



Tax Highlights of the Federal Budget 2025-2026



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Foreword

This document gives a brief overview of significant amendments proposed by the Finance Bill 2025. Amendments proposed in the Finance Bill, 2025 will take effect from July 01, 2025 unless otherwise indicated subject to the approval of the Parliament and assent of the President of Islamic Republic of Pakistan.

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1. Income Tax Ordinance, 2001

(i) **RELIEF MEASURES:**

- Super tax rates under section 4C proposed to be reduced by 0.5% for income slabs between Rs. 200 million to Rs. 500 million against each slab respectively.
- Tax rates for salaried individuals for income slab upto Rs.3,200,000/- has been reduced to provide relief to lower and middle tiers income bracket. Similarly, surcharge rate proposed to be reduced from 10% to 9% for salaried individuals only. Comparative chart of existing and proposed rates is as under:

Taxable Income	Existing Rate of Tax	Proposed Rate of Tax	Relief %	Net Benefit
Where taxable income does not exceed Rs. 600,000/-	0%	0%	N/A	N/A
Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000/-	5% of the amount exceeding Rs. 600,000	1% of the amount exceeding Rs. 600,000/-	4% reduction	24,000 (2.0%)
Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000	Rs. 6,000/- + 11% of the amount exceeding Rs. 1,200,000/-	4% reduction	64,000 (2.91%)
Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000	Rs. 116,000/- + 23% of the amount exceeding Rs. 2,200,000/-	2% reduction	84,000 (2.625%)
Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000	Rs. 346,000/- + 30% of the amount exceeding Rs. 3,200,000/-	No Change	No Relief

Where taxable income exceeds Rs. 4,100,000/-	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000	Rs. 616,000/- + 35% of the amount exceeding Rs. 4,100,000/-	No Change	No Relief
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- Income tax exemption along with withholding tax exemption for erstwhile FATA/PATA areas has been proposed to be extended for one year i.e. upto tax year 2026.
- 25% rebate against tax payable by full time teachers and researchers has been proposed to be restored retrospectively i.e. from TY 2023 to TY 2025.
- Proportionate tax credit has been proposed for individuals in respect of interest on loan obtained for construction of a house upto 250 sq. yd. and acquisition of a flat having areas upto 2000 sq ft.
- The rate of advance tax on the purchase of immovable property has been proposed to be reduced as under:

S. No.	Amount	Existing Rate	Proposed Rate
1.	Where the fair market value does not exceed Rs. 50 million	3%	1.5%
2.	Where the fair market value exceeds Rs.50 million but does not exceed Rs.100 million	3.5%	2%
3.	Where the fair market value exceeds Rs.100 million	4%	2.5%

- The rates of advance tax on the purchase of immovable property for the persons not appearing on the Active taxpayers' list have been proposed to be reduced as under:

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

- For late filers, the rate of advance tax on the purchase of immovable property has been proposed to be reduced as under:

S. No.	Amount	Existing Rate	Proposed Rate
1.	Where the gross amount of the consideration received does not exceed Rs. 50 million	6%	4.5%
2.	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	5.5%
3.	Where the gross amount of the consideration received exceeds Rs. 100 million	8%	6.5%

(ii) **REVENUE MEASURES:**

- 'Digital Transactions Proceeds Levy' has been proposed to be introduced along with necessary changes in Income Tax Ordinance, 2001 to cover domestic vendors supplying digitally ordered goods and digitally delivered services. Banks and courier services designated as withholding agents to capture entire payment chain.
- The rate of withholding tax has been proposed to be increased from 4% to 6% in the case of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering

services including architectural services, warehousing services, services rendered by asset management companies, data services provided under license issued by the Pakistan Telecommunication Authority, telecommunication infrastructure (tower) services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited, inspection, certification, testing and training services, oilfield services, telecommunication services, collateral management services, travel and tour services, REIT management services, services rendered by National Clearing Company of Pakistan Limited.

- The rate of withholding tax has been proposed to be increased to 15% on the other non-specified services including sportspersons.
- Tax rate of tax on profit on debt has been proposed to be increased from 15% to 20% where profit is paid by a banking company or financial institution.
- Pension income received by an individual above Rs.10,000,000/- has been proposed to be charged to tax at the flat rate of 5%.
- Adjustable withholding tax rate on cash withdrawal on non-filers proposed to be increased from 0.6% to 0.8%.
- The rate of advance tax on the disposal of immovable property has been proposed to be increased as under:

S. No.	Amount	Existing Rate	Proposed Rate
1.	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	4.5%
2.	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5%

3.	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	5.5%
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- The rate of advance tax on the disposal of immovable property by the persons not appearing on the Active taxpayers' list have been proposed to be increased from 10% to 11.5%.
- For late filers, the rate of advance tax on the disposal of immovable property has been proposed to be increased as under:

S. No.	Amount	Existing Rate	Proposed Rate
1.	Where the gross amount of the consideration received does not exceed Rs. 50 million	6%	7.5%
2.	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7%	8.5%
3.	Where the gross amount of the consideration received exceeds Rs. 100 million	8%	9.5%

(iii) **STREAMLINING MEASURES:**

- 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.
- It has been proposed that 10% of the purchases will be disallowed if the purchases made from unregistered person.

- It has been proposed that 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.
- It has been proposed that the proportionate depreciation deduction will be disallowed for a particular tax year if withholding tax not deducted by the withholding agent in respect of payment made for the purchase of depreciable asset. Disallowed amount will not become part of written down value of such depreciable asset.
- Period of amortization of an intangible asset having undeterminable useful life has been proposed to be reduced from 25 years to 15 years.
- Period of three years carry forward for adjustment of minimum tax on turnover has been proposed to be reduced to two years.
- Limitation period of 180 days provided for completing proceedings for amendment of assessment under Section 122 of the Income Tax Ordinance, 2001 has been proposed to be withdrawn.
- Appeal procedure before appellate fora has been majorly reverted back to the period which was in vogue prior to Tax Laws (Amendment) Act, 2024.
- 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.
- All the entities in a group structure has been made mandatory to derive income chargeable under Normal Tax Regime for availing group relief.
- Table (I) and Table (II) of clause (66) 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.

- 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.

(iv) **PROCEDURAL MEASURES:**

- 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.
- Online marketplace made responsible to get registered all sellers using their platform in e-commerce.
- Sharing of taxpayer data with Tax Policy Office (TPO) and anonymized data with international donor and recognized universities have been allowed.

2. Sales Tax Act, 1990

(i) PROPOSED DEFINITIONS

- The definition of Cargo Tracking System and e-Bilty has been proposed to be inserted in the Sales tax Act, 1990 as under:
 - (a) Cargo Tracking System is an electronic tool to monitor goods moving within or across Pakistan; and
 - (b) e-Bilty is a digital transport document created by this system to ensure tax compliance and prevent evasion.
- Definition of e-commerce has been proposed to be introduced in the Sales Tax Act, 1990 to better incorporate digitally ordered taxable goods into the e-commerce sales tax framework.

(ii) DETERENCE AGAINST TAX FRAUD WITH STRICT ENFORCEMENT

- The government is tightening tax fraud laws with stricter penalties, defining abettors, expanding fraud definitions, and ensuring court trials for serious cases.

(iii) VALUE OF IMPORTED GOODS

A proviso is added in the definition of the retail price in section 2 for enhancing its scope to cover the imported goods falling within the ambit of Third Schedule.

(iv) LIMIT OF INPUT TAX ADJUSTMENT

The bill has proposed to empower the FBR to restrict input tax adjustments (tax credits claimed on purchases) if they suspect fraudulent or illegal transactions. This means if a registered person claims fake or exaggerated tax credits, the FBR can block or limit those claims.

(v) RESTRICTIONS ON BANK ACCOUNT TRANSCATIONS

The bill has proposed new enforcement measures (Sections 14AC, 14AD, and 14AE) to encourage businesses to register for sales tax and maintain proper financial records. Under these rules:

- a) Bank accounts of non-compliant businesses may be frozen or restricted.

- b) They will be barred from buying/selling property.
- c) Their business premises can be sealed.
- d) Their assets can be seized, and a receiver may be appointed to take control.

(vi) **ENGAGEMENT OF SPECIALISTS AND AUDITORS**

The bill has proposed to authorize the Board/Commissioner to engage qualified experts to provide specialized support in areas such as audit, investigation, litigation, and valuation matters.

Additionally, the Board has been proposed to be granted the authority to appoint up to 2,000 auditors, either through direct selection or via third-party arrangements, to enhance compliance and oversight capabilities.

(vii) **ADDITION IN THIRD SCHEDULE**

The bill has proposed to bound the importers and manufacturers to levy sales tax on goods specified in the Third Schedule, calculated on the retail price at prescribed rates, which must be clearly indicated on the product packaging.

(viii) **WITHDRAWAL OF EXEMPTION FROM SIXTH SCHEDULE**

The bill has proposed to withdraw the exemption available to ex-FATA/PATA under S. No. 151 of Table-1 of the Sixth Schedule applicable to supplies, imports, and import of plant and machinery by industrial units.

Additionally, the bill has also proposed to withdraw the existing sales tax exemption on photovoltaic cells (including modules and panels) as per S. No. 164 of Table-1 of the Sixth Schedule.

(ix) **WITHDRAWAL OF REDUCE RATE FROM EIGHTH SCHEDULE**

The bill has proposed seeks to eliminate the previously applicable 5% concessional import duty rate on cinematographic equipment under S. No. 53

of Table-1 in the Eighth Schedule, as the sunset clause for this tax incentive expired on June 30, 2023, rendering the provision no longer operative.

The bill has proposed to eliminate the 12.5% reduced sales tax rate on locally manufactured/assembled motor cars up to 850cc.

The bill has also proposed to withdraw the existing 10% reduced tax rate on domestic supplies of vermiculite and sheer mall.

(x) GRANT OF EXEMPTION ON LOCAL SUPPLY OF BUN & RUSK

The bill has proposed to exempt the domestic sale of buns and rusks from sales tax.

(xi) EXTENSION IN EXEMPTION ON SUPPLY OF ELECTRICITY TO EX-FATA/PATA

The bill has proposed to extend the exemption of electricity to residential, commercial and industrial units located in erstwhile FATA/PATA till 30.06.2026.

(xii) STREAMLINING OF EXEMPTION ON IMPORT OR CYSTAGON, CYSTA DROPS & TRIENTINE CAPSULES

The bill has proposed to omit the word 'for personal use only' from Serial No.169 of Sixth Schedule of the Sales Tax Act, 1990 to accommodate the limited number of patients who have repeatedly requested its removal.

(xiii) APPEAL TO CIR (APPEAL), ATIR & REFERENCE TO HIGH COURT

The bill has proposed to enhance the appellate jurisdiction of the Commissioner (Appeals) by removing the existing monetary limit of Rs. 10 million for appeals related to orders issued under Sections 10, 11A, 11D, 11E, 11F, 21, 33, 34, and 66 of the Act. This change will allow taxpayers to challenge such orders irrespective of the assessed tax or refund amount involved. Additionally, registered persons will retain the option to file appeals directly before the Appellate Tribunal Inland Revenue (ATIR). The amendment also streamlines procedural requirements for appeals before the ATIR and references to the High Court, ensuring greater clarity and efficiency in the dispute resolution process.

(xiv) CONDONATION OF TIME LIMIT

The bill has proposed 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.

(xv) EXEMPTION OF SALES TAX ON IMPORT OR LEASE OF AIRCRAFTS BY PAKISTAN INTERNATIONAL AIRLINES

The bill has proposed to facilitate the privatization of Pakistan International Airline by granting exemption from the payment of sales tax on the import or lease of aircrafts.

3. Federal Excise Act, 2005

(i) **POWER TO SEIZW AND CONFISCATE COUNTERFEITED CIGARETTES, BEVERAGES OR GOODS**

The bill has proposed amendment by introducing stringent measures to deter tax evasion by mandating the seizure of dutiable goods manufactured or transported without genuine tax stamps, banderols, stickers, labels, or barcodes, including counterfeit versions. Additionally, the conveyance used for transporting such goods will also be subject to seizure. To further strengthen enforcement, these seized goods will face outright confiscation, ensuring compliance with tax regulations and safeguarding revenue integrity.

(ii) **APPEALS**

The bill has proposed amendments TO streamline the appellate process by eliminating the monetary jurisdiction limit for the Commissioner (Appeals), thereby allowing appeals against orders under specified sections irrespective of the tax amount involved. Additionally, registered persons are granted the flexibility to bypass the Commissioner (Appeals) and file appeals directly with the Appellate Tribunal Inland Revenue (ATIR). These changes aim to enhance accessibility, reduce procedural delays, and provide taxpayers with more efficient dispute resolution pathways while maintaining judicial oversight.

(iii) **WITHDRAWAL OF FEDERAL EXCISE DUTY ON ALLOTMENT OR TRANSFER OF RESIDENTIAL / COMMERCIAL/INDUSTRIAL PROPERTY**

The bill has proposed to withdraw the federal excise duty on the allotment and transfer of residential, commercial and industrial immovable properties, which was earlier introduced the Finance Act, 2024. This withdrawal aims to reduce transaction costs in the real estate sector, promote market activity, and align fiscal policy with broader economic objectives.

(iv) AUTHORIZE OFFICERS OF OTHER DEPARTMENT FOR ENFORCEMENT ACTIONS UNDER THE FED ACT

The bill has proposed to empower FBR to authorize officers or employees from other departments of federal or provincial government, via official Gazette notification, to exercise authority under Section 26 (seizure of dutiable goods) and Section 27(1) (confiscation of dutiable goods) of the Sales Tax Act, 1990. This measure aims to enhance enforcement capabilities through inter-departmental collaboration while ensuring legal compliance.