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Punjab Finance Bill, 2025



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INTRODUCTION

The Punjab Finance Bill 2025, presented before the Provincial Assembly of Punjab on June 16, 2025, aims to restructure the province's sales tax regime on services specified in the Punjab Sales Tax on Services Act, 2012 ('Act'). A significant structural shift proposed in the Bill is the transition from a positive list-based taxation model—where only specified services are taxable—to a negative list regime, under which all services are proposed to be made taxable unless otherwise provided. This approach seems to be principally aligned with that proposed in Sindh and KPK provincial laws.

Currently, while the First Schedule provides a classification of services, the services taxable under the Act and those exempt or chargeable at a lower or fixed rate are listed in the Second Schedule to the Act. The Bill now proposes to do away with the said Schedules and reorganize services into 'tax-free services' and 'taxable services', in the substituted First and Second Schedules, respectively. In doing so, the scope of taxability of services is proposed to be substantially broadened.

Moreover, while proposing certain additional input tax disallowances, the Bill also proposes to enhance penalties for encouraging the digitization of the provincial economy.

This commentary aims to provide an analysis of the significant amendments proposed in the Act through the Punjab Finance Bill 2025.

Introduction of a negative list regime

Under the existing framework of the Act, the taxation of services is governed by a positive list regime, whereby only those services explicitly mentioned in the Second Schedule to the Act are subject to sales tax. The Act defines a "taxable service" as one that is provided, rendered, initiated, received, executed, or consumed in Punjab in the course of an economic activity and is listed in the Second Schedule, while the existing First Schedule lays out the classification of services.

In contrast to the existing positive list regime under the Act, the Bill proposes to substantially enhance the scope of taxability by making all services subject to sales tax (unless otherwise provided) through the introduction of a negative list-based taxation model. To achieve this, suitable enabling amendments have been proposed in the charging and other relevant provisions of the Act, with the existing First and Second Schedules proposed to be done away with.

Under the presently applicable Second Schedule to the Act, all the services that are either taxable at the standard rate or enhanced/reduced rates or otherwise excluded from taxability are specified therein. The Bill now proposes to reorganize and reclassify the existing entries in the following manner:

- a) Tax-free services (by insertion of section 3A) to be those as specified in the new First Schedule; and

b) Taxable services (by amendment in section 3) to be those specified in the new Second Schedule as under:

- Part I – Services subject to sales tax at standard sales tax rate/other rates;
- Part II – Services subject to fixed tax rates; and
- Part III – Services subject to tax at reduced rates.

The consequence of the proposed amendments is that while a clear demarcation has been made between ‘tax-free services’ and ‘taxable services’, the scope of taxable services stands considerably widened, though there is no change in taxability concerning those services which are presently subject to sales tax at reduced/fixed rates.

The presently applicable Second Schedule provides for certain exemptions from sales tax. The Bill proposes to transpose these exemptions to the newly proposed First Schedule. Moreover, due to the proposed shift in taxability of services from a positive list (only specified services) to a negative list (all services unless tax-free), every type of service which was earlier not chargeable to tax would be deemed taxable. Therefore, in order to maintain status quo in respect of non-taxability of the following services, necessary amendments have also been proposed to be introduced in the substituted First Schedule (tax-free services):

- Services provided by the Federal or Provincial or local Governments as listed below:
 - (i) Services related to healthcare including consultation or visit fee of doctors, medical practitioners and medical specialists, bed or room charges, in public sector hospitals;
 - (ii) Education provided in public sector educational institutions;
 - (iii) Public transport services;
 - (iv) Postal and courier services (only to the extent of services provided to the Federal, Provincial Government departments or local governments);
 - (v) Registration services including passport and identity card services;
 - (vi) Services relating to religion, art, culture and sports; and
 - (vii) Services relating to physical fitness, entertainment, amusement and learning such as gymnasiums, sports clubs, playgrounds, zoological and botanical gardens, museums, libraries, parks, etc.
- Services provided by property developers, builders and promoters for affordable housing services for any area notified for an Affordable Private Housing Scheme by the Punjab Housing and Town-Planning Agency (PHATA) covered under Rule 2(1)(k), Rule 35 and Rule 36 of the Punjab Housing and Town-Planning Agency (Affordable Private Housing Schemes Rules), 2020.
- Services provided by a religious or charitable institution for the benefit of the public registered under any law for the time being in force, international non-governmental organizations (INGOs) approved by the Federal Government, and international agencies (subject to exemption from federal taxes by the Federal Board of Revenue).
- Services provided by diplomatic missions.
- Renting of personal dwellings for residential use.

- Services provided in respect of manufacturing or processing on a toll or job basis (against processing on conversion charges), including industrial and commercial packaging services and similar outsourcing of industrial or commercial processes.
- Advertisement, including classified ads in newspapers, magazines, journals, and periodicals.
- Services provided by a foreign exchange dealer or exchange company or money changer or money exchanger.

Anomalies in newly proposed scheme

There are, however, certain apparent anomalies that require attention at the time of issuance of the Finance Act:

- Services provided by persons for ‘carriage of goods by rail or road’, though proposed to be subjected to the reduced rate of 15%, are included in Part I of the Second Schedule instead of Part III thereof.
- The exemption in respect of services for ‘transportation of water through pipeline conduit transmission line or any other medium’ seems to have either been withdrawn or overlooked.
- Classification codes are currently specified in the First Schedule to the Act, which has been proposed to be substituted in its entirety. Entries in the proposed Second Schedule, however, still refer to these ‘classification codes’ without the mention of these codes in any other provision of the Act.

Other amendments

- Powers available with the Provincial Government to enhance the rate of sales tax, by way of issuance of notification, are proposed to be curtailed to the effect that the rate of sales tax cannot be enhanced beyond the standard rate of 16%, without seeking approval from the Provincial Assembly. This proposed amendment seemingly also has the effect of empowering the Provincial Government to enhance the reduced rates specified in Part III of the Second Schedule to the standard rate.
- Input tax credit with respect to the following is proposed to be disallowed:
 - (i) tax-free services (to align the same with the overall taxation scheme);
 - (ii) tax paid on telecommunication services – in excess of 19.5%;
 - (iii) tax paid on carriage of goods by rail or road – in excess of 15%; and
 - (iv) tax paid on other services – in excess of 16%.
- The existing penalty (Rs 25,000 to Rs 100,000) in connection with avoidance or obstruction or failure to comply in relation to the installation/operation of the Electronic Invoice Monitoring System is proposed to be enhanced to Rs 400,000 to Rs 1 million.
- New penal provisions are proposed to be introduced for businesses that refuse to accept payments through digital means, including debit/credit cards, mobile wallets, or QR scanning, the maximum penalty being Rs 1 million, with a minimum of Rs 400,000 for the first default and Rs 300,000 for each subsequent default; repeated non-compliance may result in the sealing of business premises for up to one month.