposes to reduce the rates of advance tax on purchase of immovable property for late filers by 1.5% as follows:

S. No.	Gross Consideration (Rs.)	Proposed Rate	Existing Rate
1	Up to Rs. 50 million	6%	4.5%
2	Above Rs. 50 million up to Rs. 100 million	7%	5.5%
3	Above Rs. 100 million	8%	6.5%

1.11 Restriction of Exemption Period for SEZ and STZ Entities and Developers

(Second Schedule- Clause 126E and 126EA)

The Bill proposes to restrict the income tax exemption period available to entities and developers operating within Special Economic Zones (SEZs) and Special Technology Zones (STZs). Under the proposed amendment, the exemption will now be limited to the earlier of tax year 2035 or the expiry of the ten-year exemption period, as applicable.

By introducing a clear sunset date and capping the exemption period, this change brings the Income Tax Ordinance, 2001 into alignment with the Special Technology Zones Authority Act, 2021, which also provides for a ten-year exemption period for eligible entities.

1.12 Extension of Exemptions for FATA/PATA (Second Schedule- Clause 145A, 109A and 110)

The Bill proposes to extend income tax exemption along with withholding tax exemption for erstwhile FATA/PATA areas for one additional year, i.e., up to tax year 2026.

1.13 Restoration of Rebate for Full-time Teachers and Researchers (Second Schedule- Clause 145A, 109A and 110)

The Bill seeks to restore a 25% rebate against tax payable by full-time teachers and researchers retrospectively from tax years 2023 to 2025.

Note: This clause already covered in the ordinance.

1.14 Expenditure on Leasehold Improvements Banking Companies- (Seventh Schedule, Rule (1))

The Bill proposes a significant change in the tax treatment of expenditure incurred on leasehold improvements in respect of leased or rented properties. Under the proposed amendment, such expenditure shall be capitalized and amortized over a period of ten years at the rate of 10% per annum, commencing from the date the leasehold improvements are first put to use. In the event that the lease is terminated prior to the completion of the amortization period, the unamortized balance will be allowed as a deduction, subject to adjustment for any proceeds received from the disposal or transfer of the improvements.

By mandating capitalization and systematic amortization, the Bill seeks to standardize the tax treatment of such expenditures, align it with the principle of matching costs with the period of benefit, and prevent immediate write-off that could otherwise result in significant fluctuations in taxable income. Further, this proposed amendment seems a legislative response to various appellate decisions that have previously held expenditure on leasehold improvements to be revenue in nature and, therefore, immediately deductible.

1.15 Right of Use Assets Banking Companies- (Seventh Schedule, Rule (1) (ba))

The Bill proposes that, for banking companies, deductions for operating leases recognized as right-of-use assets under IFRS 16 will now be limited to the **actual rent expense**, certified by the external auditor of the banking company, rather than depreciation on the right-of-use asset and related finance cost. The proposed change is to be applied retrospectively, with the aggregate difference for tax years 2020 onwards to be adjusted in tax year 2025, subject to external auditor certification.

This retrospective application may create timing and rate mismatches and could complicate matters where prior assessments are finalized or deductions already allowed. While the proposed amendment aims to simplify and standardize lease expense deductions; However, its practical implications, especially for completed assessments, require careful consideration.

1.16 Provision for non-performing advances and off-balance sheet items Banking Companies- (Seventh Schedule, Rule (1) (c))

The Bill proposes to prescribe a detailed format for the external auditor's certificate required for claiming tax deductions on provisions against NPLs and bad debts by banking companies. From tax year 2025 onwards, the certificate must specify category-wise amount of provisions and reversals, confirming that they are:

- In accordance with SBP Prudential Regulations,
- Recognized under IFRS 9,
- Disclosed in the annual accounts of the banking company, and
- Eligible for deduction under Rule 1 of the Seventh Schedule.
- Confirming its consistency with the applicable regulatory framework and financial reporting standards.

Failure to file the prescribed certificate, or any deficiency therein, will render the provision inadmissible for tax purposes.

Additionally, the Bill reinforces the tax authorities' position that only provisions classified as 'loss' and general provisions aligned with SBP Prudential Regulations are admissible. Provisions not meeting the said criteria, or those for categories other than 'loss', will not be allowed. This proposed amendment restricts the scope of admissible provisions and is likely to impact both current and pending assessments.

Other adjustments - (Seventh Schedule, Rule (1) Clause (g))

The Bill proposes to limit the inadmissibility of deductions for accounting adjustments, from tax year 2025 onwards, specifically to those made under IFRS 9 or any other accounting standard as specified in Rule 1 of the Seventh Schedule.

COMMENTS ON AMENDMENTS PROPOSED VIDE FINANCE BILL 2025 IN THE SALES TAX ACT, 1990

1. DEFINATION

1.1 Abettor

[Section 2 (1)]

Existing clause (1) contains the definition of term “active taxpayer” whereas clause (1A) contains definition of term “Appellate Tribunal”. The existing legal provisions does not envisage the role of an ‘abettor’ who connives with the registered persons involved in fraudulent activities to evade the sales tax. Now, the term “abettor” proposes to be defined and punishment for this offence is also proposed. The Bill proposes to renumber these clauses as (1A) and (1B) respectively and after rider clause, a new clause (1) has been proposed to be inserted which defines the term “abettor” and means a person who abets or connives in tax fraud as defined in clause (37) of section 2 or in the commission of any offence warranting prosecution under this Act, and includes a person who,—

- (a) misuses other registered person’s unique user identifier and password for filing returns or annexures or any other document or unauthorized makes change in tax e-profile of any registered person;
- (b) prepares, or cause to be prepared with or without authorization of the registered person, invoices for false claim of input tax adjustment;
- (c) allows use of bank account held or operated by him for abetting tax fraud or other offence warranting prosecution under this Act or unauthorized or illegally maintains or operates business bank account in other registered person’s name; or
- (d) has obtained or cause to obtain sales tax registration number for the purpose of paper transactions, including issuance of invoices without involving any taxable activity;

1.2 Cargo Tracking System

[Section 2 (4A)]

Existing clause (4A) contains definition of term “Chief Commissioner” whereas clause (4AA) contains definition of term “Commissioner (Appeals)”. The Bill proposes to renumber these clauses as (4AA) and (4AAA) respectively and a new clause (4A) has been proposed to be inserted which defines the term “cargo tracking system” and means a digital system notified by the Board for electronic monitoring and tracking of goods transported within or across the territory of Pakistan, for the purpose of tax enforcement, compliance and prevention of tax evasion.

1.3 Courier [Section 2(5AC)]

The Bill proposes to insert a new clause (5AC) which contains definition of term “courier” and means any entity engaged in the delivery of goods and collection of cash on behalf of a seller including logistic services, ride-hailing services, food delivery platforms and ecommerce delivery services.

1.4 E-bilty [Section 2(9A)]

The existing clause (9A) contains the definition of term “e-intermediary”. The Bill proposes to renumber existing clause (9A) as clause (9AB); and insert a new clause (9A) which contains definition of term “e-bilty” and means a digital transport document generated through the Cargo Tracking System as prescribed by the Board, to accompany goods during their movement.

1.5 E-commerce [Section 2(9AC)]

The Bill proposes to insert a new clause (9AC) which contains definition of term “e-commerce” and means sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using mobile phones, automated computer-to-computer ordering system or any similar device.

1.6 Online Market Place [Section 2(18A)]

Clause (18A) was inserted in section 2 of the Act through Finance Act, 2021 and contains definition of term “online market place”. The Bill proposes to substitute said clause (18A). After substitution, the term “online market place” shall mean online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or services that are being sold.

1.7 Payment Intermediary [Section 2(21)]

The existing clause (21) contains definition of the term “person”. The Bill proposes to renumbered as clause (21A).

The Bill proposes to substituted the existing clause (21) which now contains definition of term “payment intermediary” and means a banking company, any financial institution including a licensed foreign exchange company or payment gateway that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route, or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

Clause (27) contains definition of retail price as:

(27) “retail price”, with reference to the Third Schedule, means the price fixed by the manufacturer or importer, in case of imported goods, inclusive of all duties, charges and taxes (other than sales tax) at which any particular brand or variety of any article should be sold to the general body of consumers or, if more than one such price is so fixed for the same brand or variety, the highest of such price:

Provided that the Board may through a general order specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods.

The Bill proposes to make amendments in definition clause.

After amendment, the definition of the term “retail price” shall read as under:

(27) “retail price”, with reference to the Third Schedule, means the price fixed by the manufacturer or importer, in case of imported goods, inclusive of all duties, charges and taxes (other than sales tax) at which any particular brand or variety of any article be sold to the general body of consumers or, if more than one such price is so fixed for the same brand or variety, the highest of such price:

Provided that the Board may through a general order specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods.

Provided further that the reduction in price on account of chilling charges or any other similar charges in case of aerated water, beverages, mineral water, or fruit juices shall not be more than five percent of the price inclusive of sales tax and federal excise duty on which such goods are actually sold to the general body of consumers.

Provided also that, where the Board deems it necessary it may, by notification in the official gazette, fix the retail price of goods specified in the third schedule:

Provided further also that, in case of imported goods specified in the Third Schedule, the retail price shall not be less than one hundred thirty percent of the value determined under section 25 of the Customs Act, 1969 (IV of 1969), including the amount of customs duties and federal excise duty levied thereon.

The Bill proposes to substitute the existing clause (37).

After substitution the term “tax fraud” shall mean as under:

(37) “tax fraud” means knowingly, intentionally or dishonestly doing any act or causing to do any act or omitting to take any action or causing the omission to take any action, to cause loss of tax or attempting to cause loss of tax under this Act, including-

- (a) using or preparing false, forged and fictitious documents including return, statements annexure and invoices;
- (b) suppression of supplies that are chargeable to tax under this Act;
- (c) false claim of input tax credit including based on fictitious transactions;
- (d) making taxable supplies of goods without issuing any tax invoice;
- (e) issuance of any tax invoice without supply of goods;
- (f) suppression and non-payment of withholding tax in the prescribed manner beyond a period of three months from due date of payment of tax;
- (g) tampering with or destroying of any material evidence or documents required to be maintained under this Act or the rules made thereunder;
- (h) acquisition, possession, transportation, disposal or in any way removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner dealing with, any goods in respect of which there are reasons to believe that these are liable to confiscation under this Act or the rules made thereunder;
- (i) making of taxable supplies without getting registration under this Act;
- (j) generating fake input through manipulation of return filing system of the Board and making fake entries in the sales tax returns or in the annexures; and
- (k) making fictitious compliance of section 73, including routing of payments back to the registered person, or for the benefit of the registered person, through a bank account held by a supplier or a purported supplier.

Explanation.—Any act of commission mentioned in this clause shall be treated as intentional unless the person accused of tax fraud proves that he had no intention, motive, knowledge, or reason to believe that he was committing a tax fraud.

1.10 Scope of tax -Liability to pay tax

[Section 3(3)]

The Bill proposes to insert a new clause (c) in sub section (3).

- (c) in the case of supply of digitally ordered goods by online market place, website and software application from within Pakistan during the course of e-commerce, the liability to collect and pay tax shall be of payment intermediary including a banking company, a financial institution, licensed exchange company or payment gateway in case the payment is made digitally and of the courier delivering the goods where those are supplied on Cash on Delivery (CoD) basis at the rates provided in the Eleventh Schedule.

After insertion of clause (c) sub section (3) shall read as under:

- (3) The liability to pay the tax shall be,-
 - (a) in the case of supply of goods, of the person making the supply, and
 - (b) in the case of goods imported into Pakistan, of the person importing the goods.
 - (c) in the case of supply of digitally ordered goods by online market place, website and software application from within Pakistan during the course of e-commerce, the liability to collect and pay tax shall be of payment intermediary including a banking company, a financial institution, licensed exchange company or payment gateway in case the payment is made digitally and of the courier delivering the goods where those are supplied on Cash on Delivery (CoD) basis at the rates provided in the Eleventh Schedule.

1.11 Provisions related to withholding of sales tax

[Section 3(7)]

The Bill proposes to omit the following proviso after sub section (7):

Provided that in case of the online market place facilitating the sale of third party goods, the liability to withhold tax on taxable supplies of such party at the rates specified in column (4) against S. No. 8 of the Eleventh Schedule to the Sales Tax Act, 1990 shall be on the operator of such market place.

After the omission sub section (7) shall read as under:

- (7) The tax shall be withheld at the rate as specified in the Eleventh Schedule, by any person or class of persons being purchaser of goods or services, other than the services liable to pay sales tax under a Provincial enactment, as withholding agent for the purpose of depositing the same, in such manner and subject to such conditions or restrictions as the Board may prescribe in this behalf through a notification in the official Gazette:

1.12 Tax collected by payment intermediary and courier

[Section 3(7A)]

The Bill proposes to insert a new sub section (7A) which shall read as under:

- (7A) Notwithstanding anything contained in this Act, the tax collected by the payment intermediary and courier in respect of the supplies related to digitally ordered goods from within Pakistan in the course of e-commerce shall be deemed as the final discharge of tax liability under this Act for online market place, vendors at online market place, websites, software application making those supplies to the extent of those supplies and no input adjustment shall be allowed in respect of these supplies; and

1.13 Payment of sales tax by Tier-I retailers

[Section 3(9A)]

The Bill proposes to substitute the existing proviso to sub section (9A).

After substitution of proviso, sub section (9A) shall read as under:

- (9A) Notwithstanding anything contained in this Act, Tier-1 retailers shall pay sales tax at the rate as applicable to the goods sold under relevant provisions of this Act or a notification issued there under:

Provided that sales to the extent falling within the ambit of sub-section (7A) shall be excluded from the chargeability under this sub-section.

1.14 Adjustable input tax

[Section 8B(4)]

Section 8B was inserted in the Act through Finance Act, 2007 and has been invariably amended. In terms of sub section (1), a registered person is not allowed to adjust input tax in excess of 90% of the output tax for a particular tax period. It has been prescribed in sub section (2) that a registered person may be allowed adjustment or refund of input tax not allowed under sub section (1) subject to conditions. Sub section (4) overrides the provisions of sub sections (1) & (2).

The Bill proposes to make additions in sub section (4) and after addition, sub section (4) shall read as under:

- (4) Notwithstanding anything contained in sub-sections (1) and (2), the Board may, by notification in the official Gazette, prescribe any other limit of input tax adjustment for any person or class of persons. In order to limit input tax allowance, the Board may also use data based automated risk management system to defer certain input tax or fix higher or lower limits of input tax adjustment:

Provided that the registered person may contest the action taken under this sub-section by filing application and documents with the Commissioner concerned, who shall decide the case within thirty days of such application.

1.15 Best Judgment Assessment

[Section 11D (5)]

Section 11D was inserted in the Act through Finance Act, 2024 and inter alia empowers an officer of IR make an assessment of tax payable or refund due on the basis of any available information and to the best of his judgment. The Bill proposes to insert new sub section (5) in section 11D which shall read as under:

- (5) Notwithstanding anything contained in this section, in case of person who is liable to be registered under clause (25) of section 2 based on tax withheld under section 236G of Income Tax Ordinance, 2001 and does not furnish a return upon notice, an officer of inland revenue may assess sales tax liability on the value addition on any reasonable basis including information obtained from the purchase data under section 236G of Income Tax Ordinance, 2001.

1.16 Assessment of Tax and Recovery of Tax not Levied or Short Levied or Erroneously Refunded **[Section 11E(1)]**

The Bill proposes to substitute sub section (1) of section 11E. After substitution, sub section (1) shall read as under:

11E. Assessment of tax and recovery of tax not levied or short levied or erroneously refunded. - (1) Where due to any reason, any tax or charge has not been levied or short levied or where the officer of Inland Revenue not below the rank of Assistant Commissioner suspects on the basis of audit or otherwise that due to any reason a person has-

- (a) not paid or short paid due sales tax;
- (b) claimed input tax credit or refund which is not admissible; or
- (c) has obtained an amount of refund not due,

the officer of Inland Revenue after issuing a show cause notice to the person shall pass an order to determine and recover the amount of tax unpaid or short paid, inadmissible input tax or refund, or unlawful refund obtained and shall also impose penalty and default surcharge in accordance with sections 33 and 34:

Provided that this section shall not be applicable to the extent of proceedings initiated under section 37A of the Act.

1.17 Limitation for Assessment **[Section 11G (2)]**

The Bill proposes to increase in the time limit prescribed in sub section (2) of section 11G for passing of assessment order. It has been prescribed that an order under sections 11D, 11E & 11F shall be made within 120 days of issuance of show cause notice or within such extended period as CIR may, for reasons to be recorded in writing specify, provided that such extended period shall not exceed from 90 days.

The Bill proposes to increase the original limitation period for passing of assessment order from 120 days to 180 days of issuance of show cause notice.

1.18 Registration **[Section 14]**

- (a) The Bill proposes to insert new sub sections (1A) and (1B) after sub section (1) which shall read as follows:

- (1A) Every person including a non-resident person selling digitally ordered goods from within Pakistan through online marketplace, website or software application as the case may be, shall apply in the prescribed form and in the prescribed manner for registration.

(1B) Every online marketplace or a courier, involved in ecommerce by supplying digitally ordered goods from within Pakistan shall not allow any person to use their services to carry out e-commerce transactions unless it is registered under sales tax and income tax.

(b) The Bill proposes to insert new sub section (2A) after sub section (2) which shall read as follows:

(2A) If a person, who is required to be registered under the Act, does not apply for registration and the Commissioner Inland Revenue or any other officer, as may be authorized by the Board, after such inquiry as deemed appropriate, having reason to believe that a person is liable to register, he shall compulsorily register such person.

1.19 Bar on operation of bank account; Bar on transfer of immovable property and other coercive action for non-registration [Section 14AC, 14AD and 14AE]

The Bill proposes to insert new sections 14AC, 14AD and 14AE to the Act to promote sales tax registration and economic documentation. These provisions introduce enforcement measures such as restrictions on bank account operations, transfer of immovable property, business premises sealing, property seizure, and the appointment of a receiver to compel unregistered persons to comply.

These sections as are proposed to be inserted shall read as follows:

14AC. Bar on operations of bank accounts. – (1) Notwithstanding anything contained in this Act or any other law for the time being in force, the Commissioner shall have the powers to direct banking companies, scheduled banks and other financial institutions, through an order in writing, to bar operation of the bank account of any person who fails to get registered for the purposes of this Act.

(2) Notwithstanding anything contained in sub-section (1) upon registration of such person, the Commissioner shall issue and convey order for removal of bar on operation of his bank accounts immediately.

(3) Any person, aggrieved by any decision or order passed under sub-section (1) may within thirty days of the date of receipt of such decision or order prefer an appeal before the Chief Commissioner Inland Revenue.

(4) The provisions of this section shall come into force on such date as the Board may by notification in the official Gazette appoint.

14AD. Bar on transfer of Immoveable Property.— (1) Notwithstanding anything contained in this Act or any other law for the time being in force, the Commissioner shall have the powers to direct the property registering authority, through an order in writing, to bar transfer of immoveable property of any person who fails to get registered for the purposes of this Act.

- (2) Notwithstanding anything contained in sub-section (1), upon registration of such person, the Commissioner shall issue and convey order for removal of bar on transfer of immovable property immediately.
- (3) Any person, aggrieved by any decision or order passed under sub-section (1) may, within thirty days of the date of receipt of such decision or order prefer an appeal before the Chief Commissioner Inland Revenue.
- (4) The provisions of this section shall come into force on such date as notified by the Board.

14AE. Other coercive actions for non-registration.— (1) Notwithstanding anything contained in this Act or any other law for the time being in force, any person who fails to get himself registered for the purposes of this Act, the Chief Commissioner shall have the powers to:

- (a) seal the business premises;
 - (b) seize moveable property; or
 - (c) appoint a receiver for the management of the taxable activity of a person.
- (2) Action under sub-section (1) shall not be carried out, unless —
- (a) a public notice is issued specifying the date from which the premises shall be sealed, or movable property is attached, or a receiver is appointed for the management of the taxable activity;
 - (b) a committee comprising the Chief Commissioner, the Commissioner concerned, and a representative from the Chambers of Commerce or Trade Bodies, provides an opportunity of being heard to the person through an open court; and
 - (c) such decision is made public by placement on the Board's website and newspaper as well.
- (3) Notwithstanding anything contained in sub-section (1) upon registration, of such person the Chief Commissioner shall issue and convey order for removal of receiver appointed under sub-section (1) not later than two working days.
 - (4) Any person, aggrieved by any decision or order passed under sub-section (1), may within thirty days of the date of receipt of such decision or order prefer representation before the Board.
 - (5) All or any of the provisions of this section shall come into force on such date as the Board may by notification in the official Gazette appoint.

1.20 De-registration, blacklisting and suspension of registration

[Section 21(2A) & (5)]

The Bill proposes to insert sub section (2A) in section 21 and omit sub section (5) therefrom.

(a) Sub section (2A) as is proposed to be inserted in section 21 shall read as under:

(2A) The Commissioner shall, within fifteen days of issuance of order of suspension, issue a show cause notice to the registered person. Upon receipt of the reply to the notice and after giving an opportunity of hearing to the registered person, if the Commissioner is satisfied, he may order for revoking of suspension of the registered person or issue an appealable speaking order for blacklisting of the registered person within thirty days of receipt of the reply to the notice.

(b) The Bill proposes that sub section (5) as was added in the Act through Finance Act, 2024 shall be omitted:

1.21 Tax Invoices

[Section 23]

(a) The Bill proposes to add third proviso in clause (g) of sub section (1). It has been prescribed in sub section (1) that a registered person making a taxable supply shall issue a serially numbered tax invoice at the time of supply of goods containing particulars specified in clauses (a) to (g) thereof. In terms of first proviso, Board is empowered to notify modified invoices for different persons whereas it has been prescribed in the second proviso that not more than one tax invoice shall be issued for a taxable supply.

The Bill proposes to insert a third proviso in clause (g) of sub section (1) which shall prescribe that where any goods are transported or supplied, the registered person shall ensure the generation and linkage of the tax invoice with the e-bilty generated under section 40C of this Act and section 83C of the Customs Act, 1969.

(b) The Bill proposes to add new sub sections (5) & (6) which shall read as under:

(5) Notwithstanding anything contained in this Act, the Board through notification in the official Gazette, may require any person or class of persons to integrate their electronic invoicing system with the Board's Computerized System for real time reporting of sales in such mode and manner and from such date as may be specified therein.

(6) Licensed integrator shall integrate electronic invoicing system of registered persons referred to in sub-section (5) in such mode and manner as may be prescribed:

Provided that from such date, and in such mode and manner, as prescribed by the Board, all Tier-1 retailers shall integrate their retail outlets with Board's computerized system for real-time reporting of sales.

1.22 Returns

[Section 26(1) & 26(3)]

- (a) It has been prescribed in sub section (1) that every registered person shall file not later than due date a true, complete and correct sales tax return in the prescribed form. Presently there exist three provisos to sub section (1).

The Bill proposes to add two new provisos which shall read as under:

Provided further also that every online marketplace shall furnish not later than the due date a true, complete and correct monthly statement in the prescribed form, indicating the supplier wise amount paid and tax due and such other information of the taxable supplies of digitally ordered goods irrespective of the economic ownership of the supplies from within Pakistan:

Provided further also that every payment intermediary and courier shall furnish not later than the due date a true, complete and correct monthly statement in the prescribed form, indicating the supplier-wise amount paid and tax due and such other information for taxable supplies of digitally ordered goods from within Pakistan through an online market place, website and software application and delivering goods using its payment platform or courier service as the case may be.

- (b) The Bill proposes to omit proviso from sub section (3).

In terms of sub section (3) a registered person may, subject to approval of the Commissioner Inland Revenue having jurisdiction, file a revised return within one hundred and twenty days of the filing of return under subsection (1) or, as the case may be, sub-section (2), or under clause (a) or clause (b) of section 27, to correct any omission or wrong declaration made therein. In terms of proviso to sub section (3), the approval under this sub-section is not required if revised return is filed within sixty days of filing of return and either the tax payable therein is more than the amount paid or the refund claimed therein is less than the amount as claimed, under the return sought to be revised.

After omission of proviso, the registered person shall be required to revise sales tax return only after approval of Commissioner even it is to be revised within sixty days of the filing of return.

1.23 Appointment of authorities

[Section 30(1)(j)]

The Bill proposes to substitute clause (j) in sub section (1) of section 30 and addition of explanation therein.

After substitution / insertion, the provisions shall read as under:

- (1) For the purpose of this Act, the Board may appoint in relation to any area, person or class of persons, any person to be

- (a) ... to (ia) ...

- (i) an officer with any other designation including officers of Directorates General.

Explanation.- For the removal of doubt, it is clarified that officers of Directorates General have always been authorities under this section.

1.24 Appointment of experts and auditors

[Section 32B]

The Bill proposes to insert section 32B, shall read as under:

32B. Appointment of experts and auditors.— (1) The Board or the Commissioner may appoint as many experts as it or the Commissioner considers necessary for the purposes of this Act, including for the purposes of assistance in audit, investigation, litigation or valuation.

- (2) The Board may appoint as many auditors as it may deem fit but not more than two thousand auditors through direct engagement or through a third party including a pay roll firm for the purposes of this Act, and confer such powers as may be deemed necessary to assist the authorities mentioned in clauses (a) to (f) of sub-section (1) of section 30 of this Act and clauses (a) to (f) of sub-section (1) of section 29 of the Federal Excise Act, 2005, as per the terms, conditions, limitations and restrictions as may be prescribed.

1.25 Offences and penalties

[Section 33]

- (a) Chapter VII of the Act captions “offences and penalties” and contains sections 33 to 40E. The Bill proposes to substitute the expression for marginal heading to “Offences, penalties and punishment”. The heading of section 33 is also proposed to be substituted with the expression “offences, penalties and punishment”. It is also proposes to change the expression in column (2) of the Table of section 33 from “penalties” to “offences, penalties and punishment”.
- (b) The Bill proposes to insert a new Sr. No. 1A which shall prescribe that where any online marketplace, payment intermediary or courier fails to furnish prescribed monthly statement within due date in contravention of section 26, such person shall be liable to pay (i) Penalty of five lac rupees for first default; and (ii) penalty of one million rupees for each subsequent default.
- (c) The Bill proposes to insert a new Sr. No. 1B which shall prescribe that where any online marketplace, courier allow use of its services in the course of e-commerce by unregistered persons in contravention of section 14, such person shall be liable to pay (i) Penalty of five lac rupees for first default; (ii) Penalty of one million rupees for each subsequent default.
- (d) In terms of Sr. No. 11, penalties have been prescribed for a person who commits an offence of tax fraud within the meaning of section 2(37) of the Act. Other penalties for committing tax fraud have also been prescribed in Sr. No. 13. The Bill proposes to omit Sr. No. 11 and entries relating thereto in columns (1), (2) and (3). It is also propose to substitute Sr. No. 13 and the entries relating thereto. The substituted provisions of Sr. No. 13 shall prescribe that any person who commits, causes to commit or attempts to commit the tax fraud as defined in

section 2(37), such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to ten years or with fine which may extend to ten million rupees, or with both and shall also be liable to pay the amount equal to the loss of tax caused as confirmed by the Special Judge from such amount reported under sub section (8) of section 37B, including one hundred percent penalty of tax loss and default surcharge under section 34 of the Act.

- (e) The Bill proposes to insert a new Sr. No. 13A which shall prescribe that any person who abets or connives in committing tax fraud as defined in section 2(37) or any offence warranting prosecution under the Act and contravenes the provisions of sections 2(1), 2(37), 50A such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to ten years or with fine which may extend to ten million rupees, or with both. Penalties for a person contravening the provisions of section 50A has been prescribed in Sr. No. 22 which is proposed to be omitted.
- (f) The Bill proposes to insert a new Sr. No. 25B which shall prescribe that where any person fails to generate an e-bilty, or tampers with, misuses, or forges such document in contravention of subsection (6) of section 40C, such person shall be liable to a penalty of fifty thousand rupees and recovery of any tax evaded through such contravention.

1.26 Power to summon persons to give evidence and produce documents in inequities under the Act. [Section 37(4)]

Section 37 empowers an officer of IR to summon any person whose attendance hence consider necessary either to give evidence or to produce documents in any inquiry which such person is making for the purpose of the Act and such inquiry shall be deemed to be a judicial proceedings within the meaning of PPC. The Bill proposes to add a new sub section (4) in section 37 which shall read as under:

- (4) For the purpose of an inquiry under this Act, the officer of Inland Revenue shall have the powers of a civil court trying a suit under the Code of Civil Procedure, 1908, in respect of the following matters, namely:
 - (a) summoning and enforcing the attendance of any person and examining him on oath; and
 - (b) requiring the discovery and production of documents and receiving evidence on affidavits.

1.27 Power to arrest and prosecute [Section 37A]

The existing provisions of section 37A empowers and officer of IR not below the rant of an ACIR to arrest a person having reason to believe that the person has committed a tax fraud and arrests made under the Act shall be carried out in accordance with the relevant provisions of Cr. PC. The existing provisions of section 37A have been substituted with sections 37A and 37AA, which are as under:

37A. Power to inquire and investigate offences warranting prosecution under this Act:

- (1) Notwithstanding anything contained in section 11E of this Act, an officer of Inland Revenue, not below the rank of Assistant Commissioner or any other officer authorized by the Board in this behalf on the basis of material evidence pointing to the commission of tax fraud or an offence warranting prosecution under this Act may initiate an inquiry upon approval by the Commissioner.
- (2) The inquiry officer shall complete the inquiry while exercising the powers under the provisions of section 37, 38, 38A, 38B, 40 or any other section the Act, wherever required.
- (3) On completion of the inquiry, the inquiry officer may give an opportunity of being heard to the person whose actions may have caused or attempted to cause tax fraud or any other offence warranting prosecution under this Act, confronting the person the details of tax fraud committed or caused to be committed or attempted to be committed by such person.
- (4) The inquiry officer, either on non-compliance by the person accused of tax fraud under sub-section (3) or unsatisfactory submission by the accused under said sub-section, and having reason to believe on the basis of evidence acquired during inquiry under this Act that actions of the person may have caused or attempted to cause tax fraud or any other offence warranting prosecution under this Act, shall submit facts and findings of the inquiry including the loss of tax caused or attempted to cause, calculated as a result of such inquiry to the Commissioner to obtain prior approval for investigation.
- (5) The Commissioner, on the basis of facts and findings under sub-section (4) and after recording reasons in writing, shall-
 - (a) approve initiation of investigation, or
 - (b) require the officer of Inland Revenue to submit such further information or documents as he may direct for his decision; or
 - (c) reject the request of the officer.
- (6) Upon approval of investigation under sub-section (5), the inquiry officer shall enter the substance of the offence in writing in the form as may be prescribed by the Board.
- (7) While holding investigation, an officer of Inland Revenue not below the rank of Assistant Commissioner shall exercise the same powers as are exercisable by an officer in charge of a police station under the Code of Criminal Procedure, 1898 (Act V of 1898), but such officer shall exercise such powers subject to the provisions of this Act.

37AA. Power to arrest:

- (1) The officer of Inland Revenue, during the investigation, having reason to believe on the basis of evidence that actions of any person may have caused or attempted to cause tax fraud or any other offence warranting prosecution under this Act, may cause arrest of such person with prior approval of the Commissioner.
- (2) Where an officer of Inland Revenue is of the opinion that delay in arrest may enable the accused to evade the process of law or circumstances exist in which obtaining prior approval of the Commissioner under sub-section (1) is not practicable, he may arrest accused without prior approval of the Commissioner and immediately report the arrest of the accused to the Commissioner. Such report shall contain a summary of all material facts liable to be entered in the register of arrests and detentions and shall be accompanied with a copy of the grounds of arrest of such person.
- (3) The Commissioner may, if he believes that there was no sufficient evidence or reasonable ground for arrest of a person without approval in terms of sub-section (2) or the arrest was made with mala fide intent, direct the officer of Inland Revenue to release forthwith the accused so arrested.
- (4) The Commissioner shall then refer the matter to the Chief Commissioner for fact finding inquiry if he believes that the arrest made under sub-section (2) was without sufficient evidence or reasonable ground or made with mala fide intention.
- (5) Where the person suspected of tax fraud or any offence warranting prosecution under this Act is a company, every director, chief executive officer or the chief financial officer or by whatever name he may be called, of that company whom the officer of Inland Revenue has reason to believe is personally responsible for actions of the company committing the tax fraud or any offence warranting prosecution under this Act shall be liable to arrest:

Provided that any arrest under this sub-section shall not absolve the company from the liabilities of tax sought to be evaded, default surcharge and penalty under this Act.
- (6) All arrests made under this Act shall be carried out, unless inconsistent with the provisions of this Act, in accordance with the relevant provisions of the Code of Criminal Procedure, 1898 (Act V of 1898).

- (7) Notwithstanding anything contained in sub-section (1) to (5) of section 37A of the Act, an officer of Inland Revenue, not below the rank of Assistant Commissioner or any other officer authorized by the Board in this behalf, who on the basis of material evidence has reason to believe that any person is an abettor of tax fraud or any offence warranting prosecution under the Act, may cause arrest of such person on approval regarding investigation and arrest by the Commissioner.

1.28 Procedure to be followed on arrest of a person

[Section 37B]

The Bill proposes to substitute section 37B, which shall be read as under:

37B. Procedure to be followed on arrest of a person.-

- (1) Any person arrested under this Act shall be produced before the Special Judge or, if there is no Special Judge within a reasonable distance, to the nearest Judicial Magistrate, within twenty-four hours of such arrest, excluding the time necessary for the journey from the place of arrest to the Court of the Special Judge or, as the case may be, of such Magistrate.
- (2) When any person is produced under sub-section (1) before the Special Judge, he may, on the request of such person, after perusing the record, if any and after giving the prosecution an opportunity of being heard, admit him to bail on his executing a bond, with or without sureties, or refuse to admit him to bail and direct his detention at such place as he deems fit:
- Provided that nothing herein contained shall preclude the Special Judge from cancelling the bail of any such person at a subsequent stage if, for any reason, he considers such cancellation is necessary, but before passing such order he shall afford such person an opportunity of being heard.
- (3) When such person is produced under sub-section (1) before a Judicial Magistrate, such Magistrate may, after authorizing his detention in such custody at such place and for such period as he considers necessary or proper for facilitating his earliest production before the Special Judge, direct his production before the Special Judge on a date and time to be fixed by him or direct such person to be forthwith taken to, and produced before, the Special Judge and he shall be so taken.
- (4) Nothing in sub-section (2) or sub-section (3) shall preclude the Special Judge or the Judicial Magistrate from remanding any such person to the custody of an officer of Inland Revenue carrying out investigation against that person if such officer makes a request in writing to that effect, and the Special Judge or the Judicial Magistrate may, after perusing the record, if any, and hearing such person, is of the opinion that for the completion of investigation it is necessary to make such order. Upon expiry of a period of remand further remand, as aforesaid may be granted on good cause being shown:

Provided that in no case the aggregate period of such custody shall exceed fourteen days.

- (5) If an officer of Inland Revenue, after holding an investigation as aforesaid, is of the opinion that there is no sufficient evidence or reasonable ground for suspicion against such person, he may release him on his executing a bond, with or without sureties, and shall direct such person to appear, as and when required, before the Special Judge, and make a report to the Special Judge for the discharge of such person and shall make a full report of the case to the Commissioner.
- (6) The Special Judge to whom a report has been made under sub-section (5) may, after perusal of the record, and hearing the prosecution, agree with such report and discharge the accused or, if he is of the opinion that there is sufficient ground for proceedings against such person, proceed with his trial and direct the prosecution to produce evidence.
- (7) An officer of Inland Revenue empowered to carry out investigation under this Act shall maintain a register of arrests and detentions in the prescribed form in which he shall enter the name and other particulars of every person arrested under this Act, together with the time and date of arrest, the details of the information received, the details of things, goods or documents, recovered from his custody, the name of the witnesses and the explanation, if any, given by him and the manner in which the investigation has been conducted from day to day; and, such register or authenticated copies of its aforesaid entries shall be produced before the Special Judge, whenever such officer is so directed by him.
- (8) After completing the investigation, an officer of Inland Revenue shall, as early as possible, submit to Special Judge a report through the Commissioner in the same form and manner in which the officer-in-charge of a police station submits a report, before a court, including the total amount of loss of tax caused or attempted to be caused by the accused.
- (9) Magistrate of the first class may record any statement or confession during investigation under this Act, in accordance with the provisions of section 164 of the Code of Criminal Procedure, 1898.
- (10) Without prejudice to the foregoing provisions of this section, the Board, with the approval of the Federal Minister-in-charge, may, by notification in the official Gazette, authorize any other officer working under the Board to exercise the powers and perform the functions of an officer of Inland Revenue under this section, subject to such conditions, if any, that it may deem fit to impose.

1.29 Compounding of offences

[Section 37BB]

The Bill proposes to insert a new section 37BB which shall read as under:

37BB. Compounding of offences.

- (1) Notwithstanding anything contained in this Act, where any person accused of tax fraud or any other offence warranting prosecution under this Act, except the offence under clause (13A) of section 33, wishes to deposit the amount of tax calculated as a result of inquiry or investigation along-with penalty and default surcharge under sections 33 and 34, the Commissioner may compound such offence.
- (2) The compounding of offence under sub-section (1) shall not abate the investigation and prosecution proceedings in the case of registered persons, individuals and entities who abet or connive in tax fraud or any other offence warranting prosecution under this Act.
- (3) The compounding of an offence under sub-section (1) shall have an effect of an acquittal of the accused with whom the offence has been compounded:

Provided that where the accused has been convicted and appeal is pending before the High Court under section 371, no compounding shall be allowed without the leave of the High Court.

1.30 Obligations to produce documents and provide information

[Section 38B(5)]

Sub section (1) of section 38B has an overriding effect on the other provisions of the Act or any other law for the time being in force and empowers an officer of IR, not below the rank of an ACIR to require any person to produce documents; to take extract or make copies of such documents; and appear before him to answer any question relating to the audit or inquiry or investigation being carried out by him.

The Bill proposes to insert a new sub section (5) in section 38B which shall read as under:

- (5) Notwithstanding anything contained in any other law for the time being in force, the Commissioner may, by notice in writing, require only Internet Service Providers, Telecommunication Companies and Pakistan Telecommunication Authority, to furnish subscriber's information pertaining to the Internet Protocols in connection with any inquiry or investigation in cases of tax fraud, as may be specified in such notice.

1.31 Monitoring or tracking by electronic or other means [Section (40C)]

The Bill proposes to amend sub sections (2) & (3); substitution of sub section (4); and omission of sub section (5) of section 40C:

After amendment, substitution, omission, these provisions shall read as under:

- (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 without affixing tax stamp, band role stickers, labels, barcodes, production monitoring, video analytics 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, monitoring equipment etc., shall be acquired by the registered person referred to in sub-section (2) from a licensee appointed by the Board for the purpose, against price approved by the Board, which shall include the cost of equipment installed by such licensee in the premises of the said registered person.
- (4) Notwithstanding anything contained in this Act or any other law for the time being in force, the provisions of section 83C of the Customs Act, 1969 shall mutatis mutandis apply.

1.32 Pecuniary jurisdiction in appeals

[Section 43A]

Section 43A was inserted in the Act through Tax Laws Amendment Act, 2024 w.e.f. 03.05.2024 and it has been inter alia prescribed therein that appeal to CIR Appeals shall lie where the value of assessment of tax or refund of tax does not exceed 10 Million Rupees; and where the value of assessment of tax or refund of tax shall exceed 10 Million Rupees, the appeal shall lie before ATIR. It has also been prescribed therein that reference against the order of Commissioner IR Appeals or ATIR shall lie before High Court in accordance with section 133 of the Income Tax Ordinance 2001.

The Bill proposes to omit section 43A meaning thereby that appeal against an assessment order irrespective of the value of assessment of tax or refund of tax shall lie before Commissioner IR Appeals. A corresponding amendment is also proposed to be made in section 45B by substituting sub section (1) thereof which gives an option to registered person to directly file an appeal before ATIR without right of filing of appeal before CIR Appeals.

1.33 Appeals

[Section 45B(1)]

As a consequence of proposed omission of section 43A, the Bill proposes to substitute sub section (1) of section 45B. The substituted provisions of sub section (1), as proposed, shall read as under:

- (1) Any person, other than an State Owned Enterprises (SOE), aggrieved by any decision or order passed under sections 10,11A,11D, 11E, 11F ,21,33, 34 and 66 of this Act, by an officer of Inland Revenue may, within thirty days of the date of receipt of such decision or order prefer appeal to the Commissioner Inland Revenue (Appeals):

Provided that an appeal preferred after the expiry of thirty days may be admitted by the Commissioner Inland Revenue (Appeals) if he is satisfied that the appellant has sufficient cause for not preferring the appeal within the specified period:

Provided that registered person shall have an option to directly file an appeal before Appellate Tribunal Inland Revenue without availing right of Appeal under this section.

1.34 Appeals to Appellate Tribunal [Section 46(1)]

As a consequence of proposed omission of section 43A, the Bill proposes to substitute sub section (1) of section 46. The substituted provisions of sub section (1), as proposed, shall read as under:

- (1) Any person including an officer of inland revenue not below the rank of Additional Commissioner aggrieved by an order of the Commissioner (Appeals) under this Act or the rules made thereunder; or any person other than SOE aggrieved by an order passed by officer of inland revenue when second proviso to section 45B applies, may within thirty days of the receipt of such order, prefer an appeal to the Appellate Tribunal:

Provided that where sub-section (11) of section 134A of Income Tax Ordinance, 2001 shall apply, an SOE may prefer an appeal under this sub-section.

1.35 Reference to the High Court [Section 47(1)]

Section 47 has been substituted through Tax Laws Amendment Act, 2024 and sub section (1) thereof prescribes that the person or the Commissioner, aggrieved of an order of ATIR or CIR Appeals, may prefer an application to High Court within thirty days of the communication of the order. In consequence of omission of section 43A, the Bill proposes to substitute sub section (1) of section 47. The substituted provisions, as proposed, shall read as follows:

- (1) Within sixty days of the order of the Appellate Tribunal, the aggrieved person or the Commissioner may submit a reference in the prescribed form along with a statement of the case and complete record of the Appellate Tribunal to the High Court, stating any question of law arising out of such order.

1.36 Inspection of audit firm [Section 58C]

The Bill proposes to insert a new section 58C which shall read as under:

58C. Inspection of audit firm— Where in case of a registered person, whose accounts are subject to audit under the Companies Act, 2017, Chief Commissioner Inland Revenue has reason to believe that the audited accounts do not reflect the true and fair view of sales and purchases and related sales tax liability, he or she may with the approval of the Board, refer the audit firm, who has issued audit certificate to that registered person, for inspection to Audit Oversight Board.

1.37 Certain transactions not admissible

[Section 73(4)]

Sub section (4), as exists in the statute book today, was inserted in section 73 through Tax Laws Amendment Act, 2020 w.e.f. 27.03.2020. The Bill proposes to amend the provisions and after amendment sub section (4) shall read as under:

- (4) A registered person shall not be entitled to deduct input tax (credit adjustment or deduction of input tax) which is attributable to such taxable supplies exceeding, in aggregate, the amount in a financial year or in a tax period, as may be prescribed by the Board, with the approval of Federal Minister-in-Charge as are made to certain person who is not a registered person under this Act:

Provided that the aforesaid shall not apply to supplies made to:- (a) Federal / provincial / local Government departments, authorities, etc. not engaged in making of taxable supplies; (b) Foreign Missions, diplomats and privileged persons; (c) all other persons not engaged in supply of taxable goods; and (d) persons or classes of person, specified by the Board through notification in the official Gazette subject to such conditions and restrictions as may be specified therein.

1.38 Condonation of time limit

[Section 74]

The Bill proposes to add two new provisos in section 74. After insertion of new provisos as proposed, section 74 shall read as under:

74. Condonation of time-limit.— Where any time or period has been specified under any of the provisions of the Act or rules made there under within which any application is to be made or any act or thing is to be done, the Board may, at any time before or after the expiry of such time or period, in any case or class of cases, permit such application to be made or such act or thing to be done within such time or period as it may consider appropriate:

Provided that the Board may, by notification in the official Gazette, and subject to such limitations or conditions as may be specified therein, empower any Commissioner to exercise the powers under this section in any case or class of cases.

Provided further that regardless of anything stipulated in this section, or any provision of this Act, or any other applicable law currently in force, and notwithstanding any decision, order or judgment issued by any forum, authority or court, the maximum period of extension under this section by the Board or the Commissioner, as the case may be, shall not exceed two years in aggregate:

Provided also that where there are reasons to believe that significant loss to exchequer has been caused by an act of omission or commission by the registered person or by any authority mentioned in section 30, a committee of members as notified by the Board may further condone the limitation specified for a period as it may deem fit, after providing a reasonable opportunity of being heard to the registered person concerned.

Explanation.— For the purpose of this section, the expression “any act or thing is to be done” includes any act or thing to be done by the registered person or by the authorities specified in section 30 of this Act.

2. THE THIRD SCHEDULE: Additions in Third Schedule:

In terms of section 3(2)(a) of the Act, the taxable supplies specified in the Third Schedule shall be subjected to sales tax on the basis of retail price as has been defined in clause (27) of section 2 of the Act.

2.1 The Bill proposes to add four new serial numbers 52, 53, 54 & 55 in Third Schedule and by virtue of these additions, the following goods shall be subjected to sales tax on the basis of retail price.

Sr. No. (1)	Description (2)	PCT Heading (3)
52.	Import of pet food including of dogs and cats sold in retail packing	2309.1000
53.	Import of coffee sold in retail packing	0901.1100, 0901.1200, 0901.2100, 0901.2200, 0901.9000, 2101.1120
54.	Import of chocolates sold in retail packing	1704.9010, 1806.2090, 1806.3100, 1806.3200, 1806.9000
55.	Import of cereal bars sold in retail packing	1904.1010, 1904.1090, 1904.2000, 1904.3000, 1904.9000

3. THE SIXTH SCHEDULE:

The goods specified in Table 1, whether supplied locally or imported, are exempt from sales tax whereas the goods specified in Table 2 are exempt from sales tax only when supplied locally.

I. Exemption of sales tax on imports and supplies – Omission / addition / amendments in Table 1 of Sixth Schedule:

- a. Withdrawal of exemption of sales tax on supplies and imports by industries located in Tribal areas: In terms of Sr. No. 151, exemption of sales tax has been given on (a) supplies; and (b) imports of plant and machinery, equipment for installation in the Tribal areas and of industrial inputs by the industries located in Tribal areas [erstwhile FATA/PATA] as defined in the Constitution as made till 30.06.2025: Provided that in case of imports the exemption shall be allowed clearance by customs on presentation of pay order for the amount of sales tax which shall be returned to the importer after presentation, within six months, of a consumption or installation certificate as is issued by CIR having jurisdiction: Provided further that if plant, machinery and equipment, on which exemption of sales tax is available under this serial number, is transferred or supplied outside Tribal areas, the tax exempted shall be paid at applicable rate on residual value.

The Bill proposes to omit Sr. No. 151 meaning thereby if the said omission is passed, total exemptions to Tribal areas shall no more be available rather the exemption shall be withdrawn gradually as detailed in paragraph 4.3 below:

- b. Withdrawal of exemption of sales tax on import and supply of solar panel: In terms of Sr. No. 164, exemption has been given on import and supplies of photovoltaic cells whether or not assembled in modules or made up into panels of PCT 8541.4200 and 8541.4300. The Bill proposes to omit Sr. No. 164 meaning thereby if the said omission is passed, the solar panels shall be subjected to standard rate of 18% sales tax on import and local supply thereof.
- c. Extension of exemption of sales tax on electricity supplied to residential, commercial and specified industries located in Tribal areas: In terms of Sr. No. 152, exemption of sales tax has been given on supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30th June, 2025, to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries. The Bill proposes to extend the exemption till 30.06.2026.
- d. In terms of Sr. No. 179, exemption of sales tax has been given on import of cystagon, cysta drops and trientine capsules [for personal use only]. The Bill proposes to omit the expression “[for personal use only]” meaning thereby that if the proposal is accepted, exemption on the subject goods shall be available irrespective of the fact that whether these are imported for personal use or for commercial use.
- e. Exemption of sales tax on import of lease or aircraft by PIACL: The Bill proposes to insert a new Sr. No. 181 which shall grant exemption of sales tax on import or lease of aircrafts of PCT 8802.1200, 8802.3000 & 8802.4000 by PIACL.

II. Exemption of sales tax on local supplies --- Omission / addition / amendments in Table 2 of Sixth Schedule:

- f. In terms of Sr. No. 57, exemption of sales tax has been given on local supply of iron and steel scrap excluding supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021. It is proposed to amend Sr. No. 57. The Bill proposes to amend this provisions and now as per proposed amended provisions, exemption of sales tax shall be given to local supply of iron and steel scrap of PCT 7204.4100, 7204.3000 and 7204.4990 excluding:
 - (a) supplied by manufacturer cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel Melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order; and

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

4. **THE EIGHTH SCHEDULE:** Higher / lower rates of sales tax – Omission / addition / amendments in Table of Eighth Schedule:

In terms of section 3(2)(aa) of the Act, the goods specified in the Eighth Schedule shall be charged to sales tax at such rates and subject to such conditions as specified therein.

4.1. Reduced rate of 5% sales tax on import of cinematographic equipment during the period commencing on and ending on 30.06.2023 – Omission of Sr. No. 53: A variety of cinematographic equipment classified in various PCT headings / sub headings were subjected to reduced rate of 5% sales tax as were imported during the period from 01.07.2018 to 30.06.2023. Since the application of reduced rate on import of these items has expired on account of afflux of time therefore it has been proposed to omit the said Sr. No. 53.

4.2 Increase in the rate of sales tax from 12.5% to 18% on supply of locally manufactured or assembled motor cars of cylinder capacity upto 850cc: In terms of Sr. No. 72, locally manufactured or assembled motor cars of cylinder capacity upto 850cc are subjected to reduced rate of 12.5% sales tax. It is proposed to omit Sr. No. 72 meaning thereby if the said proposal is approved, the subject motor cars shall become liable to standard rate of 18% sales tax.

4.3 As narrated in paragraph 29.1 above, it is proposed to omit Sr. No. 151 of Table 1 of Sixth Schedule which will result in withdrawal of exemption on supplies and import of goods by the industries located in erstwhile FATA / PATA. Correspondingly it is proposed for insertion a new Sr. No. 89 in Eighth Schedule which envisages that the exemptions granted under Sr. No. 151 ibid shall be withdrawn gradually as under:

89.	<p>(i) imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan; and</p> <p>(ii) and supplies within the tribal areas</p> <p>Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO.</p> <p>Provided further that if plant, machinery and equipment, on which reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas, the differential amount of tax shall be paid at applicable rate.</p>	Respective heading	<p>10% (for 2025- 26)</p> <p>12% (for 2026- 27)</p> <p>14% (for 2027- 28)</p> <p>16% (for 2028-29)</p>
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5. ELEVENTH SCHEDULE: Omission / addition / amendments in Eleventh Schedule:

In terms of section 3(7) of the Act, the rates for withholding of sales tax have been prescribed in Eleventh Schedule.

- a. In terms of Sr. No. 8, online market place in the capacity of withholding agent, is obliged to withhold sales tax at the rate of 1% of gross value of supplies from the person other than active taxpayers from the date as notified by the Board. In exercise of these powers, FBR has issued SRO 984(I)/2021 dated 04.08.2021 through which it has directed that provisions of Sr. No. 8 shall be effective from 01.09.2021.

The Bill proposes to substitute Sr. No. 8. As per substituted provisions of Sr. No. 8 “Payment intermediaries and couriers in respect of digitally ordered goods from within Pakistan in the capacity of withholding agents shall be obliged to withhold sales tax at the rate of 2% of the gross value of supplies from the payments made to persons supplying digitally ordered goods from within Pakistan through online market place, website, software applications”.

COMMENTS ON AMENDMENTS PROPOSED VIDE FINANCE BILL 2025 IN THE FEDERAL EXCISE ACT, 2005

1. Scope of Federal Excise Duty (Section 3)

Alignment of liability to pay FED within the scope

Section 3 of the Federal Excise Act, 2005 deals with the levy of Duties and the excisable goods are specified in the First Schedule of the Federal Excise Act 2005. By virtue of Finance Act, 2023 the scope of excisable goods has been widened by insertion of “any item specified in the First Schedule” in subsection (1) of Section 3 of the Federal Excise Act, 2005. Hitherto the insertion of that amendment, the scope of FED was already enhanced to include any item thereof and even its chargeability had been extended to encompass the allotment and transfer of immovable properties.

After stipulating the levy of duty by virtue of Finance Act 2023, even there was no corresponding amendment affixing the payer liable for payment of the Duty. Sub section (5) is now proposed to be introduced thereby determining person responsible for payment of duty on such items.

2. Power to seize and Confiscation of goods subject to Federal Excise Duty

Section 26 & 27

Section 26 deals with power to seize goods and section 27 provides confiscation of goods subject to Federal Excise Duty.

These amendments have already been introduced through Tax laws (Amendment) Ordinance, 2025 introduced in May 2025 which are now proposed for ratification through Finance Act, 2025. By virtue of these amendments the board intends to create deterrence on such dutiable goods manufactured or produced without affixing or affixing counterfeited tax stamps, banderols, stickers, labels or barcodes to be made liable to seizure along with the conveyance used for movement of such goods as required under section 45A for monitoring or tracking by electronic or other means.

Furthermore, such seized goods are also made liable to outright confiscation. These coercive measures are taken to harmonize the identical measure proposed in other corresponding taxation statutes.

The bill also seeks to empower the Board to authorize officers or employees from other departments within the Federal or Provincial Governments, through a notification in the official Gazette, to perform functions or exercise powers under section 26 (power to seize dutiable goods) and sub-section (1) of section 27 (confiscate dutiable goods) of the Act.

3. Appeals to Commissioner (Appeals) & Pecuniary jurisdiction in appeals

Section 33, 33A

Section 33A of the Federal Excise Act, 2005 deals with the pecuniary jurisdictions of Commissioner (Appeals) and Appellate Tribunals were introduced vide Tax Laws Amendment Act, 2024.

Sub-Section 4 of section 33A provides that the cases pending before the Commissioner (Appeals) having the value of assessment of tax or, as the case may be, refund of tax exceeding five million rupees from the 31st day of December 2024 stand transferred to the Appellate Tribunal Inland Revenue. The bill seeks to omit Section 33A whereby the pecuniary power of five million has now been proposed to be omitted.

4. Appeals to the Appellate Tribunal (Section 34) & Reference to the High Court Section 34A

The bill aims to streamline the procedure for filing appeals to the Commissioner (Appeals), the Appellate Tribunal Inland Revenue, and references to the High Court. Further, a registered person will have the option to file an appeal before Commissioner (Appeals) or directly with the Appellate Tribunal Inland Revenue without first availing the right of appeal before the Commissioner (Appeals).

The bill seeks to substitute sub-section(1) of section 34 in the following words:

“(1) Subject to section 33A, any person, other than a state-owned enterprise (SOE), aggrieved by any order passed by an officer of Inland Revenue, the Board or the Commissioner (Appeals) under this Act or the rules made thereunder may, within thirty days of the receipt of such order, prefer an appeal to the Appellate Tribunal or, as the case may be, a reference to the High Court: Provided that where sub-section (11) of section 134A of Income Tax Ordinance, 2001(XLIX of 2001) shall apply, an SOE may prefer an appeal under this sub-section.” Accordingly the bill seeks to substitute sub-section(1) of section 34A in the following words:

“Within sixty days of the order of the Appellate Tribunal, the aggrieved person or the Commissioner may make a reference in the prescribed form along with a statement of the case and complete record of the Appellate Tribunal to the High Court, stating any question of law arising out of such order.”

5. Immovable Properties under scope of Federal Excise Duty Deletion of Serial No.1 and entries relating thereto in Table - III in First Schedule

A new serial no.1 was added in the first schedule to the Excise Act, 2005 through Finance Act, 2024 by virtue of which FED was proposed to be levied at 3%, 5% & 7% for filer/late filer/non-filer, as the case may be, on allotment or transfer of commercial properties and first allotment and transfer of residential properties in such mode and manner and subject to such conditions and restriction as may be prescribed by the Board.

This amendment led to examine the legislative competence between federation and provinces regarding enforcement of this proposed levy on immovable properties which inter alia falls within the jurisdiction of provinces.

Federal excise duty on the allotment and transfer of residential and commercial plots, imposed through the Finance Act, 2024, is now proposed to be withdrawn.

Note: All other proposed changes in First Schedule to the Federal Excise Act, 2005 have been discussed separately and we have placed our comments in respective columns of schedules tabulated below:

**PROPOSED AMENDMENTS IN TABLE III OF FIRST SCHEDULE OF
THE FEDERAL EXCISE ACT 2005**

Sr. No.	Sr No. in Table	Existing		Proposed amendments		Comments
		Description	Rate of duty	Description	Rate of duty	
	1	"Allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property by any developer or builder in such mode and manner and subject to such conditions and restrictions as may be prescribed by the Board	(i) 3% of gross amount of consideration involved where the buyer is appearing on active taxpayer list maintained under section 181A of the Income Tax Ordinance, 2001 on the date of acquisition of property; (ii) 5% of gross amount of consideration involved where the buyer has not filed the income tax return by due date as specified in proviso to Rule 1A of Tenth Schedule to the Income Tax Ordinance, 2001; and (iii) 7% of gross amount of consideration involved where the buyer is not appearing on active taxpayer list maintained under section 181A of the Income Tax Ordinance, 2001 on the date acquisition property.	Entry omitted		Please see our comments at serial no.5 in compendium

1. Integration with the Board's computerized system

For the Revenue measures, it is proposed that any service provider mentioned in table 1 and table 2 of the Schedule shall integrate business with the Board's Computerized System. The aim of this proviso is real time reporting of provision of taxable service activity by the Service provider.

2. Exemption of sales tax on services

Exemptions on sales tax on services acquired by German Development Agency and various Agencies of United Nations, Diplomates, Diplomatic missions, Privileged persons and privileged Organizations are aligned with the exemption available to them under serial number 147 and 163 of table 1 of Sixth Schedule of the Sales Tax Act, 1990.

3. Introduction of Negative list of Services

It is proposed to introduce table 3 for negative list of services exempt from tax under this Ordinance. This amendment is proposed for the revenue measures which will expand the scope of services leviable in Islamabad Capital Territory.

TEXT OF FINANCE BILL – 2025

**For convenience, the complete text of
Finance Bill 2025**

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