CLARITY FOR THE DECISIONS THAT FOLLOW

ClaroDRAFT

Clarity that shapes decision

FEDERAL BUDGET 2026-27

Analysis of the Finance Bill, 2026

A decision-ready brief for business owners, management, CFOs, finance teams and tax professionals

Published on 13 June 2026

Finance Bill proposals - subject to the legislative process

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Important

Publication status and basis of preparation

This publication analyses significant proposals contained in the Finance Bill, 2026. The Bill has not been enacted and remains subject to consideration by the National Assembly, amendment during the legislative process and Presidential assent. Accordingly, every measure discussed in this brief should be read as a proposal unless the context expressly describes the existing law.

The analysis synthesizes the supplied professional budget memoranda. Where the source documents used different presentation approaches, the provisions have been reorganized around decision relevance: the existing position, the proposed amendment, the affected person or transaction, the nature of the tax consequence, and the practical issue that management should consider.

IMPORTANT DISTINCTION

A proposal may create a power for the Federal Government, the Board or the Commissioner without immediately creating an operational obligation. Measures that depend on rules, notifications, prescribed procedures or system implementation have been identified as implementation-dependent.

Legal language control

- "May" has been preserved where the provision confers discretion or an enabling power; it has not been recast as a mandatory obligation.
- "Shall" has been retained where the underlying wording imposes a mandatory consequence or obligation.
- Final tax, minimum tax, adjustable tax, advance tax, withholding tax, tax credit, disallowance, penalty and default surcharge are treated as distinct concepts.
- Resident/non-resident and Active Taxpayers' List distinctions are preserved where they materially affect the rate or character of tax.

Scope of reliance

The document is designed as a general business and tax brief. It does not replace a review of the Bill, the existing legislation, the final enacted provisions or the facts of a specific taxpayer. The application of any proposal should be considered in the context of the relevant transaction, tax year, status of the person and procedural requirements.

01

ClaroDRAFT perspective

What the Bill signals beyond the individual rate changes

Stability is improving; the growth transition remains incomplete

The Finance Bill, 2026 has been presented against an economy showing a gradual recovery in output, improved fiscal indicators and continuing support from external-sector inflows. GDP growth is reported at 3.70%, compared with 3.18% in the prior year. The fiscal deficit for July-March is reported at 0.7% of GDP, while the primary surplus is reported at 3.2% of GDP. These indicators provide a more stable starting point than in recent years, but they do not by themselves resolve the structural constraints affecting investment, productivity, exports and employment.
The Bill therefore operates on two tracks. The first is selective relief: lower salary incidence in several bands, rationalization of Super Tax for persons outside specified sectors, lower advance tax on property transactions, continuation of the reduced tax rate for eligible IT and IT-enabled services exports, and tariff rationalization for industrial inputs. The second track is deeper documentation: electronically readable financial statements, real-time integration, banking-data cross-matching, faceless proceedings, algorithmic settlement and wider penalties for failures in digital compliance.

The policy shift is from filing to verifiable data

The most consequential theme is not a single rate change. It is the proposed shift from periodic self-reporting towards transaction-level information, structured data and system-based risk assessment. The Central Data Hub, Compliance Risk Management framework, National Faceless Centre and electronic integration proposals are intended to make data usable across audit, assessment and enforcement. for management, this changes the center of tax risk from return preparation alone to the quality, reconciliation and traceability of data generated throughout the year.

CLARODRAFT VIEW

The businesses most exposed are not necessarily those paying the highest statutory rate. They are those whose accounting, sales, banking, inventory and tax records do not reconcile quickly and consistently across systems. The practical response is therefore a governance response: ownership of data, controlled interfaces, reconciliations and documented exceptions.

Relief remains targeted and conditional

Several proposals can reduce cash-flow or tax incidence, but the benefit is often confined to a defined class, tax character or period. The IT and IT-enabled services export rate is proposed to continue at 0.25% for qualifying exporters up to Tax Year 2029. The tax on social-media receipts is proposed to be minimum tax for resident persons and final tax for qualifying non-residents. The electronic-integration tax credit is proposed to be available against normal tax and not minimum tax. Property transaction rates are proposed to become flat, but the character and subsequent adjustment of the tax remain relevant.

Implementation quality will determine the commercial outcome

A large part of the Bill's administration depends on rules, notifications, prescribed formats and technology. Faceless proceedings can reduce direct interaction and improve consistency, but only if notices, evidence, hearings and quality control are accessible and procedurally fair. Algorithmic settlement can shorten disputes, but the ten-day acceptance window and lack of visibility over the computational basis can affect informed decision-making. Electronic integration can strengthen compliance, but recurring system costs, data ownership and parallel penalties require careful implementation.

02

How to use this brief

Four reading layers for different decisions

10 **Decision brief** management priorities	**10** **Sector modules** business perspectives	**4** **Technical chapters** principal tax laws
1 **Action agenda** readiness framework	**18** **Reference schedules** high-use tables	**Proposed** **Legal status** not enacted

Choose the level that matches the decision

Reader	Start here	Then use
Business owner / management	Executive decision brief and sector analysis	Action agenda and material rate schedules
CFO / finance leadership	Economy, sector analysis and detailed Income Tax sections	Systems, banking-data, penalties and readiness matrix
Tax professional	Detailed legal analysis by law	Appendices, rate schedules and implementation dependencies

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Executive decision brief

The proposals with the greatest management relevance

The Bill in one page

Theme	What is proposed	Management implication
Personal tax	Lower incidence across selected salary bands and omission of the section 4AB surcharge for salaried individuals from Tax Year 2027.	Payroll models and employment cost forecasts should be refreshed after enactment.
Business tax	Super Tax relief for persons outside banking, exploration and production, and fertilizer sectors; 8% proposed above Rs. 500 million.	Model effective tax rates and deferred tax effects by entity and source of income.
Property	Omission of section 7E and flat advance tax rates of 2.75% for sellers and 1.25% for buyers.	Reassess transaction cash flows, succession cost base and documentation.
Exports	Additional 1% advance tax proposed to be omitted; section 154 collection proposed at 1.25% as minimum tax.	Forecast cash release and assess minimum-tax recoverability.
Digital income	5% withholding proposed on social-media receipts; e-commerce tax becomes adjustable above Rs. 200 million turnover.	Map receipts, intermediaries, registration and year-end adjustment.
Data and systems	Machine-readable financial statements, wider integration powers, Central Data Hub and algorithmic cross-matching.	Treat tax data as a controlled enterprise data set, not a filing-year output.
Administration	National Faceless Centre, E-hearings and Algorithmic Settlement Mechanism.	Prepare digital case files, decision authority and rapid response protocols.
Penalties	Substantial increases and new exposures for integration, data, withholding and unsupported credits.	Expand compliance controls and assign principal-officer oversight.

Ten proposals management should know

1 Salary slabs and surcharge

Who is affected	Likely implication	Action to consider
Salaried individuals / employers	Proposed relief is concentrated from Rs. 2.2 million upward; surcharge under section 4AB is proposed to cease for salaried persons from Tax Year 2027.	Update payroll forecasts and employee communication only after final enactment.

2 Super Tax rationalization

Who is affected	Likely implication	Action to consider
Large businesses and high-income persons	For persons outside specified sectors, Super Tax is proposed only where prescribed income exceeds Rs. 500 million, at 8%.	Model entity-by-entity exposure; do not assume group-wide relief.

3 Property transaction rates

Who is affected	Likely implication	Action to consider
Buyers, sellers and developers	Flat rates of 2.75% for sellers and 1.25% for buyers are proposed, and the late-filer category is proposed to be withdrawn.	Recalculate transaction funding and withholding documentation.

4 Export minimum tax

Who is affected	Likely implication	Action to consider
Goods exporters and indirect exporters	The additional 1% advance tax is proposed to be omitted; section 154 collection would be 1.25% as minimum tax.	Assess cash-flow benefit separately from final income-tax cost.

5 Social-media withholding

Who is affected	Likely implication	Action to consider
Creators, influencers, banks and financial institutions	A 5% withholding regime is proposed; minimum tax for resident persons and final tax for qualifying non-residents.	Identify receipts, accounts, intermediaries and record-keeping.

6 Electronically readable statements

Who is affected	Likely implication	Action to consider
Companies	Financial statements accompanying returns for Tax Year 2026 onward are proposed to be filed in structured formats, not PDF scans.	Establish an export and validation process for CSV/XLSX/XML/XBRL/JSON.

7 Banking-data reporting

Who is affected	Likely implication	Action to consider
Banks, EMIs and account holders	Deposits or withdrawals exceeding Rs. 100 million in a six-month reporting period trigger proposed reporting to the Central Data Hub.	Reconcile tax declarations, bank movements and balance-sheet explanations.

8 Faceless proceedings

Who is affected	Likely implication	Action to consider
Taxpayers selected for audit, assessment or appeal	Allocation, communication and hearings may be processed electronically through the National Faceless Centre.	Maintain complete digital evidence packs and Authorized response protocols.

9 Algorithmic settlement

Who is affected	Likely implication	Action to consider
Taxpayers with pre-assessment discrepancies	A system-generated offer may be accepted through IRIS within ten days, with issue-specific abatement.	Pre-authorise decision thresholds and ensure advisers can evaluate offers quickly.

10 Electronic integration and penalties

Who is affected	Likely implication	Action to consider
Notified businesses and integrated organizations	A 10% tax credit is proposed for eligible integration investment, alongside expenditure disallowance and material penalties for non-compliance.	Build a costed integration plan and clarify ownership of ongoing controls.

Relief, burden and uncertainty dashboard

Proposed relief	Additional burden or exposure	Implementation question
Salary-rate reductions and salaried surcharge omission	Substantially enhanced penalties for late or incorrect compliance	Which procedures and taxpayer classes will be notified for faceless processing?
Super Tax relief outside specified sectors	Machine-readable statements and real-time integration expectations	How will algorithmic settlement offers be computed and reviewed?
Lower property advance tax rates and omission of section 7E	Personal liability for certain principal-officer defaults	What expenditure base will be used for the 5% integration disallowance?
Lower foreign-card advance tax and extended IT/ITeS rate	Higher minimum tax for several distributors and wholesalers	How will recurring integrator costs be treated for the 10% tax credit?
Reduced terminal and port services withholding	Higher debt-security withholding and broader NCCPL coverage	How will non-resident treaty claims be accommodated after opt-out removal?
Tariff rationalization and selected customs exemptions	Wider sales-tax retail-price taxation and invoice matching penalties	Which notifications will implement ACD, RD and specific customs concessions?

IMPLEMENTATION DEPENDENCY

A proposal may be complete in the Bill but not operational until the Board issues a notification, prescribes a format, defines a taxpayer class or activates a system. Each business should separate legal enactment, procedural notification and technology readiness in its implementation plan.

Legal-status and timing guide

Period / trigger	Principal proposals	Status consideration
Tax Year 2026	Life-insurance payout charge and electronically readable financial statements for companies.	The proposed charge may affect receipts within the tax year even though withholding begins from 1 July 2026; detailed return treatment should be reviewed.
Tax Year 2027	Revised salary slabs, salaried surcharge omission and Super Tax rationalization.	Payroll and tax-provision models should retain the existing law until enactment.
From 1 July 2026	Most withholding, sales tax, FED and customs proposals unless a different date is stated.	Operational changes depend on enactment and, for several measures, subsequent rules or notifications.
Up to Tax Year 2029	0.25% rate proposed to continue for eligible IT and IT-enabled services exports.	Eligibility conditions, including registration requirements, remain critical.
Up to 30 June 2027	Selected EV sales-tax/FED concessions and exclusions.	Confirm vehicle category, condition and value thresholds before applying.
Budget Speech / salient features	Retailer scheme details and certain SPV/exporter announcements.	Treat separately from provisions expressly contained in the Bill; enabling rules or amendments may still be required.

04

Economy and budget at a glance

The fiscal setting in which the proposals have been framed

Economic performance indicators

3.70% **GDP growth** FY2025-26	**3.18%** **Prior-year growth** FY2024-25	**US$1,901** **Per-capita income** prior year US$1,751
6.2% **Average inflation** July-April FY2025-26	**0.7% of GDP** **Fiscal deficit** July-March FY2025-26	**3.2% of GDP** **Primary surplus** July-March FY2025-26
US$30.3bn **Remittances** July-March; +8.2%	**US$72m surplus** **Current account** July-March FY2025-26	**US$1,409m** **FDI** July-April FY2025-26
14.38% **Investment/GDP** FY2025-26	**14.13%** **Savings/GDP** FY2025-26	**8.2%** **Budget inflation target** FY2026-27

Reading the recovery

Growth is reported across agriculture, industry and services, with services providing the largest share of output and the highest broad-sector growth rate among the three. Inflation averaged 6.2% for July-April FY2025-26, although the monthly rate increased sharply between March and April. Fiscal consolidation is reflected in a lower reported deficit and a primary surplus, while remittances remain a significant external-sector support.

CLARODRAFT VIEW

The budget numbers show a stronger fiscal starting position, but the revenue strategy still relies heavily on income tax, sales tax and documentation. The key management question is not whether the economy is stabilizing; it is whether the business can convert stability into investment while absorbing more data, systems and compliance requirements.

Sector growth snapshot

Sector	GDP share	Growth / movement	Selected components
Services	58.42%	4.09%	Wholesale and retail 3.7%; information and communication 7.5%; finance and insurance -0.3%; education 5.2%
Agriculture	23.4%	2.89%	Livestock 3.75%; forestry 2.02%; fishing 1.66%; crops 1.44%
Industry	18.14%	3.51%	Manufacturing 6.6%; construction 5.7%; mining and quarrying 0.4%; utilities -10.6%

The sector data supports a mixed reading. Manufacturing and construction show positive growth, while utilities contract. Services growth is broad but uneven. The proposed fiscal measures therefore combine relief for selected transaction-heavy sectors with stronger digital visibility and enforcement across the formal economy.

Federal budget financials

PKR billion	FY2026-27	FY2025-26 revised
Tax revenue	15,264	12,983
Non-tax revenue	5,336	5,093
Gross revenue receipts	20,600	18,076
Less: provincial share in federal taxes	(8,849)	(7,592)
Federal receipts after provincial share	11,751	10,484
Privatisation proceeds	161	14
Net revenue receipts	11,912	10,498
Current expenditure	(17,495)	(15,006)
Development expenditure, net of recovery of loans	(1,276)	(1,024)
Total expenditure	(18,771)	(16,030)
Deficit	(6,859)	(5,533)
Domestic debt - non-bank / public account	2,034	2,139
Domestic debt - banks / provincial surpluses	4,012	199
Foreign debt / grants, net	813	1,535

Scale of principal budget aggregates (PKR billion)

Tax revenue	15,264
Non-tax revenue	5,336
Net federal receipts	11,912
Current expenditure	17,495
Development / net lending	1,276
Deficit	6,859

Tax-revenue composition

Proposed FY2026-27 federal tax revenue mix

Income Tax	49%
Sales Tax	32%
Customs Duty	11%
Federal Excise Duty	7%
WWF, WPPF and others	1%

Category	FY2026-27	FY2025-26 revised	Observation
Direct taxes	7,613	6,431	Approximately half of federal tax revenue.
Indirect taxes	7,651	6,551	Sales tax remains the largest indirect-tax component.
Total	15,264	12,983	Revenue target increases by approximately 17.6%.

BUDGET ARITHMETIC

The revenue target is ambitious in absolute terms, but the composition remains broadly balanced between direct and indirect taxes. The Bill's digital and enforcement provisions appear intended to improve the quality and visibility of the tax base rather than change that composition immediately.

05

Sectoral analysis

How multiple proposals combine at business level

Export sector

Exports remain central to foreign-exchange generation and economic diversification. The Bill proposes a lower combined collection burden for goods exporters while retaining a minimum-tax framework, and it proposes to continue the reduced regime for qualifying IT and IT-enabled services exports.

Key proposals

- Omission of the additional 1% advance tax previously collected at realisation of export proceeds or related payments.
- Increase in section 154 collection from 1% to 1.25%, proposed to operate as minimum tax.
- Corresponding 1.25% rate for indirect exporters.
- Continuation of the 0.25% rate for qualifying IT and IT-enabled services exports up to Tax Year 2029.
- Budget Speech indication regarding possible Super Tax relief for exporters should be treated separately from enacted Bill language.

Combined business effect

The proposed combination reduces immediate collection from 2% to 1.25% for goods exporters, improving cash flow by 0.75 percentage points. The ultimate tax cost continues to depend on minimum-tax treatment. for technology exporters, extension to 2029 provides a longer planning horizon, but eligibility conditions remain decisive.

CLARODRAFT VIEW

The cash-flow improvement should not be presented as a reduction in final tax for every exporter. Businesses with low margins or limited normal-tax liability may continue to bear the 1.25% minimum-tax cost. Export receipts, indirect-export status and PSEB eligibility should be separately mapped.

Actions to consider

- Reforecast advance-tax and minimum-tax cash flows.
- Confirm exporter and indirect-export classifications across entities.
- Validate PSEB registration and qualifying export receipts.
- Track whether any Super Tax amendment for exporters is added during the legislative process.

Real estate and construction

The Bill indicates a shift from higher transaction costs towards measures intended to support activity, liquidity and formal transfers. The proposals affect ownership cost, buyer and seller cash flow, inheritance planning and selected construction equipment.

Key proposals

- Omission of section 7E, which charged tax on deemed income from specified capital assets.
- Flat advance tax of 2.75% under section 236C for sellers.
- Flat advance tax of 1.25% under section 236K for buyers.
- Withdrawal of the enhanced late-filer category for property transactions.
- Fair Market Value at the date of death proposed as the cost of inherited immovable property.
- Family settlement among heirs proposed to fall within tax-neutral transmission on death.
- Customs duty on specified specialized construction-related vehicles proposed to reduce from 20% to 10%.

Combined business effect

The proposed property rates reduce the initial tax funding required for formal transactions. Omission of section 7E reduces the annual holding-cost issue, while the inheritance amendments provide a clearer cost base for later disposal. Construction relief is narrower: equipment cost may decline, but taxes embedded in core materials remain relevant.

CLARODRAFT VIEW

The relief is transaction-specific and should be modelled with capital-gain exposure, ATL status and documentation. The proposed cost base for inherited property can materially alter future gain calculations and should be supported by valuation evidence at the date of death.

Actions to consider

- Refresh property acquisition and disposal models.
- Develop a standard evidence pack for Fair Market Value on inheritance.
- Review family settlements for legal and tax documentation.
- Identify qualifying specialized vehicles before placing import orders.

Salaried individuals and employers

The proposed salary schedule retains the maximum rate of 35% but raises the point at which that marginal rate begins and introduces intermediate bands. The section 4AB surcharge is proposed to be omitted for salaried individuals from Tax Year 2027.

Key proposals

- No change for taxable salary up to Rs. 2.2 million.
- Rate proposed to fall from 23% to 20% for the Rs. 2.2-3.2 million band.
- Rate proposed to fall from 30% to 25% for the Rs. 3.2-4.1 million band.
- New 29% and 32% bands proposed before the 35% rate applies above Rs. 7 million.
- 9% surcharge on tax payable by salaried individuals above Rs. 10 million proposed to be omitted.

Combined business effect

The monetary reduction increases through the middle and upper-middle bands. Above Rs. 10 million, the surcharge omission creates a larger effective-rate reduction. Employers should distinguish statutory withholding from compensation policy and avoid communicating final take-home effects before enactment.

CLARODRAFT VIEW

The proposed schedule improves progressivity within the upper bands without changing the top marginal rate. The larger change for high earners arises from the surcharge omission rather than the marginal-rate table alone.

Actions to consider

- Update payroll engines after final enactment.
- Recalculate annual tax equalisation and gross-up arrangements.
- Prepare employee communication that distinguishes proposal from enacted law.
- Review deferred compensation and bonus timing only after the final Act is available.

Retail, trading and distribution

The retail and distribution proposals combine facilitation for small traders with higher minimum-tax exposure for several distribution chains and a revised Tier-1 Retailer definition.

Key proposals

- Section 99B proposed to empower the Board to prescribe rate and payment of tax, including fixed tax, return filing and audit for small traders and shopkeepers.
- Budget Speech framework refers to 1% of turnover, a minimum payment of Rs. 25,000, simplified return, withholding relief, no POS requirement and a QR-coded identification plate.
- Individual-trader threshold for withholding-agent obligations proposed to increase from Rs. 100 million to Rs. 200 million.
- Tier-1 Retailer definition proposed to include retailers or wholesaler-cum-retailers with turnover of Rs. 200 million or more.
- Reduced minimum-tax rates proposed to be withdrawn or increased for pharmaceutical, cigarette, FMCG, cement, steel, edible-oil and other distribution chains.
- Trading House concessions proposed to be withdrawn.

Combined business effect

Small traders may receive a simplified framework, but the operative details depend on rules and notifications. Larger retailers face clearer integration expectations, while distributors in several sectors may see minimum tax increase from 0.25% to 1.25% or 0.5%. The commercial effect depends heavily on gross margin.

CLARODRAFT VIEW

Turnover-based tax is most burdensome where margins are thin. Distribution businesses should model the tax as a percentage of gross profit, not only sales. The omission of the FMCG definition while retaining a specific concession for integrated Tier-1 retailers may require legislative clarification.

Actions to consider

- Segment entities and channels by turnover and taxpayer status.
- Model minimum tax as a percentage of gross margin.
- Review Trading House structures and withholding exposure.
- Track retailer rules separately from the enabling amendment.

Digital economy, IT, freelancers and content creators

The Bill proposes continued support for export-oriented technology services while bringing domestic digital commerce and content monetisation into a more visible withholding and reporting framework.

Key proposals

- 0.25% rate proposed to continue for eligible IT and IT-enabled services exports up to Tax Year 2029.
- Tax on digitally ordered goods and services proposed to become adjustable where turnover exceeds Rs. 200 million.
- 5% withholding proposed on revenue received from social-media platforms.
- For resident persons, the social-media deduction is proposed as minimum tax; for qualifying non-residents without a permanent establishment, final tax.
- Companies' financial statements proposed to be filed in Electronically Readable Format under section 2(19DA).
- Electronic integration, faceless proceedings and algorithmic settlement proposals apply across digital businesses as part of the wider tax-administration framework.

Combined business effect

The distinction between export income, domestic platform transactions and social-media receipts becomes more important. A single digital business may have different rates and tax character across revenue streams. Banks and financial institutions become part of the withholding chain for creator income.

CLARODRAFT VIEW

Digital businesses should design a revenue taxonomy before the tax return. The transaction description, customer location, platform role, payment route and taxpayer status can change the applicable section and whether tax is final, minimum or adjustable.

Actions to consider

- Map each digital revenue stream to the relevant charging and withholding provision.
- Reconcile platform statements, bank credits and invoices.
- Confirm registration, export documentation and PSEB status.
- Prepare structured financial statements and evidence trails.

Financial services, funds and capital markets

The proposals extend NCCPL's role, change withholding on debt securities, facilitate longer exemption certificates for qualifying funds and introduce broader financial-transaction reporting.

Key proposals

- NBFCs, Modarabas and companies in respect of listed debt securities proposed to enter the NCCPL regime.
- NCCPL proposed to compute and determine gains for banks, insurance companies and mutual funds while their payment mechanism remains outside NCCPL collection.
- Opt-out from the NCCPL regime proposed to be withdrawn.
- Withholding on gains from specified debt securities proposed to increase from 15% to 20%.
- Full-year exemption certificates proposed for qualifying funds and NPOs.
- Banking companies and EMIs proposed to report high-value account data to the Central Data Hub.

Combined business effect

The changes improve centralised computation and data visibility but can create treaty, loss-set-off and operational issues. The removal of opt-out is especially relevant for non-resident investors who rely on treaty exemptions or entity-level adjustments.

CLARODRAFT VIEW

A centralised computation system should not be assumed to resolve legal entitlement. Funds, custodians and non-resident investors need an operational process for exemption certificates, treaty evidence, correction of computational errors and reconciliation with return positions.

Actions to consider

- Map securities and entities moving into NCCPL computation.
- Review treaty-relief processes for non-residents.
- Prepare exemption-certificate calendars and evidence.
- Reconcile custodian data, tax deductions and accounting gains.

Insurance and takaful

The Bill proposes a new final-tax charge on gains embedded in specified life-insurance and takaful payouts, with withholding responsibility placed on insurers and operators.

Key proposals

- Tax base proposed as gross payout or benefit less aggregate premiums or contributions.
- 15% proposed where payment occurs within one year.
- 10% proposed where payment occurs after one year but before completion of seven years.
- Exclusions proposed for death, disability and payment after completion of seven years.
- Rates would be increased for a recipient not appearing on the Active Taxpayers' List unless an exclusion is enacted.

Combined business effect

The proposal affects product administration, customer data, premium histories, policy-age calculation and tax communication. The charge is proposed from Tax Year 2026, while withholding is proposed for payments from 1 July 2026, creating a timing issue for receipts within the tax year before withholding begins.

CLARODRAFT VIEW

The tax is not proposed on the full payout if premium records are complete; it is proposed on the excess over contributions. Product systems must therefore retain reliable contribution histories across migrations, partial surrenders and takaful structures.

Actions to consider

- Validate premium and contribution histories.
- Identify payment reasons and policy age automatically.
- Model ATL/non-ATL customer outcomes.
- Prepare return guidance for Tax Year 2026 receipts before withholding commencement.

Automobile and electric vehicles

The proposals continue selected concessions for lower-value electric vehicles while imposing significantly higher duties on luxury and high-capacity imported vehicles.

Key proposals

- Selected CKD EV import and locally assembled EV concessions proposed to continue to 30 June 2027.
- 1% sales-tax rate proposed for electric trucks imported in CBU condition.
- Special Excise Duty proposed on imported motor cars, SUVs and similar vehicles above 2,000cc, excluding specified EVs until 30 June 2027.
- FED of 30% or 40% proposed on personally imported CBU electric vehicles above specified customs-value thresholds.
- Selected bullet-proof vehicle imports proposed to be exempt subject to purpose and approval conditions.

Combined business effect

The policy differentiates between sector development and luxury consumption. Local assembly and lower-value EV adoption receive continued support, while high-value personal imports face large additional tax incidence.

CLARODRAFT VIEW

Classification, customs value, engine capacity, condition of import and end use are central. Vehicle businesses should avoid marketing an effective rate before confirming the interaction of customs duty, sales tax, FED and Special Excise Duty.

Actions to consider

- Build landed-cost models by vehicle class and value.
- Confirm sunset dates and approval conditions.
- Review pricing disclosures and customer quotations.
- Separate CKD, CBU, personal-use and commercial categories in systems.

Manufacturing and industrial input

The Bill proposes broad tariff rationalization alongside deeper production monitoring, invoice matching and sector-specific collection mechanisms.

Key proposals

- Customs duty reductions proposed across 92 industrial-input tariff lines.
- Additional Customs Duty proposed to reduce across 3,125 tariff lines, subject to notification.
- Regulatory Duty proposed to be rationalized across 1,914 tariff lines, subject to notification.
- Steel-sector sales tax proposed to be collected by reference to per-unit electricity consumption, with adjustment and refund linked to integration.
- Section 8B of the Sales Tax Act, 1990 cap proposed to become compliance-responsive.
- Production monitoring, electronic invoicing and unmatched-credit penalties proposed to intensify.

Combined business effect

Import-dependent manufacturers may benefit from lower tariff incidence, but the benefit varies by PCT code and may be offset by compliance investment. Production and sales data increasingly become part of tax determination and refund access.

CLARODRAFT VIEW

Tariff savings and compliance costs should be evaluated in the same implementation model. A lower customs rate does not create a net benefit if classification, valuation, invoice matching or production monitoring failures delay credits or expose the business to penalties.

Actions to consider

- Create a PCT-level tariff-change register.
- Quantify ACD/RD changes after notifications.
- Reconcile electricity, production, dispatch and invoicing data.
- Assess refund eligibility and integration dependencies.

Shipping, ports and logistics

The proposals create a clearer local compliance anchor for non-resident shipping operations and offer selected withholding and investment relief for the wider logistics and maritime sector.

Key proposals

- Authorized Shipping Agent proposed as a defined local representative.
- Single return proposed for each vessel or voyage covering total freight and related amounts.
- Authorized Shipping Agent proposed to be jointly and severally liable for tax and compliance obligations.
- Withholding on terminal and port services proposed to reduce from 15% to 12%.
- Selected sales-tax exemptions proposed to support strategic shipping investment.

Combined business effect

The local agent's role moves beyond documentation towards express tax responsibility. At the same time, lower terminal and port withholding can reduce cash-flow pressure for service providers.

CLARODRAFT VIEW

Agency agreements, freight control, manifest preparation and tax-return responsibility need to align. Joint and several liability makes informal allocation of responsibilities insufficient.

Actions to consider

- Review agency agreements and indemnities.
- Map freight collection and manifest-control processes.
- Confirm who files the vessel/voyage return.
- Update terminal and port withholding matrices after enactment.

06

Income Tax

Detailed analysis of the proposed amendments

Personal taxation: salary rates and surcharge

The Bill proposes to revise the salary schedule from Tax Year 2027. The maximum marginal rate remains 35%, but it would begin above Rs. 7 million rather than above Rs. 4.1 million. The existing 9% surcharge under section 4AB on tax payable by salaried individuals with taxable income exceeding Rs. 10 million is proposed to be omitted. The surcharge for other individuals and Associations of Persons is not proposed to be removed.

Taxable salary (Rs.)	Tax Year 2026	Proposed Tax Year 2027
Up to 600,000	Nil	Nil
600,001-1,200,000	1% over 600,000	1% over 600,000
1,200,001-2,200,000	Rs. 6,000 + 11% over 1,200,000	Rs. 6,000 + 11% over 1,200,000
2,200,001-3,200,000	Rs. 116,000 + 23% over 2,200,000	Rs. 116,000 + 20% over 2,200,000
3,200,001-4,100,000	Rs. 346,000 + 30% over 3,200,000	Rs. 316,000 + 25% over 3,200,000
4,100,001-5,600,000	Rs. 616,000 + 35% over 4,100,000	Rs. 541,000 + 29% over 4,100,000
5,600,001-7,000,000	Existing 35% band	Rs. 976,000 + 32% over 5,600,000
Above 7,000,000	Existing 35% band	Rs. 1,424,000 + 35% over 7,000,000

Annual salary	Monthly salary	TY2026 tax	Proposed TY2027	Annual reduction	Monthly reduction
3,200,000	266,667	346,000	316,000	30,000	2,500
4,100,000	341,667	616,000	541,000	75,000	6,250
5,600,000	466,667	1,141,000	976,000	165,000	13,750
7,000,000	583,333	1,631,000	1,424,000	207,000	17,250
10,000,000	833,333	2,681,000	2,474,000	207,000	17,250

Annual salary	Monthly salary	TY2026 tax	Proposed TY2027	Annual reduction	Monthly reduction
12,000,000	1,000,000	3,685,290 incl. surcharge	3,174,000	511,290	42,608
20,000,000	1,666,667	6,737,290 incl. surcharge	5,974,000	763,290	63,608
36,000,000	3,000,000	12,841,290 incl. surcharge	11,574,000	1,267,290	105,608

BUSINESS IMPACT

Employers should treat these figures as scenario modelling. Final payroll withholding depends on enactment and the applicable tax year. High-income reductions are materially affected by the proposed surcharge omission.

Super Tax

From tax year 2027, super tax is proposed to be abolished for persons (other than specified categories) having income not exceeding Rs. 500 million, which is currently subject to rates ranging from 1% to 7.5%.

The specified categories that will continue to be liable include:

- Banking companies
- Oil and Gas Exploration Companies
- Income from sale of fertilizer

For these categories:

- Super tax will remain applicable at 10% where prescribed income exceeds Rs. 150 million.
- In the case of Oil and Gas Exploration Companies, the rate shall not exceed the limits prescribed under Rule 4 of the Fifth Schedule.

For all other categories:

- Super tax is proposed at 8% where prescribed income exceeds Rs. 500 million, compared to the currently applicable rate of 10%.

CLARODRAFT VIEW

The relief remains entity and income specific, with banking, exploration and production, and fertilizer income subject to a distinct threshold of Rs. 150 million and a fixed 10% rate. Any exporter relief referenced in the Budget Speech should be treated cautiously and not presumed unless expressly enacted into law.

ACTION to CONSIDER

Model Super Tax using the legal person and source of income, not a consolidated group average.

Tax on deemed income under section 7E

Abolishment of Tax on Deemed Income Under Section 7E

In line with the recent order of the Federal Constitutional Court of Pakistan (FCCP), tax on deemed income from immovable properties under section 7E having already been held as ultra vires is proposed to be abolished.

CLARODRAFT VIEW

The omission addresses future chargeability only, without expressly creating a mechanism for refund of amounts already paid. As a result, historical positions will require separate legal review. Ideally, the amendments should also have included enabling provisions to allow taxpayers to claim refunds of this tax already discharged.

ACTION to CONSIDER

Maintain supporting records for prior payments and pending litigation; do not net a refund into tax forecasts without a legal basis.

Fixed-tax framework for small retailers

Fixed Tax Regime for Retailers / Small Traders

The Bill proposes amendments to section 99B of the Income Tax Ordinance to introduce a fixed tax regime for small traders. The scope of section 99B is broadened to expressly cover "rate and payment of tax including fixed tax, filing of return, audit," thereby providing a clear legal foundation for a revised retailer taxation framework. This represents a transition from the earlier Tajir Dost Scheme and advance tax mechanism to a more structured, simplified fixed tax regime for eligible small retailers.

Based on the Finance Minister's Budget Speech, the key features of the proposed scheme include:

- applicability to small retailers/shopkeepers with annual turnover not exceeding Rs. 200 million;
- tax at **1% of annual sales/turnover**, subject to a minimum payment of Rs. 25,000, payable at the time of filing a simplified return;
- withholding taxes suffered in the supply chain adjustable against liability under the scheme;
- protection from routine audit exposure for compliant participants;
- relief from obligations to act as withholding agents;
- exemption from POS installation requirements;
- issuance of a special identification plate with QR code for display at business premises, restricting FBR officials from unnecessary field-level inquiries;
- filing of a simplified one-page return, to be made available in Urdu and regional languages.

The ultimate legal position and procedural details will depend on special procedures, rules, and notifications to be issued following enactment of the Bill.

CLARODRAFT VIEW

The Bill supplies enabling language; the detailed 1% scheme, audit protection, POS relief, QR plate and simplified return are drawn from the Budget Speech and remain dependent on rules and procedures.

ACTION to CONSIDER

Keep the enabling amendment and the announced scheme in separate implementation trackers.

Export of goods and minimum-tax treatment

Export of Goods

The Finance Act, 2024 had replaced the final tax regime on export of goods at 1% with a minimum tax regime, coupled with an additional 1% adjustable advance tax on exporters. This dual collection created interpretational uncertainty as to whether the minimum tax applicable to exporters was 1% or 1.25% under section 113.

The Bill now proposes to:

- Abolish the 1% advance tax collection, and
- Enhance the rate of tax collection under section 154 to 1.25%, which will be treated as minimum tax equivalent to the rate otherwise applicable under section 113.

Additionally, the withholding tax rate on indirect exporters is proposed to be increased from 1% to 1.25%.

CLARODRAFT VIEW

The proposed 1.25% collection is a minimum tax. A cash-flow reduction from 2% does not automatically mean the final tax cost falls by 0.75 percentage points in every case.

ACTION to CONSIDER

Recalculate cash collections, normal tax and minimum tax separately.

Withholding taxes in the nature of minimum tax

Rationalization of Withholding Taxes Treated as Minimum Tax

Under the existing framework, in addition to turnover-based minimum tax at 1.25%, various withholding taxes—such as those on imports, services, contractor payments, trading of goods, and commissions—are also treated as minimum tax. This treatment often results in a disproportionately high tax incidence compared to the underlying net taxable income, prompting sustained demands, particularly from the services sector, for abolition or rationalization to preserve the true character of income-based taxation.

The Bill proposes to empower the Federal Government to reduce the rate of any withholding tax in the nature of minimum tax (as specified in the First Schedule, other than section 113) up to 1%, based on economic viability, for specified persons or classes of persons, subject to restrictions and limitations as may be prescribed. All such amendments made during a financial year must be placed before the National Assembly.

Legislative intent appears to suggest that reductions may be made to ensure the rate does not fall below 1%. For example, a withholding tax currently applicable to contractors at 7.5% could be reduced to 1%. However, if the amendment is construed as permitting only a one-percentage-point reduction (e.g., 15% to 14%), the provision may require reconsideration, as such limited relief would not achieve the intended policy outcome.

CLARODRAFT VIEW

The phrase "up to 1%" may be interpreted as authorizing a reduction to a rate not lower than 1%, rather than a mere one-percentage-point decrease. The commercial significance of this authority depends on how the Federal Government chooses to exercise it. Legislative intent appears to support reductions that ensure the rate does not fall below 1%—for instance, a current 7.5% withholding rate could be reduced to 1%. If, however, the amendment is construed as permitting only a one-point reduction (e.g., 15% to 14%), the provision would merit reconsideration, as such limited relief is unlikely to achieve the intended policy outcome.

ACTION to CONSIDER

Monitor notifications by person, sector and rate; do not apply a reduced rate merely because the enabling section is enacted.

Digital transactions and e-commerce

Tax on Payments for Digital Transactions

Section 6A, introduced through the Finance Act 2025, established a levy on persons receiving payments for digitally ordered goods and services. The tax applies to goods and services delivered within Pakistan through locally operated online platforms, including marketplaces and websites, at prescribed rates, and is treated as final tax. Corresponding withholding tax rates were also prescribed for such transactions.

It is now proposed that this tax will become adjustable where a person's turnover in a tax year exceeds Rs. 200 million.

Further, Section 6A currently provides for final taxation of *digitally ordered services*, whereas the First Schedule refers to *digitally delivered services*. This inconsistency is proposed to be corrected, ensuring that both Section 6A and the First Schedule uniformly apply to digitally ordered services. Previously, the mismatch between the charging and withholding provisions created ambiguity, which the amendment seeks to resolve.

CLARODRAFT VIEW

The change limits final-tax treatment where turnover exceeds Rs. 200 million. Businesses crossing the threshold should be ready to compute normal taxable income and claim adjustment of tax already deducted.

ACTION to CONSIDER

Monitor turnover across channels and ensure tax deducted through platforms can be reconciled to the return.

Electronic integration and tax credit

Framework for Electronic Integration and Invoicing Systems

All persons registered under the Sales Tax Act, 1990 are required to integrate their invoicing systems with the Federal Board of Revenue in the prescribed manner. A similar requirement exists under the Income Tax Ordinance, where non-compliance not only attracts penalties but also results in disallowance of expenditure. The Bill now proposes to restrict such disallowance to 5% of the claimed expenditure for any person failing to install the prescribed electronic resource or to operate as an integrated enterprise, subject to the method and procedure to be notified.

At the same time, an incentive is introduced in the form of a tax credit for integration with the Board's computerized system under the Income Tax Ordinance, the Sales Tax Act, 1990, or the Federal Excise Act, 2005. The credit will apply to expenditure incurred exclusively on the purchase, acquisition, installation, or implementation of equipment, hardware, software, or other electronic components directly utilized for integration, subject to conditions and restrictions prescribed by the FBR.

The tax credit, available only against normal tax payable under Division I or II of Part I of the First Schedule, will amount to 10% of the actual investment in the year of installation and configuration. It will not extend to operation or maintenance expenses, nor will it apply where liability arises on minimum tax basis.

Finally, the Board is empowered to require any person or class of persons, through notification in the official Gazette, to install and use prescribed electronic resources or to act as integrated enterprises for the purpose of receiving, storing, matching, and accessing information relevant to their tax liability.

CLARODRAFT VIEW

A 10% tax credit is proposed for qualifying capital expenditure, available only against normal tax liability. Recurring costs such as licences, subscriptions, and maintenance are excluded from eligibility. Non-compliance will result in disallowance of the credit and may also attract penalties.

ACTION to CONSIDER

Separate eligible implementation cost from operating cost and document the date the resource becomes integrated and configured.

NCCPL regime and collective investment structures

Expansion of Scope and Realignment of NCCPL's Role for Specific Sectors

Section 100B currently establishes an NCCPL-driven capital gains tax regime for listed securities, but excludes NBFCs, Modarabas, and companies (for listed debt securities). The Bill proposes to extend the regime to cover capital gains on listed securities derived by NBFCs and Modarabas, and capital gains on listed debt securities derived by companies. Capital gains on unlisted debt securities (already subject to section 151A withholding in relation to IPS accounts) remain unchanged.

Banking, Insurance, and Mutual Funds: While these entities remain outside NCCPL's collection mechanism, NCCPL will now be responsible for computing and determining their capital gains.

Exemption Certificates for Mutual Funds, Reits & Other Collective Investment Schemes

Entities distributing at least 90% of accounting income for the preceding three years will be eligible for exemption certificates covering the entire subsequent tax year, streamlining the process.

Elimination of Opt-Out Mechanism Under the NCCPL Regime

Currently, taxpayers may opt out of the NCCPL regime and compute gains independently, allowing entity-level adjustments (e.g., loss set-off, timing flexibility) and treaty-based exemptions.

The Bill proposes to abolish this opt-out facility. This change could adversely impact non-residents and Foreign Institutional Investors entitled to CGT exemption under double tax treaties, as no alternative mechanism would remain for invoking treaty relief. The omission risks creating practical challenges and potential litigation.

Exemption Certificates for Non-Profit Organizations

Approved NPOs under section 2(36)(c) will also be issued exemption certificates for the full tax year of approval.

CLARODRAFT VIEW

Removing the opt-out can simplify central computation but may make treaty claims, loss set-off and entity-level adjustments operationally difficult for non-residents and exempt investors.
The omission would adversely impact Foreign Institutional Investors entitled to CGT exemption under DTTs, as they may no longer have a straightforward mechanism to bypass NCCPL computation, potentially creating practical challenges in claiming treaty relief and thus creating unwarranted litigation.

ACTION to CONSIDER

Establish a process with custodians and NCCPL for exemptions, corrections and treaty documentation.

Life-insurance and takaful payouts

Tax on Certain Payments by Life Insurance Business

Any payout, benefit, surrender value, maturity proceeds or similar payments from a life insurance business on account of insurance policy, family takaful certificate, plan or any similar arrangement is currently not taxable nor there is any expressed provision of withholding tax applicable on such amounts.

A new section 7G is proposed for tax year 2026 and onwards whereby a tax shall be imposed on every individual who receives the above amounts on account of insurance policy, family takaful certificate, plan or any similar arrangement. The amount liable to tax is the gross payout as reduced by the aggregate premiums or contributions paid by the policy holder or participant which would be chargeable to tax at the following rates:

1. Where payout or benefit is made within one year from the date of issuance of the life insurance policy, family takaful certificate or plan - 15%
2. Where payout or benefit is made after one year but before completion of seven years from the date of issuance of the life insurance policy, family takaful certificate or plan - 10%

The Bill introduces a withholding mechanism, effective July 1, 2026, requiring every life insurance company—including family takaful and window takaful operators—to deduct tax at the prescribed rates when making payments to individuals. The deduction is to be computed on the gross payout or benefit, reduced by the aggregate premiums or contributions paid, and applied at the time of payment.

In the absence of a specific exclusion in the Tenth Schedule, payments to recipients not appearing on the Active Taxpayers List will attract a 100% increase in the prescribed rates.

The charge under section 7G, together with the withholding obligation under section 151B, will not apply where payouts or benefits arise on account of death or disability of the insured/participant, or after completion of seven years from issuance of the policy, certificate, or plan. Tax deducted under this mechanism is proposed to be treated as final tax on the income arising from such payouts or benefits.

Importantly, the charge has been created for tax year 2026 and onwards, meaning taxpayers receiving such amounts in tax year 2026—before withholding becomes operative—will still be required to discharge the tax liability through their returns, while payments made from July 1, 2026 onwards will be subject to final withholding at source

CLARODRAFT VIEW

The taxable base is the excess of payout over premiums or contributions, not the gross receipt. The Tax Year 2026 commencement and withholding from 1 July 2026 create a potential self-assessment requirement for earlier receipts in the same tax year.

ACTION to CONSIDER

Insurers should test premium-history data, exclusions, policy-age logic and ATL status before implementation.

Limited Liability Partnerships and Electronically Readable Statements

Limited Liability Partnership (LLP)

The concept of Limited Liability Partnership (LLP) was introduced in 2017 through a special law. However, in the absence of corresponding amendments to the Income Tax Ordinance, uncertainty persisted as to whether LLPs should be treated as an Association of Persons (AOP) or a Company for tax purposes.

In line with international practice, the Bill now proposes to include LLPs within the ambit of AOPs, whereby:

- The income of the LLP will be taxed in the hands of the AOP.
- The members of the LLP will be exempt from tax on their respective share of profit.

However, unlike other AOPs, if the income of the LLP is exempt from tax, the members will be liable to pay tax on their respective share in such exempt income.

Submission of Financial Statements by Companies in Electronically Readable Format

In case of companies for tax year 2026 and onwards, the financial statements accompanying the return shall only be filed in electronically readable file format.

CLARODRAFT VIEW

Classifying an LLP as an AOP resolves the entity category, but the treatment of exempt income received by members creates a specific departure from ordinary AOP treatment. The structured-statement requirement should be addressed as a finance-systems project.

ACTION to CONSIDER

Review LLP distribution models and create a controlled export process for machine-readable financial statements.

Authorized Shipping Agent

Authorized Shipping Agent

The Bill retains the existing final tax regime for non-resident shipping companies, under which returns are filed on a vessel-wise basis by the Master before departure from Pakistan. While the manner of taxation remains unchanged, the amendments seek to strengthen compliance by introducing the concept of an **Authorized Shipping Agent**. This covers any person in Pakistan expressly or impliedly authorized by a non-resident shipowner, charterer, or operator to act on its behalf in respect of a vessel.

Such Agent, in relation to the vessel or voyage, is made responsible for receipt, collection, control, or accounting of freight and related amounts, as well as documentation, manifest filing, or reporting of cargo. Where the Agent has custody or disposal of freight or related receipts, they are required to furnish the return under the relevant provision.

The Authorized Shipping Agent is further proposed to be:

- treated as the representative of the non-resident person;
- jointly and severally liable for tax payment, obligations, proceedings, assessments, and recovery in respect of the vessel or voyage; and
- jointly responsible with the Master of the ship for fulfilling all compliance requirements.

These amendments are aimed at establishing a clear compliance anchor within Pakistan by expressly identifying the Authorized Shipping Agent and imposing joint and several liability.

CLARODRAFT VIEW

The proposal creates a local enforcement and compliance anchor with joint and several liability. Contracts should not merely allocate work; they should allocate tax data, authority and indemnity.

ACTION to CONSIDER

Review agency contracts, manifest responsibilities and vessel-wise return controls.

Capital gains of funds, schemes and REITs

Capital Gains Tax on Units of Mutual Funds, Collective Investment Scheme and REIT Scheme

At present, the proviso to the table under Division VII of Part I of the First Schedule requires mutual funds, collective investment schemes, and REIT schemes to deduct capital gains tax at specified rates. The Bill now proposes that these same rates will also govern chargeability.

Currently, the rates prescribed in the proviso differ from those in the table under Division VII, leading to the view that capital gains on such securities should be taxed under the table rather than the proviso. The proposed amendment seeks to remove this inconsistency by aligning the chargeability provisions with the withholding rates.

CLARODRAFT VIEW

The amendment is intended to align chargeability with withholding rates where the existing table and proviso produced differing interpretations.

ACTION to CONSIDER

Update product tax matrices and investor disclosures after enactment.

Minimum turnover tax by sector

Rationalization of Minimum Turnover Tax

At present, a reduced minimum turnover tax rate of 0.25% applies to distributors of pharmaceutical products and cigarettes, as well as distributors, dealers, sub-dealers, and wholesalers in the FMCG, edible oil, cement, and steel sectors. The Bill proposes to withdraw this concession.

For distributors, dealers, sub-dealers, and wholesalers of fertilizers, locally manufactured mobile phones, sugar, and electronics, the existing reduced rate of 0.25% is proposed to be increased to 0.5%. A reduced rate of 0.5% is also proposed for distributors, dealers, sub-dealers, and wholesalers of packaged foods, subject to prescribed conditions.

In addition, Tier-1 retailers of specified sectors integrated with the FBR are currently allowed a reduced minimum turnover tax rate of 0.25%. The Bill proposes to retain this concession only for Tier-1 retailers of FMCG products.

CLARODRAFT VIEW

The effect should be assessed against gross margin. A movement from 0.25% to 1.25% of turnover can increase tax equal to a significant share of gross profit in low-margin distribution.

ACTION to CONSIDER

Model the proposed rate by product line, entity and channel before revising pricing or contracts.

Withholding on services, ports and debt securities

Rationalization of Rate of Withholding Tax for Services

Section 153(1)(b) prescribes withholding tax rates on payments to resident service providers. The Bill proposes the following changes:

- the reduced rate of **6% for specified services** is to be enhanced to **7%**;
- the general rate of **15%** is to be reduced to **14%**, except in the case of independent professional services (e.g., doctors, lawyers, architects, accountants, software engineers, and developers working independently).

The concessional rate of **4% for IT and IT-enabled services** remains unchanged.

Reduction In Withholding Tax Rate for Terminal and Port Services

It is proposed to reduce the withholding tax rate for terminal and port services from 15% to 12%.

Withholding Tax on Gain on Disposal of Certain Debt Securities

At present, custodians of debt securities—including banking companies maintaining Investor Portfolio Securities (IPS) accounts—are required to deduct tax at the rate of 15% on capital gains arising from disposal of such securities, other than disposals made through a registered stock exchange and settled via NCCPL. The Bill proposes to increase this withholding rate to **20% of the gross amount of capital gain** for such transactions.

CLARODRAFT VIEW

The service-rate changes are not uniform: specified services rise to 7%, the general rate falls to 14%, independent professionals remain at 15%, and terminal/port services fall to 12%. Debt-security withholding rises to 20%.

ACTION to CONSIDER

Update the withholding matrix by service classification rather than using a single general rate.

Immovable property, inherited cost and family settlements

Advance Tax on Purchase / Sale / Transfer of Immovable Property

Currently, advance tax on the transfer of immovable property is collected from both buyers and sellers at varying slab-based rates depending on the property value. The Bill proposes to replace this slab system with uniform withholding rates—2.75% of consideration received for sellers and 1.25% of fair market value for buyers.

Additionally, enhanced rates presently applicable to buyers and sellers who appear on the Active Taxpayers List but have filed returns after the due date are proposed to be abolished, thereby eliminating this categorization.

Determination of Cost of Inherited Immovable Property and Family Settlements

At present, the cost of inherited immovable property in the hands of a beneficiary is deemed to be the same as it was in the hands of the deceased. The Bill proposes a change whereby the cost for the beneficiary shall instead be the **Fair Market Value of the property at the time of the death of the original owner**, as determined under section 68(5) of the Ordinance.

It is further proposed that transmission of immovable property arising from family settlements consequent to the death of a person shall also be treated as transmission on death. Such transfers would be considered **tax neutral** in line with section 79 of the Ordinance.

CLARODRAFT VIEW

The proposed flat rates affect transaction cash flow;
While the inheritance amendment affects the future capital-gain cost base.
These are separate consequences and require separate evidence.

ACTION to CONSIDER

Document Fair Market Value at the date of death and retain settlement instruments among legal heirs.

Financial transaction reporting and social-media receipts

Reporting Financial Transaction Data

It is proposed that every banking company and Electronic Money Institution shall electronically report information relating to account holders with deposits or withdrawals exceeding PKR 100 million in any or all accounts during the reporting period, to a Central Data Hub. This information would be algorithmically cross matched with tax records to detect discrepancies.

The information would remain confidential and inaccessible to Income Tax Authorities during this process. Only in cases of gross mismatches, the information would be forwarded to the Compliance Risk Management system for further action by the National Faceless Centre.

This amendment proposes to override existing laws to strengthen tax compliance through automated data sharing, while ensuring strict confidentiality and protecting privacy under banking regulations.

Additionally, it appears that periodic reporting deadlines of January 31 and July 31 are implied, though this requirement is not explicitly stated in the provisions.

Withholding Tax on Revenues from Social Media Platforms

It is proposed that banking and non-banking financial institutions shall deduct tax at the rate of 5% on amounts credited to accounts where such amounts represent revenues received from social media platforms. This provision proposes to cover digital content creators and social media influencers deriving income through digital platforms like YouTube, Facebook, Instagram, and TikTok, including payments received via banking channels or intermediaries such as online payment service providers.

The tax deducted would be a minimum tax for resident persons and a final tax for non-resident persons without a permanent establishment in Pakistan. The Board may prescribe rules for implementation, including identification and reporting mechanisms.

These receipts from foreign social media platforms were earlier subjected to final withholding tax under section 154A under the head exported services at the rate of 1%.

Earlier this year, the Board introduced draft of the Special Procedure Rules through SRO Notifications dated April 1, 2026 under the provision of section 99C for the computation of income of persons earning income from remunerative social media content. It appears that these SRO would be finalized after appropriate amendments.

CLARODRAFT VIEW

The reporting threshold applies to deposits or withdrawals exceeding Rs. 100 million during a six-month reporting period across relevant accounts. A large cash movement is not itself a tax discrepancy, but it creates a need for an explainable bridge to declared income, assets and transactions.

ACTION to CONSIDER

Prepare six-month bank reconciliations and a standard narrative for material non-income movements such as financing, intercompany transfers and asset sales.

Exemptions, certificates and charitable organizations

Exemption for Certain Welfare and Charitable Organizations

At present, the income of Dawat-e-Hadiya and the Sindh Institute of Urology and Transplantation is exempt from tax, subject to compliance with section 100C of the Ordinance. The Bill proposes to expand this relief by adding the following entities to clause (57) of Part I of the Second Schedule:

- Pakistan Red Crescent Society
- Shaheen Foundation (established by Pakistan Air Force)
- Bahria Foundation (established by Pakistan Navy)

As a result, the income of these charitable and welfare organizations will enjoy exemption without being subject to the compliance requirements of section 100C.

Exemption Certificate for Non-Withholding on Capital Gain

The Bill proposes enabling provisions for National Investment Unit Trusts, Collective Investment Schemes, Approved Pension Funds, Approved Income Payment Plans, REIT schemes including SPVs, and Approved Retirement Funds to apply for and obtain exemption certificates. These certificates would allow non-deduction of withholding tax on capital gains arising from debt securities.

CLARODRAFT VIEW

This inclusion of specified charitable institution will streamline their exemptions compliance.
Separately, the enabling of exemption certificates for capital gains on debt securities reduces withholding friction for institutional funds, enhancing liquidity and investment efficiency.

ACTION to CONSIDER

Build an annual evidence pack and application timetable for each eligible fund or organization.

Foreign-card payments, media and IT exports

Reduction In Tax on Foreign Payments Through Cards

Advance tax on foreign remittances made through debit, credit and prepaid cards has been proposed to be reduced from 5% to 0.5%.

Withdrawal of Advance Tax on Foreign TV Plays and Advertisements

Advance tax on payments for foreign television plays and advertisements has been proposed to be withdrawn.

Extension of Concessionary Tax Rate for IT and IT-Enabled Services Exports

The reduced turnover tax rate of 0.25% applicable to exporters of IT and IT-enabled services, originally set to expire in 2026, is proposed to be extended through tax year 2029.

CLARODRAFT VIEW

The card-payment reduction improves immediate cash flow. The IT/ITeS extension is valuable only where the exporter satisfies the qualifying conditions and can substantiate export proceeds.

ACTION to CONSIDER

Update treasury forecasts and validate eligibility files before applying the concessionary export rate.

Iron and steel manufacturers, Trading Houses and individual traders

Minimum Tax on Manufacturers of Iron and Steel Products

At present, withholding tax suffered by manufacturers of iron and steel products on payments relating to the sale of such items is not treated as minimum tax. The Bill proposes to amend this position by treating the withholding as minimum tax in the case of non-corporate manufacturers.

Withdrawal of Concessions Available to Trading Houses

At present, trading houses enjoy certain concessions subject to prescribed conditions, namely:

- exemption from withholding tax on receipts from sale of goods; and
- a reduced turnover tax rate of 1%.

The Bill proposes to withdraw these concessions currently available to trading houses.

Concessions to Individual Traders

Presently, individual traders are exempt from making income tax withholding on their purchases in case the turnover does not exceed Rs. 100 million. The Bill proposes to increase the threshold from Rs. 100 million to Rs. 200 million.

CLARODRAFT VIEW

The proposals simultaneously broaden minimum-tax treatment, remove Trading House concessions and raise the individual-trader withholding threshold.

ACTION to CONSIDER

Rebuild the withholding and minimum-tax map for every trading and manufacturing entity.

ATL, listed securities and Special Purpose Vehicles

Application of Tenth Schedule to Capital Gains on Listed Securities

The exclusion available from enhanced tax rates applicable to non-ATL persons on capital gains from listed securities is proposed to be withdrawn to encourage tax compliance and return filing.

Exemption for Special Purpose Vehicles Under Asset-Backed Securitization

The salient features of the Bill propose exemption of income for qualifying Special Purpose Vehicles established for asset-backed securitization, with the stated objective of facilitating capital market development. However, enabling provisions to operationalize this exemption are not contained in the Bill.

Return Not Filed Within Due Date

For cases where the income tax return is not filed within the prescribed due date, the Bill proposes to enhance the surcharge payable for inclusion in the Active Taxpayers List as follows:

Person	Current	Proposed
Company	Rs 20,000	Rs 100,000
Association of Person	Rs 10,000	Rs 50,000
Individual	Rs 1,000	Rs 25,000

CLARODRAFT VIEW

The proposed withdrawal of the Tenth Schedule exclusion increases the cost of non-ATL status for listed-securities gains.
SPV exemption described in salient features may require enabling provisions before it can be relied upon.

ACTION to CONSIDER

Prioritize ATL compliance and separate to be enacted exemptions from announcements awaiting legal text.

Income Tax penalties and late-filing surcharge

The Bill proposes new penalties and substantial increases in existing amounts. The following schedule highlights the exposures most relevant to finance leadership and principal officers.

Offence / event	Proposed consequence	Primary exposure
Failure to install/use/maintain electronic resource or tampering/circumvention	Rs. 1,000,000 first default; Rs. 2,000,000 each subsequent default	Person required under section 174(5)
Integrated organization fails to integrate/share accurate timely data or remedy deficiency	Rs. 500,000 first default; Rs. 1,000,000 each subsequent default	Principal officer of integrated organization
Failure to produce records - first / second / third notice	Rs. 100,000 / Rs. 200,000 / Rs. 300,000	Taxpayer under audit
False or misleading statement or information	Rs. 500,000 or 100% of tax shortfall, whichever is higher	Any person
Concealment or inaccurate particulars	Rs. 1,000,000 or tax sought to be evaded, whichever is higher	Any person
Failure to deduct, collect or deposit withholding tax	Rs. 500,000 or 10% of tax, whichever is higher; additional Rs. 500,000 proposed for company principal officer	Withholding agent / principal officer
Excess withholding credit claimed	Penalty equal to excess credit	Person claiming unsupported credit
Late ATL inclusion surcharge	Company Rs. 100,000; AOP Rs. 50,000; individual Rs. 25,000	Late return filer seeking ATL inclusion

CLARODRAFT VIEW

The proposals move several defaults from administrative cost to management-level risk. Principal-officer liability and data-integration penalties require explicit ownership, documented escalation and evidence of reasonable compliance steps.

Algorithmic Settlement Mechanism

A new concept of algorithmic settlement mechanism is proposed which can be availed by a taxpayer prior to the finalization of an order under the respective provisions of the Income Tax Ordinance, Sales Tax Act or FED Act. This marks a significant shift towards digitalization of pre-assessment settlement mechanism. The Federal Board of Revenue (FBR) is proposed to be empowered to establish a digitally operated algorithmic settlement mechanism. The salient features and implications of this significant development are as under:

Settlement Offer Calculation:

The mechanism proposes a settlement offer based on multiple factors, which include, but are not limited to:

- The stage at which the settlement is offered;
- The registered person's compliance history as maintained in FBR's data;
- The nature and character of the discrepancy;
- For income tax purposes, nature and character of the discrepancy inter alia include valuation or legal interpretation dispute, unexplained income or assets, or concealment; and
- Any other basis, FBR may consider relevant.

Acceptance of Offer:

Registered person would have an option to accept the settlement offer by responding through IRIS within ten days from the date of offer and by depositing the specified settlement amount.

Resolution of Outstanding Issues:

- Upon acceptance and payment of the settlement amount, any confronted issue(s) in a notice or audit report would stand abated.
- Acceptance of the settlement offer would not preclude the possibility of further proceedings regarding different issues or discrepancies not covered by the offer. It also does not affect proceedings related to other tax periods.
- For income tax, payment of settled amount would not incur any additional penalty or default surcharge, however, for Sales Tax and FED, there appears to be no expressed provision absolving the taxpayer from incurring any additional penalty or default surcharge in case of payment of settled amount.

Specific provisions for Income Tax

For income tax purposes, taxpayers are required to revise the relevant return of income to incorporate the settled amount to be deposited along with the revised return. In filing such revised returns:

- Taxpayers are not required to obtain approval from the Commissioner to file the revised return.
- The revised return must be accompanied by the necessary documentation as required for filing a revised return.

CLARODRAFT VIEW

The mechanism offers speed and issue-specific closure, but the taxpayer must decide within ten days; and the computational basis may not be transparent.
For settlement mechanism, proposed amendments in Income Tax expressly addresses penalty and surcharge relief; less explicit stipulation under proposed amendments in Sales Tax and FED.

ACTION to CONSIDER

Create an internal approval matrix for settlement offers, including materiality, legal merits, cash availability and documentation.

Faceless procedures and National Faceless Centre

Faceless Procedures

A framework for faceless audits, assessments, rectification and appeals is proposed to reduce the scope for personal interface between taxpayers and tax authorities. The framework collectively proposes to establish procedures and jurisdictions for faceless interactions between taxpayers and tax authorities. Key features are as under.

National Faceless Centre

- FBR is proposed to be empowered for the establishment of a National Faceless Centre and specify its jurisdiction, powers and functions.
- The Centre would house a Director General and appointed officers.
- FBR may design algorithms for assigning functions and jurisdictions to appointed officer.
- The Centre would be segmented into specialized wings and units, emphasizing the separation of audit, assessment, and quality control duties.
- All communications, whether among units, with registered persons or their representatives, or with others for necessary information or documentation, would be conducted electronically.

Faceless Jurisdiction

The jurisdictional framework for faceless operations is proposed as under:

- Tax authorities at the National Faceless Centre are empowered to perform specified functions for designated tax periods via FBR developed algorithms.
- The assignment of jurisdiction may be either exclusive or concurrent.
- FBR would remain empowered for shifting cases from faceless to traditional jurisdiction, based on its own accord or on the recommendation of Chief Commissioner.
- The Chief Commissioner at the National Faceless Centre may request FBR to instruct Inland Revenue officers or other authorities to perform physical verification of business details, assets, and expenditures for proceedings at the Centre. FBR may allocate these verifications through an algorithm-based system.
- The identity of authorities at the Centre would remain confidential from registered persons, their representatives and any unauthorized person.
- Communications from these authorities cannot be challenged based on jurisdiction issues, lack of delegation, or confidentiality of the authority's identity.

Faceless Audit and Assessment

- The specifics of persons or class of person or income or class of incomes, or class of cases which would be subject to faceless assessment are proposed to be determined by FBR.
- In the aforesaid cases, audits and rectifications under the respective provisions of Income Tax, Sales Tax and FED Act would be conducted in a faceless manner.
- Traditional audit procedures under the respective provisions of the tax laws still apply, but with provisions for e-hearings, ensuring confidentiality of the tax officer’s identity.

Faceless Appeals

- Appeals under the respective provisions of the tax laws may be processed through the National Faceless Centre as may be prescribed by FBR.
- Relevant provisions relating to appeals before Commissioner Inland Revenue (Appeals) remain applicable.

CLARODRAFT VIEW

Confidential officer identity and algorithmic allocation may reduce direct interaction, but procedural fairness depends on accessible E-hearings, complete electronic records and clear responsibility across audit, assessment and quality-control units.

ACTION to CONSIDER

Maintain indexed digital case files and test Authorized-representative access before a live proceeding.

Independent Case Scrutiny Committee, audit and ADR

Independent Case Scrutiny Committee

A new concept of an Independent Case Scrutiny Committee is proposed as a prerequisite for filing references, appeals, or reviews by FBR related to Income Tax, Sales Tax, FED or Customs Duty matters before higher judiciary bodies such as the High Courts, Federal Constitutional Court or the Supreme Court of Pakistan. Key features are as under:

- FBR may establish one or more scrutiny committees. These committees would be tasked with examining cases or specific classes of cases decided by the Appellate Tribunal Inland Revenue or the High Courts.
- The committee would comprise of the following:
  - A retired judge from either the Supreme Court, the Federal Constitutional Court, or any High Courts of Pakistan, who would act as the Chairman.
  - An experienced Advocate with at least 15 years in tax and commercial litigation practice before High Courts or Supreme Court from a panel notified by FBR.
  - A senior serving or retired officer from FBR holding a Grade BS 20 position or higher.

- The powers, functions, procedures and remuneration for the committee's members are to be prescribed by FBR.
- Recommendations of the Committee would be binding upon the Commissioner concerned.
- Legal actions, including suits or prosecutions against committee members and the Commissioner are barred in respect of decisions pursuant to this section.

Audit

The Bill proposes to empower the Commissioner, with prior approval of the Chief Commissioner and after providing an opportunity of hearing to the registered person, to require such person, at any stage of the audit proceedings, to get a re-audit of accounts or re-valuation of inventory taking into account the complexity, volume of the accounts, reliability of records, the multiplicity of transactions, the specialized nature of the business, or even otherwise the Commissioner considers that the re-audit or re-valuation is mandated in the interest of revenue or such exercise is necessary under the circumstances of the case.

The re-audit or re-valuation so required may also include responses to the specific queries raised by the concerned official. Such re-audit or re-valuation shall be conducted by an accountant or cost accountant respectively from the panel notified by the Board.

Alternative Dispute Resolution (ADR)

ADR mechanism is proposed to have following revisions:-

- Powers of rectification entrusted to the ADR Committee Suo moto or upon application by either of the party to be exercised within thirty days of the receipt of decision of the Committee by the taxpayer or the Commissioner
- In case any of the members of the Committee becomes unavailable during the proceedings or is somehow unable to perform his duties, he can be substituted by the Chairman, FBR within a period of 15 days.

CLARODRAFT VIEW

The proposals seek to reduce weak departmental litigation and strengthen review of complex accounts.
For taxpayers, external re-audit, inventory valuation can add material cost and time.

ACTION to CONSIDER

Maintain specialist-ready records and document the basis of significant accounting estimates, inventory values and actuarial assumptions.

07

Sales Tax

Digital invoicing, retail-price taxation and stronger matching

Definitions, Tier-1 Retailers and time of supply

The Bill proposes to revise the Tier-1 Retailer definition by introducing a turnover threshold of Rs. 200 million for retailers and wholesaler-cum-retailers, while removing certain existing POS- and withholding-based categories.

Time of supply

The scope of expression 'goods are delivered or made available' employed in the definition of 'time of supply' is proposed to be clarified, through insertion of an explanation, to the effect that goods ready for dispatch from business premises (inter alia including factory, warehouse, godown or branch) would be construed as delivered or made available.

Value of supply

With regard to the 'value of supply', it has been proposed that the Board may adopt valuations of goods as notified by the Pakistan Bureau of Statistics or outsource valuation functions to the prescribed third parties.

These changes increase the importance of dispatch status, inventory controls and external valuation data in determining the tax point and taxable value.

ACTION to CONSIDER

Retailers should monitor turnover by legal entity and business channel. Suppliers should ensure that "ready for dispatch" status is supported by consistent production, warehouse and invoice records.

Input tax, debit and credit notes, registration and invoices

Collection of adjustable sales tax from persons operating in steel sector

The Bill proposes that sales tax is collected from steel melters, re-rollers and composite units on the basis of per-unit electricity consumption at rates prescribed by the Board. The tax so collected is proposed to be adjustable and excess, if any, refundable on a monthly basis through the Board's automated refund system only in case of a registered person who integrates with the Board's production monitoring and digital invoicing systems.

The proposed basis of collection of tax suggests that the tax would be collected by the DISCOs, however, the same is not specified through the proposed amendment.

Limit on adjustment of input tax

Section 8B currently caps adjustable input tax at 90% of output tax. The Board is proposed to be empowered to reduce or enhance this limit for a registered person depending on compliance with production monitoring, digital invoicing, e-bilty, POS or other prescribed electronic systems. A new penalty is proposed where the Board's computerized system identifies unmatched input-tax claims, confirmed after due process — 20% of the unmatched amount, in addition to reversal of the inadmissible credit and default surcharge.

Mandatory Electronic Adjustment of Debit/Credit Notes

A new proviso after section 9 mandates that the Board shall prescribe rules for compulsory electronic adjustment of debit and credit notes. Any manual commercial adjustments made outside the prescribed electronic mechanism will be disregarded for tax purposes and carry no legal effect.

CLARODRAFT VIEW

The proposed power under section 8B can make the input-tax cap responsive to compliance with production monitoring, digital invoicing, e-bilty, POS and other systems. Advance receipt invoices and unique FBR-verifiable invoice numbers may change the timing and controls around billing.

ACTION to CONSIDER

Map each invoice state - advance, taxable, exempt, debit note and credit note - to the proposed electronic process.

Sales Tax penalties

The Bill proposes higher minimum penalties for late returns, invoice failures, registration, record maintenance and tax deposit. It also proposes a stronger integration penalty, a public simulated-invoice register and penalties for unmatched or unreversed input tax.

Event	Proposed consequence	Control owner
Late sales-tax return	Rs. 50,000; lower daily amount if filed within ten days	Return governance
Failure to issue required invoice	Rs. 25,000 or 5% of tax, whichever is higher	Invoice control
Unauthorized tax invoice	Rs. 50,000 or 10% of tax, whichever is higher	Invoice authority
Failure to deposit tax	Rs. 50,000 or 5% of tax; lower daily amount for short delay	Treasury / return
Failure to register	Rs. 50,000 or 5% of tax, whichever is higher	Registration
Failure to maintain records	Rs. 50,000 or 5% of tax, whichever is higher	Record retention
Failure to integrate	Up to Rs. 1 million; up to Rs. 5 million after one month; premises may be sealed	Systems / operations
Simulated or fictitious invoice	Penalty equal to face value; public register; counterparty credits reversed	Supplier / customer
Confirmed unmatched input tax	20% of unmatched amount plus reversal and default surcharge	Input-tax reconciliation
Failure to reverse credit from listed simulated issuer	20% of unreversed credit plus reversal and default surcharge	Vendor monitoring

CLARODRAFT VIEW

Invoice matching moves vendor compliance into the purchaser’s tax risk. Businesses need a vendor-monitoring process that operates before return filing, not only when FBR issues a notice.

Electronic monitoring, auction and information sharing

Monitoring or tracking by electronic or other means

A new concept of 'Production Monitoring System' is proposed to be introduced and simultaneously the same is proposed to be added to the existing prescribed methods of monitoring inter-alia including affixation of tax stamps, banderols, stickers, labels, barcodes etc.

The bill proposes that if any taxable goods—identified for monitoring, tracking, or verification—are manufactured, produced, removed, transported, supplied, or otherwise dealt with without following the prescribed monitoring or tracking procedures, those goods, along with the conveyance used for their movement, will be subject to seizure and confiscation.

Disclosure of Information by Public Servants

Section 56B currently requires that all information obtained under the Sales Tax Act be treated as confidential and not disclosed by public servants, appointed experts, or auditors, except as expressly permitted under section 216 of the Ordinance. The proposed amendment empowers the Board, subject to specified limitations, restrictions, and conditions, to share sector-wise data extracted from sales tax returns with other registered persons in the same sector under strict non-disclosure agreements. While intended to promote market equity and enhance compliance, this proposal warrants careful reconsideration in light of applicable laws and prevailing market practices.

CLARODRAFT VIEW

Production monitoring and digital traceability are proposed to support seizure and confiscation where prescribed goods are dealt with outside the required system. Sector-level data sharing, even under non-disclosure arrangements, raises confidentiality and competitive information questions.

ACTION to CONSIDER

Review system integrity, incident response, vendor access and the legal basis for any sector-data disclosure.

Third Schedule: proposed expansion of retail-price taxation

The Bill proposes to move a broad range of packaged consumer goods from ad valorem taxation to retail-price taxation, if sold in retail packing. The exact PCT classification, retail packing and prescribed rate must be confirmed for each item.

- Vegetable and animal fats and oils
- Sugar confectionery
- Pasta, noodles, lasagna, ravioli, couscous and similar products
- Sauces, ketchup, condiments, seasonings and mixed preparations
- Fermented beverages
- Petroleum jelly, paraffin wax, micro-crystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax, other mineral waxes, and similar products obtained by synthesis or by other processes, whether or not colored, sold in retail packing (PCT heading 27.12) Waters and non-alcoholic beverages in relevant retail forms
- Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, disinfectants
- Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing (PCT headings 39.19, 39.20 & 39.21)
- Tableware, kitchenware, plastic furniture, storage items, hygienic or toilet articles, and allied other household articles of plastics
- 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 of composition leather, of sheeting of plastics, of textile materials, of vulcanized fiber or of paperboard, or wholly or mainly covered with such materials or with paper, put up for retail sale (PCT heading 42.02)
- Footwear (all types) – Entry 23 of Table-1 of the Eighth Schedule currently prescribes reduce rate of 5% on secondhand and worn clothing or footwear. Clarity is required on this ambiguity
- Bathroom accessories and bath items, sanitaryware including taps, showerheads, fittings, mixers, valves and other washroom accessories and fixtures
- Crockery items
- Car and automobile accessories
- Milk, fat filled milk, preparations suitable for infants, and other products of milk, sold in retail packing
- Preparations for use on the hair
- Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorizers, whether or not perfumed or having disinfectant properties (PCT heading 33.07)
- Toilet or facial tissue stock, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibers, whether or not creped, crinkled, embossed, perforated, surface colored, surface-decorated or printed, in rolls or sheets.
- Jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, other fruit and vegetable preparations (PCT headings 20.07 & 20.08);
- Household utensils, including Stainless steel, aluminum, melamine and other utensils and tableware.
- Ceramic Products including wash basins, commodes, tiles and allied ceramic sanitary products, put up for retail sale (PCT heading 69.10).

Clarity: It is proposed that where the Federal Government has notified that the sales tax shall be charged, levied and paid at a rate higher than 18%, the same rate shall continue to be charged, levied and paid after their inclusion under the Third Schedule.

BUSINESS IMPACT

Retail-price taxation shifts the point of tax measurement toward the stated consumer price. Manufacturers and importers should review price marking, trade discounts, free goods, promotional packs and ERP treatment before implementation.

Sixth and Eighth Schedule Reliefs

Area	Proposed treatment	Key condition / period
Magazines	Sales-tax exemption proposed	Classification and final wording
Menstrual products	Exemption proposed	Specified products and PCT headings
Family-planning devices	Exemption proposed	Specified devices
CKD electric vehicles	Existing relief proposed to continue	Up to 30 June 2027 and qualifying battery/category limits
Locally assembled EVs	1% reduced rate proposed to continue	Up to 30 June 2027
Electric trucks in CBU condition	1% reduced rate proposed	Qualifying vehicle classification
Shipping investment	Selected exemptions proposed	Conditions in amended schedule
Refinery capital equipment	Exemption proposed for upgradation/overhauling imports	Specified equipment and conditions
SCO / counter-terrorism imports	Specified exemptions proposed	Purpose and approval conditions

Sales-tax withholding, steel and same-state imports

The scope of sales-tax withholding agents is proposed to extend to Associations of Persons and individuals, and registered persons engaged in toll manufacturing are proposed to withhold on specified purchases. The source analysis notes that the Bill does not provide a qualifying threshold for all individuals and AOPs, which may require clarification or procedural limitation.

For the steel sector, sales tax is proposed to be collected from melters, re-rollers and composite units by reference to per-unit electricity consumption, with adjustment and monthly refund through the automated system for registered persons integrated with production monitoring and digital invoicing.

Same state imports and sale

For manufacturers supplying imported goods in the same state, the Bill proposes recovery of 3% value-addition tax with default surcharge and potential prosecution where the same-state supply exceeds the 50% of the total imports in the financial year.

CLARODRAFT VIEW

The proposed sales-tax framework rewards integration through adjustment and refund access while increasing the consequences of data mismatch.
Tax, production, procurement and IT teams will need a common reconciliation calendar.

Faceless Sales Tax Administration and Settlement

The common digital-administration provisions apply across Income Tax, Sales Tax and Federal Excise, with law-specific sections and procedures.

Audit Report

It has been established by higher appellate authorities that issuance of an audit report upon completion of audit is a mandatory requirement, and failure to do so renders the entire proceedings unlawful. To bring section 25 of the Sales Tax Act in line with this settled principle and with similar provisions in other fiscal statutes, issuance of an audit report is now proposed to be made compulsory.

At present, where tax short-paid or evaded is discharged along with default surcharge after issuance of a show-cause notice under section 11E of the Sales Tax Act, the entire penalty is waived. The proposal seeks to restrict this waiver to 50%, thereby limiting the relief available in such cases.

Faceless Procedures

The Bill proposes a comprehensive faceless framework for audits, assessments, rectifications, and appeals, aimed at minimizing direct interaction between taxpayers and tax authorities.

National Faceless Centre

- FBR will be empowered to establish a National Faceless Centre, defining its jurisdiction, powers, and functions.
- The Centre will be headed by a Director General and staffed with appointed officers.
- Algorithms may be designed to assign functions and jurisdiction to officers.
- Specialized wings and units will be created, ensuring separation of audit, assessment, and quality control duties.
- All communications—among units, with taxpayers or representatives, or with other authorities—will be conducted electronically.

Faceless Jurisdiction

- Tax authorities at the Centre will perform designated functions for specified tax periods via FBR-developed algorithms.
- Jurisdiction may be exclusive or concurrent.
- FBR may shift cases from faceless to traditional jurisdiction, either on its own accord or upon recommendation of the Chief Commissioner.
- The Chief Commissioner may request FBR to instruct Inland Revenue officers or other authorities to conduct physical verifications, allocated through an algorithm-based system.
- The identity of authorities at the Centre will remain confidential, and communications cannot be challenged on jurisdictional or delegation grounds.

Faceless Audit and Assessment

- FBR will determine the persons, classes of persons, incomes, or cases subject to faceless assessment.
- Audits and rectifications under Income Tax, Sales Tax, and FED Acts will be conducted in a faceless manner.
- Traditional audit procedures remain available, but with provisions for e-hearings and confidentiality of officer identity.

Faceless Appeals

- Appeals under the tax laws may be processed through the National Faceless Centre as prescribed by FBR.
- Provisions relating to appeals before Commissioner Inland Revenue (Appeals) will continue to apply.

Algorithmic Settlement Mechanism

The Bill introduces a new concept of **algorithmic settlement**, available to taxpayers prior to finalization of an order under the Income Tax Ordinance, Sales Tax Act, or Federal Excise Act. This represents a significant step toward digitalization of pre-assessment settlement processes, with the Federal Board of Revenue (FBR) empowered to establish a digitally operated mechanism.

Settlement Offer Calculation The settlement offer will be determined algorithmically, based on multiple factors including:

- Stage at which the settlement is offered;
- Compliance history of the registered person as maintained in FBR's data;
- Nature and character of the discrepancy;
- For income tax, discrepancies may include valuation disputes, legal interpretation issues, unexplained income or assets, or concealment;
- Any other basis deemed relevant by FBR.

Acceptance of Offer

- Taxpayers may accept the settlement offer through IRIS within **ten days** of issuance by depositing the specified settlement amount.

Resolution of Outstanding Issues

- Upon acceptance and payment, issues raised in a notice or audit report will stand abated.
- Acceptance does not preclude further proceedings on other discrepancies or tax periods not covered by the settlement.
- For income tax, payment of the settled amount will not attract additional penalty or default surcharge. However, for Sales Tax and FED, no express relief from penalty or surcharge is provided.

Specific Provisions for Income Tax

- Taxpayers must revise the relevant return of income to incorporate the settled amount.
- No approval from the Commissioner is required to file the revised return.
- The revised return must be accompanied by necessary documentation as prescribed.

08

Federal Excise Duty

Vehicles, monitoring systems and rate rationalization

Special Excise Duty on imported vehicles

Special Excise Duty (SED)

The Bill proposes to levy and collect SED in addition to FED on the following goods.

Special Excise Duty on vehicles (in addition to FED)

Imported motor cars / SUVs / other vehicles (excl. auto rickshaws; and EVs until 30 June 2027)	Rate
Cylinder capacity exceeding 2000cc but not exceeding 3000cc	40% ad valorem
Cylinder capacity exceeding 3000cc	41% ad valorem

The luxury-vehicle Special Excise Duty applies in addition to existing FED.

CLARODRAFT VIEW

Special Excise Duty is proposed in addition to existing FED and other import taxes. The total landed-cost impact should therefore be modelled cumulatively.

ACTION to CONSIDER

Create a rate matrix by engine capacity, vehicle type, EV status, customs value and date.

Data tampering, seizure and production monitoring

Scope of Data Tampering Offence Widened

Expanded Scope of Offence – Data Manipulation

Under the existing provision, the offence was limited to any person who, without approval of the Commissioner, destroys, damages, erases, or manipulates data stored in or used in connection with a computer, with the intent or effect of reducing, avoiding, or evading excise duty liability or defeating provisions of the Act.

Through the proposed substitution, the scope of the offence is significantly widened to cover manipulation of data stored in or used in connection with:

- any computer, equipment, or system used for electronic monitoring of production, manufacture, sales, clearance, stocks, or related activities under the Act and rules;
- any production monitoring system; and
- any video analytics system.

This amendment is aimed at aligning the penal provision with the expanded monitoring infrastructure being deployed under section 45A of the Federal Excise Act. The existing provision's limitation to "a computer" left room for argument that interference with other monitoring equipment or systems might fall outside its scope. The proposed substitution removes this ambiguity by expressly covering all electronic monitoring equipment, production monitoring systems, and video analytics systems within the offence framework.

Power of Seizure and Confiscation

The Bill proposes to extend the scope of seizure, confiscation and destruction of goods which are required to be monitored through a production monitoring system and empowers the department to take enforcement action against goods manufactured or dealt with outside the prescribed monitoring framework, thereby strengthening the anti-evasion regime particularly in sectors such as cigarettes and beverages where production monitoring systems are being deployed.

Monitoring or Tracking by Electronic or Other Means — Scope Widened

The Bill proposes to extend scope of monitoring or tracking to services. Further, the scope of monitoring and tracking is proposed to be extended through compliance with production monitoring system and video analytics. For the purpose of production monitoring system, the equipment shall be acquired from the licensee appointed by the Board.

For this purpose, the term production monitoring system is proposed to mean any system or technology, used for the purposes of monitoring production and sale of goods, whether in real-time or otherwise, including such systems or technologies as may be prescribed by FBR from time to time.

CLARODRAFT VIEW

The proposal extends enforcement from physical stamps and labels to production-monitoring systems and video analytics.
Now system access, change logs and incident management become tax controls.

ACTION to CONSIDER

Apply cybersecurity and change-management controls to every FBR-connected production system.

Audit and FED rate rationalization

Audit

The Bill introduces substantial reforms to audit procedures, incorporating electronic processes and clarifying compliance mechanisms:

- The existing requirement of conducting audit only once a year is proposed to be withdrawn.
- Officers will be required to issue an audit report containing observations and findings prior to passing an order.
- Audit proceedings may be conducted electronically, including through video links or other facilities as prescribed by the FBR.
- Assessment proceedings will stand abated where:
    - duty along with default surcharge and 25% of the prescribed penalty is deposited during or after audit but before issuance of a show-cause notice; or
    - duty along with default surcharge and 50% of the prescribed penalty is deposited after issuance of a show-cause notice.

Re-Audit and Revaluation Authority

The amendment empowers the Commissioner, with prior approval of the Chief Commissioner and after affording the registered person an opportunity of being heard, to direct a re-audit of accounts by an accountant and/or a revaluation of inventory by a cost accountant. Such action may be required where the nature, complexity, volume, or accuracy of accounts, multiplicity of transactions, or the specialized nature of the business so warrants. The accountant or cost accountant will be nominated by the Commissioner from a Board-approved panel and will be tasked with addressing specific queries raised by the tax authorities.

Rationalization of FED Rate

The Bill proposes to substitute rate of FED on the following items:

Item	Existing FED	Proposed FED
Acetate tow (per kg)	44,000	10,000
E-liquids for electronic cigarette kits (per kg)	10,000 or 65% of retail price, whichever higher	16,500

CLARODRAFT VIEW

The removal of an annual audit limit and use of external re-audit or valuation can increase compliance cost. Rate reductions should be separated from monitoring and audit exposure.

ACTION to CONSIDER

Prepare product-level FED matrices and retain technical classification evidence.

Electric vehicles and petroleum-related products

FED on Electric Vehicles

The Bill proposes to extend the currently applicable FED rates on imported or locally manufactured or assembled electric vehicles (4 wheelers) till June 30, 2027.

The Bill, however, also proposes imposition of FED on imported electric vehicles for personal use in CBU condition as under:

FED on electric vehicles imported for personal use (CBU)

Imported value including customs duty	Proposed FED
Not exceeding PKR 20 million	0%
Exceeding PKR 20 million up to PKR 30 million	30%
Exceeding PKR 30 million	40%

Base Lubricating Oils

The Bill proposes to impose FED @ 5% ad valorem on base lubricating oil (HS Code 2710.1993) which was previously levied on lubricating oil.

Sugary Fruit Juices

At present, sugary fruit juices, syrups, squashes, and waters are subject to FED at 20% of retail price, with mineral water and aerated water excluded. The Bill proposes to extend this exclusion to hydration drinks or electrolyte beverages specifically formulated to support hydration and electrolyte replenishment, provided they do not contain sugar exceeding 5g per 100ml or artificial sweeteners.

Petroleum Products

The Bill proposes imposition of FED on following petroleum products in sales tax mode:

Item	Existing FED	Proposed FED
Base lubricating oil (HS 2710.1993)	On lubricating oil	5% ad valorem
Petroleum top naphtha (2710.1942)	—	Rs. 80 per liter (sales-tax mode)
White spirit / mineral turpentine oil (2710.1240)	—	Rs. 80 per liter (sales-tax mode)
Solvent oil (2710.1250)	—	Rs. 80 per liter (sales-tax mode)

CLARODRAFT VIEW

The Bill supports selected EV categories but imposes high rates on high-value personal imports. New FED or sales-tax-mode charges on base oil and specified petroleum products can affect working capital and pricing.

ACTION to CONSIDER

Review product codes, valuation, personal/commercial use and the interaction of FED with customs and sales tax.

Cigarette pricing, air tickets and bullet-proof vehicles

Restriction on Cigarette Pricing

The Bill proposes to restrict the price of a new cigarette brand variant to the lowest price of existing brands, instead of the current restriction based on the lowest price within the same brand family.

Club, Business and First-Class Air Tickets

The Bill proposes to reduce the FED on club, business and first-class air tickets issued on or after the first day of July, 2026 as under:

IATA Traffic Conference Area	Current FED (Rs.)	Proposed FED (Rs.)
Area 1 (North, Central, South America and Environs)	300,000	50,000
Area 2 — Middle East and Africa	150,000	25,000
Area 2 — Europe	210,000	40,000
Area 3 (Far East, Australia, New Zealand, Pacific Islands)	210,000	40,000

Import of Bullet Proof Vehicle

Import of bullet-proof vehicles for the SCO summit and for counter-terrorism (subject to approvals) is proposed to be exempt.

CLARODRAFT VIEW

The proposed cigarette-pricing rule changes the reference point for new variants. Air-ticket changes vary by class and destination, while bullet-proof vehicle exemptions depend on specific government purposes and approvals.

ACTION to CONSIDER

Update product and service matrices only after confirming the detailed schedule entries.

Selected FED and Special Excise Duty rates

Item	Proposed rate / treatment	Condition
Imported motor vehicles above 2,000cc up to 3,000cc	40% Special Excise Duty	In addition to existing FED; exclusions apply
Imported motor vehicles above 3,000cc	41% Special Excise Duty	In addition to existing FED; exclusions apply
Personally imported CBU EV, value above Rs. 20m up to Rs. 30m	30% FED	Customs value threshold
Personally imported CBU EV, value above Rs. 30m	40% FED	Customs value threshold
Acetate tow	Rs. 10,000 per kg	Reduced from Rs. 44,000 per kg
E-liquids for electronic cigarettes	Rs. 16,500 per kg	Proposed rationalized rate
Base oil / base lubricating oil	5% ad valorem	New duty
Naphtha, solvent oil, mineral turpentine and specified products	Rs. 80 per liter	FED under sales-tax mode
Selected club, business and first-class international air tickets	Reduced rates	Destination/class schedule applies

09

Customs

Tariff rationalization and stronger enforcement

Tariff rationalization

The Bill and accompanying salient features propose reductions in customs duty on 92 industrial-input tariff lines, reductions in Additional Customs Duty across 3,125 tariff lines and rationalization of Regulatory Duty across 1,914 tariff lines. Several changes require separate notifications and should not be treated as operational until the relevant instruments are issued.

Existing rate	Proposed customs-duty rate	Application
20%	15% or 10%	Depending on tariff line
15%	10%	Specified industrial inputs
10%	5%	Specified industrial inputs
5%	0%	Specified industrial inputs

Additional Customs Duty	Proposed rate	Tariff lines
6%	4%	449
4%	2%	2,107
2%	0%	569

Regulatory Duty action	Coverage
Rates above 20% proposed to be capped at 20%	359 tariff lines
Rates between 2.5% and 20% proposed to reduce by 20%	1,347 tariff lines
Rates of 2.5%, 2% and 1% proposed to reduce by 20% or be eliminated	208 tariff lines

IMPORTANT DISTINCTION

Specified specialized construction-related vehicles are proposed to move from 20% to 10%. This is separate from the general 20% to 15%/10% tariff rationalization across industrial inputs.

State warehouse, scanning and port clearance

Scanning of Goods

Presently, goods cleared through the Customs Computerized System may be examined and assessed only on the basis of computerized selectivity criteria. Similarly, in case of clearance of goods declaration through green channel, the goods may be examined with the prior approval of Collector. The Bill now proposes to add scanning as an additional mode in both cases alongside physical examination. This proposed amendment aligns with Government's digitalization & technology-based customs controls initiatives.

Goods Not Cleared, Warehoused, Transshipped, Exported or Removed from Port

The Bill proposes to transfer the power to notify penalties for failure to clear, warehouse, transship, export, or remove goods from port after unloading or filing of declaration from the Federal Government to the Board.

Key features include:

- In unavoidable circumstances, the Collector may be empowered not only to waive penalties but also to reduce them.
- The Board will be authorized to prescribe rules regulating implementation of these penalties, including:
  - the process of appeal against imposed penalties; and
  - identification of customs stations, goods, or classes of goods where such penalties shall not apply.
- In the context of unremoved goods from the port, the Board will be empowered to authorize any person to auction the auctionable goods.

State Warehouse and Safeguarding of Seized Goods

To strengthen custody controls for seized goods, the Bill proposes introduction of the concept of a "State warehouse", defined as a place authorized by the Collector for storing detained, seized, or confiscated goods. Currently, such goods are required to be deposited at the customs house nearest to the place of seizure, or—where no customs house is within convenient distance—at the nearest place appointed by the Collector.

In this context, penal consequences are proposed where any person is involved in, or abets, the removal, substitution, damage, or tampering of goods kept at a State warehouse. Such person may be liable to:

- a penalty not exceeding two times the value of the goods involved; and
- upon conviction by a Special Judge, imprisonment for up to five years, or fine, or both.

Penalty for Failure to Entertain Delay and Detention Certificates

Presently, the penalty on port authorities, agencies or persons managing or owning customs ports, customs airports, land customs stations or container freight stations for failure to entertain delay and detention certificates issued by the officer of Customs is Rs 500,000. The Bill proposes to enhance such penalty to Rs 10 million.

CLARODRAFT VIEW

The proposals clarify custody, scanning and port-process powers. Importers and terminal operators should treat digital records, delay certificates and custody events as part of the customs evidence trail.

ACTION to CONSIDER

Retain scanning outcomes, port instructions, detention certificates and custody records in a central shipment file.

Confiscation, faceless adjudication and freezing of assets

Service of Orders, Decisions, Summons or Notices

In addition to the existing modes for service of orders, decisions, summons or notices, the Bill proposes to adopt the manner prescribed for service of summons under the Code of Civil Procedure, 1908.

Goods Seized or Detained by Other Authorities

The Bill proposes to substitute the existing procedure relating to goods seized by police with a **broader framework** covering goods detained or seized by any other authority. Under this framework:

- Where goods liable to confiscation are detained or seized by any authority, customs authorities may, upon confirmation, issue a written intimation to such authority.
- The authority would then be **bound to deposit the goods with customs** for further processing, irrespective of any proceedings pending under its own laws.
- Related penalty provisions are proposed to be aligned with this framework, so that neglect by an officer of any authority—who is duty-bound to deposit the impugned goods with customs—may attract penal consequences.

Removal of Goods Liable to Confiscation

Under the Customs Act, 1969, any conveyance used in the removal of goods liable to confiscation is itself subject to confiscation. The Bill proposes to clarify the term “removal” to expressly include—and deem to have always included—carrying, transporting, depositing, harbouring, keeping, concealing, retailing, or any other act involving movement of such goods.

Faceless Adjudication

The Bill proposes to empower the Board to notify a procedure for faceless adjudication, under which adjudication proceedings may be conducted without face-to-face interaction between the adjudicating officer and the respondent. The virtual mode of adjudication will be prescribed by the Board from time to time. This initiative is aligned with the Faceless Customs Assessment framework already in place.

Freezing of Assets in Cases Involving Illegal Transfer of Funds

In the context of cognizance and trial of customs offences by Special Judges, the Bill proposes that where a Special Judge, during trial of an offence punishable under the Act, is satisfied that there are reasonable grounds to believe that the accused has illegally transferred funds into or out of Pakistan, he may order freezing of the assets of the accused, held by accused or by any other person on his behalf.

CLARODRAFT VIEW

The explanation of “removal” is proposed to be broad and retrospective in expression. Faceless adjudication can reduce direct interaction but requires complete electronic submissions. Asset-freezing powers raise significant legal and governance exposure in illegal-funds cases.

ACTION to CONSIDER

Escalate customs enforcement matters early and preserve a complete transaction, transport and payment record.

Schedules and customs exemptions

Schedules to Customs Act & Allied Notifications

The following commentary is based on the salient features released alongside the Bill.

The revised First Schedule and Fifth Schedule to the Customs Act, 1969, along with the relevant notifications pertaining to Additional Customs Duty (ACD) and Regulatory Duty (RD), are yet not available on the Federal Board of Revenue's website.

The proposed tariff measures are anchored in the National Tariff Policy (NTP) 2025-30, which prioritizes strategic tariff rationalization to reduce the cost of industrial inputs, simplification and trade facilitation, and targeted relief for public health and priority economic sectors.

Rationalization of Customs Duty Under the First Schedule

The Bill proposes reductions in customs duty rates on raw materials and input goods across 92 tariff lines in various industrial sectors, as follows:

- 20% → 15%
- 15% or 10% → 10%
- 10% → 5%
- 5% → 0%

Additionally:

- 15 new PCT codes have been created.
- Descriptions of 2 PCT codes have been amended for trade facilitation and statistical purposes.

Amendments Proposed in Fifth Schedule (Concession / Exemption)

As part of a comprehensive review of the exemption regime under the Fifth Schedule to the Customs Act, 1969, the following changes have been proposed:

- Deletion of entries from the Fifth Schedule where the concessionary rate of CD equals or exceeds the general tariff rate prescribed under the First Schedule.
- Exemption of CD on critical cancer-related Active Pharmaceutical Ingredients.
- Reduction of CD from 20% to 10% on specialized construction-related vehicles for the construction sector.
- Exemption of CD on import of defense imports.
- Exemption of CD, ACD and RD on import of agricultural machinery.
- Exemption of CD on import of bullet-proof vehicles for the Shanghai Cooperation Organization (SCO) Summit, and on import of bullet-proof vehicles by the Federal or Provincial Government for the ongoing war against terrorism.

Announcement Made but Notification / Amendments Awaited

Following announcements in respect of the proposed amendments have been made through the salient features issued along with the Bill:

Additional Customs Duty (ACD)

- Reduction of ACD from 6% to 4% on 449 tariff lines.
- Reduction of ACD from 4% to 2% on 2,107 tariff lines.
- Elimination of ACD from 2% to 0% on 569 tariff lines.

Regulatory Duty (RD)

- RD rates exceeding 20% to be brought down and capped at 20% on 359 tariff lines.
- 20% reduction across all RD rates between 2.5% and 20% on 1,347 tariff lines.
- RD rates of 2.5%, 2% and 1% to be reduced by 20% or eliminated on 208 tariff lines.

The full impact of these measures can only be assessed once the revised First Schedule, the substituted Fifth Schedule, and the relevant SROs/notifications are formally published.

CLARODRAFT VIEW

Several tariff and exemption announcements depend on revised schedules or notifications that were not available in the source material. Rate implementation should therefore be driven by the final PCT-level legal instrument.

ACTION to CONSIDER

Maintain a tariff tracker with PCT code, current rate, proposed rate, legal instrument and effective date.

Selected customs concessions and exemptions

The following concessions are proposed through the Bill, revised schedules or accompanying announcements. PCT classification, conditions and the operative legal instrument should be confirmed before application.

Measure	Proposed treatment
Cancer-related APIs	Customs-duty exemption for specified critical Active Pharmaceutical Ingredients.
Specialized construction vehicles	Customs duty proposed to reduce from 20% to 10% for listed vehicles.
Agricultural machinery	Customs Duty, Additional Customs Duty and Regulatory Duty exemptions proposed for specified machinery.
Defense-related imports	Selected imports proposed to receive customs-duty exemption.
Bullet-proof vehicles	Relief proposed for specified SCO summit and counter-terrorism purposes, subject to approval and conditions.
Fifth Schedule clean-up	Entries proposed to be deleted where the concessionary rate equals or exceeds the general tariff.
Classification	New PCT codes and rationalization of industrial-input classifications proposed.

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Other laws and levies

Motor vehicles, petroleum levies and Capital Value Tax

West Pakistan Motor Vehicles Taxation Act, 1958

The West Pakistan Motor Vehicles Taxation Act, 1958

The Bill proposes amendments to the West Pakistan Motor Vehicles Taxation Act, 1958, which governs the levy of token tax on motor vehicles in the Islamabad Capital Territory (ICT).

The proposed amendments revise the token tax rates for the following categories:

- Motor vehicles
- Motor cabs
- Public service vehicle
- Commercial vehicle / loading vehicle

Token Tax on Motor Vehicles (ICT)

S. No	Category	Tax Rate
1	Engine capacity up to 1000 CC	20,000
2	1001 – 1300 CC	0.25% of Invoice Value
3	1301 – 1500 CC	0.25% of Invoice Value
4	1501 – 2000 CC	0.25% of Invoice Value
5	2001 – 2500 CC	0.35% of Invoice Value
6	2501 CC and above	0.35% of Invoice Value

Motor Cabs (ICT)

Sr	Category	Tax Rate (PKR)
1	Up to 1000 CC	600
2	1001 – 1300 CC	1,000
3	1301 – 1500 CC	1,700
4	1501 – 2000 CC	2,500
5	2001 – 2500 CC	3,400
6	Exceeding 2500 CC	4,200

Public Service Vehicles (ICT)

S. No	Category	Tax Rate per Seat (PKR/annum)
1	8 seater	350
2	13 seater	400
3	15 seater	500
4	16 seater	600
5	42 seater	700
6	52 seater	850

Commercial / Loading Vehicles (Proposed)

S. No	Category	Proposed Rate (PKR)
1	Laden weight ≤ 1250 KG	500
2	1251 – 2030 KG	1,000
3	2031 – 4060 KG	1,000
4	4061 – 6090 KG	6,600
5	8121 – 12000 KG	6,600
6	Exceeding 8120 KG	12,000
7	8121 – 12000 KG (duplicate entry)	12,000
8	Long trailers/vehicles 12001 – 16000 KG	18,000
9	Long trailers/vehicles exceeding 16000 KG	24,000
10	Tractor (with trolley)	2,600
11	Tractor (without trolley)	2,600

CLARODRAFT VIEW

The proposed changes apply to token tax in the Islamabad Capital Territory. Vehicle owners and fleet managers should confirm category-specific rates after enactment.
The proposed rates have been reproduced directly from the Bill. However, certain entries appear to contain drafting or typographical inconsistencies, which are expected to be corrected in the final Finance Act, 2026.

ACTION to CONSIDER

Update fleet cost forecasts and registration schedules for ICT vehicles.

Petroleum Levy and Climate Support Levy

Through the Bill, the definitions of "company" and "refinery" are proposed to be substituted, replacing the current references to entities listed in the Second and Fourth Schedules. Under the revised wording:

- **"Company"** means an oil marketing company and includes any person engaged in manufacturing, refining, or reclaiming lubricating oil from used lubricating oil under a license granted by OGRA.
- **"Refinery"** means a facility or industrial plant where crude oil is refined to produce petroleum products.

In addition, the term **"oil marketing company"** is proposed to be defined as a company, other than a lubricant marketing company, engaged in purchasing or obtaining petroleum products from refineries, blending plants, or foreign sources for selling, distributing, or marketing directly through agents, dealers, dispensing outlets, or filling stations.

Consequently, the omission of the Second and Fourth Schedules is proposed.

License Condition

Through the Bill, it has been proposed that the payment of Petroleum Levy and Climate Support Levy shall be deemed to be a license condition of every company, refineries or licensee, with effect from the date of issuance of the license by the Oil and Gas Regulatory Authority.

Mandatory Reporting Mechanism for Payments

The Bill proposes that every company, refinery, or licensee shall be required to submit a **monthly statement** regarding payment of the Petroleum Levy and Climate Support Levy on the sale of petroleum products. This statement must be supported by documentary evidence, including monthly sales invoices filed with the Federal Board of Revenue or any other document required by the relevant department.

Additionally, each such entity will be required to furnish an **annual audited certificate** to the Petroleum Division, issued by an Authorized Audit Firm (i.e., a firm registered with the Audit Oversight Board). The certificate must confirm the accuracy of the levies accrued and paid under this law, with the cost of audit borne solely by the reporting entity.

Late Payment Surcharge

The Bill proposes that a late payment surcharge shall apply to any defaulting company, refinery, or licensee where amounts of Petroleum Levy or Climate Support Levy are not discharged within the prescribed due dates—namely, the date of filing of sales tax or federal excise return in the case of local production, and the date of payment of customs duty in the case of imported products. This surcharge will be levied in addition to the original amount and calculated in accordance with section 40D of the Public Finance Management Act, 2019, which prescribes an amount equal to the monthly weighted financing cost of the unpaid liability.

Recovery

The Bill proposes introduction of a dedicated recovery mechanism for unpaid Petroleum Levy and Climate Support Levy, replacing the existing provision for recovery as arrears of land revenue (which is proposed to be omitted). Key features include:

- Where such levies or related surcharges remain unpaid for 90 days, the relevant department may initiate recovery independently or simultaneously at its discretion, or request the Commissioner Inland Revenue to exercise recovery powers in the same manner as income tax arrears.
- The Commissioner Inland Revenue is restricted from granting extensions of time or allowing payment of outstanding levies (including late payment surcharge) in instalments.

- The Commissioner Inland Revenue must submit fortnightly progress reports to the Finance and Petroleum Divisions, including reasons for non recovery.
- Any procedural irregularity in recovery proceedings shall not be challengeable before any tribunal or court.
- Outstanding amounts of Petroleum Levy and Climate Support Levy (including related surcharge) arising prior to enactment of the Finance Bill, 2026 will also be recoverable under this proposed mechanism.

CLARODRAFT VIEW

The proposals strengthen the levies as license conditions and introduce late-payment surcharge, recovery, periodic reporting and annual audit. The compliance burden extends beyond calculation to governance and evidence.

ACTION to CONSIDER

Assign ownership for monthly reporting, payment reconciliation, licence compliance and annual audit support.

Capital Value Tax on foreign assets

Capital Value Tax (CVT)

The Bill proposes to abolish the Capital Value Tax (CVT) on foreign assets of resident individuals, which was introduced through the Finance Act, 2022. Currently, CVT is levied at 1% of the value of foreign assets held abroad by a resident individual where the aggregate value exceeds Rs. 100 million at the close of the tax year.

The taxable value is determined as the higher of cost (including acquisition and improvement) or fair market value, with the tax payable at the time of filing the income tax return. The constitutional validity of this tax remains pending before the Federal Constitutional Court of Pakistan.

CLARODRAFT VIEW

The Bill proposes to omit the 1% CVT on qualifying foreign assets of resident individuals. The proposal does not change the separate income-tax, wealth-statement or foreign-asset reporting obligations that may apply.

ACTION to CONSIDER

Remove CVT from forecasts only after enactment and continue full foreign-asset disclosure review.

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Business action agenda

What management should prepare before enactment

Immediate management checklist

Priority	Issue	Action before enactment	Owner
High	Salary and Super Tax modelling	Run existing-law and proposed-law scenarios by entity and employee band.	Tax / payroll / finance
High	Electronic integration	Identify notified or likely in-scope businesses, systems, vendors, capital cost and recurring cost.	Tax / IT / operations
High	Bank-data reconciliation	Prepare six-month account movement bridges for material entities and owners.	Finance / treasury / tax
High	Withholding matrix	Update proposed rates for services, exports, property, debt securities, ports and social media.	Tax / accounts payable
High	Penalty governance	Identify principal-officer exposures and document escalation and evidence retention.	Board / CFO / tax
Medium	Property transactions	Recalculate acquisition/disposal cash flow and inheritance cost-base evidence.	Legal / finance / tax
Medium	Retail and distribution	Model minimum tax as a percentage of gross margin and review entity turnover thresholds.	Commercial / tax
Medium	NCCPL and funds	Map affected entities, securities, treaty claims and exemption certificates.	Treasury / investments / tax
Medium	Customs tariff changes	Create PCT-level tracker and wait for final schedules/notifications.	Supply chain / customs
Monitor	Budget Speech measures	Track retailer scheme, exporter Super Tax and SPV enabling provisions.	Tax policy / legal

CFO readiness matrix

Workstream	Key question	Evidence / output	Timing
Data governance	Can the tax return be reconciled to banking, sales, inventory and platform data without manual reconstruction?	Data owners, reconciliations and exception log	Begin now
Structured reporting	Can company statements be exported and validated in a structured format?	CSV/XLSX/XML/XBRL/JSON test file and control sign-off	Before TY2026 filing
Faceless proceedings	Can the business submit a complete, indexed electronic case file and attend an E-hearing?	Digital case-room protocol and Authorized-representative access	Before selection
Algorithmic settlement	Who can approve a ten-day settlement offer and on what criteria?	Approval matrix, materiality and cash protocol	Before a notice
Integration credit	Which costs are eligible and when is integration complete?	Capital-cost register, invoices, implementation acceptance	During implementation
Withholding	Are rates and tax character correct by payment type?	Controlled withholding matrix and vendor master rules	At enactment
Penalties	Which defaults can expose the principal officer?	Responsibility map and incident escalation	Immediate
Sector rates	Do turnover-based rates threaten margin?	Entity/product/channel tax model	Budget cycle

Thirty-day implementation sequence after enactment

Days	Management activity
1-3	Issue a legal-change note identifying enacted provisions, amendments from the Bill and effective dates.
1-7	Freeze and approve the rate matrix for payroll, withholding, property, exports, sales tax, FED and customs.
1-10	Identify every provision dependent on a notification, rule, prescribed format or system activation.
1-15	Update ERP, payroll, billing and tax engines; perform controlled test transactions.
1-20	Communicate changes to employees, vendors, customers, custodians, platforms and agents where relevant.
1-25	Complete data reconciliations and system-readiness evidence for integration and structured reporting.
1-30	Report unresolved interpretations, technology gaps and cash-flow impacts to management or the board.

DECISION PRINCIPLE

Do not implement a Budget Speech announcement as law, and do not delay readiness for an enacted provision merely because the procedural notification is pending. Track legal enactment, procedure and system readiness as three separate milestones.

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Reference schedules

High-use rates, thresholds and definitions

Schedule 1 - salary slabs

Taxable salary	Proposed computation
Up to 600,000	Nil
600,001-1,200,000	1% over 600,000
1,200,001-2,200,000	Rs. 6,000 + 11% over 1,200,000
2,200,001-3,200,000	Rs. 116,000 + 20% over 2,200,000
3,200,001-4,100,000	Rs. 316,000 + 25% over 3,200,000
4,100,001-5,600,000	Rs. 541,000 + 29% over 4,100,000
5,600,001-7,000,000	Rs. 976,000 + 32% over 5,600,000
Above 7,000,000	Rs. 1,424,000 + 35% over 7,000,000

Schedule 2 - property and cross-border payments

Provision	Existing / prior treatment	Proposed treatment	Tax character / note
Section 236C - seller	Slab rates 4.5%-5.5%	Flat 2.75%	Advance tax; specific minimum-tax rules may apply
Section 236K - buyer	Slab rates 1.5%-2.5%	Flat 1.25%	Advance tax on fair market value
Foreign card payments	5%	0.5%	Advance tax
Foreign TV plays / advertisements	Advance tax applied	Proposed withdrawal	Subject to final enactment
Export of goods	1% withholding + 1% advance	1.25% under section 154; advance tax omitted	Minimum tax
IT/ITeS exports	0.25% to TY2026	0.25% to TY2029	Eligibility conditions apply

Schedule 3 - selected withholding rates

Payment / person	Existing	Proposed	Character / note
Specified services	6%	7%	Withholding; relevant minimum-tax treatment
General services	15%	14%	Except independent professional services
Independent professionals	15%	15%	Doctors, lawyers, architects, accountants, software engineers/developers operating independently
Terminal and port services	15%	12%	Reduced rate
Debt-security gains under section 151A	15%	20%	Gross capital gain
Social-media receipts - resident	Not dedicated	5%	Minimum tax
Social-media receipts - qualifying non-resident	Not dedicated	5%	Final tax
Life-insurance payout within one year	Not applicable	15%	Final tax on payout less premiums
Life-insurance payout after 1 year but before completion of 7 years, Payouts after 7 years are excluded	Not applicable	10%	Final tax on payout less premiums

Schedule 4 - minimum turnover tax changes

Sector / person	Existing reduced rate	Proposed rate
Distributors of pharmaceutical products	0.25%	Standard 1.25%
Distributors of cigarettes	0.25%	Standard 1.25%
Distributors/dealers/wholesalers - FMCG, edible oil, cement, steel	0.25%	Standard 1.25%
Fertilizer, locally manufactured mobile phones, sugar, electronics	0.25%	0.5%
Packaged foods	No listed reduced category	0.5% subject to conditions
Integrated Tier-1 Retailers of FMCG	0.25%	0.25% proposed to continue
Trading Houses	1% and withholding exemption	Concessions proposed to be withdrawn

Schedule 5 - Super Tax

Person / income	Threshold	Proposed rate
Banking companies	Income exceeding Rs. 150 million	10%
Exploration and production companies	Income exceeding Rs. 150 million, subject to Fifth Schedule limit	10%
Income from sale of fertilizer	Income exceeding Rs. 150 million	10%
Other persons	Prescribed income exceeding Rs. 500 million	8%
Other persons up to Rs. 500 million	Up to threshold	No Super Tax proposed

Schedule 6 - banking-data reporting

Item	Proposed rule
Reporting persons	Banking companies and Electronic Money Institutions
Threshold	Deposits or withdrawals exceeding Rs. 100 million during a reporting period across relevant accounts
Reporting periods	1 July-31 December; 1 January-30 June
Specified dates	31 January and 31 July respectively (Implied)
Data points	Deposits, withdrawals, opening and closing balances, peak credits and total credits
Processing	Algorithmic cross-matching in the Central Data Hub; mismatch may feed Compliance Risk Management
Confidentiality	Information proposed not to be visible to Income Tax Authorities during cross-matching and subject to confidentiality safeguards

Schedule 7 - important defined expressions

Expression	Working meaning in the proposals
Algorithmic Settlement Mechanism	Digitally operated process that may generate a settlement offer before specified assessment orders.
Authorized Shipping Agent	Pakistan-based person Authorized by a non-resident shipowner, charterer or operator and responsible for specified freight, documentation and return functions.
Central Data Hub	Virtual repository maintained by the Board through PRAL for reported data and algorithmic processing.
Compliance Risk Management	Computer programme for identification and communication of compliance risks.
Electronically Readable Format - section 2(19DA)	Structured or semi-structured digital data automatically readable and processable without human intervention; excludes PDF scans and photographs.
Integrated Enterprise	Person connected to the Board’s computerized system through the prescribed integration framework.
Licensed Integrator	Person licensed by the Board to provide an electronic invoicing system for integration.
National Faceless Centre	Institutional framework for electronically allocated audit, assessment, appeal and related proceedings.
Production Monitoring System	Electronic system used to monitor production and related activity under the relevant tax law.

Expression	Working meaning in the proposals
PRAL	Pakistan Revenue Automation (Private) Limited, assigned functions related to FBR IT infrastructure.

Schedule 8 - Key Implementation Dependencies

Proposal	Dependency
Small retailer fixed-tax framework	Rules, special procedure, return format and operational safeguards
Faceless audit / assessment / appeal	Classes of persons/cases, procedures, E-hearing and system allocation
Algorithmic settlement	Board system, calculation criteria and IRIS functionality
Electronically readable statements	Prescribed filing process and accepted validation requirements
Electronic integration	Notifications identifying persons/classes and technical specifications
Customs ACD / RD reductions	Separate SROs / notifications and revised schedules
Sector-specific exemptions	Final schedule text, PCT codes, conditions and sunset dates
Information sharing / Central Data Hub	Data interfaces, confidentiality and reporting procedures

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Understand what the proposals could mean for your business

ClaroDRAFT connects tax, financial reporting and business analysis so management can identify the affected entities, quantify the financial effect and prepare the systems and evidence required for implementation.

Legal caveat

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