

The background of the cover is a composite image. The top right corner is a solid green triangle. The bottom half features a photograph of a person in a dark suit, seen from the side, holding and reading a document. The lighting is dramatic, with strong highlights and shadows. A dark green semi-transparent box is overlaid on the bottom right of the photograph, containing the title and subtitle in white text.

Finance Bill 2025

Commentary by Imam Associates

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Economic Review 2024-25

The Finance Ministry of the Federal Government has presented Pakistan Economic Survey 2025 (the survey), with following significant highlights of the performance during outgoing year 2024-25.

According to the survey, the country's real GDP growth missed the target of 3.6% and recorded a growth of 2.68% in 2025 (2.5% in 2024).

Agriculture sector which has, according to the survey, a share in GDP of 23.54% grew by 0.56%. Wheat and cotton production have declined, threatening food security and rural livelihoods.

Industrial sectors grew by 4.77%, whereas the large-scale manufacturing recorded negative growth of 1.5%.

Services sector showed a moderate growth of 2.99%. KSE 100 index jumped since last year by 50.2%.

The survey shows that per capita income reached US\$ 1,824, up from US\$1,662 in the previous year, showing a 9.7% increase.

The average CPI inflation for July–April 2025 has been 4.7% (declined by 26% in the same period last year). The Sensitive Price Index for July–April 2025 was 4.9% (down from 30.2% in the same period last year).

The current policy rate is 11% (reduced from 22% last year). Public debt as of March 2025 was Rs. 76 trillion including external debt of Rs. 24.5 trillion. Private sector credit from July-Mar '25 has been Rs 768bn (Rs256bn in the corresponding period last year). Consumer Financing increased to Rs 71.4bn (Rs 52bn net retirement in the corresponding period last year).

Trade and current accounts, according to the survey, shows the following position for July to April 2025:

- Exports: US\$ 27.3bn including IT Exports of US\$ 2.8bn recorded from July to March '25)
- Imports: US\$ 48.6bn
- Trade Deficit: US\$ 48.6bn
- Remittances: US\$ 31.2bn
- Trade Deficit in Services: US\$ 2.5bn
- Primary Income Deficit: US\$ 7.1bn
- Current Account Surplus: 1.9bn

Foreign exchange reserves stood as at April '25 at US\$ 16.6bn (including \$5.14 billion in commercial banks).

Tax Revenues during July to March '25 are Rs 9.14 trillion (25.8% increase from the corresponding period of last year). Non-Tax Revenues during this period are Rs 4.23 trillion (68% increase from the corresponding period of last year). The government has missed the target of revenue collection set for the year by approximately 1 trillion during the period from July to May 2025, reportedly, owing to slow-down in economic growth and less imports during the year.

Current expenditure has been recorded at Rs 14.59 trillion and the development expenditure is Rs 1.54 trillion. This has resulted in fiscal deficit of 2.6% of GDP, whereas primary surplus is 3% of GDP.

Executive Summary

Finance Minister Muhammad Aurangzeb presented Pakistan's federal budget for fiscal year 2026, aiming for 4.2% economic growth while reducing overall spending and tightening tax measures. The budget outlay is set at Rs17.573 trillion, down 6.9% from the previous year. Current expenditure is proposed at Rs16.286 trillion, reflecting a 5.33% cut. Despite a 16% reduction in debt servicing to Rs8.207 trillion, interest payments still account for nearly half of total spending. Defence spending has been raised by 20.2% to Rs2.55 trillion, making up 1.97% of GDP. The government has also set a higher FBR tax collection target of Rs14.131 trillion, marking a 9% increase from the previous year.

The Finance Bill 2025 introduces amendments in the tax laws. A final tax regime has been introduced for income from digitally ordered goods and services, with banks and couriers required to deduct taxes on digital and cash-on-delivery transactions. Salary tax rates have been reduced, while pension income over Rs. 10 million is now proposed to be taxed at 5%, and exemptions for pensions have been withdrawn. A new tax credit has been introduced for low-cost housing loans. Super tax rates have been slightly reduced, but profit on debt is now proposed to be taxed at 20%, and dividend income from mutual funds is to be taxed proportionately based on debt and equity holdings. Enhanced capital gains tax shall apply to non-filers on disposal of securities acquired before July 2025 and debt instruments, with new withholding rates ranging from 10% to 20% for foreign investors. Offshore digital services and specified services face increased withholding rates, while taxes on immovable property transactions have been revised.

Commercial property rent will now be calculated at a minimum of 4% of FBR-assessed value. Business losses cannot offset property income, and the minimum tax carry-forward period has been cut to two years. Group relief is now limited to companies under the normal regime. Depreciation and amortization rules have tightened. The Bill criminalizes tax fraud and introduces penalties for facilitators or "abettors." Section 114C empowers the FBR to restrict key transactions by non-filers or those under-declaring assets, while banks must report taxpayer data and auditors must comply with confidentiality requirements. Appeals can now be filed directly with the Tribunal, and tax recovery is allowed immediately after final court decisions, even if further appeals are pending.

Sales tax reforms shift collection responsibility for digital transactions to intermediaries, with mandatory 2% withholding and monthly reporting. All digital vendors must register for sales tax. The FBR is empowered to block input adjustments and penalize dealings with unregistered suppliers. Retail pricing rules have tightened for beverages and imported packaged goods like coffee and chocolates. Exemptions on items like solar panels and low-engine cars have been withdrawn or limited. Real-time e-invoicing and e-bilty cargo tracking are now enforceable, and non-registered entities face harsh enforcement measures including asset freezes and business closures. Sales tax appellate procedures now mirror those for income tax.

Under the Islamabad Capital Territory Ordinance, services are presumed taxable unless exempted, and mandatory integration with FBR systems is required. The Federal Excise Act allows for the seizure or destruction of non-compliant goods and removes excise duty on property transfers. Appeals under excise law may now bypass Commissioners and go straight to the Tribunal. Overall, the Bill represents a decisive move toward digital enforcement, broader compliance, and integration of undocumented activity into the formal tax system.

During the year, the Federal Government introduced stringent tax recovery measures through the Tax Law (Amendments) Ordinance 2025, amending the income tax law. These measures, aimed at swift recovery of taxes, authorize tax authorities to recover income tax immediately following a favorable High Court or Supreme Court judgment. Since the Ordinance has to be passed through Parliament therefore the Government has proposed these amendments in the Finance Bill 2025.

Further, the Government also presented the Tax Laws (Amendment) Act, 2024, proposing amendments to restrict economic activities of non-filers and ineligible taxpayers. This Bill could not however be approved by the Parliament.

The proposed amendments, now part of the Finance Bill 2025, aim to curb transactions by individuals and companies that fail to file tax returns or declare sufficient income. Restrictions include limitations on purchasing vehicles, transferring immovable properties, and investing in securities.

The Finance Bill also proposes the enactment of the Digital Presence Proceeds Tax Act, 2025 to tax foreign vendors earning from Pakistani users through digital transactions, regardless of physical presence or delivery mode. A 5% tax will apply to proceeds from digitally ordered goods, services, and online advertisements where the vendor maintains a significant digital presence in Pakistan. Tax collection responsibility lies with payment intermediaries such as banks and gateways, who must withhold and deposit the tax before remitting funds abroad. Detailed quarterly reporting and strict penalties apply for non-compliance, and recovery mechanisms mirror those under the Income Tax Ordinance. An amendment to section 152(1C) ensures no double taxation where this levy is already collected.

The proposed Energy Vehicles Adoption Levy Act, 2025 imposes a levy on fossil-fuel vehicles to promote electric mobility, with collection mechanisms similar to customs and sales tax. Exemptions apply to EVs, exports, and diplomatic entities. The Digital Presence Proceeds Tax Act, 2025 imposes a 5% tax on foreign vendors with significant digital activity in Pakistan, with strict compliance and reporting obligations enforced through banks and platforms.

This document provides an overview of the amendments proposed in the Finance Bill 2025, specifically affecting the income tax, sales tax, federal excise duty, and customs duty laws. Please note that this document is intended for informational purposes only and should not be relied upon as professional advice. While every effort has been made to ensure the accuracy and reliability of the information presented, we disclaim any responsibility for actions taken or decisions made based on this document. It is strongly recommended that readers consult the Finance Bill 2025 and the relevant laws directly, seeking professional guidance where necessary, before taking any action or making any decisions. By using this document, readers acknowledge that they understand and accept this disclaimer, and release us from any liability arising from their use of the information contained herein.

Income Tax

Tax on Payments for Digital Transactions in e-commerce Platforms

New tax has been imposed as final tax on every person who receive payment for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplace or websites. It has also been proposed that the proceeds from export of services shall remain subject to tax under section 154A.

This tax is on every person who receives payment for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplace or websites payment for digitally ordered goods or digitally delivered services through e-commerce platforms including websites shall be in case of payment through:

Digital Means or banking channels by payment intermediary

Slabs	Rate of Tax
Where the amount paid does not exceed rupees ten thousand	1% of the gross amount paid
Where the amount paid exceeds rupees ten thousand but does not exceed rupees twenty thousand	2% of the gross amount paid
Where the amount paid exceeds rupees twenty thousand	0.25% of the gross amount paid

Cash on delivery

Slabs	Rate of Tax
On supply of electronic and electrical goods	0.25% of the gross amount paid
On supply of clothing articles, apparels, garments etc.	2% of the gross amount paid
On supply of goods other than mentioned above	1% of the gross amount paid

Withholding tax - Following persons shall collect tax from the gross amount payable (including sales tax, if any) to the seller at the above rates:

- Every payment intermediary at the time of processing payment through digital means, on behalf of a seller of digitally ordered goods or services through locally operated e-commerce platforms (including websites);
- Every courier business providing courier services collecting cash from a buyer under Cash on Delivery (CoD) payment terms on behalf of a seller for the supply of digitally ordered goods and services through e-commerce platforms (including websites).

Where this tax has been deducted, the income tax shall not be withheld under section 153(1) from the payment. The payer will need to make sure that the payment intermediary or the courier company, as the case may be, deduct the tax under section 153(2A) as otherwise the payer will be exposed for non-deduction of tax under section 153(1).

Tax Registration - The Bill proposes to require to obtain NTN by a person selling digitally ordered goods or services from within Pakistan using online marketplace or a courier service, as the case may be. Further, the Bill proposes that every online marketplace or courier service, involved in e-commerce by supplying or delivering digitally ordered goods

or services from within Pakistan, shall not allow any vendor to use its platform services to carry out e-commerce transactions unless such vendors have been registered under the Sales Tax Act, 1990 (VII of 1990) and this Ordinance

Penalties

Where a banking company or payment gateway or a courier service provider, as the case may be, fails to deduct tax at the time of making payment to a seller, or fails to pay the tax deducted, with respect to digitally ordered goods or rendering or providing of digitally delivered services using e-commerce platform, such person shall pay a penalty equal to hundred percent of the amount of tax involved. Normal penalty of non-deduction of tax (Rs 40,000 or 10% of tax, whichever is higher) shall not apply here.

Another penalty has been proposed of five hundred thousand rupees for the first default and one million rupees for every subsequent default, on any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to registered under Sales Tax Act, 1990 and Income Tax Ordinance, 2001, fails to registered under the aforementioned statutes.

Another penalty has been proposed of five hundred thousand rupees for the first default and one million rupees for every subsequent default, where an online marketplace allows an unregistered vendor, whether resident or non-resident involved in e-commerce business supplying digitally ordered goods or services, who is required to register under Sales Tax Act 1990 and Income Tax Ordinance, 2001, under section 181 before using the platform.

Definitions

For the purpose of this new tax, following new definitions have been added:

For this purpose, the term “digitally delivered services” has been proposed to be defined to mean any service delivered over the internet or electronic networks, where the delivery is automated and require minimal or no human intervention including music, audio and video streaming services, cloud services, online software applications services, services delivered through online inter-personal interaction i.e., tele medicines, e-learning etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility.

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

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

The term “payment intermediary” has been proposed to be defined as any third part entity including a banking company, financial institution, a licensed foreign exchange company or payments gateways that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

The term “e-commerce” has been proposed to be defined as sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using either mobile phone, iPad, Tablet or automated computer-to-computer ordering system.

The term “online market place” has already been defined. This definition is extended to include “online interfaces” that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or providing or rendering the services that are being sold.

Tax on Salary Income – Section 149

New tax rates on salary income have been proposed. The comparison of existing and proposed rates are as follows:

Slabs of income	Existing	Proposed
Up to Rs 600,000	0%	0%
Rs 600,001 to Rs 1,200,000	5% of the amount exceeding 600,000	1% of the amount exceeding 600,000
Rs 1,200,001 to Rs 2,200,000	Rs 30,000 + 15% of the amount exceeding 1.2mn	Rs 6,000 + 11% of the amount exceeding 1.2mn
Rs 2,200,001 to Rs 3,200,000	Rs 180,000 + 25% of the amount exceeding 2.2mn	Rs 116,000 + 23% of the amount exceeding 2.2mn
Rs 3,200,001 to Rs 4,100,000	Rs 430,000 + 30% of the amount exceeding 3.2mn	Rs 346,000 + 30% of the amount exceeding 3.2mn
Above Rs 4,100,000	Rs 700,000 + 35% of the amount exceeding 4.1mn	Rs 616,000 + 35% of the amount exceeding 4.1mn

Surcharge for Salaried Individuals

Currently, surcharge shall be payable by every individual and association of persons at the rate of ten percent of the income tax imposed under Division I of Part I of the First Schedule where the taxable income exceeds rupees ten million. The Bill has proposed to reduce the rate of this surcharge for an individual deriving income chargeable under the head “Salary”, to 9% of the income tax.

Tax on Pension or Annuity

The Bill proposes that the income solely from pension, annuity, supplement to the pension or annuity and commutation of pension from former employer for tax year, the rate of tax on such annuity or pension income or commutation of pension shall be 5% of the amount exceeding Rs 10 million (0% for such income not exceeding Rs. 10 million).

A person responsible for paying pension or annuity to a former employee below 70 years old must deduct tax if the payment exceeds Rs. 10 million in a tax year. The tax deduction rate for such pension is proposed to be 5%.

Adjustments and Tax Credits

Before deducting tax, the person must:

- Adjust for tax withheld from the former employee under other heads
- Consider tax credits under sections 61 and 63 of the Ordinance
- Obtain documentary evidence for:

- Tax withheld during the tax year
- Excess deduction or deficiency from previous deductions
- Failure to make deductions during the year

Following exemptions on pension have been withdrawn:

- Pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer).
- Pension received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government
- Pension granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service
- Any payment in the nature of commutation of pension received from Government or under any pension scheme approved by the Board for the purpose of this clause.
- Commutation of pension by an employee on his retirement or, in the event of his death
- The accumulated balance upto 50% received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person's retirement, disability rendering him unable to work, death by his nominated survivors
- Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005.

Super Tax – Section 4C

New rates of super tax have been proposed. The comparison of existing and proposed rates are as follows:

Slabs of income	Existing	Proposed
Where income does not exceed Rs 150mn	0% of the Income	0% of the Income
Where income exceeds Rs 150mn but does not exceed Rs 200mn	1% of the Income	1% of the Income
Where income exceeds Rs 200mn but does not exceed Rs 250mn	2% of the Income	1.5% of the Income
Where income exceeds Rs 250mn but does not exceed Rs 300mn	3% of the Income	2.5% of the Income
Where income exceeds Rs 300mn but does not exceed Rs 350mn	4% of the Income	3.5% of the Income
Where income exceeds Rs 350mn but does not exceed Rs 400mn	6% of the Income	5.5% of the Income
Where income exceeds Rs 400mn but does not exceed Rs 500mn	8% of the Income	7.5% of the Income
Where income exceeds Rs 500mn	10% of the income	10% of the income

Tax on Profit on Debt (Interest Income) – Section 151

Currently, income tax on profit on debt dividend is 15%. The Bill has proposed an increase in this tax from 15% to 20% in case such profit on debt is paid by banking company or financial institution on an account or deposit maintained with such company or institution. In other case, for example profit on debt paid by companies (other than banks and FIs), the profit on debt shall remain taxable at 15%.

The Bill has also proposed to delete the higher rate for non-filers of 35% on profit on debt.

Tax on Dividend from Mutual Fund

Currently, the dividend from mutual funds is 15%. The dividend from the mutual funds deriving 50% or more income from profit on debt is 25%.

The Bill has proposed to proportionate the dividend income from mutual funds between income derived from average annual investments in debt securities and equities respectively and apply the rate of tax of 25% on proportionate dividend attributable to annual investments in debt securities and 15% on proportionate dividend attributable to equities respectively.

Tax on Capital Gain on Listed Securities – Rate for non-filers

The Tenth Schedule that provides that the non-filers are subject to withholding tax rates enhanced by 100%. This Schedule currently excludes capital gain on disposal of listed securities under section 37A from this enhanced tax rate.

The Bill has proposed that only such capital gain under section 37A shall not be subject to enhanced rate of tax that will arise on disposal of securities acquired on and from 01 July, 2025. The capital gain on securities acquired before 01 July 2025 shall be subject to enhanced rate.

Tax Deduction on Disposal of Debt Securities

The Bill has proposed a new section 151A that requires custodians of debt securities (including banking companies maintaining Investor Portfolio Securities accounts) to deduct tax at the rate of **15% of the gross amount of the capital gain** arising from disposal of debt securities (excluding those disposed through registered stock exchanges and settled through NCCPL).

The capital gain arising from disposal of debt securities will be computed as difference between the consideration received by the person on disposal of the security and the cost of acquisition of the security.

Tax on disposal of debt securities held through SCRA

Every banking company or a financial institution maintaining special convertible rupee account (SCRA) of a non-resident company having no permanent establishment in Pakistan shall deduct tax from capital gain arising on the disposal of debt instruments and Government securities including treasury bills and Pakistan investment bonds invested through SCRA at the rate of 10 of the amount of capital gain.

The Bill has proposed that this withholding tax shall apply where non-resident company (not having PE) shall maintain the SCRA for a period not less than twelve months. The Bill also proposes that in case of holding period of debt instruments and Government securities including treasury bills and Pakistan investment bonds is less than twelve months, the capital gain arising on the disposal of such securities to the non-resident person shall be taxed at the rate of 20% of the capital gain.

Tax on Offshore Digital Services – Section 6 and 152

Tax on income from offshore digital services by a non-resident person to a resident person or permanent establishment in Pakistan of a non-resident person is currently subject to income tax @ 10% of gross amount of fee, which is deducted by banks at the time of remittance of the fee to non-resident persons. The Bill has proposed the increase in this tax **from 10% to 15%** of the gross amount of fee.

The term **offshore digital services** is defined for this purpose as “means any consideration for providing or rendering services by a non-resident person for online advertising including digital advertising space, designing, creating, hosting or maintenance of websites, digital or cyber space for websites, advertising, e-mails, online computing, blogs, online content and online data, providing any facility or service for uploading, storing or distribution of digital content including digital text, digital audio or digital video, online collection or processing of data related to users in Pakistan, any facility for online sale of goods or services or any other online facility.

Withholding Tax on Specified Services by non-residents (Section 152(2A))

Withholding tax on the following service by a non-resident person is currently required to be made at 4%. The Bill has proposed to enhance the rate to 8% of the gross amount payable.

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, car rental services, building maintenance services, services rendered of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services, oilfield services.

IT services and IT enabled services as defined in section will remain applicable to withholding tax rate of 4%.

For other than above services, the bill has proposed the rate of withholding tax to be enhanced to 15% (currently 9% for companies and 11% for others).

Further, the non-resident sports persons have been proposed to be subjected to enhanced withholding tax rate of 15% (current rate is 10%).

Withholding Tax on Specified Services by Residents (Section 153(1)(b))

Withholding tax on the following service by a non-resident person is currently required to be made at 4%. The Bill has proposed to enhance the rate to 6% of the gross amount payable.

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, car rental services, building maintenance services, services rendered of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services, oilfield services.

IT services and IT enabled services as defined in section will remain applicable to withholding tax rate of 4%.

For other than above services, the bill has proposed the rate of withholding tax to be enhanced to 15% (currently 9% for companies and 11% for others).

Further, the sports persons have been proposed to be subjected to enhanced withholding tax rate of 15% (current rate is 10%).

Withholding Tax on Immovable Properties (Section 236C and 236K)

Withholding tax rates on **sale** of immovable properties under sections 236C have been proposed as follows:

S. No	Amount	Existing Rate	Proposed Rate Filers	Proposed Rates Non-filers	Proposed Rates Late filers
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	4.5%	11.5% (Existing: 10%)	7.5% (Existing: 6%)
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	5%	11.5% (Existing: 10%)	8.5% (Existing: 7%)
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	5.5%	11.5% (Existing: 10%)	9.5% (Existing: 8%)

Withholding tax rates on **purchase** of immovable properties under sections 236K proposed as follows:

S. No	Amount	Existing Rate	Proposed Rate Filers	Proposed Rates Non-filers	Proposed Rates Late filers
1	Where the fair market value does not exceed Rs. 50 million	3%	1.5%	10.5% (Existing: 12%)	4.5% (Existing: 6%)
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	2%	14.5% (Existing: 16%)	5.5% (Existing: 7%)
3	Where the fair market value exceeds Rs. 100 million	4%	2.5%	18.5% (Existing: 20%)	6.5% (Existing: 8%)

Withholding Tax on Cash Withdrawal – Section 231AB

Withholding tax on cash withdrawals of Rs 50,000 (cumulative amount in a day) has been proposed to be enhanced from 0.6% to 0.8% for those taxpayers whose name is not appearing in the active taxpayers' list.

Rent of Commercial Properties

The rent of immovable property is taken at fair market rent where it is less than such fair market rent. The Bill has proposed that the minimum value of fair market rent for the property **in case of commercial properties** shall be four percent of FBR's prescribed fair market value per annum under section 68 of the Ordinance, unless the person provides evidence proving otherwise to the Commissioner.

Recreational Clubs

The definition of "non-profit organization" has been amended to exclude from its ambit the recreational clubs formed with membership fee exceeding one million for any class of new members. Another amendment has been proposed under section 18 to include the income from recreational club as "business income".

Purchases from non-NTN holders – Disallowed expense – Section 21(q)

The Bill has proposed to delete the provision that disallows the expense on account of any expenditure attributable to sales made to persons required to be registered but not registered under the Sales Tax Act, 1990 by an industrial undertaking.

The Bill has proposed the following new disallowances:

- The expense to the extent of ten percent of the claimed expenditure made attributable to purchases (other than agricultural produce directly purchased from growers) made from persons who are not National Tax Number holders. The FBR may exempt any person or class of person from this disallowance of expense.
- Fifty percent of the expenditure claimed in respect of sale where the taxpayer received payment exceeding more than two hundred thousand rupees otherwise than through a banking channel or digital means against a single invoice containing one or more than one transactions of supply of goods or provisions of services.

It is not clear as to whether the disallowance will be equal to 50% of sales or the amount of expenses proportionate to the sales covered here to the total sales.

Depreciation expense

The Bill has proposed that the depreciation expense shall not be allowed for the amount paid for addition of capital assets to a seller in all relevant tax years if the tax deductible under sections 152 or 153 of the Ordinance in respect of those payments has not been deducted and deposited in the treasury, by not adding such amount paid for addition in capital assets in the assets for computation of tax depreciation.

Amortization expense

Currently, the law allows to claim amortization of intangible asset that does not have an ascertainable useful life to be amortized over the period of 25 years. The Bill has proposed to amortize such asset over 15 years.

Loan, advance, deposit for issuance of shares or gift

Currently, any amount received as a loan, advance, deposit for issuance of shares or gift by a person in a tax year from another person (not being a banking company or financial institution) otherwise than by a crossed cheque drawn on a bank or through a banking channel from a person holding a National Tax Number is treated as income chargeable to tax under the head “Income from Other Sources” for the tax year in which it was received.

The Bill has proposed to exclude from this deemed income such loan, advance, deposit for issuance of shares or gift that is made through digital means as defined in section 2.

Set off of business loss against income from property

Currently, the business loss is allowed to be set off against income under any other head other than “salary”. Now the Bill proposes that the adjustment of business loss shall not be allowed against income from property for the tax year.

Carry Forward of Minimum Tax

The persons required to pay minimum tax under section 113 (general rate 1.25%), to carry forward the excess amount of minimum tax over normal income tax for adjustment against normal income tax liability of the subsequent three tax years. The Bill has proposed to restrict the benefit of carry forward from three tax years to two tax years.

Group Relief

A company under a group eligible for “group relief” is allowed to surrender its assessed loss computed in sub-section (1A) (excluding capital loss) for the tax year (other than brought forward losses and capital losses), in favour of its holding company or its subsidiary or between another subsidiary of the holding company.

The loss surrendered by the subsidiary company may be claimed by the holding company or a subsidiary company for set off against its income under the head “Income from Business” in the tax year and the following two tax years subject to certain conditions.

The Bill has proposed to restrict the benefit of group relief only to a company or companies within the group whose income from business is chargeable to tax under corporate rate of tax on net income basis.

Tax credit for interest paid on Low-cost Housing Loan

The Bill has proposed a new tax credit for individuals who obtain loans for the construction or acquisition of a personal residence. It allows a person to claim a tax credit against their income tax liability for the tax year in which they pay profit on debt, or have a share in rent or appreciation in the value of a house, provided the underlying loan was obtained from a scheduled bank, a financial institution regulated by the Securities and Exchange Commission of Pakistan (SECP), or advanced by the Government, a local government body, a statutory body, or a listed public company.

The condition for eligibility is that the loan must be used for constructing or acquiring a single personal residence, either a house with a land area not exceeding 2,500 square feet or a flat with a total area not exceeding 2,000 sq. feet.

The quantum of tax credit available to an individual under this section is to be determined through a specific formula $(A/B) \times C$. In this formula:

'A' represents the total amount of tax assessed to the person before allowing any tax credits;

'B' is the individual's total taxable income for that tax year; and

'C' is the lowest of three amounts i.e.,

- the total profit on debt or equivalent payments made in that year,
- thirty percent of the person's taxable income for the year, or
- two million rupees.

No tax credit will be allowed under this section for any profit on debt that is already deductible against “income from property” (rental income) under section 15A of the Income Tax Ordinance.

Moreover, once an individual avails this tax credit for a qualifying house or flat, they are barred from claiming it again for any other house or flat for the next fifteen tax years.

Tax credit for coal mining projects in Sindh

Currently, the persons engaged in coal mining projects in Sindh are allowed tax credit equal to 100% of tax payable (including minimum, alternate corporate tax and final taxes for the period). This tax credit is allowed to persons supplying coal exclusively to power generation projects. The bill has proposed to remove the condition of exclusivity of supply of coal to the power generation projects. Accordingly, this tax credit will also be available to persons supplying coal to power generation projects and other persons or projects.

Purchase of assets through banking channel

No person shall purchase immovable property having fair market value greater than Rs. 5million or any other asset having fair market value more than Rs. 1 million otherwise than by a crossed cheque drawn on a bank or through crossed demand draft or crossed pay order or any other crossed banking instrument showing transfer of amount from one bank account to another bank account.

The Bill has proposed to include the payment through digital means for aforesaid eligible purchase.

NPOs to claim Tax Credit under section 100C

There are certain NPOs provided in table 1 of clause (66) of Part I of the Second Schedule, which are exempt from income tax. The Bill has proposed to make these NPOs required to claim a 100% tax credit on their tax payable, as long as they meet certain conditions provided under section 100C.

Furnishing of information by online marketplace, payment intermediary and courier services

Payment intermediaries and courier services responsible for deducting tax under section 153(2A) of the Ordinance are required to file a quarterly withholding statement with the Commissioner. This statement must be filed in the prescribed form and include the following details:

- Seller's name, identification number (NTN/CNIC), and address
- Transaction date, unique identifier (invoice number), and total transaction value
- Total amount of tax deducted at the time of payment to the seller
- Any other particulars as may be prescribed

The deadlines for filing these statements shall be the same as are prescribed for withholding statements under section 165 i.e., 20th of the month following the end of the quarter.

Every online marketplace in Pakistan must submit a monthly statement containing:

- Name, address, sales tax, and Income Tax registration number of every vendor registered on its platform
- Transactional and aggregated quantum of seller's monthly turnover
- Amount deposited into the vendor's bank account against sale transactions

Restrictions on ineligible persons to carry out transactions

A new **section 114C** has been proposed to empower the FBR to notify the effective date from which the FBR will impose restrictions on:

- the individuals (including immediate family members meaning parents, spouse, son (below the age of twenty-five years), daughter (who is unmarried, or widowed, or divorced) or a special child who has a long-term physical, mental, intellectual or sensory impairment which in interaction with various barriers may hinder his full and effective participation in society on an equal basis with others),
- Companies,
- Association of Persons (Partnerships),

who either did not file their tax return for the preceding year or filed the tax return but do not have declared sufficient resources. The declared resources mean:

- For individuals: 130% of the cash and equivalent assets in the wealth statement,
- For companies and AOP: 100% of cash and equivalent declared in the financial statements,

The restriction will be on carrying out the following transactions:

- Booking, purchase, or registration of motor vehicles;
- Transfer or registration of immovable properties above the values to be notified by FBR; and
- Investments in securities, mutual funds, or the opening of specific bank accounts.

The exclusions from these restrictions have also been proposed for the transactions involving rickshaws, tractors, small pickups (up to 800cc), non-residents, and public companies.

Aggrieved individuals may submit a statement of sources of investment or expenditure via the Board's web portal.

Sharing of Information by Scheduled Banks to FBR

A new section 175AA is proposed to be added to authorize:

- The FBR to provide information of turnover, income including taxable income, for one or more tax years, identification data including bank account numbers declared in the income tax return, wealth statement, financial statement or in any other document to the Board, in respect of persons or classes of persons, along with databased algorithms, as may be prescribed, with scheduled banks in Pakistan
- The Scheduled banks to provide to the FBR the particulars, such as name, account numbers of such persons where the banking information is at variance with the data algorithms to be provided by FBR.

All information received under this section shall be used only for tax and related purposes and kept confidential.

Appointment of Auditors

It has been proposed that under section 222 of the Ordinance, the FBR may appoint auditors (not more than two thousand) on a contractual or third-party basis to assist in audits, litigation, and other tax-related activities. To safeguard taxpayer information, section 216 mandates that data may only be shared with auditors after the signing of a Non-Disclosure Agreement (NDA).

Appeals before Commissioner (Appeals), Tribunal, and the High Court

The Finance Bill has proposed to delete the pecuniary jurisdiction for appeals introduced vide Tax Laws (Amendment) Act, 2024. According to that amendment vide Tax Laws (Amendment) Act, 2024, the appeals before the Commissioner (Appeals) are limited to cases where the tax assessment or refund value does not exceed Rs. 20 million for income tax and Rs 10 million for sales tax cases. Cases exceeding this threshold are to be directly appealed before the Appellate Tribunal Inland Revenue.

Now after the enactment of this proposal, the position before the introduction of these pecuniary jurisdiction shall be reinstated i.e., the first appeal against the appealable assessment orders shall lie before the Commissioner (Appeals) and the second appeal against the decision of the Commissioner (Appeals) shall lie before the Appellate Tribunal.

The Bill has also proposed that an aggrieved person may have the option to either file appeal before Commissioner Inland Revenue (Appeals) directly or may surrender his right of appeal before Commissioner Inland Revenue (Appeals) and avail the next statutory appellate forum by lodging the appeal directly before the Appellate Tribunal Inland Revenue.

The time limit for filing appeal before the Commissioner (Appeals) and the Tribunal shall be 30 days from the passing of the appealable order.

The appeal against the order of the Tribunal shall be filed in the High Court, within 60 days of the receipt of the order of the Tribunal.

The appeal against the order of the Tribunal shall be filed in the High Court only on the question of law whereas all the factual controversies shall be resolved in the appeals before the Commissioner (Appeals) and the Tribunal.

The State-Owned Enterprise shall continue to file for the resolution of disputes to the Alternative Dispute Resolution Committee (ADRC). The ADRC shall decide the disputes within 60 days (or extended 60 days) and in case of lapse of the said time or extended time, the matter shall be decided by the court of law or the appellate authority where the dispute is pending under litigation.

The taxpayers other than SOEs shall remain eligible to opt for ADRC for dispute resolution instead of taking the matter in appeals in normal process.

Recovery of tax in case of decision by High Court and Supreme Court of Pakistan

Through the Tax Law (Amendments) Ordinance 2025, significant changes were made to the income tax recovery mechanism by inserting a new sub-section (3A) in section 138 and a new sub-section (6A) in section 140 of the Income Tax Ordinance. The Ordinance has a limited life and has to be passed through the Parliament therefore the Finance Bill has included these proposed amendments as follows.

These proposed new provisions authorize the tax authorities to recover income tax immediately once an issue giving rise to the tax payable is decided by High Court or the Supreme Court of Pakistan.

Previously, tax authorities were required to issue a recovery notice and allow some time before initiating recovery actions. Under the amended law, tax becomes immediately recoverable or within the time mentioned in the recovery notice once a favorable judgment is secured by the department from High Court or the Supreme Court of Pakistan.

We understand that these powers are intended to be exercised only in cases where the High Court or the Supreme Court of Pakistan has issued a decision in favor of the department against a specific taxpayer. However, the wording of the new sub-section is broad and may be interpreted to allow tax recovery from other taxpayers as well, even in

cases where their appeals are still pending before the High Court or the Supreme Court. We understand that these enhanced recovery powers should not be applicable to cases where assessments or appeals are pending before the Commissioner (Appeals) or the Appellate Tribunal Inland Revenue. In such instances, the existing procedure for tax recovery will continue, allowing time for compliance and the possibility of stay orders.

We also understand that the immediate recovery mechanism is expected to apply only in cases where the courts have ruled entirely in favor of the tax authorities. In situations where partial relief is granted to the taxpayer, the tax department would still need to pass appeal effect orders before initiating recovery proceedings.

These recovery powers have been granted through a non-obstante clause, which means it overrides any contrary provisions in any law, rule, or court decision. As a result, a taxpayer's ability to seek a stay order from the High Court or the Supreme Court after an adverse judgment appears to have been curtailed, which is unduly stringent. Further, it appears that the Federal Government aims to nullify the stay orders already allowed by the Supreme Court of Pakistan in cases decided in favor of the department by the High Courts. The tax authorities would also attempt to exercise these powers in cases where the issue has been decided in their favor by the High Court or the Supreme Court of Pakistan.

These amendments appear to be aimed at enabling swift recovery of taxes in anticipation of court decisions that may uphold the government's stance on contested tax matters, thereby ensuring that favorable judgments translate into immediate fiscal gains for the exchequer.

Time limit of 180 days for passing the amended assessment order

The Bill has proposed to remove the time limit given to the Commissioner to pass the amended assessment order within 180 days after the issuance of show cause notice.

The proposed amendment removes the 180-day time limit for issuing amendment orders, previously introduced to ensure procedural certainty and safeguard taxpayers from prolonged assessment proceedings. This change may expose taxpayers to uncertainty and extended compliance burdens, potentially weakening safeguards against arbitrary reassessments, although it may offer tax authorities greater flexibility in complex cases.

Condonation of time limit

The FBR can condone the time limit applicable for any action or thing to be done by the taxpayer or the authorities, as provided under any provision of the income tax law.

The Bill proposes to provide a time limit of two years for such extension of time to perform the act or thing being condoned. As per the proposed amendment, the maximum period of extension under this section by the Board or the Commissioner, as the case may be, shall not exceed two years in aggregate.

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

Appeal Effect Orders

Two new sub-sections, (4A) and (4B), have been introduced to streamline the recovery of tax payable after appellate proceedings.

No Appeal Effect Order Required for Confirmed Tax Payable

If the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court confirms the tax payable as determined in the original order, no appeal effect order is required. The Commissioner can proceed with recovery immediately.

Appeal Effect Order for Partly Set Aside Orders

If the Appellate Tribunal, High Court, or Supreme Court partly sets aside the order and confirms or modifies it on other issues, the Commissioner must issue an appeal effect order. This order will determine the tax payable based on the confirmed or modified issues and it will exclude tax payable on matters set aside or remanded.

The tax payable on confirmed or modified issues will then be recovered.

Member of Appellate Tribunal

The Bill has proposed to include following persons as eligible to become member of the Appellate Tribunal:

- Practicing Chartered Accountant having practice of not less than 10 years;
- Chartered Accountant in employment of a Chartered Accountant having practice of not less than 10 years.

Service of notice and other documents

Currently, section 218 requires to serve the notice and documents electronically to the individuals. The Bill has proposed to make this requirement applicable to the other persons as well.

Posting of Officer of Inland Revenue at Business Premises

The Bill proposes that the Federal Board of Revenue or the Chief Commissioner will be empowered to post an Inland Revenue Officer, or any other official under their control, at the business premises of any person or group of persons. The purpose is to monitor their production activities, supply of goods or services, and unsold stock at any given time.

Penalty for non-filing of withholding tax statements, and quarterly statements by the Banks and FIs, statements by the online marketplace, payment intermediary and courier services

The Bill has proposed to increase the penalty for non-filing of withholding tax statements, and quarterly statements by the Banks and FIs, statements by the online marketplace, payment intermediary and courier service from Rs. 5,000 to Rs. 50,000 (where the tax collected/deducted has been paid).

Exemptions – Second Schedule

The Bill proposes to exempt from income tax on any income derived by ICC Business Corporation (IBC) or International Cricket Council (ICC) or employees, officials, agents and representatives of IBC and ICC, officials from ICC members, players, coaches, medical doctors and officials of member countries, IBC partners and media representatives, other than persons who are resident of Pakistan, from ICC champions Trophy, 2025 hosted in Pakistan.

Clause (126E) of Part I of the Second Schedule provides exemption to income derived by a zone enterprise as defined in the Special Economic Zones Act, 2012 (XX of 2012) for a period of ten years starting from the date the developer certifies that the zone enterprise has commenced commercial operation and for a period of ten years to a developer of zone starting from the date of signing of the development agreement in the special economic zone as announced

by the Federal Government. The Bill proposes that this exemption to start from commercial operations **or up to the 30th day of June, 2035, whichever is earlier.**

Clause (126EA) of Part I of the Second Schedule provides exemption to Profits and gains derived by zone Enterprises as defined in the Special Technology Zones Authority Act, 2021 (XVII of 2021) for a period of ten years from the date of issuance of license by the Special Technology Zone Authority. The Bill proposes that this exemption to start from issuance of license **or up to the 30th day of June, 2035, whichever is earlier.**

Exemption to persons in FATA

Exemption to any individual domiciled or company and association of persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution has been proposed to be **extended to 30 June 2026 (currently it is upto 30 June 2025).** The exemption from withholding taxes have also been **extended to 30 June 2026.**

Exemptions to cinemas

The Finance Act 2022 gave exemption from income tax to any income derived by a person from cinema operations for five years from the commencement of cinema operations. The Bill has proposed to limit this exemption till 30th June, 2030 or five years from commencement of cinema operations whichever is earlier.

Exemptions to Venture Capital Company and Funds

The Bill has proposed to not to extend the exemption beyond 30 June 2025 to profits and gains derived between the first day of July, 2022 and 30 June, 2025 both days inclusive, by a venture capital company and venture capital fund registered under relevant Venture Capital Companies and Funds Management Rules issued by Securities and Exchange Commission of Pakistan.

Exemption to full time teachers and researchers

The Bill has restricted the benefit of reduction of 25% of tax payable on salary income upto tax year 2025 that was available to full-time teachers and researchers (medical professionals earning income from private practice excluded) employed in non-profit education or research institutions recognized by the Higher Education Commission. The bill has proposed that this reduction in tax liability is available from July 1, 2022, but will cease after the tax year 2025.

Withdrawal of Exemptions

The Bill has proposed to withdraw the exemption from withholding tax under section 148 on import of 1.5 million tons of wheat having PCT Heading 1001.1900 and 1001.9900 in pursuance of Cabinet Decision in case No.399/23/2020 dated the 16th June, 2020.

The Bill has proposed to withdraw the exemption from withholding tax under section 148 on import by the Trading Corporation of Pakistan of 300,000 metric tons of white sugar having PCT heading 1701.9910, 1701.9920, specification B, in pursuance of the Cabinet Decision in case No. 541/30/2020 dated the 4th August, 2020.

The Bill has proposed to withdraw the exemption from withholding tax under section 148 on import of three hundred thousand metric tons of wheat through tendering process by the Trading Corporation of Pakistan, in pursuance of the Cabinet Decision in case No. 34/02/2021, dated the 12th January, 2021.

Exemption from tax audit

Currently, clause (105A) of Part IV of the Second Schedule provides that the provisions of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding four tax years. The Bill has proposed to change the aforesaid period of preceding four years to preceding three tax years.

Seventh Schedule – Taxation of income from banking business

Definition of Banking Company

The definition of banking company has been defined as banking company as defined in the Banking Companies Ordinance, 1962 and also includes any body corporate which transacts the business of banking in Pakistan. The Bill has proposed to omit the aforesaid inclusion of “any body corporate which transacts the business of banking in Pakistan”, apparently to restrict the definition only to the companies registered and licensed under the Banking Companies Ordinance, 1962.

Amendments in the Seventh Schedule

The proposed amendments to the Seventh Schedule of the Income Tax Ordinance introduce significant changes to the tax treatment of leasehold improvements, IFRS 16 implications, and provisioning for non-performing advances by banking companies. The amendments aim to align tax accounting with regulatory compliance, ensure consistency and transparency, and maintain tax neutrality. Key changes include:

- Leasehold improvements: Capitalization and amortization over 10 years, with remaining unamortized amounts deductible upon lease termination.
- IFRS 16 implications: Banking companies cannot claim depreciation on right-of-use assets or finance costs; instead, they can deduct actual rent expenses, subject to auditor certification.
- Provisioning for non-performing advances: Comprehensive auditor certification is required, with detailed disclosures and adherence to the State Bank's Prudential Regulations.

Sales Tax

Liability to pay sales tax in case of supply of digitally ordered goods by online market place, website and software application from within Pakistan during the course of e-commerce

The existing sales tax law provides that liability to pay sales tax is of person making the supply i.e., the supplier. Further, in case of online supplies, currently, the online market place is required to withhold this tax @ 1% of the gross value of supplies.

The Bill has proposed that in the case of supply of digitally ordered goods by online market place, website and software application from within Pakistan during the course of e-commerce, the liability to collect and pay tax shall be of:

- payment intermediary including a banking company, a financial institution, licensed exchange company or payment gateway in case the payment is made digitally and
- the courier delivering the goods where those are supplied on Cash on Delivery (CoD) basis

New withholding tax has been proposed under the Eleventh Schedule to the Sales Tax Act, 1990, whereby the payment intermediaries and couriers in respect of digitally ordered goods from within Pakistan shall withhold tax @ 2% of the gross value of supplies from persons supplying digitally ordered goods from within Pakistan through online market place website, software applications.

This tax shall be deemed as the final discharge of tax liability under this Act for online market place, vendors at online market place, websites, software application making those supplies to the extent of those supplies and no input adjustment shall be allowed in respect of these supplies.

Following definitions have been proposed for this purpose:

- “courier” means an entity engaged in the delivery of goods and collection of cash on behalf of a seller including logistic services, ride-hailing services, food delivery platforms and ecommerce delivery services.
- “e-commerce” means sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders either through websites, mobile applications or online marketplace having digital ordering features by using mobile phones, automated computer-to-computer ordering system or any similar device.
- “online marketplace” means online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or services that are being sold.
- “payment intermediary” means a banking company, any financial institution including a licensed foreign exchange company or payment gateway that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route, or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

Further, the bill proposes that Tier-1 retailer making supply through e-commerce shall pay sales tax on supply of digitally ordered goods by online market place and website at the rate of 1% as explained above, and not at the normal sales tax rate.

Mechanism of collection of this tax by the payment gateways and courier companies needs to be clarified by the FBR.

Every person including a non-resident person selling digitally ordered goods from within Pakistan through online marketplace, website or software application, shall obtain sales tax registration.

The Bill also proposes that every online marketplace or a courier, involved in e-commerce by supplying digitally ordered goods from within Pakistan shall not allow any person to use their services to carry out e-commerce transactions unless it is registered under sales tax and income tax.

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

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

Penalties have also been prescribed that ranges from Rs. 500,000 to one million rupees.

Restrictions on Input Tax

A key amendment has been proposed in **section 8B**, which, in addition to existing restriction on input tax to the extent of 90% of output tax, now will allow the Federal Board of Revenue (FBR) to use a data-based automated risk management system to defer input tax adjustments or impose higher or lower limits on these adjustments. Registered persons impacted by such actions can contest them by filing an application with the Commissioner Inland Revenue, who is required to make a decision within 30 days.

The existing restriction on input tax to the extent of 90% of output tax is already harsh and burdensome for the taxpayers. Further restrictions on input tax to be introduced by the FBR are likely to create more compliance burden. The notification for such restrictions should therefore be issued after consultation with the taxpayers and their representatives. Although the use of technology is meant to enhance the efficiency however care should be exercised that it is not used to enhance the revenue collection at the cost of taxpayers by disallowing them their legitimate claim of input tax.

Restriction on Input Tax Relating to Supplies to Unregistered Persons

Currently, section 73(4) provides that a registered person cannot be allowed input tax against the supplies to unregistered persons if such supplies exceed Rs. 100 million in a tax year or Rs. 10 million in a month. Now the Bill proposes to amend section 73(4) by replacing the existing threshold of supplies to unregistered persons from Rs. 100 million in a tax year or Rs. 10 million in a tax period (month). It is being proposed that the FBR will notify the new thresholds through Sales Tax General Order.

Retail Price of Aerated water, Beverages, Mineral Water, or Fruit Juices

The Bill proposes that to compute the retail price (for tax under the third schedule) in case of aerated water, beverages, mineral water, or fruit juices, the reduction in price on account of chilling charges or any other similar charges shall not be more than five percent of the price inclusive of sales tax and federal excise duty on which such goods are actually sold to the general body of consumers.

The bill also empowers the FBR to set retail prices of any goods specified in the Third Schedule.

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

Third Schedule

Following new items have been proposed to be added in the Third Schedule (sales tax @17% on retail price):

- Import of pet food including of dogs and cats sold in retail packing
- Import of coffee sold in retail packing
- Import of chocolates sold in retail packing
- Import of cereal bars sold in retail packing

Sixth Schedule

Following exemption from sales tax have been proposed to be withdrawn:

- Supplies and import of machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas
- Photovoltaic cells whether or not assembled in modules or made up into panels

The exemption has been extended to 30 June 2026 which is currently available upto 30 June 2025 in respect of supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018 to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries.

New exemption from sales tax has been proposed to be provided to import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL).

Currently, the sales tax is exempt on local supply of iron and steel scrap excluding supplied by manufacturer cum-exporter of recycled copper, authorized under Export. The Bill proposes to replace this exemption to the local supply of iron and steel scrap excluding:

- supplied by manufacturer cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order; and
- supplied directly by the importer (verifiable from the goods declaration form) to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the Board through a Sales Tax General Order.

Eighth Schedule

Sales tax on locally manufactured or assembled motorcars of cylinder capacity upto 850cc are currently subject to sales tax at the rate of 12.5%. This reduced rate as been proposed to be withdrawn and such motorcars will become taxable at normal rate of 18%.

Reduced rates of 10% for (for 2025-26), 12% (for 2026-27), 14% (for 2027-28) 16% (for 2028-29) have been proposed on:

- i. imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan; and
- ii. supplies within the tribal areas

Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO.

Provided further that if plant, machinery and equipment, on which reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas, the differential amount of tax shall be paid at applicable rate.

Mandatory Integration of Electronic Invoicing Systems

It has been proposed that the FBR shall have the authority to require specific persons or classes of persons to integrate their electronic invoicing systems with the FBR's computerized system. This integration enables real-time reporting of sales.

- The FBR will notify the requirement through an official gazette.
- Licensed integrators will integrate the electronic invoicing systems of registered persons.
- Tier-1 retailers must integrate their retail outlets with the FBR's computerized system for real-time sales reporting, effective from a prescribed date and in a prescribed manner.

Revision of Return

The approval under this sub-section shall not be required if revised return is filed within sixty days of filing of return and either the tax payable therein is more than the amount paid or the refund claimed therein is less than the amount as claimed, under the return sought to be revised.

Best Judgment Assessment based on data gathered from withholding tax under section 236G of the Income Tax Ordinance, 2001

Section 11D of the Sales Tax Act, 1990 empowers an Inland Revenue officer to assess sales tax liability on a reasonable basis, including value addition, for individuals who fail to furnish a return despite notice.

The Bill proposes that to make best judgment assessment, an officer can make judgment, considering tax withheld under section 236G of the Income Tax Ordinance, 2001, and purchase data obtained from the same section.

Time Limitation for Passing the Assessment Order

The time limitation for passing the assessment order after issuance of notice has been proposed to be made within 180 days, as against current time limitation of 120 days.

Compulsory Registration

The Bill proposes that if a person, who is required to be registered under the Act, does not apply for registration and the Commissioner Inland Revenue or any other officer, as may be authorized by the Board, after such inquiry as

deemed appropriate, having reason to believe that a person is liable to register, he shall compulsorily register such person.

Appointment of Experts and Auditors

To enhance tax administration, the Bill proposes to insert a new **section 32B** that permits the FBR or Commissioners to appoint experts and auditors to assist with audits, investigations, litigation, and valuations. These experts may be engaged directly or through third-party payroll firms, with their roles and terms of engagement defined by the FBR.

Restoration of Suspension of Registration

Under the existing provisions of the law, a person whose sales tax registration has been suspended can file appeal before Chief Commissioner Inland Revenue. The bill has proposed to give these remedial powers to the Commissioner instead of Chief Commissioner. The Bill proposes that if the Commissioner has suspended any persons' sales tax registration, then he will be required to issue a show cause notice to the registered person within fifteen days of issuance of order of suspension. Upon receipt of the reply to the notice and after giving an opportunity of hearing to the registered person, if the Commissioner is satisfied, he may order for revoking of suspension of the registered person or issue an appealable speaking order for blacklisting of the registered person within thirty days of receipt of the reply to the notice.

E-Bilty

The Bill proposes that the sales tax invoice shall be generated and linked with the e-Bilty. The Bill has proposed to insert the definition of "e-bilty" for this purpose as the digital document generated through cargo tracking system to be accompanied with the transport carrying import, export, transit and transshipment goods transported within or across the territory of Pakistan as per the format prescribed under the rules by the FBR.

For this purpose, "Cargo Tracking System" means a digital system notified by the Board for electronic monitoring and tracking of goods transported within or across the territory of Pakistan, for the purpose of tax enforcement, compliance and prevention of tax evasion.

Where any person fails to generate an e-bilty, or tampers with, misuses, or forges such document in contravention of sub-section (6) of section 40C, such person shall be liable to a penalty of fifty thousand rupees and recovery of any tax evaded through such contravention.

A relevant amendment has been proposed under section 83C of the Customs Act, 1969 to provide that any person being a consignor, transporter, shipping agent, freight forwarder, consignee, supplier or recipient of goods and causing movement of goods from and to a seaport, land border station, inland dry-port or inland movement, shall be required to electronically generate, carry, display or validate an e-bilty through the Cargo Tracking System. The FBR may prescribe the manner and procedure to implement e-bilty mechanism and employ any technological means for tracking, identifying en route and digital record keeping of any kind of goods as part of its cargo tracking system and may charge fee or charges for maintenance and operation of the tracking system.

In case of any violation, the goods, conveyance, owner of goods and master of conveyance, as the case may be, shall be liable to fine, penalty, detention, seizure and confiscation under the provisions of this Act. The penalty proposed for this violation under the Customs Act, 1969 is fifty thousand rupees for the first contravention and rupees five hundred thousand for the second contravention; and thereafter he shall be liable to a penalty of rupees one million and confiscation of the goods and conveyance and upon conviction by a Special Judge liable to imprisonment not exceeding six months.

Freezing of Bank Account of Unregistered Persons

A new proposed provision, section 14AC, empowers Commissioners to bar operations of the bank accounts of individuals or entities that fail to register for sales tax. Those aggrieved by this action can file an appeal with the Chief Commissioner Inland Revenue within 30 days. Upon registration of such person, the Commissioner shall issue and convey order for removal of bar on transfer of immovable property immediately.

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

Restriction on Registration of Immovable Property of Unregistered Persons

Similarly, under the newly introduced **section 14AD**, Commissioners can direct to the property registration authorities to block the transfer of immovable properties owned by unregistered persons. Those aggrieved by this action can file an appeal with the Chief Commissioner Inland Revenue within 30 days. Upon registration of such person, the Commissioner shall issue and convey order for removal of bar on transfer of immovable property immediately.

The FBR will announce the implementation date through a notification.

Sealing Business Premises and Seizing Movable Property of Unregistered Persons

The Bill also proposes to further empower tax authorities under **section 14AE**, allowing the Chief Commissioner to:

- seal business premises,
- seize movable property, and
- appoint a receiver to manage taxable activities.

These actions must be preceded by a public notice and receive approval from a committee, which will hear the matter in an open court comprising Chief Commissioner, Commissioner, and a representative from the Chamber of Commerce or Trade Bodies.

These actions will be reversed within two working days upon the completion of registration, and decisions will be published on the FBR's website and in newspapers.

The aggrieved persons will be able to file representations against the above actions to the FBR within 30 days of actions.

The FBR will announce the implementation date through a notification.

Appeals before Commissioner (Appeals), Tribunal, and the High Court

The Finance Bill has proposed to delete the pecuniary jurisdiction for appeals introduced vide Tax Laws (Amendment) Act, 2024. According to that amendment vide Tax Laws (Amendment) Act, 2024, the appeals before the Commissioner (Appeals) are limited to cases where the tax assessment or refund value does not exceed Rs 10 million for sales tax cases. Cases exceeding this threshold are to be directly appealed before the Appellate Tribunal Inland Revenue.

Now after the enactment of this proposal, the position before the introduction of these pecuniary jurisdiction shall be reinstated i.e., the first appeal against the appealable assessment orders shall lie before the Commissioner (Appeals) and the second appeal against the decision of the Commissioner (Appeals) shall lie before the Appellate Tribunal.

The Bill has also proposed that an aggrieved person may have the option to either file appeal before Commissioner Inland Revenue (Appeals) directly or may surrender his right of appeal before Commissioner Inland Revenue (Appeals) and avail the next statutory appellate forum by lodging the appeal directly before the Appellate Tribunal Inland Revenue.

The time limit for filing appeal before the Commissioner (Appeals) and the Tribunal shall be 30 days from the passing of the appealable order.

The appeal against the order of the Tribunal shall be filed in the High Court, within 60 days of the receipt of the order of the Tribunal.

The appeal against the order of the Tribunal shall be filed in the High Court only on the question of law whereas all the factual controversies shall be resolved in the appeals before the Commissioner (Appeals) and the Tribunal.

The State-Owned Enterprise shall continue to file for the resolution of disputes to the Alternative Dispute Resolution Committee (ADRC). The ADRC shall decide the disputes within 60 days (or extended 60 days) and in case of lapse of the said time or extended time, the matter shall be decided by the court of law or the appellate authority where the dispute is pending under litigation.

The taxpayers other than SOEs shall remain eligible to opt for ADRC for dispute resolution instead of taking the matter in appeals in normal process.

Condonation of time limit

The FBR can condone the time limit applicable for any action or thing to be done by the taxpayer or the authorities, as provided under any provision of the income tax law.

The Bill proposes to provide a time limit of two years for such extension of time to perform the act or thing being condoned. As per the proposed amendment, the maximum period of extension under this section by the Board or the Commissioner, as the case may be, shall not exceed two years in aggregate.

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

Tax Fraud and Concept of Abettor

The proposed amendments aim to strengthen the legal framework against tax evasion and fraud. A new definition of "abettor" is introduced to criminalize individuals who collude with registered persons involved in fraudulent activities, with corresponding punishments. The definition of tax fraud is broadened to encompass all kinds of fraud, including technology-driven ones. Amendments to the penalty section are designed to deter tax fraud. A clear distinction is established between proceedings for non-compliance and tax frauds, with the latter to be prosecuted before special judges based on departmental inquiries and investigations, ensuring that final decisions are made by a judge rather than a departmental officer.

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

Any person who abets or connives in committing tax fraud as defined in section 2(37) or any offence warranting prosecution under the Act, such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to ten years or with fine which may extend to ten million rupees, or with both.

Information can be acquired from third party for investigation in tax fraud

The Bill proposes that the Commissioner may, by notice in writing, require only Internet Service Providers, Telecommunication Companies and Pakistan Telecommunication Authority, to furnish subscriber's information pertaining to the Internet Protocols in connection with any inquiry or investigation in cases of tax fraud, as may be specified in such notice.

The Islamabad Capital Territory (Tax on Services) Ordinance, 2001

Integration of Service Providers with the FBR Computerized System

The Bill has proposed to require the integration of service providers' business systems with the FBR's computerized system for real-time reporting of services. Businesses providing taxable services in Islamabad as listed in Tables 1 and 2 of the Schedule to the Islamabad Capital Territory (Sales Tax on Services) Ordinance, 2001 must comply with these requirements. The manner and timeline for integration will be specified by the FBR through a General Order.

Negative List of Services

It has been proposed that the FBR may specify a Negative List of services exempt from tax under this Ordinance, Table-3 to the Schedule, by notification in the official Gazette. After such negative list, it is expected that all the services will be deemed to be taxable unless specified in the negative list. Currently, only the services provided under Table 1 and 2 of the Schedule to the Islamabad Capital Territory (Sales Tax on Services) Ordinance, 2001 are taxable.

Federal Excise Duty

Seizure and Confiscation of Counterfeited Goods

To deter counterfeiting, goods manufactured without proper tax stamps or with counterfeited stamps will be liable to seizure and confiscation, along with the conveyance used for transportation.

Streamlined Appeals Process

The appeals process is simplified, with the option to file appeals directly with the Appellate Tribunal Inland Revenue, bypassing the Commissioner (Appeals). The pecuniary jurisdiction of the Commissioner (Appeals) is withdrawn.

Withdrawal of Federal Excise Duty on Property Transfer

The federal excise duty imposed on the allotment and transfer of residential and commercial plots is proposed to be withdrawn.

Authorization of Officers for Enforcement Actions

The FBR may authorize officers from other departments to perform functions and exercise powers related to seizing and confiscating dutiable goods, enhancing enforcement capabilities.

Digital Presence Proceeds Tax Act, 2025

The Finance bill has proposed to enact a new law namely “The Digital Presence Proceeds Tax Act, 2025”. The digital economy's growth has outpaced traditional tax systems, allowing multinational online businesses to accumulate profits without paying fair taxes in countries like Pakistan. To address this, the proposed Act introduces a tax on digital transactions involving Pakistani users, ensuring fair taxation regardless of the service or product's origin.

The law applies specifically to foreign vendors that have a "significant digital presence" in Pakistan. A vendor is considered to have such a presence if it supplies goods or services digitally from abroad to users in Pakistan and has carried out more than five transactions during the financial year, along with fulfilling any one of several additional conditions. These conditions include maintaining a Pakistani user base and associated data input, billing in Pakistani currency, being responsible for the delivery or after-sale services of the products, or engaging in sustained marketing efforts in Pakistan. A Pakistani user, for this purpose, is defined as an individual who normally resides in Pakistan, a company established or having a permanent establishment in Pakistan, or any case where the payment for the digital order originates electronically from within Pakistan.

Under this Act, foreign vendors will be liable to pay a tax called the Digital Presence Proceeds Tax on proceeds earned from such digitally ordered services and goods supplied to Pakistani users, regardless of whether the product is delivered digitally or physically. **The tax rate is set at 5% of the payment made for both goods and services**, including payments made for online advertisements on social media platforms. However, the Act provides an exception in cases where the payment is connected to a foreign vendor's permanent establishment in Pakistan, in which case the standard income or sales tax provisions will apply instead.

The responsibility for collecting this tax lies primarily with payment intermediaries such as banks, financial institutions, licensed foreign exchange companies, or online payment gateways that facilitate fund transfers for these transactions. These intermediaries are required to deduct the applicable tax at the time of remitting payments outside Pakistan and deposit it into the government treasury by the 7th of the following month. They are also prohibited from remitting funds to foreign vendors unless the tax has been deducted and paid. Moreover, no courier service is permitted to deliver goods associated with such transactions unless there is evidence that the tax has been paid.

Foreign vendors that pay other digital platforms (such as social media sites) for online advertisements targeting Pakistani users are also required to deduct and deposit the same tax. If a vendor fails to comply with these obligations, whether by not deducting, not depositing, or otherwise violating the provisions—it will be held personally liable for the unpaid tax and a default surcharge at the rate of KIBOR plus 3% per annum. Before initiating recovery, however, the authorities are required to offer the defaulting party a chance to be heard. For enforcement, the recovery provisions under the Income Tax Ordinance, 2001, will apply in a similar manner.

In addition to the tax collection requirements, payment intermediaries must also file quarterly statements with the Commissioner Inland Revenue. These statements must include detailed transaction-wise data, such as the names and identification numbers of buyers and sellers, transaction dates and values, and the amount of tax collected. Intermediaries that maintain bank accounts for foreign vendors must also disclose the total credits to these accounts and amounts remitted abroad. Similarly, social media and other digital platforms operating in Pakistan are required to submit quarterly statements disclosing client-wise information of all advertisers whose ads are relayed in Pakistan and the payments received in this regard.

Failure to submit these required statements will result in a penalty of one million rupees for each default. In serious cases of non-compliance, such as where a foreign advertiser continues to display ads in Pakistan for more than 120 days without paying the tax, the Commissioner may direct payment intermediaries to suspend further remittances to such advertisers.

Appeals under this Act can be filed with the Appellate Tribunal Inland Revenue within thirty days of the receipt of a recovery order. Further references on legal questions can be made to the High Court within sixty days. The Inland

Revenue Department of the Federal Board of Revenue is tasked with administering the Act and may formulate rules to clarify or implement its provisions.

An amendment has also been proposed in section 152(1C) of the Income Tax Ordinance that the banking company and financial institution shall not deduct the tax under this sub-section where the recipient is also liable to Digital Presence Proceeds Levy and same has been collected.

Energy Vehicles Adoption Levy Act, 2025

The New Energy Vehicles Adoption Levy Act, 2025 marks a significant legislative step by the Government of Pakistan toward encouraging the transition to environmentally friendly transportation. This Act introduces a levy on internal combustion engine motor vehicles with the express aim of promoting the adoption of new energy vehicles—vehicles that produce zero tailpipe emissions through electric propulsion or similar clean technologies. The preamble of the Act underlines its purpose: to regulate the imposition and collection of a levy on conventional fossil fuel-powered vehicles and to channel the proceeds toward facilitating and incentivizing the shift to clean, energy-efficient transportation solutions.

The Act extends to the entire country and comes into effect immediately. It defines key terminologies such as “bus,” “truck,” “manufacturer,” “internal combustion engine motor vehicle,” and “new energy motor vehicle.” A new energy motor vehicle under this law includes those powered exclusively by electric motors using rechargeable batteries, plug-in hybrid electric vehicles capable of a minimum fifty-kilometer range solely on electric mode, and hydrogen fuel cell vehicles, among other zero-emission technologies. The law is inclusive in its scope, covering all categories of vehicles—whether two-wheelers, passenger cars, commercial buses, or heavy trucks—based on their engine type and propulsion method.

The core provision of the Act introduces a levy on all internal combustion engine motor vehicles, to be paid to the Federal Government by two categories of taxpayers: manufacturers who assemble or produce such vehicles domestically, and importers who bring them into Pakistan. The rate of levy is to be prescribed in the First Schedule, with flexibility for the Federal Government to revise the rate, add new categories, or remove certain types of internal combustion vehicles from the scope of the levy through future notifications. This allows the Act to evolve in response to economic conditions, environmental targets, and technological advancements.

To balance the law’s objectives and fairness, certain exemptions are outlined. The levy does not apply to new energy vehicles, nor to internal combustion vehicles that are manufactured or imported solely for export under Federal Government orders. Diplomatic missions and international organizations that enjoy immunity under the Diplomatic and Consular Privileges Ordinance, 1972, are also exempt. Furthermore, the Federal Government retains the discretion to exempt any other category of vehicle through official notification, providing administrative flexibility.

The Act specifies the mechanism for the collection of the levy. For imported vehicles, the levy will be collected in the same manner as import duty under the Customs Act, 1969, while for locally manufactured or assembled vehicles, the levy will be collected similarly to sales tax under the Sales Tax Act, 1990. These existing frameworks provide an established administrative infrastructure for efficient collection, recovery, and refund of the levy, thereby minimizing the need for new procedural systems.

All proceeds collected under this levy are earmarked for activities and initiatives that support the adoption and facilitation of new energy vehicles. The utilization of these funds will be determined by the Federal Government, potentially including subsidies, infrastructure development such as charging stations, public awareness programs, or support for local manufacturing of electric vehicles.

To ensure the implementation and operationalization of the law, the Federal Government is empowered to make rules through official notification. Additionally, a saving clause allows the government to issue orders to resolve any unforeseen complications in applying the provisions of the Act, thus ensuring continuity and clarity in enforcement.



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