

IRASG

CHARTERED ACCOUNTANTS

TREATISE ON TAXATION

— 2026 —

BEYOND REVENUE

*From economic mobilisation
to economic value creation*



MOBILISE

Broadening the base,
strengthening compliance



ENABLE

Facilitating business,
promoting ease



TRANSFORM

Driving innovation,
embracing technology



SUSTAIN

Building resilience,
ensuring sustainability



PROSPER

Creating value,
empowering future

STRONGER ECONOMY • PROSPEROUS PAKISTAN

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PREAMBLE

True
business
growth

— is measured —

not only by **revenue** but also by
the strength of relationships,
quality of service, innovation,
operational excellence,
customer satisfaction, and
the ability to create
lasting impact.



PREAMBLE

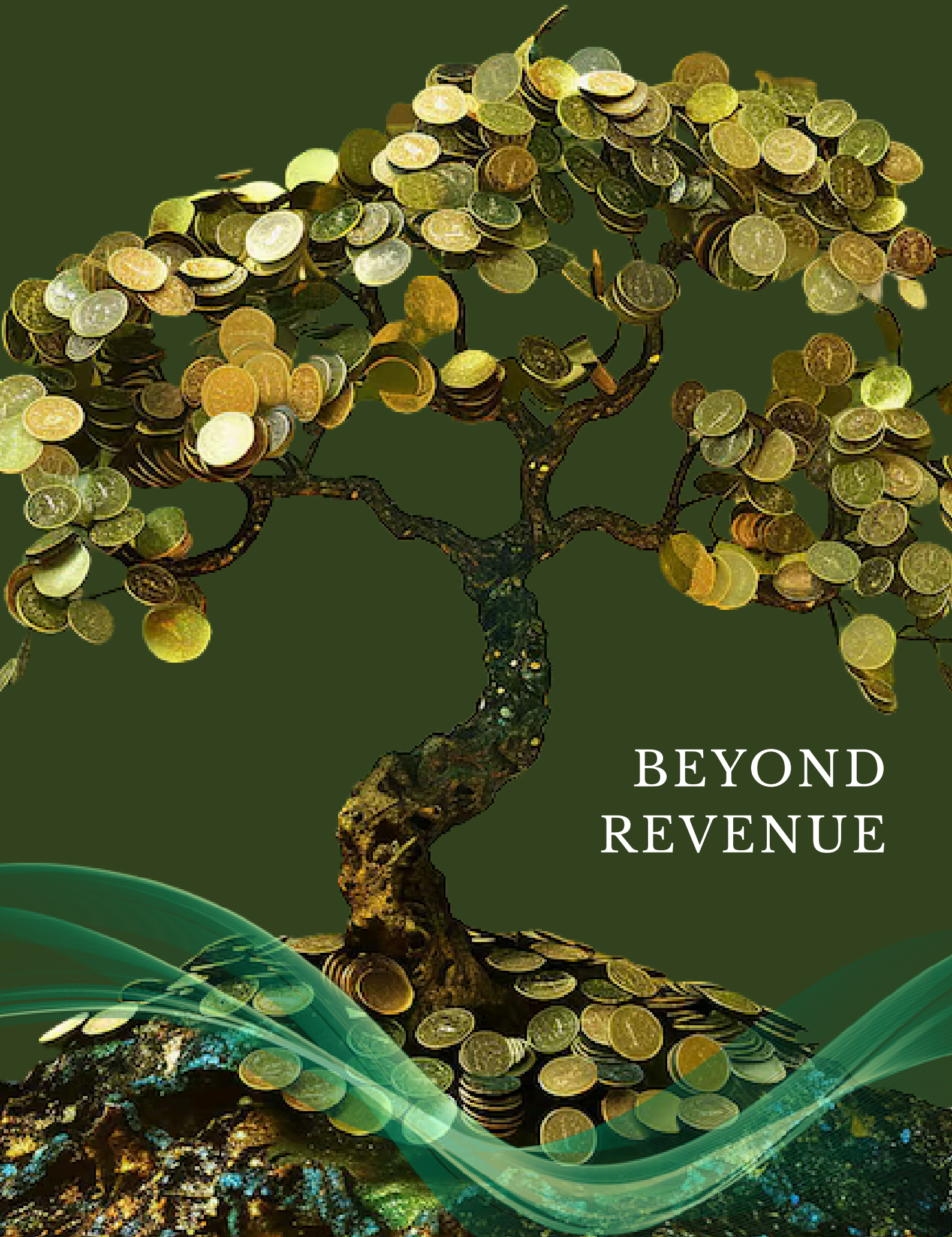
Alhamdullillah! RASG is pleased to present its Annual Treatise on Taxation 2026 for its clients, associates and readers under the theme of **“Beyond Revenue”**. Beyond Revenue reflects a broader vision of taxation - one that moves beyond the immediate objective of raising public receipts and recognizes fiscal policy as a powerful instrument for economic transformation. For Pakistan, the challenge is not merely to collect more, but to create a tax environment that mobilizes resources, encourages enterprise, strengthens confidence, supports innovation and ultimately expands the country’s productive capacity.

The imagery of connectivity, infrastructure, industry, renewable energy and upward economic movement represents this transition from economic mobilization to economic value creation. It underscores the idea that a strong fiscal system must work in partnership with a strong economy: broadening participation, facilitating business, embracing technology, promoting sustainability and enabling investment to flow toward productive opportunities.

The journey Beyond Revenue is ultimately one of balance - between collection and facilitation, enforcement and confidence, fiscal needs and economic growth. It is about building a tax system that mobilizes the present while enabling the future; one that strengthens compliance without constraining enterprise and raises public resources while helping generate new economic value.

At its core, the message is simple: **the true measure of an effective tax system is not only what it collects, but what it enables the economy to create.**

This publication is intended for information purposes only and should not be relied upon as a basis for making any business, tax, legal or financial decision. Readers are advised to seek specific professional advice based on the applicable law and the facts and circumstances of their case.



BEYOND REVENUE

BEYOND REVENUE

FROM ECONOMIC MOBILISATION TO ECONOMIC VALUE CREATION

For decades, Pakistan's tax debate has revolved around a familiar question:

How can the State collect more revenue?

It is an important question. Pakistan needs sustainable revenues to finance public services, defence needs, debt servicing, infrastructure and development, while reducing its dependence on debt. But revenue alone is too narrow a measure of successful tax policy.

Pakistan today faces a striking fiscal paradox: **the economy remains under-taxed at an aggregate level, yet the burden on many parts of the documented economy is already significant.**

The problem is therefore not simply how much Pakistan collects. It is **where we collect it from, how we collect it and what that collection does to the economy from which future revenue must ultimately come.** Taxation influences investment, formalisation, entrepreneurship, employment, innovation and capital allocation. A measure may increase revenue today while weakening the economic activity from which tomorrow's revenue must be generated.

Pakistan's next phase of tax reform must therefore look **beyond revenue.**

The objective should not simply be to collect more from the economy, but to **mobilise economic activity, enable enterprise, transform through technology, sustain productive growth and ultimately create prosperity.**

MOBILISING THE ECONOMY - NOT JUST REVENUE

Pakistan's tax base is not only narrow; it is uneven.

The IMF estimates that agriculture contributes around **24.6% of value added while facing an effective tax rate of only around 0.3%.** At the same time, highly documented businesses, salaried individuals and formal transactions remain comparatively easy points from which revenue can be collected. This imbalance has shaped the structure of the tax system.

In FY2025, withholding taxes accounted for approximately **58% of total income tax collection.** Contracts, salaries, bank returns, imports, utilities and property transactions have therefore become important collection points because they are visible and administratively easier to tax.

When revenue is repeatedly extracted from the same documented transactions, the tax system can begin to penalise visibility itself. Formal businesses bear collection responsibilities, transaction taxes and increasingly extensive compliance obligations, while large areas of economic activity remain comparatively difficult to reach. That is not sustainable broadening of the tax base.

MOBILISATION SHOULD MEAN MOBILISING THE ECONOMY, NOT MERELY MOBILISING REVENUE.

Pakistan needs more taxpayers, but it also needs more businesses worth taxing: more enterprises formalising, more capital being invested, more transactions entering the documented economy and more businesses growing from small enterprises into larger ones. A broader tax base will ultimately be built through a **broader productive economy**.

ENABLING ENTERPRISE

Tax policy is part of the business environment. For a company deciding whether to expand a factory, an entrepreneur considering formalisation or an investor evaluating Pakistan, taxation is not viewed in isolation. It sits alongside energy costs, financing, regulation, infrastructure and political and economic risk.

Pakistan must therefore begin asking of significant tax measures:

WHAT ECONOMIC FRICTION ARE WE CREATING IN ORDER TO COLLECT THIS REVENUE?

The issue is particularly relevant in a country where investment remains low. Pakistan's total investment stood at only **14.38% of GDP in FY2026**.

Tax policy is clearly not the only reason for low investment. But in an economy that needs considerably more capital formation, the treatment of productive investment cannot be an afterthought.

There are also uniquely Pakistani compliance costs. A business operating nationally can encounter federal income tax and sales tax on goods alongside separate provincial sales tax regimes for services. The World Bank has highlighted the resulting fragmentation, noting that a national services business operating across all five jurisdictions could be required to file **60 monthly sales tax returns in a year**.

This is precisely the type of friction that **Beyond Revenue** should challenge. Fiscal federalism should not require businesses to navigate unnecessary commercial complexity.

Similarly, frequent legislative changes, inconsistent interpretations, delayed refunds and prolonged disputes create costs that may never appear in the statutory tax rate but nevertheless influence investment decisions.

A competitive tax system does not necessarily mean a low-tax system. It means one that is **clear, predictable, neutral and efficient**. Businesses can plan for taxation. What they find much harder to plan for is uncertainty. Tax certainty should therefore be treated as an economic asset.

The principle should be straightforward:

easy to comply, difficult to evade and fair to contest.

TRANSFORM - NOT SIMPLY DIGITISE

Pakistan is rapidly moving toward technology-led tax administration. Electronic invoicing, integrated databases, digital payments and data analytics have the potential to significantly improve visibility across the economy and reduce opportunities for evasion.

That transformation is necessary. But digitalisation should not simply make the State better at monitoring those who are already visible. If technology results primarily in more automated notices, additional data requirements and increasingly intensive scrutiny of existing taxpayers, Pakistan may digitise tax administration without fundamentally transforming it.

Technology should create a **digital dividend for the taxpayer as well as the State**.

Information already available to one government authority should not repeatedly be requested by another. Returns should increasingly be pre-populated. Federal and provincial systems should communicate. Routine compliance should become automated. Refunds should become faster. Audit selection should become genuinely risk based.

The objective should ultimately be simple:

For compliant taxpayers, technology should make compliance progressively easier. For deliberate evaders, it should make remaining invisible progressively harder.

Transformation must also recognise that technology is changing the economy itself.

Digital services, fintech, artificial intelligence, automation and knowledge-based businesses are creating new sources of economic value. Pakistan's tax framework must allow these sectors to scale while ensuring that economic activity contributes fairly to the fiscal system. There have been instances where startups have been launched with regards to the above-mentioned line of services, but Pakistan still has a long way to go before these startups can make a difference.

SUSTAINING THE ECONOMIC BASE

Annual revenue pressures naturally encourage governments to focus on immediate collections. But the strength of tomorrow's tax system depends on the strength of tomorrow's economy. This distinction matters.

A revenue measure can be successful in the year in which it is introduced yet economically counterproductive over a longer period if it discourages investment, increases informality or diverts capital away from productive activity. Pakistan therefore needs to become more disciplined about evaluating both taxes and tax concessions.

Where incentives are granted, the question should not merely be:

Who qualifies?

It should be:

What economic value Pakistan is receiving in return?

Exports. Investment. Employment. Productivity. Technology. Research. Energy efficiency. These are measurable outcomes. An incentive that produces meaningful additional economic activity may represent an investment by the State. An incentive that changes little economic behaviour is simply foregone revenue. The same test should apply in reverse to new taxes.

A tax measure that produces immediate collection but materially weakens investment cannot be judged solely by the amount collected.

Revenue growth should increasingly become a consequence of economic growth not a substitute for it.

PROSPERITY IS THE ULTIMATE TEST

Taxation is not the ultimate objective of fiscal policy, prosperity is!

A stronger economy generates investment, employment, productivity, incomes and ultimately a larger tax base. Sustainable revenues, in turn, provide the State with greater capacity to invest in infrastructure, education, healthcare, security and institutions. This relationship means that looking Beyond Revenue does not end when tax is collected.

Pakistan must ask two questions.

What economic value did we preserve or create while raising the revenue?

And:

What public value did we create after spending it?

Taxpayers have a responsibility to contribute fairly. But the State has a corresponding responsibility to collect efficiently and convert those resources into public value. Tax reform without better expenditure outcomes therefore addresses only half of Pakistan's fiscal challenge.

A DIFFERENT MEASURE OF SUCCESS

Pakistan should continue to measure revenue collection and the tax-to-GDP ratio. But they should not stand alone.

A modern fiscal scorecard should also ask:

- Is the documented economy expanding?
- Is private investment increasing?
- Are businesses formalising and scaling?
- Is the cost of compliance declining?
- Are exports and productivity improving?
- Is capital moving toward productive activity?
- Is technology reducing friction as well as strengthening enforcement?
- And is greater fiscal capacity translating into greater public value?

These questions do not weaken the revenue objective. They put it in its proper context.

A higher tax-to-GDP ratio generated by a larger, more productive and increasingly documented economy is fundamentally different from one achieved by repeatedly extracting more from a narrow existing base.

BEYOND REVENUE

Pakistan needs more sustainable revenue.

But it should expect more from tax policy than revenue alone.

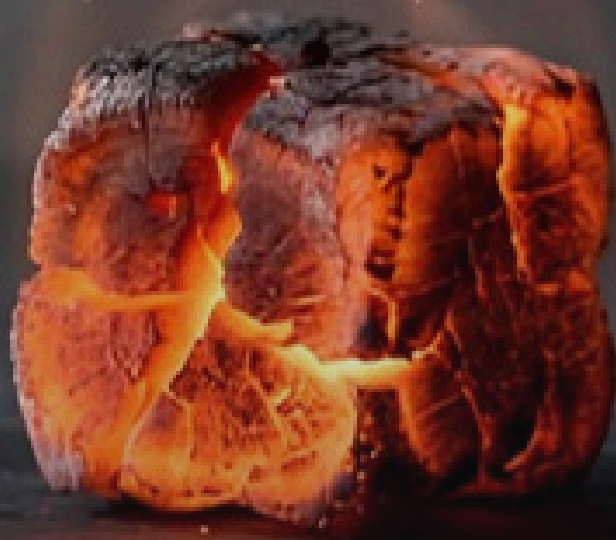
It must **mobilise** a broader and more productive economic base.

It must **enable** businesses to invest, formalise, expand and compete.

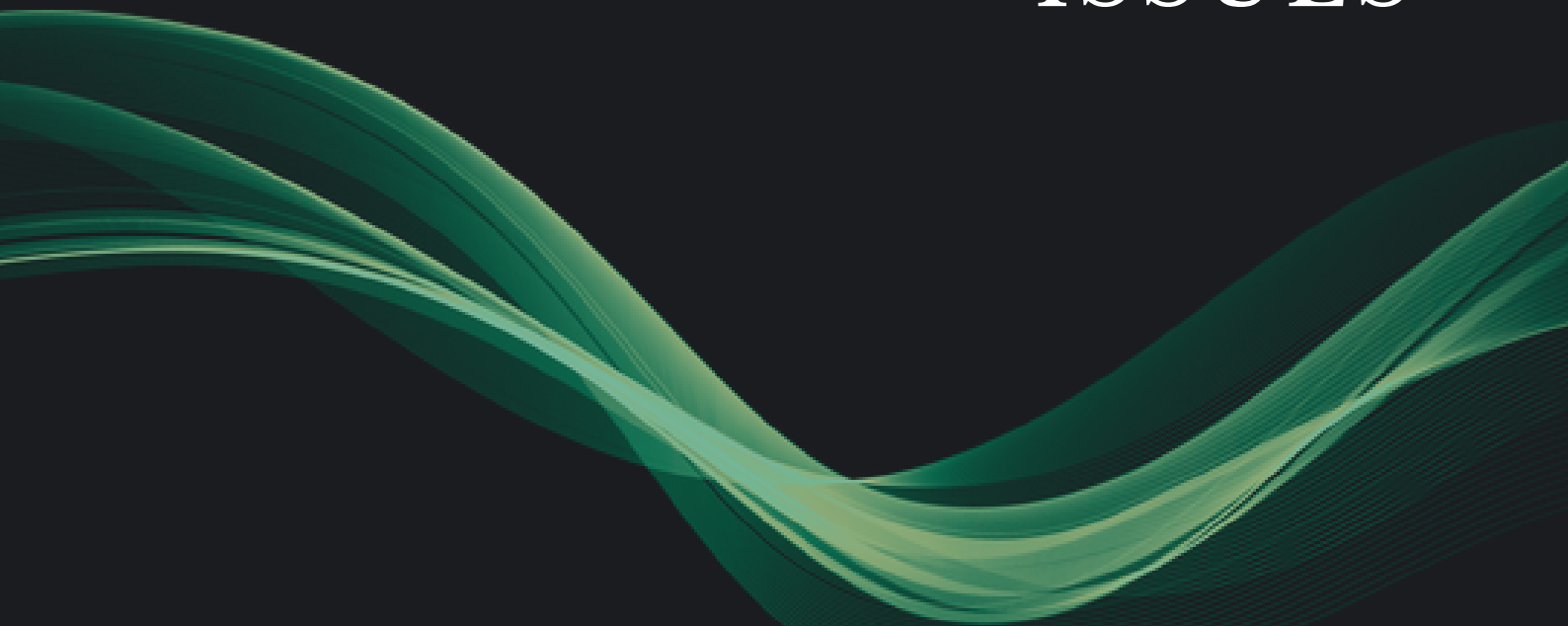
It must **transform** through technology and innovation.

It must sustain the productive economy from which future revenues will come. And ultimately, it must help Pakistan prosper through greater investment, productivity, opportunity and public value. The question should therefore no longer be only: **“How much can the State collect from the economy?”** It should also be: **“How can tax policy help create a larger, stronger and more productive economy?”** That is the idea behind ***Beyond Revenue***.

Pakistan cannot sustainably tax its way to prosperity from a narrow economic base. It must grow its way to a broader one. And that is why looking beyond revenue is not about expecting less from taxation. **It is about expecting more from tax policy.**



HOT ISSUES



HOT ISSUES

SUPER TAX SURVIVES FEDERAL CONSTITUTIONAL COURT (FCC) SETTLES THE CONSTITUTIONAL CHALLENGE

The FCC in *M/s D.G. Khan Cement Company Limited and others v. Federation of Pakistan*, has upheld the constitutional validity of Super Tax under sections 4B and 4C of the Income Tax Ordinance, 2001.

The Court held that Super Tax is a **standalone levy on income**, distinct from normal income tax under section 4 and falling within the Federal Legislature's taxing powers. Section 4C was held applicable from Tax Year 2022, while the enhanced rates introduced through the Finance Act, 2023 apply prospectively from Tax Year 2023.

The levy extends to income from all sources, including capital gains, although Super Tax would not arise where the underlying gain itself is not chargeable to income tax due to an exemption or holding-period relief.

Perhaps more significantly, the FCC held that the mere closure of a financial year does not necessarily make transactions “past and closed” where the relevant return had not yet become due when the legislation was introduced.

The constitutional battle may largely be over, but the focus of future Super Tax litigation is likely to shift towards its computation, scope and application to specific categories of income.

SECTION 7E STRUCK DOWN - ATTENTION NOW TURNS TO TAXES ALREADY PAID

The FCC has declared **section 7E of the Income Tax Ordinance, 2001 unconstitutional and void ab initio**, bringing an end to the controversial deemed-income tax on specified immovable property.

The ruling resolves conflicting judgments of various High Courts and invalidates proceedings, assessments, notices and other actions founded on section 7E. The decision is consistent with the subsequent omission of the provision through the Finance Act, 2026.

For taxpayers who have already discharged tax under section 7E, the judgment also brings the question of recovery of amounts paid into sharp focus.

The debate has therefore moved beyond the validity of section 7E, taxpayers will now be evaluating the fate of pending demands and the available route for claiming taxes already paid.

SUPER TAX DEMAND VS. TAX REFUND - ATIR ALLOWS SET-OFF

The ATIR Lahore has provided important relief to taxpayers facing Super Tax recovery while simultaneously carrying refundable income tax balances.

In *M/s Prime Steel Re-Rolling Mills v. CIR*, the taxpayer faced an outstanding Super Tax demand of approximately Rs.58.27 million while its return reflected refundable income tax of approximately Rs.230.95 million.

The Tribunal distinguished the Islamabad High Court's decision in *CM Pak Limited*. While that case dealt with the use of withholding tax credits in computing Super Tax itself, *Prime Steel* concerned adjustment of an already-available refund against an already-determined tax demand.

Relying on section 170(3)(a), the Tribunal held that refundable tax may be adjusted against “any other tax” payable under the Ordinance, including Super Tax.

For taxpayers facing recovery proceedings despite substantial refunds sitting with FBR, this distinction could become an important line of defense before coercive recovery is initiated.

PHARMA FURTHER TAX EXPOSURE CURTAILED - ATIR TREATS 1% LEVY AS FINAL

The ATIR Islamabad has held that the **1% sales tax applicable to pharmaceutical products under Serial No. 81 of the Eighth Schedule represents a final discharge of sales tax liability across the supply chain.**

Accordingly, Further Tax under section 3(1A), ordinarily chargeable on supplies to unregistered or inactive persons, cannot be imposed separately where the pharmaceutical product has already suffered tax under the special 1% regime.

The decision is consistent with the Tribunal's earlier ruling in *Kamal Laboratories*, which similarly recognized the final-tax character of the pharmaceutical regime.

The ruling could materially reduce Further Tax exposure for pharmaceutical businesses making supplies further down the distribution chain to unregistered wholesalers and retailers.

REFUND PENDING BEYOND 60 DAYS? FTO CALLS IT MALADMINISTRATION

The Federal Tax Ombudsman ("FTO") has reinforced the statutory timeline for disposal of income tax refund applications.

In *Tayab Tahir v. Secretary, Revenue Division*, the taxpayer's refund application remained undecided beyond the 60-day period prescribed under section 170(4). FBR sought to justify the delay on the basis that additional documentation was subsequently required.

The FTO held that the prolonged inaction amounted to departmental neglect and maladministration and directed the Commissioner to dispose of the refund claim expeditiously in accordance with law.

Taxpayers dealing with long-outstanding refund applications therefore have a remedy not only against an adverse refund decision, but potentially against the delay itself.

PRA MOVES INTO THE PAYMENT CHAIN - BANKS TO COLLECT TAX ON DIGITAL TRANSACTIONS

The Punjab Revenue Authority has designated **banks and payment processors as collecting agents** under section 14A of the Punjab Sales Tax on Services Act, 2012.

The mechanism applies to digital and card payments across 14 specified service categories, including restaurants, hotels, catering, event management and beauty salons, with applicable collection rates ranging from 5% to 8%.

The tax collected through the payment channel is required to be deposited within the prescribed timeline.

For affected businesses, sales tax compliance will now extend beyond invoicing and return filing to reconciliation of collections made directly through banks and payment processors.

EX PARTE ORDER? FBR PUTS A BRAKE ON IMMEDIATE BANK RECOVERY

FBR has introduced an additional procedural safeguard for individual taxpayers facing recovery following an ex parte order.

Under its instructions dated **10 July 2026**, ex parte orders are required to be served through both physical and electronic means. Recovery under section 140 is not to proceed until the relevant Unit Officer certifies physical service of the order.

The direction supplements FBR's earlier recovery instructions and is consistent with judicial concerns over hurried coercive recovery.

For individual taxpayers, the issuance of an ex parte demand should no longer automatically translate into immediate bank attachment where the prescribed service requirements have not first been completed.

FBR RETHINKS THE COST OF SALES TAX EXEMPTIONS

FBR's Tax Expenditure Report 2026 introduces a new three-tier methodology for measuring the actual fiscal cost of sales tax exemptions.

Instead of treating the entire theoretical sales tax on an exempt local supply as lost revenue, the methodology recognises that a portion of sales tax may already be embedded in upstream inputs.

Adjustment factors have been introduced at:

- 30% for Tier 1 — essential food and agricultural inputs;
- 40% for Tier 2 — healthcare; and
- 70% for Tier 3 — other exempt goods.

Imported exempt goods are excluded from the adjustment.

While the methodology does not itself impose additional tax, it gives an important indication of how FBR is assessing the economic value of exemptions, an area likely to remain under pressure in future Finance Acts.

CASH OR CARD? PUNJAB'S TAX RATE MAKES THE DIFFERENCE

Punjab's sales tax regime now creates a significant rate differential based on the customer's mode of payment for specified services.

For **catering and event management services**, qualifying digital or card payments attract sales tax at **8%**, compared with the standard **16% rate applicable to cash transactions**.

The reduced rate forms part of the broader policy push towards documentation and electronic payments.

For businesses operating in these sectors, payment method is no longer merely an operational choice, it directly affects the sales tax charged to the customer and must be accurately reflected in billing and reporting systems.

TAX YEAR 2026 FILING GOES LIVE - WITH MORE FBR DATA ALREADY ON SCREEN

FBR opened the IRIS filing facility for **Tax Year 2026 from 1 July 2026**.

The return retains the enhanced data-driven features introduced at the draft stage, including the **Summary of Economic Transactions**, increased use of pre-populated information and additional disclosures such as employer NTN details.

The filing deadlines are **30 September 2026 for individuals and AOPs and 31 December 2026 for companies**, subject to any subsequent extension.

Tax return preparation is increasingly becoming a reconciliation with information FBR already holds rather than a standalone declaration made by the taxpayer.

GROSS RECEIPTS OR NET INCOME? SUPER TAX BATTLE REACHES BROKERAGE SECTOR

A significant Super Tax computation dispute has emerged for businesses earning brokerage and commission income.

In **ITA No. 170/KB/2026**, a stock brokerage company challenged Super Tax computed on gross brokerage and commission receipts of approximately Rs.871.6 million instead of net taxable income of approximately Rs.77.3 million, which would have fallen below the relevant threshold.

The ATIR found that the lower authorities had failed to adjudicate the core legal question and had relied principally on the FCC's ruling on the constitutional validity of section 4C. The matter was accordingly remanded for fresh adjudication in light of the detailed D.G. Khan Cement judgment.

The Tribunal has not yet decided the computation issue, but the case keeps open an important question: for specified income streams under section 4C, is Super Tax exposure driven by gross receipts or taxable income?

FBR'S WINDOW INTO BANKING TRANSACTIONS GETS WIDER

The Finance Act, 2026 has substantially expanded the information-sharing framework under **section 175AA of the Income Tax Ordinance, 2001**.

The State Bank of Pakistan and its Central Data Repository have been expressly brought within the framework, while Microfinance Banks and Electronic Money Institutions ("EMIs") have also been added as information-sharing participants.

The amendments operate alongside the newly introduced section 165AB, under which specified high-value banking activity may be uploaded for algorithmic comparison with taxpayers' declared tax positions and fed into FBR's Compliance Risk Management framework.

The direction is clear: FBR is moving towards automated matching of banking behaviour with declared income, turnover and wealth, potentially identifying discrepancies before a tax officer manually reviews the case.

HOLDING FOREIGN ASSETS DOES NOT MEAN PAYING CVT EVERY YEAR, SAYS ATIR

The ATIR Karachi has provided significant relief on **Capital Value Tax ("CVT") on foreign assets**.

In Tariq Mehmood Butt v. ACIR/DCIR, the taxpayer continued to hold foreign assets valued at more than Rs.12 billion but had not acquired additional foreign assets during the relevant tax year.

The Tribunal held that CVT under section 8(7) of the Finance Act, 2022 is linked to the **cost of acquiring foreign assets during the relevant year** and is not an annual levy merely because previously acquired assets continue to be held at year-end.

A CVT demand of approximately Rs.121.996 million was consequently deleted.

The ruling could have substantial implications for taxpayers facing recurring CVT demands based solely on the closing value of foreign assets acquired in earlier years.

SUPPLIER BLACKLISTED LATER? SUPREME COURT PROTECTS BONA FIDE INPUT TAX CLAIMS

The Supreme Court has reinforced an important protection for genuine purchasers claiming sales tax input.

In *CIR v. M/s Eagle Cables (Pvt.) Ltd.*, input tax had been challenged because the relevant suppliers were subsequently shown as suspended or blacklisted.

The taxpayer established that the suppliers were active and registered at the time of the transactions and that payments had been made through prescribed banking channels in compliance with section 73.

The Supreme Court declined to disturb the taxpayer's input tax claim, holding that a supplier's subsequent suspension or blacklisting does not retrospectively invalidate otherwise genuine transactions.

The decision makes contemporaneous supplier verification increasingly important evidence that the supplier was active, the invoice was valid, and payment was made through banking channels may be critical years after the transaction occurred.

1% TAX AND A “GREEN PLATE”, FBR PROPOSES NEW DEAL FOR SMALL RETAILERS

Through **S.R.O. 1109(I)/2026 dated 14 July 2026**, FBR has proposed a simplified fixed-tax regime for qualifying small shopkeepers under section 99B of the Income Tax Ordinance, 2001.

The draft scheme broadly covers individual retailers operating a single shop with annual turnover of up to **Rs.200 million**, subject to specified exclusions and eligibility conditions.

Qualifying retailers may opt to pay tax at **1% of gross turnover**, subject to a minimum cash payment of Rs.25,000. The scheme also proposes simplified return filing, relief from specified withholding and minimum-tax obligations, restricted audit exposure and exemption from POS/digital invoicing requirements.

A distinctive feature is the proposed **QR-coded “Green Plate”** for compliant retailers, under which FBR officers would generally not enter the premises for tax matters where the plate is validly displayed.

The scheme is presently only a draft. If finalised substantially in its current form, however, it could materially reshape both the compliance burden and FBR's enforcement approach towards small retailers.

FBR EXPANDS ELECTRONIC PRODUCTION SURVEILLANCE TO MILK, STEEL, OIL AND GHEE

FBR has extended electronic production monitoring to manufacturers of **packaged milk, iron and steel, oil and ghee** through **S.R.O. 880(I)/2026**.

The monitoring framework allows production activity to be captured electronically through surveillance, analytics and production-counting technology, with data transmitted to FBR's monitoring infrastructure.

The initiative sits alongside sector-specific monitoring measures requiring installation of approved production-monitoring hardware and software.

For affected manufacturers, declared production and sales will increasingly be capable of being tested against independently captured operational data making unexplained production, inventory and sales variances an immediate tax risk rather than an issue discovered years later during audit.

UAE TAX



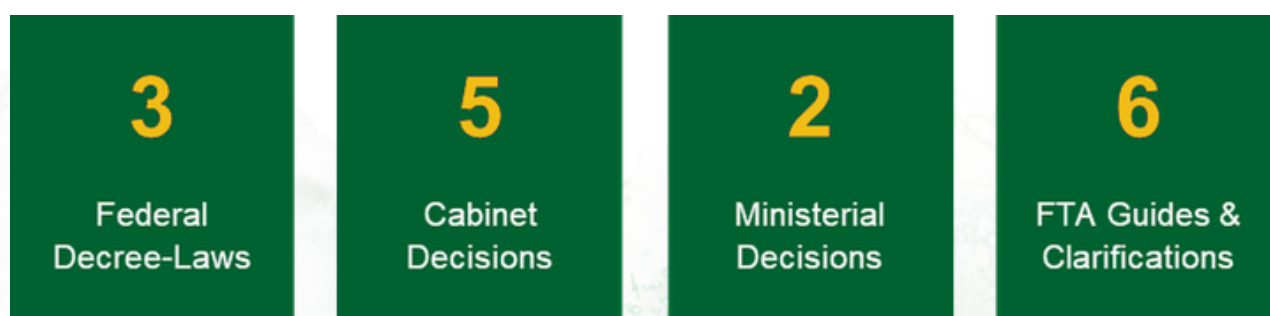
This Chapter provides a brief overview of significant developments in the UAE tax framework issued or becoming effective during the period from 1 January 2026 to 30 June 2026. It covers key Federal Decree (FD) Laws , Cabinet Decisions (CD), Ministerial Decisions (MD), Federal Tax Authority (FTA) Public Clarifications, Guides, Directives, and other relevant administrative guidance. The objective is to assist taxpayers, businesses, and other stakeholders in understanding these developments and their potential practical implications from a compliance, reporting, cash flow, and tax planning perspective.

EXECUTIVE SUMMARY

The first half (H1) of 2026 has been a dense period for UAE federal tax policy. Two Federal Decree-Laws amending the VAT Law and rewriting the Tax Procedures Law took effect on 1 January 2026, and a third amended the Corporate Tax Law's credit-settlement mechanics shortly beforehand.

Cabinet Decisions followed on a reformed administrative penalties regime, a Research & Development (R&D) tax credit, a sector-specific Corporate Tax exemption for sports entities, and further amendments to the Tax Procedures Executive Regulation. The FTA issued or substantially updated guidance on Advance Pricing Agreements, Family Foundations, Connected Persons, and VAT refunds for UAE nationals building homes, while the e-invoicing program moved from framework publication to operational guidelines and a revised provider-appointment deadline.

For Ease of understanding we have grouped the period's developments by tax type rather than by date of issue to facilitate readability and ease of understanding.



PART A - CORPORATE TAX (CT)

A.1 FEDERAL DECREE-LAW NO. 28 OF 2025 - CORPORATE TAX LAW AMENDMENT

Issued December 2025. Amends Federal Decree-Law No. 47 of 2022.

Only the second amendment to the Corporate Tax Law since enactment which acts as a base for future tax incentives.

Art. 44 Corporate tax payable sequence	Restates the order of settlement of Corporate Tax (CT) Payable as follows: • Firstly, against withholding tax credits; • Secondly, against foreign tax credits; • Thirdly, against any other tax credits prescribed by the Cabinet; and • Finally, by payment of the remaining balance in cash. → No immediate effect while the UAE has no withholding tax - but now procedure is defined in law.
Art. 49 bis (new) Claiming Unused Tax Credit	Creates a statutory route to claim unused credits from a future Cabinet decision such as the newly introduced R&D Tax Credit (see section A-2).

PART A - CORPORATE TAX

A.2 CABINET DECISION NO. 215 OF 2025 – RESEARCH & DEVELOPMENT (R&D) TAX CREDIT

Applies to tax periods from 1 January 2026.

The UAE's first R&D tax credit for eligible entities investing in qualifying research and development activities . Rate tiers are set by a companion Ministerial Decision (A-4) - this Decision sets who qualifies and how it's administered.

Eligibility	UAE juridical persons (incl. Free Zone Persons) and foreign permanent establishments PEs subject to Corporate Tax or Top-up Tax are eligible; Small Business Relief electors are excluded.
Qualifying activity	Clarifies that qualifying activities must be assessed against the OECD Frascati Manual based on five key criteria: novelty, creativity, uncertainty, systematic approach, and transferability or reproducibility. → Document each project against the Frascati criteria explicitly.
Minimum spend	Each project needs at least AED 500,000 in qualifying expenditure (excl. 30% staff-cost uplift). → Small pilot projects below this threshold do not qualify alone.
Cap & use	Caps the credit at AED 2 million per tax period, provides that it is non-refundable during Phase 1, and requires it to be applied first against Corporate Tax and then against Top-up Tax.
Approval & clawback	Introduces a requirement for prior approval from the Emirates R&D Council for each project and provides for a clawback of the credit where the prescribed conditions are subsequently not met. → Apply for pre-approval before claiming, not at return-filing time.

PART A - CORPORATE TAX

A.3 CABINET DECISION NO. 1 OF 2026 - SPORTS ENTITIES EXEMPTION

Issued 12 January 2026. Retrospective from 1 June 2023.

Gives effect to exemption of the Corporate Tax Law for non-commercial sports bodies.

Who qualifies	International Sports Entities, their wholly-owned Sports Entities, and ancillary Supporting Entities. → Recognition by the Ministry of Sports (or equivalent) is a precondition.
Core conditions	Purpose strictly limited to promoting/organising/developing sport; strict non-distribution of income/assets. → Review governing documents and historical distributions against this test.
Retrospective effect	Applies from 1 June 2023, the start of the Corporate Tax regime. → Entities that filed FY2024 on a taxable basis should review next steps with the FTA.

PART A – CORPORATE TAX

A.4 MINISTERIAL DECISION NO. 24 OF 2026 – RESEARCH & DEVELOPMENT (R&D) TAX CREDIT RATE TIERS

Issued 18 March 2026.

Sets the tiered credit rate referenced under CD 215/2025 (A-2). Both the expenditure band and the staff headcount condition must be met.

First AED 1m	Rate: 15%. → Minimum average of 2 R&D staff required.
AED 1m – 2m	Rate: 35%. → Minimum average of 6 R&D staff required.
AED 2m – 5m	Rate: 50%. → Minimum average of 14 R&D staff required.

PART A - CORPORATE TAX

A.5 FTA GUIDE CTGFF1 - FAMILY FOUNDATIONS (UPDATED)

Updated June 2026, replacing the May 2025 version.

Provides additional guidance and clarifications on the application of Article 17 of the UAE Corporate Tax Law to family wealth structures.

Trusts and Waqf (Islamic Endowments)	Clarifies the Corporate Tax treatment of incorporated and unincorporated trusts and Waqf, including when they are treated as fiscally transparent and their eligibility to qualify as Family Foundations.
Similar Entities	Clarifies that entities similar to foundations may qualify as Family Foundations if they meet the prescribed conditions. However, an LLC is not regarded as a similar entity and therefore cannot itself apply for fiscal transparency as a Family Foundation.
Multi-tier Structures	Provides comprehensive guidance on multi-tier ownership structures, including the uninterrupted chain requirement, indirect ownership, trustee ownership, continuous compliance, differing financial years, joint ownership by multiple Family Foundations, and consequences of non-compliance.
Transfers into a Family Foundation	Clarifies the Corporate Tax implications of transferring assets into a Family Foundation. Transfers between related parties are generally required to be at market value, while transfers of personal investments or real estate investments by natural persons generally do not trigger Corporate Tax implications.
Juridical Persons Acquired or Sold	Explains the tax consequences when a company enters or exits a Family Foundation structure and confirms that such changes do not reset the tax base of its assets.
Family Offices	Explains the Corporate Tax treatment of Single and Multi Family Offices, their eligibility for fiscal transparency, and the availability of the Free Zone 0% tax regime where applicable.

PART A - CORPORATE TAX

A.6 FTA GUIDE CTGAPA1 - ADVANCE PRICING AGREEMENTS (APA)

Open since 30 December 2025.

The FTA's first APA program, initially limited to domestic Unilateral APAs; cross-border coverage is expected to follow. By agreeing the transfer pricing methodology with the FTA before or during the covered tax periods, APAs help reduce transfer pricing disputes, mitigate the risk of double taxation, and provide greater certainty for tax planning and compliance.

Scope (Phase 1)	Domestic Unilateral APAs only; cross-border Unilateral, Bilateral and Multilateral APAs to follow later. Enables taxpayers to obtain advance certainty on the transfer pricing methodology applicable to specified controlled transactions. → A Unilateral APA binds the FTA and taxpayer only - not a foreign tax authority.
Materiality indicator	AED 100 million in covered related-party transactions per tax period (indicative, not a strict cut-off), while allowing applications below the threshold with adequate justification. → Mainland/Free Zone dealings at different effective rates are the clearest use case.
Term & Cost	Covers 3 - 5 prospective tax periods; AED 30,000 non refundable application fee (AED 15,000 to renew).
Revision, Cancellation & Renewal	Sets out the circumstances for revision, cancellation, revocation and renewal of APAs where facts, assumptions or legal provisions change.

PART A - CORPORATE TAX

A.7 PUBLIC CLARIFICATION CTP010 - CONNECTED PERSONS

Issued 29 April 2026.

Resolves who counts as a director or officer under Article 36 i.e. for the purpose of allowability of deductions on arms length basis.

Director	Confined to someone who actually holds a board seat (or equivalent) under the constitutional documents. → A "Director" title alone does not make someone a director for this rule.
Officer	Assessed functionally - anyone with final authority over strategic, financial or operational decisions. → Review who holds a power of attorney or trade-licence manager role.
Related Party overlap	Where someone is both a Related Party and a Connected Person. → The applicable requirements should be assessed by reference to the relevant provisions of Articles 34 and 36, as applicable.

PART B – VAT LAW

B.1 FEDERAL DECREE-LAW NO. 16 OF 2025 - VAT LAW AMENDMENTS

Effective 1 January 2026. Amends Federal Decree-Law No. 8 of 2017 on VAT.

Four significant changes have been introduced which are as follows:

Art. 48(1) Reverse Charge	Replaces the self-invoicing requirement for imports of goods and services subject to the reverse charge mechanism with an obligation to retain supporting commercial documentation.
Art. 74(3) Excess Input Tax	Introduces a five-year time limit for carrying forward and recovering excess input VAT, replacing the previous position where no statutory time limit applied. → Taxpayers should review historical input VAT credit balances (particularly those dating back to around 2021) to ensure they are claimed before they expire.
Art. 54 Input Tax Recovery	FTA may deny input tax recovery where a supply is linked to evasion and the recipient knew, or should have known. → Exercise due diligence on supply-chain integrity.
Art. 79 bis Limitation	This VAT-specific limitation article is repealed outright. Limitation matters are now governed exclusively by the Tax Procedures Law. → Taxpayers should refer to the Tax Procedures Law for all limitation-related matters concerning VAT.

PART B – VAT LAW

B.2 CABINET DECISION NO. 153 OF 2025 - REVERSE CHARGE FOR SCRAP METAL

Effective 14 January 2026.

Domestic scrap metal supplies between VAT-registered persons move to reverse charge, shifting the VAT accounting obligation to the recipient.

Scope	Applies to local supplies of scrap metal (ferrous/non-ferrous) between VAT-registered persons. → Zero-rated export supplies of scrap metal are excluded.
Mechanism	Supplier does not charge VAT; the registered recipient self-accounts for VAT via reverse charge. → Update invoicing templates to mark transactions as reverse-charge.
Recipient's duty	Must give supplier a written declaration confirming VAT registration and resale/processing intent before supply. → No declaration = reverse charge does not apply; supplier stays liable.
Supplier's duty	Must independently verify the recipient's VAT registration with the FTA. → Build a pre-transaction registration check into the sales process.

PART B – VAT LAW

B.3 FTA GUIDE VATGRH1 - VAT REFUND FOR UAE NATIONALS BUILDING RESIDENCES

Updated 10 June 2026.

Refreshes examples and common-error guidance on the long-standing refund scheme; the underlying entitlement is unchanged.

Eligibility	Introduces the requirement that the applicant must be a UAE national, natural person included in the Family Data, and that the residence be constructed for occupation by the applicant or their family. → Confirm private, non-commercial use before claiming.
Qualifying costs	Clarifies the scope of eligible costs by limiting the refund to construction materials and services incorporated into the residential building and excluding appliances, furniture, swimming pools, and similar items. → Exclude non-qualifying costs at an early stage to reduce the risk of challenge by the Federal Tax Authority.
Timing & channels	Claims generally due within 12 months of completion, via EmaraTax or the Maskan app. → Track the 12-month deadline carefully - it is strictly applied.
Common errors	FTA flags missing bank letters, incomplete completion documents, and missing powers of attorney. → Use a pre-submission checklist built around this exact list.

PART C - TAX PROCEDURES AND PENALTIES

C.1 FEDERAL DECREE-LAW NO. 17 OF 2025 - TAX PROCEDURES LAW AMENDMENTS

Effective 1 January 2026. Amends Federal Decree-Law No. 28 of 2022.

The broadest single reform of the period.

Art. 54 bis	FTA given express statutory authority to issue binding decisions and guidance. → FTA clarifications now carry formal legal weight (see Section C-4).
Art. 38 Refunds	Harmonised 5-year window to claim a refund or offset a credit balance, with short extensions for late-arising credits. → Track the 5-year clock from period-end for every tax type.
Art. 46 Limitation	5-year default for audits/assessments; FTA may conduct a tax audit or issue a tax assessment within two years of the refund claim, even if this extends beyond the normal five-year period; Introduces a specific exception for refund-related Voluntary Disclosures to extend the five-year limitation. → A late refund claim can reopen audit exposure.
Art. 9/10 Voluntary disclosure (VD) & allocation	Distinguishes errors needing formal Voluntary Disclosure from lesser errors correctable in the next return. → Materiality threshold set later by Cabinet Decision 17/2026 (Section C-2).
Art. 3 Transitional (Foot note of article 38 of FDL No.28 of 2022)	One-off transitional refund window from 1 January 2026 to 31 December 2026 for tax credit balances whose normal five-year claim period had already expired. Taxpayers may apply for a refund or utilize such credit balances against tax liabilities or administrative penalties during the transitional period. → Review any tax credit balances that may otherwise be time-barred and submit eligible claims before 31 December 2026.

PART C - TAX PROCEDURES AND PENALTIES

C.2 CABINET DECISION NO. 17 OF 2026 - TAX PROCEDURES EXECUTIVE REGULATION

Effective 1 April 2026. Amends Cabinet Decision No. 74 of 2023.

Supplies the operating detail the Tax Procedures Law amendments (section C-1) were missing.

Art. 3(2)(e)	Adds a further 2 years of record retention while a refund application remains pending and undecided. → Extend document-retention policy for any open refund file.
Art. 10	Clarifies that a Voluntary Disclosure (VD) must be submitted within 20 business days only where the tax difference exceeds AED 10,000. → Refresh VD escalation workflows around the AED 10,000 line.
Art. 18(10)	FTA may extend the period for seizing/preserving documents or assets during an audit. → Plan for potentially longer document holds during an examination.
Art. 26	Renamed "Tax Refund Procedures" to "Credit Balance Refund Procedures"; timelines unchanged. → Confirms scope covers any credit balance, not just conventional refunds.
Art. 28(1)(b)	Disclosure to another government entity now needs a formal confidentiality/data-protection agreement. → Review information-sharing arrangements against this stricter standard.

PART C - TAX PROCEDURES AND PENALTIES

C.3 CABINET DECISION NO. 129 OF 2025 - REFORMED PENALTIES REGIME

Effective 14 April 2026. Replaces most of Cabinet Decision No. 40 of 2017.

Corporate Tax penalties (CD 75/2023) are unaffected.

Late payment	Flat 14% per annum, calculated monthly, non-compounding. → Replaces the prior fixed penalty plus separate monthly add-ons.
Voluntary Disclosure	Reduces the Voluntary Disclosure penalty to 1% per month of the tax difference. → Encourages taxpayers to rectify errors voluntarily rather than waiting for detection during a tax audit.
Arabic record-keeping	Reduced from AED 20,000 to AED 1,000 per violation (AED 5,000 if repeated within 24 months). → A sharp cut from the prior fixed penalty.
Failure to update tax record	Reduced from AED 5,000 to AED 1,000 (AED 5,000 if repeated within 24 months). → Keep records updated with FTA.
Incorrect Tax Return	Penalty reduced to AED 500 (first violation) and AED 2,000 (repeated violation). → Waiver applies if the tax return is corrected by the due date or via Voluntary Disclosure (VD) that does not impact the tax due.
Failure to issue a tax invoice / tax credit note or alternative document	Penalty of AED 2,500 per detected case imposed for noncompliance with legally specified requirements. → New condition: "within the period legally specified" is imposed to enforce the 14-day rule for issuing tax invoice, tax credit note or the alternative document.

PART C - TAX PROCEDURES AND PENALTIES

C.4 FTA DECISION NO. 2 OF 2026 - CLARIFICATIONS & DIRECTIVES POLICY

Effective 1 March 2026. Amends FTA Decision No. 5 of 2021.

Builds on the statutory authority granted by FDL 17/2025 (Section C-1) to formalise how the FTA communicates interpretive positions.

New category: Directives	Introduces formal Directives on specific points of tax administration, alongside Private/Public Clarifications. → A more structured, and more binding, interpretive framework.
Practical relevance	Provides the framework behind clarifications such as CTP010 (A-7) and future FTA guidance. → Track new Directives the same way as Public Clarifications.

PART D - E-INVOICING

D.1 MINISTERIAL DECISION NO. 66 OF 2026 - REVISED ASP DEADLINE

Announced May 2026. Amends Ministerial Decision No. 244 of 2025

Responds to industry feedback that businesses needed more time and a wider choice of Accredited Service Providers (ASP).

ASP deadline	Large-taxpayer ($\geq$ AED 50m revenue) ASP appointment deadline moved from 31 Jul to 30 Oct 2026. → Extra preparation time - not a deferral of the underlying obligation.
Go-live date	Mandatory requirement to go-live for this group remains 1 January 2027, unchanged. → Use the extra time on build and testing, not on delaying vendor selection.

PART D - E-INVOICING

D.2 E-INVOICING GUIDELINES - VERSIONS 1.0 AND 1.1

v1.0: 23 Feb 2026; v1.1: 1 Jun 2026.

Version 1.1 does not change scope or timelines it fills in operational detail businesses need to build against.

Mandatory fields	Fixes the minimum data set for a compliant e-invoice; VAT and totals always in AED. → Map your invoice data model against the mandatory fields list now.
Storage & retention	Legal retention responsibility always sits with the taxpayer, even where an Accredited Service Providers (ASP) handles storage. → An ASP contract does not transfer your record-keeping obligation.
Advance payments	A tax invoice must be issued when an advance payment is received; final invoice covers the balance. → Update billing workflows ahead of go-live.
Intra-group relief	24-month grace period from 1 January 2027 exempts transactions between members of the same VAT group. → Group-internal invoicing can be deprioritized in early build phases.
Non-resident registrants	A non-UAE resident registered for UAE VAT must still e-invoice if obliged to issue a tax invoice. → Do not assume foreign VAT registrants fall outside scope by default.
Self-billed documents	Self-billed commercial invoices/credit notes are out of scope; only self-billed tax invoices/credit notes are covered. → Check which self-billing arrangements are actually in scope.

PART E - QUICK REFERENCE INDEX

INSTRUMENT - TAX AREA INDEX

Every Federal Decree-Law, Cabinet and Ministerial Decision in this bulletin, mapped to its tax area.

Instrument	Type	Tax area
FDL 16/2025	Federal Decree-Law	VAT
FDL 17/2025	Federal Decree-Law	Tax Procedures / Excise
FDL 28/2025	Federal Decree-Law	Corporate Tax
CD 153/2025	Cabinet Decision	VAT
CD 215/2025	Cabinet Decision	Corporate Tax
CD 1/2026	Cabinet Decision	Corporate Tax
CD 17/2026	Cabinet Decision	Tax Procedures
CD 129/2025	Cabinet Decision	VAT / Excise
MD 24/2026	Ministerial Decision	Corporate Tax
MD 66/2026	Ministerial Decision	E-Invoicing
CTGFF1	FTA Guide	Corporate Tax
CTGAPA1	FTA Guide	Corporate Tax
CTP010	Public Clarification	Corporate Tax
FTA Decision 2/2026	FTA Policy	Tax Procedures
VATGRH1	FTA Guide	VAT
E-Invoicing Guidelines v1.0/v1.1	Ministry of Finance / FTA Guidance	E-Invoicing

SIGNIFICANT AMENDMENTS



AMENDMENTS IN THE INCOME TAX ORDINANCE, 2001

Algorithmic Settlement Mechanism

Section 134B

The Finance Act 2026, introduce this new section, to empower the Federal Board of Revenue (FBR), to establish a digitally operated **Algorithmic Settlement Mechanism (i.e. a technology-driven framework, whereby FBR may use automated systems and data analytics to identify discrepancies in taxpayers' returns and generate settlement offers)** for resolving tax disputes and discrepancies before the issuance of assessment or amended assessment orders under sections 121, 122, or 122E.

The mechanism will enable taxpayers to voluntarily settle identified tax issues, through acceptance of a system-generated settlement offer and revision of their return. These offers will be intended to facilitate early resolution of tax matters, without the need for formal assessment proceedings.

The Settlement of Offer will be determined on the basis of factors such as:

- The stage of the proceedings;
- The taxpayer's compliance history;
- The nature and severity of the discrepancy;
- Whether the issue relates to valuation, legal interpretation, unexplained income/assets, or concealment; and
- Any other criteria considered relevant by the Board.

A taxpayer wishing to avail the mechanism must, within ten days of the offer;

1. Accept the settlement offer through IRIS;
2. Deposit the specified settlement amount; and
3. File a revised return incorporating the settled amount.

Upon compliance and accepting the offer, the proceedings relating to the issues covered by the settlement offer will stand concluded.

Authorised Shipping Agent & Non Resident Ship Owner or Charterer

Section 2(6A) & Section 143

Agent according to which a person conducting the following activities while acting on behalf of a non-resident ship owner, charterer, or operator will be recognized as an Authorised Shipping Agent with associated tax responsibilities and liabilities.

The activities include:

- a. Responsibility for the receipt, collection, control, accounting, custody, or disposal of freight and related receipts connected with a vessel or voyage;
- b. Handling of shipping documentation, cargo manifests, reporting obligations, or freight-related administration; and
- c. Furnishing of the return required under Section 143 in respect of the relevant vessel or voyage.

Such person shall be treated as a representative of the non-resident under Section 172 and will become jointly and severally liable for tax, compliance obligations, assessments, proceedings, and recovery actions relating to the vessel or voyage. **As a result, FBR will be empowered to pursue recovery and enforcement actions** directly against the authorized shipping agent where necessary.

By proposing to introduce this concept in Section 143, a comprehensive statutory framework will be established for both Non-resident ship owner/charterer and their representative under which:

- Authorised Shipping Agents become **recognized filers** under Section 143;
- Only one consolidated return may be filed for each vessel or voyage;
- Filing authority is restricted to the Master of the Ship or the Authorised Shipping Agent;
- Authorised Shipping Agents become jointly and severally liable for tax obligations;
- Electronic confirmation of filing and tax payment becomes a prerequisite for prescribed regulatory clearances.

The amendments significantly strengthen FBR's ability to enforce tax compliance in respect of non-resident shipping activities conducted through local representatives.

Tax on Deemed Income (Omitted)

Section 7 E

Section 7E was one of the most debated provisions introduced in recent years. The provision sought to tax ownership of certain immovable properties by deeming a prescribed percentage of the property's value as taxable income, regardless of whether the property generated actual income or not

The omission of this section is consequential to the order by the Federal Constitutional Court and is likely to be welcomed by property owners, investors, and taxpayers who viewed the provision as imposing tax without corresponding realization of income.

Tax on Certain Payments by Life Insurance Business

Section 7 G and Section 151B

The Finance Act 2026, introduce this new section, tax for amounts received by individuals from life insurance and family takaful products, where the payout exceeds the aggregate premiums or contributions paid, such excess amount will be treated as taxable gain and taxed at the below rates as final tax:

1.15% tax, where payout or benefit is made within one year of policy issuance.
2.10% tax, where payout or benefit is made after one year but before four years of policy issuance.

The tax shall not apply where the payout is received:

- (a) Due to the death of the insured person or takaful participant.
- (b) on account of disability of the insured or participant.

Such amount will be withheld by the life insurance companies and takaful operators under the section 151B on the gross amount of payout or benefit reduced by the aggregate amount of premiums or contributions paid by the policy holder or participant. The Finance Act, 2026, has also amended the tenth schedule whereby non-resident policy holders shall not be subject to 100% increase in tax rate under Section 151B.

Tax Credit for Integration

Section 64D

The Finance Act 2026, introduce this new section in the Income Tax Ordinance, 2001 to provide a **tax credit for taxpayers who integrate their systems with the Federal Board of Revenue (FBR) computerized platform** for real-time monitoring, sales recording, and reporting purposes.

Such taxpayers will be entitled to a **tax credit equal to 10% of the actual investment** made in eligible electronic resources, including:

- Hardware;
- Software;
- Equipment; and
- Other electronic components used exclusively for FBR integration.

The tax credit will be available in the tax year in which the system is installed, integrated, and configured with FBR's computerized system with the following restrictions:

- The tax credit is limited strictly to **capital investment** costs; operational and maintenance expenses are not eligible.
- The credit can only be adjusted against **normal tax payable under Division I or Division II of Part I of the First Schedule**.

Introduction of National Faceless Tax Administration Framework

Creation of National Faceless Centre

Section 2(35)(1A) Section 227D

The Finance Act 2026, establishment of a **"National Faceless Centre"** to handle proceedings under the Income Tax Ordinance, 2001 in a fully digital and faceless manner. The Centre will comprise a Director General, Inland Revenue officers, and support staff, with its jurisdiction, powers, and internal structure to be determined by the FBR.

A key feature of the framework is the use of algorithm-based systems for the automated allocation of functions and jurisdiction, alongside the creation of separate wings for audit, assessment, and quality control to ensure segregation of responsibilities within the same case.

All interactions between the tax authorities and taxpayers falling under the jurisdiction of the **"National Faceless Centre"**, as well as inter-departmental communication, will be conducted exclusively through electronic means.

Faceless Jurisdiction of Income-Tax Authorities

Section 209B

In Finance Act 2026, the Inland Revenue officers working within the National Faceless Centre will exercise functions and powers under the Income Tax Ordinance, 2001 through algorithm-based allocation of cases. Jurisdiction may be assigned on an exclusive or concurrent basis for specified persons, classes of persons, or tax periods, as determined through systems developed by the FBR.

The Board is empowered to transfer cases between the faceless centre and field formations, including reassignment to jurisdictional officers, either on its own motion or on recommendation of the Chief Commissioner.

The framework also permits physical verification of taxpayers' business operations, assets, and financial information through field officers, based on directions issued by the faceless centre and allocated through algorithmic systems.

A key feature of the regime is the confidentiality of the identity of the officer exercising jurisdiction, which will not be disclosed to the taxpayer or any representative. Additionally, proceedings, notices, or orders cannot be challenged solely based on lack of territorial jurisdiction, delegation defects, or non-disclosure of the officer's identity. This would open doors for legal debate and litigation if such immunity is approved by the lawmakers.

Faceless Audit and Assessment

Section 122E

The Finance Act 2026, introduce the mechanism of faceless audit, assessment, and related proceedings has been for such persons, cases, or income categories as may be specified by the Federal Board of Revenue. The mechanism enables the conduct of audits and assessments in a fully digital and prescribed faceless manner, extending the applicability of existing audit provisions to this new system.

Where hearings or recording of statements are required during the audit process, these will be conducted through electronic hearings (E-hearings). **However, the identity of the officer, including facial and voice identity, conducting such hearing shall be kept confidential.**

Overall, the above provisions aim to digitize audit and assessment functions, reduce direct interaction between taxpayers and tax officers, and standardize proceedings through centralized and technology-driven processes, while raising considerations around transparency and the taxpayer's ability to identify the decision-making authority.

Faceless Appeals

Section 129A

In addition to the above, the Finance Act 2026, introduce the mechanism of faceless appeals to be processed through the National Faceless Center with same purpose adopting the same mechanism.

Special Provision Relating to Capital Gain Tax

Section 100B

The Finance Act, 2026 amends Section 100B of the Income Tax Ordinance, 2001 to revise the scope of entities covered under the capital gains computation mechanism administered through the National Clearing Company of Pakistan Limited (NCCPL) and to clarify the tax treatment of capital gains earned by specified financial institutions.

The amendment excludes non-banking finance companies, modaraba and companies in respect of debt securities from the scope of this section. For **banking companies, insurance companies, and mutual funds**, NCCPL will continue to compute and determine capital gains in accordance with the mechanism prescribed under **Section 37A**. However, these entities will remain responsible for **depositing tax on capital gains under the applicable provisions of the Income Tax Ordinance**.

Independent case Scrutiny Committee

Section 133A

The Finance Act 2026, introduce a new Section 133A is to be inserted in the Income Tax Ordinance, 2001 to establish an **Independent Case Scrutiny Committee (ICSC)** to regulate and approve tax litigation initiated by the Federal Board of Revenue (FBR) before superior courts.

The provision introduces a mandatory internal approval mechanism before the Commissioner Inland Revenue can file references, appeals, or reviews in higher judicial forums.

This Committee shall consist of:

- 1.A **retired Judge** of the Supreme Court, Federal Constitutional Court, or High Court (Chairman);
- 2.An **Advocate with at least 15 years of experience** in tax and commercial litigation (from a panel notified by FBR); and
- 3.A **senior serving or retired FBR officer (BS-20 or above)**. Provided that the Committee may also **co-opt a Chartered Accountant as a non-voting member**, whenever considered necessary.

The Committee will examine litigation and determine whether the case merits further appeal or reference. Where, the **recommendations shall be binding** on the Commissioner Inland Revenue.

It also provides that, notwithstanding anything contained in the Income Tax Ordinance, 2001 or the Limitation Act, 1908, the period commencing from the date on which limitation begins to run until the date the Committee grants its approval shall be **excluded while computing the limitation period** for filing the relevant proceedings. The excluded period shall be certified by the Chairman of the Committee. In cases where the limitation period had already commenced before the enforcement of **Section 133A**, such exclusion shall be calculated **from the date the Finance Act, 2026 comes into force** until the Committee's approval is granted.

Withholding Tax on Revenues Received from Social Media Platforms **Section 154B**

The Finance Act 2026, introduce a **withholding tax mechanism on income earned from social media platforms**, collected through banking and financial intermediaries at the time of credit or receipt of funds.

The provision applies to revenues earned by individuals or entities from monetization of digital content across platforms such as YouTube, Facebook, Instagram, TikTok, and similar services through any inward remittance, transfer or credit received through banking channels including through intermediaries such as online payment service providers or digital finance platforms.

For **resident person** such tax **(5%)** will be **minimum tax**, whereas, for **non-resident person** such tax **(5%)** will be final tax.

Re-Audit **Section 177(6B)**

The Finance Act 2026, empowers the Commissioner, during audit proceedings, to require a taxpayer to obtain **Specialized Independent Verification of Financial Records (i.e. re-audit of financial statements, inventory valuation or actuarial valuation)**, where justified by complexity or risk factors.

This power may be exercised where the Commissioner forms an opinion, based on:

- Nature and complexity of accounts;
- Volume of transactions;
- Doubts regarding correctness of accounts;
- Multiplicity of transactions;
- Specialized nature of business activity; and
- Interests of revenue,

and after:

- Providing the taxpayer a reasonable opportunity of being heard; and
- Obtaining prior approval of the **Chief Commissioner**
- **Further, the amendment provides a safeguard for taxpayers by allowing them to object to the appointment of the nominated accountant or cost accountant within fifteen (15) days of the nomination.** If the Commissioner finds the objection to be justified, he may replace the nominated accountant or cost accountant with another qualified professional.

Offences and penalties

Section 182

The Finance Act 2026, comprehensive revised the penalty structure under Section 182 by enhancing the quantum of penalties across multiple categories of non-compliance and introducing stricter enforcement mechanisms for various statutory obligations.

Existing	After Finance Act, 2026
Previously, " tax payable " for calculating penalties was based only on the tax assessed on the current year's income under the normal assessment process. It did not consider the tax payable in the preceding year.	The Finance Act, 2026 provides that " tax payable " shall now be taken as the higher of : • Tax assessed for the current tax year; or • Tax payable for the immediately preceding tax year for which a return of income was duly filed.
There was no specific penalty for failure to install or use FBR-prescribed electronic systems or for tampering with such systems. Likewise, non-compliance by integrated agencies, authorities and organizations regarding data integration and sharing was not specifically covered.	The Finance Act, 2026 introduces two separate penalty provisions: 1. Failure to install or use FBR-prescribed electronic systems (Section 174(5)) Penalty applies where a person fails to install, use, maintain or operate the prescribed electronic resource, or tampers with, disables or circumvents such system. Penalty: • 1% of turnover or Rs. 1,000,000, whichever is higher, for the first default; and • Rs. 2,000,000 for every subsequent quarterly default. 2. Non-compliance by integrated agencies, authorities, institutions or organizations (Section 175A). Penalty applies for failure to: • Integrate IT platforms with the FBR's prescribed data interface within the specified time; • Share data in the prescribed manner; • Provide complete, accurate and timely data; • Designate a focal person where required; or • Rectify deficiencies within 30 days of a written notice issued by the FBR. Penalty: • Rs. 500,000 for the first default; and • Rs. 1,000,000 for every subsequent default. In the case of organizations, the penalty shall be imposed personally on the principal officer, Chief Executive Officer, member (in the case of an Association of Persons) or the individual (in the case of a sole proprietorship), as applicable.

Significant Amendments | Income Tax

The Finance Act, 2026 has made amendments in Serial No. 8 of Section 182, whereby the monetary penalties for non-compliance with notices for production of record or documents are to be significantly enhanced.

Existing	After Finance Act, 2026
Under the current framework where a taxpayer, without reasonable cause, fails to produce records or documents in compliance with a notice. For failure to comply with the first notice, a penalty of Rs. 25,000 is imposed. In case of continued non-compliance Rs. 50,000 and non-compliance of third notice, a penalty of Rs. 100,000 is levied.	Under the framework, the penalty for failure to produce records on receipt of the first notice is increased to Rs. 100,000, while non-compliance on the second notice attracts a penalty of Rs. 200,000. In case of continued failure on the third notice, the penalty is further enhanced to Rs. 300,000
Under Serial No. 10, omission of material information resulting in a false or misleading statement attracts a penalty of Rs. 25,000 or 50% of tax shortfall, whichever is higher, with relief where a reasonably arguable position is taken	The Finance Act, 2026 substantial increase in penalties across these provisions. Under Serial No. 10, the fixed penalty is enhanced from Rs. 25,000 to Rs. 500,000, and the percentage-based penalty from 50% to 100% of tax shortfall, increasing liability for false or misleading statements.
Under Serial No. 35, a company or association of persons that fails to provide complete particulars in its return, furnishes blank or incomplete annexures, statements or documents, or attaches incomplete records where required, is liable to a penalty of Rs. 500,000 or 10% of the tax chargeable on taxable income, whichever is higher.	The Finance Act, 2026 extend the scope of Serial No. 35 to all persons, and clarifies that illegible, scanned, or inaccessible audited financial statements shall be treated as blank or incomplete submissions, thereby attracting the prescribed penalty of Rs. 500,000 or 10% of the tax chargeable, whichever is higher.
-	The Finance Act, 2026 insertion of a new penalty provision at Sr. 36 whereby a person claiming tax credit in excess of the amount actually deducted and deposited by the withholding agent shall be liable to a penalty equal to the amount of excess credit claimed.
In existing framework of Section 182A— a person who fails to file a return of income within the due date shall be excluded from the ATL and may only be restored upon filing the return and payment of a surcharge of Rs. 20,000 (company), Rs. 10,000 (AOP), or Rs. 1,000 (individual).	The Finance Act, 2026 increase the ATL restoration surcharge to Rs. 100,000 (company), Rs. 50,000 (AOP), and Rs. 25,000 (individual), thereby resulting in significantly increasing the cost of late return filing. The Finance Act, 2026 inserts a new sub-section (3) in Section 182A to exempt an individual from the default surcharge under sub-section (1), provided the individual submits a prescribed undertaking to the Commissioner declaring that no property shall be purchased, acquired, or beneficially owned for a period of six months from the date of the undertaking.

Directorate General (Field Compliance), Inland Revenue

Section 228A

Through the Finance Act 2026, amendments will formally create a new enforcement and compliance directorate under FBR titled the **Directorate General (Field Compliance), Inland Revenue**.

The Directorate will comprise of:

- A Director General;
- Directors;
- Additional Directors;
- Deputy Directors;
- Assistant Directors; and
- Other officers as appointed by FBR through official notification.

The functions and jurisdiction of this Directorate will be defined by the Board.

FIRST SCHEDULE

COMPARISON OF RATES OF TAX APPLICABLE FOR SALARIED INDIVIDUALS:

S. No.	Taxable Income	Tax Rate (%)	Tax for Individuals (Rs.)	Existing Tax (Rs.)	Tax Incidence (Rs.)
1	Where taxable income does not exceed Rs. 600,000/-	0%	NIL	NIL	NIL
2	Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000/-	1% of the amount exceeding Rs. 600,000/-	Upto Rs. 6,000/-	Upto Rs. 6,000/-	NIL
3	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-	Rs. 6,000/- + 11% of the amount exceeding Rs. 1,200,000/-	Rs. 6,001/- to Rs. 116,000/-	Rs. 6,001/- to Rs. 116,000/-	NIL
4	Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-	Rs. 116,000/- + 20% of the amount exceeding Rs. 2,200,000/-	Rs. 116,001/- to Rs. 316,000/-	Rs. 116,001/- to Rs. 346,000/-	Rs. 0/- to Rs. 30,000/-

Significant Amendments | Income Tax

5	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-	Rs. 316,000/- + 25% of the amount exceeding Rs. 3,200,000/-	Rs. 316,001/- to Rs. 541,000/-	Rs. 346,001/- to Rs. 616,000/-	Rs. 30,000/- to Rs. 75,000/-
6	Where taxable income exceeds Rs. 4,100,000/- but does not exceed Rs. 5,600,000/-	Rs. 541,000/- + 29% of the amount exceeding Rs. 4,100,000/-	Rs. 541,001/- to Rs. 976,000/-	Rs. 616,001/- to Rs. 1,141,000/-	Rs. 75,000/- to Rs. 165,000/-
7	Where taxable income exceeds Rs. 5,600,000/- but does not exceed Rs. 7,000,000/-	Rs. 976,000/- + 32% of the amount exceeding Rs. 5,600,000/-	Rs. 976,001/- to Rs. 1,424,000/-	Rs. 1,141,001/- to Rs. 1,631,000/-	Rs. 165,000/- to Rs. 207,000/-
8	Where taxable income exceeds Rs. 7,000,000/-	Rs. 1,424,000/- + 35% of the amount exceeding Rs. 7,000,000/-	Rs. 1,424,001/- and above	Rs. 1,631,001/- and above	Rs. 207,000/- and above

Through the Finance Act, 2026, the Surcharge payable @ 9% by Salaried Individual having taxable income exceeding Rs. 10 Million in a tax year shall be abolished.

COMPARISON OF RATES OF TAX APPLICABLE FOR SALARIED INDIVIDUALS:

S. No	Taxable Income	Existing Tax	Persons other than Banking, Oil & Gas and Fertilizer companies (%)	Tax Incidence (Tax Relief)	Banking, Oil & Gas and Fertilizer companies (%)	Tax Incidence (Tax Burden)
1	Rs. 150 million to Rs. 200 million	1%	0%	<i>Rs 1.5 million to Rs 2 million</i>	10%	<i>Rs 13.5 million to Rs 18 million</i>
2	Rs. 200 million to Rs. 250 million	1.50%	0%	<i>Rs 3 million to Rs 3.75 million</i>	10%	<i>Rs 17 million to Rs 21.25 million</i>
3	Rs. 250 million to Rs. 300 million	2.50%	0%	<i>Rs 6.25 million to Rs 7.5 million</i>	10%	<i>Rs 18.75 million to Rs 22.5 million</i>
4	Rs. 300 million to Rs. 350 million	3.50%	0%	<i>Rs 10.50 million to Rs 12.25 million</i>	10%	<i>Rs 19.5 million to Rs 22.75 million</i>
5	Rs. 350 million to Rs. 400 million	5.50%	0%	<i>Rs 19.25 million to Rs 22 million</i>	10%	<i>Rs 15.75 million to Rs 18 million</i>
6	Rs. 400 million to Rs. 500 million	7.50%	0%	<i>Rs 30 million to Rs 37.5 million</i>	10%	<i>Rs 10 million to Rs 12.5 million</i>
7	Exceeding Rs. 500 million	10%	8%	<i>Incentive of Rs 10 million and above</i>	10%	<i>Consistent</i>

The Finance Act, 2026 inserts clause (104B) in Part IV of the Second Schedule to provide that the provisions of section 4C (Super Tax) shall not apply to a person whose export proceeds realized during the tax year exceed 80% of the total turnover for that tax year.

Tax Deduction on Capital Gains on Disposal of Securities by Mutual Funds or Collective Investment Schemes

The Finance Act, 2026 add word **“Charge And”** in the Third Proviso, where Mutual Fund or a Collective Investment Scheme or REIT Scheme, are required to deduct Capital Gain Tax on disposal of securities. From the outset, the intention seems to make the rate of deduction and chargeability same i.e., 15% or 25%, as the case may be. However, it will be further clarified when Finance Act is passed and clarification for such amendment is issued by FBR.

RATE OF PAYMENT OF SERVICES (REDUCE RATES)

S.No.	Description	Existing	After Finance Act, 2026
1	Services such as transport service, cargo, airfreight services, manpower services, IT enabled services etc.	6%	7%
2	Independent professional service provided by doctors, lawyers, architect, accountants, software engineers and developers working independently.	15%	15%
3	electronic and print media in case of advertising services	1.50%	1.50%
4	in case of services other than not specified	15%	14%
5	companies for rendering or providing terminal and port operating services	15%	12%

Note: Rate of Tax on Services is not specified is 14%.

Gain Arising on Disposal of Certain Debt Securities

In Finance Act, 2026 withholding tax u/s. 151A for the said debt securities to be enhanced from 15% to 20%.

Export of Goods

The Finance Act, 2026 enhance withholding tax rate from 1% to 1.25% for export of goods and services obtained by the Exporter for various services under Section 153 (2).

Export of Services (IT or IT Enabled Services)

In Finance Act, 2026 the reduced rate of 0.25% on IT or IT enabled services be extended up to Fiscal Year 2029 from the existing time limited of Fiscal Year 2026.

Advance Tax on Sale or Transfer of Immovable Property

In Finance Act, 2026 the Part IV of Division X table be omitted and flat rate of tax u/s. 236C shall be 2.75% of the gross amount of the consideration received.

Advance Tax on Purchase of Immovable Property

In Finance Act, 2026 the Division XVIII table be omitted and flat rate of tax u/s. 236K shall be 1.25% of the fair market value of the immovable property.

Advance Tax on Amount Remitted Abroad Through Credit, Debit or Prepaid Cards

The Finance Act, 2026 reduce the rate of withholding tax u/s. 236Y on amount remitted through Credit, Debit or Prepaid Card from 5% to 0.5%.

SECOND SCHEDULE

Reduction in Tax Rate for Person Rendering Terminal or Port Services

In Finance Act, 2026 a person rendering terminal or port services that the withholding tax rate shall be 12% of the gross amount.

Change in Minimum Tax Rate in Certain Cases

The Finance Act, 2026 has substituted the clause (24D) in Part II of the Second Schedule to prescribe a minimum tax rate of 0.5% from the existing 0.25% under section 113(1) for distributors, dealers, sub-dealers and wholesalers dealing in specified goods, including pharmaceuticals, fertilizers, cigarettes, sugar, locally manufactured mobile phones, packaged food products, electronics, beverages, dairy products, personal care products, cleaning agents and other household consumables. The reduced rate is available only where the taxpayer appears on the Active Taxpayers Lists maintained under both the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

Exemption From Specific Provisions for Non-Resident Investors

Through the Finance Act, 2026 the relief to non-resident investors maintaining FCVA, FCBVA, NRVA, or NRBVA accounts has been granted by exempting them from return filing and NTN registration requirements, provided their Pakistan-source income is limited to specified passive investment income. It is aimed at encouraging foreign investment in Pakistan through banking channels and capital markets.

Exempt the income of a Private Equity and Venture Capital Fund registered under the Private Funds Regulations, 2015

The Finance Act, 2026 introduces clause (99C) in Part I of the Second Schedule to exempt the income of a Private Equity and Venture Capital Fund registered under the Private Funds Regulations, 2015, provided that at least 90% of its accounting income, after adjusting accumulated losses and unrealized capital gains, is distributed to its unit or certificate holders or shareholders. However, the exemption shall not be available where the Fund is established to acquire a public listed company that has not been converted into a private limited company after the acquisition.

Exemption from Super Tax for Export-Oriented Businesses

The Finance Act, 2026 introduces clause (104B) in Part IV of the Second Schedule to provide that the provisions of section 4C (Super Tax) shall not apply to a person whose export proceeds realized during the tax year exceed 80% of the total turnover for that tax year.

AMENDMENTS IN THE SALES TAX ACT, 1990

Production Monitoring System

Section 2(22)(1A)

The Federal Government has inserted through the Finance Act, 2026 a definition of **"Production Monitoring System"**, encompassing any technology or mechanism used to monitor the production and sale of goods, whether in real time or otherwise. The amendment empowers the FBR to prescribe and implement such systems from time to time, thereby establishing a legal framework for the deployment of digital monitoring and tracking solutions. The measure is aimed at enhancing transparency, strengthening tax compliance, and enabling more effective oversight of manufacturing and sales activities.

Tier-1 Retailer

Section 2(43A)

The Finance Act, 2026 has revised the definition of **"Tier-1 Retailer"** rationalizing its scope. Wholesaler-cum-Retailers are now to be qualified as Tier-1 Retailers only where their turnover exceeds Rs. Two Hundred Million.

The amendment further introduced a new criterion whereby retailers with turnover exceeding Rs. 200 million, determined either through declaration or based on turnover worked back from tax deductions under sections 236G and 236H of the Income Tax Ordinance, 2001, will be treated as Tier-1 Retailers.

Currently, one of the criteria to qualify as a "Tier-1 Retailer" is that a retailer whose tax deductions under the above referred provisions of the Income Tax Ordinance, 2001 exceeds a specific threshold. This is now to be omitted and effectively be replaced by the above discussed turnover-based criteria.

Additionally, the Finance Act, 2026 seeks to omit those retailers who are accepting payments through debit or credit cards or any other digital payment mechanism.

Time and Manner of Payment for Steel Melters, Re-rollers and Composite Units

Section 6(2)

The Finance Act, 2026 has introduced three new provisos providing a special mechanism for the collection of sales tax from steel melters, steel re-rollers and composite units.

Under the amendment, sales tax shall be collected on the basis of per unit electricity consumption, including electricity generated through a captive power plant or any other alternative source of energy, at such rate or rates as may be prescribed by the Board through notification in the Official Gazette. The tax so collected shall be treated as adjustable input tax and may be claimed in the sales tax return for the tax period in which the payment is made.

The amendment further empowers the Board to prescribe lower per unit electricity consumption rates for compliant and digitally integrated steel manufacturers, taking into account the input tax paid on imports and invoices issued through the electronic invoicing system, with the objective of minimizing the accumulation of refunds.

Furthermore, the Board shall determine the per unit sales tax on the basis of the minimum notified price under clause (46) of section 2 of the Sales Tax Act, 1990, and the industrial benchmarks of electricity consumption per ton of steel production. This amendment aims to strengthen tax compliance in the steel sector through an electricity consumption-based taxation mechanism while encouraging documentation and digital integration

Re-audit of accounts

Section 25

The Finance Act, 2026 empower the Commissioner, during audit proceedings under section 25, to require a registered person after providing an opportunity of being heard and with prior approval of the Chief Commissioner to undertake a re-audit of accounts by a nominated accountant or revaluation of inventory by a nominated cost accountant. This requirement may be imposed where the Commissioner considers it necessary due to factors such as the complexity or volume of accounts, doubts regarding correctness, multiplicity of transactions, or the specialized nature of the taxpayer's business.

Further, upon completion of the audit, the Inland Revenue officer will be required to issue a formal audit report containing observations and findings after obtaining the taxpayer's explanation on all identified issues.

Overall, the amendment significantly strengthens audit oversight by enabling externally conducted re-audits and structured reporting, thereby enhancing the evidentiary depth of audit proceedings while increasing compliance obligations for taxpayers under the audit process. However, the discretionary power of the Commissioner may pave way for unnecessary re-scrutiny of accounts.

Directorate General (Field Compliance) Inland Revenue

Section 30DDDB

The Finance Act, 2026 establishment of a Directorate General (Field Compliance) Inland Revenue comprising a Director General and such hierarchy of officers, including Directors, Additional Directors, Deputy Directors, Assistant Directors, and other staff as may be appointed by the Federal Board of Revenue through notification. The Board is empowered to define the functions, jurisdiction, and operational scope of the Directorate General and its officers.

The amendment appears aimed at strengthening field-based compliance and enforcement capacity by creating a dedicated institutional structure with clearly defined powers, while allowing flexible allocation of jurisdiction and functions through FBR notifications.

INTRODUCTION OF NATIONAL FACELESS TAX ADMINISTRATION FRAMEWORK

National Faceless Centre

Section 2(17A) Section 32C

The Finance Act, 2026 has established a **“National Faceless Centre”** to handle proceedings under the Sales Tax Act, 1990 in a fully digital and faceless manner. The Centre will comprise a Director General, Inland Revenue officers, and support staff, with its jurisdiction, powers, and internal structure to be determined by the FBR.

A key feature of the framework is the use of algorithm-based systems for the automated allocation of functions and jurisdiction, alongside the creation of separate wings for audit, assessment, and quality control to ensure segregation of responsibilities within the same case.

All interactions between the tax authorities and taxpayers falling under the jurisdiction of the **“National Faceless Centre”**, as well as inter-departmental communication, will be conducted exclusively through electronic means.

Faceless Jurisdiction

Section 30AA

The Finance Act, 2026, the Inland Revenue officers working within the National Faceless Centre will exercise functions and powers under the Sales Tax Act, 1990 through algorithm-based allocation of cases. Jurisdiction may

be assigned on an exclusive or concurrent basis for specified persons, classes of persons, or tax periods, as determined through systems developed by the FBR. The Board is empowered to transfer cases between the faceless centre and field formations, including reassignment to jurisdictional officers, either on its own motion or on recommendation of the Chief Commissioner.

The framework also permits physical verification of taxpayers' business operations, assets, and financial information through field officers, based on directions issued by the faceless centre and allocated through algorithmic systems.

A key feature of the regime is the confidentiality of the identity of the officer exercising jurisdiction, which will not be disclosed to the taxpayer or any representative. Additionally, proceedings, notices, or orders cannot be challenged solely based on lack of territorial jurisdiction, delegation defects, or non-disclosure of the officer's identity. This would open doors for legal debate and litigation if such immunity is approved by the lawmakers.

Faceless Audit and Assessment

Section 11H

The mechanism of faceless audit, assessment, and related proceedings, including actions under has been introduced for such persons, cases, or income categories as may be specified by the Federal Board of Revenue. The mechanism enables the conduct of audits and assessments in a fully digital and prescribed faceless manner, extending the applicability of existing audit provisions to this new system.

Where hearings or recording of statements are required during the audit process, these will be conducted through electronic hearings (E-hearings).

Overall, the above provisions aim to digitize audit and assessment functions, reduce direct interaction between taxpayers and tax officers, and standardize proceedings through centralized and technology-driven processes, while raising considerations around transparency and the taxpayer's ability to identify the decision-making authority.

Faceless Appeals

Section 45C

In addition to the above, the Finance Act, 2026 has also introduce the mechanism of faceless appeals to be processed through the National Faceless Center.

Overall, the above provisions aim to digitize audit and assessment functions, reduce direct interaction between taxpayers and tax officers, and standardize proceedings through centralized and technology-driven processes, while raising considerations around transparency and the taxpayer's ability to identify the decision-making authority.

Offences and Penalties

Section 33

S.No.	Offences and Penalties	Existing	After Finance Act, 2026
1	Where any person fails to furnish a return within the due date.	Such person shall pay a penalty of ten thousand rupees : Provided that in case a person files a return within ten days of the due date, he shall pay a penalty of two hundred rupees for each day of default.	Such person shall pay a penalty of fifty thousand rupees : Provided that in case a person files a return within ten days of the due date, he shall pay a penalty of two thousand rupees for each day of default.
2	Any person who fails to issue an invoice when required under this Act.	Such person shall pay a penalty of five thousand rupees or three per cent of the amount of the tax involved, whichever is higher.	Such person shall pay a penalty of twenty-five thousand rupees or five per cent of the amount of the tax involved, whichever is higher.
3	Any person who unauthorizedly issues an invoice in which an amount of tax is specified.	Such person shall pay a penalty of ten thousand rupees or five per cent of the amount of the tax involved, whichever is higher.	Such person shall pay a penalty of fifty thousand rupees or ten per cent of the amount of the tax involved, whichever is higher.

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5	Any person who fails to deposit the amount of tax due or any part thereof in the time or manner laid down under this Act or rules or orders made there under.	Such person shall pay a penalty of ten thousand rupees or five per cent of the amount of the tax involved, whichever is higher: Provided that, if the amount of tax or any part thereof is paid within ten days from the due date, the defaulter shall pay a penalty of five hundred rupees for each day of default:	Such person shall pay a penalty of fifty thousand rupees or five per cent of the amount of the tax involved, whichever is higher: Provided that, if the amount of tax or any part thereof is paid within ten days from the due date, the defaulter shall pay a penalty of five thousand rupees for each day of default:
7	Any person who is required to apply for registration under this Act fails to make an application for registration before making taxable supplies.	Such person shall pay a penalty of ten thousand rupees or five per cent of the amount of tax involved, whichever is higher:	Such person shall pay a penalty of fifty thousand rupees or five per cent of the amount of tax involved, whichever is higher:
8	Any person who fails to maintain records required under this Act or the rules made there under.	Such person shall pay a penalty of ten thousand rupees or five per cent of the amount of tax involved, whichever is higher.	Such person shall pay a penalty of fifty thousand rupees or five per cent of the amount of tax involved, whichever is higher.
25	Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under the Act, and if registered, fails to integrate in the manner as required under law within the stipulated time as notified by the Board.	Such person shall be liable to pay a penalty up to one million rupees, and if continues to commit the same offence after a period of two months after imposition of penalty as aforesaid , his business premises shall be liable to be sealed by an officer of Inland Revenue in the manner as may be prescribed.	Such person shall be liable to pay a penalty up to one million rupees, if he continues to commit the offence after one month of the imposition of first penalty, he shall be liable to second penalty of up to five million rupees . Notwithstanding, his business premises shall be liable to be sealed with or without imposition of penalty by an officer of Inland Revenue in the manner as may be prescribed.

FOLLOWING SERIALS ARE TO BE ADDED THROUGH THE FINANCE ACT, 2026:

S.No.	Offences	
29	Where any registered person issues a tax invoice for a transaction which is simulated or fictitious, or for which no actual supply of goods or services has taken place, as established after notice and adjudication.	(i) Such person shall pay a penalty equal to the face value of the simulated or fictitious invoice or invoices. (ii) The Board shall, after issuance of a show cause notice and an opportunity of being heard, place the name and registration number of such person on a Publicly Accessible Simulated Invoice Issuers Register maintained on the Board's computerized system. (iii) Any input tax credit claimed by a counterparty on the basis of invoices issued by a person on the simulated invoice issuers register shall be reversed automatically and treated as inadmissible with effect from the date of listing. Listing on the above register shall be removed upon full payment of the penalty and default surcharge, and upon satisfactory demonstration of compliance.
30	Where the Board's computerized system identifies that input tax credit claimed by a registered person in respect of any tax period cannot be matched to corresponding output tax declared by the supplier for the same or proximate tax period, and such mismatch is confirmed after issuance of notice and provision of opportunity of being heard.	Such person shall pay a penalty of twenty per cent of the unmatched input tax amount, in addition to reversal of the inadmissible credit and payment of default surcharge under section 34.
31	Where a registered person has claimed input tax credit on the basis of invoices issued by a person who is subsequently placed on the simulated invoice issuers register under S. No. 29, and such registered person fails to reverse the inadmissible input tax credit within sixty days of the listing of the invoice issuer on the register.	Such person shall pay a penalty of twenty per cent of the unreversed input tax credit, in addition to the reversal of such credit and default surcharge under section 34.

Sale of Confiscated Goods by Auction

Section 40F

In Finance Act, 2026 the goods liable to confiscation under the Sales Tax Act, 1990, once confiscated, shall be disposed of through public auction, including via electronic auction mechanisms as prescribed by the FBR. The process will be subject to compliance with the Public Procurement Regulatory Authority Rules, 2014, thereby aligning disposal procedures with formal procurement standards.

The sale proceeds will be distributed in a defined priority order: first, to cover the expenses of the sale; second, to discharge any outstanding sales tax liabilities, other taxes, penalties, and surcharges owed to the Federal Government; and finally, any remaining balance will be payable to the owner of the goods upon application within six months. If unclaimed within this period, the amount will be transferred to the government treasury. In cases where Goods Declaration has been filed, the importer's share in the proceeds will be capped at the declared value of the goods.

This amendment seeks to broaden the enforcement powers of the Federal Board of Revenue and recover any loss of revenue to the Government Exchequer.

Algorithmic Settlement Mechanism

Section 47AA

The Finance Act, 2026 established a digitally operated algorithmic settlement mechanism enabling the settlement of tax disputes at any stage prior to the issuance of orders under sections 11D or 11E of the Sales Tax Act, 1990.

Under this system, the FBR may generate automated settlement offers based on predefined and system-driven criteria, including the stage of proceedings, taxpayer compliance history, nature of discrepancies, and other relevant factors.

A registered person may opt to accept the system-generated offer within ten days through the IRIS portal and deposit the amount, upon which the relevant issues raised in notices or audit proceedings will stand settled and abated.

However, the acceptance of such an offer will be limited in scope and will not preclude proceedings relating to other issues or discrepancies not covered under the settlement, nor will it affect tax matters pertaining to other periods.

The mechanism appears designed to facilitate faster dispute resolution through data-driven, automated settlement offers and use of Artificial Intelligence. However, a more forward-looking approach would have been to deploy such mechanisms while conducting audits and assessments rather than using these tools for settlement.

Independent Case Scrutiny Committee

Section 47AAA

In Finance Act, 2026 the filing of references before High Courts or appeals and reviews before the Federal Constitutional Court or Supreme Court in tax matters may only be initiated by the Commissioner Inland Revenue after obtaining prior approval from an Independent Case Scrutiny Committee constituted by the FBR. This introduces an internal pre-litigation approval filter for tax litigation at higher judicial forums.

The Committee will comprise a retired judge of the Supreme Court, Federal Constitutional Court, or High Court as Chair, an experienced tax and commercial litigation advocate, and a senior serving or retired FBR officer. The Committee will be empowered to evaluate cases or categories of cases decided by the Appellate Tribunal or High Courts and provide binding recommendations regarding further litigation.

Its decisions will be binding on the Commissioner Inland Revenue, and members will be granted legal protection against suits or prosecution in respect of actions taken under this framework. The FBR will determine the Committee's procedures, powers, and remuneration.

Overall, the mechanism introduces a centralized litigation screening process intended to ensure consistency and reduce unnecessary or low-merit tax litigation, while also institutionalizing external legal and judicial oversight at the pre-appeal stage.

Notwithstanding, the amendment provides that the period consumed in obtaining approval from the Committee shall be excluded while computing the limitation period for filing a matter under the Act. The excluded period shall be certified by the Chairman of the Committee. In cases where the limitation period had already commenced, such exclusion shall be reckoned from the date the Finance Act, 2026 comes into force.

THE THIRD SCHEDULE (SALES TAX ON RETAIL PRICE OF SUPPLIES)

The Finance Act, 2026 has inserted new entries in the Third Schedule to the Sales Tax Act, 1990, thereby bringing additional categories of retail-packed consumer goods within the ambit of taxation at their market retail price.

It has been clarified that goods already subject to a sales tax rate exceeding 18% will continue to be taxed at that higher rate even after their inclusion in the Third Schedule.

Sr. No.	Description	PCT / Heading
56	Vegetable and animal fats and oils, sold in retail packing.	Respective headings
57	Sugar confectionary, sold in retail packing.	Respective headings
58	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared, sold in retail packing.	19.02
59	Sauces, ketchup and other preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard, sold in retail packing.	Respective headings
60	Fermented beverages, sold in retail packing.	Respective headings
61	Petroleum jelly, paraffin wax, microcrystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or other processes, whether or not colored, sold in retail packing.	27.12
62	Plates, sheets, film, foil, tape, strip and other flat shapes of plastics, whether or not in rolls, sold in retail packing.	39.19, 39.20, 39.21
63	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied household articles of plastics, sold in retail packing.	Chapter 39

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63	Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied household articles of plastics, sold in retail packing.	Chapter 39
64	Trunks, suit-cases, vanity-cases, executive-cases, briefcases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping bags, wallets, purses, map-cases, cigarette-cases, tobacco-pouches, tool bags, sports bags, bottle-cases, jewelry boxes, powder-boxes, cutlery cases and similar containers, of leather or composition leather, plastics, textile materials, vulcanised fiber or paperboard, or wholly or mainly covered with such materials, put up for retail sale.	42.02
65	Footwear (all types) except where the manufacturer exclusively sells its products through digitally integrated and POS compliant retail outlets.	Respective headings
66	Bathroom accessories and bath items, sanitary ware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures, sold in retail packing.	Respective headings
67	Crockery items, sold in retail packing.	Respective headings
68	Car and automobile accessories, sold in retail packing.	Respective headings
69	Milk, fat-filled milk, preparations suitable for infants, and other milk products, sold in retail packing.	Respective headings
70	Preparations for use on hair, sold in retail packing.	33.05
71	Pre-shave, shaving, after-shave preparations, personal deodorants, bath preparations, depilatories, perfumery, cosmetics or toilet preparations, and prepared room deodorisers, sold in retail packing.	33.07
72	Toilet or facial tissue stock, towel or napkin stock and similar paper for household or sanitary use, cellulose wadding and webs of cellulose fibres, in rolls or sheets, put up for retail sale.	4803.0000, 48.18
73	Jams, fruit jellies, marmalades, fruit or nut puree and pastes, and other fruit and vegetable preparations, sold in retail packing.	20.07, 20.08
74	Household utensils, including Stainless steel, aluminum, melamine and other utensils and tableware put up for retail sale.	Respective headings
75	Ceramic products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale.	69.1

THE SIXTH SCHEDULE (EXEMPTED SUPPLIES)

Table-I – (Imports or Supplies)

The Finance Act, 2026 has amend the following entries in the Sixth Schedule of the Sales Tax Act, 1990:

Sr. No.	Description	Heading Nos. of First Schedule (Customs Act, 1969)	Comments
27A	Wheat and rice bran	Respective headings	This amendment extends sales tax relief to these products, thereby reducing the tax burden on agricultural by-products used primarily in the livestock and feed industry.
32	Newsprint, books, and magazines but excluding brochures, leaflets and directories.	49.01, 4902.1000, and 4902.9000	Scope clarified through substitution; exclusion have been maintained while aligning classification under Customs headings for better tax determination.
157	Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30th June, 2027: (i) Small cars/SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	Respective headings	Extension of time period from 30th June, 2026 to 30th June, 2027 to continue incentivizing local EV assembly/production and support auto industry transition.

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181	Import or lease of aircrafts and parts thereof by Pakistan International Airlines Corporation Limited (PIACL). Provided that the custom authorities shall ensure that the quantities of things imported are limited to the requirements of materials and articles to be used in operations and maintenance of the aircrafts operated by the airline: Provided further that the ground handling equipment, service and operation vehicles, catering equipment and fuel trucks, not manufactured locally, and imported shall be used within airport premises as aforesaid.	8802.1200, 8802.3000, 8802.4000, 8801.0000, 8802.2000, 8804.0000, 8805.2900, 8807.3000, 9104.0010, 8544.2000, 7007.1900, and 9931	Through the Finance Act, 2026, the condition-based exemption has been retained for aviation sector. However, additional measures have been ensuring controlled imports strictly for operational needs of PIACL and airport operations, preventing misuse or commercial diversion.
181A	Import or lease of aircrafts and parts thereof by any airline company registered in Pakistan. This will be effective from the first day of July, 2027.	Respective Heading	It provide an exemption in respect of the import or lease of aircrafts and parts thereof by airline companies registered in Pakistan. The exemption shall take effect from 1 July 2027, thereby providing a prospective tax relief to the aviation sector with the objective of facilitating fleet expansion, modernization, and operational efficiency.

Following Serials are to be added through the Finance Act, 2026 thereby potentially exempting them from the levy of sales tax:

Sr. No.	Description	Heading Nos. of First Schedule (Customs Act, 1969)
182	Contraceptives	3926.9020 and 4014.1000
183	Female Sanitary Pads / Tampons	9619.003
184	Import of: Tankers, Dredgers, Floating or submersible drilling, or production platforms, Others floating structures and vessels. Other vessels for the transportation of goods Excluding Cruise ships, excursion boats and similar vessels principally designed for the transport of persons; ferry-boats of all kinds Provided that the quantity of imported goods under this entry shall be approved by Ministry of Maritime Affairs	8901.2000, 8905.1000, 8905.2000, 8905.9000, 8901.9000
185	Import of bullet proof vehicles by the: (i) Federal Government for logistic arrangements for Shanghai Cooperation Organization (SCO) summit subject to the prior approval from the Ministry of Foreign Affairs and the Ministry of Interior and Narcotics Control (ii) By the Federal Government or Provincial Government for threat of terrorism against a public functionary as determined by the Ministry of Interior and Narcotics Control, subject to approval by the Federal Government.	Respective headings

Table III – (Exempt from The Whole of Sales Tax, Subject to The Conditions)

Following Serials are added through the Finance Act, 2026, making them exempt from the levy of sales tax subject to fulfilment of certain conditions:

S. No.	Description	PCT Heading	Conditions
23	Import of following machinery/equipment for upgradation of existing refineries: 1. Reactors, 2. Shell and Tube Exchangers, 3. Vessels (Strippers/Separators/ K.O. Drums), 4. Trim Coolers, 5. Air Coolers (Condensers), 6. Fired Heaters, 7. Centrifugal Pumps, 8. Reciprocating Pumps, 9. Centrifugal Compressors, 10. Reciprocating Compressors, 11. Steam Reformer Furnaces, 12 Filters. Provided that all such imports shall be essentially made for expansion of balancing, modernization, and rehabilitation of existing refineries and the quantity imported by each refinery shall be approved by Ministry of Petroleum and Natural Resources.	8419.8990 8419.5000 8419.8990 8418.6990 8419.8990 8417. 8000 8413.7090 8413.5000 8414.8090 8414.8090 8417.8000 8421.3990	The goods shall be imported directly by the refinery after approval by the division concerned.
24	Import of machinery, equipment, raw materials, components and other capital goods, by Karachi Shipyard and Engineering Works Limited.	Respective headings as approved by the concerned Division.	The Division dealing with the subject matter shall certify in the prescribed manner and format as per Annex-B that the imported goods are bona fide requirement. The authorized officer of the Ministry shall furnish all relevant information online to Pakistan Customs Computerized System against a specific user ID and password obtained under section 155D of the Customs Act, 1969.

THE EIGHTH SCHEDULE (REDUCED RATES)

Through the Finance Act, 2026 the following amendments to the Eighth Schedule of the Sales Tax Act, 1990:

S. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Comments
71	Following locally manufactured or assembled electric vehicles (4 wheelers) till 30th June, 2027: (i) Small cars/ SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	Respective heading	The concessional 1% sales tax rate on specified locally manufactured or assembled electric vehicles has been extended till 30 June 2027, from 30 June 2026, thereby continuing tax incentives aimed at promoting EV adoption and local production.
80	EV transport buses of 25 seats or more and electric trucks in CBU condition	8702.4090 8704.6030	The scope has been expanded by extending the existing 1% concessional sales tax rate from EV transport buses to electric trucks in CBU condition as well.

THE NINTH SCHEDULE (LEVY AND COLLECTION OF SALES TAX ON MOBILE PHONES AND SIM CARDS)

Through the Finance Act, 2026 a new sub-section (vi) wherein the amendment allows an individual liable to pay tax on an imported mobile phone through the Device Identification, Registration and Blocking System (DIRBS) of the Pakistan Telecommunication Authority (PTA) to pay the applicable tax in instalments, in the prescribed manner. However, all instalments must be paid before the end of the financial year in which the mobile phone is imported.

THE ELEVENTH SCHEDULE (WITHHOLDING AGENTS)

The Finance Act, 2026 has made the following amendments to the Eleventh Schedule of the Sales Tax Act, 1990:

S. No.	Withholding Agent	Supplier Category	Rate or Extent of Deduction	Comments
4	Companies, association of persons and individuals as defined in the Income Tax Ordinance, 2001 (XLIX of 2001) excluding companies, association of persons and individuals exporting surgical instruments	persons other than Active Taxpayers	5% of gross value of supplies	The scope has been expanded to include AOPs and individuals, as withholding agents whereby their supplier is a person other than an active taxpayer.

Following entry is added in the Eleventh Schedule through the Finance Act, 2026:

S. No.	Withholding Agent	Supplier Category	Rate Or Extent of Deduction
14	Registered persons engaged in toll manufacturing	Person other than registered person	Four times of the tax charged on conversion charges

THE TWELFTH SCHEDULE (MINIMUM VALUE ADDITION TAX)

The Finance Act, 2026 has inserted the new provisos under the heading "Procedure and Conditions" in clause (2), after sub-clause (i):

The proviso aims to provide consequences to a manufacturer imports goods without payment of the 3% minimum value addition tax on the basis that such goods are meant for in-house consumption in the manufacturing process, but subsequently supplies the imported goods in the same state whether in the

Significant Amendments | Sales Tax

same packing, repacked, or in bulk the manufacturer shall be liable to pay the 3% value addition tax on an ad valorem basis, along with the applicable default surcharge.

Further, a new sub-clause (6) has been inserted to prescribe a reduced minimum value addition tax of 1% on the import of coal, subject to the condition that the imported coal is exclusively and directly supplied to Independent Power Producers (IPPs).

AMENDMENTS IN THE CUSTOM ACT, 1969

State Warehouse

Section 2(ssssa)

The Finance Act, 2026 has added a new Clause 2(ssssa) for legal clarity by defining **“State Warehouse”** as any place authorized by the Collector of Customs to store the detained, seized or confiscated goods.

The Act further seeks to penalize, up to two times the value of the goods involved and upon conviction by a Special Judge, to imprisonment for a period not exceeding five years, or fine or the both, to any person involved or abetting in the removal, substitution, damage or otherwise tempering with any goods, whether or not confiscated, at any such place authorized as a State Warehouse.

Continuity of Exemption Notification

Section 19(5)

Amendment in the second proviso to sub-section (5) of section 19 is by substituting the figure “2026” with “2027”, to give continuity to the notifications issued under section 19 during the financial year.

Mis-declaration in Multiple Goods Declaration

Section 32(3) & (3A)

The Act has omitted the words “in a case” from the first proviso to sub-section (3) and the proviso to sub-section (3A) of section 32, to remove a legal lacuna whereby no mis-declaration case could be framed in multiple declarations up to twenty thousand and one hundred thousand rupees respectively.

Late Filing of GD and Outsourcing of Auctions

Section 82

The amended in section 82 to streamline the imposition of penalty on late filing of Goods Declaration and late removal of goods from ports after clearance, by substituting “Federal Government” with “Board” and empowering the Board to notify the relevant rules. The Act further seeks to add a proviso empowering the Board to authorize any person to auction goods as provided in the Public Procurement Rules, 2004, thereby providing legal cover to outsource customs auctions.

Punishments to Officers, etc.

Section 156

The Act seeks to;

(a) enhance the penalty on Terminal Operators from “Five Hundred Thousand” to “Five Million” rupees for not entertaining delay and detention certificates

issued by Customs.

(b) to penalize an officer of any authority who, being duty bound under section 170 to deposit the impugned goods with customs, neglects to do so.

Explanation of the Word “Removal”

Section 157

The word “removal” has been defined to include and shall be deemed to have always included, every act of carrying, transporting, depositing, harbouring, keeping, concealing, retailing or any other act involving movement of smuggled goods.

Faceless Adjudication

Section 179

As in other laws the Finance Act, 2026 has introduced a Faceless Adjudication, whereby adjudication proceedings will be conducted without any face-to-face interaction between the adjudicating officer and the respondent, in such virtual manner as may be prescribed by the Board, to enhance transparency, efficiency and quick disposal of cases.

Independent Case Scrutiny Committee

Section 196JJ

A new section is to be inserted to provide legal cover to an Independent Case Scrutiny Committee, whereby any Civil Petition, reference or petition before the High Court, the Federal Constitutional Court or the Supreme Court shall only be filed subject to the approval of the committee constituted by the Board. The recommendations of the committee shall be binding upon the concerned Collector or Director of Customs. Provided that the committee may co-opt a chartered accountant as a non-voting member, whenever required.

Notwithstanding anything contained in the Act or the Limitation Act, 1908, the period commencing from the date the limitation begins to run until the date the Committee grants its approval shall be excluded while computing the limitation period. Such excluded period shall be certified by the Chairman. In cases where the limitation period had already commenced before the insertion of this provision, the excluded period shall be reckoned from the date the Finance Act, 2026 comes into force.

Service of Notices and Orders

Section 215

The Act has provided a legal cover for serving legal notices and orders in the manner prescribed for service of a summons under the Code of Civil Procedure, 1908, where the respondent is not traceable.

AMENDMENTS IN FINANCE ACT, 2022

REMOVAL OF CAPITAL VALUE TAX ON FOREIGN ASSETS

The Finance Act, 2026 has made amendment to **Section 8 of the Finance Act, 2022 to exclude foreign assets held by resident individuals from the scope of Capital Value Tax (CVT).**

Under the amendment, foreign assets owned by a resident individual, even where the aggregate value of such assets exceeds **Rs. 100 million** on the last day of the tax year, will no longer be subject to CVT.

The amendment constitutes a significant relief measure for resident individuals with substantial overseas wealth and investments.

The original CVT regime on foreign assets was introduced as a wealth-based tax measure aimed at generating additional revenue from high-net-worth individuals. However, practical challenges emerged regarding:

- Valuation of foreign assets;
- Verification of overseas holdings;
- Enforcement and collection; and
- Potential concerns regarding double taxation and capital mobility.

By removing foreign assets from the CVT framework, the Government appears to be simplifying the tax regime and addressing concerns raised by taxpayers regarding the taxation of offshore wealth.

The amendment may also encourage greater voluntary disclosure of foreign assets in tax returns and wealth statements by reducing the additional tax cost associated with such disclosures.

AMENDMENTS IN THE FEDERAL EXCISE ACT, 2005

Definition of Algorithmic Settlement Mechanism **Section 2(2A)**

The Finance Act, 2026 has inserted clause (2A) in section 2 defining “Algorithmic Settlement Mechanism” by reference to section 47AA of the Sales Tax Act, 1990. This definition provides the statutory foundation for the digitised settlement framework introduced in the Finance Act, 2026.

Definition of Electronic Invoicing System **Section 2(9b)**

The Finance Act, 2026 has inserted clause (9b) in section 2 defining “Electronic Invoicing System” as any electronic system or mechanism prescribed or approved by the Board for issuance and recording of sales tax invoices in electronic form.

Definition of National Faceless Centre **Section 2(16A1)**

Like other laws the Finance Act, 2026 has inserted clause (16A1) in section 2 defining “National Faceless Centre” with reference to section 32C of the Sales Tax Act, 1990.

Definition of Production Monitoring System **Section 2(19b)**

The Finance Act, 2026 has inserted clause (19b) in section 2 defining “Production Monitoring System” as any system or technology used for monitoring production and sale of goods, whether in real-time or otherwise, including systems prescribed by the Board from time to time.

Special Excise Duty **Section 3(3B)**

A new sub-section (3B) in section 3 is being inserted to levy and collect a Special Excise Duty (SED) on luxury imported vehicles.

National Faceless Centre and Algorithmic Settlement Mechanism

Section 7A

The Finance Act, 2026 has inserted a new section 7A to provide a framework for faceless proceedings under the Federal Excise Act, 2005.

Electronic Invoice with FBR Invoice Number

Section 18

The Finance Act, 2026 has substituted sub-section (1) of section 18 to require every registered person to issue, for each transaction, an invoice including an advance receipt invoice, at the time of clearance or sale of goods for zero-rated goods and dutiable goods.

Tampering with Production Monitoring Systems

Section 19(2) (a) & (4)

The Finance Act, 2026 has made two amendments to section 19. First, in clause (a) of sub-section (2), the reference to “Federal Excise Officer” is replaced with “Officer of Inland Revenue”. Second, sub-section (4) is being substituted to penalize for the destruction of goods without approval of the Commissioner.

Seizure Extension to Production Monitoring Violations

Section 26(1)

Sub-section (1) of section 26 is substituted to expand the categories of goods liable to seizure which are without tax stamps and barcodes. This amendment strengthens enforcement by treating non-compliance with production monitoring requirements on a par with counterfeiting and duty evasion for the purposes of seizure.

Confiscation Extension to Production Monitoring Violations

Section 27(1)

The Finance Act, 2026 has substituted sub-section (1) of section 27 to extend outright confiscation to goods seized on account of non-compliance with production monitoring system requirements.

Nomenclature Correction Officer of Inland Revenue

Sections 33(1)

The expressions “Federal Excise Officer” and “federal excise” appearing in sub-section (1) of section 33 is being substituted with the expressions “Officer of Inland Revenue”.

Independent Case Scrutiny Committee**Section 34AA**

Independent Case Scrutiny Committee for the purpose of screening government litigation before superior courts.

Monitoring or Tracking by Electronic or Other Means**Section 45A**

Section 45A is substituted in its entirety to consolidate and modernise the Board's powers to mandate electronic monitoring and tax-stamp affixation for excisable goods.

Audit Proceedings**Section 46**

The Finance Act, 2026 has amended section 46 governing audit proceedings for the hiring of auditors or accountants for conducting specialised audits where the Commissioner deems necessary on account of complexity of financial transactions.

Amendments in Table-1 - First Schedule:

S.No	Description of Goods	Heading/subheading number	Previous Rate of Duty	Rate of Duty
7a	Acetate Tow	Respective Heading	Rupees forty-four thousand per kg.	Rupees ten thousand per kg.
8a	E-liquids by whatsoever name called, for electric cigarette kits	Respective Heading	Rupees ten 5 [thousand per kg 6 [or sixty five percent of retail price whichever is higher	Rupees sixteen thousand five hundred per kg
55A	Electric cars, electric SUVs, and electric pickup vehicles, imported for personal use in CBU condition, of import including Duty:- (a) value Custom Not exceeding PKR 20 million (b) exceeding PKR 20 million and upto PKR 30 million (c) exceeding PKR 30 million	Respective Heading	-	(a) 0% (b) 30% (c) 40%

Significant Amendments | Federal Excise Act

59	excluding mineral and aerated waters	Respective Heading	excluding mineral and aerated waters	Excluding mineral waters, aerated waters, hydration drinks or electrolyte beverages specifically formulated to support hydration, electrolytes replenishment containing artificial sweetener or sugar or both not exceeding 5g/100 ml.
63	Lubricating oil and base lubricating oils	2710.1951 2710.1952 2710.1953	2710.1951 2710.1952 2710.1953	2710.1993
65	(i) Petroleum top Naphtha	2710.1942	-	(i) Rs. 80 per litre
	(ii) White Spirit/Mineral Turpentine Oil (MTT)	2710.124	-	(ii) Rs. 80 per litre
	(iii) Solvent Oil	2710.125	-	(iii) Rs. 80 per litre.

Amendment in Restriction-2: Brand variants at different price points:

The Finance Act, 2026 has broadened and tightened Restriction-2 by replacing the concept of brand family and brand variant with existing brand. The objective appears to be to remove ambiguity and prevent introduction of lower-priced variants under existing cigarette brands.

Insertion of to the Table-1A - First Schedule:

Significant Amendments | Federal Excise Act

S.No	Description of Goods	Heading/subheading number	Rate of Duty
1	Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), and till the 30th day of June, 2027 electric vehicles (4 87.03 8704.2190 8704.3190 4 wheelers) including station wagons, double cabin (4x4) pickup vehicles and racing cars: (a) of cylinder capacity exceeding 2000cc but not exceeding 3000cc (b) of cylinder capacity exceeding 3000cc		(a) 86% Ad Val (b) 92% Ad Val

Changes in Table II - First Schedule:

S.No	Description of Goods	Heading/subheading number	Previous Rate of Duty/Item	Rate of Duty/Item
3	(ii) Club, business and first class air tickets issued on or after the 1st day of July, 2026: (a) IATA Traffic Conference Area 1 (North, Central, South America and Environs) (b) IATA Traffic Conference Area 2 (I) Middle East and Africa (II) Europe (c) IATA Traffic Conference Area 3 (Far East, Australia, New Zealand and Pacific Islands)	-	(a) Three hundred and fifty thousand rupees (b)(I) One hundred and five thousand rupees (b)(II) Two hundred and ten thousand rupees (c) Two hundred and ten thousand rupees]	(a) Fifty thousand rupees (b)(I) Twenty-five thousand rupees (b)(II) Forty thousand rupees (c) Forty thousand rupees

Insertion in Second Schedule:

S.No	Description of Goods	Heading/subheading number
5	Imported and locally produced: (i) Petroleum top Naphtha (ii) White Spirit/Mineral Turpentine Oil (MTT) (iii) Solvent Oil	i) 2710.1942 ii) 2710.1240 iii) 2710.1250

Insertion of Table-I - Third Schedule:

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

PAKISTAN



KPK

AJK

PUNJAB

BALUCHISTAN

SINDH

PROVINCIAL
SALES TAX ON SERVICES

SINDH FINANCE ACT, 2026

KEY AMENDMENTS

The Sindh Finance Act, 2026 has introduced several amendments with respect to compliances, administrative, and sector-specific changes to the Sindh Sales Tax on Services Act, 2011. These amendments include continuation of tax liabilities after deregistration, stricter penalties for non-compliant invoicing software providers, enhanced powers of the Sindh Revenue Board, confidentiality of taxpayer information, changes to exemptions, and revised tax rates for selected services.

Key amendments introduced through the Sindh Finance Act, 2026 are as follows:

DE-REGISTRATION

SECTION 25A

Particulars	Existing Provision	Amendment
Time for de-registration application	3 months	180 days
Liability after de-registration	No specific provision	Tax liabilities relating to the period during which taxable services were provided shall continue notwithstanding de-registration.

OFFENCES AND PENALTIES

SECTION 43

The Sindh Finance Act, 2026 has introduced a severe penalty for software developers/customizers supplying invoicing software that does not comply with the Sindh Sales Tax on Services Rules, 2011 and the Sindh Sales Tax Special Procedure (Online Integration of Business) Rules, 2022 invoice requirements may face a penalty ranging from Rs.100,000 to Rs.1,000,000.

MANDATORY DISPLAY OF NOTICES

SECTION 52A

The Sindh Finance Act, 2026 has introduced a new provision i.e. 52A under the Sindh Sales Tax on Services Act, 2011 requiring registered persons to display tax awareness notices/messages at business premises

DECISION IN APPEAL

SECTION 59

Section 59 of the Sindh Sales Tax on Services Act, 2011 authorizes the Commissioner Appeals to conduct further inquiry of a matter so that the case may not be remanded back for de novo proceedings. Through the Sindh Finance Act, 2026, the time frame for the conduct of such inquiry has been limited to a period of sixty days.

RECOVERY OF ARREARS OF TAX

SECTION 66

The Sindh Finance Act has introduced a significant amendment to section 66 of the Sindh Sales Tax on Services Act by extending the benefit of automatic stay of recovery to appeals filed before the Appellate Tribunal, in addition to appeals pending before the Commissioner (Appeals). This broadens the statutory protection available to taxpayers during the appellate process.

However, the amendment simultaneously increases the mandatory pre-deposit required to obtain such automatic stay from 10% to 20% of the disputed tax demand, thereby balancing the expanded appellate relief with enhanced revenue safeguards for the Government.

DISCLOSURE OF INFORMATION

SECTION 73A

The Sindh Finance Act, 2026 has introduced a new section 73A to expressly safeguard the confidentiality of taxpayer information, including returns, statements, assessment records and recovery proceedings. While such information generally cannot be disclosed by SRB officials, the amendment permits disclosure where necessary for the administration of the SST Act or to Federal and Provincial Government departments and authorities that are legally authorized to access such information or are party to information-sharing arrangements with the SRB for tax administration purposes.

AMENDMENTS IN THE FIRST SCHEDULE (LIST OF EXEMPT SERVICES)

FOOD-RELATED EXEMPTION

The Sindh Finance Act, 2026 has significantly narrowed the scope of exemption available to food and agricultural commodities. Under the proposed amendment, the exemption shall no longer apply broadly to food and agricultural products and shall instead be restricted to food grains and fresh vegetables and fruits that have not undergone any further processing.

EDUCATION SECTOR EXEMPTION

The Sindh Finance Act, 2026 has restricted the exemption available to educational services to the extent of pre-primary, primary, secondary, post-secondary non-tertiary, and tertiary education services where the fee does not exceed Rs.500,000 per annum per student. The exemption shall also continue to apply to special education institutions, adult literacy programs, and sports education services provided by individuals.

INSURANCE SERVICES EXEMPTION

The Sindh Finance Act, 2026 has revised the threshold for exemption for life insurance other than group life insurance, of individuals. Now such services having coverage up to Rs. 3,500,000/- shall be exempt from the purview of Sindh sales tax. Whereas, the previous threshold was Rs. 500,000/-.

REINSURANCE SERVICES EXEMPTION

The Sindh Finance Act, 2026 has exempted reinsurance services relating to crop insurance and export marine insurance. The proposed exemption is intended to facilitate the agriculture and export sectors by reducing the tax cost associated with insurance coverage.

AMENDMENTS IN THE SECOND SCHEDULE PART II

(LIST OF SERVICES LIABLE TO TAX AT A RATE LOWER THAN STANDARD RATE)

READY-MIX CONCRETE SERVICES:

The Sindh Finance Act, 2026 has replaced construction services with Ready-Mix Concrete services under the reduced rate regime, while retaining the existing sales tax rate of 8%.

DREDGING AND ROCK/SILT REMOVAL SERVICES:

The Sindh Finance Act, 2026 has introduced a reduced sales tax rate of 8% for dredging and rock/silt removal services.

CONSTRUCTION SERVICES BY PROPERTY DEVELOPERS

The Sindh Finance Act, 2026 proposes to introduce a new tax regime for construction services provided by property developers and promoters. Under the proposed regime, Sindh Sales Tax shall be payable at the rate of Rs.100 per square yard of land area and Rs.50 per square foot of constructed covered area in respect of such services.

Moreover, the Act proposes to subject services relating to dredging and rock and silt removal to Sindh Sales Tax at the concessional rate of 8%.

INSURANCE AGENT SERVICES

The existing reduced tax rate of 5% applicable to insurance brokerage and agency services is proposed to be rationalized by prescribing a separate tax rate of 2% for services provided by insurance agents and 3% for insurance brokers.

TAX CONSULTANCY AND LEGAL SERVICES:

The Sindh Finance Act, 2026 proposes to carve out legal services, tax consultancy and preparation services and insolvency and receivership services from the broader category of legal and accounting services and subjecting such services to sales tax at the reduced rate of 8%.

Whereas accounting and auditing services shall now be taxable at the standard rate of 15%.

EDUCATION SERVICES

The Sindh Finance Act, 2026 proposes to restrict the reduced rate of education sector to pre-primary, primary, secondary, post-secondary non-tertiary, and tertiary education services at the rate of 3%, where the annual fee or charges per student exceed Rs.500,000. The proposed rate shall also apply to other education and training services, excluding educational support services.

Furthermore, educational support services are proposed to be subject to Sindh Sales Tax at the rate of 5%.

Services other than the above shall be subject to the standard rate of 15%.

BEAUTY AND WELLNESS SERVICES

The Sindh Finance Act, 2026 proposes to increase the tax rate applicable to beauty and physical well-being services from 5% to 8% by withdrawing the concessional rate previously available to integrated businesses. Consequently, these services will be subject to a uniform tax rate of 8%, irrespective of POS integration with the Sindh Revenue Board.

PUNJAB FINANCE ACT, 2026

AMENDMENTS IN PUNJAB SALES TAX ON SERVICES ACT, 2012

The Punjab Finance Act, 2026 introduces significant amendments to the Punjab Sales Tax on Services Act, 2012 aimed at strengthening compliance, restricting inadmissible input tax claims, enhancing enforcement powers of the Punjab Revenue Authority (PRA), and increasing penalties for non-compliance. The Act also introduces a risk-based input tax management system and revises tax rates for various services.

This Act shall come into force on and from the first day of July 2026.

ACTIVE TAXPAYER

SECTION 2

The Punjab Finance Act, 2026 has redefined the term **"Active Taxpayer"** under the Punjab Sales Tax on Services Act, 2012. Under the revised definition, a registered person will qualify as an 'active taxpayer' only if its registration has not been suspended or blacklisted by the Authority and it has filed its sales tax returns by the due date for the last two consecutive tax periods.

TAX CREDIT NOT ALLOWED

SECTION 16B

The Punjab Finance Act, 2026 has amended Section 16B of the Punjab Sales Tax on Services Act, 2012 whereby input tax shall not be admissible on goods or services received against invoices issued by persons not appearing on:

- PRA Active Taxpayers List; or
- Federal Board of Revenue (FBR) Active Taxpayers List.

EXTENT OF ADJUSTMENT OF INPUT TAX

SECTION 16B

The Punjab Finance Act, 2026 has reduced the maximum input tax adjustment available to registered persons under section 16C (a provision which restricts adjustment of input tax) from **90% to 80%** of the output tax liability for a tax period, thereby increasing the minimum net sales tax payable in cash.

ADJUSTMENT OF INPUT TAX ON CERTAIN GOODS AND SERVICES

SECTION 16CC

The Punjab Finance Act, 2026 has introduced a new section 16CC which requires input tax relating to capital goods, machinery and fixed assets to be adjusted against output tax in **twelve equal monthly instalments**, instead of allowing immediate adjustment, similar to the mechanism available in the Province of Sindh.

ADJUSTMENT OF INPUT TAX ON CERTAIN GOODS AND SERVICES

SECTION 16CCC

The Punjab Finance Act proposes to introduce a new risk-based input tax management framework, empowering the Authority to evaluate, verify and monitor input tax claims, adjustments, credits and refunds through a system driven by risk parameters, data analytics and taxpayer profiling. Under the proposed framework, the Authority may defer the admissibility of high-risk input tax claims pending verification, disallow claims in whole or in part, seek additional information, or select cases for audit or investigation.

The amendment also provides procedural safeguards by requiring an opportunity of being heard before any adverse action is taken and allows aggrieved taxpayers to seek review before the Commissioner on application who must decide the matter within 30 days.

SIGNIFICANT INCREASE IN PENALTIES

SECTION 48

S.No.	Offence	Existing	Proposed
5	Failure to produce the record	Such person shall pay a penalty of Rs. 25,000/- for the first default and Rs. 100,000/- for each subsequent default	
	Individual		Up to Rs. 100,000/- for first default and Rs. 100,000/- for each subsequent default
	Company / Association of Persons		Up to Rs. 500,000/- for first default and Rs. 500,000/- for each subsequent default

16	Where any person: (a) causes intentional damage to or intervention in the electronic invoice monitoring system; or (b) impedes or obstructs transmission of invoice data to the Authority.	Such person shall be liable to pay a penalty of Rs. 100,000/- for each act of commission.	Such person shall be liable to pay a penalty of Rs. 500,000/- for each act of commission.
17	Where any person fails or refuses to issue a tax invoice.	Rs. 20,000/- on first default and Rs. 50,000/- for each subsequent default.	Rs. 500,000/- on first default and Rs. 1,000,000/- for each subsequent default.
20	Where any person either avoids, defies, fails to comply with electronic invoicing system or issues invoices bypassing the electronic invoicing system.	Such person shall be liable to pay a penalty of up to Rs. 100,000/-, but not less than Rs. 25,000/-.	Such person shall be liable to pay a penalty of up to Rs. 500,000/-, but not less than Rs. 25,000/-.

REVISION IN MONETARY LIMITS FOR ADJUDICATION

SECTION 60

The Punjab Finance Act, 2026 proposes to enhance the monetary jurisdiction of officers exercising adjudication powers under section 60(1) of the Punjab Sales Tax on Services Act, 2012.

Under the proposed amendment:

- The monetary limit for cases to be adjudicated by the Assistant Commissioner/Deputy Commissioner is proposed to be increased from Rs. 10 million to Rs. 50 million.
- The adjudication limit of the Enforcement Officer/Audit-cum-Risk Compliance Officer is proposed to be enhanced from Rs. 5 million to Rs. 25 million.

MANDATORY REGISTRATION AND ACTIVE TAXPAYER STATUS FOR LICENSES AND GOVERNMENT CONTRACTS

SECTION 76A

The Punjab Finance Act, 2026 proposes to insert section 76A, empowering the Punjab Revenue Authority to require regulatory authorities and government procuring agencies to ensure compliance with sales tax registration requirements. Under the proposed provision, authorities responsible for issuing or renewing licenses, permissions, or No Objection Certificates relating to taxable services shall not grant or renew such approvals unless the applicant is registered under the Punjab Sales Tax on Services Act, 2012 and appears on the Active Taxpayers List maintained by the PRA.

Similarly, procuring agencies shall not award or renew contracts in favour of contractors, suppliers, consultants, or bidders unless they are registered under the Act and included on the Active Taxpayers List.

However, newly established businesses are proposed to be granted relief from these requirements for a period of six months from the date of their registration under the Act.

AMENDMENTS IN SECOND SCHEDULE

REVISION IN REDUCED SALES TAX RATES

The Punjab Finance Act, 2026 proposes to increase the reduced rate of Punjab Sales Tax applicable to various services covered under Part III of the Second Schedule from 5% to 8%, thereby revising the concessional tax regime currently available to such services.

Services provided by Hotels, Motels and Guest Houses

The Punjab Finance Act, 2026 proposes to introduce a differential tax regime for restaurants and similar services based on the mode of payment.

Under the proposed amendment, payments received through debit cards, credit cards, mobile wallets, or QR-based payment channels shall be subject to tax at the rate of 8% without input tax adjustment, whereas payments received through other modes shall be taxable at the rate of 16%.

FOREIGN EXCHANGE SERVICES

The Punjab Finance Act, 2026 proposes to introduce a reduced tax regime for foreign exchange services provided by exchange companies, forex dealers, money changers, and other persons engaged in currency exchange activities.

Such services shall be subject to Punjab Sales Tax at the rate of 3% without input tax adjustment. Tax will be levied on the spread charges earned in connection with the purchase and sale of foreign currencies, as permitted by the State Bank of Pakistan.

EVENT MANAGEMENT SERVICES

The Punjab Finance Act, 2026 further proposes to remove event management services from their existing classification under the reduced rate schedule and introduce these as a separate taxable category subject to levy of Punjab Sales Tax at the rate of 8% without input tax adjustment.

KPK FINANCE ACT, 2026

AMENDMENTS IN THE KHYBER PAKHTUNKHWA SALES TAX ON SERVICES ACT, 2022

The Khyber Pakhtunkhwa Finance Act, 2026 proposes significant amendments to the Khyber Pakhtunkhwa Sales Tax on Services Act, 2022 with the objective of strengthening digital compliance, enhancing enforcement mechanisms, expanding the scope of liability for tax evasion, and modernizing the provincial sales tax framework in line with emerging technological developments and business practices.

The proposed amendments primarily focus on electronic invoicing, regulation of Point-of-Sale systems, strengthening recovery powers of the Authority, and enhancing accountability of third-party service providers involved in the recording and reporting of taxable transactions.

INTRODUCTION OF POINT-OF-SALE SYSTEM DEFINITION

SECTION 2

The Khyber Pakhtunkhwa Finance Act, 2026 proposes to introduce a comprehensive definition of the term "Point of Sale System" (POS System) under the Act. The proposed definition is sufficiently broad to cover software applications, cloud-based platforms, devices, terminals and any other electronic or digital arrangements used for generating, issuing, recording, storing, transmitting or reporting invoices and fiscal documents relating to taxable services.

EXPANSION OF TAX FRAUD PROVISIONS

SECTION 2

The Khyber Pakhtunkhwa Finance Act, 2026 further proposes to expand the scope of tax fraud by including within its ambit persons who directly or indirectly facilitate or enable suppression or misreporting of taxable activities through manipulation of software, hardware, electronic invoicing systems or Point of Sale Systems.

JOINT AND SEVERAL LIABILITY OF PERSONS WHERE TAX REMAINED UNPAID

SECTION 22

The Khyber Pakhtunkhwa Finance Act, 2026 proposes to expand the scope of liability for unpaid tax by introducing joint and several liability for collection agents and persons involved in the design, development, supply, installation, operation, or management of Point-of-Sale systems that facilitate or

contribute to the concealment, suppression, or misreporting of taxable transactions. The amendment further extends liability to persons who knowingly fail to take reasonable corrective measures despite indications of system manipulation or tax evasion.

ELECTRONIC INTEGRATION, E-INVOICING AND DIGITAL COMPLIANCE

SECTION 34A

The Khyber Pakhtunkhwa Finance Act, 2026 proposes a new section 34A to be inserted to provide a legal framework for electronic integration, e-invoicing, and digital compliance, empowering the Government to prescribe requirements for real-time reporting and verification of invoices and transactions, and to introduce related compliance measures and incentive schemes for promoting tax documentation and compliance. Detailed framework may be prescribed through a notification or promulgation of related rules.

OFFENCES AND PENALTIES

SECTION 53

The Khyber Pakhtunkhwa Finance Act, 2026 proposes to substitute the existing section 53 with an entirely new and substantially expanded framework governing offences and penalties under the Act.

Under the proposed regime, penalties shall be imposed according to the nature and severity of the offence and the jurisdiction prescribed in the penalty schedule. The revised framework is expected to substantially increase enforcement actions relating to non-registration, non-filing of returns, non-payment of tax, non-maintenance of records, non-issuance of invoices and digital non-compliance.

Emphasis has been placed on violations involving electronic invoicing systems and Point of Sale Systems, reflecting the Government's intention to curb tax evasion through technology-enabled monitoring and enforcement mechanisms.

STRENGTHENING OF SEARCH AND INSPECTION POWERS

SECTION 60

The Khyber Pakhtunkhwa Finance Act, 2026 proposes to strengthen the search and inspection powers of the Authority while simultaneously introducing procedural safeguards for taxpayers.

Under the proposed amendment, an authorized officer conducting search or inspection proceedings shall be required to provide a copy of the approval granted by the Management Committee or the Collector before or at the time of undertaking such action. Furthermore, the scope of power to inspect is proposed to be expanded to expressly include electronic devices, digital media, storage facilities and other locations within business premises where records, invoices or transactional data are reasonably believed to be maintained or concealed.

STRENGTHENING OF RECOVERY MECHANISM

SECTION 74

The Khyber Pakhtunkhwa Finance Act, 2026 proposes to strengthen the Authority's recovery powers by allowing attachment of any bank account maintained by a tax defaulter, whether such account is maintained for business or personal purposes.

The amendment further clarifies that recovery notices issued by the Authority shall be binding upon the banking institution irrespective of the branch where the account is maintained. In addition, where a bank official intentionally delays compliance or facilitates a taxpayer in avoiding recovery proceedings, the Authority may impose a personal penalty of up to Rs.500,000 or five percent of the recoverable amount, whichever is higher.

REVISION OF REDUCED RATE PROVISIONS UNDER THE SECOND SCHEDULE PART II

- REVISION OF REDUCED SALES TAX RATE FOR ADP-FUNDED PROJECTS

The Finance Act proposes significant changes to the reduced sales tax regime for government-funded and development projects. The term "government-funded project" has been broadly defined to cover projects financed wholly or partly through public funds, including ADP and PSDP schemes, grants, loans, and budgets of government departments and public sector entities.

Under the proposed changes, projects approved on or after 1 July 2025 under the Annual Development Program (ADP) will be subject to sales tax at the rate of 4%, without input tax adjustment. However, ongoing projects approved between 1 July 2021 and 30 June 2025 will generally continue to enjoy the reduced rate of 2%, subject to certain conditions.

- **SERVICES PROVIDED THROUGH VIRTUAL ASSET AND ONLINE TRADING PLATFORMS**

The Act also proposes a new reduced tax rate of 5%, without input tax adjustment, on services provided through digital and online platforms facilitating the trading or exchange of virtual assets and similar digital instruments.

BALUCHISTAN FINANCE ACT, 2026

AMENDMENTS IN THE BALUCHISTAN SALES TAX ON SERVICES ACT, 2015

The Baluchistan Finance Act, 2026 has introduced a number of significant amendments to the Baluchistan Sales Tax on Services Act, 2015 aimed at clarifying the scope of taxation, strengthening revenue administration, rationalizing exemptions and revising the tax treatment of selected sectors. The proposed amendments also seek to facilitate the transition towards the negative list taxation regime and provide greater certainty regarding the continuity of tax treatment for existing taxable services.

A summary of the key amendments are as under:

DEFINITION RATIONALIZATION AND EXPANSION OF PLACE OF BUSINESS

SECTION 2

The Baluchistan Finance Act, 2026 proposes to expand the definition of "Place of Business in Baluchistan" by expressly recognizing factory premises situated within the province as constituting a place of business, irrespective of the location of the company's registered office, thereby reinforcing the jurisdiction of the Baluchistan Revenue Authority over businesses carrying on economic activities in Baluchistan.

Furthermore, the Act seeks to omit certain redundant definitions contained in clauses (24), (73), (178), and (182A) of section 2 to streamline the statutory framework.

TAX LIABILITY INDEPENDENT OF REGISTRATION STATUS

SECTION 10

The Baluchistan Finance Act, 2026 proposes to insert a new subsection (4A) in section 10 to clarify that a person shall not be exempt from any tax liability merely on the ground that such person was not registered under the Act or the Rules made thereunder.

The amendment reinforces the principle that tax liability arises from the provision of taxable services and not from registration status.

COLLECTION OF EXCESS TAX

SECTION 17

The Balochistan Finance Act, 2026 proposes to insert sub-section (1A) in Section 17, reinforcing that no refund of tax paid under the Act shall be admissible unless the claimant establishes that the burden of tax has not been passed on to any other person, including the recipient of the services.

CABINET APPROVAL FOR OVER-AGE APPOINTMENT OF APPELLATE TRIBUNAL MEMBERS

SECTION 66

The Balochistan Finance Act, 2026 proposes to amend the provisions relating to the appointment and reappointment of members of the Appellate Tribunal by introducing an additional oversight mechanism for appointments beyond the prescribed age limit.

Under the proposed amendments, where a Judicial Member or Technical Member has attained the age of sixty-five years or more, the matter shall be referred to the Provincial Cabinet for approval before appointment or reappointment can be made.

PRESERVATION OF EXISTING TAX RATES AFTER ADOPTION OF NEGATIVE LIST

SECTION 78C

The Balochistan Finance Act, 2026 proposes to introduce a transitional provision to ensure that all services which were subject to sales tax as of 30 June 2025 shall continue to remain taxable at the same rates unless specifically exempted or subjected to a reduced rate through subsequent legislation or notifications.

REMOVAL OF DIFFICULTIES IN IMPLEMENTATION OF NEGATIVE LIST METHOD

SECTION 78D

The Balochistan Finance Act, 2026 through insertion of Section 78D proposes to empower the Authority to issue orders for removing operational difficulties arising from the implementation of the negative list taxation model.

The Authority may, for a period of three years from the commencement of the Balochistan Finance Act, 2025, make necessary modifications, additions or omissions in the application of the provisions of the Act to facilitate effective implementation of the new regime.

AMENDMENTS IN THE FIRST SCHEDULE (EXEMPT SERVICES)

TOUR OPERATORS

The Balochistan Finance Act, 2026 proposes to restrict the exemption for tour operators to Hajj and Umrah tour package services and requires monthly filing of sales tax returns.

SUPPORT AND OPERATION SERVICES

The Balochistan Finance Act, 2026 proposes to withdraw the exemption available to support and operational services relating to hunting.

EDUCATION SERVICES

The Balochistan Finance Act, 2026 proposes to restrict the exemption available to education services by excluding educational institutions operating for commercial purposes and sports education services from the scope of exemption.

HEALTHCARE SERVICES

The Balochistan Finance Act, 2026 proposes to limit the exemption available to hospitals and clinics by excluding cosmetic and plastic surgery procedures undertaken for aesthetic purposes.

Furthermore, hospital room and bed charges exceeding Rs.10,000 per day, including fixed charges, shall no longer qualify for exemption.

PASSENGER TRANSPORT SERVICES

The Balochistan Finance Act, 2026 proposes to introduce a new exemption entry for passenger transport services while specifically excluding rent-a-car services, vehicle rental services, services provided through cab aggregators and chartered flight services operating within or originating from Balochistan.

INSURANCE AND REINSURANCE PREMIUMS

The Balochistan Finance Act, 2026 proposes to introduce exemptions for insurance premiums, reinsurance premiums, and services associated with Export Processing Zones. The exemption for insurance premiums is limited to premiums charged by the company designated under the Balochistan Public Property Insurance Act, 2026, in respect of insurance policies covering risks situated in Balochistan or policyholders resident or registered in Balochistan. Similarly, the exemption for reinsurance premiums applies only to premiums paid by such designated company in respect of cessions or retrocessions arising from those qualifying insurance policies.

SERVICES ASSOCIATED TO EXPORT PROCESSING ZONES

The Balochistan Finance Act, 2026 proposes to exempt services provided within notified Export Processing Zones where the Government of Balochistan holds a profit-sharing interest of up to ten percent.

The exemption shall remain available for a period of fifteen years and shall apply only to investments and operations undertaken by foreign investors in relation to notified industrial projects.

AMENDMENTS IN THE THIRD SCHEDULE (REDUCED RATE SERVICES)

The following amendments have been proposed to the 'reduced rates' of certain services:

Description	Existing rate	Revised rate
POS-Integrated Restaurants and Eateries	2%	4%
Services provided or rendered by marriage halls, lawns, mandap, pandal and shamiana, including floral and decoration, etc.	10,000 rupees per event or 2% of service fees, whichever is higher.	10,000 rupees per event or 4% of service fees, whichever is higher.
Technical, scientific and engineering consultants	6%	8%
Commission agents	4%	8%
Cosmetic and plastic surgery and Transplantations	4%	6% or Rs. 50,000 per month, whichever is higher
Education Services	N/A (Newly inserted)	0% (Input tax credit/adjustment shall not be admissible.)
Services provided or rendered by Hospitals/ Institutes and Clinics.	N/A (Newly inserted)	3% (input tax credit/adjustment shall not be admissible)



IMPORTANT DATES

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, 20...	15 Sept.	15 Dec.	15 Mar.
Association of Person (AOP)	Jun 15, 20...	15 Sept.	15 Dec.	15 Mar.
Company	Jun 15, 20...	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:

Description	Due Date	
	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.

Important Dates

	Due Date	
Description	For Payment	For Filing
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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