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KRW

Tax Insights: A Brief on Finance Bill 2025

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The Finance Bill 2025 was presented before the National Assembly on June 10, 2025, introducing key amendments to Income tax, Sales tax and Federal Excise laws. This document summarizes the proposed changes, which are subject to approval by the National Assembly and subsequent Presidential assent. Unless otherwise specified, the amendments are expected to take effect from July 1, 2025.

The purpose of this document is to provide a concise overview of the key tax-related proposals. A detailed analysis of the amendments, along with an assessment of their implications, will be presented in a comprehensive commentary following the enactment of the Finance Act 2025.

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► **Narrowed definition of "Banking Company"- Section 2(7)**

The amendment to Section 2, Clause (7), narrows the definition of "banking company." Previously, it included any corporate body transacting banking business in Pakistan. Now, the definition is limited to a "banking company" as defined solely within the Banking Companies Ordinance, 1962.

► **Definition of "Digitally Delivered Services" and "E-commerce" inserted - Section 2(17C) & (19AA)**

In Section 2, new clauses (17C) and (19AA) define "digitally delivered services" (e.g., streaming, cloud services, e-learning) and "e-commerce" (online sale/purchase of goods/services).

The definition of "digitally delivered services" broadly encompasses services provided over the internet or electronic networks that are largely automated and require minimal to no human intervention. The definition provides several illustrative examples, including:

- Music, audio, and video streaming services
- Cloud services
- Online software applications services
- Services delivered through online inter-personal interaction (e.g., telemedicine, e-learning)
- Online banking services
- Architectural design services
- Research and consultancy reports in digital file format
- Any other online facility

The definition of "e-commerce" specifies that e-commerce refers to the sale or purchase of goods and services conducted over computer networks. The key characteristics highlighted are:

- Methods specifically designed for receiving or placing orders.
- Transactions occurring through websites, mobile applications, or online marketplaces.
- Transactions utilizing digital ordering features
- Involving devices such as mobile phones, iPads, tablets, or automated computer-to-computer ordering systems.

► **Exclusion of high-fee recreational clubs from non-profit organization definition - Section 2(36)**

The amendment to Section 2, Clause (36)(a) of the Income Tax Ordinance, 2001, narrows the definition of a "non-profit organization."

It now explicitly excludes recreational clubs formed with a membership fee exceeding Rs. 1 million for any class of new members from being considered a non-profit organization, even if established for the promotion of amateur sport. This implies that such clubs may no longer qualify for the tax benefits associated with non-profit status.

► **Expanded definition of "Online Marketplace"- Section 2(38B)**

The amendment to Section 2, Clause (38B) significantly broadens the definition of "online marketplace." It now explicitly includes "online interfaces" that facilitate direct interaction between multiple buyers and sellers through digital orders for goods and services, regardless of whether the platform takes economic ownership of the goods or directly provides the services being sold.

► **Surcharge on salaried individuals - Section 4AB**

The amendment to Section 4AB introduces a specific provision for salaried individuals, reducing the income tax surcharge from 10% to 9% for those with taxable income exceeding Rs. 10 million. This creates a differentiated surcharge rate for salaried income earners compared to other individuals and associations of persons.

► **Tax on digital transactions in e-commerce platforms - Section 6A**

Section 6A introduces a new tax on payments received for digitally ordered goods or services that are delivered from within Pakistan using local online platforms. This tax is applied to the gross amount of receipts. The provision specifically excludes export proceeds already subject to withholding under Section 154A. This aims to broaden the tax base to include domestic digital economy activities.

Please see our specific commentary on IT sector related changes for more information.

► **Final tax regime for digital transactions - Section 8**

The inclusion of Section 6A into Section 8 designates the tax on payments for digital transactions in e-commerce platforms as a final tax.

► **Fair market rent for commercial properties - Section 15**

A new provision in Section 15, sub-section (4), introduces a minimum fair market rent for commercial properties, set at 4% of their fair market value per annum. However, this minimum will not apply if the taxpayer provides satisfactory evidence to the Commissioner demonstrating a different fair market rent. This change aims to ensure a baseline taxable income from commercial property rentals.

► **Inclusion of recreational clubs in business income - Section 18**

The amendment to Section 18(1)(b) clarifies that the income derived by recreational clubs from the sale of goods or provision of services to their members is also explicitly included as income chargeable to tax under the head "Income from Business". This is to be read with change in section 2(36).

► **Disallowances for purchases from Non-NTN holders and non-digital payments - Section 21**

In section 21, a new provision disallows 10% of claimed expenditure on purchases made from individuals or entities who do not hold a National Tax Number (NTN). This disallowance does not apply to agricultural produce purchased directly from growers, and the Board has the power to grant further exemptions.

A new clause (r) introduces a 50% disallowance of expenditure claimed for sales where the taxpayer received payment exceeding Rs. 200,000 for a single invoice (covering one or more transactions) through means other than banking channels or digital methods.

► **Depreciation disallowance for failure to deduct Tax - Section 22**

Under Section 22(1), depreciation expense on capital asset additions will not be allowed if tax deductible under Sections 152 or 153 is not properly deducted and deposited.

► **Reduced deemed useful life for intangibles - Section 24**

Section 24(4) reduces the deemed normal useful life of intangibles without an ascertainable life from twenty-five years to fifteen years for amortization purposes.

► **Digital means included in transaction recognition- Section 39**

Section 39(3) now explicitly recognizes "digital means as defined in section 2" alongside traditional banking channels. This means that for purposes of this sub-section, transactions conducted through digital payment methods will be treated similarly to those made via bank transfers.

► **Restriction on set-off of business loss against property income - Section 56**

The amendment to Section 56(1) now specifically disallows the adjustment of business losses against income from property for the tax year. Previously, business losses could be set off against income from other heads including income from property, with the exception of salary income.

► **Restriction on Group relief for companies under special tax regimes - Section 59**

The amendment to Section 59B(2) introduces a new condition that excludes companies from availing group relief if their business income is chargeable to tax under provisions other than Division II of Part I of the First Schedule of the Ordinance.

► **Tax credit for interest on low-cost housing loan - Section 63A**

A new Section 63A introduces a tax credit for individuals on interest paid on loans for low-cost housing. To qualify, the property must meet specific size limits (land up to 2500 sq ft or flat up to 2000 sq ft) and the loan must be from an approved financial institution.

► **Broadening eligibility for coal mining tax credit- Section 65F**

The amendment to Section 65F(1)(a) removes the word "exclusively," meaning coal mining projects in Sindh are no longer required to supply coal solely to power generation projects to qualify for the 100% tax credit. This change broadens the eligibility for the tax credit, allowing them to also supply coal to other sectors.

► **Inclusion of digital means for asset purchase payments - Section 75A**

The amendment to Section 75A expands the acceptable payment methods for purchasing high-value immovable property and other assets. It now explicitly allows transactions to be conducted "or through digital means" in addition to traditional banking instruments, ensuring such purchases remain eligible for tax allowances and cost computations.

► **Eligibility for charitable organization tax credit - Section 100C**

The amendment to Section 100C removes all references to "Table II of" clause (66) of Part I of the Second Schedule. This change streamlines the criteria for tax credit eligibility for charitable organizations, as their qualification will now be determined directly by the conditions outlined within Section 100C itself, along with other general provisions of the Ordinance.

► **Reduced carry-forward period for excess minimum tax - Section 113**

The amendment to Section 113(2)(c) reduces the period for carrying forward and adjusting excess minimum tax paid. Previously, this excess amount could be carried forward for three succeeding tax years, but it will now be limited to two immediately succeeding tax years.

► **Restrictions on economic transactions for "Ineligible Persons" - Section 114C**

A new section 114C restricts "ineligible persons" (those who haven't filed tax returns or declared sufficient resources) from engaging in key economic transactions. These restrictions include the purchase/registration of motor vehicles, transfer of immovable property above a notified value, buying securities/mutual funds, and certain banking activities like opening accounts or making large cash withdrawals.

The section defines "eligible" and "ineligible" persons, with specific exemptions for certain low-value vehicle purchases and non-residents, and allows the Board to notify further implementation details.

► **Automated adjustment integration into deemed assessment - Section 120**

The amendment to Section 120(1) establishes that a taxpayer's deemed assessment, upon furnishing a complete return, is now contingent upon and incorporates the automated adjustments made under Section 120(2A). This signifies that the self-assessment process is only finalized once the system's review, including the rectification of errors and disallowances communicated to the taxpayer, is concluded.

► **Removal of specific timelines for amendments in assessment - Section 122**

The amendment to Section 122(9) eliminates the statutory 180-day time limit (with a 90-day extension) for issuing amendment orders after a show-cause notice, as well as the specified exclusions for computing this period.

► **Expedited tax recovery post-appellate confirmation - Section 124**

The amendments to Section 124 (new sub-sections 4A and 4B) stipulate that tax confirmed by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court becomes immediately payable/recoverable. If tax payable is fully confirmed by a higher court, no appeal effect order is needed, and recovery proceeds directly. If partially set aside but also confirmed/modified, an appeal effect order is issued only for the confirmed portions to facilitate recovery.

► **Removal of pecuniary jurisdictional limits for appeals - Section 126A**

The omission of Section 126A removes the financial value-based limits that previously dictated the appeal forum, effectively restoring the appeal forums available before its insertion.

Now, appeals against orders of the Commissioner (Appeals) will lie with the Appellate Tribunal Inland Revenue, whereas previously, such appeals have gone directly to the High Court. This change redefines the next level of appeal for Officer Inland and Commissioner (Appeals) orders.

► **Direct appeal option to Appellate Tribunal for non-SOEs - Section 127**

Section 127 now allows taxpayers, excluding State-Owned Enterprises (SOEs), the option to either file an appeal with the Commissioner Inland Revenue (Appeals) or directly with the Appellate Tribunal Inland Revenue, bypassing the Commissioner (Appeals) forum entirely. This provides taxpayers other than SOEs with greater flexibility in their initial appellate recourse. Section 127(1) also removes the previous reference to Section 126A.

► **Revised eligibility for Chartered Accountant Appellate Tribunal members - Section 130**

The amendment to Section 130(3)(b) revises the eligibility criteria for Chartered Accountants to be appointed as Appellate Tribunal members. Previously, it required ten years of professional practice. Now, it explicitly includes an aggregate period of not less than ten years of practice as a Chartered Accountant (individually or in a firm) or being a Chartered Accountant employed by a practicing firm for at least ten years, broadening the scope of qualifying experience.

► **Streamlined appellate path to the Appellate Tribunal - Section 131**

The amended Section 131(1) now clarifies that both taxpayers and the Commissioner can appeal orders from the Commissioner (Appeals) to the Appellate Tribunal within thirty days.

► **Revised High Court reference mechanism - Section 133**

The amendments to Section 133 extend the time limit for filing a reference to the High Court from thirty to sixty days. They also remove references to the Commissioner (Appeals), implying High Court references will now primarily originate from the Appellate Tribunal. Furthermore, the scope of such references to the High Court is narrowed to strictly "questions of law," omitting "mixed questions of law and facts."

► **Extended Alternative Dispute Resolution process for SOEs - Section 134A**

A two-tiered Alternative Dispute Resolution (ADR) process is introduced specifically for State-Owned Enterprises (SOEs). If an initial ADR Committee fails to decide an SOE's dispute within sixty days, the Board is now mandated to reappoint a new Committee. Only if this reappointed Committee also fails to decide within an additional sixty days will the matter revert to the courts or appellate authorities, providing SOEs with a more prolonged opportunity for dispute resolution outside of formal litigation.

► **Accelerated tax recovery post-higher appellate forums decision - Section 138**

The amendment to Section 138 introduces a new sub-section (3A) which stipulates that any tax payable becomes immediately recoverable (or within the time specified in a notice) once the issue giving rise to the tax liability is decided by a High Court or the Supreme Court of Pakistan.

A specific proviso allows for a seven-day grace period before recovery if the High Court decides an appeal in favor of the tax department.

► **Tax Recovery from third parties holding taxpayer funds - Section 140**

A new sub-section (6A) in Section 140 mandates that any tax payable under an assessment order becomes immediately recoverable (or within a specified notice period) once the underlying issue is decided by a High Court or the Supreme Court of Pakistan. This provision overrides existing timelines and court judgments to expedite tax collection, with a seven-day grace period if the High Court rules in favor of the tax department.

► **Taxation of high-value pension income - Section 149**

A new sub-section (1A) in Section 149 introduces a tax deduction at source on pension or annuity income exceeding Rs. 10 million for individuals below seventy years of age.

► **Tax on Capital Gains from Certain Debt Securities - Section 151A**

A new Section 151A imposes a 15% tax deduction at source on gross capital gain from the disposal of certain debt securities, excluding those traded on a registered stock exchange and settled through NCCPL.

► **Tax deduction for non-resident payments- Section 134A**

The amendments to Section 152 outline tax deductions on payments to non-residents.

Sub-section (1C) now provides an exemption for banking companies from deducting tax on offshore digital service fees if the recipient is already subject to the new Digital Presence Proceeds Levy.

Additionally, sub-section (1D) introduces a specific tax rate for capital gains arising from the disposal of debt instruments and government securities held for less than twelve months by non-resident persons.

► **New tax collection mechanism for resident's e-commerce transactions - Section 153**

A new sub-section (2A) mandates payment intermediaries (e.g., banks, payment gateways) and courier services (for Cash on Delivery) to collect tax at the source from sellers on digitally ordered goods/services supplied through e-commerce platforms (including websites) at specified rates.

Correspondingly, a new sub-section (2B) clarifies that the traditional tax deduction by the payer under sub-section (1) will not apply where tax has already been collected by these intermediaries, streamlining tax collection for online sales.

The section also inserts definitions for "courier service" and "payment intermediary."

► **Information furnishing by e-commerce ecosystem participants - Section 165C**

A new Section 165C mandates increased reporting for the e-commerce sector. Payment intermediaries and courier services must file quarterly withholding statements detailing seller information, transaction values, and tax collected on digitally ordered goods/services. Simultaneously, online marketplaces in Pakistan are required to submit monthly statements with vendor registration details, monthly turnover, and amounts deposited to vendors' bank accounts. This aims to enhance transparency and tax compliance in digital transactions.

► **Exchange of banking and tax information for high-risk persons - Section 175AA**

A new Section 175AA empowers the FBR to share tax information, including turnover, income, and bank account details, with scheduled banks in Pakistan for identified high-risk individuals or classes of persons, utilizing data-based algorithms. In turn, scheduled banks are mandated to report back to the FBR any instances where banking information varies significantly from the provided data algorithms, ensuring all shared data remains confidential and is used solely for tax-related purposes.

► **Posting of tax officials to business premises for monitoring - Section 175C**

A new Section 175C empowers the Board or Chief Commissioner to post Inland Revenue officers or other officials to any business premises. Their role is to monitor production, supply, services, and stock to accurately determine the tax payable under the Ordinance.

► **Mandatory registration for e-commerce sellers and platform responsibility - Section 181**

The amendment to Section 181 expands the definition of "taxpayer" to explicitly include individuals selling digitally ordered goods or services via online marketplaces or courier services. Furthermore, a new sub-section (1A) imposes a strict obligation on online marketplaces and courier services involved in e-commerce to ensure that no vendor uses their platform unless they are duly registered under both the Sales Tax Act, 1990, and the Income Tax Ordinance.

► **Penalties for e-commerce non-compliance - Section 182**

Section 182 now imposes stricter penalties on online marketplaces and courier services that facilitate transactions for unregistered vendors. It also increases penalties for e-commerce sellers who fail to register themselves under the Sales Tax Act, 1990, and the Income Tax Ordinance, enhancing enforcement in the digital economy.

► **Inclusion of appointed auditors as income tax authorities - Section 207**

The amendment to Section 207(1) expands the list of recognized Income Tax authorities to formally include "auditor appointed under section 222." This change integrates the newly empowered external auditors, who can be hired by the Board to monitor business operations for tax determination, into the official hierarchy of income tax authorities.

► **Exchange of banking and tax information for high-risk persons - Section 214A**

The amendments to Section 214A introduce a new maximum aggregate period of two years for the Board or Commissioner to condone delays in tax matters. However, a further proviso allows for an exception: in cases where there is a belief that significant loss to the exchequer has occurred, a committee nominated by the Board may grant an additional extension beyond the two-year limit after providing a hearing opportunity.

► **Expanded disclosure of confidential tax information - Section 216**

The amendments to Section 216(3) broaden the permissible disclosure of confidential taxpayer information. This now includes sharing data with external auditors (under non-disclosure agreements) assisting various tax authorities, the Tax Policy Office for research and analysis, and recognized universities and international donor agencies, provided the taxpayer data is first anonymized.

► **Expanded electronic service of notices to all persons - Section 218**

The amendment to Section 218(2)(d) clarifies that electronic service of notices and other documents is now explicitly applicable to all persons (companies, associations of persons, non-residents, etc.), not just individuals.

► **External auditors for FBR - Section 222**

New Section 222(2) empowers the Board to appoint up to two thousand auditors on a contractual basis or through third-party arrangements, as it deems fit for carrying out the purposes of the Ordinance.

► **Increased withholding tax on cash withdrawals - Section 231AB**

The rate of advance tax on cash withdrawals is increased from 0.6% to 0.8%.

FIRST SCHEDULE

The changes proposed in different parts of First Schedule are discussed below:

► **Personal income tax of salaried individual - Part I, Division I, Clause (2))**

The tax rates for salaried individuals have been revised as per below:

Taxable income	Proposed tax rate	Extant tax rate
Taxable income upto Rs. 600,000	0%	0%
Rs. 600,001 – Rs. 1,200,000	1% of the amount exceeding Rs. 600,000	5% of the amount exceeding Rs. 600,000
Rs.. 1,200,001 – Rs. 2,200,000	Rs. 6,000 + 11% of the amount exceeding Rs. 1,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
Rs. 2,200,001 – Rs. 3,200,000	Rs. 116,000 + 23% of the amount exceeding Rs. 2,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
Rs. 3,200,000 – Rs. 4,100,000	Rs. 346,000 + 30% of the amount exceeding Rs. 3,200,000	Rs.430,000 + 30% of the amount exceeding Rs. 3,200,000
Taxable income exceeding Rs. 4,100,000	Rs. 616,000 + 35% of the amount exceeding Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

► **Specific Pension Income Tax Rates - Part I, Division I, Clause (2) proviso)**

A separate and specific tax regime is introduced for pension income: pension up to Rs. 10 million is exempt, while amounts exceeding Rs. 10 million are taxed at a flat rate of 5%.

► **Reduced super tax rates from tax year 2026 onwards - Division IIB**

The super tax rates applicable to income under Section 4C have been revised, introducing reduced rates for Tax Year 2026 and onwards for income slabs between Rs. 200 million and Rs. 500 million, compared to the rates for Tax Years 2023, 2024, and 2025. (First Schedule, Part I, Division IIB).

► **Differentiated dividend tax rates for mutual funds and REITs - Division III**

- REITs are now explicitly subject to a 15% dividend tax rate. Earlier, REITs were generally taxed at 15% on dividends, with an exemption (0%) for dividends received by a REIT scheme from a Special Purpose Vehicle (SPV).
- For mutual funds, the tax rate is now differentiated and proportional: 25% for income derived from average annual investments in debt securities, and 15% for income from equities. Earlier, mutual Funds had a general dividend tax rate of 15%. However, if a mutual fund derived fifty percent or more of its income from "profit on debt," the dividend tax rate increased to 25%.

► **Differentiated rates for profit on debt - Division IIIA**

The tax rates for profit on debt under Section 7B have been updated from a single flat rate to a differentiated system.

Now, the rate is 20% for yield or profit paid by a banking company or financial institution on an account or deposit, while it remains at 15% for all other types of profit on debt. Previously, the uniform tax rate for all profit on debt was 15%.

► **Expanded scope and new rates for digital service payments – Division IV & IVA**

Division IV of the First Schedule has been updated to explicitly include "fee of offshore digital services" within its scope of taxed payments. More significantly, a new Division IVA is introduced, setting specific tax rates for payments made on digitally ordered goods or services through e-commerce platforms.

For payments via digital means or banking channels, the rates vary:

- 1% for amounts up to Rs. 10,000
- 2% for amounts between Rs. 10,000 and Rs. 20,000
- 0.25% for amounts exceeding Rs. 20,000

For Cash on Delivery (CoD) payments, rates are categorized by product type:

- 0.25% for electronic and electrical goods
- 2% for clothing articles, apparels, and garments
- 1% for other goods not falling into the above categories

The changes to deduction of tax at source under First Schedule, Part III are as under:

► **Advance tax on dividend - Division I**

- REITs are now explicitly taxed at 15% on dividends.
- Mutual Funds have a new differentiated tax rate: 25% on income from average annual investments in debt securities and 15% on income from equities. This replaces the previous general 15% rate with a 25% proviso for debt-heavy funds.

► **Profit on debt - Division IA**

The tax rate for profit on debt has been differentiated.

- It's now 20% for yield or profit paid by a banking company or financial institution on an account or deposit.
- It remains 15% for all other cases of profit on debt. Previously, the rate was a flat 15% for all profit on debt.

► **Gain arising on disposal of certain debt securities - Division IIIAA**

A new Division IIIAA has been inserted.

It introduces a 15% tax rate on the gross amount of capital gain arising from the disposal of certain debt securities, to be deducted at source.

► **Payments to non-residents - Division II**

- For payments under sub-paragraph (i) of paragraph (5) (related to certain services by non-residents), the general tax rate has increased from 4% to 8%. However, a new proviso sets the rate at 4% specifically for IT services and IT-enabled services.
- For other services under sub-paragraph (ii) of paragraph (5), the rate is now a flat 15% of the gross amount payable, replacing previous company-specific (9%) and other cases (11%) rates.
- For payments under paragraph (6), sub-paragraph (i), the rate has increased from 10% to 15%.

► Payments for goods or services to a resident - Division III

- For services under sub-paragraph (i) of clause (2) (e.g., transport, freight, IT services), the general tax rate has increased from 4% to 6%. Similar to Division II, a new proviso specifies a 4% rate for IT services and IT-enabled services.
- For other services under sub-paragraph (ii) of clause (2), the rate is now a flat 15% of the gross amount payable, replacing previous company-specific (9%) and other cases (11%) rates.
- A new proviso in sub-paragraph (ii) of clause (2) sets a specific 1.5% rate for payments to electronic and print media for advertising services.
- For payments under sub-paragraph (i) of clause (3) (related to contracts with sportspersons), the rate has increased from 10% to 15%.
- New clause (3A) has been added to address tax deduction at source for payments related to digitally ordered goods or services through e-commerce platforms (Section 153(2A)):

Digital means/Banking channels (via Payment Intermediary):

- 1% for payments up to Rs. 10,000
- 2% for payments between Rs. 10,000 and Rs. 20,000
- 0.25% for payments exceeding Rs. 20,000

Cash on delivery (via Courier Service):

- 0.25% for electronic and electrical goods
- 2% for clothing, apparels, garments
- 1% for other goods

► Advance tax on sale or transfer of immovable property - Division X

The rates for advance tax on the sale or transfer of immovable property under Section 236C have been increased across all tiers. A comparison of the extant and newly proposed rates is as under:

Fair value of immovable property sold / transferred	Rate of tax for persons appearing in ATL	
	Proposed	Extant
Upto Rs. 50 million	4%	3%
Over Rs. 50 million to Rs. 100 million	4.5%	3.5%
Exceeding Rs. 100 million	5.5%	4%

► **Advance tax rates on purchase of immovable property (Section 236K) - Division XVIII**

The rates for advance tax on the purchase of immovable property under Section 236K have been significantly reduced across all tiers.

A comparison of the extant and new rates:

Fair value of immovable property purchased	Rate of tax for persons appearing in ATL	
	Proposed	Extant
Upto Rs. 50 million	1.5%	3%
Over Rs. 50 million to Rs. 100 million	2%	3.5%
Exceeding Rs. 100 million	2.5%	4%

SECOND SCHEDULE

The proposed amendments to Part I of the Second Schedule are as follows:

Clause of Part I	Proposed amendment and its impact
98AA	Tax exemption for ICC Champions Trophy 2025 Income derived by ICC Business Corporation (IBC), International Cricket Council (ICC), and related non-resident personnel from the ICC Champions Trophy 2025 hosted in Pakistan is exempt from tax.
126E	Time limit imposed on Special Economic Zone (SEZ) Income exemption The amendment to Clause 126E introduces an upper time limit to the tax exemption previously available to Special Economic Zone (SEZ) enterprises. While the exemption was initially for a period of ten years starting from the commencement of commercial operation, it will now apply for ten years or up to June 30, 2035, whichever is earlier. This means the exemption cannot extend beyond June 30, 2035, regardless of when the 10-year period began.
126EA	Time limit imposed on Special Technology Zone (STZ) Enterprise exemption The tax exemption for STZ enterprises, previously a flat ten years from license issuance, is now capped at ten years or until June 30, 2035, whichever comes first.
145A	Extension of tax exemption for Tribal Areas The amendment to Section 145A extends the tax exemption for income of individuals, companies, and associations of persons domiciled or resident in specified Tribal Areas. This exemption, previously set to expire on June 30, 2025, has now been extended until June 30, 2026.
151	New end date for cinema operation tax exemption The five-year tax exemption for income from cinema operations is now capped. This exemption will be available only until June 30, 2030, or five years from the start of operations, whichever comes first.
152	Clause 152 omitted The omission of Clause 152 from Part I of the Second Schedule of the Income Tax Ordinance, 2001, signifies the end of the income tax exemption for venture capital companies and funds.

The proposed amendments to Part III of Second Schedule are as follows:

Clause of Part III	Proposed amendment and its impact
3A	<p>Tax reduction for Teachers and Researchers</p> <p>A new Clause 3A has been inserted into Part III of the Second Schedule, providing a 25% reduction in tax payable on salary income for full-time teachers and researchers. This applies if they are employed in a non-profit education or research institution recognized by the Higher Education Commission, a Board of Education, or a University, including government research institutions.</p> <p>However, this tax reduction does not apply to teachers in the medical profession who also engage in private medical practice or receive a share of consideration from patients. The provision is deemed to have been in force from July 1, 2022, and will cease to have effect after Tax Year 2025.</p>
105A	<p>Reduced audit exemption period</p> <p>The amendment to Clause 105A of the Second Schedule, Part I, reduces the period during which a person is exempt from selection for audit. Previously, a person audited in any of the preceding four tax years was exempt; this has now been shortened to three tax years.</p>
109A and 110	<p>Extension of withholding tax exemption for Tribal Areas</p> <p>The amendment to Clauses 109A and 110 of the Second Schedule, Part I, extends the exemption from withholding tax provisions for individuals, companies, and associations of persons residing in the Tribal Areas. This exemption, previously set to expire on June 30, 2025, has now been prolonged until June 30, 2026.</p>

SEVENTH SCHEDULE

The proposed amendments to Seventh Schedule are as follows:

Rule	Proposed amendment and its impact
1	Amortization of leasehold improvements Expenditure on leasehold improvements to leased/rented property to be capitalized and amortized at 10% per annum, with unamortized balance deductible upon lease termination.
1	IFRS 16 impact on banking companies Specific rules for banking companies regarding depreciation on right-of-use assets and finance costs under IFRS 16, allowing actual rent expense deduction and providing for adjustments for prior tax years.
1	Provision for Non-performing loans (NPLs) For Tax Year 2025 onwards, banking companies claiming NPL provisions must furnish a prescribed external auditor's certificate. This certificate must confirm provisions align with SBP Prudential Regulations, IFRS 9, annual accounts, and Rule 1 of the Seventh Schedule. Non-compliance will result in inadmissibility of such provisions. This reinforces tax authorities' stance against non-compliant or general provisions.
1	Adjustments under accounting standards Starting Tax Year 2025, inadmissibility of adjustments based on accounting standards will be limited to those made under IFRS 9 and other standards specifically outlined in Rule 1 of the Seventh Schedule, rather than all applicable accounting standards.
1	Auditor's certificate for banking provisions Detailed format and requirements for the external auditor's certificate regarding provisions for non-performing advances for banking companies, mandatory for deduction.

The significant proposed amendments to the Sales Tax Act, 1990 are explained below:

► **New definitions introduced**

In the Sales Tax Act, 1990, definitions of the following terms are proposed to be inserted:

- Abettor
- Cargo Tracing System
- Courier
- E-bilty
- E-commerce
- Payment intermediary

► **Restriction on price reduction for chilling charges**

It has been proposed that reduction on price for chilling charges or similar fees (for aerated water, beverages, mineral water, or fruit juices) cannot exceed 5% of the price inclusive of (sales tax + federal excise duty) at which these goods are sold to consumers.

► **Minimum retail price for imported items**

In case of imported retail items specified in Third Schedule, the minimum retail price is proposed to be set at not less than 130% of the value determined under Custom Act, 1969 inclusive of customs duties and federal excise duty.

► **Revised definition of tax fraud**

Definition of the term Tax Fraud is proposed to be revamped to further broaden its scope.

► **Sales tax collection by payment intermediaries and couriers for digital transactions**

Payment intermediaries such as banks, other financial institution, licensed exchange companies and payment gateways to be made responsible for collection and payment of sales tax in case of supply of goods ordered digitally by online market place, website, and software application from within Pakistan where payment is made digitally and courier delivering companies would be responsible where payment is made on cash on delivery basis. Such payments will be final discharge of liability to the extent of such supplies without any input adjustment.

► **FBR powers for input tax adjustment**

Section 8A is proposed to be amended to empower the FBR to use data based on automated risk management system to defer certain input tax or fix higher or lower limits of input tax adjustment. Such action will be appealable before the Commissioner concerned who shall decide on the application within 30 days.

► **Distinction in tax fraud and non-compliance proceedings**

A clear distinction is proposed to be created in the law for proceeding against the non-compliance and tax frauds by amending Section 11E and Section 37A of the Sales Tax Act, 1990. The cases involving tax frauds shall be prosecuted before the special judges based on the inquiry and investigation by the department and the final decision shall be taken by a judge instead of an officer of the department.

► **Increased time limit for show cause notice orders**

The time limit for making an order on the show cause notice issued under Section 11D, 11E and 11F is proposed to be increased from 120 days to 180 days of the issuance of show cause notice.

► **Mandatory Sales tax registration for digital sellers and platform responsibility**

Sales tax registration is proposed to be made mandatory for all persons including nonresidents selling digitally ordered goods from within Pakistan through online marketplace, website or software application. Further, online marketplaces and courier involved in e-commerce are barred from offering such services to the person not registered under Sales Tax and Income Tax.

► **Commissioner's power to bar bank accounts and property**

The Finance Bill proposes to empower the Commissioner to direct banks, other financial institutions and to property registration authority to bar operation of the bank account and transfer of immovable property respectively of any person who fails to get registered. The date for the implementation of these provisions is to be notified separately.

► **Chief Commissioner's power to seal business and seize property for non-registration**

It is proposed to empower the Chief Commissioner to seal the business, seize the movable property or appoint a receiver for the management of taxable activity of the person who fails to get registered under the Sales Tax Act.

► **Enabling provisions for electronic invoices**

Enabling provisions for the integration of electronic invoices is proposed to be inserted in Section 23.

► **Mandatory statements from online marketplaces and intermediaries**

The Bill proposes to require every online marketplace and every payment intermediary and courier to furnish along with their sales tax return a supplier wise monthly statement of amount paid and tax due and such other information of the digitally ordered goods from within Pakistan.

► **Mandatory Commissioner approval for sales tax return revisions**

The Bill proposes to made approval of the Commissioner as mandatory before revision of sales tax return irrespective of the time period within which such a revision is being made. Earlier no approval was required if revision is made within 60 days of filing of return and either tax payable is more than the amount paid or amount of refund is less than the amount claimed in original return.

► **Amendments to penalty sections**

A number of amendments are proposed to be introduced in penalty section to discourage tax fraud.

► **Appointment of experts and auditors by Board/Commissioner**

The Finance Bill proposes to empower the Board or the Commissioner to appoint experts for assistance in audit, investigation, litigation or valuation. Furthermore, Board has also been proposed to be vested with the power to appoint auditors (not more than 2000 in number) through direct engagement or through third party.

► **Commissioner's power to access subscriber information for fraud investigation**

The Finance Bill also proposes to empower the Commissioner to require any Internet Service Providers, Telecommunication Companies, and Pakistan Telecommunication Authority to furnish subscriber's information pertaining to the Internet Protocols in connection with any investigation or inquiry relating to tax fraud.

► **Omission of pecuniary jurisdiction limits in appeals**

Section 43A relating to pecuniary jurisdiction in appeals which was inserted via Tax Laws (Amendments) Act, 2024 is proposed to be omitted.

► **Direct appeal option to appellate tribunal for non-SOEs**

Subsection 1 of Section 45B is proposed to be amended whereby it has been prescribed that all persons other than State Owned Enterprises (SOE) may prefer an appeal before Commissioner Appeals. However, such a person may also prefer an appeal directly before Appellate Tribunal without availing first right of appeal.

► **Increased time limit for high court reference filings**

The time limit for filing of reference before high court is proposed to be increased from the existing 30 days to 60 days. Such a reference will only be filed on a question of law.

► **Chief Commissioner's power to refer audit firms for inspection**

It is proposed to authorize the Chief Commissioner to refer the audit firm for inspection to the Audit Oversight Board, if he has reason to believe that the audited accounts of a registered person audited by the audit firm do not reflect the true and fair view of the sales and purchases and related sales tax liability

► **Flexibility in input tax adjustment limits for unregistered supplies**

The Bill proposes to omit the limits of one hundred million in a financial year or ten million in a tax period of taxable supplies as are made to unregistered person for entitlement to deduct input tax adjustment. Now the FBR with the minister in charge is authorized to prescribe any such limit.

► **Condonation period for delays**

The Bill proposes that the condonation may be given for a period of two years. In the case of huge loss of revenue, the same can be extended for a longer period as may be appropriate by processing through a committee.

Third Schedule (Retail price items)

- ▶ Following goods inserted in the Third Schedule:
 - Imported pet food including 'dogs and cats' food in retail packing
 - Imported coffee in retail packing
 - Imported chocolates in retail packing
 - Imported cereal bars in retail packing

Amendments in Sixth Schedule (Exempt supplies)

- ▶ Sales tax exemption on supplies and imports of plant and machinery to be installed in the erstwhile FATA/PATA is proposed to be withdrawn. However, the exemption is proposed to be gradually withdrawn by charging sales tax in phased manner at the following rates:
 - **Tax period from July, 2025 to June, 2026** - Sales tax @ of **10%**
 - **Tax period from July, 2026 to June, 2027** - Sales tax @ of **12%**
 - **Tax period from July, 2027 to June, 2028** - Sales tax @ of **14%**
 - **Tax period from July, 2028 to June, 2029** - Sales tax @ of **16%**
- ▶ Supplies of electricity is proposed to continue to be exempted in erstwhile FATA/PATA for a further period of one year till June 30, 2026.
- ▶ Exemption available to solar panels/PV modules is proposed to be withdrawn.
- ▶ Import or lease of aircrafts by Pakistan International Corporation Limited is proposed to be exempt from levy of sales tax.

Amendment in Eighth Schedule (Reduced rate)

- ▶ The reduced rate of 12.5% chargeable on supply of locally manufactured or assembled motorcars upto 850cc is proposed to be withdrawn.
- ▶ A reduced 5% tax rate on cinematographic equipment was available until June 30, 2023. The said clause is proposed to be omitted.

Amendment in Eleventh Schedule (Withholding)

- ▶ Under Serial 8 of the Eleventh Schedule, payment intermediaries and couriers must now withhold 2% of the gross value from sellers supplying digitally ordered goods via online platforms.

Key proposed amendments to the Federal Excise Act, 2005 are explained hereunder:

► **Clarification of duty payment liability**

The FED Act now clarifies who is responsible for paying duty on newly scoped items. A new sub-section (5) has been added to specify the person liable for payment where the scope of duty was previously extended without a corresponding liability assignment.

► **Expanded powers for seizure and confiscations**

New powers, initially introduced through an Ordinance in 2025 are now ratified by the Finance Bill. These powers allow authorities to seize and confiscate goods sold without proper tax stamps, barcodes, or labels (as required by Section 45A). Additionally, the FED Act enables the authorization of federal or provincial government employees to act as Inland Revenue Officers for specific FED Act sections (26 and 27(1)).

► **Withdrawal of FED on immovable property allotment/transfer**

The Federal Excise Duty previously imposed on the allotment or transfer of commercial property, and the first allotment or transfer of open plots or residential property by developers or builders (introduced by the Finance Act 2024), has been removed.

► **Removal of pecuniary limits for FED appeals**

The removal of Section 33A from the Federal Excise Act eliminates the financial value-based thresholds that previously determined the appellate forum for excise duty disputes.

► **Amended appeal mechanism**

The FED Act now offers non-SOEs a direct appeal route to the Appellate Tribunal for certain orders, bypassing the Commissioner (Appeals). SOEs' appeals will follow the specific process outlined in the Income Tax Ordinance.

► **Revised high court reference procedure**

The time limit for filing a reference to the High Court from an Appellate Tribunal order has been extended from thirty to sixty days. These references are now restricted solely to questions of law, no longer including mixed questions of law and fact, and can only originate from the Appellate Tribunal.

Key proposed amendments to the Islamabad Capital Territory (Sales Tax On Services) Ordinance, 2001 are as follows:

► **Real-time service reporting mandate**

A proposed amendment requires all service providers to integrate their businesses with the Board's computerized system for real-time reporting of service provision. The specific date and method for this integration will be outlined in a general order.

► **Tax exemption for international and diplomatic services**

Services provided to the German Development Agency (GIZ), United Nations agencies, diplomats, diplomatic missions, and other privileged persons or organizations (as covered by existing agreements and regulations) will now be exempt from sales tax.

► **Board's authority to define exempt services (Negative list)**

The Board is now empowered to issue notifications in the official Gazette, specifying a "Negative list" of services that are exempt from tax under the Ordinance, subject to certain conditions and limitations.

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