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TAX MEMORANDUM 2026



TAX SYSTEM INTERFACE



TAXPAYER



ALGORITHM

- ✓ DATA MATCHING
- ✓ RISK ANALYSIS
- ✓ COMPLIANCE CHECK
- ✓ TAX CALCULATION



SECURE & PRIVATE
IDENTITY PROTECTED

PREFACE

This Tax Memorandum summarizes crucial changes in the Income Tax Ordinance 2001, Sales Tax Act 1990, & Federal Excise Act 2005 proposed through Finance Bill 2026.

The Tax Memorandum contains the comments which represent our interpretation of the legislation. We, therefore, recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statute(s).

The memorandum can also be accessed on our website www.mooreshekhamufti.com

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AMENDMENTS IN INCOME TAX ORDINANCE, 2001

A – CHANGES IN PERSONAL TAXATION

ABOLITION OF SURCHARGE ON SALARIED INDIVIDUAL

Section 4AB

The Finance Bill 2026–27 proposes a significant relief measure for salaried taxpayers by abolishing the surcharge imposed under Section 4AB. Under the proposed amendment, salaried individuals will no longer be subject to surcharge with effect from July 01, 2026, thereby reducing their overall tax burden and increasing take-home income.

As a result of the proposed change, surcharge will cease to apply to income derived from employment and employers will now only be required to deduct income tax from salaries in accordance with the salary.

The amendment, however, does not extend to business individuals and Associations of Persons (AOPs) and the surcharge shall remain unchanged at 10% on excess of Rs.10 million limit on them.

REDUCTION IN TAX RATES OF SALARY INCOME

Section 149, Clause-2, Division-I, Part-1 of 1st Schedule

The Finance Bill 2026–27 proposes to amend Clause (2) of Division I of Part I of the First Schedule to the Income Tax Ordinance 2001, read with Section 149, to reduce the tax burden on salaried individuals and are intended to benefit both lower and higher income earners.

Comparison of Existing and Proposed Salary Tax Slabs:

S. No.	Annual Salary Income	Salary Slabs	Existing Salary Slabs		Proposed Salary Slabs	
			Rate on Exceeding Amount	Fixed Tax	Rate on Exceeding Amount	Fixed Tax
1	600,000	Up to 600,000	Nil	Nil	Nil	Nil
2	1,200,000	600,001 to 1,200,000	1%	Nil	1%	Nil
3	2,200,000	1,200,001 to 2,200,000	11%	6,000	11%	6,000
4	3,200,000	2,200,001 to 3,200,000	23%	116,000	20%	116,000
5	4,100,000	3,200,001 to 4,100,000	30%	346,000	25%	316,000
6	5,600,000	4,100,000 to 5,600,000	35%	616,000	29%	541,000
7	7,000,000	5,600,000 to 7,000,000	35%	616,000	32%	976,000
8		7,000,001 and above	35%	616,000	35%	1,424,000

A Comparison of Salary tax between the existing and the proposed Slab is being tabulated as under for ease of understanding.

COMPARISON BETWEEN EXISTING & PROPOSED SALARY SLABS				
S. No	Annual Salary Income	Tax Year 2026	Tax Year 2027	Annual Increased / (Decreased)
1	600,000	-	-	-
2	1,200,000	6,000	6,000	-
3	2,200,000	116,000	116,000	-
4	3,200,000	346,000	316,000	(30,000)
5	4,100,000	616,000	541,000	(75,000)
6	5,600,000	1,141,000	976,000	(165,000)
7	7,000,000	1,631,000	1,424,000	(207,000)
8	7,500,000	1,806,000	1,599,000	(207,000)

OMITTED DEEMED INCOME ON IMMOVEABLE PROPERTY

Section 7E

The Finance Bill 2026 proposes to omit Section 7E of the Income Tax Ordinance, 2001, which provided for taxation of deemed income arising from immovable property. The provision deemed resident person to have driven income irrespective of whether any actual income was earned therefrom. The proposed deletion is in light of judicial suspension of the provision by the Federal Constitutional Court (FCC).

TAX ON PAYMENT BY LIFE INSURANCE COMPANIES

Section 7G and Section 151B

The Finance Bill 2026 proposes the insertion of a new Section 7G to bring within the tax net certain gains arising from life insurance policies, family takaful certificates and similar arrangements, with effect from Tax Year 2026 and onwards.

The tax shall be imposed on individuals receiving payouts, benefits, surrender values, maturity proceeds, or similar payments as follows: -

S. No.	Description	Rate of Tax	
		Filer	Non-Filer
1.	Payouts/Benefits within 1 year of Policy Issuance	15%	30%
2.	Payouts/ Benefits after 1 year but not exceed 7 years	10%	20%

The Insurance companies shall withhold at the above rates on the taxable amount computed as the excess of the gross payout over the total premiums paid by the policyholder, which shall constitute the Final Tax.

The proposed section, however, shall not apply in the following specified circumstances.

- i. Payout is made on account of the death OR disability of the insured person or participant.
- ii. Payouts from seven (07) years or older policies.

DETERMINATION OF COST OF INHERITED IMMOVABLE PROPERTY AND FAMILY SETTLEMENTS

Section 76 – Non-Recognition Rules

The Finance Bill 2026-27 proposes the insertion of a new sub-section (8A) in Section 76 of the Income Tax Ordinance, 2001, to prescribe a clear mechanism for determining the cost of immovable property acquired through inheritance. Under the proposed provision, the cost of such property in the hands of the legal heir shall be deemed to be the Fair Market Value (FMV) of the property, as determined under Section 68(5), on the date of death of the original owner.

This amendment removes the uncertainty that previously existed regarding the acquisition cost of inherited immovable property. Rather than adopting the historical cost incurred by the deceased, the inheriting individual will be entitled to use the FMV as of the date of inheritance as the cost-base for tax purposes. Consequently, any appreciation in the value of the property during the lifetime of the deceased owner will not be subject to taxation upon its subsequent disposal by the heir.

TRANSMISSION OF IMMOVABLE PROPERTY THROUGH FAMILY SETTLEMENT UPON DEATH OF A PERSON

Section 79(1)(b) – Explanation

The Finance Bill 2026-27 proposes the insertion of an explanation to Section 79(1)(b) of the Income Tax Ordinance, 2001 to clarify the scope of asset transmission upon the death of a person. The proposed explanation provides that the transmission of immovable property to a beneficiary on account of death shall also include the transfer of such property through a family settlement arrangement among legal heirs or family members consequent upon the death of the deceased.

The amendment seeks to remove ambiguity regarding the tax treatment of properties distributed through family settlements instead of formal succession proceedings. It recognizes the longstanding and widely accepted practice of family settlements in Pakistan and ensures that such transfers are treated as transmissions arising by reason of death rather than taxable transfers.

By expressly extending the benefit available to inherited property to family settlement arrangements, the amendment is expected to reduce litigation, provide certainty to taxpayers, and facilitate the orderly distribution of inherited assets among family members.

LIMITED LIABILITY PARTNERSHIPS (LLP) IS AN AOP

Section 80 – Person

The Finance Bill 2026-27 proposes an amendment to Section 80(2)(a) whereby the expression “limited liability partnership” (LLP) is proposed to be inserted within the definition of a “Association of Person” for the purposes of the Income Tax Ordinance, 2001.

PARTNERS OF EXEMPTED LLP ARE NOT EXEMPT FROM TAX

Section 92 – New Sub-Section (4A)

The Finance Bill 2026-27 proposes the insertion of a new sub-section (4A) in Section 92 of the Income Tax Ordinance, 2001. Under the proposed provision, where the income of a Limited Liability Partnership (LLP) is exempt from tax, any amount received by a partner of such LLP shall nevertheless be taxable in his hands

B - CHANGES IN TAXATION OF CAPITAL GAIN / MUTUAL FUNDS / CAPITAL MARKET

ENHANCEMENT OF TAX RATE

Section 151A

Capital Gain arising on Disposal of Debt Securities was introduced by the FBR through the Finance Act 2025, whereby every custodian of debt securities including banking company maintaining Investor Portfolio Securities (IPS) was made responsible to deduct withholding tax @ 15% on the gross amount of capital gain arising from disposal of debt securities.

Through the Finance Bill 2026-27, the rate of withholding of Income has been proposed to enhance from 15% to 20%.

ENHANCEMENT OF SCOPE OF NCCPL

Section 100B

After the insertion of Section 100B of the Ordinance, it was clarified that the tax liability in respect of Capital Gains Tax (CGT) shall be computed in accordance with the provisions of the Eighth (8th) Schedule to the Ordinance. However, certain categories of taxpayers were excluded from the applicability of Section 100B read with the Eighth Schedule.

Through the Finance Bill 2026-27, the Federal Board of Revenue (FBR) has proposed to withdraw the exception available to the following categories of taxpayers;

- Non-Banking Finance Company (NBFC)
- Modaraba
- Company having income in respect of debt securities only

Meaning thereby, the NCCPL will now be responsible for the computation and collection of CGT in respect of the above categories of taxpayers in accordance with the provisions of the Eighth Schedule to the Ordinance.

OPTION TO OPT OUT FROM THE NCCPL IS NO MORE

Eight Schedule

Before the Finance Bill 2026-27, a person may compute his tax liability himself in respect of Capital Gains Tax under Section 37(1A) of the Ordinance on the disposal of listed securities. For the

purpose, he was required to file an irrevocable option to NCCPL after obtaining the prior approval from the concerned Tax Commissioner.

Through the Finance Bill 2026-27, the FBR proposes to withdraw the above option from Tax Year 2027 and onwards.

TAX COMMISSIONER IS BOUND TO ISSUE TAX CERTIFICATE FOR THE WHOLE TAX YEAR

Section 159

Through the Finance Bill 2026-27, the FBR has proposed a major relief to the entire Mutual Fund Industry and has bound the Tax Commissioner to issue the exemption certificate for the entire subsequent Tax Year, if the Collective Investment Scheme (CIS) has distributed 90% of its accounting income among its unit holders in accordance with clause (99) of Part I of the Second Schedule of the Ordinance for the preceding three (03) Tax Years.

Before the above proposed amendment, the exemption certificate was generally issued for a period of six months, which not only increased compliance burden for taxpayers but also created additional administrative workload for the tax machinery as well.

The proposed amendment will not only provide greater relief to the taxpayer but also reduce compliance burden for eligible entities.

VOLUNTARY PENSION SCHEME (VPS)

Section 159

Through the Finance Bill 2026-27, the FBR has provided a significant relief to Collective Investment Schemes (CIS) by giving direction for issuance of exemption certificates for the entire Tax Year, subject to fulfilment of the prescribed conditions.

However, at the same time, no corresponding clarification or enabling provision has been introduced in respect of Voluntary Pension Schemes (VPS) and Retirement Funds, which continue to remain outside the scope of similar facilitation.

The above anomaly may create disparity in treatment between CIS vis-à-vis VPS and Retirement Funds. In the absence of a uniform approach, these entities may continue to be subjected to shorter validity periods for exemption certificates, which would eventually result in repeated compliance requirements, increased administrative interaction with tax authorities, and avoidable procedural delays.

ENHANCEMENT OF SCOPE OF 47B

Clause 47B, Part-IV of 2nd Schedule

The FBR has finally enhanced the scope of clause 47B of Part-IV of the 2nd Schedule to the Ordinance by proposing to include the Section "151A" related to Gain arising on disposal of debt securities therein.

Clause 47B was originally introduced through the Finance Act, 2008, whereby it was provided that the provisions of Sections 150, 151 and 233 shall not apply to any person making payments to specified categories of taxpayers;

- National Investment Unit Trust
- collective investment scheme
- Approved Pension Fund
- Approved Income Payment Plan
- REIT Scheme
- Recognized Provident Fund
- Approved Superannuation Fund
- Approved Gratuity Fund

The above proposed amendment is, therefore, a corrective measure which will not only provide greater relief to the taxpayer but also reduce future litigation as well.

BONUS SHARES U/S 236Z WILL REMAIN OUTSIDE FROM THE AMBIT OF 47B

Section 236Z read with Clause 47B

Through the Finance Bill 2026-27, the scope of clause 47B has been proposed to include Section “151A” of the Ordinance, however, at the same time, no enabling provision has been introduced in respect of Exemption from withholding of tax on Bonus Shares under Section 236Z of the Ordinance, which continues to remain outside the scope of similar facilitation under Clause 47B.

ADVANCE TAX ON PURCHASE OF PROPERTY

Section 236K

Since its introduction through the Finance Act 2014, the collection of Advance Tax on purchase of property has always remained a controversial subject and has been subjected to frequent changes and amendments over the period of time.

Once again, through the Finance Bill 2026-27, the rate of Advance Tax has been proposed to be reduced from 3% to 1.25%.

The proposed reduction is aimed not only to provide relief to purchasers of immovable property but also boost the Real Estate Sector.

ADVANCE TAX ON SALE OF PROPERTY

Section 236C

Through the Finance Bill 2026-27, the FBR has also proposed to reduce the rate of collection of Advance Tax on sale of property and has introduced a unified rate of 2.75% irrespective of any threshold of amount as given earlier.

The Advance Tax paid on sale of immovable property will remain continue as minimum tax, if the property is acquired and disposed off within the same Tax Year.

C - CHANGES IN TAXATION OF TRADING BUSINESS

LARGE TRADING HOUSE

Clause 57 Part IV of Second Schedule

Large operating trading house companies fulfilling the following conditions were exempt from the application of income tax withholding under section 153 of the Ordinance being a recipient

- Paid up capital in excess of Rs.250 million;
- Fixed assets in excess of Rs.300 million;
- Computerized records of imports and sales of goods;
- System for issuance of 100% cash receipts on sales;
- Present accounts for tax audit every year; and
- Registered under the Sales Tax Act, 1990

Furthermore, such companies were subject to turnover tax under section 113 of the Ordinance at a reduced rate of 1%.

Through the Finance Act, 2026, it is proposed to withdraw the above concession by deleting Clause 57 of Part IV of the Second Schedule to the Ordinance altogether. Consequently, the exemption from withholding tax under section 153 would cease to be available to large operating trading house companies, making them subject to deduction of tax under the said section in the same manner as other taxpayers. In addition, the reduced turnover tax rate of 1% available to such entities under section 113 would also no longer apply, and the standard minimum tax rate of 1.25% applicable to general taxpayers would become operative.

Further, the exemption was also available for inhouse food preparation within a limit of 2% of total sales by large trading house. Since such clause has been omitted entirely, for example such sales of bakery items would now fall under the category of manufacturer and the reduced minimum tax rate of 0.25% on turnover would not be applicable on such sales being outside the ambit of Tier 1 retailer.

TRADERS

Clause 115 Part IV of Second Schedule

Individual traders having annual turnover not exceeding Rs.100 million are not required to act as withholding agents under section 153 of the Ordinance.

Through the Finance Act, 2026, it is proposed to enhance this threshold from Rs.100 million to Rs.200 million. Consequently, individual traders whose annual turnover does not exceed Rs.200 million would continue to remain outside the ambit of withholding obligations prescribed under section 153.

We understand that the proposed increase in the threshold is aligned with the government's proposed scheme for retailers, which is expected to be introduced with the objective of facilitating compliance and broadening documentation within the retail sector.

POWER OF FBR

Section 99B

Through Finance Act 2026 it is proposed to increase the power of the Board to not only prescribe the scope and payment of tax and assessment but to prescribe the rate and payment of tax including fixed tax and audit.

CHANGES IN TAXATION OF DISTRIBUTOR/DEALERS/WHOLESALE

Section 2(22A), Division IX of Part I of the First Schedule, Clause 24D of Part II of Second Schedule

The bill has proposed to omit clause (22A) of Section 2 of the Ordinance thereby deleting the definition of Fast Moving Consumer Goods (FMCG).

Further, in a significant policy shift, the Bill proposes to substantially curtail the scope of clause (24D) of Part II of the Second Schedule. Under the existing provisions, dealers, distributors, wholesalers and Tier-1 retailers operating in specified sectors were entitled to a reduced minimum tax rate of 0.25% of turnover. However, the proposed amendments seek to exclude the FMCG, cement, steel and edible oil sectors from the ambit of the concession. Consequently, dealers, distributors, wholesalers and Tier-1 retailers operating in these sectors would become subject to minimum tax under section 113 at the standard rate of 1.25% of turnover. Further, Tier 1 Retailer of remaining specified category would also become subject to minimum tax under section 113 at the standard rate of 1.25% of turnover since Tier 1 retailer has been completely deleted from the ambit of clause 24D. At the same time, packaged foods have been proposed to be included amongst the specified sectors eligible for the concessional rate. The concessional rate has been increased from 0.25% to 0.5%.

The Finance Bill, 2026 has also proposed to withdraw the concessional minimum tax rate available to distributors of cigarettes and pharmaceutical products by deleting clause (a) of Serial No. 3 of Division IX of Part I of the First Schedule to the Ordinance. As a result, such distributors would likewise become subject to minimum tax at the standard rate of 1.25% instead of the existing rate of 0.25%.

The proposed amendments are expected to have a significant financial impact on distribution and dealership businesses operating in the affected sectors, as their minimum tax burden would increase fivefold from 0.25% to 1.25% of turnover.

It is pertinent to note that Tier-1 retailers dealing in FMCG and integrated with the Board would continue to enjoy the concessional tax rate of 0.25% under clause (d) of Serial No. 3 of Division IX of Part I of the First Schedule. Accordingly, while the concession is proposed to be withdrawn for distributors and wholesalers of FMCG products, the same would remain available to integrated retailers. This differential treatment appears to be inadvertent and may represent a legislative omission, which could be expected to be addressed during the parliamentary deliberations on the Finance Bill, 2026.

D - TECH ENABLED AUDIT AND ASSESSMENTS

One of the transformative features of the Finance Bill 2026 is the shift towards a technology-driven tax administration framework. The proposed amendments collectively seek to replace physical interaction between taxpayers and tax authorities with a centralized, algorithm-based system,

spanning integration of business systems with FBR, digital filing requirements, faceless audit and assessment, algorithmic dispute settlement, and real-time transactional monitoring.

While this framework is designed to curb revenue leakage, reduce human discretion and minimize concerns for corruption, its effectiveness will ultimately depend upon the transparency of underlying algorithms and equitable access for taxpayers with limited digital infrastructure, potentially impacting their ability to participate in tax proceedings and exercise their legal rights.

More specifically, the Finance Bill proposes the establishment of a National Faceless Centre, which shall function as a centralized platform for conducting tax proceedings through electronic means. The Board has been empowered to assign jurisdiction, functions and powers to officers through algorithm-based systems, while the identity of officers conducting such proceedings shall remain confidential to taxpayers and their authorized representatives.

FACELESS AUDIT AND ASSESSMENT

Section 122E

In the era of emerging influence of Artificial Intelligence and use of information technology, audits conducted under Sections 177 and 214C, proceedings under Section 111, assessments under Part V of the Ordinance and rectification proceedings under Section 221 may be conducted in a faceless manner.

The Board has been authorized to specify the categories of taxpayers, classes of income and cases that shall fall within the ambit of faceless proceedings. Although the substantive provisions governing audit and assessment shall continue to apply, all communications and hearings may be conducted electronically.

Moreover, where an opportunity of being heard is required or a statement under oath is to be recorded under Section 176, such proceedings shall be conducted through electronic hearings and even during such hearings, the identity, voice and facial details of the concerned tax officer shall remain undisclosed.

While the proposal is aimed at digitizing the proceedings, the proposed system heavily relies upon algorithms for allocation of jurisdiction, case selection and risk assessment. Since the criteria and methodology of such algorithms are not publicly known, taxpayers may have limited ability to challenge erroneous selections or risk profiling.

FACELESS APPEALS

Section 129A

Finance Bill seeks to extend the faceless regime to appellate proceedings before the Commissioner Inland Revenue (Appeals).

Under the proposed framework, appeals filed under Section 127 of the Ordinance may be processed through the National Faceless Centre in accordance with the procedure to be prescribed by the Board. The existing provisions relating to filing, hearing and disposal of appeals shall continue to apply; however, the entire process may be conducted electronically.

The effectiveness of faceless appeals, we understand, will largely depend upon the procedural safeguards introduced through subordinate legislation and clarity on the issue whether it will be optional or mandatory.

ALGORITHMIC SETTLEMENT MECHANISM

Section 2(1AA) & 134B

A new clause (1AA) is inserted under Section 2 of the Ordinance to define "algorithmic settlement mechanism" by cross-reference to Section 134B of the Ordinance. The Board is empowered to establish a standalone, digitally operated system embedded within the statutory framework for settlement of tax proceedings at any stage before any assessment or amendment of assessment order under Sections 121 (Best Judgement Assessment), 122 (Amendment of Assessment), or 122E (Faceless Audit and Assessment) of the Ordinance. Settlement is effected through revision of return under Section 114(6). It replaces officer-driven negotiation with a system-generated, algorithm-based settlement offer, aimed at reducing discretion, human interface, and corruption risks. It offers clean closure on pending notices without formal adjudication.

The settlement offer is computed on the basis of

- The stage of proceedings at which settlement is offered
- The taxpayer's compliance history as maintained in FBR's data
- The nature and character of the discrepancy
- Any other basis the Board may consider relevant to ensure revenue adequacy and equitable treatment of taxpayers.

A taxpayer opting to avail the mechanism must, within ten days of the settlement offer:

- Accept the offer on IRIS;
- Deposit the settlement amount along with the revised return; and
- Revise the relevant return of income to incorporate the settled amount.

Upon revision of return by acceptance of the offer, the following proceedings stand abated:

- Notice of selection for audit under Section 214C;
- A notice under Section 111 (unexplained income/assets);
- An audit report under Section 177(6); and
- A notice under Section 122(9).

Acceptance of the settlement does not preclude proceedings in respect of:

- Any other issue or discrepancy not covered by the offer; and
- Any other tax year.

However, the Bill prescribes no appeal or review mechanism against the settlement offer, leaving a taxpayer with no remedy against an unreasonable or erroneous offer. Further, the ten-day acceptance window, with no provision for extension, risks converting an intended compliance incentive into a pressure mechanism.

FACELESS JURISDICTION OF TAX AUTHORITIES

Section 209

The proposed provision empowers Inland Revenue authorities appointed in the Centre to exercise powers and perform functions in respect of taxpayers assigned to them through algorithms

developed by the Board. Such jurisdiction may be either exclusive or concurrent with the jurisdiction of field formations.

Furthermore, the Board has been empowered to transfer cases between the National Faceless Centre and jurisdictional Commissioners. The Chief Commissioner of the Centre may also seek physical verification through field formations whenever required.

Most importantly, the proposed law expressly provides that the identity of officers exercising jurisdiction in the National Faceless Centre shall remain confidential from taxpayers and their representatives. It is further proposed that proceedings shall not be rendered invalid merely because the authority exercising jurisdiction was not otherwise assigned jurisdiction under Section 209 or because his identity remained undisclosed.

ESTABLISHMENT OF NATIONAL FACELESS CENTRE

Section 227D

To manage the electronic proceedings, it has been proposed to establish a National Faceless Centre. The proposed Centre shall comprise a Director General, Chief Commissioners, Commissioners and other Inland Revenue authorities as may be appointed by the Board. The Board shall be empowered to design algorithms for allocation of functions and jurisdiction among officers.

An important safeguard introduced through the proposed provision is that the functions of audit, assessment and quality control in a particular case and tax year shall be performed by separate officers, thereby seeking to introduce an internal system of checks and balances.

It further proposes that all communication between different units, taxpayers, representatives and other persons shall be conducted exclusively through electronic means.

REVISED RETURN FOLLOWING ALGORITHMIC SETTLEMENT

Section 114(6) & (6B)

Section 114(6) is amended to accommodate revision of return as a result of algorithmic settlement mechanism. Further, a sub-section (6B), overriding sub-sections (6) and (6A) is introduced which provides a special regime for revised return filed under the mechanism, whereby:

- Commissioner's approval will not be required;
- The taxpayer shall pay the settlement amount only and no separate penalty or default surcharge shall be payable; and
- The revised return shall be accompanied by documents required under Section 114(6) and shall be treated as a revised return for all purposes.

E - INVOICING/ INTEGRATION

TAX CREDIT FOR INTEGRATION

Section 64D

Real-time data transmission enables tax authorities to digitally monitor production, sales, and receipts as they occur. The primary objective of this live oversight is to mitigate revenue leakage and eliminate underreporting of sales.

To encourage compliance and bring more transactions into the formal digital tax net, a 10% tax credit against normal tax payable is proposed. This credit applies directly to the capital expenditures incurred for purchasing, installing and implementing the hardware, software or electronic components required for system integration. However, this tax credit does not extend to ongoing operational and maintenance expenses.

It appears that ongoing operational and maintenance expenses, e.g., monthly subscriptions of Licensed Integrators are excluded from the amount actually invested, despite being essential to maintain integration. Over time, these recurring costs can surpass the initial capital expenditure. There should be some cushion for these expenses in the tax credit.

Further, if capital expenditure occurs in Year 1 but FBR IRIS portal integration is completed in Year 2, tax authorities may strictly interpret the timeline and deny the credit for the initial year.

DISALLOWANCE OF EXPENDITURES ON FAILURE TO INSTALL ELECTRONIC RESOURCE OR TO ACT AS AN INTEGRATED ENTERPRISE

Section 21(r)

Pursuant to SRO 428(I)/2024 dated March 22, 2024, specified business sectors are mandated to install and integrate an approved Electronic Fiscal Device (EFD) system with the FBR via a licensed integrator.

To enforce compliance, a new amendment proposes to disallow up to 5% of total expenditures for businesses that fail to install the required electronic resource or act as an integrated enterprise. This disallowance will be applied in accordance with the method, manner, and procedures as may be prescribed by the FBR.

The point is whether it applies strictly to the administrative and selling expenses or does it encompass the entire cost of sales.

Further, 5% disallowance would inflate taxable Income, it is very harsh for businesses where profit margins are low and who are running in a sector where penal action for non-implementation are also separately prescribed in the provincial jurisdiction such as restaurants services.

ELECTRONIC RECORDS REQUIREMENT

Section 174(5)

This amendment shifted the power from commissioner to Board to mandate any person or class of person to install a prescribed electronic resource or operate as an integrated enterprise. The objective is to receive, store, and access transactional data affecting the taxpayer's tax liability. Failing to do so, harsh penalties i.e one million on the first default and two million rupees for each subsequent default has been proposed.

F - DIGITAL/E-COMMERCE

TAX ON PAYMENTS FOR DIGITAL TRANSACTIONS IN E-COMMERCE PLATFORMS

Section 6A

Under Section 6A of the Ordinance, introduced via the Finance Act, 2025 tax charged and deducted on persons receiving payments for the supply of digitally ordered goods or services delivered within Pakistan through online marketplaces or websites was classified as a final tax.

A new amendment now proposes that the tax imposed and deducted under this section shall be adjustable for any person whose turnover in a tax year exceeds Rs. 200 million. In light of this amendment final tax regime is restricted to the threshold below that limit.

ELECTRONICALLY READABLE FORMAT

Sections 2(19DA) and 114(2A)

A new definition of "electronically readable format" is inserted, drawing a clear distinction between formats automatically processable by computers such as CSV, XLSX, XML and JSON, and human-readable formats such as PDFs and scanned images, which are expressly excluded. The amended Section 114(2A) of the Ordinance, mandates that for tax year 2026 and onwards, financial statements accompanying a company's return shall only be filed in electronically readable format.

G - CHANGES IN PENALTY PROVISIONS

OFFENCES AND PENALTIES

Section 182

The proposed amendments to Sections 182 and 182A reflect a significant enhancement of the penalty regime under the Ordinance. While the objective of the proposed amendments is to enhance compliance, the magnitude of the penalties prescribed is unprecedented and gives rise to serious concerns in terms of their proportionality and reasonableness.

Amendment in definition "tax payable" for penalty computation for late return filing

S. No. 1: Where any person fails to furnish a return of income under section 114 within the due date, penalty is being calculated on the basis of tax payable. Prior to Finance Bill, the tax payable means the tax chargeable on taxable income on the basis of assessment made or treated to have been made under section 120, 121, 122 or 122D. The bill proposed that such tax payable would now be higher of assessed tax for the tax period under Section 120, 121, 122, 122D and 122E or higher payable tax of the immediate preceding three (03) tax years.

Failure to Install and operate electronic resource or temper or circumvent electronic resource

S. No. 2A: If an integrated enterprise or a person required to install an electronic resource for the purpose of storing and accessing information or fails to use in terms of newly inserted Section (5) of Section 174 or to operate such resource in prescribed manners or temper or circumvent such electronic resource, shall be liable to pay penalty of Rs.1,000,000/- for the first default and Rs.2,000,000/- for every subsequent default.

Failure to integrate data platform or share the data with FBR Systems

S. No. 2B: In case a Federal Agency and Federal, provincial or local authority, institution or organization; being an integrated organization under Section 175A of the Ordinance, failed to integrate its IT system and share the data with FBR system, or failed to provide accurate or timely information or designate the focal person for the purpose of the aforesaid Section, then principal officer of aforesaid integrated organization shall be liable to pay penalty of Rs.500,000/- for the first default and Rs.1,000,000/- for every subsequent default.

Increase in existing penal provisions

Sr.	Offenses	Penalties prior to Finance Bill	Amendment proposed by the Finance Bill	Section
8	Where any person upon non-compliance to produce the record on receipt of audit notice	First notice – Rs.25,000 Second Notice – Rs.50,000 Third Notice – Rs.100,000	First Notice – Rs.100,000 Second Notice- Rs.200,000 Third Notice – Rs.300,000	177
10	If any person make or file a false, misleading or incorrect statement, information, certificate, return other documents before Inland Revenue Authority or Officer of Inland Revenue	Rs.25,000 or 50% of the tax shortfall, whichever is higher	Rs.500,000 or 100% of tax shortfall, whichever is higher	114, 116, 174, 176, 177, 118
12	In case any person concealed income or furnished inaccurate particulars of income in the course of any proceeding under this Ordinance before any Income Tax authority or the appellate tribunal	Rs.100,000 or an amount equivalent to evaded tax, whichever is higher	Rs.1,000,000 or an amount equivalent to evaded tax, whichever is higher	20, 111 and General

Enhancement of Penalty for Failure to Withhold Tax

- **S. No. 15:** The penalty for failure to deduct or collect tax is proposed to be increased from Rs. 40,000 to Rs. 500,000. Furthermore, in the case of a company, an additional penalty of Rs. 500,000 may be imposed personally upon its Principal Officer. The proposed increase is excessively harsh and disproportionate, particularly in cases involving minor defaults and expose corporate management to unreasonable personal liability.

Enhancement of Scope and attachment of files

- **S. No. 35:** The scope of this penalty is proposed to be extended to all persons. In addition, financial statements submitted in the form of image files, scanned documents, or inaccessible password-protected files are proposed to be treated as blank or incomplete documents. The stringent consequences attached to procedural deficiencies appear excessive and may penalize taxpayers for technical non-compliance rather than substantive defaults.

Penalty for Claiming Unverified Withholding

- **New S. No. 36:** A new penalty is proposed whereby a taxpayer claiming withholding tax credit in excess of the amount actually deducted and deposited by its withholding agent shall be liable to a penalty equal to the amount of such excess credit.

RESTORATION TO ATL

Section 182A

A substantial increase has been proposed in the surcharge payable for restoration of a person to the Active Taxpayers' list as follows:

Taxpayer	Existing Surcharge	Proposed Surcharge	Increase
Company	20,000	100,000	80,000
Association of Persons	10,000	50,000	40,000
Individual	1,000	25,000	24,000

It is a known fact that taxpayers frequently encounter issues with the FBR portal and other technical glitches, which often impede timely compliance despite bonafide intention to comply. The proposed increase, therefore, is unrealistic and disproportionate.

H - INTEREST INCOME; RESIDENT / NON-RESIDENT

TAX DEDUCTION ON CAPITAL GAINS FROM DEBT INSTRUMENTS AND GOVERNMENT SECURITIES

Section 152(1DA)

The Finance Bill, 2026 proposes to amend Section 152(1DA) by expanding the scope of the withholding tax regime applicable to capital gains arising from the disposal of debt instruments, Government securities, and certificates, including their Shariah-compliant variants, held through designated foreign investment accounts, shall be required to deduct tax at the rate of 10% prescribed under Division II, Part III, First Schedule to the Ordinance.

Under the proposed amendment, the withholding obligation of banking companies has been extended to cover Foreign Currency Business Value Accounts (FCBVA) and Non-Resident Rupee Business Value Accounts (NRBVA) in addition to Foreign Currency Value Accounts (FCVA) and Non-Resident Rupee Value Accounts (NRVA). Furthermore, the amendment removes the limitation restricting the applicability of the provision to non-resident individuals holding Pakistan Origin Card (POC), National Identity Card for Overseas Pakistanis (NICOP), or Computerized National Identity Card (CNIC), thereby broadening the scope to all persons maintaining the specified investment accounts.

FOREIGN CURRENCY ACCOUNT SCHEME

Clause 78, Part I, Second Schedule

The Finance Bill, 2026 proposes to broaden the scope of exemption available in respect of profit on debt derived from foreign currency accounts and certificates of investment maintained with authorized banks and investment banks in Pakistan. Through the proposed amendment, the

existing reference to the 'Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan' has been substituted with the broader expression 'any foreign currency account scheme(s)'.

NON-RESIDENT INVESTMENT ACCOUNTS

Clause 79, Part I, Second Schedule

The Finance Bill, 2026 proposes to broaden the scope of exemption in respect of profit on debt by extending its coverage to any person whether Pakistani national or foreign national maintaining a Non-Resident Pakistani Rupee Value Account (NRVA) or Non-Resident Business Value Account (NRBVA) under the scheme introduced by the State Bank of Pakistan.

CHANGES IN ELIGIBILITY OF CRITERIA

Clause 5AA, Part II, Second Schedule

The Finance Bill, 2026 proposes to broaden the scope of the concessional tax regime applicable to profit on debt derived from debt instruments issued by the Federal Government, including both conventional and Shariah-compliant instruments.

Through the proposed amendment, the benefit of the reduced withholding tax rate shall be extended to all persons, including non-resident individuals, associations of persons, companies, and other eligible entities investing through Foreign Currency Value Accounts (FCVA), Foreign Currency Business Value Accounts (FCBVA), Non-Resident Rupee Value Accounts (NRVA), or Non-Resident Rupee Business Value Accounts (NRBVA) maintained under the foreign exchange regulations of the State Bank of Pakistan.

EXEMPTION FROM FILING OF RETURN AND OBTAINING NTN REQUIREMENT

Clause 114A, Part IV, Second Schedule

The Finance Bill, 2026 proposes to provide exemption from the applicability of clause (ae) of sub-section (1) of section 114 and section 181 of the Income Tax Ordinance, 2001 to persons maintaining Foreign Currency Value Accounts (FCVA), Foreign Currency Business Value Accounts (FCBVA), Non-Resident Rupee Value Accounts (NRVA), or Non-Resident Rupee Business Value Accounts (NRBVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan.

Under the proposed amendment, the exemption shall be available to all persons, including non-resident individuals, associations of persons, companies, and other entities maintaining the aforesaid designated accounts, provided that their Pakistan-source taxable income is restricted to specified passive investment income, namely profit on debt derived from such accounts, profit on debt from Government of Pakistan securities (whether conventional or Shariah-compliant) acquired through the proceeds of such accounts, capital gains arising from disposal of specified immovable property and securities investments, and dividend income from securities traded on the Pakistan Stock Exchange and units of mutual funds acquired through the proceeds of such accounts.

NON-RESIDENT INVESTMENT ACCOUNTS

Clause 111AB, Part IV, Second Schedule

The Finance Bill, 2026 proposes to broaden the scope of exemption available under clause 111AB of Part IV of the Second Schedule by extending its applicability to all persons maintaining Foreign Currency Value Accounts (FCVA), Foreign Currency Business Value Accounts (FCBVA), Non-Resident Rupee Value Accounts (NRVA), or Non-Resident Rupee Business Value Accounts

(NRBVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan.

The proposed amendment expands the ambit of the concession by removing the limitation of the benefit to non-resident individuals holding Pakistan Origin Card (POC), National Identity Card for Overseas Pakistanis (NICOP), or Computerized National Identity Card (CNIC). Consequently, the benefit shall now be available to a broader category of eligible persons, including non-resident individuals, associations of persons, companies, and other entities maintaining the aforesaid designated accounts.

The amendment also recognizes newly introduced foreign investment account structures, including FCBVA and NRBVA, thereby aligning the tax framework with the evolving foreign exchange regulations of the State Bank of Pakistan.

I – EXEMPTIONS

NON-EXTENSION OF TAX EXEMPTION FOR TRIBAL AREAS

Clause 145A of Part I & Clause 109A of Part IV, Second Schedule

The Finance Bill, 2026 does not propose any extension in the exemption from income tax and withholding of either collection or deduction available under Clause 145A of Part I & Clause 109A of Part IV, Second Schedule, which provides exemption to certain individuals, companies, and associations of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan up to 30 June 2026.

In the absence of any further extension, the income of such persons now subject to the normal provisions of the Ordinance, after 30th June 2026, unless any further legislative relief is introduced.

EXTENSION OF REDUCED TAX RATE ON EXPORT PROCEEDS OF IT AND SOFTWARE SERVICES

Division IVA, Part III, 1st Schedule

The Finance Bill, 2026 proposes to extend the reduced tax rate of 0.25% applicable on export proceeds of computer software, IT services, and IT-enabled services rendered by persons registered with the Pakistan Software Export Board (PSEB) up to 30 June 2029.

The proposed extension aims to continue fiscal support for the IT and software export industry, promote foreign exchange earnings, and enhance the competitiveness of Pakistan's technology sector in international markets.

J - CHANGES IN TAXATION OF NPO's

NPO WILL GET THE EXEMPTION CERTIFICATE FOR WHOLE TAX YEAR

Section 159 read with Section 2(36)(c)

Through the Finance Bill 2026-27, the FBR has proposed that where a Non-Profit Organization (NPO) obtains the approval under the provision of Section 2(36)(c) of the Ordinance from the Tax Commissioner for a Tax Year, such NPO shall be eligible for the issuance of exemption certificate under Section 159 of the Ordinance for the entire subsequent Tax Year.

The above proposed amendment will provide enhanced facilitation to the NPO sector and also reducing repetitive compliance requirements and administrative processes.

CERTAIN NPO/NGO'S DO NOT NEED TO TAKE NPO APPROVAL

Clause 57, Part-I of 2nd Schedule

Through the Finance Act 2025, the FBR introduced a specified list of NPO's/NGO's/Government Funds etc. under Clause 57 of Part-I of 2nd Schedule of the Ordinance, whereby the income of such NPO's/NGO's/Government Funds etc. was granted exemption. Consequently, these entities are not required to get NPO Approval under Section 2(36)(c) of the Ordinance from the relevant Tax Commissioner for every Tax Year.

Through the Finance Bill 2026-27, the FBR has proposed to further expand the aforesaid list by including following categories of taxpayers;

- Pakistan Red Crescent Society
- Shaheen Foundation
- Dawat-e-Hadiya
- Bahria Foundation
- Sindh Institute of Urology and Transplantation (SIUT)

K- LITIGATIONS

STRENGTHENING OF ALTERNATIVE DISPUTE RESOLUTION FRAMEWORK

Section 134A

The Finance Bill, 2026 proposes to strengthen the ADR framework by introducing a mechanism for rectification of mistakes apparent from the record and ensuring continuity of proceedings in case of non-availability of any Committee member.

Through insertion of sub-section (10A), the ADR Committee has been empowered to rectify apparent clerical, arithmetical, or factual mistakes in its decision within thirty days of receipt of the decision by the taxpayer or the Commissioner. Such power may be exercised either suo motu or on an application by either party and shall remain available even after dissolution of the Committee.

Further, the amendment provides that where any member of the Committee becomes unavailable or unable to perform his or her functions, the Chairman of the Board shall appoint a replacement within fifteen days. The reconstituted Committee shall continue the proceedings under the same terms and conditions and shall be allowed an additional period of sixty days to conclude the proceedings, provided that the total period available to the Committee shall not be less than ninety days from its original constitution.

Overall, the proposed amendments are aimed at enhancing the efficiency, continuity, and effectiveness of the ADR mechanism by reducing procedural hurdles and minimizing unnecessary litigation.

L - OTHER MAJOR CHANGES

TAXATION OF NON- RESIDENT SHIP OWNER

Section 2(6A) and Section 143

The Finance Bill 2026 has inserted the definition of Authorised shipping agent under clause (6A) of Section 2 of the Ordinance which means a person in Pakistan who is authorised, expressly or impliedly, by a non-resident ship owner, charterer or operator to act on its behalf in respect of a vessel, and who in relation to such vessel or voyage.

- (a) is responsible for the receipt, collection, control or accounting of total freight and any related amounts, and undertakes or is responsible for documentation, manifest filing, or reporting of cargo or total freight, including having, directly or indirectly, the control, custody or disposal of any freight or related receipts attributable to such vessel or voyage; and
- (b) furnishes the return under section 143 of this Ordinance, in respect of such vessel or voyage and such person shall, for the purposes of this Ordinance.
 - (i) be treated as the representative of the non-resident under section 172;
 - (ii) be jointly and severally liable for payment of tax and all obligations, proceedings, assessments and recovery in respect of such vessel or voyage; and
 - (iii) be treated as such, and the provisions of sub-section (3) of section 172 shall apply accordingly;”;

The Finance Bill proposes to streamline the tax compliance framework governing the taxation of shipping income by formally recognizing the role of the authorized shipping agent or the master of the ship for purposes of return filing, tax payment, and compliance under Section 143 of the Ordinance.

A significant amendment is the insertion of sub-sections (1A) and (1B), which mandate the filing of a single return for each vessel or voyage encompassing the total freight and all related receipts attributable to the ship. Further, the master of the ship or authorized shipping agent will be responsible for furnishing manifest for filing of return and freight handling. The amendment also expressly prohibits multiple persons from filing separate returns in respect of the same vessel or voyage.

The proposed changes further extend the legal obligations and liabilities previously imposed upon the master of the ship to authorized shipping agents. Notably, the amendment introducing joint and several liability enhances accountability by making both the master of the ship or the authorized shipping agent responsible for compliance with the relevant tax provisions.

The requirement of electronic confirmation of return filing and tax payment prior to the grant of clearance represents another important step towards digitalization and automation of tax administration.

REDUCED RATE OF WITHOLDING FOR TERMINAL & PORT SERVICES

Clause 24CC

The Finance Bill introduces a specific income tax withholding at the rate of 12% under clause (b) of sub-section (1) of section 153 of the Ordinance on payments made to person rendering terminal or

port services i.e. port handling, terminal operations, cargo management, and related logistics services.

TAXATION ON REVENUES RECEIVED FROM SOCIAL MEDIA PLATFORMS

Section 154B

In order to tap potential tax on income earned by Tik-Tokers or youtubers, the Finance Bill proposes to introduce a withholding tax regime on revenues earned by digital content creators and social media influencers through various online platforms i.e. YouTube, Facebook, Instagram, TikTok, and other similar digital channels. Under the proposed provision banking channels including through intermediaries such as online payment service providers or digital financial platforms will be required to deduct tax at the rate of 5% at the time of credit or receipt of amounts from such platforms by both resident and non-resident person. However, the rate would be 10% for resident person not on active taxpayer list. Previously, such social media influencers were shrouded under full and final rate of 1% tax under section 154A of the Ordinance.

The proposed provision further distinguishes the tax treatment between resident and non-resident recipients. In the case of resident persons, the tax deducted under Section 154B will constitute a minimum tax, whereas for non-resident persons not having a permanent establishment in Pakistan, the tax deducted will fall under final tax regime. This distinction appears to be aimed at facilitating tax collection from foreign/local digital earners. Since the tax collection from resident individual is minimum tax, we understand that such person will ultimately be exposed at higher amount of normal tax on their taxable income as such business usually does not have huge expenses to deflate their taxable income.

However, practical implementation of the provision may present certain challenges, particularly in accurately identifying receipts attributable to social media and digital platform revenues, distinguishing such receipts from other foreign remittances or business income and ensuring effective coordination among financial institutions payment service providers, digital platforms and the tax authority. The effectiveness of the regime will therefore largely depend upon the clarity of the rules and reporting mechanisms to be prescribed by the Federal Board of Revenue for its implementation.

CHANGES IN WITHHOLDING RATE OF SERVICE PROVIDERS

Section 153(1)(b), PART III, Division III of First Schedule

The Finance Bill proposes amendments by revising the withholding tax rates applicable to payments for services under Section 153(1)(b) of the Ordinance. The withholding tax rate is proposed to be increased from 6% to 7% for 29 services specified therein.

Further, the withholding tax rate for independent professional services is proposed to be 15% applicable to independent professionals, including doctors, lawyers, architects, accountants, software engineers, and software developers. The withholding tax rate for IT services remains at 4% which, however, if provided by independent software engineers and developers the rate would be 15%.

A residual category has been carved out with withholding tax rate of 14% for all other service providers.

SUPER TAX

Section 4C, First Schedule, Part – I, Division IIB to the Ordinance

Through the Finance Bill, 2026, a significant rationalization of the super tax regime has been proposed, resulting in a substantial reduction in the overall tax burden for a large segment of taxpayers.

Under the proposed framework, a sector-specific higher rate of super tax of 10% has been retained for banking companies, oil and gas exploration and production entities, and fertilizer entities, where taxable income exceeds Rs.150 million. These sectors would therefore continue to remain subject to an enhanced super tax regime.

In all other cases super tax will be payable at the rate of 8%, applicable only where taxable income exceeds Rs.500 million.

The proposed super tax structure is summarized below:

S. No.	Person	Income Threshold Exceeding	Rate of Super Tax
1	Banking companies	Rs.150 million	10%
2	O & G exploration & production entities	Rs.150 million	10%
3	Fertilizer entities	Rs.150 million	10%
4	All other persons	Rs.500 million	8%

EXPORTS

Section 154 & Section 147(6C)

Through the Finance Bill, 2026, the provisions of section 147(6C) of the Income Tax Ordinance, 2001 have been proposed to be omitted, thereby abolishing the additional advance tax of 1% on export proceeds that was previously payable in addition to the withholding tax deductible under section 154.

Consequently, the taxation of export proceeds is proposed to be consolidated back under section 154, with the rate of withholding tax being enhanced from 1% to 1.25% and the separate levy of additional advance tax under section 147(6C) would cease to apply.

Further, exporters and export houses would continue to be responsible for deduction of tax on payments made for export-related services, including stitching, dyeing, printing, embroidery, washing, sizing and weaving, to resident persons or permanent establishments of non-residents. The applicable withholding tax rate on such payments has likewise been proposed to be increased from 1% to 1.25%.

INCOME TAX AUDIT

Section 177

Through the Finance Bill, 2026, a new sub-section (6B) has been proposed to be inserted in section 177 of the Income Tax Ordinance, 2001, empowering the Commissioner, during the course of audit proceedings, to require re-audit of accounts, revaluation of inventory and actuarial valuation where considered necessary. Such powers may be exercised in cases involving complexity of accounts,

volume of transactions, doubts regarding the correctness of accounts, multiplicity of transactions or the specialised nature of the taxpayer's business. The exercise of these powers would, however, be subject to prior approval of the Chief Commissioner and after providing the taxpayer with an opportunity of being heard.

The proposed provision further envisages that the accountant, cost accountant or actuary for carrying out such assignments shall be nominated by the Commissioner from a panel approved by the Board.

The proposed amendment considerably strengthens the powers of the tax authorities by enabling independent expert verification of financial records and valuations in complex cases.

The amendment at the same time is also likely to increase the compliance burden and cost for taxpayers, as they may be required to bear the expense of re-audits, inventory valuations and actuarial assessments undertaken pursuant to the directions of the Commissioner.

DISCLOSURE OF INFORMATION BY PUBLIC SERVANT

Section 216

The amendment broadens the scope of permissible disclosure of tax information by extending access to auditors, audit mentors, and sectoral experts engaged by the Federal Board of Revenue on a contractual basis or through third-party payroll arrangements, subject to execution of a non-disclosure agreement, to assist income tax authorities under section 207(1).

Further, the definition of “research institutions” has been expanded to explicitly include international research institutions, thereby enabling broader collaboration and knowledge sharing.

AMENDMENTS IN SALES TAX ACT, 1990

DEFINITIONS

Section 2

The Finance Bill 2026 proposes to introduce following new definitions relating to digitization and automated tax administration:

- Advance Receipt Invoice
- Algorithmic Settlement Mechanism
- Electronic Invoicing System
- National Faceless Centre
- Production Monitoring System.

The Bill also revises certain existing definitions, most notably that of *Tier-1 Retailer*.

TIER-1 RETAILER

Section 2(43A)

The Bill proposes to rationalize the scope of Tier-1 retailers by excluding wholesaler-cum-retailers having annual turnover not exceeding Rs. 200 million. The existing criterion based on tax withholding under Sections 236G and 236H of the Income Tax Ordinance, 2001 is proposed to be replaced with a turnover-based threshold, whereby retailers having turnover exceeding Rs. 200 million during the preceding twelve months shall qualify as Tier-1 retailers. Retailers, classified solely due to accepting payment through debit / credit cards or digital payment service provider approved by SBP, are also proposed to be excluded from the ambit of Tier-1 retailers.

TIME OF SUPPLY

Section 2(44)

The Bill seeks to clarify that goods shall be deemed supplied when they are ready for dispatch from the supplier's premises, including factories, warehouses, godowns, or branches. This amendment aims to recover sales tax on all such inventories.

VALUE OF SUPPLY

Section 2(46)

The Board is proposed to be empowered to determine the value of goods for tax purposes using data notified by the Pakistan Bureau of Statistics and to delegate or outsource valuation functions to third-party entities.

TIME AND MANNER OF PAYMENT

Section 6

The Bill proposes collection of sales tax from steel melters, re-rollers, and composite units based on electricity consumption at prescribed rates. The tax collected shall remain adjustable, while excess payments may be refunded through the automated refund system subject to integration with prescribed digital monitoring systems.

ADJUSTABLE INPUT TAX

Section 8B

The Board is proposed to be empowered to increase or decrease the limits of existing input tax adjustments based on a taxpayer's compliance with prescribed digital integration systems, including production monitoring, e-invoicing, e-bilty, and POS integration. Non compliant taxpayers could face a higher disallowance under section 8B of the Act.

DEBIT AND CREDIT NOTES

Section 9

The Bill proposes to introduce a prescribed electronic adjustment mechanism for issuance and processing of debit and credit notes, facilitating automated reconciliation and verification.

FACELESS AUDIT AND ASSESSMENT

Section 11H

A new faceless audit and assessment regime is proposed to be introduced through electronic platforms. The framework allows audits, assessments, and rectification proceedings to be conducted digitally without physical interaction, while preserving the taxpayer's right to be heard. The initiative aims to enhance transparency, neutrality and efficiency in tax administration.

DE-REGISTRATION, BLACKLISTING AND SUSPENSION OF REGISTRATION

Section 21(2)

The Bill expands the grounds for suspension and de-registration to include non-compliance with electronic invoicing, real-time sales reporting, and production monitoring requirements prescribed under the Act.

TAX INVOICES

Section 23

The invoicing regime is proposed to be expanded to cover exempt supplies and advance receipts invoice. Further, every invoice will be required to contain a unique and verifiable invoice number generated through the FBR system to ensure authenticity and traceability.

AUDIT OF SALES TAX AFFAIRS

Section 25

The Bill introduces a re-audit mechanism whereby, with prior approval of the Chief Commissioner, the Commissioner IR may order re-audit of taxpayers financial statements or inventory valuation by approved professionals in specified circumstances.

The Bill also proposes issuance of an audit report before initiation of post-audit proceedings and reduces the mandatory requirement of pre-deposit of penalty in specified cases to a maximum of 50%.

FACELESS JURISDICTION

Section 30AA

A new jurisdictional framework is proposed for proceedings conducted through the National Faceless Centre. The provision enables centralized case allocation, transfer of cases between faceless and field formations, and physical verification through field officers where necessary, while maintaining confidentiality of officers involved in the proceedings.

DIRECTORATE GENERAL (FIELD COMPLIANCE)

Section 30DDDB

The Bill proposes establishment of the Directorate General (Field Compliance) Inland Revenue as a dedicated enforcement and compliance monitoring body, with powers and functions to be prescribed by the Board.

NATIONAL FACELESS CENTRE

Section 32C

The Bill introduces the National Faceless Centre to administer proceedings through a centralized electronic platform. The framework envisages electronic communication, digital case management, and segregation of audit, assessment, and quality control functions to strengthen transparency and procedural integrity.

PENALTIES

Section 33

The Bill has significantly enhanced penalty regime by increasing manifold penalties for non-compliance relating to filing of returns, issuance of invoices, registration, maintenance of records, payment of tax, and digital integration requirements.

A major focus of the proposed amendments is the prevention of invoice fraud and strengthening of digital compliance. In this regard, substantial penalties have been introduced for issuance of simulated or fictitious invoices, claiming unmatched input tax credits, and failure to reverse input tax attributable to suppliers placed on the simulated invoice issuers register. The amendments also empowers the FBR to publicly identify non-compliant taxpayers through a computerized register and to automatically disallow related input tax claims.

MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS

Section 40C

The Bill proposes to empower the authorities to seize and confiscate taxable goods, along with the conveyance used for their movement or transportation, where such goods are manufactured, produced, removed, transported, or supplied without affixing the prescribed tax stamps, banderoles, stickers, labels, barcodes, or without complying with the prescribed monitoring system requirements.

SALE OF CONFISCATED GOODS BY AUCTION

Section 40F

The Bill proposes to insert a new Section 40F, whereby goods liable to confiscation under the Act may be sold through public auction in accordance with the mechanism prescribed under the Public Procurement Regulatory Authority Rules, 2014. The proceeds from such sale shall first be utilized to meet the expenses incurred in conducting the auction and to discharge any

outstanding tax liabilities. Any remaining balance of the sale proceeds may be paid to the owner in such manner and subject to such conditions as may be prescribed thereunder.

DISCLOSURE OF INFORMATION BY A PUBLIC SERVANT

Section 56B

The Bill proposes to insert a new provision empowering the Board to share data contained in the sales tax returns of registered persons operating within the same sector with all registered persons of that sector, subject to the execution of strict non-disclosure agreements, with a view to promoting market equity and enhancing tax compliance.

THIRD SCHEDULE

The Bill proposes to include the following class of taxable goods (locally manufactured or imported) in Third Schedule for charging Sales Tax on Retail Price. It has been laid down that if any of the following goods are covered under SRO 297(I)/2023 dated 8 March 2023, sales tax shall be charged, levied and paid at a rate 25% at the time of import and supplies thereof:

S. No.	Description	HS Code
56	Vegetable and animal fats and oils, sold in retail packing.	Respective headings
56	Sugar Confectionary, sold in retail packing.	Respective headings
57	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing.	19.02
58	Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing.	Respective headings
59	Fermented beverages, sold in retail packing.	Respective headings
60	Petroleum jelly, paraffin wax, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not coloured, sold in retail packing.	27.12
61	Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant- growth regulators, disinfectants and similar products, put up in forms or packings for retail sale or as preparations or articles put up in forms or packings for retail sale.	38.08
62	Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing.	39.19, 39.20,39.21
63	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics, sold in retail packing.	Chapter 39



S. No.	Description	HS Code
64	Trunks, suit- cases, vanity- cases, executive- cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling- bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping- bags, wallets, purses, map- cases, cigarette-cases, tobacco- pouches, tool bags, sports bags, bottle-cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper, put up for retail sale.	42.02
65	Footwear (all types)	Respective headings
66	Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing	Respective headings
67	Crockery Items, sold in retail packing	Respective headings
68	Car and automobile accessories, sold in retail packing	Respective headings
69	Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing	Respective headings
70	Preparations for use on the hair, sold in retail packing	33.05
71	Pre- shave, shaving or after- shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties, sold in retail packing	33.07
72	Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface-coloured, surface-decorated or printed, in rolls or sheets, put up for retail sale.	4803.0000, 48.18
73	Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations, sold in retail packing	20.07, 20.08
74	Household utensils, including Stainless steel, aluminum, melamine and other utensils and tableware.	Respective headings
75	Ceramic Products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale.	69.10

SIXTH SCHEDULE
Table-1 (Imports or Supplies)
CHANGES IN SCOPE OF EXEMPTIONS

S.No	Existing		Proposed		Comments
	Description	Heading /Tariff code	Description	Heading /Tariff code	
32	Newsprint and books but excluding brochures, leaflets and directories	Respective heading	Newsprint, books, and magazines but excluding brochures, leaflets and directories	4902.1000, and 4902.9000”	The Bill proposes to exempt imports and supplies of “Magazines”
157	Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30th June, 2026: (i) Small cars/SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	Respective heading	Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30th June, 2027: (i) Small cars/SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	Respective heading	The Bill proposes to extend the exemption till 2027
181	Import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL)	8802.1200 8802.3000 8802.4000	Import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL) Provided that the custom authorities shall ensure that the quantities of things imported are limited to the requirements of materials and articles to be used in operations and maintenance of the aircrafts operated by the airline:	8802.1200 8802.3000 8802.4000 8801.0000 8802.2000 8804.0000 8805.2900 8807.3000 9104.0010 8544.2000 7007.1900 and 9931.	The Bill proposes to widen the scope of exemption.

S.No	Existing		Proposed		Comments
	Description	Heading /Tariff code	Description	Heading /Tariff code	
			Provided further that the ground handling equipment, service and operation vehicles, catering equipment and fuel trucks, not manufactured locally, and imported shall be used within airport premises as aforesaid.		

NEW EXEMPTIONS

S.No.	Description	Heading /Tariff code
182	Contraceptives	3926.9020 and 4014.1000
183	Female Sanitary Pads / Tampons	9619.003
184	Import of: <ul style="list-style-type: none"> – Tankers – Dredgers – Floating or submersible drilling, or production platforms – Others floating structures and vessels. – Other vessels for the transportation of goods Excluding Cruise ships, excursion boats and similar vessels principally designed for the transport of persons; ferry- boats of all kinds Provided that the quantity of imported goods under this entry shall be approved by Ministry of Maritime Affairs.	8901.2, 8905.1, 8905.2, 8905.9, 8901.9
185	Import of bullet proof vehicles by the: <ul style="list-style-type: none"> (i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control (ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as 	Respective heading



S.No.	Description	Heading /Tariff code
	determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government.	

Table-3

NEW EXEMPTIONS

S.No	Description	PCT heading	Condition
23	<p>Import of following machinery/ equipment for upgradation of existing refineries:</p> <ol style="list-style-type: none"> 1. Reactors 2. Shell and Tube Exchangers 3. Vessels (Strippers/ Separators/ K.O.Drums) 4. Trim Coolers 5. Air Coolers (Condensers) 6. Fired Heaters 7. Centrifugal Pumps 8. Reciprocating Pumps 9. Centrifugal Compressors 10. Reciprocating Compressors, 11. Steam Reformer Furnaces 12. Filters <p>Provided that all such imports shall be essentially made for expansion of balancing, modernization, and rehabilitation of existing refineries and the quantity imported by each refinery shall be approved by Ministry of Petroleum and Natural Resources.</p>	<p>8419.8990 8419.5000 8419.8990 8418.6990 8419.8990 8417. 8000 8413.7090 8413.5000 8414.8090 8414.8090 8417.8000 8421.3990</p>	<p>The goods shall be imported directly by the refinery after approval by the division concerned.</p>
24	<p>Import of machinery, equipment, raw materials, components and other capital goods, by Karachi Shipyard and Engineering Works Limited</p>	<p>Respective headings as approved by the concerned Division.</p>	<p>The Division dealing with the subject matter shall certify in prescribed manner / format as per Annex-B that the imported goods are bonafide requirement. The authorized officer of the Ministry shall furnish all relevant information online to Pakistan Customs Computerized System against</p>

S.No	Description	PCT heading	Condition
			a specific user ID and password obtained under Section 155D.

EIGHT SCHEDULE

S.No	Existing		Proposed		Comments
	Description	Rate	Description	Rate	
71	Following locally manufactured or assembled electric vehicles (4 wheelers) till 30th June, 2026: (i) Small cars / SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	1%	Following locally manufactured or assembled electric vehicles (4 wheelers) till 30th June, 2027: (i) Small cars / SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	1%	The Bill proposes to extend the reduced rate till Year 2027
80	EV transport buses of 25 seats or more in CBU condition	1%	EV transport buses of 25 seats or more and electric trucks in CBU condition	1%	The Bill proposes to include electric trucks

ELEVENTH SCHEDULE

The Bill proposes to amend Serial No. 4 of the Eleventh Schedule to the Sales Tax Act, 1990 by including Associations of Persons (AOPs) and Individuals within the ambit of withholding agents. Consequently, such persons shall be required to withhold sales tax at the rate of 5% of the gross value of taxable purchases made from persons other than Active Taxpayers.

The Bill further proposes to introduce a new category of withholding agents, i.e., registered persons engaged in toll manufacturing activities. Under the proposed amendment, toll manufacturers shall be required to collect sales tax at a rate equivalent to four times the tax chargeable under section 3(1) of the Sales Tax Act, 1990 from persons other than registered persons.

It is pertinent to note that the proposed obligation imposed on toll manufacturers is in the nature of collection of sales tax, rather than withholding thereof, which is inconsistent with the existing framework of the Eleventh Schedule.

TWELFTH SCHEDULE

The Bill proposes to insert the condition for importers of raw material and intermediary goods for in-house consumption. Such manufacturer-cum-importer will be liable to pay 3% value addition tax along with default surcharge in case the imported goods are supplied in the same state whether in the same packing, repacked, or in bulk. Further, manufacturer-cum-importer will also be liable to prosecution where:

- (i) benefit of waiver of 3% value addition tax is availed, declaring that the goods are imported for in-house consumption in manufacturing process
- (ii) such imported goods are not used for in-house consumption
- (iii) imported goods are supplied in the same state whether in the same packing, repacked, or in bulk
- (iv) such supply exceeds 50% of total imports in a financial year

AMENDMENTS IN FEDERAL EXCISE ACT, 2005

ALGORITHMIC SETTLEMENT MECHANISM, ELECTRONIC INVOICING SYSTEM, NATIONAL FACELESS CENTRE, PRODUCTION MONITORING SYSTEM

Sections 2(2A), 2(9b), 2(16A1), 2(19b)

Identical definitions inserted in Sections 2(1AAA), 2(9AB), 2(17A), and 2(22)(1A) of the Sales Tax Act, 1990 and Income Tax Ordinance 2001 have been replicated in the Federal Excise Act, 2005.

SPECIAL EXCISE DUTY

Section 3B

The Finance Bill has proposed to insert Section 3B which imposes special excise duty [SED] on following categories of motor vehicles by way of newly inserted Table-1A of First Schedule to FE Act. SED, being revenue measure, would be levied on such goods in addition to federal excise duty which is already levied in term of Section 3 of FE Act:

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

Through Finance Act 2007, SED was introduced on specified categories of number of goods. However, the taxpayers filed various petitions on legitimacy of SED before High Courts of Country. Vide Judgment dated 22-02-2013, the Honorable Sindh High Court had declared levy of SED ultra vires to the Constitution as being excessive and impermissible delegation of legislative power. The legislature abolished SED in the Year 2011.

It is considered opinion that re-enactment of SED through present Bill may lead to another round of litigation by filing petitions at Courts.

NATIONAL FACELESS CENTRE AND APPLICATION OF THE PROVISIONS OF THE SALES TAX ACT, 1990

Section 7A

The Bill proposes to introduce identical mechanism aligned with the Sales Tax Act, 1990 and Income Tax Ordinance, 2001 regarding National Faceless Center and Algorithmic Settlement Mechanism.

INVOICES
Section 18(1)

In line with Sales Tax Act, 1990, the Bill extends the electronic invoicing requirement including advance receipt invoice having a verifiable and unique FBR invoice number along with prescribed particulars. The application of said provision is subject to issuance of notification by FBR.

OFFENCES, PENALTIES, FINES AND ALLIED MATTERS
Section 19(4)

The Bill expands the scope of the offence to include electronic monitoring and surveillance systems deployed by the tax authorities. Such offence is liable to fine higher of Rs.75,000/- or ten times of duty involved.

POWER TO SEIZE & CONFISCATION OF GOODS
Sections 26(1) & 27(1)

The amendment broadens the scope of the seizure and confiscation provision to cover goods that are produced or manufactured which are required to be monitored through the prescribed production monitoring system. In case of non-compliance, the said offence is liable to seizure and confiscation of goods along with the conveyance.

AUDIT
Section 46

Audit proceedings under the Federal Excise regime are broadly aligned with the Sales Tax Act, 1990, with a similar legal and procedural framework. Further, a beneficial amendment has been introduced whereby a taxpayer may deposit the alleged tax amount, along with twenty-five percent of the penalty, before issuance of the Show Cause Notice. Similarly, a taxpayer may deposit the alleged tax amount, along with fifty percent of the penalty, after issuance of the Show Cause Notice

FIRST SCHEDULE
Excisable Goods – Table I
Reduction in Duty

The Bill proposes to substitute rates under Serial Nos. 7a and 8a.

Serial No.	Description	Existing Rate	Propose Rate
7a	Acetate tow	Rupees forty-four thousand per kg.	Rupees ten thousand per kg.
8a	E-liquids by whatsoever name called, for electric cigarette kits.	Rupees ten thousand per kg or sixty five percent of retail price whichever is higher	Rupees sixteen thousand five hundred per kg

Change in Applicability Date

The Bill proposes extending the date of applicability of duty for imported and locally manufactured motor cars, SUVs, and other mother vehicles as provided at Serial 55 & 55B, respectively.

New Duty

The Bill further proposes to insert new Entry No. 55A, providing a rate for electric vehicles based on the import value:

Serial No.	Description	Propose Rate
55A	Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of import value including Custom Duty:- (i) Not exceeding PKR 20 million (ii) exceeding PKR 20 million and upto PKR 30 million (iii) exceeding PKR 30 million	0% 30% 40%

The Bill proposes inserting a new serial No. 65:

Serial No.	Description	Heading/ sub-heading Number	Rate of duty
65	(a) Petroleum top Naphtha	2710.1942	Rs. 80 per liter
	(b) White Spirit/Mineral Turpentine Oil (MTT)	2710.1240	
	(c) Solvent Oil	2710.1250	

Change in Scope

Serial No.	Existing Position	Propose Position
59	Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral and aerated waters	Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment not containing sugar exceeding 5g/100 ml or artificial sweetener.

The Bill seeks to enhance the scope by including base lubricating oil for the levy of excise duty

Serial No.	Existing Position			Propose Position		
	Description of goods	Heading/sub-heading Number	Rate of duty	Description of goods	Heading/sub-heading Number	Rate of duty
63	Lubricating oil	2710.1951, 2710.1952 and 2710.1953	Five per cent ad valorem	Lubricating oil and base lubricating oils	2710.1951 2710.1952 2710.1953 2710.1993	Five per cent ad valorem

**EXCISABLE SERVICES – TABLE II
 Reduction in Duty**

The Bill seeks to reduce the duty under the facilities for travel:

Serial No.	Existing Position		Propose Position	
	Description of goods	Rate of duty	Description of goods	Rate of duty of
3(ii)	Club, business and first class air tickets issued on or after the 1st day of July, 2024:		Club, business and first class air tickets issued on or after the 1st day of July, 2026:	
	(a) IATA Traffic Conference Area 1 (North, Central, South America and Environs)	(a) Three hundred and fifty thousand rupees	(a) IATA Traffic Conference Area 1 (North, Central, South America and Environs)	(a) Fifty thousand rupees
	(b) IATA Traffic Conference Area 2		(b) IATA Traffic Conference Area	
	I. Middle East and Africa	(b)(I) One hundred and five thousand rupees	(I) Middle East and Africa	Twenty-five thousand rupees
	II. Europe	(b)(II) Two hundred and ten thousand rupees	(II) Europe	Forty thousand rupees
	(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)	(c) Two hundred and ten thousand rupees	(c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)	Forty thousand rupees

**SECOND SCHEDULE
 FED in Sales Tax Mode**

Serial No.	Description	Heading/ sub-heading Number
5	Imported and locally produced:	
	(i) Petroleum top Naphtha	2710.1942
	(ii) White Spirit/Mineral Turpentine Oil (MTT)	2710.1240
	(iii) Solvent Oil	2710.1250"; and

THIRD SCHEDULE
Exemption

Serial No.	Description	Heading/ sub-heading Number
28	Import of bullet proof vehicles by the: i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government".	Respective heading



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