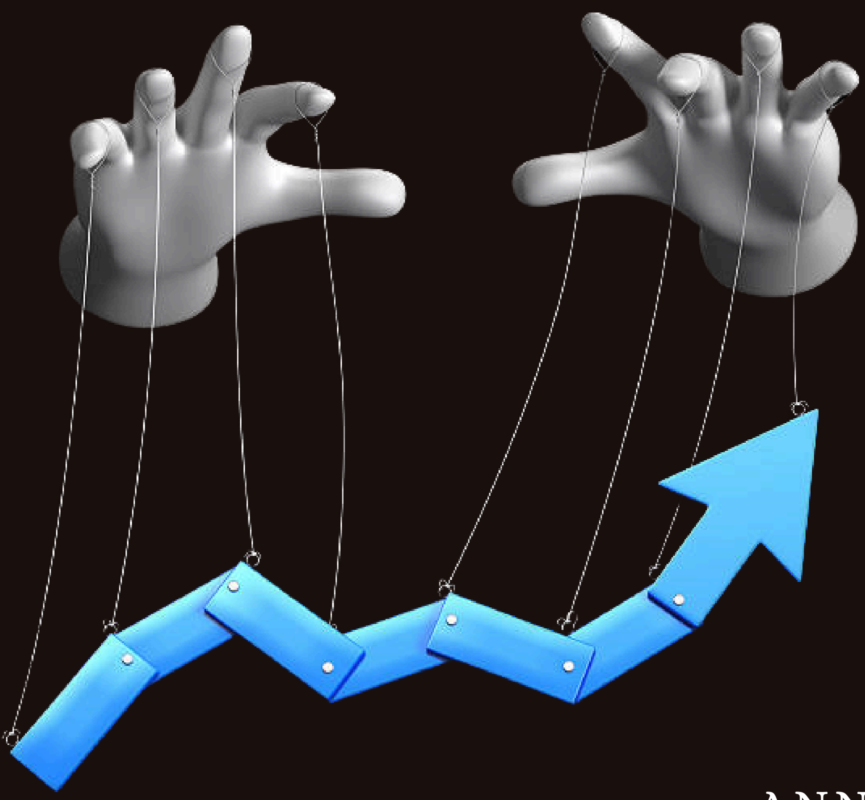
CHARTERED ACCOUNTANTS



ANNUAL

TREATISE

ON TAXATION

2025

THE ILLUSION OF EASE

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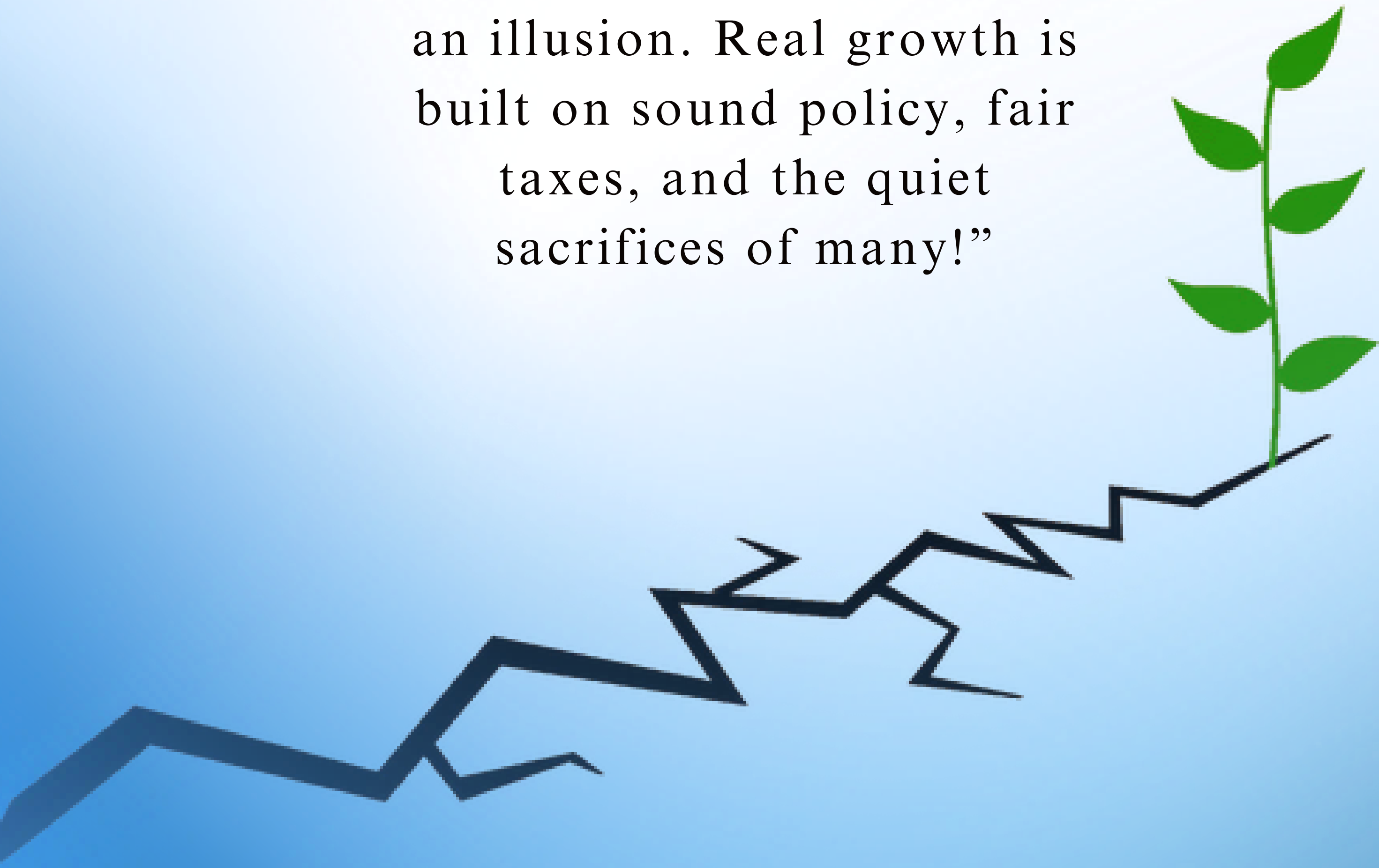
PREAMBLE

"The ease of prosperity is an illusion. Real growth is built on sound policy, fair taxes, and the quiet sacrifices of many!"



Alhamdullillah! RASG is pleased to present its Annual Treatise on Taxation – 2025 for its clients, associates and readers under the theme of "The Illusion of Ease". While successive governments have introduced initiatives intended to simplify and modernize tax administration, these often amount to superficial changes that fail to address deep-rooted structural inefficiencies. This illusion undermines public trust, distorts incentives, and perpetuates fiscal imbalance. We need to shift from cosmetic reforms toward systemic restructuring, grounded in transparency, institutional autonomy, and genuine public engagement.

Over the past two decades, Pakistan has repeatedly embarked on economic and tax reforms aimed at improving governance, widening the tax net, and facilitating ease of doing business. However, many of these reforms have failed to produce meaningful results, partly due to what may be described as the illusion of ease—the tendency to prioritize surface-level reforms that appear progressive, while neglecting the structural and institutional transformations necessary for sustainable development.

We need to explore how this illusion manifests in tax policy and economic decision-making and for overcoming it is essential for achieving long-term fiscal stability and equitable growth.

1. Understanding the "Illusion of Ease"

The term "illusion of ease" refers to policy measures that appear to simplify governance or reduce burden on citizens but do not deliver substantive improvements in outcomes or experiences. These measures may be digital platforms, simplified tax forms, or flat-rate tax schemes that are more performative than transformative.

In Pakistan's context, such illusions frequently stem from a combination of political expediency, bureaucratic inertia, and an unwillingness to challenge entrenched interests.

2. Tax Policy:

2.1 Between Rhetoric and Reality

Pakistan's taxation system is marked by persistent underperformance. Despite efforts to modernize, the country's tax-to-GDP ratio remains below 10%—one of the lowest in the region.

2.2. Digitalization

Initiatives such as e-filing portals and point-of-sale (POS) integrations are promoted as technological breakthroughs. However, in practice, these systems are often unreliable, not user-friendly, and fail to eliminate the need for in-person interactions with tax officials. The persistence of these shortcomings reduces public confidence in digital reforms.

2.3.Complexity Despite Simplification

Although the FBR has introduced “simplified” tax return forms however, frequent regulatory changes, inconsistent interpretation of laws, and the lack of harmonization between federal and provincial tax regimes contribute to confusion and increased compliance costs, particularly for small and medium enterprises (SMEs).

2.4. Fixed Tax Schemes and Amnesty Programs

Recurring tax amnesty schemes, ostensibly introduced to formalize the informal economy, represent another facet of the illusion of ease. While these schemes offer temporary revenue gains and political popularity, they erode long-term incentives for voluntary compliance and create moral hazard.

Fixed tax regimes, particularly for traders and retailers, aim to offer predictability but are often introduced without adequate data or enforcement capacity. These approaches also risk institutionalizing informality rather than eliminating it.

2.5. Political Economy of Superficial Reform

The illusion of ease is not accidental—it is often politically motivated. Governments, constrained by short electoral cycles and political instability, resort to short-term, populist measures rather than pursuing complex structural reforms. Subsidies, tax exemptions for powerful lobbies, and deferrals of unpopular policy decisions are framed as pro-public, even when they increase macroeconomic vulnerabilities.

3. Consequences of the Illusion

The persistence of the illusion of ease has serious ramifications:

- Low Public Trust in Institutions: Taxpayers often view the system as arbitrary, extractive, and unaccountable.

- Narrow Tax Base: The burden of taxation is disproportionately borne by salaried individuals and formal businesses.
- Revenue Shortfalls: Chronic deficits compel the government to resort to borrowing and IMF support, reducing fiscal sovereignty.
- Undermining Reforms: Repeated failures to deliver on promised “ease” generate reform fatigue and public cynicism.

4. Moving Toward Genuine Reform

To dismantle the illusion and build a more equitable and functional system, the following policy directions are essential:

4.1 Institutional Autonomy and Capacity

Strengthening the autonomy of tax authorities, depoliticizing appointments, and investing in human and technological capacity are critical steps.

4.2 Transparent and Predictable Policy Environment

Reform must prioritize transparency in enforcement, clarity in regulations, and stability in tax policy to foster trust and voluntary compliance.

4.3 Linking Taxation to Public Services

The state must demonstrate a visible link between taxation and service delivery, particularly at the local level. Without such reciprocity, civic responsibility and tax morale remain weak.

4.4 Comprehensive Legal Reform

Reduction in discretionary exemptions, and simplifies procedures can lower compliance costs and improve governance.

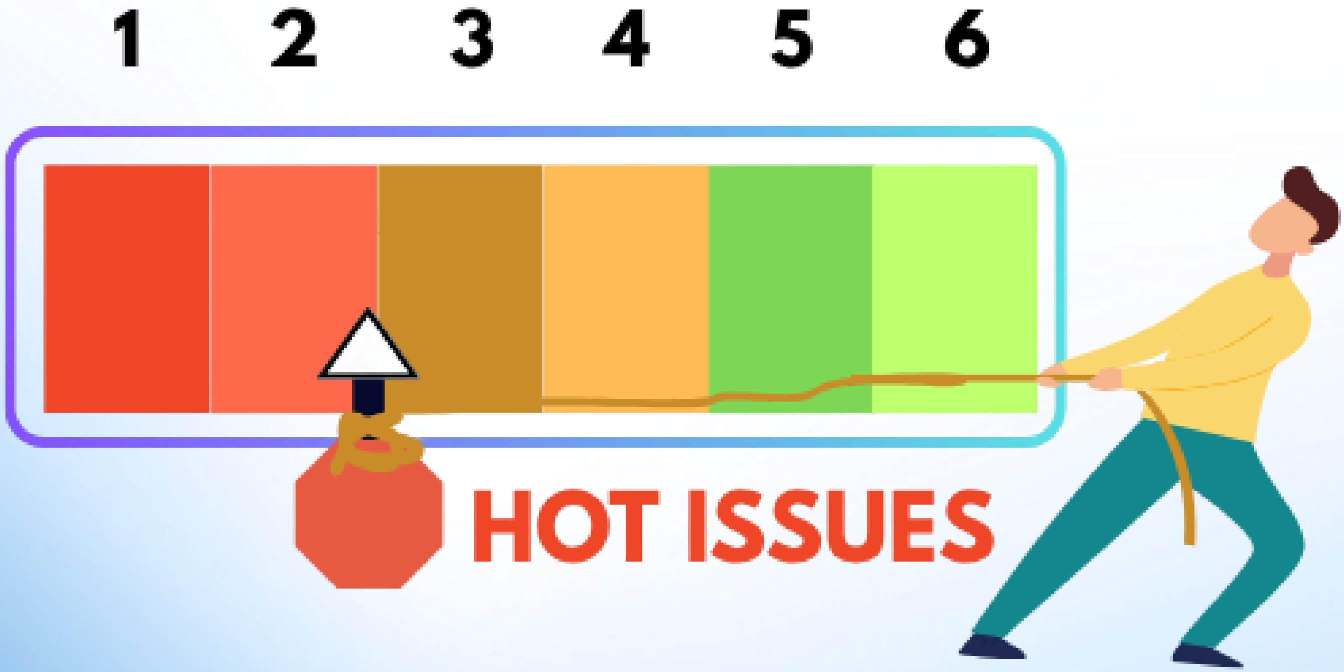
5. Conclusion

The illusion of ease in Pakistan’s economic policymaking is a significant barrier to effective governance and sustainable development. Superficial reforms may offer short-term political dividends, but they entrench systemic dysfunction and erode institutional credibility.

Breaking free from this cycle requires a reorientation of policy from optics to outcomes, from announcements to accountability, and from transactional governance to transformative reform.

One also has to see how the reforms/initiatives such as mandatory integration of E - invoicing, E-bilty, 8-digit HS (Harmonized System) codes works and whether the government is able to achieve the desired results or not.

Only then can Pakistan build an economy that is inclusive, resilient, and truly easy to engage with—for all its citizens.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HOT ISSUES

In a nation where just 1% of citizens regularly file tax returns, 2025 is fast becoming the year tax policy went viral. From Universities to the Supreme Court, tax debates are dominating the national conversation, sparking fury, protests, and legal showdowns. Here's a breakdown of how the Federal Board of Revenue (FBR) has managed to ignite a firestorm across nearly every corner of society.

INCOME TAX

The Education Uprising: Teachers vs. FBR

It all began with what many are calling the "rebate betrayal." For decades, full-time teachers and researchers were entitled to a 25% income tax rebate under Clause (2), Part III of the Second Schedule to the Income Tax Ordinance, 2001. Then, in early 2025, FBR abruptly narrowed the definition, excluding principals, department heads, and others who weren't in a purely teaching role.

Hazara University professors led the charge with a writ petition in the Peshawar High Court. The Islamabad High Court later ruled decisively: if you teach, you qualify. The Federal Tax Ombudsman backed the educators, and the President's Secretariat dismissed FBR's appeal. By March 2025, the federal cabinet officially restored the rebate.

The Federal Government has restored this tax rebate retrospectively through the Finance Act, 2025 from July, 2022 upto June 30, 2025.

Credit Entries in the Bank Statement does not necessarily count as concealed income

The Supreme Court of Pakistan has recently settled an important controversy in tax law by ruling that mere credit entries in a bank statement cannot be equated with concealed income under Section 111 of the Income Tax Ordinance, 2001 (Khudadad Heights v. CIR, 2025 SCMR 716). The Federal Board of Revenue (FBR) had relied heavily on unexplained bank credits to reopen and amend assessments under Section 122, treating them as “definite information” of undisclosed income. The Court clarified that a bank statement is nothing more than a financial record, and unless such entries are corroborated with evidence that they represent taxable receipts, they cannot form the basis of reassessment. In the Court’s words, speculation cannot substitute for “definite information.”

This judgment carries significant implications for both taxpayers and the revenue authorities. On one hand, it strengthens legal safeguards against arbitrary assessments based on unverified banking data, ensuring that taxpayers are not burdened merely because of the volume or frequency of transactions. On the other hand, it compels the FBR to improve the quality of its evidence-gathering and analytical processes, moving beyond mechanical reliance on banking information. By affirming that the Appellate Tribunal Inland Revenue's factual findings cannot be lightly disturbed, the ruling also reinforces the integrity of the appellate process. Taken together, the decision is a welcome step toward balancing revenue collection with taxpayer rights, while narrowing the scope for harassment in tax administration.

Service of notice on a Company

An intriguing drafting oversight in the Income Tax Ordinance, 2001 (ITO) came to light when a company challenged the legality of service of notices. The law initially prescribed one of the modes of service as such notices "shall be served electronically on the **individual**," language that is perfectly applicable to natural persons but nonsensical in the context of corporate entities since a company is not an individual. The Appellate Tribunal Inland Revenue (ATIR), in the case of M/s. Pi Pakistan (Private) Limited vs. CIR, ruled in favor of the company, holding that the mode of service chosen by the Respondent was defective as electronic service was prescribed for an individual and that a Company is a non-natural person. This decision highlighted a clear technical anomaly in the drafting of the ordinance.

In response, the government introduced a corrective amendment in the Finance Act, 2025, rewriting the service provisions to reflect the realities of corporate notice service. Rather than requiring personal service on an "**individual**", the revised wording allows service of notices electronically on a company through its company secretary or registered office, aligning legal form with tax procedural practice. This amendment ensured that notices could be lawfully issued and received by juristic entities, preserving the enforcement efficacy of tax assessments while closing the unintended loophole exposed by the ATIR ruling.

Super Tax on High-Earning Taxpayers

The Super Tax under Section 4C of the Income Tax Ordinance, 2001, was introduced for high income individuals and entities. Originally imposed through the Finance Act 2022, this tax applies to taxpayers whose income exceeds Rs. 150 million, with rates increasing progressively. The tax has been challenged in courts on constitutional grounds, especially regarding its retrospective application for Tax Year 2022.

While the Sindh High Court ruled Section 4C as unconstitutional for retrospective application, other courts have upheld it. The Supreme Court of Pakistan has taken cognizance of the matter but is awaiting decisions from all high courts. In the interim, the Supreme Court has ordered partial payments (4%) across the board, even for those originally taxed at 10%.

In March–April 2025, Pakistan's Supreme Court (SC) launched a detailed constitutional review of the Super Tax, questioning whether a levy introduced as a one-time measure in 2015 could persist indefinitely. During hearings, Justices Mandokhail and Mazhar asked pointed questions about its original purpose rehabilitating military-affected regions and whether the federal government had records detailing revenue collection and usage. They also raised concerns under Article 106 about imposing money bills on services without provincial consent.

The SC consolidated appeals from Lahore, Islamabad, and other high courts, calling for all pending documentation before issuing a final verdict. It granted interim relief by setting the current Super Tax rate at 4% for all petitioners and prohibited coercive recovery until final adjudication. The court further questioned whether the federal government had constitutional authority to distribute this tax between provinces.

A five-judge bench continues to hear deliberations, with arguments expected to conclude soon, and final judgment pending.

Capital Value Tax (CVT) on Foreign Assets

CVT is levied under Section 8(7) of the Finance Act, 2022, at the rate of 1% on the fair market value of foreign assets exceeding Rs. 100 million. The Sindh and Lahore High Courts upheld its constitutionality. In 2025, the Supreme Court reduced assessed liability to 50% for petitioners pending final decision. The government plans to expand CVT to movable assets (e.g., gold, cash, investments, savings) in the upcoming 2025–26 budget as a means to broaden the tax base. The IMF, however, rejected this proposal, citing its adverse impact. Still, tax experts support the idea as part of broader asset taxation. As of June 2025, this proposal remains under debate, pending final budget approval.

Tax on Deemed Income (Section 7E)

In early 2025, the FBR and government task force recommended abolishing Section 7E as part of broader real estate tax relief measures. Section 7E had been introduced in Finance Act 2022, taxing deemed rental income at an effective 1% of fair market value. The task force cited the negative impact on investment and called for its removal to spur sector growth.

Section 7E introduced a tax on deemed rental income from immovable property, assuming 5% of the fair market value as taxable income (at 20%). This is applicable where property values exceed Rs. 25 million. There is intense constitutional debate around this provision. While the Lahore High Court has upheld the law, courts in Islamabad, Peshawar, and Balochistan have struck it down. The Supreme Court has granted interim relief for Tax Years 2022 and 2023, requiring taxpayers to pay only 50% of their deemed liability.

Consequently, FBR indicated the issue will be addressed in the 2025–26 Federal Budget. However, its legal status remains in flux, with previous conflicting high court rulings Lahore HC setting aside and then reinstating its applicability in Feb 2024. Final resolution awaits court direction or legislative amendment.

Foreign Rental Income

The Federal Board of Revenue (FBR) has recently begun taxing rental income earned by resident Pakistanis from overseas properties, despite taxpayer claims of exemption under applicable Double Taxation Agreements (DTAs). This shift in enforcement has led to a wave of litigation, as many DTAs such as those with the UAE and the UK assign exclusive taxing rights over immovable property income to the country where the property is located. While some benches of the Appellate Tribunal Inland Revenue (ATIR), particularly in Islamabad, have upheld the taxpayers’ position that such foreign rental income is not taxable in Pakistan due to DTA protections, other benches, such as in Lahore, have ruled in favor of FBR, holding that worldwide income of resident individuals is taxable unless explicitly exempted. These conflicting interpretations have resulted in legal uncertainty, with appeals currently pending before various High Courts. Until a conclusive judgment is issued, the issue remains contentious, with taxpayers facing inconsistent treatment based on jurisdiction and interpretation of treaty law.

Current Status of Foreign Rental Income Taxation

(a)Conflicting ATIR Decisions:

The Islamabad Bench of the Appellate Tribunal Inland Revenue (ATIR) has held that foreign rental income is exempt in Pakistan where DTAs grant exclusive taxing rights to the source country (e.g. UAE, UK, KSA). Conversely, the Lahore Bench has ruled that such income remains taxable in Pakistan under domestic law, and any tax paid abroad should be adjusted via foreign tax credit under Section 103 of the Income Tax Ordinance, 2001.

(b)High Court Appeals Pending:

These conflicting tribunal rulings have led to appeals currently pending before various provincial High Courts (notably Islamabad and Lahore). No binding precedent has yet been laid down by the Supreme Court on this specific issue.

(c) FBR's Ongoing Enforcement:

Despite pending litigation, FBR continues to issue notices and pass assessment orders treating foreign rental income as taxable, requiring resident taxpayers to either:

a. Declare it in their return, or
b.Face disallowance of claimed exemption and penalties for concealment.

(d)Uncertainty for Taxpayers:

In the absence of consistent judicial interpretation, taxpayers are exposed to litigation risk, with outcomes depending on the jurisdiction of the tribunal and nature of the DTA involved. FBR's current stance leans toward taxation, regardless of treaty protections, unless strongly contested.

SALES TAX

Mandatory Requirement For E-Invoicing

This was an FBR notification (dated 01-03-2024) that made e-invoicing and POS integration mandatory for certain sectors and businesses, especially in the FMCG and retail sectors. It laid the groundwork for digitization of invoices to improve transparency, compliance, and tax collection. but that was just the beginning.

What happened in 2025? after SRO 350(i)/2024 that the FBR took further steps to broaden the scope of electronic invoicing and bring all sales tax registrants across goods and services (Islamabad Capital Territory) under a uniform system.

This was done through the following major SROs:

1.SRO 69(i)/2025 dated 29-jan-2025 consolidated all invoicing rules into one chapter.
2.SRO 709(i)/2025 dated 22-apr-2025 extended e-invoicing to all registrants.

The Federal Board of Revenue has designated four licensed integrators who are authorized to get taxpayers integrated. One of them being the organization run by the Federal Government itself i.e. PRAL. However, currently there has been a sense of chaos and confusion amongst taxpayers with regards to this matter due to lack of information and awareness.

The Federal Board of Revenue has started issuing notices for charging of penalty to those taxpayers whose deadlines have passed but have not gotten themselves integrated.

Moreover, it should be noted that this requirement is on every person registered under the Sales Tax Act, 1990 regardless of the fact that the person's business is dormant or is a NUL Filer. This has caused significant hardships for taxpayers and an additional cost which is to be borne by them.

Power to arrest and detain persons engaged in tax fraud

The Finance Act, 2025 significantly expanded the enforcement toolkit of the FBR under the Sales Tax Act, 1990 by amending Sections 37A and 37B. Under the revised Section 37A, Inland Revenue officers were granted powers to arrest and detain persons accused of tax fraud exceeding Rs. 50 million, subject to prior approval of a three-member FBR committee and subsequent presentation before a magistrate within 24 hours. Section 37B, in turn, conferred powers on FBR officers akin to those of a civil court, allowing them to summon individuals, demand records, and examine witnesses under oath during inquiries. These provisions were defended by the government as critical to tackling large-scale sales tax fraud, especially in sectors with chronic evasion.

The business community, however, reacted with strong resistance. The Karachi Chamber of Commerce and Industry (KCCI), along with other trade bodies, staged protests and even partial strikes, calling these powers "draconian" and prone to harassment. Their concern was that the arrest and quasi-judicial powers vested in tax officers would be misused against compliant businesses, further eroding trust in tax administration. In response to the outcry, the government introduced some procedural safeguards limiting arrest powers to serious fraud cases and establishing grievance redress committees, but chambers continue to demand a complete rollback of Sections 37A and 37B, warning that unchecked enforcement powers could destabilize business confidence and investment.

Sales Tax on Renting of Immovable Property (Sindh)

In FY 2025–26, the Sindh Finance Bill implemented key reforms around property rentals:

On July 1, 2025 the province shifted to a negative list structure, making most services taxable unless specifically exempted including property rentals. The rate of sales tax has been prescribed as 3%.

As of July 16, 2025, an SRB notification (3-4/41/2025) mandates issuing a tax invoice for renting immovable property services, enhancing transparency and enforcement. Since then, SRB has been issuing penalty notices to non-compliant taxpayers, who had earlier secured favorable rulings from Sindh High Court prompting fresh appeals. Litigation is now ongoing, testing the tension between judicial rulings and administrative enforcement and currently the Sindh High Court has granted an interim stay order to the petitioners.

Introduction of a negative taxation list by the provincial governments

In a landmark overhaul of provincial sales tax policy, Pakistan's provinces (Sindh, Punjab, KP, and Balochistan) are shifting from a narrow positive list regime—where only specified services are taxable—to a broader negative list framework effective from July 1, 2025, under the IMF-backed National Fiscal Pact. Under this new model, all services are deemed taxable unless explicitly exempt, a move aimed at widening the tax base and eliminating grey areas in service classification. Provinces are also mandated to secure cabinet and legislative approvals for their respective negative lists, ensuring a harmonized yet flexible approach across jurisdictions.

While the Provincial Finance Bills introduce a major structural reform by transitioning to a negative list-based sales tax framework, no corresponding clarificatory circulars or procedural updates have yet been issued by the Provincial Tax Authorities to align the existing withholding obligations with the revised statutory structure. This has resulted in continued uncertainty, particularly in cases involving cross-border services, digital platforms, and technical consultancy arrangements.

Clear administrative guidance is awaited from the SRB to harmonize the withholding mechanism with the newly proposed "negative list" framework, and to delineate the obligations of local recipients in a manner that ensures both legal certainty and tax compliance.

Input tax adjustment for telecommunication sector

When the federal government raised the general sales tax (GST) rate from 17% to 18%, most sectors saw a straightforward increase in liability. But for the telecom industry, which enjoys a special dispensation under provincial sales tax laws allowing full input adjustment on capital assets, the change created an anomaly. Provincial statutes had expressly worded the entitlement as “input tax adjustment at 17% on purchase of assets.” This drafting meant that when federal GST jumped to 18%, there was a time lag: telecom companies continued to be legally restricted to claim input at 17%, even though they were actually paying 18% GST on their imports and procurements.

The mismatch left operators with stranded input tax of 1% during the intervening period a significant cost given the scale of telecom sector investments. While subsequent amendments in provincial finance acts have started to update these provisions, the episode highlights a recurring problem in Pakistan’s fragmented indirect tax framework: when federal rates change, provincial statutes often lag in updating cross-referenced provisions. For an industry that depends on large, upfront capital spending, such gaps not only create compliance disputes but also raise the effective tax burden until harmonisation catches up. Gradually the rates have been harmonized by each province through amendments in their respective laws. However, notices have been issued for the time period for which the rate was still allowed at 17% by the provinces.

KSA - REAL ESTATE LAW FOR NON-SAUDIS

THE ILLUSION OF EASE

Saudi Arabia Updates Law on Real Estate Ownership by Non-Saudis

In a landmark step toward boosting foreign investment and aligning with Vision 2030, the Kingdom of Saudi Arabia has updated its Law of Real Estate Ownership by Non-Saudis, replacing the previous framework from 2000. The updated law, approved by the Council of Ministers on **19 Muharram 1447 AH (July 14, 2025)**, sets out clear rules, safeguards, and opportunities for foreign individuals, companies, and organizations to own property in the Kingdom. It will come into effect in January 2026, following the issuance of detailed implementing regulations.

Background and Vision 2030 Context

Saudi Arabia's real estate sector is a cornerstone of its economy, influencing more than 120 related industries and creating jobs while enabling homeownership. As part of Vision 2030, the government aims to diversify income, expand housing supply, and attract global investors. This law forms part of a broader legislative overhaul — over 20 real estate laws have been issued in the past five years to protect rights, stimulate investment, and ensure market transparency.

Who Can Own Property Under the Updated Law?

The law defines "non-Saudis" broadly to include:

- **Individuals** (residents or foreign investors abroad)
- **Foreign companies** and Saudi companies with foreign shareholders
- **Non-profit entities** such as international organizations and associations
- **Diplomatic missions** (on a reciprocal basis, subject to Ministry of Foreign Affairs approval)
- **Special purpose vehicles and investment funds** with non-Saudi ownership

Geographic Scope of Ownership

Ownership is only allowed in **designated geographic zones** defined by the Council of Ministers and published by the Real Estate General Authority (REGA). These will be mapped in the **Geographic Scope Document**, specifying:

- Permitted cities, districts, and development projects
- Maximum ownership percentages
- Types of real estate rights allowed
- Duration of ownership rights and applicable controls

Special provisions apply to Makkah and Madinah, where ownership is restricted to Muslim non-Saudis under specific conditions set in separate regulations.

Types of Rights Granted

The updated law permits both **full ownership** and other **real rights** such as **usufruct** *(a legal arrangement allowing temporary rights to use and earn from another's property without owning it), easements (the use of another's land for specific purposes like access to water or for utilities such as water, electricity, and gas pipes)*, and similar property interests. All property transactions must be recorded in the Real Estate Register to be legally valid.

Fees and Penalties

Key financial provisions include:

- A **total transaction fee of 10%** (including the existing real estate disposition tax and an additional fee for non-Saudi transactions)
- **Fines up to SAR 10 million** for violations
- The right for authorities to sell properties acquired through false or misleading information via public auction

Alignment with Other Laws

The updated framework is consistent with the **Premium Residency Permit Law** and the **Statute of Real Estate Ownership by GCC Nationals**, ensuring integration with existing investor privileges and regulatory standards.

Implementation Timeline

The **implementing regulations** — which with detail procedures, technical requirements, and compliance mechanisms — are to be published for public consultation on **Istitlaa** *(A Public Consultation Platform that aims to receive the public and government entities' views and feedback on laws)*..within 180 days of the law’s approval and formally issued before **January 2026**.

Economic and Strategic Significance

By modernizing ownership rules for non-Saudis, the Kingdom aims to:

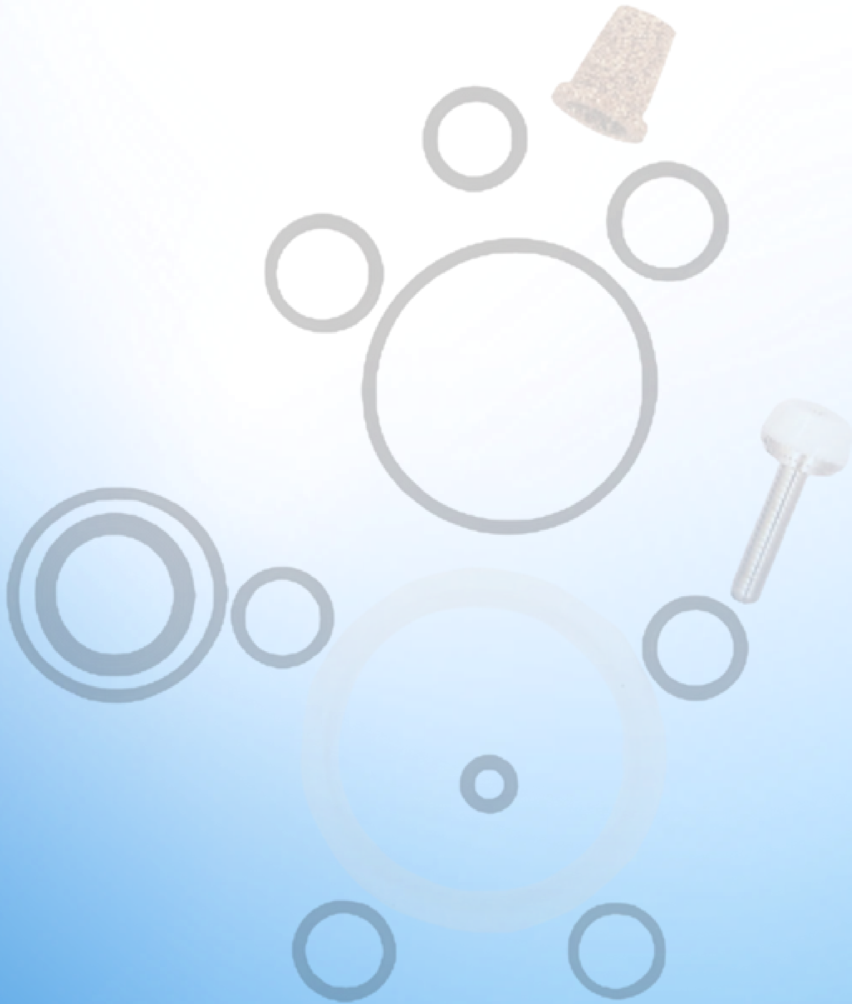
- Attract foreign direct investment (FDI) into real estate
- Retain global talent through property stability
- Enhance GDP contributions from the sector

- Improve urban living standards and project quality
- Stimulate market growth and job creation

Conclusion

The **Updated Law of Real Estate Ownership by Non-Saudis** signals a new era for Saudi Arabia's property market, balancing open investment opportunities with geographic, cultural, and regulatory safeguards. Once implemented in early 2026, it is expected to unlock new channels for foreign capital, strengthen the Kingdom's global investment profile, and advance Vision 2030's urban development goals.

SIGNIFICANT AMENDMENTS



THE ILLUSION OF EASE

INCOME TAX:

The Finance Act, 2025 has introduced several amendments in the Income Tax Ordinance, 2001 (hereinafter referred to as 'the Ordinance'). These amendments aim to streamline certain aspects of the statute, fill up existing loopholes and broaden the tax net especially with respect to the digital economy. This section of the document aims to summarize the significant amendments introduced through the Finance Act, 2025 on the Ordinance.

Taxation of the digital economy:

In order to further streamline taxation of the digital economy i.e. economic activities being conducted through digital means or e-commerce both with respect to income tax and sales tax new initiatives have been taken as under:

'Digitally delivered services' have been 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".

Purpose of these amendments is to broaden tax base by incorporating online platforms and websites that provides such services using e-commerce platforms.

Furthermore, the Finance Act, 2025 (**The Act**) has broadened the concept of an **'Online Marketplace'** to include digital interfaces that facilitate transactions between multiple buyers and sellers, regardless of whether the platform assumes economic ownership of the goods or directly provides the services. This amendment is trying to expand tax base by bringing transactions (conducted through digital platforms) within the tax net.

Tax on payments for digital transactions in e-commerce platforms brought under final tax regime

The Act introduces final tax regime (FTR) for every person who receives payments for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplace or websites.

The Act introduces final tax regime (FTR) for every person who receives payments for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplace or websites.

This amendment as well as definitions of 'digitally delivered services' and 'e-commerce' are aimed at taxation of digitally delivered services and supply of goods through electronic platforms.

Tax shall be levied on the gross receipts at the following rates:

S. No.	Description	Tax Rate
i	Digital Means or banking channels by payment intermediary	1% of the gross amount paid or payable
ii	Cash on Delivery by courier service	2% of the gross amount paid or payable

A proviso has been inserted to exclude proceeds offered to tax as export of goods and services under section 154 and 154A.

The Act also requires such persons to submit quarterly withholding statements to the concerned Commissioner Inland Revenue. Additionally, it also requires the online marketplace or e-commerce platform to submit monthly statements giving details of suppliers selling goods and services through these platforms.

Exclusion of recreational clubs from non-profit organization status

Recreational clubs charging a membership fee exceeding one million rupees for new members has been excluded from the ambit of activities otherwise qualifying for NPO approvals

The amendment has been introduced owing to the fact that there are several recreational clubs who are highly profitable and charge an exorbitant amount of fee to its members but are otherwise not paying any taxes while taking relief as a non-profit organization.

Reduction in surcharge on salaried individuals where taxable income exceeds rupees ten million

Rate has been reduced to 9% (from 10%) for salaried person where taxable income exceeds rupees ten million in a tax year. This is in addition to general reduction in tax slab rates brought in the case of such salaried taxpayers. However, even though the intention of the law is clear but the language of the law leaves room to seek tax relief of this provision where individuals are earning both salary income and income from other source.

Disallowance of deductions

Purchases from persons not holding NTN

In an attempt to broaden the tax base, the Federal Government through The Act has substituted Section 21(q) of the Ordinance. Previously this provision disallowed expenditure attributable to sales in proportion to the sales made to persons required to be registered but not registered under the Sales Tax Act, 1990.

This clause has been substituted with disallowance @ 10% of the claimed expenditure on account of purchases made from persons who are not NTN holders.

This disallowance would not apply to direct purchases of agricultural produce from growers, if purchases made through middlemen or from persons specifically exempted by the FBR through a notification.

Disallowance of expenditure in case receipt of payment is other than banking channels

Additionally, a new clause (r) has been inserted to Section 21 of the Ordinance. This amendment is aimed at greater documentation of economy by discouraging payments outside banking channels and has been the talk of the town recently with various interpretations floating around in social media and within discussions amongst taxpayers. Some interpreting that a tax of 20% would be charged on such purchases and so forth.

However, it is clarified that through this provision 50% of the expenditure claimed in respect of sales shall be disallowed, where taxpayer receives payment exceeding more than two hundred thousand rupees against single invoice otherwise than through banking or digital channels.

Therefore, there is no direct deductibility of tax on cash sales but rather disallowance of related expenditure which would have a domino effect on a taxpayer’s taxable income and tax liability.

Restriction on depreciation allowance

The Act has also amended Section 22 of the Ordinance whereby Depreciation allowance on capital assets acquired would not be allowed, where the person has failed to deduct or deposit tax under sections 152 or 153 of the Ordinance, as applicable, on the payments made to the seller.

The existing statute authorized the disallowance of expenditures incurred where no withholding tax was deducted. However, there was no provision against capital expenditure incurred which is claimed as an expense over the useful life of an asset under the name of 'Depreciation'. Now the Act has filled this loophole as well.

Curtailment of amortization period in case of intangibles

The Act has further streamlined the matter of amortization against intangible assets. As per section 24(4) of the Ordinance, where an intangible asset does not have an ascertainable useful life, it is deemed to have a useful life of twenty-five years.

The above useful life has been reduced to fifteen years for the purpose of calculating amortization expense.

Loans, deposits, gifts received through digital means also excluded from being 'Income from other source'

Currently, section 39(3) of the Ordinance, loans, advances, deposits for issuance of shares, or gifts received through crossed cheques or banking channels are excluded from the ambit of income from other sources.

Through the Finance Act, 2025, such gifts etc. received through 'digital means' shall also remain outside the ambit of taxation.

Restriction on set off of "income from property" against business loss brought back

Prior to the Finance Act, 2021, a person was not allowed to set off a loss sustained under any head of income against the income from property.

Vide the Finance Act, 2021, law was amended allowing business losses to be set off against the Income from Property.

Now again through The Act, setting off the business losses against income from property for the year has been restricted.

Benefit of group relief restricted to group entities taxed under corporate rate of tax

Section 59B of the Ordinance prescribes provisions for availing group relief. Through The Act availing such benefits of group relief under section 59B of the Ordinance is now restricted to a company or companies within the group whose business income is chargeable to tax at the corporate rate of tax under Division II of Part I of the First Schedule to the Ordinance.

Clarificatory amendment on tax credit for coal mining operations

Section 65F of the Ordinance was introduced through the Finance Act, 2021, allowing a tax credit equal to 100% of the tax payable including minimum tax, alternate corporate tax, and final taxes of the following persons, subject to fulfillment of certain conditions:

a)Persons engaged in coal mining projects in Sindh, supplying coal exclusively to power generation projects; and

b)Startups certified by the Pakistan Software Export Board.

The Act has streamlined the claim of tax credit for coal mining projects. Through this amendment entities not supplying exclusively to power generation projects shall still remain eligible to tax credit but to the extent of income derived from coal mining operations in Sindh supplying coal to power generation projects.

Tax credit allowed for interest paid on low-cost housing loan

The Act has introduced a new section 63A whereby an individual can claim a tax credit for a tax year on any profit on debt or share in rent or share in appreciation made on a loan (other than deductible under section 15A), where:

a)loan should be used for constructing or purchasing one personal house (having land area of up to 2500 square feet) or flat (having total area of up to 2000 square feet),
b)loan obtained from scheduled bank or any other financial institution regulated by the SECP or advanced by Government or the Local Government or a statutory body or a public company listed on a registered stock exchange in Pakistan.

Tax credit under section 63A cannot be claimed for any other house or flat for the next fifteen tax years. Tax Credit is to be computed on average rate of tax on the lesser of —

a)the total profit on debt referred to in sub-section (1) paid by the person in the year;
b)thirty per cent of the person's taxable income for the year.

Allowability of depreciation or cost in case assets even purchased through digital means

Section 75A of the Ordinance prescribes that the assets must be purchased through cross cheques, banking instruments to remain eligible for claim of depreciation etc. or allowability of cost.
Now 'digital means' has been included in the above provision as an allowable mode for purchasing assets.

Replacement of tax exemption tables with unified tax credit table for charitable organizations

Prior to the amendment, clause 66 of Part I of the Second Schedule contained two separate tables:

a)One for persons whose income was fully exempt from tax, and
b)Another for persons whose income was exempt, subject to the provisions of Section 100C.

The Finance Act, 2025 now streamlines this structure by deleting both tables and inserting a single unified table.

After this, a specified non-profit and charitable entities will be eligible for a tax credit, subject to the fulfillment of conditions laid out in section 100C of the Ordinance.

This amendment aims to simplify the regime and ensure consistent treatment to enforce compliance of the provisions of Section 100C of the Ordinance by all non-profit organizations rather than giving preferential treatment to certain persons

Entitlement to carry forward minimum tax reduced

Minimum tax paid on turnover in excess of normal tax liability is available for adjustment against normal tax of subsequent three tax years (previously five years before amendment through Finance Act, 2022).

Through The Act time limit for carry forward is now reduced to two years.

Restrictions on economic transactions by ineligible persons

A new Section 114C has been introduced through The Act which provides the 'eligibility' criteria for the conduct of economic transactions by persons. The said provision places a bar on economic transactions being conducted by 'ineligible' persons as per the threshold defined below:

S. No.	Description	Transaction value specification	Tax Rate
1	Booking, purchase, or registration of motor vehicles	Invoice value for locally manufactured vehicle; or the import value as assessed by the Customs Authority inclusive of all applicable taxes, duties, levies and charge.	Exceeding seven million rupees.
2	Registering, recording or attesting transfer of any immoveable property	Fair Market Value as defined in clause (22AA) of section 2 of the Ordinance	Exceeding one hundred million rupees.
3	Investment in securities, debt securities, units of mutual funds or money market instruments subject to the condition that the investment amount up to rupees fifty million shall be new investment in any financial year excluding reinvestment either by liquidation of similar type of securities and or reinvestment of returns earned on already held securities.	Acquisition cost of securities or debt securities or unit of mutual funds or money market instruments	Exceeding fifty million rupees.
4	Annual cash withdrawal limit		One hundred million rupees in all Bank accounts held by an individual

A person will be treated as 'eligible' if it has:

a)Filed a return for the tax year immediately preceding the year of the transaction; and
b)Declared sufficient resources in its wealth statement (in the case of an individual) or financial statements (in the case of a company or AOP).

Alternatively, a person may file a Sources of Investment and Expenditure Statement on the FBR portal, explaining the source of funds for the relevant transaction.

The term "sufficient resources" is defined as 130% of the transaction value, represented by cash and cash- equivalent assets such as local or foreign currency, gold, stocks, receivables, or any other prescribed asset.

Where an asset is acquired in exchange for previously declared capital assets, the declared value of such disposed assets will be considered as part of the cash-equivalent resources.

Exemptions apply to transactions by non-residents and public companies (except in respect of the cash withdrawal cap).

Importantly, filing a 'Sources of Investment and Expenditure Statement' or declaring sufficient resources will not be treated as disclosure of income for the purposes of Section 111 (unexplained income/assets).

The above restrictions shall take effect from a date notified by the Federal Government, with such adjustments to the thresholds in the Fifteenth Schedule as it considers appropriate.

Time limit to complete amendment proceedings extended

Finance Act, 2021 provided a time limitation of 180 days for issuing the amended assessment order under section 122(5) or 122(5A) of the Ordinance from the date of issuance of the show-cause notice under the relevant sub-sections.

While the Finance Bill proposed to remove the time limitation, The Act retains the limitation period for completing amendment proceedings after issuance of a show-cause notice, with the period extended from 180 days to one year.

However, it places a question mark on those show-cause notices which were issued prior to these amendments and were due to be time barred. Ideally those show-cause notices should be time barred within the earlier limitation of 180 days as these amendments were introduced prospectively. However, the proviso states this limitation would be applicable for show-cause notices issued from July 01, 2021 i.e. attempting to apply this limitation prospectively. It seems like this matter would go into litigation until it is decided.

The concept of pecuniary jurisdictions to be omitted

The Finance Act, 2024 introduced the pecuniary jurisdiction of appeals under section 126A of the Ordinance whereby right to appeal to the taxpayers was effectively reduced from two to one forum and the High Court was empowered to decide the reference on the basis of both question of facts and question of law. This was an ambitious attempt for speedy disposal of the tax litigation, however, was widely assailed by the tax bars cautioning that this may result in further staggering of litigations as against its conceived objectives of efficient disposal of litigations.

The Act now omitted this section. Appeals against orders issued by Inland Revenue officers can now be filed before the Commissioner (Appeals) regardless of the tax amount involved. However, it does provide a taxpayer to forego its right to appeal before the Commissioner Inland Revenue (Appeals) and file an appeal directly to the Hon'ble Appellate Tribunal Inland Revenue without any monetary limit if deemed fit. This was a major back track by the Federal Government as the Hon'ble Appellate Tribunal Inland Revenue had made numerous administrative changes which included inducting more bench members and making new benches for such cases. It seems like the past one year of efforts have no gone to waste as a taxpayer would under very rare circumstances forego its right to appeal before the first forum.

Amendments in the mechanism related to appeal effect orders

Currently, the law is silent on requirement of the appeal effect order for recovery of the tax demand in case the order appealed against / tax demand is confirmed by the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court appellate authorities.

The Act has inserted a new sub-section whereby appeal effect order shall not be required to be passed where the tax payable as determined in the order appealed against is confirmed by the above mentioned appellate authorities.

In case of partial modification i.e. set aside, confirmed or remand back of the order subject to appeal before Appellate Tribunal, High Court or Supreme Court, the appeal effect shall be given on the issues and tax payable confirmed or modified by the Appellate Tribunal, High Court or Supreme Court excluding the issues and tax payable that have been set aside or remanded back and recovery shall be enforced accordingly.

Alternative dispute resolution mandated for SOEs

Section 134A of the Ordinance relating to Alternative Dispute Resolution excluded State-Owned Enterprise (SOE) from approaching appellate forums compelling them to apply for Alternative Dispute Resolution.

Through The Act, if the committee appointed by the Federal Board of Revenue fails to decide any disputed matter within sixty days, the committee shall be re-appointed by the Federal Board of Revenue. If the re-appointed committee also fails to decide any disputed matter within a period of sixty days then the matter would be resolved by an appellate forum.

Eligibility for appointment as member of the Appellate Tribunal

Presently, one of the eligibility criteria for a person to be appointed as member of Appellate Tribunal is that the person has practiced for 10 years as a chartered accountant.

Now The Act provides eligibility for the person for an aggregate period of not less than 10 years as:

i.In practice as a Chartered Accountant, either individually or in a firm of Chartered Accountants; or

ii.A Chartered Accountant and has been in employment of a Chartered Accountant in practice for at least for a period of 10 years.

Taxation of pension

A new sub-section (1A) in section 149 of the Ordinance has been inserted by The Act requiring the person, responsible for making payment of pension to a former employee below the age of seventy (70) years deriving pension income during a tax year, to deduct tax from such payment exceeding Rs. 10 million in that tax year at the applicable rates provided under Division I of Part I of the First Schedule to the Ordinance, i.e. 5% of the amount exceeding Rs. 10 million.

The applicable rate structure under Division I of Part I has been separately prescribed for persons deriving pension income including surcharge payable under section 4AB of the Ordinance. Deduction of tax is to be made after allowing adjustment for tax already withheld under other heads and admissible tax credits under sections 61 and 63 of the Ordinance.

Furthermore, the same rate as withholding has been prescribed as the rate of chargeability under the relevant provisions of the First Schedule to the Ordinance.

A simplified rate structure has been introduced, and pension received from a former employer whereby it is to be taxed under this special tax structure as mentioned above.

We understand that where pension is received from a former employer, such income shall be taxed under the head "Salary" and tax shall be withheld under the aforesaid structure. Consequently, the surcharge under section 4AB shall be applicable at the rate of 9 percent.

Gain arising on disposal of certain debt securities

A new section 151A of the Ordinance has been inserted which provides that every custodian of debt securities including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of the holder of a debt security shall at the time of disposal of debt securities including government securities deduct tax at the rate of 15 percent of the gross amount of capital gain arising to such holder of debt securities.

However, these provisions shall not apply on gain on disposal of debt securities made through registered stock exchange and which are settled through NCCPL.

The capital gain is to be computed by subtracting cost from the proceeds.

It is important to mention that the capital gain arising on debt securities in case of companies shall be chargeable at the applicable corporate tax rates based on the proviso to Division VII of Part I of First Schedule to the Ordinance. Whereas, in case of individuals, at 15 percent where the security was acquired on or after 1 July 2024.

This amendment has been introduced to clarify an age-old question i.e. the taxability of debt securities such as T-bills where the disposal is made prior to the maturity of such security. There were two school of thoughts previously i.e. one which offered the gain for tax as interest income whereas the other school of thought offered tax under the head of capital gains.

Payment to non-resident under section 152 of the Ordinance

Under the existing provision, when a banking company or financial institution remits any fee for offshore digital services outside Pakistan on behalf of a resident person or the permanent establishment of a non-resident, it is required to deduct tax at the rate of 10% at the time of remittance.

A new proviso is added whereby no tax will be deducted under this sub-section if the recipient is also liable to Digital Presence Proceeds Levy and tax under the same has been collected. This is meant to avoid duplication of tax.

However, currently, through SRO 1366(I)/2025 dated July 30, 2025, the Federal Government has exempted persons from the applicability of digital Prescence tax under the newly promulgated Digital Prescence Proceeds Tax, 2025. Therefore, now the banking institutions would be required to withhold 10% tax on payments to such persons as well.

Further to the above, at present, the law requires that where a banking company or financial institution maintains a Special Convertible Rupee Account (SCRA) for a non-resident company that has no permanent establishment in Pakistan, tax at the rate of 10 percent is to be deducted on capital gains arising from the sale of debt instruments and government securities including Treasury Bills and Pakistan Investment Bonds. -.

Further, a new proviso is added in sub-section (1D), requiring that the rate of 10 percent will only apply if the SCRA has been maintained for at least six months and if the holding period of these securities is less than six months, then the capital gains will be taxed at the higher rate of 20 percent instead of 10 percent.

Payment for goods, services and contracts under section 153 of the Ordinance

A new sub-section (2A) to section 153 of Ordinance has been inserted according to which tax shall be collected at the time of payment in cases where goods or services are ordered through local operated e- commerce platforms, including websites. In such cases, two types of persons will be responsible for collecting the tax:

A payment intermediary who processes digital payments on behalf of the seller; and

ii. A courier service that collects cash from the buyer under Cash on Delivery (CoD) terms on behalf of the seller.

Both the payment intermediary and the courier service will collect tax from the gross amount payable to the seller (including sales tax, if any) and deposit the same into the government treasury as per the tax rates introduced in Division IVA of Part I of the First Schedule to the Ordinance.

Through the Finance Bill, a new sub-section (2B) was proposed which provides that where tax is collected under sub-section (2A) of section 153 by a payment intermediary or courier service, no further deduction would be made under sub-section (1) of section 153 by the payer. However, this provision has not been incorporated in the Finance Act, 2025 resulting in potential duplication of tax deduction on the same transaction.

Amendment has been made in sub-section (4) of section 153 whereby the Commissioner is now empowered to issue full exemption certificates to public limited companies instead of reduced rate certificates.

In addition, definitions of '**payment intermediary**' and '**courier service**' being 'prescribed person' have been inserted in sub-section (7) of section 153 of the Ordinance for clarity and legal recognition.

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

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

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

Posting of officer of Inland Revenue

A new section 175C has been inserted which empowers the FBR or the Chief Commissioner, subject to such conditions and restrictions as deemed fit to be imposed, to post an officer of Inland Revenue or such other officials with any designation working under the control of the FBR or the Chief Commissioner, to the premises of any person or class of such persons to monitor production, supply of goods or rendering or providing of services and the stock of goods not sold at any time.

Enforcing tax registration for e-Commerce and courier services

The Act has amended section 181(1) which encompasses the expression "including a person selling digitally ordered goods or services from within Pakistan using online marketplace or a courier service, as the case may be" after the word "taxpayer", thereby aiming to mandate tax registration for persons selling goods and services through digital platforms.

A new sub-section (1A) has been inserted to Section 181, requiring online marketplaces and courier services engaged in e-commerce to restrict platform access only to vendors registered under the Income Tax Ordinance.

Limitation on Commissioner's condonation powers and introduction of respective committee

Two further provisos have been inserted to Section 214A, restricting the Board or the Commissioner's power to grant condonation of time limitations to a maximum of two years and to empower a committee notified by the Board to condone delays beyond this period, where there is reason to believe that a significant loss to the exchequer has occurred due to an act of omission or commission by the taxpayer or the Commissioner. This power is subject to the condition that the taxpayer is given a reasonable opportunity of being heard. A similar amendment has been made in the Sales Tax Act, 1990 as well.

Expanded scope for disclosure of taxpayer information to contractual auditors and other specified authorities

The Act has expanded the scope of permissible disclosures of taxpayer information such as returns, accounts, and other evidentiary materials to auditors appointed on a contractual basis or engaged through third parties (e.g., payroll firms) by the Federal Board of Revenue through inclusion of clause 3(ba) to section 216. However, such disclosure will be allowed after execution of a prescribed non-disclosure agreement, for the purpose of assisting FBR and relevant Inland Revenue authorities in discharging of their functions.

Scope of permissible disclosures under clauses 3(kd) and 3(ke) has also been expanded, allowing taxpayer information to be shared with the Tax Policy Office for research and policy analysis, and with recognized universities and international donor agencies. However, only anonymized data may be shared with universities and international donor agencies to ensure confidentiality.

Clarification on electronic service of notices to representatives

The Act has amended clause 2(d) of section 218 by replacing the term 'Individual' with 'Person', to clarify that electronic service of notices and orders on any person shall be treated as valid service.

This is in light of the recent judgments by the Hon'ble Appellate Tribunal Inland Revenue wherein it was concluded that since the statute used the word "individual" for service of notices to persons other than individuals, it was not rational.

Hence, the Hon'ble Appellate Tribunal concluded that electronic service to those taxpayers such as companies or other body corporates would not be sufficient and would have to be personally serviced to the representative of such taxpayer.

Now this matter has been clarified and the loophole within the statute has been filled.

Explicit power to appoint auditors

An additional sub-section in section 222 has been inserted, granting the FBR explicit authority to appoint as many auditors, on a contractual basis or through third party arrangements, as deemed necessary for the purposes of the Ordinance not exceeding two thousand auditors. While Commissioners previously held the power to appoint experts, this amendment broadens the scope by empowering the Board specifically to appoint auditors. However, it raises a serious question as to the auditors already on the payroll of the Federal Board of Revenue and their performance.

Exclusion of ADRC proceeding period from computation of period of limitation

The Act has amended Section 226(b)(ii) to exclude, for the purpose of computing the limitation period, the time during which proceedings remain pending before the ADRC. Currently, the exclusion applies only to proceedings pending before a court, Appellate Tribunal, or other authority which was very broad and explicitly included ADRC.

Increase in advance tax on cash withdrawals by non-active taxpayers

Section 231AB currently provides that if a person who is not an active taxpayer makes a cash withdrawal exceeding fifty thousand rupees in a single day, the bank shall deduct adjustable advance tax at the rate of 0.6% of the withdrawn amount. This rate has now been increased to 0.8%.

SALES TAX:

The Finance Act 2025 introduced a series of substantial reforms to the Sales Tax regime, aiming to broaden the tax base, digitize compliance processes, and curb revenue leakages. With the rapid evolution of business practices particularly in e-commerce and logistics, the government has taken decisive steps to modernize the tax framework by leveraging technology, tightening enforcement, and eliminating loopholes. These changes reflect a policy shift from voluntary compliance toward stricter regulation and documentation, ensuring that every stage of the supply chain contributes fairly to national revenue. Following are the key amendments introduced through the Finance Act 2025, explaining their purpose, impact, and practical implications for businesses and consumers alike.

The Finance Act, 2025, had reinforced its stance against sales tax fraud by introducing a series of robust policy and legal reforms aimed at enhancing enforcement, closing legal loopholes, and deterring tax evasion through stricter penalties and broader definitions.

Tax Fraud:

The group of significant amendments made are the broadening of the concept of “tax fraud” while including facilitators as well as enhancing the powers available with the field formations to deter such fraudulent activities. A more detailed explanation is provided as under:

The **Finance Act, 2025** revised and have provided more detailed definition of “**tax fraud**” under **clause (37) of section 2** of the **Sales Tax Act, 1990**, to encompass a wider range of deliberate acts of tax evasion and misuse of the sales tax system. The updated definition includes any act done **knowingly, dishonestly, or with intent to defraud**, or any act of **abetment** that results in a **loss of tax**, including the following:

- Preparation or use of **false, forged, or fictitious documents**, including returns, statements, annexures, and tax invoices.
- **False claim of input tax credit** based on fictitious or non-existent transactions.
- **Issuance of tax invoices without actual supply of goods**, commonly used to facilitate fraudulent input claims.
- **Tampering with or destruction of material evidence or documents** required to be maintained under the Act or the rules made thereunder.
- **Generation of fake input tax** through manipulation of the return filing system of the Board or by making false entries in sales tax returns or related annexures.

- **Fictitious compliance with section 73**, including routing of payments back to the registered person or for their benefit through a bank account held by a supplier or purported supplier.
- **Suppression of supplies** that are otherwise chargeable to tax under the Act.
- Making taxable supplies **without issuing tax invoices**, thereby concealing taxable activity.
- **Failure to pay withholding tax** in the prescribed manner where the non-payment exceeds a period of three months from the due date.
- **Acquisition, possession, transportation, disposal, or concealment of goods** that are liable to **confiscation under the Act or rules made thereunder**, or dealing with such goods in any manner
- Making of **taxable supplies without obtaining registration** under the Sales Tax Act, 1990.

This revised definition aims to **strengthen legal enforcement**, allow **broader prosecution of fraudulent practices**, and provide a **solid statutory basis** for administrative and judicial actions taken against tax fraud offenders.

Furthermore, the officers of Inland Revenue have been granted the power to investigate potential tax frauds and proceed to arrest those persons involved in this office, based on findings from departmental inquiries and investigations. Such cases will now be prosecuted before **Special Judges**, ensuring judicial oversight and eliminating the possibility of unilateral administrative actions. Final decisions on guilt and penalties will rest with the judiciary, reinforcing the rule of law and due process.

This newly provided authority to the taxation officers has been the talk of the town lately and has been brought under criticism by various chambers operating within Pakistan.

Abettor:

Additionally a key legislative development is the formal recognition of the role of an "**abettor**" ***a person who assists or facilitates the commission of tax fraud***. The proposed definition includes individuals who:

- Prepare or facilitate the preparation of invoices for false claim of input tax.
- Permit the use of bank accounts for executing fraudulent transactions.

Therefore, now any person who assists or enables a taxpayer to carry out tax fraud would be equally liable for its consequences.

These reforms underscore the government's commitment to tightening control over fraudulent practices, improving tax administration, and ensuring that those who undermine the integrity of the tax system are held fully accountable.

Digital Monitoring of Goods Movement:

In a significant step toward strengthening tax compliance, enhancing supply chain transparency, and modernizing Pakistan’s logistics infrastructure, the Finance Act, 2025 has introduced two major reforms under the Sales Tax Act, 1990: the **Cargo Tracking System** and the **Electronic Consignment Document (E-Bilty)**.

The **Cargo Tracking System** is aimed at enabling real-time monitoring of goods in transit, ensuring that the movement of taxable supplies is traceable and verifiable across the supply chain. This system is expected to deter the leakage of revenue by reducing opportunities for tax evasion during transportation.

Complementing this, the **E-Bilty** functions as a fully digital waybill or shipping document that replaces traditional paper-based documentation. It facilitates electronic record-keeping, streamlines logistics processes, and improves the documentation standards in the transportation of goods.

These initiatives collectively represent a major leap toward digitization and regulatory enforcement in the movement of goods, aligning with global best practices in tax administration and logistics management.

Sales Tax on E-Commerce and Online Platforms:

Recognizing the exponential growth of e-commerce in Pakistan, the Finance Act, 2025 introduced a comprehensive tax framework to bring digital transactions within the ambit of the formal economy. Amendments to the Sales Tax Act, 1990 now define key terms such as “**e-commerce**”, “**online marketplace**” and “**payment intermediary**” providing legal clarity for tax enforcement in the digital space.

-Responsibilities of “e-commerce” platforms and “online marketplace”:

Additionally, all online sellers, including foreign entities (except a cottage industry) are now mandated to register with the Federal Board of Revenue (FBR). Furthermore, to enforce compliance, online marketplaces are required to **block unregistered sellers** from operating on their platforms.

For the purpose of tracking sales information of digitally ordered goods from within Pakistan, all “**online marketplaces**” are required to **submit monthly, supplier-wise sales reports** to the tax authorities.

-Responsibilities of payment intermediaries or couriers:

One of the key measures includes an increase in the withholding tax rate from **1% to 2%** on payments made to sellers **not appearing on the Active Taxpayer List (ATL)**. All, banks, payment gateways, courier companies, and other intermediaries would be required to **collect and deposit tax** on behalf of sellers whether the transaction is digital or cash-on-delivery based on the above rate.

Additionally, every “**payment intermediary**” and courier shall furnish a complete and correct monthly statement in the prescribed form indicating the supplier-wise amount paid and tax due and other related information for digitally ordered goods from within Pakistan through an “**online marketplace**”.

These measures aim to formalize the digital economy, improve tax documentation, and level the playing field between traditional and online businesses, while reinforcing regulatory oversight of the growing e-commerce sector.

New Pricing Rule for Imported Goods:

To curb the persistent issue of undervaluation in imports and to promote accurate tax collection, the Finance Act, 2025 has introduced a significant pricing benchmark under the **Third Schedule to the Sales Tax Act, 1990**. Under the newly inserted rule, the retail price of imported goods is now required to be no less than **130%** of their **customs-assessed value**, inclusive of all applicable duties and taxes.

This measure aims to ensure that sales tax is levied on a more realistic and commercially viable valuation, thereby enhancing transparency and closing loopholes in the import valuation process. By mandating a minimum markup threshold, the rule acts as a safeguard against artificial suppression of retail prices intended to evade tax.

While this initiative strengthens revenue enforcement and aligns with international valuation standards, it may pose challenges for certain sectors particularly those operating on thin profit margins as the uniform markup requirement could lead to increased costs and pricing pressures across the supply chain.

Limitations on Input Tax Adjustments:

In a move to strengthen oversight and curb the misuse of input tax claims, the Finance Act, 2025 has empowered the Federal Board of Revenue (FBR) to implement an automated risk-based mechanism for monitoring and limiting input tax adjustments under the Sales Tax framework.

This system is designed to identify and flag excessive or potentially fraudulent input tax claims by analysing taxpayer behaviour and transaction patterns. Where anomalies are detected, input tax adjustments may be restricted automatically, thereby enhancing the integrity of the tax credit system.

However, to safeguard taxpayer rights, the law provides a recourse mechanism: affected taxpayers may **file an application** with the Commissioner Inland Revenue, challenging the imposed limits. The Commissioner is required to adjudicate the matter within **30 days**, ensuring a balance between enforcement and procedural fairness.

This reform represents a key step toward **digital compliance enforcement**, aiming to reduce tax fraud while maintaining due process for genuine taxpayers.

Action against unregistered businesses:

As part of its broader strategy to expand the tax base and enforce compliance, the Finance Act, 2025 granted significant enforcement powers to tax authorities for dealing with unregistered businesses operating outside the formal economy.

Under the amended provisions of the Sales Tax Act, 1990, tax officials are now authorized to take direct **coercive measures**, including the **freezing of bank accounts, sealing of business premises**, **imposition of restrictions on the transfer of properties, seizing movable property** and the **appointment of receivers** to take over the management of non-compliant enterprises.

This marks a clear policy shift from reliance on **voluntary registration** to a regime of **active enforcement and deterrence**, underscoring the government's resolve to bring undocumented businesses into the formal tax system. The new powers are expected to enhance compliance, reduce revenue leakage, and promote fairness among market participants. However, these powers may face serious opposition from the public at large.

Appeal Rights Expanded:

The Finance Act, 2025 introduced significant procedural reforms aimed at enhancing taxpayer access to justice and ensuring a more flexible appellate framework under tax laws. One of the key changes is the removal of monetary thresholds (pecuniary jurisdiction) that previously restricted the right to appeal before the Commissioner Inland Revenue (Appeals). The Federal Government had previously restricted those impugned orders having a tax involvement exceeding ten million to be only appealable before the Hon'ble Appellate Tribunal.

However, as a result of the amendments introduced through the Finance Act, 2025, all taxpayers (except a state owned entity) regardless of the amount in dispute are now entitled to file appeals at the first appellate level i.e. the Commissioner Inland Revenue (Appeals).

Additionally, the law now provides an option to taxpayers to **bypass the first appeal** and **directly approach the Appellate Tribunal Inland Revenue**, provided they **expressly waive their right to the initial appeal** before the Commissioner (Appeals). This offers greater strategic flexibility in navigating the appeals process.

To further facilitate judicial recourse, the statutory time limit for filing a reference before the High Court has been extended from **30 days to 60 days**, providing taxpayers with a more reasonable window to seek legal redress at the superior judiciary level.

These reforms are a major back track by the Federal Government from the previously introduced pecuniary jurisdictions which collectively aims to **strengthen the appellate process**, promote fair adjudication, and uphold the rights of taxpayers within the legal framework. For the purpose of the previous pecuniary jurisdiction, the Hon'ble Appellate Tribunal had inducted new bench members and introduced new benches to cope with the inflow of cases. However, this back track has resulted in all those efforts being left unutilized.

Audit Oversight:

To enhance **audit quality, transparency, and professional accountability**, the Finance Act, 2025 has empowered the **Chief Commissioners Inland Revenue** with the approval of the Federal Board of Revenue to **refer audit firms to the Audit Oversight Board** where there is a reasonable suspicion of misreporting relating to **sales, purchases, or tax liabilities**.

This measure is specifically aimed at **deterring collusive or negligent audit practices** and reinforcing the integrity of financial and tax reporting. By enabling regulatory scrutiny of potentially compromised audits, the reform seeks to **hold audit professionals accountable** and promote **greater accuracy and reliability** in taxpayer declarations.
It marks a step forward in aligning Pakistan's audit oversight framework with international best practices, fostering trust in both the tax system and financial disclosures.

Condonation of Delay:

To encourage timely compliance and reduce administrative discretion, the Finance Act, 2025 imposed a **two-year cap** on the **Federal Board of Revenue's (FBR)** authority to condone delays in filing returns or meeting other statutory obligations under the tax laws.

In cases involving **significant revenue impact**, any request for condonation beyond this two-year limit must undergo **review and approval by a designated processing committee**, ensuring greater transparency and oversight in the exercise of such powers.

This reform is designed to **streamline compliance procedures**, reinforce filing deadlines, and discourage habitual delays, thereby fostering a culture of punctual and responsible taxpayer conduct.

Appointment of auditors:

The Finance Act, 2025 has empowered the Federal Board of Revenue and the Commissioner Inland Revenue to appoint as many experts as they consider necessary including for the purposes of assistance in audit, investigation, litigation or valuation.

This amendment raises a question mark as to the high number of auditors and employees already working within the Federal Board of Revenue. If the help of external experts is sought for then will the existing auditors be made redundant?

New Items Taxed at Retail Price:

The Finance Act, 2025 expanded the scope of the Third Schedule to the Sales Tax Act, 1990, by adding several commonly consumed imported products, which will now be subject to sales tax based on their retail price at the import stage. The newly included items are:

- Pet food
- Coffee
- Chocolates
- Cereal bars

By shifting these items to **retail price-based taxation**, the government aims to **enhance revenue collection** through more accurate valuation. However, this change may also **lead to increased retail prices**, potentially affecting consumer affordability for these everyday products.

Exemptions Withdrawn:

The Finance Act, 2025 introduced important changes to the **sales tax exemption regime**, withdrawing or modifying several existing exemptions to broaden the tax base:

- **Industrial inputs supplied to tribal areas** are no longer fully exempt; instead, they will now be subject to **reduced rates of sales tax**, aiming to balance regional support with revenue considerations.
- **Photovoltaic cells**, previously exempt, will now be taxed at a reduced rate of 10%, aligning them with the general tax framework for energy-related imports.
- The **exemption on electricity supply to tribal areas** has been **extended until 2026**, providing continued relief to residents in these regions while allowing a phased approach to tax normalization.

These changes reflect a policy shift toward **rationalizing tax incentives** while maintaining targeted support where necessary.

Adoption of various important measures:

Federal Board of Revenue (FBR) has intensified its efforts to curb the widespread practice of fake input tax adjustments and issuance of bogus invoices, which have resulted in significant revenue losses and distortion of the VAT system. To address these challenges and enhance the integrity of the sales tax regime, FBR has implemented a series of policy, procedural, and technological reforms aimed at improving transparency, ensuring real-time verification, and promoting genuine documentation across the supply chain. Following are the key measures introduced by FBR to detect, prevent, and penalize fraudulent input tax claims and strengthen overall tax compliance.

1.Annexure H-1 & J:

By introducing Annexure H-1 and J through SRO 55(I)/2025 in the sales tax return by the FBR is aiming at curbing input tax fraud by ensuring stronger documentation and verification of input and output tax claims. Annexure H-1 mandates supplier-wise reconciliation of input tax, while Annexure J requires detailed declaration of sales to registered buyers, thereby linking the buyer’s input with the supplier’s output.

This system reduces opportunities for fake or unverifiable invoices, promotes transparency, and aligns with global best practices in VAT compliance. While it may increase the compliance burden for genuine taxpayers, it is a necessary reform to enhance fiscal discipline and prevent revenue leakage.

2.8 Digit HS CODE:

The Federal Board of Revenue (FBR) has made it mandatory to mention 8-digit HS (Harmonized System) codes in the sales tax return, effective from 1st March 2025, with the aim of improving tax classification accuracy, preventing misdeclaration, and curbing tax evasion. This measure ensures precise identification of goods in line with the Pakistan Customs Tariff, reducing the misuse of broad or incorrect classifications that lead to revenue loss. It also enhances traceability, enables better cross-verification with customs data, supports targeted audits, and aligns Pakistan's tax system with international trade standards. Moreover, the move facilitates data-driven policymaking and strengthens FBR's digital infrastructure for monitoring and compliance.

3.QR Code Policy:

FBR had introduced QR code policy for login into the IRIS for the persons registered in sales tax, the primary goal of introducing QR code login in IRIS is to enhance account security, it also indirectly supports FBR's broader objective of curbing input tax fraud. By ensuring that only authorized persons can access and operate sales tax accounts, the system reduces the chances of fraudulent filings and misuse of credentials for submitting fake input claims. This adds a crucial layer of accountability and integrity to the return filing process, thereby contributing to the overall effort to eliminate input tax fraud.

However, it has proved to be a significant hurdle to ensure timely compliance by the taxpayers and revenue collection by the Government Exchequer, particularly where the compliances are being managed by a consultant and the QR code is to be authorized by the taxpayer on every login attempt. Therefore, now the QR code requirement has been waived, it remains to be seen whether this waiver is temporary or permanent.

Technical Issue in Return Revisions:

The IRIS system is currently preventing taxpayers from revising their sales tax returns within the 60-day period allowed under Section 26(3) of the Sales Tax Act, 1990, even when additional tax is paid and all legal conditions are met. This technical restriction appears to be in clear violation of the law and is effectively barring taxpayers from correcting genuine input tax errors.

The Karachi Tax Bar Association (KTBA) has raised concerns that this may be an intentional move by FBR to block legitimate input tax claims and has urged immediate corrective action to restore auto-revision rights without requiring Commissioner approval.

Integrated E-invoicing:

The Federal Board of Revenue has through SRO 709(I)/2025 dated April 22, 2025 required every person registered under the Sales Tax Act, 1990 be it a corporate or non-corporate person to integrate their hardware and software with the Federal Board of Revenue's electronic systems and generate electronic invoices.
This exercise is to be carried out either through licensed integrators or PRAL.
Owing to the practical issued being faced by taxpayers and the burden on the licensed integrators and PRAL to get every taxpayer integrated, the timeline is being extended, allowing an opportunity for taxpayers to avoid penalties. The updated due dates are as under:

S.No.	Category	Due date for issuance of electronic invoice
1	All public companies	Sep 1, 2025
2	All companies excluding those referred in serial no. 1 with turnover exceeding 1 billion rupees declared in sales tax returns for the last twelve months.	Sep 1, 2025
3	All importers	Sep 1, 2025
4	All companies excluding those referred in serial no. 1 with turnover exceeding 100 million rupees but not exceeding 1 billion rupees declared in sales tax returns for the last twelve months.	Oct 1, 2025
5	All companies excluding those referred in serial no. 1 with turnover not exceeding 100 million rupees declared in sales tax returns for the last twelve months.	Nov 1, 2025
6	All individuals and association of persons with turnover exceeding 100 million rupees declared in sales tax returns for the last twelve months.	Oct 1, 2025
7	Registered persons other than listed above.	Dec 1, 2025

CUSTOMS:

The **Finance Act, 2025** brings significant amendments to the **Customs Act, 1969**, aimed at promoting **trade facilitation**, supporting **industrial growth**, and intensifying efforts to **combat smuggling** through technology and institutional reforms.

Key measures introduced include:

- **Integration of Artificial Intelligence (AI)** for **risk-based assessment** and valuation, enabling smarter targeting of high-risk consignments.

- Formation of **digital enforcement teams** to modernize customs operations and enhance surveillance capabilities.

- Establishment of a dedicated **Customs Command Fund**, allowing reinvestment of anti-smuggling fines into operational and enforcement infrastructure.

- Mandatory implementation of **cargo tracking systems** and **electronic bilty (e-Bilty)** for all shipments, ensuring real-time monitoring and improved supply chain transparency.

- **Revised adjudication framework**, including higher monetary thresholds for litigation, extended timelines for dispute resolution, and a requirement for **50% security deposit** when seeking a **stay order** during the appeals process.

These reforms signal a major shift toward **technology-driven, transparent, and enforcement-focused customs administration**, aligning Pakistan's practices with international trade compliance standards.

Litigation and Adjudication Reforms:

As part of the broader legislative overhaul under the **Finance Act, 2025,** several **reforms to the litigation and adjudication process** have been proposed to enhance efficiency, discourage frivolous appeals, and ensure timely resolution of disputes. Key measures include:

- **Raising the monetary threshold for contravention cases** from **Rs. 20,000 to Rs. 100,000**, ensuring that adjudication resources are focused on more substantive matters

- **Extending the statutory timeline for adjudication** from **30 days to 45 days**, with an additional **15-day extension** permitted at the discretion of the **Collector**, providing adjudicating authorities sufficient time for fair hearings and reasoned orders.

- **Limiting the right to appeal** in instances where the appellant **fails to appear during adjudication proceedings**, thereby promoting procedural discipline and discouraging non-serious litigation.

- **Mandating a 50% security deposit** as a precondition for obtaining a **stay order** from courts or the **Appellate Tribunal Inland Revenue** in cases involving **auction of confiscated goods**, aimed at preventing misuse of stay mechanisms to delay enforcement.

These reforms are intended to **streamline the adjudication framework**, reduce unnecessary litigation, and promote **faster, more accountable dispute resolution** within the tax system.

PROVINCIAL SALES TAX ON SERVICES

THE ILLUSION OF EASE

Balochistan Finance Act 2025

The Balochistan Finance Act 2025, effective 1st July 2025, aims to rationalize the structure of sales tax on services across Balochistan. The Act formally amends the Balochistan Sales Tax on Services Act, 2015 (the BST Act), and revises multiple sections, particularly those relating to taxable services, exemptions, schedules, and penalties.

Key changes introduced under the Act include:

Scope of Tax:

The Balochistan Finance Act has substituted section 10 and the newly enacted section is summarized as under:

i).Sales tax shall be charged, levied, collected and paid on the value of a taxable service at the rate of 15%.

ii). Introduction of Schedules for exemption of services, higher and reduced rate of sales tax are as under:

Schedule	Purpose	Rate
First	Exemption of sales tax	N/A
Second	Higher rate of sales tax	19.50%
Third	Reduced rate of sales tax	2-10%

Furthermore, the existing Section 16-D allows a registered person, in the case of a reduced rate of sales tax, to opt for the payment of the standard rate of sales tax and claim the admissible input tax.

Furthermore, the Balochistan Finance Act has empowered the Government of Balochistan to declare, by notification and on the recommendation of the Balochistan Revenue Authority (BRA), that any taxable service may be charged, levied, and collected at higher, lower, fixed, or specific rate(s).
Additionally, the Act authorizes the BRA, with the approval of the Government of Balochistan and through notification, to fix a threshold of annual turnover for any service, below which the service provider shall be exempt from the payment of sales tax.

Transitional Provision (New Section 10A)

The Balochistan Finance Act, 2025 has clarified that all services not listed in the First Schedule are deemed taxable. Additionally, existing exemptions remain valid until amended.

Reverse Charge Mechanism on International Calls

The Balochistan Finance Act has required that in case of incoming international calls, the telecommunication companies in Pakistan shall pay tax on reverse charge basis (i.e. the recipient of services is liable to pay tax) to the extent of their share of charges received from abroad, either through local representative or otherwise.

The Balochistan Finance Act has empowered the Government of Balochistan to specify, by notification, the provision of any additional categories of taxable service whereby sales tax shall be paid on reverse charge basis by the recipient of such services.

Classification of services through CPC Code

The Balochistan Finance Act, 2025 has enacted section 72B to empower the Balochistan Revenue Authority (BRA) to prescribe a classification system for services including adoption of Central Product Classification as issued by United Nations Statistics Division or any other classification framework for the purpose of assessment, enforcement, administration and facilitation.

It has been clarified that such classification shall not determine the taxability of services and in case of inconsistency, ambiguity, overlapping or transitional complication, the BRA is empowered to issue clarification or transitional arrangements for the effective implementation.

Authority to amend Schedules

Under the Balochistan Finance Act, the Government of Balochistan is now empowered to make additions, deletions, or modifications to any Schedule of the Balochistan Sales Tax on Services Act, upon the recommendation of BRA.

Determination of taxable service Value

The Balochistan Finance Act, 2025 has enhanced the scope of taxable service value and has inserted a proviso in sub-section (4) to the section 7 explaining the terms “consideration” and “consideration in money” which means the gross amount charged and/or payable including any amount of reimbursable expenditure or cost incurred by the service provider, in the course of provision of a service, except in circumstances as may be prescribed.

Expanded Definition of Services

The Balochistan Finance Act has enhanced the definition of "Service" which means any activity, facility, utility or advantage, including the granting, assignment, cession or surrender of any right.

Expanded Definition and Scope of Economic Activity

The Balochistan Finance Act, 2025 has enhanced the scope of the word "Economic Activity" and has substituted section 6. The gist of the newly substituted provision is as under:

- *"Economic Activity"* means any activity carried on by a person, whether or not for pecuniary profit, and whether or not carried on regularly that involves the provision, supply, initiation, execution, receipt, or consumption of a service for consideration.

- Economic activity is not limited to:

-any trade, commerce, manufacture, profession, vocation, business, or similar activity, whether of a corporate, personal, governmental, non-governmental, or not-for-profit nature;

-the provision of services by any club, association, society, trust, organization, or non-profit entity to its members or other persons, with or without separate consideration;

-the provision, facilitation or delivery of services through digital, electronic or virtual means, including online platforms, software applications, or remote access tools, whether or not the service provider has a physical presence in Balochistan;

-inter-provincial, cross-border or foreign provision of services where the service is received, consumed, availed, or where the benefit arises in Balochistan;

-any barter arrangement, in-kind exchange, or indirect benefit whether tangible or intangible relating to the service provider.

- A person shall be deemed to carry out economic activity in Balochistan where:

-the service is provided from, initiated in, executed, received, consumed, availed/benefit by any person in Balochistan.

-the service provider, whether resident or non-resident, maintains a registered office, place of business, agent, representative, franchise, branch, server, or digital infrastructure in Balochistan;

-the consideration for the service is paid by or on behalf of a person in Balochistan or processed through a business account or billing address located in Balochistan.

- However, the above definition shall not include the services of an employee to an employer having direct relationship under a written contract of employment and not as consultant, freelancer, contractual service provider, third party manpower suppliers, etc. The burden of establishing a true contract of employment shall lie on the person or entity claiming such exclusion.

- The term "consideration" has been explained as which includes monetary payment, deferred payment, compensation in kind, subscription, membership fee, license fee, usage charge, or any direct or indirect benefit received by the service provider.

Sales Tax Liability Irrespective of Registration Status

The Balochistan Finance Act clarifies that failure to register with the Balochistan Revenue Authority (BRA) does not exempt any person from their liability to pay sales tax.

BRA Authorized to Prescribe Special Collection Mechanisms and Impose Personal Liability

Under the amended law, the BRA is authorized to designate any person—other than the actual service provider or recipient in a transaction—to collect and deposit sales tax, either wholly or partially, in accordance with a prescribed mechanism. Non-compliance may result in personal liability, including imposition of default surcharge and penalties.

Mandatory Banking Transactions for Input Tax Credit Eligibility

The Act stipulates that, except for utility payments, any payment exceeding Rs. 50,000 (aggregated per person per tax period) must be made through a banking channel to qualify for input tax credit. This requirement was previously limited to single transactions over Rs. 50,000.

Cap on Input Tax Adjustment

Registered persons may now adjust input tax only up to 90% of the output tax declared for a given tax period. This effectively requires at least 10% of output tax to be paid in cash for that period.

Sales Tax Treatment on Business Transfers of Taxable Services

A new sub-section (1A) inserted in section 20 stipulates that if a registered person transfers a taxable service business as a going concern to an unregistered entity, sales tax shall be payable on the services provided. However, no sales tax is chargeable if the transfer is made to another registered person.

Mandatory Registration for Withholding Agents and Certain Exempt Service Providers

The Act makes registration compulsory for persons required to withhold or pay sales tax, treating them as registered persons for legal compliance. Further, BRA may require, through notification, even those rendering exempt services to register and file returns.

Harmonization of Tax Invoice Requirements

Invoice particulars have been standardized with other provincial tax authorities by requiring inclusion of the applicable sales tax rate on all tax invoices.

Extended Audit Authority to Business Premises

Sub-section (3AA) of section 33 authorizes tax officers, with the Commissioner's approval, to conduct audits at a registered person's place of business or office.

Extended Limitation Period for Tax Recovery

The time limit for issuance of a show cause notice for recovery of tax has been extended from five years to eight years.

New Procedure for Recovery Without Show Cause Notice

Section 52A has been replaced to require tax authorities to obtain prior approval from BRA or the Commissioner before initiating recovery of tax charged or collected but not paid or short paid, based on returns or records. Previously, tax recovery actions, such as bank account attachments, could be taken solely on return data.

Commissioner (Appeals) Granted Power to Remand Cases for Fresh Evaluation

In special circumstances and with written reasons, the Commissioner (Appeals) is now empowered to remand cases for de novo consideration. This is a new power not previously available under the law.

Increased Appeal Fee for Tribunal Proceedings

The appeal fee for filing a case before the Appellate Tribunal has been increased from Rs. 2,000 to Rs. 20,000.

Independent Rule-Making Powers for BRA

The BRA has been vested with autonomous authority to frame rules without requiring prior approval from the Government of Balochistan—a departure from the earlier framework which mandated such approval.

The Khyber Pakhtunkhwa Finance Act, 2025

The Khyber Pakhtunkhwa Finance Act, 2025, effective July 1, 2025, fundamentally reforms the Khyber Pakhtunkhwa Sales Tax on Services, 2022 Act (the KPKST Act).

The significant amendments made in the KPKST Act include the following:

Collection Agent

The definition of "Collection Agent" is broadened to include the State Bank of Pakistan, scheduled banks, and other authorized entities for the specified services and shall include any other person specified and declared as a collection agent.

Service

Through the Khyber Pakhtunkhwa Finance Act, 2025, the term “Service” has been redefined comprehensively to encompass anything that is not goods, including any act, performance, or facilitation of a facility in an economic activity, regardless of whether goods are involved.

Change in Taxability of

A fundamental change introduced via the Khyber Pakhtunkhwa Finance Act, 2025 is the shift in how services are deemed taxable. Previously, services listed in the Second Schedule were taxable. Now, all services are considered taxable unless explicitly listed as exempt in the First Schedule.

Exempt Services

The Khyber Pakhtunkhwa Finance Act, 2025 has completely replaced the First Schedule, providing a detailed list of services that will be exempt from sales tax, often with specific conditions

Additionally, the Khyber Pakhtunkhwa Finance Act, 2025 explicitly states that all existing exemptions granted through notifications will remain in effect unless specifically rescinded by the Government.

The standard sales tax rate is set at fifteen percent (15%) on the value of a service. Services listed in the Second Schedule, however, have their own specified rates It classifies services into two parts:

- **Part-I (Above Standard Rate)**: Primarily telecommunication services, taxed at 19.5%.
- **Part-II (Below Standard Rate)**: A broad range of services, including hospitality, healthcare, beauty, cleaning, various agencies, construction, IT, mining, airport, dry port, professional, and media services. These typically have lower rates (2% to 10% or fixed fees), often with specific conditions or exemptions, and non-corporate entities generally benefit from these reduced rates while corporate entities usually face the standard rate.

Economic Activity

The Khyber Pakhtunkhwa Finance Act, 2025 amends the definition of **"Economic Activity"** whereby activities performed by an employee for its employer under direct employment are generally not economic activities. However, if an employee earns additional fees or commissions beyond their salary, or if their activities are performed for a third party in furtherance of the employer's business, these will be treated as economic activities.

Inadmissible input tax credit

Through the Khyber Pakhtunkhwa Finance Act, 2025, input tax for those transactions in aggregate of amount exceeding 50,000/- (including the amount of sales tax) with a single person in one tax period and whose payment is made other than through banking channel shall be disallowed.

Previously, this limit was on transactional basis but now in order to discourage cash payments, this limit has been shrunk being aggregate payment to a particular party.

Record Keeping

Through the Khyber Pakhtunkhwa Finance Act, 2025, registered persons providing taxable services, including exempt services, in other provinces or areas outside Khyber Pakhtunkhwa must now maintain records for those regions to facilitate reconciliation of their tax liability in KP.

Digital Filing and Penalties

Through the Khyber Pakhtunkhwa Finance Act, 2025, all registered persons will be required to furnish returns through an e-file. The timeframe for certain actions is shortened from six months to one hundred and twenty days. A new penalty is introduced for failing to integrate or install a Restaurant Invoice Management System (RIMS) or other prescribed e-invoicing systems: Rs. 200,000 or 5% of the tax involved, whichever is higher, per instance of noncompliance.

Pecuniary jurisdiction in appeals

Through the Khyber Pakhtunkhwa Finance Act, 2025 a new section, 70A in the KPKST Act, establishes pecuniary jurisdiction for appeals. Appeals involving tax assessments of up to five million rupees will go to the Collector (Appeals), while those exceeding five million rupees will be heard by the Appellate Tribunal. Pending cases exceeding this value will be transferred to the Appellate Tribunal from July 10, 2025, and must be decided within six months.

In a world where the Federation has rolled back its previous amendment for introduction of pecuniary jurisdiction, it is unexpected of the KPK Government to adopt this already tried and tested formula.

Recovery of arear taxes

Through the Khyber Pakhtunkhwa Finance Act, 2025, recovery proceedings under Section 74 of the KPKST Act can now only be initiated after obtaining prior approval of the Collector or an officer duly authorized by the Collector for such matters.

Data Sharing

Through the Khyber Pakhtunkhwa Finance Act, 2025, the Khyber Pakhtunkhwa Revenue Authority is now empowered to enter into agreements with the Federal Board of Revenue and other provincial sales tax authorities for sharing electronic data of tax returns.

Punjab Finance Act 2025

The Punjab Finance Act, 2025, effective July 1, 2025, fundamentally reforms the Punjab Sales Tax on Services Act, 2012 (the PST Act). This section of the document aims at providing an update with regards to the significant amendments made in the PST Act.

Key changes introduced under the Act include:

Redefined Services and its taxability:

The Punjab Finance Act 2025, effective 1st July 2025, aims to rationalize the structure of sales tax on services across Punjab. Enacted in the public interest, the Act introduces a major shift from a "positive list" regime, where only specified services were taxable to a "negative list" framework, under which all services are taxable unless specifically declared tax-free.

This transition is intended to expand the tax base, align with international best practices, and enhance provincial revenue generation.

Tax Free Services

Through the amendments introduced via the Punjab Finance Act, 2025 those services which are enlisted in the First Schedule shall be tax free, upon fulfillment of conditions mentioned therein.

Comprehensive substitution of the First and Second Schedules:

The First Schedule now lists tax-free services, including essential public sector services (healthcare, education, transport), religious and cultural services, affordable housing programs, and certain insurance and personal care services.

The Second Schedule reclassifies taxable services into three parts:

- **Part I**: General services taxed at 16%.
- **Part II**: Fixed-rate services such as construction and freight, taxed per unit or transaction.
- **Part III**: Reduced-rate services (0% or 5%) without input tax credit, including IT services, small restaurants, travel, beauty care, ride-hailing, and more.

Enhanced penalties

The Punjab Finance Act, 2025 has introduced enhanced penalties in Section 48, especially for refusal to accept digital payments (cards, wallets, QR codes), including fines up to PKR 1 million, with mandatory minimum penalties and possible sealing of business premises after repeated non-compliance.

Disallowance of input tax adjustment

The Punjab Finance Act, 2025 has inserted new sub-clauses in Section 16B of the PST Act whereby excess input tax paid on certain services i.e. telecom services exceeding 19.5%, carriage of goods by rail or road exceeding 15% and other services over 16% shall not be admissible.

Sindh Finance Act, 2025

The Sindh Finance Act, 2025, effective July 1, 2025, fundamentally reforms the Sindh Sales Tax on Services Act, 2011 (the SST Act), amongst other statutes applicable in the province of Sindh. This section of the document aims at providing an update with regards to the significant amendments made in the SST Act.

Key amendments includes:

Redefined Service:

The definition of "service" is expanded to cover "any activity, facility, utility or advantage," regardless of incidental goods involvement, providing greater clarity and scope for taxation. Previously, the SST Act provided a list of all those activities which would be regarded as a “service” under the First Schedule and those services which were taxable were listed in the Second Schedule.

The Sindh Finance Act, 2025, sees a major shift in approach by the provincial legislature as now all those activities which are in the nature of service would be taxable under the SST Act and only those activities which are treated as exempt under the newly introduced first schedule would not be taxable.

Scope of Tax

The Second Schedule to the Act presently provides list of taxable services on which sales tax is charged, levied and collected at the rate specified in the Schedule. The bill whilst maintaining the standard rate of sales tax at 15%, seeks to transform and bifurcate the Second Schedule into two parts, one being a list of services or class of services to be taxed at the a lower rate, subject to the conditions and restrictions, if any, mentioned therein and the second part being those services which would be chargeable to tax under the higher rate.

Introduction of CPC Code:

Another significant shift made through the Sindh Finance Act, 2025 is that the "CPC Code" (Central Product Classification), as adopted by the United Nations is introduced for service classification, aligning with international standards and empowering the Board to resolve classification disputes. Now services would be categorized as per the said CPC Code.

Exemptions:

The Sindh Finance Act, 2025 has substituted Section 10 of the SST Act which now states that services listed in the First Schedule shall be exempt from tax. Additionally, the Board will be authorized, with prior government approval, to exempt any taxable service, any specific person or class of persons providing services, or any recipient or class of recipients—including international organizations—from full or partial tax liability.

Exclusions:

The Sindh Finance Act, 2025 provided an explanation II in Section 3 of the SST Act, whereby, services covered under Entry 53 of Part I of the Federal Legislative List as provided under the Constitution of Pakistan, 1973 shall not be considered a taxable service under the SST Act.

Exclusions:

The Sindh Finance Act, 2025 provided an explanation II in Section 3 of the SST Act, whereby, services covered under Entry 53 of Part I of the Federal Legislative List as provided under the Constitution of Pakistan, 1973 shall not be considered a taxable service under the SST Act.

- services by any court, Tribunal or similar institution established under any law for the time being in force in the performance of judicial or quasi-judicial functions; or
- Services performed by the Members of the Majlis-e-Shoora (Parliament), Members of Provincial Assemblies and Members of Local Government bodies in the course of their official duties; and
- The services performed in the course of duties by an individual who holds any post in pursuance of the provisions of the Constitution of the Islamic Republic of Pakistan in that capacity.

Stricter Penalties:

Penalties for non-compliance are increased, including PKR 100 per day for late return filing and PKR 100,000 for denying access to business premises.

Active Taxpayer Requirement:

Issuance/renewal of licenses now requires being an "active taxpayer."

Tax Continuity Clause (Section 72C):

Services taxed as on June 30, 2025 under the SST Act, will continue to be taxed at the same rate unless expressly modified or exempted by the Sindh Finance Act, 2025.

Removal of Difficulties" Provision (Section 74):

The Board has a three-year window to make necessary adaptations to the Act's provisions for effective implementation.

Appointment of Commissioner (Appeals):

Section 60(4)(b) is amended to enhance the qualification criteria for appointment as a Commissioner (Appeals). The revised provision mandates that the individual must have served as a Commissioner of the SRB for a minimum of eight years, including at least three years performing functions specifically as Commissioner (Appeals).

Key amendments to First and Second Schedule of Sindh Sales Tax on Services Act, 2011

- First Schedule of the Sindh Sales Tax on Services Act, 2011, as substituted by the Sindh Finance Act, 2025. It lists various services that are exempt from sales tax, along with specific conditions or restrictions for each exemption.

Essentially, it outlines what services in Sindh will not be subject to sales tax, based on their nature, recipient, provider, or other qualifying criteria. This is part of a shift to a "negative list" system, where all services are taxable unless specifically mentioned in this schedule.

- The Second Schedule of Sindh Sales Tax on Services Act, 2011, effective July 1, 2025, categorizes services into two parts:

Part-I: Higher than Standard Rate (19.50%) This applies to specific IT (collocation hosting), telecommunications (telephony, internet), and security system services (including installation of related equipment).

Part-II: Lower than Standard Rate (3-8%, or fixed) This part lists numerous services with reduced rates, generally with no input tax adjustment (except if the service provider opts not to avail the reduced rate for specific services)

IMPORTANT DATES

FILING OF ANNUAL INCOME TAX RETURN	
Type of person	**Due Date**
Individual	September 30th
Association of Person (AOP)	September 30th
Company (having tax year ending June 30)	December 31st
Company (having special tax year)	September 30th

QUARTERLY ADVANCE TAX PAYMENT				
Type of person	**Quarter End**			
	June	**September**	**December**	**March**
Individual	Jun 15, 2025	15 Sept.	15 Dec.	15 Mar.
Association of Person (AOP)	Jun 15, 2025	15 Sept.	15 Dec.	15 Mar.
Company	Jun 15, 2025	25 Sept.	25 Dec.	25 Mar.

FILING OF QUARTERLY WITHHOLDING STATEMENTS	
Type of person	**Due Date**
Individual	20th day of the month after the end of the quarter.
Association of Person (AOP)	20th day of the month after the end of the quarter.
Company	20th day of the month after the end of the quarter.

FILING OF ANNUAL WITHHOLDING STATEMENT	
Type of person	**Due Date**
Individual	30 days from the end of the tax year.
Association of Person (AOP)	30 days from the end of the tax year.
Company	30 days from the end of the tax year.
OBLIGATION OF PAYMENT OF WITHHOLDING TAX	
Type of Withholding Agent	**Due Date**
Federal & Provincial Government	On the day of tax collection/deduction
Other than of Federal & Provincial Government	Within Seven days from the end of each week

SALES TAX & FEDERAL EXCISE DUTY RETURN:

	Due Date	
Description	**For Payment**	**For Filing**
Monthly Sales Tax & Federal Excise Returns For All Sectors Except the below mentioned sectors	15th day of following month	18th day of following month
Date of filing of Sales Tax Return for all sectors except below where no liability arise	N/A	15th day of following month
Electricity distribution companies	18th of the month following the tax period in which the bill or invoice has been issued.	21st of the month following the tax period in which the bill or invoice has been issued.
Independent Power Producers	22nd day of the month following the tax period in which the bill or invoice has been issued.	25th day of the month following the tax period in which the bill or invoice has been issued.
Gas transmission and distribution companies	15th day of the month following the tax period in which the bill or invoice has been issued.	18th day of the month following the tax period in which the bill or invoice has been issued.
Petroleum exploration and production companies	18th day of the month following the tax period in which the bill or invoice has been issued.	21st day of the month following the tax period in which the bill or invoice has been issued.

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