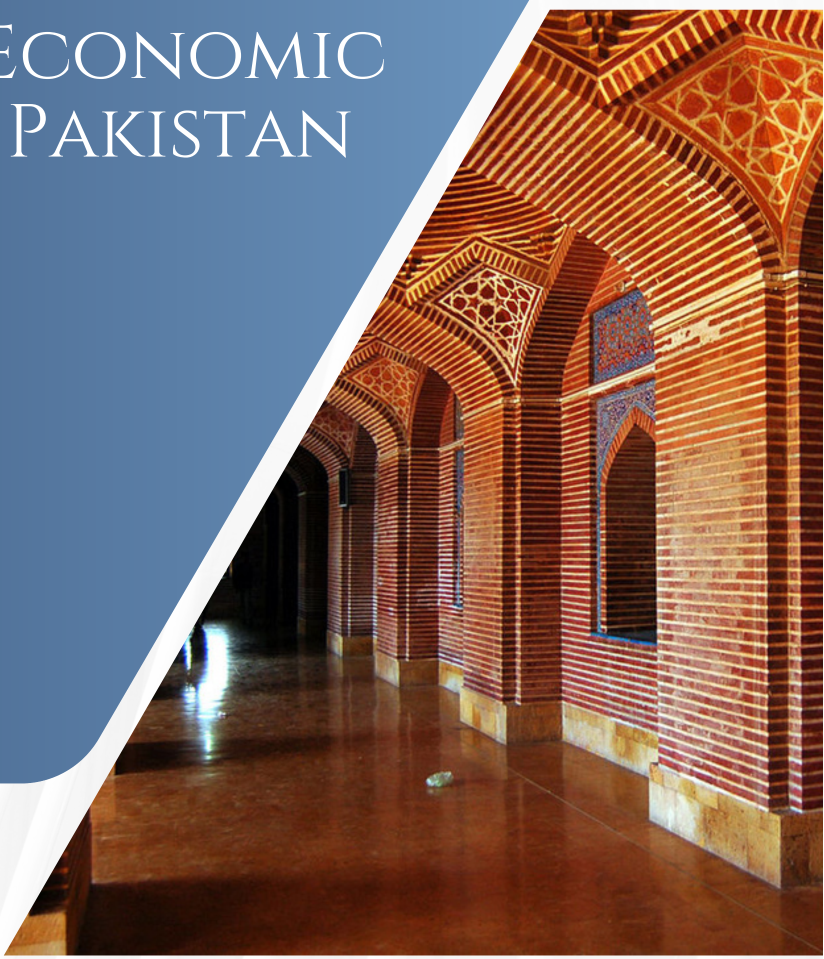
ISHTIAQ RANA & CO.
CHARTERED ACCOUNTANTS

BUDGET & ECONOMIC REVIEW OF PAKISTAN 2025



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Ishtiaq Rana & Co. Chartered Accountants is pleased to present comments and summary on this year's budget. This commentary will help our clients and users to understand the amendments in Income Tax, Sales Tax, Federal Excise duty and Custom Duties in the light of Finance Bill 2025.

This memorandum is correct to the best of our knowledge and belief at the time of going to the press. Changes of consequential, administrative, procedural, or editorial in nature have either been excluded from these comments or dealt briefly. It is intended as a general guide and therefore is not a substitute for specific professional advice which should be sought before any action is taken.

The proposals introduced in the bill have to be approved by the National Assembly before they become effective. This should, therefore, not generally be acted upon without obtaining appropriate advice. This should not be published or reproduced in any manner without the Firm's consent.

Finally, we would like to extend our heartiest gratitude to our associates Mr. Mushtaq Ahmed Rana (Advocate High Court), Mr. Ahmad Salman Naz (FCA), Mr. A.U. Khan, Col.(r) Riyasat Sidhu, Mr. Asher Mehmood Butt (Advocate High Court) & Mr. Ghulam Sabir for their valuable services. Furthermore, we would also like to record our warm appreciation for the excellent teamwork displayed by our staff.

Ishtiaq Rana & Co.
Lahore
June 10th, 2025

1 EXECUTIVE SUMMARY

Building on recovery that started in FY 2024, the economy maintained its upward trajectory in FY 2025, recording a 2.68% annual growth. This progress is underpinned by effective macroeconomic management, improved fiscal and external account balances, and a significant

reduction in inflation. Implementing a 37-month, US$ 7 billion IMF Extended Fund Facility (IMFEFF) has bolstered policy credibility and provided essential financial support to promote inclusive and reform-driven growth. Inflation has experienced a significant reduction, decreasing from 20.7% in April 2024 to a near-zero (0.3%) in April 2025. The average inflation rate for July through April in FY 2025 was recorded at 4.7%, in stark contrast to the 26.0% observed during the previous year. This decline can be attributed to several factors, including fiscal consolidation, a stringent monetary policy, targeted relief measures, and efforts to stabilize the exchange rate. Despite persistent supply-side constraints, growth prospects have significantly improved. Investor confidence has notably increased, as demonstrated by a 27.5% rise in company incorporations. The fiscal deficit contracted to 2.6% of GDP from 3.7% last year, the primary surplus has risen to 3.0% from 1.5%, and tax revenues surged by 26.3%, totaling Rs 9.3 trillion (July-April FY 2025). On the external front, there has been a remarkable reversal in the current account, shifting from a US$ 1.3 billion deficit to a US$ 1.9 billion surplus. The IMF-EFF, alongside around US$ 1.4 billion disbursement under the Resilience and Sustainability Facility (RSF), and improved credit ratings from Moody's and Fitch, reflect growing international recognition of Pakistan's reform momentum. Strengthened macroeconomic fundamentals have enabled the State Bank of Pakistan to lower the policy rate, supporting private sector credit growth and spurring economic activity.

1.1 Overall Growth

- **GDP growth:** 2.68% in FY 2025, continuing the recovery from FY 2024.
- **Per capita income:** Rose to **US$ 1,824** from US$ 1,662.
- **Investment-to-GDP ratio:** Improved to **13.8%**, up from 13.1% last year.

1.2 Sectoral Performance

- **Services:** Main growth driver, expanded by **2.91%** (58.4% of GDP).
- **Industry:** Grew **4.77%**, supported by small-scale manufacturing.
- **Agriculture:** Grew modestly by **0.56%** due to decline in major crops.

1.3 Inflation & Price Stability

- **Inflation (April 2025):** Dropped sharply to **0.3%** from 20.7% a year ago.
- **Average inflation (Jul–Apr):** 4.7% vs 26.0% in FY 2024.
- **GDP deflator growth:** 4.0%, the lowest since FY 2018.

1.4 Fiscal Performance

- **Fiscal deficit:** Reduced to **2.6% of GDP** (from 3.7%).
- **Primary surplus:** Improved to **3.0%** (from 1.5%).
- **Tax revenues:** Rose by **26.3%** to Rs 9.3 trillion.

1.5 External Sector

- **Current account:** Shifted from a **US$ 1.3B deficit** to a **US$ 1.9B surplus**.
- **Remittances:** Continued strong inflows support consumption.
- **Policy support:** Boosted by **US$ 7B IMF-EFF** and **US$ 1.4B RSF**.

1.6 Monetary Policy

- **Policy rate cut** by SBP due to inflation drop and improved fundamentals.
- **Credit to private sector** supported to boost economic activity.

1.7 Investment & Confidence

- **Company registrations:** Up **27.5%**, reflecting rising investor confidence.
- **Credit ratings:** Upgraded by Moody's and Fitch.

1.8 Structural Challenges & Opportunities

- **Youth potential:** Needs targeted reforms in education, training, and job creation.
- **Digital economy:** IT exports thriving but hampered by infrastructure and regulatory gaps.
- **Regional inclusion & SMEs:** Vital for inclusive, broad-based growth.

**Source: Economic Survey of Pakistan*

2 ECONOMIC PERFORMANCE

2.1 Economic Growth:

The World Bank projects Pakistan's real GDP growth at 2.7% for the fiscal year ending June 2025, a slight increase from the previous year's 2.5%. This growth is primarily attributed to recovering private consumption and investment, bolstered by subdued inflation, lower interest rates, and improving business confidence. However, the World Bank emphasizes that without significant structural reforms, particularly in taxation, export competitiveness, and public sector efficiency, the nation's growth may remain insufficient to address poverty and employment challenges

2.2 Indo Pak Relationship

The Indo-Pak conflict of 2025 had significant and largely negative implications for Pakistan's already fragile economy:

Exacerbated Economic Fragility, Disrupted Trade and Investment, followed by trade ban and Loss of investor confidence

Impact on key sectors include

Tourism: The tourism sector in sensitive areas, particularly in Pakistan-administered Kashmir, collapsed due to military tensions, leading to empty hotels and struggling small businesses.

Agriculture: The potential suspension of the Indus Waters Treaty by India threatened Pakistan's agrarian economy, which is heavily reliant on the Indus for irrigation, raising concerns about water shortages and food security.

Manufacturing and Services: These sectors, already suffering from inflation and unemployment, likely experienced further decline.

2.3 Challenges:

Increased Poverty and Inflation: The conflict contributed to price hikes, loss of livelihoods, and disrupted education, pushing more people into poverty.

Long-Term Developmental Setbacks: Economists argue that money spent on military operations is less for education, health, and infrastructure, hindering long-term development. Rebuilding institutional trust and investor confidence, crucial for recovery, becomes more challenging in an unstable environment.

Rupee Depreciation: The Pakistani rupee likely depreciated, and inflationary pressures surged due to rising oil prices and import costs.

International Isolation: While Pakistan sought to "internationalize" the Kashmir dispute through the conflict, the economic cost of potential global sanctions and loss of support from key allies (China, Saudi Arabia, UAE) in case of further escalation or nuclear use was a significant deterrent.

2.4 Fiscal Imbalance and Debt

Pakistan continues to grapple with significant fiscal deficits and escalating public debt. The World Bank projects a fiscal deficit of 7.6% of GDP, with public debt reaching 73.8% of GDP in FY 24–25. Servicing external debt consumes approximately 35% of annual revenue, straining financial resources and limiting fiscal space for developmental spending

2.5 Structural Reforms and Institutional Weakness

The implementation of comprehensive structural reforms remains a critical challenge. The World Bank emphasizes the need for an efficient and progressive tax system, market-determined exchange rates, reduced import tariffs, and improved business environments to attract investment. However, entrenched corruption, bureaucratic inefficiencies, and weak enforcement of contracts continue to erode investor confidence and impede economic progress.

2.6 Trade Deficits and Export Competitiveness

Pakistan faces a substantial export gap, with the World Bank noting a $60 billion shortfall, including a $13 billion gap with China and a $6 billion gap with the United States. The export sector remains concentrated in low-value-added products, lacking diversification and innovation. Policy inconsistencies and a narrow tax base further hinder the development of a competitive export-oriented economy.

2.7 Conclusion

Pakistan's economic trajectory in 2025 is shaped by a confluence of internal structural challenges and external pressures. Addressing these issues requires a multifaceted approach, including fiscal consolidation, institutional reforms, trade diversification, environmental resilience, and investment in human capital. While efforts such as the IMF-EFF program and the "Uraan Pakistan" initiative provide a foundation, sustained commitment to comprehensive reforms is essential for achieving long-term economic stability and growth.

2.8 Recommendations

To achieve sustainable growth, Pakistan must implement bold structural reforms. Strengthening fiscal discipline through tax base expansion and public sector efficiency is critical. Monetary stability and governance reforms must support macroeconomic confidence, while fostering central bank independence. Strategic alliances with China, Central Asia, and the EU can offset regional trade barriers. A resilient digital economy, free from censorship, will unlock new growth avenues. Coordinated, inclusive, and transparent policymaking remains the key to long-term prosperity.

**Source: Economic Survey of Pakistan*

3 Macroeconomic Highlights

3.1 Unfavorable GDP growth

The International Monetary Fund (IMF) has revised its projection downward to 2.6%, citing ongoing structural challenges despite stabilization efforts. In contrast, the World Bank offers a slightly more optimistic outlook, estimating a 2.7% growth, supported by recovering private consumption and investment. The State Bank of Pakistan (SBP) projects a range of 2.5% to 3.5%, contingent on improved industrial and agricultural performance

3.2 Current account deficit

This surge in remittances has played a pivotal role in stabilizing Pakistan's foreign exchange reserves and supporting the current account balance. However, it also underscores the nation's increasing reliance on remittances rather than boosting exports to sustain economic stability.

3.3 Foreign remittances

Foreign remittances have stabilized, showing resilience with a slight increase to USD 2.5 billion in April 2024, compared to USD 2.2 billion in the same period last year. This stability supports external finances amidst global economic uncertainties.

3.4 High inflation

Inflation remained persistently elevated to 23.4 % in FY2024 after reaching a multi-decade high of 29.2 % in FY2023. However, the government's measures led to a notable decline in inflation in H1-FY2025, as the Consumer Price Index (CPI) inflation dropped to 7.2 % from 28.8 % last year

3.5 Public Debt

Total Public debt was recorded at Rs 76,007 billion by end-March 2025, comprising of Rs 51,518 billion in domestic debt and Rs 24,489 billion (US$ 87.4 billion) in external debt. Various developments were witnessed in the Public Debt domain during first nine months of the outgoing fiscal year

3.6 Credit rating

Fitch Ratings upgraded Pakistan's Long-Term Foreign-Currency Issuer Default Rating from CCC+ to B- in April 2025. This marks the country's first upgrade in nearly six years. The upgrade reflects stronger fiscal consolidation efforts, improved external stability, and progress in implementing structural reforms under the IMF program. The outlook was revised to "Stable".

Moody's Investors Service also upgraded Pakistan's credit rating from Caa3 to Caa2 in August 2024, with a positive outlook. This upgrade was based on improving macroeconomic conditions, including better liquidity and external positions, following the approval of a $7 billion IMF Extended Fund Facility

**Source: Economic Survey of Pakistan*

4 Sectoral Analysis

4.1 Manufacturing & Mining

During July-March FY 2025, Large-Scale Manufacturing (LSM) experienced a contraction of 1.47 %, in contrast to a slight decline of 0.22 % observed in the corresponding period, In March 2025, the growth of LSM registered a year-on-year (YoY) increase of 1.8 %, in contrast to a growth rate of 1.7 % during the same month in the previous year.

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4.2 Agriculture

In FY 2025, the sector accounted for 23.54 % of the Gross Domestic Product and employed over 37 % of the labor force, underscoring its structural significance within the economy. A growth rate of 0.56 %, highlighting its inherent resilience and adherence to historical trends. Livestock emerged as the primary contributor, achieving an expansion of 4.72 %, reinforcing its significant role in agricultural value addition

The crops sub-sector experienced a contraction of 6.82 %, primarily driven by a 13.49 % decline in key crops and a 19.03 % decrease in cotton ginning. These downturns can be attributed to adverse weather conditions and reduced sowing areas. Nevertheless, a growth of 4.78 % in other crops indicates the potential for crop diversification and demonstrates resilience in the face of challenging circumstances.

4.3 Capital Market and Corporate Sector

Pakistan's capital markets, specifically the equity market, exhibited superior performance compared to major global stock markets in FY 2025. The KSE-100 index demonstrated significant growth of 50.2 % during July March FY 2025. This increase can be attributed to strong corporate earnings,

Market capitalization rose from Rs 10,375 billion on June 30, 2024, to Rs 14,374 billion on March31, 2025, reflecting a remarkable increase of 38.5 % or Rs 4,000 billion. The debt market also remained well, marking a noteworthy return of net inflows under the National Savings Scheme after a four-year hiatus. During July-March FY 2025, a net inflow of Rs 171.3 billion was recorded under National Savings Schemes.

4.4 Transport and Communication

The government has prioritized investments in this sector by allocating Rs 268 billion in FY 2025 to establish a modern, integrated, and efficient transport and communication network. Of this allocation, Rs 161.3 billion has been earmarked for 105 projects under the National Highway Authority (NHA), aimed at developing and enhancing a 14,480 km network of highways, motorways, and strategic roads. Pakistan Railways has exhibited improved operational performance, reporting gross earnings of Rs 65.2 billion during July-March FY 2025. Despite a 16.8 % decrease in operating revenue in the aviation sector, Pakistan International Airlines (PIA) achieved a profit of Rs 9.3 billion, attributed to a significant reduction in operating expenditures. The maritime sector showed mixed outcomes, with Karachi Port experiencing a 4.0 % increase in cargo handling, while the Port Qasim Authority reported a slight decline of 1.6 %. The Pakistan National Shipping Corporation noted reduced profits of Rs 8.9 billion due to a contraction in its fleet of vessels.

4.5 Trade and Payments

Global trade experienced significant disruptions in 2024 due to geopolitical tensions; however, it regained momentum in the latter half of the year, with worldwide merchandise exports growing by 2 % to reach US$ 24.43 trillion. Nonetheless, the trade deficit in goods expanded, to US$ 21.3 billion as imports surged by 11.8 %, outpacing the 6.8 % growth in exports. A net outflow of US$ 1.6 billion was recorded, Foreign investment experienced a slight decline of 2.7 %, resulting in total inflows of US$ 1.8 billion, exports rose 6.4% during July April FY 2025, totaling US$ 26.9 billion

4.6 Money and Credit

Domestically, Pakistan's economy has displayed consistent signs of stabilization and recovery during FY 2024 and FY 2025, driven by proactive governmental interventions and sound macroeconomic management. Inflation has significantly decelerated, foreign exchange reserves have strengthened, and the exchange rate has stabilized. In response, SBP initiated a measured easing cycle beginning in June 2024, cumulatively reducing the policy rate by 1100 basis points as of May 2025.

4.7 Education

Pakistan's literacy rate is 60.7 %. The male literacy rate of 68.0 % is notably higher than the female literacy rate of 52.8 %, The literacy rate in urban regions is considerably elevated, recorded at 74.1 %, compared to 51.6 % in rural areas. Punjab exhibits the highest literacy rate among the provinces at 66.3 %, followed by Sindh at 57.5 %, Khyber Pakhtunkhwa at 51.1 %, and Baluchistan at 42.0 %.

4.8 Health & Nutrition

For the fiscal year FY 2025, an allocation of Rs 103.5 billion had been designated under the Public Sector Development Program (PSDP) for the health sector. Additionally, total health expenditures have risen by 9.7 %, escalating from Rs 843.2 billion in FY 2023 to Rs 924.9 billion in FY 2024.

4.9 Textile

Pakistan's textile exports have shown resilience, with a 10% year-on-year increase in March 2025, extending an 8-month growth streak. The sector earned $12.18 billion from textile exports in the first eight months of FY2024–25. This growth is attributed to increased demand in European and North American markets

The industry is making strides towards sustainability. Companies like Nishat Mills and Gul Ahmed are implementing waterless dyeing technologies and closed-loop systems to reduce water consumption and pollution. Startups such as Bio Dye are developing eco-friendly dyes from rice husks and sugarcane pulp, aligning with Pakistan's Climate Change Act 2023, which targets a 49% reduction in carbon emissions by 2030.

Pakistan's textile sector is gaining international attention. The Net-Zero Textile Cluster in Faisalabad, announced at COP28, aims to operate entirely on renewable energy by 2025, positioning Pakistan as a hub for climate-conscious manufacturing.

4.10 Population, Labor Force and Employment:

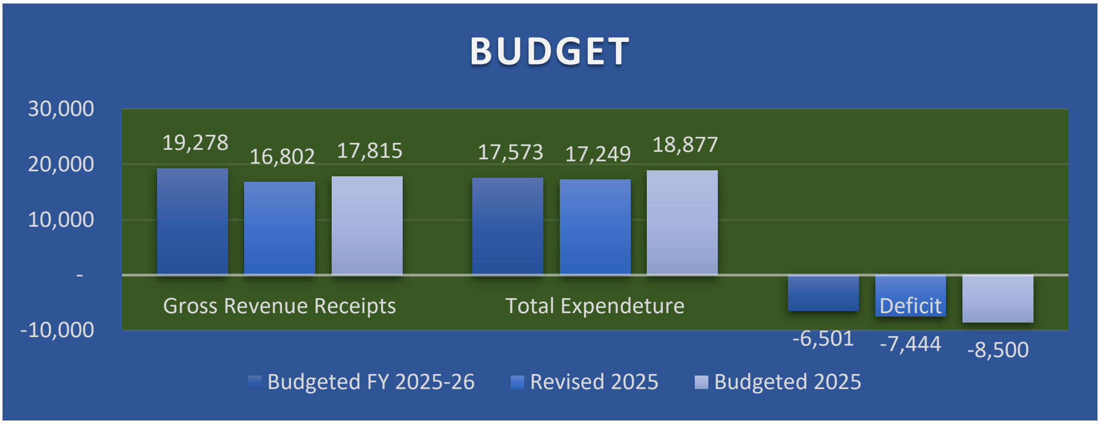
According to the Seventh Population and Housing Census conducted in 2023, the population of Pakistan has reached 241.5 million, comprised of 124.3 million males and 117.2 million females. Pakistan is its substantial youth population, with 26 % of individuals aged between 15 and 29 years and 53.8 % of the total population categorized within the working age group of 15 to 59 years.

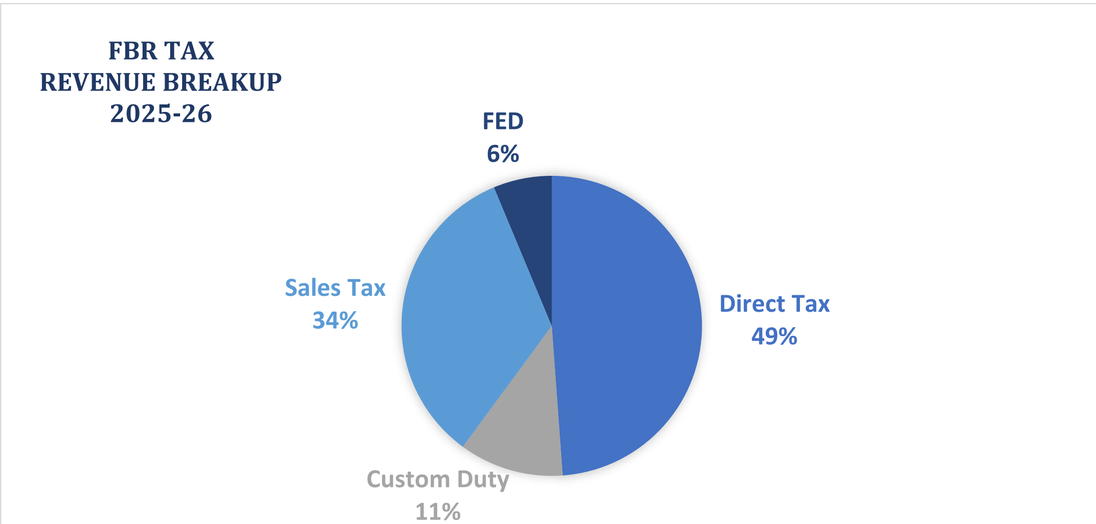
**Source: Economic Survey of Pakistan*

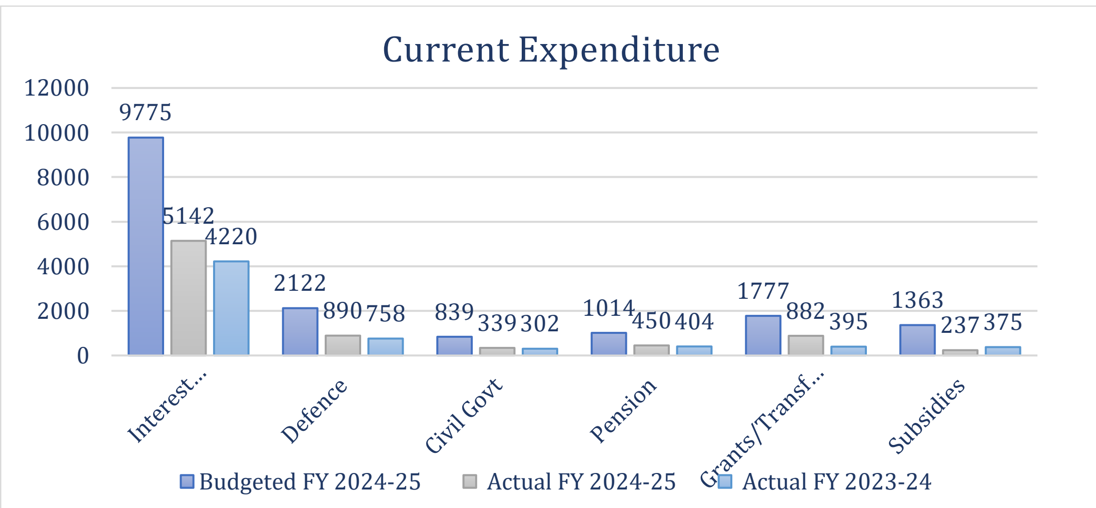
5 BUDGET FINANCIALS

	Budget 2026 Bn. Rs.	%	Revised FY 2025 Bn. Rs.	Budget FY 2025 Bn. Rs.	%
REVENUE					
Direct Tax	6,902	36	5,826	5,512	35
Indirect Tax	7,229	37	6,074	7,458	36
Total Tax Revenue	**14,131**	***73***	**11,900**	**12,970**	***71***
Non-Tax & Public Account Receipts	5147	27	4,902	4,845	29
Gross Revenue Receipts	**19,278**	**100**	**16,802**	**17,815**	**100**
Less: Share of Provinces	(8206)	(43)	(6,997)	(7,438)	(42)
Net Revenue – Federal Government	**11,072**	**57**	**9,805**	10,377	**58**
Development and net lending	(1,287)	(7)	(858)	(1,674)	(5)
Current	(16,286)	(84)	(16,391)	(17,203)	(98)
Total Expenditures	*(17,573)*	*(91)*	*(17,249)*	*(18,877)*	*(103)*
Budget Deficit	**(6,501)**	**(34)**	**(7,444)**	**(8,500)**	**(44)**
Deficit Funded by:					
Non-Bank Borrowing	2,874	44		2,662	31
Domestic debt – Bank	3,435	53		5,142	60
External Debt	106	2		666	8
Privatization Proceeds	87	1		30	1
Total	**6501**	**100**		**8,500**	**100**

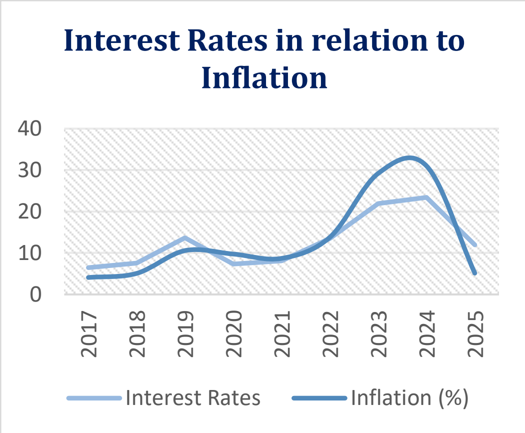
Breakup of Expenditures	**Budget Estimates FY 2025-26**	**Jul- Dec Revised FY 2024-25**	**Jul - Dec Actual FY 2024-25 Bn. Rs.**
Markup on Debt	8,207	8,945	9,775
Defence Air and Services	2,550	2,182	2,122
Pension	1,055	*1,014*	1,014
Grants & transfers	1,928	1,761	1,777
Subsidies	1,186	1,379	1,363
Running civil Government	971	886	839
Provision for contingencies	389	223	313
Total	**16,286**	**16,391**	**17,203**

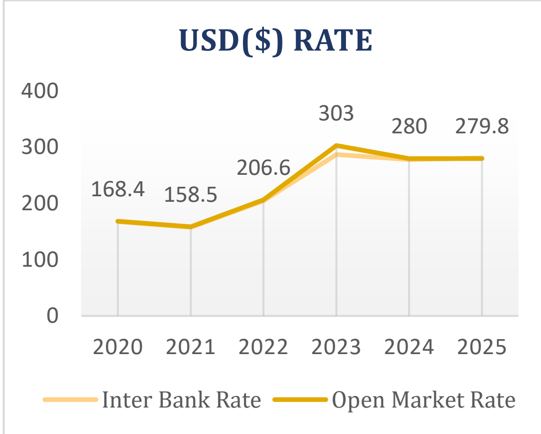

BUDGET
30,000
20,000
10,000
-
-10,000
19,278
16,802
17,815
17,573
17,249
18,877
Gross Revenue Receipts
Total Expendeture
Deficit
-6,501
-7,444
-8,500
Budgeted FY 2025-26
Revised 2025
Budgeted 2025

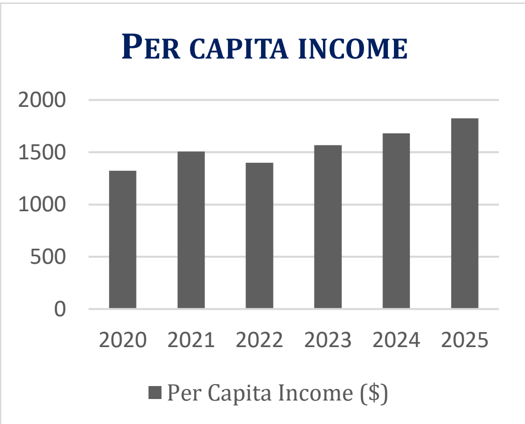

FBR TAX
REVENUE BREAKUP
2025-26
FED
6%
Sales Tax
34%
Direct Tax
49%
Custom Duty
11%

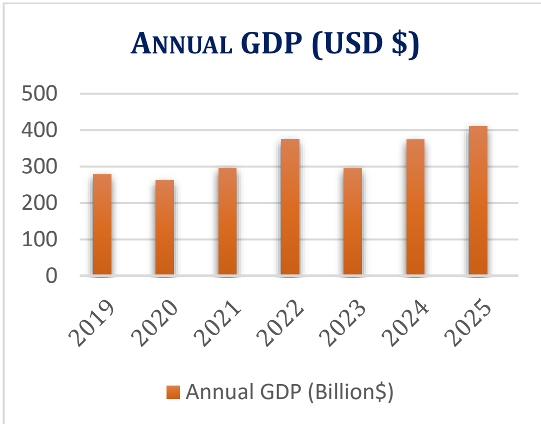

Current Expenditure
12000
10000
8000
6000
4000
2000
0
9775
5142
4220
2122
890
758
839
339
302
1014
450
404
1777
882
395
1363
237
375
Interest...
Defence
Civil Govt
Pension
Grants/Transf...
Subsidies
Budgeted FY 2024-25
Actual FY 2024-25
Actual FY 2023-24

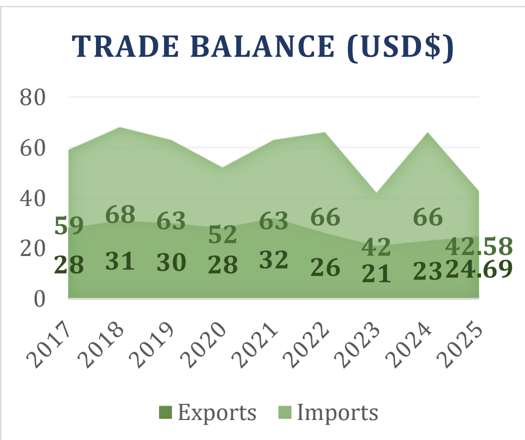
6 KEY ECONOMIC INDICATORS

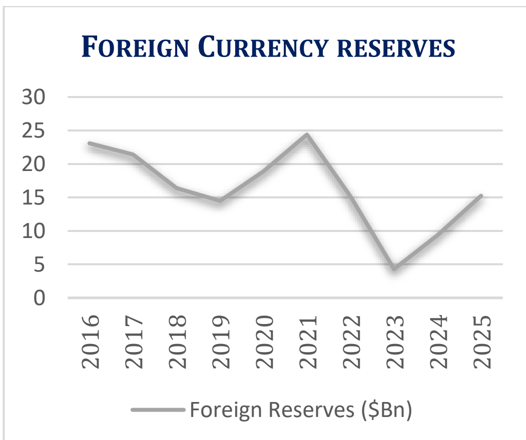












7 Income Tax

7.1 Revised Income Tax Slabs for Salaried Individuals

The Finance Bill 2025 revised the income tax slabs for salaried individuals, aiming to provide relief to lower and middle tier salaried class. In The updated slabs are as follows:

Annual Salary Income	Tax Rate
Up to RS. 600,000	0%
Rs. 600,001 – 1,200,000	1% of amount exceeding Rs. 600,000
Rs. 1,200,001 – 2,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
Rs. 2,200,001 – 3,200,000	Rs. 116,000 + 23% of amount exceeding Rs. 2,200,000
Rs. 3,200,001 – 4,100,000	RS. 346,000 + 30% of amount exceeding Rs. 3,200,000
Exceeding Rs. 4,100,000	Rs. 616,000 + 35% of amount exceeding Rs. 4,100,000

Individual deriving income solely from ***pension***, shall be subject to 5% tax on gross amount of pension exceeding Rs. 10 million.

7.2 Surcharge on Income – Section 4AB

AOPs and individuals, whose annual taxable income exceeds Rs. 10 million, pay additional surcharge at a rate of 10% of tax liability. This rate has been proposed to be reduced to 9%.

7.3 Super Tax – Section 4C

Annual Taxable Income	Tax year 2023-2025	Tax year 2026 onwards
Upto Rs. 150 million	0%	0%
Rs. 150 to 200 million	1%	1 %
Rs. 200 to 250 million	2%	1.5%
Rs. 250 to 300 million	3%	2.5%
Rs. 300 to 350 million	4%	3.5%
Rs. 350 to 400 million	6%	5.5%
Rs. 400 to 5000 million	8%	7.5%
Exceeding Rs. 500 million	10%	10%

7.4 Profit on Debt – Section 7B & 151

- The tax rate on profit on debt has been proposed to be increased from 15% to 20% (40% for non-ATL) of the yield or profit paid by a banking company or financial institutions. However, profit on debt from other than a banks or financial institution will continue to be taxed at 15% (30% non-ATL).
- Upper cap on profit on debt up to Rs. 5 million under the final tax regime proposed to be removed for individuals and AOPs. The tax withheld on profit on debt for the Company will continue to be adjustable.

7.5 Return on Mutual Funds

The dividend tax rate on return on Mutual Funds investment is proposed to be enhanced to 25% and 15% proportionately, from average annual investments in debt securities and equities respectively.

7.6 Taxability of E-Commerce activities

- 'Digital Transactions Proceeds Levy' has been proposed on payments for digitally ordered goods or digitally delivered services through e-commerce platforms as follows:

Gross Amount Paid	Tax Rate
Payment through Banking channels	
Upto Rs. 10,000	1%
Rs. 10,001 – 20,000	2%
Exceeding Rs. 20,000	0.25%
Payment through Cash on Delivery	
On supply of electronic and electrical goods	0.25%
On supply of clothing articles, apparels, garments etc.	2%
On supply of goods other than mentioned above	1%

- It is further proposed that every payment intermediary at the time of processing payment through digital means, on behalf of a seller of digitally ordered goods or services through locally operated e-
- commerce platforms (including websites); and every courier business providing courier services collecting cash from a buyer under Cash on Delivery payment terms on behalf of a seller for the supply of digitally ordered goods and services through e-commerce platforms (including websites), shall collect tax from the gross amount payable (including sales tax, if any).
- Furthermore, where an online marketplace facilitates an unregistered (non-resident) vendor engaged in e-commerce and required to be registered under the Sales Tax Act and the Income Tax Ordinance, the Bill proposes a new penal provision. A penalty of Rs. 500,000 shall apply on the first default and Rs. 1 million for each subsequent default, to be levied on the online marketplace or courier service enabling such transactions.
- The Bill also proposes that failure by a banking company, payment gateway, or courier service provider to deduct or deposit tax as required under Section 160—specifically in relation to payments for digitally ordered goods or digitally delivered services via e-commerce platforms—shall attract a penalty equal to 100% of the amount of tax involved, in case of violation of the newly introduced Section 153(2A).

7.7 Relief for Full-time teachers and researchers

The Bill proposes the restoration of the 25% tax rebate for full-time teachers and researchers, which was previously withdrawn through the Finance Act, 2022. Following the issuance of tax notices and arrear demands by the FBR in 2024, the matter gained national attention and was addressed by the Federal Cabinet. The rebate is now proposed to be reinstated through the Finance Bill, 2025, providing retrospective relief from Tax Year 2023 onwards.

7.8 Real Estate Transactions

a) <u>Tax on Purchasers - 236K</u>

Property Value	2025	2026
Upto Rs. 50 million	3%	1.5%
Rs. 50 - 100 million	3.5%	2%
Rs. 100 million and above	4%	2.5%

11.5% tax shall be charged to persons not appearing in ATL.

b) <u>Tax on Sellers – 236C</u>

Property Value	2025	2026
Upto Rs. 50 million	3%	4.5%
Rs. 50 - 100 million	3.5%	5%
Rs. 100 million and above	4%	5.5%

The above rates will be double for persons who were late-filers and flat 10% for persons not appearing in ATL.
The Federal Excise Duty on transfer of property is also proposed to be abolished.

c) **Minimum rent** of withholding purpose in respect of Commercial Property Income fixed at 4% of FBR Value.

7.9 Restriction on economic transactions by certain persons

a) Real Estate Authorities are refrained from processing applications for transactions where the applicant:

- has not filed return for latest year; and
- does not have at least 130% of FBR notified value of property in form of Cash or cash equivalents as per his latest Wealth Statement.

b) Furthermore, Applications for booking, purchasing, or registering motor vehicles will not be accepted by manufacturers or the Excise and Taxation registration authority if made by ineligible persons. This shall not apply to the purchase of rickshaws, motorcycles, tractors and pick-up vehicles up to 800cc engine capacity.

c) Banking companies are restricted from opening or maintaining current or savings accounts (except Asaan accounts and Pensioner Accounts) for persons notified by the Board, and to allow cash withdrawals from any bank accounts exceeding amounts notified by the Board.

7.10 Disallowance of Expenditures – Section 21

- It is proposed to disallow 10% of the claimed expenditure made attributable to purchases made from persons who are not NTN holders. Purchases of agricultural produce made directly from growers will be exempt form this treatment

- It has been proposed to disallow 50% of the expenditure claimed against sale where the taxpayer received more than PKR 200,000/- through means other than banking channel or digital means against a single invoice for one or more than one transaction for sale of goods or services.

7.11 Depreciation and amortization Section 22 & 24

- It is proposed to disallow depreciation expense for amounts paid for addition of capital assets to a seller in all relevant tax years in situations where withholding tax under Sections 152 or 153 has not been deducted and deposited in the Government treasury, by not adding such amount paid for addition in capital assets in the assets for computation of tax depreciation.
- It has been proposed to decrease the normal useful life of an intangible that does not have an ascertainable useful life from 25 years to 10 years.

7.12 Business Losses – Section 56

It has been proposed to add a new proviso whereby business loss arising in a tax year shall not be adjustable against income from property for the said tax year.

7.13 Group Relief – Section 59B

It has proposed that the company or companies within the "group" whose income is not chargeable to tax under the Normal Tax Regime, the said company or companies shall not be entitled to group relief under Section 59B.

7.14 Carry Forward of Minimum Tax Credit – Section 113

Currently a person can carry forward the excess minimum tax for a period of 3 tax years immediately after the tax year for which the amount was paid. Now it has been proposed to reduce the period to 2 years.

7.15 Payments to non-residents

- The Finance Bill 2025–26 introduces important changes to Section 152 regarding payments to non-residents. Currently, banks and financial institutions are required to deduct 15% tax on remittances of ***fees for offshore digital services*** made to non-resident persons under Section 6. The Bill proposes an exemption from this deduction where the recipient is subject to and has paid the newly introduced Digital Presence Proceeds Levy.
- Additionally, with respect to capital gains on disposal of debt instruments and government securities by non-resident companies through Special Convertible Rupee Accounts (SCRA), the Bill mandates that withholding responsibility will only apply if the SCRA has been maintained for at least 12 months. Further, where the holding period of such securities is less than 12 months, the withholding tax rate shall

increase from 10% to 20% of the gross amount paid.

7.16 Income of recreational clubs – Section 18 (1)(b)

The Bill proposes to amend Section 18(1)(b) by classifying the income of recreational clubs as business income, with retrospective effect. Additionally, the definition of a Non-Profit Organization (NPO) has been amended to exclude recreational clubs that charge a membership fee exceeding PKR 1 million for any class of new members, thereby disqualifying such entities from availing tax exemptions under the NPO framework.

7.17 Tax Credit for Low-Cost Housing Loan – Section 63A

A new tax credit has been proposed for individuals on interest paid for loans used to construct or acquire a personal house (up to 2,500 sq. ft.) or flat (up to 2,000 sq. ft.). The credit is subject to specific limits and may only be claimed once within a 15-year period.

7.18 Tax credits for charitable organizations – Section 100C

The Bill proposes significant amendments to the tax credit regime for charitable organizations under Section 100C. Specifically, it omits the reference to “Table II” and merges Table I and Table II of Clause 66, Part I of the Second Schedule, into a single unified list. As a result, all entities seeking exemption will now require approval under Section 100C to be treated as Non-Profit Organizations and to avail 100% tax credit.

7.19 Advance Tax on Cash Withdrawals – Section 231AB

The Bill has proposed to increase the adjustable advance tax rate from 0.6% to 0.8% on cash withdrawals from bank accounts made by persons that are not appearing in the ATL, where the sum total of such cash withdrawals exceeds Rs. 50,000 in a day.

7.20 Tax exemption extended for erstwhile tribal area residents

The period of exemption on income of residents of erstwhile Tribal Areas was due to expire on June 30, 2025. The said exemption along with exemption from withholding tax is proposed to be extended for another year upto June 30, 2026.

7.21 Withholding tax on services and execution of contracts

- It has been proposed to increase the minimum withholding tax rate on professional services—such as those provided by lawyers, chartered accountants, and other consultants—under Section 153(1)(b), from 11% to 15%.
- Rate of tax for services provided by companies has been increased from 9% to 15%.
- Rate of tax on Execution of contract by sports persons has been increased from 10% to 15%

7.22 Exchange of Banking and tax information – Section 175AA

The Bill introduces a mechanism for the exchange of banking and tax information related to high-risk individuals. Based on income, turnover, and other identification data—shared or declared in tax returns—FBR will use data-driven algorithms to identify discrepancies. Scheduled banks will be obligated to provide the FBR with relevant banking details, such as account numbers and holder information, where such data varies from FBR's intelligence. These provisions will have overriding-effect over all other laws, including the Banking Companies Ordinance, 1962, and the information obtained will be utilized exclusively for tax purposes.

7.23 Penalty for failure to furnish withholding statement.

The Bill proposes a corresponding amendment by including failure to file the statement under newly introduced Section 165C as a prosecutable offence. Additionally, the penalty for delayed filing—where tax has been duly paid within the prescribed time but the statement is filed within ninety days of its due date—has been increased from PKR 5,000 to PKR 50,000.

7.24 Amendment of Assessments

The Bill proposes significant amendments to Section 122 – Amendment of Assessments by removing both provisos following sub-section (9). The first proviso, which required the completion of amended assessment proceedings within 180 days of the issuance of a show-cause notice (extendable by up to 90 days), is proposed to be omitted. Additionally, the second proviso—which excluded time periods related to stay orders, ADRC proceedings, agreed assessments under Section 122D, or taxpayer-requested adjournments from the limit of 180 days—is also proposed to be deleted.

7.25 Appeal Effect Order – Section 124

It has been proposed that where the Commissioner (Appeals), Appellate Tribunal Inland Revenue (ATIR), High Court, or Supreme Court fully confirms the tax payable as determined in the appealed order, no separate appeal effect order will be required, and the Commissioner may proceed directly with recovery.

However, where the appellate forum partially sets aside or modifies the order, the Commissioner will be required to issue an appeal effect order to determine the revised tax payable, based solely on the confirmed or modified issues. Recovery will then be made in accordance with the provisions of the Ordinance.

7.26 Appeals – Section 126A

It has been proposed to eliminate the pecuniary jurisdiction limits introduced via recent amendments, thereby allowing any order passed by an officer of Inland Revenue to be appealable before the Commissioner Inland Revenue (Appeals), regardless of the amount of tax involved. Taxpayers will also have the option to bypass the first level of appeal and directly approach the Appellate Tribunal Inland Revenue (ATIR), subject to waiving their right to appeal before the CIR(A). Similar amendments have been proposed under the Sales Tax Act, 1990 and the Federal Excise Act, 2005. However, the Bill withdraws the taxpayer's right to appeal before the ATIR against an order passed by the Federal Board of Revenue (FBR).

7.27 Reference to High Court – Section 133

It has been proposed to amend the appellate structure by increasing the time limit for filing a reference to the High Court from 30 days to 60 days. It further restricts such references to pure questions of law arising solely from ATIR orders, removing the previous allowance for mixed questions of law and fact. Additionally, the Bill proposes to omit the right to directly file an appeal against the order of the CIR(A) before the High Court. These amendments, also mirrored in the Sales Tax Act and Federal Excise Act, align with the reintroduction of a two-tier appellate system and aim to reduce litigation at higher forums stemming from procedural ambiguities.

7.28 Alternate Dispute Resolution Committee

The Finance Bill 2025–26 proposes amendments to Section 134A to enhance the effectiveness of the Alternate Dispute Resolution Committee (ADRC) process. The time period for resolving a dispute has effectively been extended from 60 to 120 days. Under the proposed changes, if the ADRC fails to decide the dispute within the initial 60 days, the FBR will reconstitute the Committee, which must then decide the matter within a further 60 days. Only if the reconstituted Committee also fails to decide the case will the FBR dissolve it and refer the dispute back to the relevant court or appellate authority. These changes aim to address concerns—particularly from SOEs—regarding premature dissolution of ADRCs and loss of procedural fairness under the current 60-day limitation.

7.29 Recovery of Tax

The Finance Bill 2025–26 seeks to formalize the recovery provisions introduced via the Tax Laws (Amendment) Ordinance, 2025, and further proposes a new proviso under the Income Tax Ordinance. It states that where a High Court decides an appeal in favor of the tax department, recovery proceedings against the taxpayer may only be initiated after a lapse of seven days from the date of the order. However, the Bill does not clarify whether this seven-day period begins from the pronouncement of judgment or the issuance of a certified copy, creating potential ambiguity in implementation.

8 SALES TAX

8.1 Mandatory Registration

The Finance Bill 2025–26 proposes to strengthen enforcement against non-registered persons under the Sales Tax Act. The Commissioner and Chief Commissioner are empowered to take coercive actions—including sealing of business premises, seizure of moveable property, and appointment of a receiver for managing taxable activities of unregistered persons. However, to prevent misuse and harassment, such actions are subject to specific safeguards: issuance of public notice, an open hearing by a committee (comprising tax officers and a trade body representative), and public disclosure of the decision. Aggrieved persons may file a representation before the FBR within 30 days, and upon registration, the Chief Commissioner must ensure removal of the receiver within two working days. Additionally, the Commissioner and FBR have been empowered to appoint experts in audit, investigation, litigation, and valuation to support enforcement activities.

8.2 E-Commerce Activities – Section 3

- The Finance Bill proposes that payment intermediaries (for digital payments) and courier services (for Cash on Delivery) will now be responsible for collecting and depositing sales tax at the rate of 2% on the supply of digitally ordered goods through online marketplaces, websites, or apps.
- The tax (2%) so collected will be treated as final discharge of sales tax liability for the online marketplace, its vendors, or any digital selling platform, with no input tax adjustment allowed.
- The proposed regime will apply regardless of the vendor's registration status and will also cover Tier-1 retailers for supplies made through such platforms.
- Affected entities (marketplaces, intermediaries, couriers) will be required to file monthly statements detailing supplier-wise payment and tax data.
- The Bill also proposes mandatory sales tax registration for all persons selling digitally ordered goods from within Pakistan, and bars platforms from onboarding unregistered vendors.
- The term "e-commerce" is proposed to be formally defined under the Sales Tax Act to cover sales through electronic means via websites, apps, and online marketplaces.

8.3 Input Tax adjustment

The Finance Bill 2025–26 proposes to empower the FBR to defer or prescribe limits on input tax adjustment based on data-driven risk management systems. However, any person aggrieved by such restriction will have the right to file an application before the concerned

Commissioner, who must decide the matter within 30 days of submission.

8.4 Inadmissible Transactions

Presently, a person making supplies to unregistered persons where value of such supplies is in excess of Rs 10 million in a tax period & Rs 100 million in a financial year is not allowed to claim input tax proportionate to such supplies. Through the Bill, the existing thresholds are proposed to be dispensed with and the Board is mandated to prescribe the related thresholds with the approval of Federal Minister-in-charge.

8.5 Revision of Return

The registered person is not required to secure approval of the Commissioner for filing of revised return if such revision is made within 60 days from filing of return and the tax payable/ refundable for relevant tax period is more/ less than the amount declared/ claimed in return sought to be revised.

It is now proposed that approval of the Commissioner be made mandatory for revision of return, irrespective of impact of tax payable or refundable.

8.6 Inspection of Audit Firms – Section 58C

The Finance Bill 2025–26 proposes to empower the Chief Commissioner Inland Revenue, with prior approval of the FBR, to refer an audit firm to the Audit Oversight Board (AOB) for inspection. This authority may be exercised where the Chief Commissioner has reason to believe that the accounts audited by the firm do not present a true and fair view of the registered person's sales, purchases, and related sales tax liability, particularly in cases audited under the Companies Act, 2017.

8.7 Powers of Inland Revenue Officers Conducting Inquiry

The Finance Bill 2025–26 proposes to grant Officers of Inland Revenue, when conducting an inquiry, the powers of a civil court under the Code of Civil Procedure, 1908. These powers include the ability to summon and enforce the attendance of any person, examine them on oath, and require the production of documents or other evidence relevant to the inquiry.

8.8 Tax Frauds

The Bill proposes to significantly strengthen the legal framework against tax fraud and abetment. The term "tax fraud" is proposed to be redefined to include any knowingly, intentionally, or dishonestly committed act or omission intended to cause or attempt to cause loss of tax, including manipulation of return filing systems, fake input claims, and fictitious compliance with Section 73. Upon conviction by the Special Judge, persons committing tax fraud will now be liable to:

- A fine up to Rs. 10 million, or

- Imprisonment up to 10 years, or
- Both, in addition to recovery of confirmed tax loss, 100% penalty, and applicable default surcharge.

The Bill also defines “abettor” and enhances their liability. An abettor may now face imprisonment of up to 10 years or fine of up to Rs. 10 million, irrespective of the tax amount involved. Abettors include persons who misuse login credentials, facilitate false input claims, operate unauthorized bank accounts, or hold sales tax registration for fictitious transactions.

8.9 Appointment of Experts and Auditors

The Finance Bill 2025–26 proposes to empower the FBR and Commissioners to appoint experts for assistance in audits, investigations, litigation, and valuations under the Sales Tax Act. Additionally, the FBR is authorized to appoint up to 2,000 auditors, either directly or through third parties (including payroll firms), and to confer appropriate powers upon them to support officers—not below the rank of Assistant Commissioner Inland Revenue—in carrying out their statutory functions.

9 DUTIES AND LEVIES

9.1 The new energy vehicle adoption levy Act, 2025

The new energy vehicle adoption levy act, 2025 has been introduced to align fiscal measures with the environmental and climate objectives., through imposing levy on the Internal Combustion Engines (ICE) as follows.

Engine Capacity/ category	**Rate of tax (Ad-valorem, of invoice price inclusive of duties and taxes)**
	Manufacturer/Importer
Upto 1300 cc	1%
From 1301 cc to 1800 cc	2%
1800 cc and above	3%
Busses/ Trucks	1%

9.2 Carbon Levy

Carbon levy on petrol, high-speed diesel and furnace oil has been proposed at Rs 2.5 per liter for 2025-26 and Rs 5 per liter for 2026-27.

9.3 Digital Presence Proceeds Tax

5% digital presence proceeds Tax has been proposed for foreign vendors with significant digital presence in Pakistan.

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