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Digital economy - taxation measures

1. Digital Presence Proceeds Tax (DPPT) Act, 2025

Background

The rapid digitization of the global economy has fundamentally transformed traditional business models, enabling multinational organizations, particularly those in the digital sector, to generate substantial revenues and profit from jurisdictions where they maintain little or no physical presence. The current international tax framework relies on concepts of physical presence and permanent establishment and fails to capture the value created through digital interactions, user data and intangible assets within market jurisdiction. Hence, the government has introduced the DPPT Act to ensure tax fairness and protect public revenue.

Salient features of the DPPT Act

- Every foreign vendor having a significant digital presence in Pakistan shall be charged to tax on proceeds of digitally ordered services or goods from outside Pakistan.
- The rate of tax is prescribed at 5% of the payment for supply of goods and rendering of services, including advertising on social media platforms.
- Proceeds of foreign vendors are attributable to Pakistani users based on their sufficient digital presence in Pakistan, where-
- The transaction is carried out through a foreign online marketplace or e-store.
- They arise in connection with digitally ordered services and goods.
- A Pakistani user is a party to the transaction.
- A foreign vendor shall be considered to have significant digital presence in Pakistan where the following conditions are satisfied:
- Supplying digitally ordered services and goods from outside Pakistan to any user in Pakistan, if the aggregate
 of number of transactions exceeds five for the current financial year along with one of the following additional
 factors:
- Existence of a user base and the associated data input
- Billing or collection in local currency or with a local form of payment
- Responsibility for the final delivery of goods and services to Pakistani consumers
- Responsibility for the provision by the foreign vendors of other support services (after-sales services, repairs and maintenance)
- Continued marketing and sales promotion activities, online or not, to attract customers
- Every payment intermediary including a banking company, financial institution, licensed exchange company or
 payment gateway responsible for making a payment in whole or part remitting outside Pakistan, the proceeds
 chargeable to tax to a foreign vendor for digitally ordered services or goods shall deduct tax at the rate of 5%
 from the gross amount paid.
- The payment intermediary shall not maintain any bank account for a foreign vendor supplying goods or services from outside Pakistan and remit funds outside Pakistan unless the required tax has been deducted.
- The payment intermediary who has deducted the tax under this section in a month is required to deposit the deducted amount within seven days of the immediately succeeding month.
- Where tax under the DPPT Act has been collected, no withholding tax incidence would occur pursuant to the provisions of the Ordinance relating to payment to the nonresident.
- Customs shall ensure that no courier delivers any consignment unless it provides evidence of payment of the tax. However, where tax under the DPPT Act has been collected from the recipient of goods, no tax collection will be required under section 148 of the Ordinance.
- Every foreign vendor having digital presence in Pakistan making any payment in whole or part to social media
 platform or any other online platform for online advertisement in Pakistan which is chargeable to tax shall
 deduct tax from the gross amount paid at the rate of 5%. The tax so deducted shall be deposited into the
 Government Treasury within seven days of the succeeding month.

- Noncompliance with the provisions of the DPPT Act is subject to recovery of principal amount along with default surcharge at KIBOR plus 3% per annum for the number of days of default. The recovery order is appealable before the Appellate Tribunal Inland Revenue within 30 days of the receipt of the order. Furthermore, a reference application may also be filed before the High Court within 60 days of the receipt of the order from the Tribunal.
- Every payment intermediary responsible for collection of tax in respect of remitting proceeds to foreign
 vendors, social media and online platform having digital presence in Pakistan in relation to advertisement
 relayed in Pakistan through its platform, shall file a quarterly statement declaring prescribed particulars. Nonfurnishing of such statements may lead to penalty of PKR1m for each default.
- The Federal Government has been empowered to exempt any country/class of goods or services/class of persons from applicability of the DPPT Act.

Based on past experience, it will be interesting to see how the offshore suppliers/service providers would react to this tax withholding from their payments. Historically, like in many such instances under the income tax law, it may possibly result in the consumer bearing the compliance burden in Pakistan.

2. Taxation of digital transactions within Pakistan

Income tax

A tax has been introduced at the rate of 1% (digital means or banking channels by payment intermediary) and 2% (cash on delivery by courier service) of the gross amount, on every person who receives payment for supply of digitally ordered goods or services which are delivered from within Pakistan using locally operated online platforms including online marketplace or websites. The online marketplace includes online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers via digital orders for supply of goods and services, with or without the platform taking economic ownership of the goods or providing or rendering the services that are being sold.

The tax thus charged is a final discharge of tax liability.

The expression "digitally delivered services" has been defined to mean any service delivered over the internet or electronic networks, where the delivery is automated and require minimal or no human intervention including music, audio and video streaming services, cloud services, online software applications services, services delivered through online interpersonal interaction, i.e., tele medicines, e-learning, etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility.

Furthermore, every payment intermediary including a courier business collecting cash from a buyer under Cash on Delivery (CoD) payment terms is required to collect tax from the gross amount payable (including sales tax, if any) to the seller at the aforementioned rates. The expressions "courier service" and "payment intermediary" are defined as under:

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

- Logistics services
- Ride-hailing services
- Food delivery platforms
- E-commerce services

"Payment intermediary" means any third party including a banking company, financial institution, a licensed foreign exchange company or payments gateways that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

Every payment intermediary and courier service responsible for deducting tax, as above, is also required to file a quarterly income tax withholding tax statement in respect of tax deduction regarding sale of digitally ordered goods and services. Moreover, every online marketplace is also required to file a monthly statement containing prescribed particulars of vendors registered on its platform supplying digitally ordered goods and services.

Every person selling digitally ordered goods or services from within Pakistan using an online marketplace or a courier service, is required to register with the Federal Board of Revenue (FBR).

Online marketplaces are mandatorily required to allow only such vendors who are registered with the FBR for income tax purposes to carry out e-commerce transactions.

Penalties have also been prescribed in case of noncompliance with the relevant provisions of the law as follows:

S. No.	Offense	Penalty
1A	Where any person fails to furnish a statement as required under section 165C within the due date	Such person shall pay a penalty of PKR50,000 if the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within ninety days from the due date for filing the statement and, in all other cases, a penalty of PKR2,500 for each day of default from the due date subject to a minimum penalty of PKR10,000.
128	Where a banking company or payment gateway or a courier service provider, as the case may be, fails to deduct tax at the time of making payment to a seller, or fails to pay the tax deducted as required under section 160, with respect to digitally ordered goods or rendering or providing of digitally delivered services using e-commerce platform	Such person shall pay a penalty equal to 100% of the amount of tax involved
15A	Any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to be registered under Income Tax Ordinance, 2001, fails to register	Such seller shall pay a penalty of PKR500,000 for the first default and PKR1m for every subsequent default

Sales tax

Supplies made through online marketplaces and other online modes are subject to sales tax at the standard rate. However, in the case of local supplies made by a non-active supplier, the online marketplace is required to withhold 1% sales tax on those supplies.

The Finance Act, 2025 (the Act) has abolished this sales tax withholding on supplies by non-active suppliers and a new scheme is introduced for overall e-commerce trade.

Under new scheme, supply of digitally ordered goods would be subject to sales tax withholding at a rate of 2%, on gross value of supplies from the persons supplying digitally ordered goods from within Pakistan through online marketplace, website, software applications. Whereas such withholding tax would be final discharge of sales tax liability for cottage industry and retailers (other than Tier I retailers). However, no input tax adjustment will be allowed to them and such persons are not required to obtain sales tax registration.

The liability to collect and pay sales tax at the rate of 2% will be on the "courier" for supplies made on a CoD basis and on the "payment intermediary" in case of digital payments, The terms courier and payment intermediary are defined as under:

"Courier" means any entity engaged in the delivery of goods and collection of cash on behalf of a seller including logistic services and ride-hailing services.

"Payment intermediary" means a banking company, any financial institution including a licensed foreign exchange company or payment gateway that facilitate the transfer of funds or payment instructions between two or more parties to enable, process, route, or settle payments in a financial transaction, without being the ultimate source or recipient of the payment.

The Act provides mandatory registration for every person (except Cottage Industry and the persons other than Tier 1 retailers), including a nonresident person, selling goods from within Pakistan through an online marketplace, website or software application, in the prescribed form and manner.

To implement the registration measure for such persons, the Act provides to restrict any person to use services of online marketplaces and couriers from conducting e-commerce transactions unless that person is registered for income and sales tax purposes.

To ensure accuracy and compliance with the aforementioned legal provisions, the Act provides the submission of a monthly statement in the prescribed form by online marketplaces, payment intermediaries and couriers. This statement will detail vendor-wise amount of supplies made of taxable digitally ordered goods, corresponding tax due and any other prescribed information, irrespective of the economic ownership of supplies from within Pakistan.

Moreover, the Act provides following new penalties for online marketplaces, payment intermediaries, and couriers for those who fail to submit the required monthly statements on time and to those who permit unregistered persons to utilize their services in e-commerce transactions.

Offenses	Penalties and punishments	Section of the Act to which offense has reference
1A. Where any online marketplace, payment intermediary or courier fails to furnish prescribed monthly statement within due date	Such person shall be liable to pay a penalty of PKR300,000 for first default if he fails to furnish the prescribed statement for two consecutive months: Penalty of PKR1m for each subsequent default within one year	26
1B. Where any online marketplace, courier allow use of its services in the course of e-commerce by unregistered persons	Such person shall be liable to pay a penalty of PKR500,000 for first default and PKR1m for each subsequent default	14

Income Tax

1. Restriction on economic transactions by certain persons

The concept of "Ineligible Person" has been introduced which means a person who is not an eligible person. Eligible person has been defined as a person who filed return of income of the immediately preceding tax year and has sufficient resources in the wealth statement or in the financial statements, in the case of an individual and company/AOP respectively.

The Act has introduced the following restrictions on an ineligible person-

- Booking, purchasing, or registering motor vehicles exceeding PKR7m
- Registering or transferring immovable property exceeding PKR100m
- Opening or maintaining securities or investment accounts exceeding PKR50m
- Cash withdrawals from bank accounts exceeding PKR100m in all bank accounts held by an individual

Public companies and nonresidents are only barred from making cash withdrawals and other restrictions as above will not apply.

Exceptions from the above restrictions include:

- Purchase of rickshaws, motorcycles, tractors, pick-up vehicles up to 800cc engine capacity, trucks, buses, or other motor vehicles as notified by the FBR, subject to certain restrictions and limitations
- Investment in securities up to prescribed limits
- Transactions by nonresident persons or public companies except cash withdrawals

2. Receipt of pension from an employer

Any pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer) is exempt from tax provided that where the person receives more than one such pension, the exemption applies only to the higher of the pensions received. Similarly, the exemption extends to pension received by a member of the Armed Forces or Federal Government or a Provincial Government.

These exemptions have been withdrawn with the effect that pension received out of employment will become taxable under the head "salary". Consequently, the following rates will apply-

Description	Rate of tax
Where the amount of pension received does not exceed PKR10m	0% of the amount
Where the amount of pension received exceeds PKR10m	5% of the amount exceeding PKR10m

Where the age of the employee receiving pension is more than 70 years, the pensioner would not be subject to tax in respect of such receipt.

In addition, where the individual continues to work for the former employer or its associate and derives pension, such pension received from the former employer will continue to be taxed at the applicable slab rates, salaried or other than salaried, as the case may be, in the hands of the recipient.

Corresponding changes have also been brought about in the withholding tax provisions relating to salary payments whereby the person making payment of pension is now obligated to withhold tax at the rate of 5% from the amount of pension exceeding PKR10m paid to an employee below the age of seventy years.

3. Exemption certificate for publicly listed companies

Through the Finance Act, 2021, the power to issue an exemption certificate in respect of payments on account of goods, services and contracts was withdrawn and instead, the Commissioner was empowered to issue a "reduced rate withholding certificate" to the extent of 80% of the rate as prescribed in the division to which it relates.

The power to issue a Nil withholding tax certificate, allowing payment without deduction of tax, has now been restored in case of public limited companies.

4. Gain arising on disposal of certain debt securities

A new provision is being introduced whereby every custodian of debt securities including a banking company responsible to maintain Investor Portfolio Securities Account on behalf of holder of a debt security shall, at the time of disposal of debt securities including government securities deduct tax at the rate of 15% on the gross amount of capital gain arising to such holder and deposit the same in government treasury.

However, this withholding tax requirement does not apply on transaction executed through stock exchange and settled via NCCPL.

For corporate entities, the above withholding tax is adjustable against the final tax liability whereas for individuals, the tax withheld will constitute a final discharge of tax liability under section 37A of the Ordinance.

5. Gain on disposal of debt securities by a non-resident person

Gain arising on disposal of debt instruments and Government securities to a nonresident person not having a permanent establishment and maintaining a Special Convertible Rupee Account is subject to withholding tax at the rate of 10%, which constitutes final discharge of tax liability.

The rate of 10% would now apply where the following conditions are fulfilled:

- a. The SCRA is maintained for a period of not less than six months
- b. The holding period of the securities is six months or more

Resultantly, where either of the above conditions are not met, the enhanced rate of 20% would be applicable on such gain.

6. Tax on profit on debt

Profit on debt received by an individual in a tax year not exceeding PKR5m, irrespective of the person paying such profit on debt is chargeable to tax at the rate of 15% of the gross amount. The Act has increased the tax rate from 15% to 20% on profit paid by a banking company or financial institution on an account or deposit maintained with such company or institution and on profit on Government securities. No change has been made with respect to profit on debt received from other than banking companies, financial institutions and the Federal and Provincial Governments. Consequently, tax rate in other cases will remain 15%.

Corresponding changes have also been made in the withholding tax provisions which are summarized as given below:

S. No.	Section	Description	Existing tax rate	Revised tax rate
1.	151	On yield or profit on debt paid by a banking company or a financial institution	15%	20%
2.	151	On yield or profit on Government securities paid to any person other than an individual	15%	20%
3.	151	On yield or profit on debt paid in any other case	15%	15%

In case of persons not appearing on the ATL, the rate of tax specified above will be doubled.

7. Deductions not allowed where purchase is made from person not having National Tax Number (NTN)

Section 21 of the Ordinance prescribes list of expenditures that are not allowed as a deduction while computing income under the head 'Income from Business'. The Act has replaced Clause (q) 10% of the purchases made from persons not having NTN (excluding agricultural produce bought directly from growers) shall not be allowable as a deduction. The Act provides that this clause shall only apply in case of agricultural produce where purchases have been made from middleman. The FBR is empowered to exempt persons or classes of persons from the operation of this clause.

8. Deductions not allowed where cash payment is received against sales

Section 21 of the Ordinance prescribes list of expenditures that are not allowed as a deduction while computing income under the head 'Income from Business'. The Act has provided that where a taxpayer receives payment

exceeding PKR200,000 otherwise than through a banking channel or digital means against a single invoice, 50% of the corresponding expenditure shall be disallowed.

To explain, if a transaction of sale is made for PKR400,000 and the corresponding expense for such a transaction, say is PKR300,000, then in the event the payment is received in cash exceeding PKR200,000 from the customer, 50% of PKR300,000, i.e., PKR150,000 will be disallowed.

While the provision of law appears to be simple, there are different dynamics to these provisions which may become cause of concern for the businesses. This includes, for example, what constitutes expenditure claimed in respect of sale and whether this should include depreciation, amortization and the direct purchase cost etc.

9. Depreciation

The Act provides for disallowance of depreciation expense in all relevant tax years, in respect of capital assets where at the time of payment against purchase, required taxes have not been deducted and deposited under the relevant provisions of the Ordinance.

10. Depreciation

Currently, in terms of Sub-section (4) of Section 24, an intangible that does not have an ascertainable useful life is treated as if it has a normal useful life of 25 years and is amortized accordingly. The Act has now reduced the amortization period from 25 to 15 years.

11. Set-off of losses

In terms of section 56 of the Ordinance, a person is entitled to set off losses from one head of income against another head of income including against income from property, except for income from salary during a tax year. The said adjustment of business loss against income from property for the tax year has been withdrawn.

12. Group relief

It may be recalled that the concept of group relief was introduced in terms of section 59B whereby, subject to the fulfillment of certain conditions, a subsidiary or holding company may surrender its assessed loss (excluding capital losses) for the tax year to its holding company, another subsidiary, or between subsidiaries and taxed as one fiscal unit.

Now, the losses surrendered as above can only be adjusted by such group company or companies whose income from business is chargeable to tax at corporate rate of tax as provided in the First Schedule to the Ordinance.

13. Carryforward of minimum tax

Section 113 of the Ordinance inter-alia allows carry forward of minimum tax paid in excess of the normal tax payable for adjustment against normal tax liability for succeeding three tax years. The Act has reduced the carryforward period to two years.

14. Amounts received through non-banking channels

Any amount received as a loan, advance, deposit for issuance of shares or gift by a person in a tax year from another person (not being a banking company or financial institution) otherwise than:

- By a crossed check drawn on a bank or through a banking channel
 And
- From a person holding an NTN

is treated as income chargeable to tax under the head "Income from Other Sources" for the tax year in which it was received.

Digital means have also been included as the medium through which these amounts can be received, in addition to crossed check drawn on a bank and a banking channel.

15. Purchase of assets through banking channel

No person shall purchase the following, otherwise than by a crossed check drawn on a bank or through crossed demand draft or crossed pay order or any other crossed banking instrument showing transfer of amount from one bank account to another bank account:

a. Immovable property having fair market value greater than PKR5,000,000
 Or

b. Any other asset having fair market value of more than PKR1m

Digital means has also been included in the medium through which such purchase can occur.

16. Tax credit for interest paid on low-cost housing loan

The Act has introduced a new tax credit on profit on debt, share in rent or share in appreciation for the value of a house or a flat paid by an individual in the year on low-cost housing loans obtained from either of the following:

- A scheduled bank or any other financial institution regulated by the Securities and Exchange Commission of Pakistan
- Government or the local government
- A statutory body or a public company listed on a registered stock exchange in Pakistan.

For this purpose, the loan is required to be utilized for the construction (including land) or acquisition of a personal house or flat within prescribed size limits, i.e., 2,500 square feet in case of a house and 2,000 square feet in case of a flat.

The tax credit is calculated using a formula based on the individual's assessed tax to taxable income ratio for the year and the total amount of interest paid during the year, restricted to 30% of the individual's taxable income for the year. However, if such tax credit is claimed, the individual shall not be entitled to claim credit for another house or flat for subsequent 15 tax years. The person shall also not be entitled to take tax credit for any profit deductible in computing income chargeable under the head "Income from Property".

17. Tax credit for certain persons

The Finance Act, 2021 introduced a 100% tax credit against tax payable by persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects. Although the credit of tax remains available on supply of coal to power generation projects, the eligibility condition that such person exclusively supply to power generation projects has been relaxed to include persons who supply to power generation projects or to other persons.

18. Deemed assessment

A complete income tax return submitted by a taxpayer for a tax year is considered a deemed assessment of taxable income and tax payable, as determined by the Commissioner. The law also provides for the processing of such returns through an automated system to accurately calculate the taxable income and tax payable by making adjustments for any arithmetical errors, incorrect claims, disallowances of losses, deductible allowances, tax credits, and the carry forward of losses in the e-filed income tax return.

The Act has enhanced the scope of deemed assessment process by providing that the taxable income and tax payable under the deemed assessment will now be determined based on the adjustments made in the e-filed income tax return through the automated system. This means that taxpayers may be required to pay any additional amount of tax determined as a result of this automated processing system for the return to be treated as an assessment made by the Commissioner.

However, in terms of proviso to Section 120(2A), these provisions shall not be applicable, unless its date of operation is notified by the FBR.

19. Amendment of assessment

In order to amend an assessment, an opportunity of being heard is required to be provided to the taxpayer by issuing a show cause notice. The Finance Act, 2021 introduced a time limitation of 180 days of the issuance of show cause notice, extendable to additional 90 days, for issuing an amendment order. The Act has now enhanced this time limitation to one year of the issuance of show cause notice, extendable to an additional 90 days. However, the period during which the proceedings are adjourned due to a stay, ADRC proceedings, agreed

assessment proceedings or adjournment taken by the taxpayer not exceeding 60 days shall be excluded for the determination of time limitation.

20. Appeal effect procedure

In order to enhance the efficiency of tax collection process, the Act has eliminated the requirement for an appeal effect order in cases where the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court confirms the tax payable as determined in the contested order. This change will enable the Commissioner to initiate the recovery process immediately.

Additionally, the Act provides that where the Appellate Tribunal, High Court, or Supreme Court partially sets aside an order while confirming or modifying other issues in the appeal, the Commissioner will be required to issue an appeal effect order in the prescribed form. The Commissioner will then determine the tax payable based on the confirmed or modified issues, excluding any tax related to matters that have been set aside or remanded. The tax so assessed on the confirmed or modified issues will be paid or recovered in accordance with the applicable provisions of the Ordinance.

21. Tax appeals system

On 3 May 2024, the Tax Laws (Amendment) Act, 2024 was enacted, introducing significant changes to the appellate procedures outlined in federal tax laws. The amendments established pecuniary thresholds for appeals against orders issued by Revenue Officers. For income tax cases, a pecuniary threshold of PKR20m was introduced. If the "value of assessment of tax" or "refund of tax" in an order issued by a Revenue Officer exceeds this limit, the appeal was required to be filed directly with the Appellate Tribunal. In cases where the amount was below the PKR20m threshold, the appeal was to be filed before the Commissioner (Appeals). In both scenarios, the next forum for appeal was High Court.

The Act has now abolished the pecuniary threshold for filing appeals to the Commissioner (Appeals) or the Appellate Tribunal. Instead, it seeks to provide taxpayers, excluding State-Owned Enterprises (SOEs), with the option to either file an appeal with the Commissioner (Appeals) or waive their right to appeal to the Commissioner (Appeals) and instead file an appeal directly with the Appellate Tribunal against the order of the Revenue Officer.

As a result of the amendments, where the first appeal is preferred to the Commissioner (Appeals) and the taxpayer or the Commissioner is dissatisfied with the order passed by the Commissioner (Appeals), the taxpayer or the Commissioner may file an appeal to the Appellate Tribunal within 30 days of the receipt of such order.

The Act has also extended the time limit for filing references to the High Court from 30 days to 60 days. Previously, a reference could only be filled with the High Court on any question of law arising from the order of the Appellate Tribunal. However, the amendments introduced by the Tax Laws (Amendment) Act, 2024 allowed for the filing of references on mixed questions of law and fact. The Act has now restored the original position by omitting the option for mixed questions of law and fact. This means that references will be filled with the High Court solely on questions of law.

Additionally, the Act has modified the eligibility criteria for Chartered Accountants for appointment as Members of the Appellate Tribunal. The amendment outlines two distinct pathways for meeting the experience requirement:

- Individual practice: The first pathway allows for individuals who have been in practice as Chartered Accountants, either individually or as part of a firm. This recognizes the diverse working environments in which Chartered Accountants operate, including solo practices and partnerships.
- Employment under a Chartered Accountant: The second pathway acknowledges those who have been employed by a Chartered Accountant in practice. This provision is particularly important as it allows for a broader interpretation of relevant experience, including those who may have gained valuable insights and skills while working under the mentorship of established professionals.

22. Nonprofit organization

Recreational clubs are now excluded from the definition of nonprofit organization as per section 2(36) of the Ordinance where the joining fee for the membership exceeds PKR1m for any class of new members.

23. Income from business of recreational clubs

Through Finance Act, 2021 an explanation was inserted in section 18 of the Ordinance to clarify that income derived by co-operative societies from the sale of goods, immoveable property or provision of services to its members is and has always been chargeable to tax under the head "income from business."

Now, income derived by recreational clubs from the above activities would be classified as "income from business."

24. Advance tax on cash withdrawal

The Act has increased the withholding tax from 0.6% to 0.8% on the amount of cash withdrawal from bank accounts by persons not appearing in ATL. The said tax is adjustable in nature and collection of such tax will be triggered when the cash withdrawal exceeds PKR50,000 in a single day.

25. Alternative Dispute Resolution

In accordance with section 134A, every State-Owned Enterprise (SOE) is required to apply to the FBR for the appointment of a Committee for resolution of any dispute under the Ordinance, such a Committee may be appointed by the FBR within 15 days of receiving the application. The Committee is obligated to decide the matter within a maximum period of 60 days. If the Committee fails to reach upon a decision within the stipulated time period, the said Committee will be dissolved by the FBR, and the matter will then be decided by a Court of law or the appellate authority where the dispute was pending.

The powers of the FBR have now been enhanced where the FBR can reconstitute another Committee to decide the matter within another maximum period of 60 days in the event the earlier Committee fails to decide the said dispute in view of newly inserted provisions (11A) and (11B).

If the reappointed Committee is unable to reach a decision within the prescribed timeline, the Committee would be dissolved, and the matter will then be ultimately decided by the Court of law or the appellate authority where the dispute was originally pending.

26. Immediate tax payability

The Act has inserted a new sub-section (3A) in section 138 of the Ordinance. The new sub-section mandates that any tax payable under the Ordinance or any assessment order becomes immediately payable or within the time specified in the notice issued by the tax authority subject to the specified conditions. This provision overrides any other law, rule or Court decision, ensuring that the case has been decided in favor of department at the three appellate forums including High Court. The recovery under this section shall only be made to the extent of the lowest demand confirmed by any of the three appellate forums and where the tax payable exceeds PKR200m. A corresponding amendment has also been made in section 140 by inserting a new sub-section (6A).

The above amendments make the tax payable immediately or within a specified time frame, regardless of any other legal decisions or judgments. This is particularly relevant when issues are decided in favor of department by the three appellate forums, including the High Court.

This change could expedite tax collection for the government, ensuring that tax liabilities are settled without delay. However, it may undermine the judicial process, as taxpayers could be compelled to pay taxes even when there are pending legal disputes.

27. Offences and penalties

Where any person fails to furnish a statement as required under sections 165, 165A or 165B of the Ordinance within the due date, a penalty of PKR5,000 is leviable if the person had already paid the tax collected or withheld by him within the due date for payment and the statement is filed within 90 days from the due date for filing the statement.

The Act has enhanced the above penalty from PKR5,000 to PKR50,000.

28. Condonation of time limit

Section 214A empowers the FBR to condone any act or thing at any time before or after the expiry of such time or period as provided under the Ordinance or Rules.

The Act has restricted the power of the FBR or the Commissioner to condone the time limit not exceeding two years in aggregate.

Further, the Act mandates where significant loss has occurred to the exchequer by an act of omission or commission by the person or by the Commissioner, a committee appointed by the FBR is empowered to extend the limitation period without any restrictions, after providing the person a reasonable opportunity of being heard.

29. Posting of Officer of Inland Revenue

The Ordinance, under Section 175C, allows the FBR or the Chief Commissioner to post an officer of Inland Revenue or other designated officials to the business premises of any person or class of persons, subject to conditions and restrictions, to monitor production, supply of goods, rendering of services, and stock of goods not sold at any time for determining tax payable under the Ordinance.

This provision could enhance compliance and oversight, potentially reducing tax evasion. However, it raises concerns about privacy and the potential for overreach by tax authorities, which could lead to harassment or undue pressure on businesses.

Currently section 175 is in place and it focuses on the authority to conduct searches and seize records, which is more reactive, allowing tax authorities to take action based on specific suspicions or during audits. In contrast, Section 175C focuses on the continuous monitoring of business operations by posting officers at the premises, which is more proactive, aiming to ensure ongoing compliance with tax laws. Both sections can be applied concurrently or independently based on the specific needs and circumstances of tax enforcement.

30. Exemption/lower rate certificate

Section 159 empowers the Commissioner to grant exemption or lower rate certificate where the Commissioner is satisfied that the amount is exempt from tax or subject to a lower rate of tax.

The Act has empowered the Commissioner to issue exemption certificate from collection of tax under Section 236C in respect of residential immovable property, where the income from capital gain is not subject to tax. The said exemption is available on residential immovable property, which is in personal use, has been declared in the wealth statements of the individual and appears as residence for personal use in the tax records of the individual for the last 15 years. The exemption certificate shall be issued once in 15 years.

31. Banking company

The definition of the term "banking company" as given in section 2(7) of the Ordinance has been amended to exclude the phrase "any body corporate which transacts the business of banking in Pakistan". As a result, a banking company as defined under the Banking Companies Ordinance, 1962 would only remain within the ambit of the definition as given in the Ordinance.

The Seventh Schedule

32. Treatment of leasehold improvements

A new Clause under Rule 1 of the Seventh Schedule is inserted whereby any expenditure appearing in audited accounts of a banking company incurred on leasehold improvement will be capitalized and amortized at the rate of 10% per annum from the day such leasehold improvements were put to use.

Additionally, in the event of termination of lease before the completion of amortization period, such unamortized balance of the capitalized leasehold improvement will be allowed as an admissible deduction in the tax year as reduced by any proceeds received from disposal or transfer of leasehold improvement.

33. Deduction on account of ROU

It may be recalled that a taxpayer is allowed to claim actual rent expenses related to properties acquired on rent or lease. However, in the year 2020, the International Financial Reporting Standard (IFRS) 16 implemented certain changes and required capitalization of Right of Use Assets (ROUA). Accordingly, the entity charges depreciation and finance costs related to these assets. Therefore, in accordance with Rule 1 of the Seventh Schedule, while computing the taxable income, no adjustments are being made on account of the above. To align the tax treatment related to these ROUA, a new Clause (ba) to Rule 1 is inserted. Accordingly, a banking company is now allowed to claim actual rent expenses related to ROUA as admissible deduction subject to certification from external auditor for the same. Conversely, depreciation expense and finance cost on ROUA will not be allowed as an admissible expense.

Some necessary adjustments are also to be made in the tax year 2025 to eliminate any difference between the actual rent expenses and the depreciation and interest costs already claimed since the implementation of IFRS 16, starting from the year 2020. In case, the banking company has claimed excess deduction on account of depreciation and finance cost on right to use assets, such excess deduction will be offered for tax in tax year 2025. However, in case tax deductions already claimed are less than the actual rent expense relating to prior

years, such short deduction will be allowed as an admissible deduction in the tax year 2025. The aforesaid adjustment is also required to be certified by the external auditors of the banking company on the letterhead of the external auditor.

34. Deduction under Rule 1(c)

A new proviso has been inserted whereby a banking company is obliged to obtain a certificate from the external auditor for tax year 2025 and onward to confirm compliance with the provisions regarding advances and off-balance-sheet items and advances for consumers and small- and medium-sized enterprises (SMEs) as provided in Rule 1(c) of the Seventh Schedule to the Ordinance. Such certificate should cover the following:

- The amount of provision, category-wise, allowed in accordance with Prudential Regulations issued by the State Bank of Pakistan
- The amount of provision, category wise recognized under IFRS-9
- The amount of provision, category-wise as disclosed in the annual accounts of the banking company
- The amount of provision, category-wise which is eligible for deduction under clauses (c), (d), (da), (e) and (f) of Rule 1 and certificate shall specifically identify and certify such amount, confirming its consistency with the applicable regulatory framework, the Seventh schedule and financial reporting standards.

Additionally, a limit has now been imposed against the allowability of provision for advances and off balance sheet items/advances for consumer and SMEs whereby only such provisions in respect of non-performing advances classified as "loss" in accordance with the Prudential Regulations issued by the State Bank of Pakistan (SBP) shall be treated to be an admissible deduction as an expense under clause (c) of Rule 1 of this Schedule.

The admissibility of any provision including general provision for advances and off-balance items as a deduction in computing the taxable income of a banking company is now further restricted for any provision including general provision made otherwise than in accordance with the aforesaid Prudential Regulations.

Currently, adjustments made in the annual accounts on account of any applicable accounting standard or policy or any guidelines or instructions of SBP shall be excluded in arriving at taxable income.

From tax year 2025 and onward, the adjustment subject to Rule 1 of the Seventh Schedule on account of the application of IFRS-09 (Financial Instruments) or policy or any guidelines or instructions of SBP in respect of IFRS 09 shall be excluded in arriving at the taxable income.

35. Exchange of banking and tax information related to high-risk person

In the wake of efforts to broaden the tax base, a new section, i.e., section 175AA has been included, which empowers the FBR, as well as scheduled banks, to exchange confidential information related to tax and related purposes concerning persons or classes of persons.

Accordingly, the FBR may share information obtained from the tax declarations with scheduled banks in Pakistan, in respect of persons or classes of persons for cross-matching. This information may be shared along with data-based algorithms, as prescribed with scheduled banks in Pakistan. In exchange, the scheduled banks shall provide the FBR with the final results/information of such persons where the banking information is inconsistent with the data algorithms.

Such information may be sought solely for tax-related purposes and must be kept confidential.

The First Schedule

36. Reduction in the rate of tax and surcharge for salaried taxpayers Treatment of leasehold improvements

The tax rates applicable to salaried taxpayers have been revised. The amendment aims to reduce the tax burden on low-income salaried individuals. Due to the amendment, those falling within the lower slab rates would benefit from the revised rates. However, the tax adjustments would also provide minimal advantages to salaried taxpayers in the higher slab rates.

Furthermore, currently, a surcharge is levied on individuals (both salaried and non-salaried) and AOPs at the rate of 10% of the income tax chargeable for the year, where the taxable income exceeds PKR10m. In case of salaried individuals, the rate of surcharge has been reduced to 9%.

The following table provides the comparative analysis of the existing and revised tax rates applicable on salaried taxpayers:

Taxable income		ible income Tax liability			Change in PKR			Change in percentage		
Monthly salary	Annual salary	Tax Year 2024 including super tax	Tax Year 2025 including surcharge and super tax	Tax Year 2026 including surcharge and super tax	2025 increase from 2024	2026 decrease from 2025	2026 increase/ (decrease) from 2024	2025 % change from 2024	2026 % change from 2025	2026 % change from 2024
50,000	600,000	-	-	-	-	-	-	-	-	-
75,000	900,000	7,500	15,000	3,000	7,500	(12,000)	(4,500)	100%	-80%	-60%
100,000	1,200,000	15,000	30,000	6,000	15,000	(24,000)	(9,000)	100%	-80%	-60%
150,000	1,800,000	90,000	120,000	72,000	30,000	(48,000)	(18,000)	33%	-40%	-20%
183,333	2,200,000	140,000	180,000	116,000	40,000	(64,000)	(24,000)	29%	-36%	-17%
200,000	2,400,000	165,000	230,000	162,000	65,000	(68,000)	(3,000)	39%	-30%	-2%
250,000	3,000,000	300,000	380,000	300,000	80,000	(80,000)	0	27%	-21%	0%
266,667	3,200,000	345,000	430,000	346,000	85,000	(84,000)	1,000	25%	-20%	0%
300,000	3,600,000	435,000	550,000	466,000	115,000	(84,000)	31,000	26%	-15%	7%
341,667	4,100,000	572,500	700,000	616,000	127,500	(84,000)	43,500	22%	-12%	8%
350,000	4,200,000	600,000	735,000	651,000	135,000	(84,000)	51,000	23%	-11%	9%
500,000	6,000,000	1,095,000	1,365,000	1,281,000	270,000	(84,000)	186,000	25%	-6%	17%
700,000	8,400,000	1,935,000	2,205,000	2,121,000	270,000	(84,000)	186,000	14%	-4%	10%
750,000	9,000,000	2,145,000	2,415,000	2,331,000	270,000	(84,000)	186,000	13%	-3%	9%
850,000	10,200,000	2,565,000	3,118,500	2,998,590	553,500	(119,910)	433,590	22%	-4%	17%
1,000,000	12,000,000	3,195,000	3,811,500	3,685,290	616,500	(126,210)	490,290	19%	-3%	15%
1,250,000	15,000,000	4,245,000	4,966,500	4,829,790	721,500	(136,710)	584,790	17%	-3%	14%
2,500,000	30,000,000	9,495,000	10,741,500	10,552,290	1,246,500	(189,210)	1,057,290	13%	-2%	11%
16,666,667	200,000,000	70,995,000	80,191,500	77,407,290	9,196,500	(2,784,210)	6,412,290	13%	-3%	9%
25,000,000	300,000,000	112,995,000	126,691,500	121,057,290	13,696,500	(5,634,210)	8,062,290	12%	-4%	7%

37. Levy of super tax on high-earning persons

The rates for super tax remain unchanged for the tax year 2025. However, for the tax year 2026 and onward, the rates are reduced by 0.5% for incomes between PKR200m to PKR500m. The revised rates are as follows:

		Rate of tax				
S. No.	Income	Tax year 2022	Tax years 2023, 2024 and 2025	Tax year 2026 and onward		
(1)	(2)	(3)	(4)	(5)		
1.	Where income does not exceed PKR150m	0% of the income	0% of the income	0% of the income		
2.	Where income exceeds PKR150m but does not exceed PKR200m	1% of the income	1% of the income	1% of the income		

	Income	Rate of tax				
S. No.		Tax year 2022	Tax years 2023, 2024 and 2025	Tax year 2026 and onward		
(1)	(2)	(3)	(4)	(5)		
3.	Where income exceeds PKR200m but does not exceed PKR250m	2% of the income	2% of the income	1.5% of the income		
4.	Where income exceeds PKR250m but does not exceed PKR300m	3% of the income	3% of the income	2.5% of the income		
5.	Where income exceeds PKR300m but does not exceed PKR350m	4% of the income	4% of the income	3.5% of the income		
6.	Where income exceeds PKR350m but does not exceed PKR400m		6% of the income	5.5% of the income		
7.	Where income exceeds PKR400m but does not exceed PKR500m		8% of the income	7.5% of the income		
8.	Where income exceeds PKR500m		10% of the income	10% of the income		

38. Rate of tax on dividend income

The rate of tax on dividends distributed by Real Estate Investment Trusts and other corporate entities remain unchanged at 15%. However, the Act has levied the rate of tax on dividend paid by mutual funds at 25% and 15% contingent upon proportionate income derived from average annual investments in debt securities and equities, respectively. Further, the Act has inserted a proviso that where the corporate entity is recipient of the dividend, the component derived from the debt securities shall be taxed at the rate of 29%.

Corresponding changes have also been made in the withholding tax provisions as applicable to dividends.

39. Increase in rate of tax on certain payments to nonresidents

At present, a non-resident person who receives fee for offshore digital services is subject to tax at the rate of 10%. This rate has now been increased to 15%.

40. Tax on payments for digital transactions in e-commerce platforms

A new section 6E has been introduced, which governs the taxation of payments for digitally ordered goods or digitally delivered services through e-commerce platforms, including websites.

The following income tax rates have been introduced in the case of payments through the following channels:

S. No.	Description	Tax rates
1.	Digital means or banking channels by payment intermediary	1% of the gross amount paid
2.	Cash on Delivery by Courier Service	2% of the gross amount paid

Corresponding changes have also been made in the withholding tax provisions.

41. Gain arising on disposal of certain debt securities

The Act introduced a new section 151A to the Ordinance, which requires the custodian of debt securities including a banking company maintaining Investor Portfolio Securities (IPS) Account to deduct tax at the rate of 15% of the gross amount of capital gain at the time of disposal of debt and government securities.

42. Payments to nonresidents

The Act has increased the withholding tax rates governed by section 152 of the Ordinance for making payments on account of goods, services and contracts to a PE of a nonresident person, The revised rates in comparison with the existing rates are as under:

Type of payment	Existing rate (%)	Revised rate (%)
Receipts on account of rendering of the following services through a PE:		
Transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services, building maintenance services, inspection and certification, testing and training services, oilfield services.	4%	8%
IT services and IT enabled services as defined in the Ordinance	4%	4%
Receipt on account of rendering of services through a PE		
Other than the abovementioned services (in case of a company)	9%	15%
 Other than the abovementioned services (in case of an Individual or an AOP) 	11%	15%
Receipts on account of execution of contract by a sportsperson	10%	15%

43. Advance tax on payment to residents on payments for sale of goods, rendering of services and execution of contract

The Act has increased the withholding tax rates governed by section 153 of the Ordinance for making payments on account of goods, services and contracts to a resident person. The revised rates in comparison to the existing rates are as follows:

Types of payment	Existing rate (%)	Revised rate (%)
Transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services including architectural services, warehousing services, services rendered by assets management companies, data services provided under license issued by the Pakistan Telecommunication Authority, telecommunication infrastructure (tower) services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited, inspection and certification, testing and training services, oilfield services, telecommunication services, collateral management services, travel and tour services (REIT management services, services rendered by National Clearing Company of Pakistan Limited.	4%	6%
IT services and IT-enabled services as defined in the Ordinance	4%	4%
Rendering of or providing of services		
■ Company	9%	15%
Other than company	11%	15%
On the execution of contract by a sportsperson	10%	15%

While the enhancement in rates of withholding tax is in line with the revenue driven measures undertaken by the Federal Government, it may increase the tax cost of the taxpayer where the above withholding tax constitutes minimum tax instead of adjustable tax.

44. Advance tax on sale or transfer of immovable property

The Act has increased the withholding tax rates for sale or transfer of immovable property. The revised rates in comparison with the existing rates are as follows:

Description	Existing rate (%)	Revised rate (%)
 Where the gross amount of consideration received does not exceed PKR50m 	3%	4.5%
 Where the gross amount of consideration received exceeds PKR50m but does not exceed PKR100m 	3.5%	5%
Where the gross amount of consideration received exceeds PKR100m	4%	5.5%

45. Advance tax on purchase of immovable property

The Act has reduced the withholding tax rates for the purchase of immovable property. The revised rates in comparison with the existing rates are as follows:

Description	Existing rate (%)	Revised rate (%)
Where the fair market value of property does not exceed PKR50m	3%	1.5%
 Where the fair market value of property exceeds PKR50m, but does not exceed PKR100m 	3.5%	2%
Where the fair market value of property exceeds PKR100m	4%	2.5%

The Second Schedule

PART - I

46. Exemption to recognized institutions

Clause (66) provides exemption from tax to institutions, foundations, societies, boards, trusts and funds specified therein the names of which are listed in two separate Tables. Table 1 provides a list of institutions that are fully exempt from tax without any condition. On the contrary, income derived by institutions specified under Table 2 is exempt subject to compliance with the provisions of section 100C of the Ordinance.

The Act has removed the distinction of Table I and Table II thereby meaning that all the institutions and non-profit organizations, including those specified in Clause (66), are now entitled to exemption on fulfilment of specified conditions. The following institutions are also added to the aforesaid list:

- Beaconhouse National University
- Federal Ziauddin University
- Punjab Police Welfare Foundation Lahore

The institutions and nonprofit organizations listed below, however, continue to enjoy exemption unconditionally by their names being included under Clause (57):

- International Islamic Trade Finance Corporation
- Islamic Corporation for Development of Private Sector
- National Memorial Bab-e-Pakistan Trust
- Pakistan Agricultural Research Council
- The corporatized entities of Pakistan Water and Power Development Authority from the date of their creation
 up to the date of completion of the process of corporatization, i.e., till the tariff is notified

- The Prime Minister's Special Fund for victims of terrorism
- Chief Minister's (Punjab) Relief Fund for Internally Displaced Persons (IDPs) of NWFP.
- The Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network
- Pakistan Council of Scientific and Industrial Research
- The Pakistan Water and Power Development Authority established under the Pakistan Water and Power Development Authority Act, 1958 (W. P. Act XXXI of 1958)
- WAPDA First Sukuk Company Limited
- Pension of a former President of Pakistan and his widow
- State Bank of Pakistan and State Bank of Pakistan Banking Services Corporation
- International Finance Corporation established under the International Finance Corporation Act, 1956 (XXVIII of 1956) and provided in section 9 of Article VI of Articles of Agreement 1955 as amended through April 1993
- Pakistan Domestic Sukuk Company Ltd
- ECO Trade and Development Bank
- The Islamic Chamber of Commerce and Industry under the Organization of Islamic Conference (OIC)
- Commission on Science and Technology for Sustainable Development in the South (COMSATS) formed under International Agreement signed on 5 October 1994
- WAPDA on issuance of PKR20b TFC's/SUKUK certificates for consideration of Diamer Bhasha Dam Projects.
- WAPDA Second Sukuk Company Limited. (xxii) Pakistan International Sukuk Company Limited Second Pakistan International Sukuk Company Limited
- Third Pakistan International Sukuk Company Limited
- Asian Infrastructure Investment Bank and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on the 25th December, 2015
- Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund
- National Disaster Risk Management Fund
- Deposit Protection Corporation established under sub-section (I) of section 3 of Deposit Protection Corporation Act, 2016 (XXXVII of 2016)
- SAARC Energy Centre
- The Asian Development Bank established under the Asian Development Bank Ordinance, 1971 (IX of 1971)
- The Prime Minister's COVID-19 Pandemic Relief Fund-2020
- SAARC Arbitration Council (SARCO)
- International Parliamentarians' Congress. xvi) National Endowment Scholarship for Talent (NEST). Islamic Naya Pakistan Certificates Company Limited (INPCCL)
- Securities and Exchange Commission of Pakistan
- Privatization Commission of Pakistan
- Fauji Foundation
- Audit Oversight Board
- Baluchistan Education Endowment Fund (BEEF)
- Army Welfare Trust.
- Pakistan Mortgage Refinance Company Limited
- The Pakistan Global Sukuk Programme Company Limited
- Karandaaz Pakistan from tax year 2015 onward
- Public Private Partnership Authority for tax year 2022 and subsequent four tax years
- The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from 5 August 2022

- Export-Import Bank of Pakistan
- Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi
- Pakistan Poverty Alleviation Fund
- National Rural Support Programme

47. Exemption on award to sports person

The Act has introduced a new Clause (65B) whereby exemption has been granted on any monitory award received from Federal or Provincial Government or Public office holder by a sports person winning a medal in international Olympic Games Representing Pakistan. This exemption is available from tax year 2025.

48. Exemption on income of Zone enterprise

Income derived by a Zone enterprise as defined under the Special Economic Zone Act, 2012 for a period of 10 years starting from the date the developer certifies commencement of commercial operations of the Zone enterprise, and for a period of 10 years to a Zone developer starting from the date of signing of the development agreement in the special economic zone, is exempt on fulfilment of specified conditions. The Act has restricted the exemption available to Zone enterprises for 10 years from the commencement of commercial operations or up to 30 June 2035, whichever is earlier.

49. Exemption to Special Technology Zones

Income derived by a Zone enterprise as defined under the Special Technology Zones Act, 2021 is exempt from tax for a period of 10 years from the date of issuance of license by the Special Technology Zone Authority, The Act has restricted the exemption for a period of 10 years from the date of issuance of license or up to 30 June 2035, whichever is earlier.

50. Exemption to residents of KPK and Balochistan

Any income of an individual domiciled, or Company and AOP resident in tribal areas forming part of the Provinces of KPK and Baluchistan, which was not chargeable to tax prior to the commencement of Twenty- fifth Amendment Act, 2018 is exempt with effect from 1 June 2018 to 30 June 2025. The Act has extended the period of exemption until 30 June 2026.

51. Exemption to cinema operators

Income derived by a person from cinema operations is exempt from tax for a period of five years from the commencement thereof. The Act has made this exemption time bound whereby the exemption will be available till 30 June 2030 or five years from the commencement of cinema operations, whichever is earlier.

52. Exemption to Venture Capital Company or Venture Capital Fund

Income derived between 1 July 2022 to 30 June 2025 by venture capital company and venture capital fund registered under relevant venture capital Companies and Venture Capital Funds Management Rules issued by SECP, is exempt from tax. The Act has withdrawn this exemption which is even otherwise not applicable after the tax year 2025.

PART - II

53. Reduction in tax for National Logistics Corporation

The Act has added a new Clause (24CB) in Part II of the Second Schedule to the Ordinance, reducing the deduction and collection of tax rate to 3% under Section 153(1) and Section 236A(1) for National Logistics Corporation.

PART - III

54. Reduction in tax for full-time teachers and researchers

Clause (2), Part III of the Second Schedule provided 25% reduction against tax payable of full-time teachers or a researcher employed in a nonprofit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government research institution. There has been a controversy about availability of such Clause as the Tax Laws (Second Amendment) Ordinance, 2021 omitted the same, the matter was also taken up by the Federal Tax Ombudsman who directed the FBR to provide the benefits to the eligible person, The Act has now added a new Clause (3A) to specify that the benefit applies from 1 July 2022 until tax year 2025.

PART - IV

55. Exemption from audit to certain persons

Sections 177 and 214C respectively empower the CIR and the FBR to select the case of a taxpayer for tax audit. Further, where a person has been audited in a year shall not preclude him from being audited again in the next and following years, where there are reasonable grounds for such audits.

Clause (105) was introduced in Part IV of the Second Schedule through the Finance Act, 2018 whereby the provisions of Sections 177 and 214C have been made inapplicable, in cases where the income tax affairs of the taxpayer have been audited in any of the preceding three tax years which was then increased to four years through the Finance Act, 2022 by insertion of Clause (105A). However, the CIR is empowered to select a person's case for an audit with the approval of the FBR.

The Act has now substituted the word "audited" with "selected for audit" and the threshold of four years has been reduced to three years. It signifies that where a taxpayer's case has been selected for tax audit in any of the three preceding years can only be selected for audit again after three years from that tax year.

56. Exemption from application of Super Tax on the property in personal use

The Act has added a new Clause (104A) which provides exemption from applicability of Super Tax under Section 4C of the Ordinance to capital gain arising from disposal of such residential immovable property. Provided that such property has been in personal use for the last 15 years and the same is being duly declared by that person in his or her wealth statement filed under Section 116 of the Ordinance for since 15 years as residence for personal use. Further, the said exemption can only be availed by a person once in 15 years.

57. Exemption to withholding of tax to persons resident in tribal area

Clauses (109A) and (110), Part IV of the Second Schedule provide exemption from withholding of tax to an individual domiciled or a company and AOP resident in the tribal areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution upto 30 June 2025.

This exemption has been extended till 30 June 2026.

The Tenth Schedule

58. Rate of deduction or collection of tax

Tax is required to be collected or deducted on the purchase or transfer of immovable property under Section 236K in the case of persons not appearing in ATL at 12%, 16% and 20% depending upon the fair market value of the immovable property. The Act has reduced the rate of tax withholding/collection by 1.5% in the following manner:

S. No.	Fair market value of immovable property	Existing tax rate	Revised tax rate
1.	Where the fair market value does not exceed PKR50m	12%	10.5%
2	Where the fair market value exceeds PKR50m but does not exceed PKR100m	16%	14.5%
3.	Where the fair market value exceeds PKR100m	20%	18.5%

Rule (1) provides the following tax rates for collection/deduction of tax from persons not appearing in ATL in respect of certain payments. The Act has omitted tax deduction under section 151 and has increased tax rate for collection of tax under section 236C by 1.5%. This is illustrated as follows:

S. No.	Section	Description	Existing Tax Rate	Revised Tax Rate
1.	151	On yield or profit on debt paid by a banking company or a financial institution	35%	40%
2.	151	On yield or profit on Government securities paid to any person other than an individual	35%	40%
3.	151	On yield or profit on debt paid in any other case	35%	30%
2.	236C	On gross amount of consideration received on sale or transfer of immovable property	10%	11.5%
3.	236G	On the gross amount of sale to distributors, dealers or wholesalers other than sale of fertilizer	2%	No change
4.	236H	On gross amount of sale to retailers	2.5%	No change

59. Rate of deduction or collection of tax from persons who are appearing on ATL but have not filed return of income

Tax is required to be collected or deducted on sale or transfer of immovable property under section 236C in the case of persons appearing in ATL but have not filed return of income at 6%, 7% and 8%, depending upon the amount of consideration received. The Act has increased the rate of tax withholding/collection by 1.5% as under:

S. No.	Description	Existing Tax Rate	Revised Tax Rate
1.	Where the gross amount of consideration received does not exceed PKR50m	6%	7.5%
2	Where the gross amount of consideration received exceeds PKR50m but does not exceed PKR100m	7%	8.5%
3.	Where the gross amount of consideration received exceeds PKR100m	8%	9.5%

Tax is required to be collected or deducted on purchase or transfer of immovable property under section 236K in the case of persons appearing in ATL but have not filed return of income at 6%, 7% and 8%, depending upon the fair market value of immovable property. The Act has reduced the rate of tax withholding/collection by 1.5%. This is summarized as follows:

S. No.	Description	Existing tax rate	Revised tax Rate
1.	Where the fair market value does not exceed PKR50m	6%	4.5%
2	Where the fair market value exceeds PKR50m but does not exceed PKR100m	7%	5.5%
3.	Where the fair market value exceeds PKR100m	8%	6.5%

60. Exceptions

Rule 10 provides exceptions where provisions of the Tenth Schedule shall not apply on tax collectible or deductible under certain sections of the Ordinance. The list includes tax collected under section 37A of the Ordinance. The Act has restricted this exception on disposal of securities acquired on and from 1 July 2025.

Sales Tax

1. Limit on input tax adjustment

The FBR is empowered to prescribe specific limits on input tax adjustments for any person or class of persons, To limit input tax adjustment, the Act provides that the FBR may utilize a data-based automated risk management system to defer certain input tax or fix higher or lower limits of input tax adjustment, However, registered persons may contest such actions by submitting an application and relevant documents to the concerned Commissioner, who is required to make a decision within 30 days.

2. Tax fraud

The definition of tax fraud introduced vide Finance Act, 2024 is revamped with a new definition. The Act enhanced the scope of tax fraud to include actions such as omitting to take any action or causing such omission, using or preparing false, forged or fictitious documents including returns, statements, annexures and invoices and making taxable supplies of goods without issuing a tax invoice etc. Additionally, certain counter amendments are introduced under the Sales Tax Act, 1990 (ST Act) to curb instances of tax fraud.

3. Abettor

The Act introduced the concept of abettor by defining the term "abettor" and inserting relevant penal provisions. An abettor will be a person who:

- Abets or connives in tax fraud
- Commissions any offense warranting prosecution
- Prepares or causes to prepare invoices for false claim of input tax adjustment
- Unauthorizedly uses bank account or operates business bank account in other registered persons' name

4. Assessment of tax and recovery of tax not levied or short levied or erroneously refunded

Section 11E empowers the Officer Inland Revenue to determine and recover any unpaid tax liability, including those arising by way of collusion or a deliberate act, Now, the Act substituted section 11E(1) whereby proceedings in respect of short payment of tax by way of collusion or deliberate act, generally referred to tax fraud, has been excluded from the ambit of said section 11E(1) and such proceedings are to be conducted under Section 37A of the ST Act.

5. Summon and enforcing attendance of any person

Currently, inquiries conducted under Section 37 of the ST Act by the Officer Inland Revenue deemed to be a judicial proceeding within the meaning of Section 193 and 228 of the Pakistan Penal Code.

The Act has enhanced the powers of the Officer Inland Revenue equivalent to the powers of a civil court trying a suit under the Code of Civil Procedure, 1908, in respect of the following matters:

- Summoning and enforcing the attendance of any person and examining him or her on oath
- Requiring the discovery and production of documents and receiving evidence on affidavits

6. Best judgment assessment of distributors, dealers and wholesalers

The concept of best judgment assessment was introduced vide Finance Act, 2024 under the ST Act, drawing its foundation from the Income Tax Ordinance, 2001. This provision was incorporated to empower tax authorities to issue orders and recover taxes based on their best estimates.

The ST Act currently specifies certain issues/situation in which the Officer Inland Revenue is empowered to perform best judgment assessments.

The amendments made through the Act, aim to expand the scope of the assessment, allowing the officer Inland Revenue to make best judgment assessment for distributors, dealers and wholesalers who are liable to be registered under the ST Act but fail to furnish a return. The Officer Inland Revenue may assess the sales tax liability of such dealers, distributors or wholesaler based on value addition using any reasonable basis, which includes the purchase data obtained from the income tax collected under Section 236G of the Income Tax Ordinance, 2001.

7. Tax fraud proceedings through specific provisions

The inquiry and investigation of tax fraud, currently included under the provisions for assessment and recovery of nonpayment or short payment of taxes, are revamped through the following provisions.

(i) Power to inquire and investigate offenses warranting prosecution under the ST Act

Subject to the provisions of Section 11E of the ST Act, any officer authorized by the FBR, based on material evidence indicating the commission of tax fraud or an offense warranting prosecution under the ST Act, may initiate an inquiry with the approval of the Commissioner. After completion of the inquiry, the taxpayer will be provided an opportunity for a hearing, after which the proceedings may be dropped or, with the approval of Commissioner, investigation proceedings may be initiated against the taxpayer.

During the investigation of tax fraud, the Assistant Commissioner/Officer Inland Revenue holds powers of a civil court trying a suit under the Code of Civil Procedure, 1908. The Officer should complete the investigation within three months and prepare an investigation report for submission before the Court.

(ii) Power to arrest and procedure

The powers to make an arrest lies with the concerned Commissioner, who may upon authorization by three-member committee notified by Chairman, can prosecute or arrest such person who committed a tax fraud and satisfies the following conditions:

- Committed a tax fraud as defined under the Act
- The amount involved in tax fraud exceeds PKR50m
- It has been established during tax fraud proceeding that:
 - The accused is intentionally or willfully not joining the investigation after three duly served notices
 - The accused is attempting to abscond
 - There are sufficient grounds that the accused would tamper with the evidence

Without prejudice to the aforesaid powers of arrest of the Commissioner concerned, if the Officer Inland Revenue believes that a delay in arrest would enable the accused to evade the process of law or circumstances, he may arrest the accused immediately and report the arrest to the Commissioner.

The arrested person would be presented before a Special Judge or the nearest Judicial Magistrate within 24 hours

If the arrest is made without sufficient grounds or with malafide intent, the Commissioner may direct the immediate release of the accused so arrested.

The magistrate or judge and the Officer Inland Revenue will follow the same procedures for bail, custody, confession or submission of reports as provided under the Code of Criminal Procedure, 1898.

In cases where the suspected tax fraud involves a company, every director, chief executive officer, chief financial officer or by whatever name called, of that company whom the officer has reason to believe is personally responsible for actions of the company liable to arrest under the ST Act.

The company will not be absolved of its liability for any tax sought to be evaded, including default surcharge and penalty following the arrest.

An Officer Inland Revenue is also empowered to arrest any person who is an abettor of tax fraud based on material evidence and with the approval of the Commissioner.

(iii) Compounding of offenses

When a person accused of tax fraud or any offenses warranting prosecution under the ST Act, wishes to deposit the amount of tax calculated as a result of inquiry or investigation along with the penalty and default surcharge, the Commissioner may compound such offense. Compounding the offense will result in the acquittal of the accused for the compounded offense.

(iv) Offense and penalties of tax fraud

The Act has omitted Serial No(s), 11 and 22, which outlined penalties and punishments for individuals involved in tax fraud. Now, through new Serial No(s), 13 and 13A penalties and punishments have been introduced for individuals committing tax fraud, including abettors.

The amended penalty is tabulated hereunder:

	Offenses	Penalties and punishments	Section of the ST Act to which the offense has reference
13. (i)	Any person who commits or causes to commit tax fraud as defined under sub-clauses (a), (b), (c), (d), (e) or (f) of clause (37) of section 2	Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend upto five years. Such person shall also be liable to pay the amount equal to the loss of tax caused as confirmed by the Special Judge from such amount reported Special Judge from such amount reported under sub section (11) of section 37B, including one hundred percent penalty of tax loss and default surcharge under section 34 of the ST Act	2(37)
(ii)	Any person who commits or causes to commit tax fraud as defined under sub-clauses (g), (h), (i), (j) or (k) of clause (37) of section 2	Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend up to five years. Such person shall also be liable to pay the amount equal to the loss of tax caused as confirmed by the Special Judge from such amount reported under sub section (11) of section 37B, including one hundred percent penalty of tax loss and default surcharge under section 34 of the ST Act	
13A.	Any person who abets or connives in committing tax fraud as defined in section 2(37) or any offense warranting prosecution under the ST Act	Such person shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to five years or with fine which may extend to PKR10m, or with both	2(1), 2(37), 50A

8. Coercive actions for non-registration

The Act has introduced a sub-section 2(A) in section 14 of the ST Act authorizing the Commissioner or any other officer to compulsorily register a person who is required to be registered under the ST Act but fails to apply for the registration, after an appropriate inquiry.

Currently, compulsory registration is used under the ST Act to identify the undocumented sector that supplies taxable goods but has not registered for sales tax purposes. To address this issue, the Federal Government has introduced punitive measures that involve the discontinuance of gas and electricity connections for unregistered individuals. This action would be enforced through general orders issued by the FBR.

The following actions will be taken against the person who is liable to be registered but fails to do so through the introduction of Sections 14AC, 14AD, and 14AE. These new provisions introduce the following enforcement measures:

- Bar on operations of bank accounts
- Bar on transfer of immoveable property
- Sealing of business premises
- Seizure of moveable property
- Appointment of a receiver for the management of the taxable activities of a person

The aforesaid actions can be reversed once the person get himself registered and comply under the ST Act. Any person aggrieved by any decision or order may prefer an appeal before the Chief Commissioner Inland Revenue within 30 days.

9. Deregistration, blacklisting and suspension of registration

Section 21 of the ST Act authorizes the Commissioner to issue an order of suspension and blacklisting of a registered person who is found to have issued fake invoices or committed tax fraud. In such cases, Sub-section 5 authorizes the Chief Commissioner to modify the order after providing the taxpayer with an opportunity of being heard.

The Act omits Sub-section 5 of Section 21 and introduces a new Sub-section 2A whereby the Commissioner shall, within 10 days of issuance of the order of suspension, issue a Show Cause Notice and after providing an opportunity of hearing, the Commissioner may either issue order for revoking suspension or issue an appealable speaking order for the blacklisting of the registered person within 30 days of the receipt of the reply to the notice.

10. Certain transactions not admissible

Currently, in the case of supply of taxable goods to unregistered persons, input tax adjustments are restricted if the amount of supply exceeds PKR100m in a financial year or PKR10m in a tax period. A proportionate amount of input tax is disallowed against such taxable supplies. The above value of transaction is now abolished and the FBR with the approval of Federal Minister-in-Charge may prescribe new limits subsequently through rules or notifications in the Official Gazette.

11. Retail price

The Act introduces a new proviso in the definition of retail price allowing a reduction of up to a maximum of 5% of the retail price, inclusive of sales tax and FED, for the levy of sales tax on aerated water, beverages, mineral water, and fruit juices on account of chilling or similar charges.

Additionally, the Act provides that the retail price for all imported goods specified in Third Schedule, shall not be less than 130% of the value determined under the Customs Act, 1969 (Customs Act), including applicable customs duties and FED.

Furthermore, the Act empowers the FBR to fix the retail price of goods specified in the Third Schedule.

12. Electronic monitoring and tracking

The Act has introduced the concept of e-bilty, which will be issued through the "Cargo Tracking System" for electronic monitoring and tracking of movement of goods within or across Pakistan. Registered persons will be required to ensure linkage of e-bilty with respective sales tax invoice. A penalty of PKR50,000 has also been introduced for non-compliance with this requirement, along with the recovery of any tax evaded due to the non-issuance of an e-bilty.

In line with this, similar changes have been introduced under the Customs Act whereby any consignor, transporter, shipping agent, freight forwarder, consignee, supplier or recipient of goods and causing movement of goods from and to a seaport, land border station, inland dry port or inland movement, would be required to electronically generate, carry, display or validate an e-bilty.

13. Condonation of time limit

The FBR or Commissioner is empowered to condone any time limit prescribed under the ST Act for submitting applications or completing any required actions for a period as it may consider appropriate. The Act limits the condonation period to a maximum of two years. Further, if significant revenue loss to the government exchequer or taxpayer is identified, a committee notified by the FBR may extend this period after providing the registered person an opportunity to be heard.

14. Inspection of audit firm

The Act inserts a new Section 58C, which enables the Chief Commissioner Inland Revenue, with the FBR's approval, to refer audit firms for inspection by the Audit Oversight Board in cases where a registered person's accounts, subject to audit under the Companies Act, 2017, are believed to not accurately reflect the true and fair view of sales, purchases and related sales tax liabilities.

15. Goods chargeable to sales tax at retail price (Third Schedule)

The Act inserts the following items in the Third Schedule; accordingly, these items will be subject to sales tax on retail price:

- Imported pet food including dog food and cat food in retail packing
- Imported coffee in retail packing
- Imported chocolates in retail packing
- Imported cereal bars in retail packing

16. Goods exempt from sales tax (Sixth Schedule)

Table I

The Act withdraws the exemption provided in Serial No,151 on supplies, imports and import of plant and machinery by the industrial units located in the erstwhile FATA/PATA. A similar entry is now included in the Eighth Schedule for charging tax thereon at a reduced rate.

The Act withdraws the exemption provided in Serial No,164 on import and supply of photovoltaic cells whether or not assembled in modules or made up into panels.

The Act extends the exemption of sales tax available through Serial No, 152 on supply of electricity to residential, commercial and industrial units located in FATA/PATA till 30 June 2026.

The Act expands the scope of exemption available on the import of Cystagon, Cysta drops, and trientine capsules, Previously, this exemption was restricted to personal use only; however, with the removal of the term "personal use," the exemption is now applicable for all purposes, thereby broadening its applicability.

The Act adds the following entry for granting exemptions on import and supply of the following goods:

S. No.	Description	
181.	Import or lease of aircrafts by Pakistan International Airlines Corporation Limited (PIACL).	

Table II

The Act amends the following entry for restricting exemption on local supply of the following goods:

S. No.	Existing Description	Revised Description
57.	Iron and steel scrap excluding supplied by manufacturer-cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021.	Iron and steel scrap excluding: (a) Supplied by manufacturer cum-exporter of recycled copper, authorized under Export Facilitation Scheme, 2021 directly supplied to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the FBR through a Sales Tax General Order
		(b) Supplied directly by the importer (verifiable from the goods declaration form) to a registered steel melter subject to such apportionment, conditions and restrictions as may be specified by the FBR through a Sales Tax General Order

17. Goods subject to sales tax at reduced rates (Eight Schedule)

The Act omits Serial No. 53 (already redundant) providing a reduced rate for import of specified cinematographic equipment imported till 30 June 2023.

The Act omits Serial No. 72 providing a reduced rate of 12.5% on supply of locally manufactured or assembled motorcars of cylinder capacity up to 850cc. Effectively, supply of such vehicles will be subject to a standard rate of sales tax.

The Act adds the following Serial No. 89 in the Eighth Schedule which gradually enhances the rate of tax on supplies, imports and import of plant and machinery by the industrial units located in the erstwhile FATA/PATA:

S. No.	Description	Tax rate
89.	 (i) Imports of plant, machinery, and equipment for installation in the tribal areas, and import of industrial inputs by industries located in the tribal areas, as defined in the Constitution of the Islamic Republic of Pakistan (ii) Supplies within the tribal areas Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities in accordance with quota determined by IOCO. Provided further that the plant, machinery and equipment on which the reduced rate is availed under this serial number, is transferred or supplied outside the tribal areas, the differential amount of tax shall be paid at the applicable rate. 	 July 2025 to June 2026: 10% July 2026 to June 2027: 12% July 2027 to June 2028: 14% July 2028 to June 2029: 16%
90.	Photovoltaic cells whether or not assembled in modules or made up into panels.	10% 8541.4200 and 8541.4300

Federal Excise

1. Duties specified in the First Schedule to be levied

The manufacturers, importers, service providers, service recipients and persons bringing goods into tariff areas are liable to pay Federal Excise Duty (FED) on goods and services under the Federal Excise Act, 2005 (FE Act). The Act has enhanced its scope by adding any other person including middle man, as may be specified under the provisions of the FE Act, who shall be liable to pay FED.

2. Power to seize

The Act has enhanced the scope of power to seize goods and extended it to such goods that are removed or sold by the manufacturer or any other person without affixing or affixing counterfeit tax stamps, banderoles, stickers, labels or bar codes as provided under section 45A of the FE Act, Until 30 June 2025, such seizure was restricted to the counterfeited cigarettes or beverages that are manufactured or produced unlawfully as well as other dutiable goods on which excise duty has not been paid in accordance with the FE Act.

3. Confiscation of goods

The Act has enhanced the scope of power to confiscate such goods that are removed or sold by the manufacturer or any other person without affixing or by affixing counterfeit tax stamps, banderoles, stickers, labels or bar codes as required under section 45A of the FE Act. Until 30 June 2025, such confiscation was restricted to cigarettes and beverages.

Additionally, the Act has also empowered the FBR who, by notification in the official gazette, may authorize any officer of revenue department not below the rank of Naib Tehsildar or Excise and Taxation Officer not below the rank of BPS-16, to exercise the powers of an officer of inland revenue to seize and confiscate goods in terms of Section 26 and 27(1) of the FE Act.

4. Appeals to Commissioner (Appeals)

The Act has provided aggrieved persons, other than Federal Excise Officer and SOE, with the option to file an appeal either before Commissioner (Appeals) or Appellate Tribunal, against orders passed by an officer of inland revenue up to Additional Commissioner, without any pecuniary limit. Consequently, Section 33A dealing with the pecuniary jurisdiction in appeals has been omitted.

5. Appeals to the Appellate Tribunal

The Act has provided that persons other than SOEs, aggrieved by any order passed by the FBR, Commissioner under section 35, Officer Inland Revenue or Commissioner (Appeals) may file an appeal before Appellate Tribunal without any pecuniary limit within 30 days from the date of receipt of such order.

Additionally, the Act has provided that SoEs may file an appeal before Appellate Tribunal, if the reappointed Alternate Dispute Resolution Committee (ADRC) fails to decide the matter within the extended period of 60 days and the FBR has dissolved such ADRC.

6. Reference to the High Court

The Act has provided that all persons including the Commissioner, aggrieved with the order of the Appellate Tribunal, may file a reference before the High Court within 60 days of the order of the Appellate Tribunal.

7. Amendments in the First Schedule

The Act has added the following category of excisable goods in Table I of the First Schedule to the FE Act.

S. No.	Description	Heading/sub-heading number	Rate of duty
64.	Day Old Chick (DOC)	Respective heading	PKR10 per DOC

FED imposed through the Finance Act, 2024 at Sr. No. 1 of Table-III of the First Schedule to the FE Act on allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property has been abolished.

Islamabad Capital Territory

1. Scope of tax

The Act has provided that the FBR may specify a date and mode for integration of service providers' businesses with its computerized system for real-time reporting of provision of services.

The Act has also extended the scope of exemption from ICT Sales Tax on services provided or rendered to GIZ and various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder, and agreements by the Federal Government.

The Act has also inserted a new sub-section (4), allowing the FRB to specify Table 3 to introduce a negative list of exempt services, facilitating a gradual transition from a positive to a negative list. It appears that the legislature intends to harmonize the taxation of services under the ICT Ordinance with the ST Act, under which the supply of all goods is taxable except for exempt goods.

Customs

1. Definitions

The Act has inserted the following new definitions:

Cargo tracking system

"Cargo tracking system" means a digital system notified by the FBR for electronic monitoring and tracking of import, export, transit and transshipment goods transported within or across the territory of Pakistan for the purposes of enforcement, compliance and prevention of smuggling.

E-bilty

"E-bilty" means the digital document generated through cargo tracking system to be accompanied with the transport carrying import, export, transit and transshipment goods transported within or across the territory of Pakistan as per the format prescribed under FBR rules.

2. Directorate general of intelligence and risk management, customs

The Act has merged the "Directorate Generals of Intelligence and Investigation, Customs," and the "Directorate General of Risk Management" to enhance intelligence gathering, improve the Risk Management System (RMS) and facilitating the targeted operations.

Further, the merged Directorate will be empowered under the Anti-Money Laundering Act, 2010, and the relevant rules and regulations.

3. Directorate general of customs auction

A new "Directorate General of Customs Auction" has been established to enhance governance, transparency, and efficiency in customs auction processes nationwide by centralizing and streamlining the auction-related operations.

4. Directorate general of communication and public relations, customs

A new "Directorate General of Communication and Public Relations, Customs." Has been established. The aim is to enhance communication strategies and public relations efforts within the Customs framework, ensuring effective dissemination of information and improved engagement with stakeholders.

5. Directorate general of post clearance audit and internal audit

The Act has merged the "Directorate General of Post Clearance Audit (PCA)" and the "Directorate General of Internal Audit (IA)." This change aims to integrate post-clearance and internal audit functions, enhancing oversight and improving the efficiency of audit processes within customs operations.

6. Hiring of technology specialists, auditors, accountants and goods evaluators on shortterm contract

The Act allows the FBR to hire technology specialists, auditors, accountants, and goods evaluators on short-term contracts of up to two years, that can be re-hired subject to performance review by the FBR.

7. General powers to exempt from customs duties

All notifications issued after 1 July 2016, if not rescinded earlier and placed before the National Assembly shall be continued and enforced up to 30 June 2026. Previously, the period of enforcement was up to 30 June 2025. The said amendment will provide legal coverage to the notifications issued during the aforementioned extended period.

8. Minimal duties not to be demanded

Through the Act, Section 19C of the Customs Act now provides that duties and taxes will not be levied where the value of any imported goods imported via post or courier does not exceed PKR500.

9. Allowing mutilation or scrapping of goods

Section 27A of the Customs Act addresses the process for allowing the mutilation or scrapping of goods, which can be requested by the owner before filing a goods declaration, subject to payment of Customs Duty at applicable rates on goods imported in their mutilated form or as scrapped.

The Act has added a new proviso in terms of which scrapping and mutilation shall not be allowed for quantities exceeding 10% of the imported goods. This change aims to regulate the extent of mutilation or scrapping permitted, ensuring that it remains within reasonable limits while still allowing owners to request such actions under specified conditions.

10. False statement, error, etc.

Section 32(3A) of the Customs Act provides the procedures for addressing instances where duties, taxes or charges have not been properly levied or have been erroneously refunded.

In order to reduce the volume of litigation/contravention cases, the Act has increased the threshold limit of duties and taxes from PKR20,000 to PKR100,000.

11. Declaration and assessment for home consumption or warehousing or transshipment

Section 79 of the Customs Act outlines the requirements for the declaration and assessment of imported goods for home consumption, warehousing, or other approved purposes. Currently, the duties and taxes are required to be paid upfront before the berthing of a vessel or the cross-over event of a vehicle.

The Act has now clarified that the payment of duty, taxes and other charges in respect of transshipment under the above section shall be made at the port of destination and assessment may be made in such manner at such place as may be prescribed by the FBR.

The Act has relaxed this requirement of upfront payment of duties and taxes and allowing the importers to pay their liability after completion of assessment of Goods Declarations (GDs).

12. Checking of goods declaration by the customs

Section 80 of the Customs Act outlines the procedures for checking goods declarations by Customs authorities. The Act has enacted an amendment to Section 80, adding a new Sub-section (6) that allows the FBR to establish Centralized Assessment and Examination Units at designated locations. This initiative has aimed to streamline the assessment and examination processes for import, export, and transit consignments across various Customs facilities.

The amendment specifies that these units will be restricted areas accessible only to designated Customs officers and may utilize digitalized assessments based on artificial intelligence tools. The FBR is empowered to set conditions for the assessment and examination of goods through these units, enhancing efficiency and oversight in Customs operations. Additionally, any previously established units will be recognized as having been constituted under this section, ensuring continuity in Customs practices.

13. Procedure in case of goods not cleared or warehoused or transshipped or exported or removed from the port after unloading or filing of declaration

Section 82 of the Customs Act provides the procedures for handling goods that are not cleared, warehoused, transshipped, exported, or removed from the port within specified timeframes. The Act has amended Section 82, establishing clear timelines for such events as provided below:

Description	Timelines (Days)	
GD to be filed for home consumption, warehousing, or transshipment	Within 20 days of the goods' arrival at a customs station.	
GD to be filed before the vessel's berthing and the goods are not removed from the customs station	Within five days after the assessment is completed and the vessel has berthed, following the payment of applicable duties and taxes	
GD to be filed after the vessel has berthed and the goods are not removed from the customs station for home consumption, warehousing, or transshipment	Within five days of the clearance of the goods declaration.	
Goods are not loaded onto the conveyance for export	Within 15 days of their entry into the port	

The Collector is empowered to waive the penalty under this Section in event of unavoidable circumstances

The Act has also levied penalties, as may be notified by the Federal Government, for not following these timelines. The amendment further specifies that goods may be sold at auction or taken into custody by Customs after due notice, even if there are pending adjudications or appeals. Goods can also be confiscated if declarations are not filed within 30 days.

14. Clearance for home consumption

Section 83 of the Customs Act provides the procedures for the clearance of goods for home consumption. It specifies that once the owner has paid the applicable import duty and charges, and if the importer does not violate any prohibitions or restrictions, the appropriate customs officer may authorize the clearance of the goods.

It is enacted that at Customs stations where the Customs Computerized System is in operation, clearance can be facilitated through system-generated documents, provided that all duties, taxes and charges have been paid.

15. Cargo Tracking System and e-bilty mechanism

The Act has added Section 83C, establishing a Cargo Tracking System and e-bilty mechanism. This section mandates that person involved in the movement of goods such as consignors, transporters, shipping agents, freight forwarders, consignee or recipient of goods must electronically generate and validate an e-bilty.

The FBR is empowered to set the procedures for implementing this mechanism and may utilize technological means for tracking and maintaining digital records of goods. Additionally, the FBR may charge fees for maintenance and operation of the tracking system.

In the event of violations, penalties, fines and confiscation of goods may be imposed, However, the section also provides exemptions, stating that no e-bilty is necessary if the value of the goods or travel distance falls below a specified limit or if the goods are explicitly exempted from the e-bilty requirement, This initiative aims to enhance tracking and accountability in the movement of goods, specifically smuggled/non-duty paid cargo through the use of technology while facilitating bonafide cargo, thus improving customs efficiency and compliance.

16. Label or declaration in respect of goods imported or exported by post to be treated as entry

Section 144 of the Customs Act addresses the treatment of labels or declarations for goods imported or exported by postal services. The Act has broadened the scope of the section to include goods imported or exported via courier in addition to postal services.

17. Rate of duty in respect of goods imported or exported by post

Section 145 of the Customs Act outlines the applicable rates of duty for goods imported or exported via postal services. The Act has broadened the scope of the section to include that the duty rates are applicable not only to goods sent by post but also to those sent by courier companies.

18. Punishment for offenses

 The Act has inserted penalties for noncompliance with the cargo tracking and e-bilty requirements. The following actions may trigger penalties:

	Offense	Revised penalties
(i)	Failing to generate, carry, display, or validate an e-bilty or related tracking device for inland goods movement	First contravention: PKR50,000
(ii) Intentionally avoiding these requirements	Second contravention: PKR500,000
(ii	 i) Tampering with an e-bilty or tracking device, or using a tracking device assigned to a different vehicle 	Subsequent contraventions: PKR1m, confiscation of goods and vehicle, and possible imprisonment of up to six months upon conviction by a Special Judge.

• The Act has expanded the penalties as provided in Serial No, 64, to Section 127, 128, 129 and 129A of Transit Trade. Currently, the penalties apply only to contraventions of Sections 128 and 129.

19. Extent of confiscation

Through removal of the proviso in Section 157(2), the Act has withdrawn the discretionary power of Customs officers to release a seized conveyance, pending adjudication against a bank guarantee provided by the owner.

20. Provisions on seizure of goods

The Act has added Section 169(6), which would restrict courts from granting a stay on auction proceedings unless the applicant furnishes a pay order or bank guarantee of at least 25% of the goods' reserve price with the Court's Nazir.

21. Power of adjudication

The Act has extended the adjudication timeline stipulated under first proviso of Section 179(3) of the Customs Act from 30 days to 45 days, with an additional extension of 15 days at the discretion of the Collector Adjudication.

Further, by amending the third proviso of Section 179(3), the Act has extended the adjudication period for cases involving goods lying at seaports, airports, or dry ports from 30 to 45 days, while retaining the existing 15-day extension authority of the Collector of Customs.

Through the amendment to Section 179(4), the Act has broadened the FBR's authority to regulate adjudication system including allowing more flexibility in transferring cases or extending time limits, subject to documented justification.

22. Burden of proof as to lawful authority etc.

The Act has amended Section 187 of the Customs Act to broaden the range of documents a person may present to demonstrate lawful authority when accused of an offense under the Customs Act. In addition to existing permits or licenses, the amendment would allow a goods declaration or a sales tax invoice, issued in the person's name to serve as supporting documentation.

23. Presumption as to legal character of vehicle

The Act has inserted Section 187A, under which any vehicle detained or seized under the Customs Act, or its rules, will be presumed smuggled if forensic examination reveals a tampered chassis number, cut-and-weld chassis, welded over or restamped chassis number, or a changed body. This presumption will apply even if the vehicle is registered with a Motor Registration Authority. Such vehicles will be subject to confiscation. The FBR is empowered to authorize the use of confiscated vehicles for operational purposes in the manner provided in Section 182, within 90 days of confiscation.

24. Appeals to Collector (Appeals)

Through the amendment to Section 194A(2) of the Customs Act, the Act has extended the time limit for filing an appeal from 30 to 45 days from the date the decision or order is communicated to the relevant party.

The Act has inserted a second proviso to Section 194A(5) of the Customs Act, requiring the aggrieved person to furnish a pay order or bank guarantee of at least 25% of the principal amount before the Tribunal's registrar, as a condition for obtaining a stay order.

25. Appeals to the Appellate Tribunal

Through the amendment to Section 194A(2) of the Customs Act, the Act has extended the time limit for filing an appeal from 30 to 45 days from the date the decision or order is communicated to the relevant party.

The Act has added a second proviso to Section 194A(5) of the Customs Act, requiring the aggrieved person to furnish a pay order or bank guarantee of at least 25% of the recoverable amount before the Tribunal's registrar, as a condition for obtaining a stay order.

26. Powers of FBR or Chief Collector or Collector to pass certain orders

Through the amendment to Section 195(1) of the Customs Act, the Act has expanded the scope of review powers by including the Director General and Director alongside the FBR, Chief Collector, and Collector of Customs, enabling them to examine the legality or propriety of decisions made by a subordinate officer.

Further, the Act has amended Section 195(1A) of the Customs Act to clarify that the authority to issue fresh orders or reopen existing ones also applies to orders issued in adjudication proceedings.

27. Reference to High Court

Through the amendment to Section 196(1) of the Customs Act, the Act has clarified that the 30-day period for filing a reference begins from the date of receipt of the Appellate Tribunal's order, rather than the date of the order itself.

The Act has amended Section 196(6) of the Customs Act to require that stay orders granted by the High Court for recovery of duty be subject to the aggrieved person furnishing a pay order or bank guarantee of at least 25% of the principal amount with the Court's Nazir.

28. Procedure for sale of goods and application of sale proceeds

The Act has amended Section 201(1) of the Customs Act to introduce an additional method for selling goods other than confiscated goods, through an authorized agent. Existing methods include public auction, tender, private offer, or other means with the owner's written consent.

The Act has restricted courts from staying auction proceedings unless the applicant furnishes a pay order or bank guarantee of at least 50% of the goods' reserve price with the Court's Nazir.

29. Establishment of Customs Command Fund

The Act has established a Customs Command Fund, to be financed through allocations made by the Federal Government from the sale proceeds of smuggled goods. The fund will support anti-smuggling efforts, based on a share notified by the FBR with the concurrence of the Finance Division. The FBR will also be authorized to prescribe the use of funds while imposing any related conditions, limitations, or restrictions.

It is clarified that the abovementioned sale proceeds shall form part of Federal Consolidated Fund before any Customs' Command Fund is established.

30. Digital Enforcement Station(S)

The Act has empowered the FBR to declare certain locations as Digital Enforcement Stations through notification in the Official Gazette. These stations may be established at sites deemed appropriate to help prevent smuggling and illicit trade. The FBR will be empowered to designate existing customs check-posts as Digital Enforcement Stations and issue rules regarding their staffing, operations and technological setup.

Additionally, the FBR may, subject to rules, hire retired junior commissioned officers and soldiers of the armed forces on contract against available Customs posts for the purposes of the Digital Enforcement Stations section.

31. Amendments in the First Schedule

Customs duty on the following goods have been changed as per the rates given below:

Chapters	Existing rate	Amended rate
Animals and related eatables and products (Chapters 1-5)		
Bones (waste), bones(powder), Bulls, Cows, Falcons, Fish eggs, Horns, Oxen, Shells, Silk worm eggs, Bees, Boneless, Camels and Other camelids (Camelidae), Carcasses and half Carcasses, Ducks, Frozen abalone(Haliotis spp.), Frozen stromboid conchs (Strombus spp.), Geese, Guinea Fowls, Live, fresh or chilled, Live, fresh or chilled abalone (Haliotis spp.), Live, fresh or chilled stromboid conchs (Strombus spp.), Livers, Ostriches; emus (Dromaius novaehollandiae), Other cuts with bone in, Other stromboid conchs (Strombus spp.), Primates, Psittaciformes (including parrots, parakeets, macaws and cockatoos), Purebred breeding animals and others.	3	0
Dried and others	16	15
Fowls of the species Gallus domesticus (chicken), bovine animals, fresh or chilled and others	3	5

Plants and other miscellaneous edibles (Chapters 6-15)		
Black matpe (dry whole), Bulbs, Castor meal, dry whole, Flours of Castor, Grams (dry whole), Grams split, Green Beans (dry whole), Green Beans (split), Bambara Beans (Vigna subterranea or Voandzeia subterranea), Beans of the species Vigna mungo (L.)Hepper or Vigna radiata (L.)Wilczek, Cabbage lettuce (head lettuce), chicory roots, Cinnamon (Cinnamomum zeylanicum Blume), Clover (Trifolium spp.) seeds etc.	3	0
Black, of Wheat, Low erucic acid rape or colza seeds and other cereals	3	5
In shell and mixtures referred to in Note 1 (b) to this Chapter	16	10
Hena leave and powder, Red chilies (powder), Red chilies (whole), Seed lac, AgarAgar, Beans (Vigna spp., Phaseolus spp.), Crushed or ground, Jelly fungi (Tremella spp.), Maize (corn) starch, Manioc (cassava) starch, Mushrooms of the genus Agaricus, Neither Crushed nor ground, of Ephedra, of hops, of liquorice, of Maize (corn), of oats, of Other cereals, of Wheat, Other starches, Peas (Pisum sativum), Potato starch, Shiitake (Lentinus edodes), and others.	16	15
Shelled	20	10
Carnations, Chrysanthemums, Lilies (Lilium app.), Orchids, Roses and Others	20	15
Food Industry (Chapters 17–23)		
Shrimp meal, cane molasses, not defatted, Wholly or partly defatted, Cocoa beans, whole or broken, raw or roasted Cocoa butter, fat and oil, Cocoa shells, husks, skins and other cocoa waste.	3	0
Mixes and doughs for the preparation of bakers' wares of heading 19.05	16	10
Maple syrup, sago, ground-nuts, Other including Mixtures Palm hearts, Active yeasts, Apricots, Chemically Pure fructose Cherries, Citrus fruit, Inactive yeasts; other singlecell microorganisms, dead Peaches, including nectarines Pears, Pineapples, Prepared baking powders, Strawberries and others	16	15
Others	20	5
Preparations Other than in retail packing, not Containing cocoa	20	15
Tobacco Industry (Chapter 24)		
Tobacco refuse, Tobacco, not stemmed/striped and Tobacco, partly or Wholly stemmed/stripped.	11	10
Minerals and Gases (Chapters 25-27)		
Natural Gas	0	5
J.P.1, Other jet fuels, Carbon Black oil (Carbon Black feed stock), Carbon Black oil (Carbon Black feedstock), Coke of coal, Light diesel oil, Liquid paraffin, calcined, Bituminous or oil shale and tar sands, Granulated slag (slag sand) from the manufacture of iron or steel and others.	3	0
Coke of Lignite or peat, Mineral oil which has flash point at or above 200oF, Phenols, Anthracite, Bituminous coal, Creosote oils, Other coal, agglomerated Lignite, Pitch, Pitch Coke, Petroleum oils and others.	3	5
Furnace-oil, Talc, Crushed or powdered and others	11	5

Base oil for lubricating oils of subheadings 2710.1951, 710.1952 and 2710.1953, coal tar, High speed diesel oil, Solvent oil (non-composite), Transformer oil, white oil, Cement clinkers, Petroleum Jelly and others.	11	10
Not calcined, Hydraulic lime, Quicklime and Slaked lime	16	5
Slack wax, Crude or roughly trimmed, Merely cut, by sawing or otherwise, into blocks or slabs of a rectangular (including square) shape and others.	16	15
Chemicals and allied Industries (Chapters 28-38)	'	
Emamectine benzoate, Substances controlled under the Convention on the Prohibition of the Development , Production, Stock piling and use of Chemical Weapons and on their Destruction, Benzyl acetate, Boric acid, Capping Cement for Bulbs and tube lights, Carboxylic acid based anhydride hardener, Coated or treated Calcium carbonate Cod liver oil, Commercial Calcium hypochlorite (bleaching powder), concentrates of essential oils, Emitter paste for tube lights, Ion exchangers, obtained from acacia catechu (Black cutch), of a kind used in cosmetics industry and others	3	0
Indigo Blue, Lacquered Blue, golden and silver, Pure terephthalic acid (PTA), Citric acid, Sugars, chemically pure, other than sucrose, lactose, maltose, glucose and fructose; sugar ethers, sugar acetals and sugar esters, and their salts, other than products of heading 29. 37, 29. 38 or 29.39. and others.	3	5
For malaria	11	0
Cough syrups medicinal, Paracetamol, Varnishes, Acrynol pad, Aspirin, medicinal, Chloroparaffins Liquid and others	11	10
Hydrogen	16	0
Carbon Black (Other than rubber grade) and Stamping foils	16	5
Carbon Black (rubber grade), Chrome yellow, Lithopone, Pigments based on cadmium compounds and others	16	10
Anti-scaling compounds, Cefixime in bulk, dextrins, fatty acid distillate, Fluorescent ink, Greases, Master batches (coloured), Methyl acetate and others	16	15
For blood-grouping, for Zika and Other diseases transmitted by mosquitoes of the genus Aedes and others.	20	0
Others	20	5
For leather, Furazolidone and others	20	10
Sec-Butyl acetate, Ethyl acetate, n-Butyl acetate and others	20	15
Plastics, rubber, fur skin and articles thereof (Chapters 39-43)		
Others	0	15
Belting conveyor, Belting machine, Belting transmission, gas kits of leather, Hosepiping leather, Pickers leather, Washer leather, Bagomatic bladder scrap, Ethers polyvinyl and others	3	0
Radial, of a kind used on buses, lorries or trucks, Alginic acids, its salts and esters and others.	3	5
Yarn and film grades and Carboxymethylcellulose and its salts	11	5

Bottle grade, Cyanoacrylate, Double sided tape, emulsion grade, Laboratory ware and others	11	10
Polyester rigid film, non-plasticised and Reinforced only with metal	16	10
Radial, acrylic binders, Biaxially Oriented Polypropylene (BOPP) film, laminated, General Purpose Polystyrene (GPPS), High Impact Polystyrene (HIPS), General Purpose Polystyrene (GPPS), High Impact Polystyrene (HIPS), Vinylidene chloride polymers and others	16	15
Of Swine	20	0
Polylactic acid and others	20	5
Cellulose nitrates nonplasticised and Phenolic resins	20	10
Shoe lasts, of other plastics, of polymers of Ethylene and others	20	15
Wood and printing materials (Chapters 44-49)	·	
Holy Quran (Arabic text with or without translation), Unused postage, revenue or similar stamps of current or new issue in the country in which they have, or will have, a recognised face value; stamp- impressed paper; banknotes, Printed labels of paper, Dictionaries and encyclopedias, and serial instalments thereof and others	3	0
Trade advertising material, Commercial catalogs and the like	3	5
Clay coated exceeding either 370 mN or 325 gsm for aseptic liquid food packaging, Pictures, designs and photographs, self-adhesive, cork and stoppers and others	11	10
Art Card, Art paper, Bond paper, Card board, Graph paper and others	16	15
Vegetable parchment and others	20	5
Others	20	10
Others	20	15
Textile Industry (Chapters 50-63)		
Accessories, Bolting cloth, whether or not made up, Dryer screen for paper making, Fabrics consisting of warp without weft assembled by means of an adhesive (Bolduc's), Filtering or straining cloth of a kind used in oil presses or the like, including that of human hair and others	3	0
Multiple (folded) or cabled Yarn and Single Yarn	3	5
Tapes	11	0
Of polyesters not exceeding 2.22 decitex, measuring 714.29 decitex or more (not exceeding 14 metric number), of Polypropylene and others	11	5
Adhesive tape of a width not exceeding 20 cm, Articles of yarn, strip or the like of heading 54.04 or 54.05, twine, cordage, rope or cables, not elsewhere specified or included, Badges, Binder or baler twine, Bleached, Braids in the piece, Buckram Chenille fabrics, Textile flock and dust and mill naps, Textile hose piping, similar textile tubing with or without lining, armour or accessories or other materials and others	11	10
Fabrics of noil Silk, Woven fabrics of coarse animal hair or of horsehair and others.	16	5

Jute (hessian cloth), Bleached, containing 85 % or more by weight of non-textured polyester filaments, Dyed, of yarns of different colours, other woven fabrics of polyester staple fibres and others.	16	15
For embroidery	20	5
Stone, Glass and allied products (Chapters 68-71)	'	
Beakers, Catalysts in the form of wire cloth or grill, of platinum, Coin (other than gold coin), not being legal tender containing by weight more than 50% of free carbon, Exfoliated vermiculite, expanded clays, foamed slag and similar expanded mineral materials (including intermixtures thereof), glass microspheres not exceeding 1mm in diameter, Industrial moulds and others	3	0
Articles used for industrial purposes, Clothing, clothing accessories, footwear and headgear, Cufflinks and studs, Cullet and other waste and scrap of glass, excluding glass from cathoderay tubes or other activated glass of heading 85.49; glass in the mass, for cathode ray tubes, glass eyes, glasses for corrective spectacles and others	11	10
For electric lighting, Glass beads, imitation pearls, imitation precious or semi precious stones and similar glass small wares and other sheets, panels, tiles and similar articles.	16	15
Carbon fiber, Fabrics of Carbon fibres and others	20	0
Faced or reinforced with paper or paper board only and others	20	15
Iron, other metals and allied products (Chapters 72-83)		
Angles, shapes and sections, Band saw blades, Bars and rods, Bars and rods, not further worked than cold formed or cold finished, Butt welding fittings, Cold drawn or cold rolled (cold reduced), Cold rolled steel strips of thickness below 0.5 mm and up to 100 mm wide, Copper coated mild steel tubes up to 8.5 mm Diameter and others.	3	0
Padlocks and VCM or PCM coated sheets of a thickness (excluding any coating) not exceeding 0.5 mm	3	5
Aluminum lids for cans of carbonated soft drinks, Bars and rods, of high-speed steel, Billets, Ingots and other primary forms and others	11	5
Aerosol cans without valves and covers, Angles, shapes and sections, Blow lamps, Butt welding fittings, Casing of a kind used in drilling for oil or gas, Castings and forgings Castors, Chain saw blades and others.	11	10
For aerosol products	11	15
Backed	16	10
Aluminium slugs, Axes, bill hooks and similar hewing tools, Buckle, Cloth, grill and netting, of nickel wire, Cold drawn or cold rolled (cold reduced), Copper springs, Cored wired of base metal, for electric arc welding and others	16	15
Others	20	15
Equipment, machinery, vehicles and miscellaneous articles (Chapters 8	5-97)	
Printed circuits	0	10
Base cap for tube light	0	5

Aircraft engines, Automatic documents feeders of copying machines, Bakery ovens, including biscuit ovens, Cameras, Cases, Cash registers, Combine harvester, threshers, Designed for the carriage of passengers and others	3	0
Bulb, Energy saving lamp, Energy saving tube, Memory cards and others	3	5
Air Zinc	3	10
Close circuit TV cameras, Digital cameras, Digital loop carrier system (DLC), Modems, Multimedia still/video camera and others	11	0
Others	11	5
Basketball cover, Football bladder, Football cover, Hand ball cover, Net ball cover and others	11	10
Others	15	5
Others	16	0
Others	16	10
Firing mechanisms, fully automatic, Fully automatic pistols and others	16	15
Of chandelier, With needles and Without needles	20	10
Button blanks and others	20	15

32. Amendments in the Fifth Schedule

The Act has streamlined the Customs duty on the following goods by omitting these from Part I of the Fifth Schedule which is currently chargeable to rate of duty at 0%. These goods are also mentioned in the First Schedule which provides the general rate of duty on these goods at 0%. Therefore, there will be no financial impact.

Description	Types of goods	HS Codes
Agricultural Machinery: Tillage and seed bed preparation equipment	Rotavator, Cultivator, Ridger, Rotary slasher, Rotary tiller, Soil scrapper, K.R. Karundi, Sub soiler, Chisel plough, Ditcher, Mould board plow, Disc plow, Border disc, Bar harrow, Disc harrow, Tractor rear or front blade, Land leveler or land planer, Land leveler	8432.8010, 8432.2910, 8432.8090, 8432.3900, 8432.1010, 8432.1090, 8432.2990, 8432.2100, 8430.6900
Agricultural Machinery: Seeding or Planting Equipment	Seed-cum-fertilizer drill (wheat, rice barley, etc), Canola or sunflower drill, Cotton or maize planter with fertilizer attachment, Potato planter, Rice transplanter, Sugar cane planter, Fertilizer or manure spreader or broadcaster	8432.3100, 8432.3900, 8432.4100/8432.4200
Agricultural Machinery: Irrigation, Drainage and Agro-Chemical Application Equipment	Sprinklers including high and low pressure (center pivotal), system, conventional sprinkler equipment, water reel traveling sprinkler, drip or trickle irrigation equipment, mint irrigation sprinkler system, Knapsack sprayers, Granular applicator, Boom or field sprayers, Self-propelled sprayers, Orchard sprayers	8424.8200, 8424.2010
Agricultural Machinery: Harvesting, Threshing and Storage Equipment	Wheat thresher, Maize or groundnut thresher or Sheller, Sunflower thrasher, Onion or garlic harvester, Sugar harvester, Groundnut digger, Post hole digger, Wheat or rice reaper, Chaff or fodder	8433.5200, 8433.5900, 8433.5300, 8433.4000, 8433.5100

	cutter, Cotton picker, Pruner/sheers, Potato digger or harvester, Straw balers, Combined harvesters (Upto ten years old)	
Agricultural Machinery: Dairy, Livestock and poultry, machinery	Incubators, brooders and other poultry equipment	8436.2100, 8436.2900
Agricultural Machinery: Post-harvest Handling and Processing and Miscellaneous Machinery	Vegetable and fruits cleaning and sorting or grading equipment, Fodder and feed cube maker equipment, Milking machines, Grain storage silos with mechanical systems (2021–2026)	8437.1000, 8433.4000, 8434.1000, 8479.8990
Agricultural Machinery: Green House Farming and Other Green House Equipment	Anti-insect net, Shade net	5608.1900, 5608.9000
Machinery, equipment and other education and research related items imported by technical institutes, training institutes, research institutes, schools, colleges and universities:	Quartz reactor tubes and holders designed for insertion into diffusion and oxidation furnaces for production of semiconductor wafers, Other dryers, Personal weighing machines, including baby scales; household scales, Scales for continuous weighing of goods on conveyors, Constant weighing scales and scales for discharging a predetermined weight of material into a bag or container, including hopper scales., Other weighing machinery having different weighing capacity, Networking equipment like routers, LAN bridges, hubs excluding switches and repeaters, Other furnaces and ovens, Electronic balances, Thermostats of a kind used in refrigerators and air-conditioners, Manostats. Other instruments and apparatus hydraulic or pneumatic, Parts and accessories of automatic regulating or controlling instruments and apparatus.	7017.1010, 8419.3900, 8423.1000, 8423.2000, 8423.3000, 8423.8100 8423.8200, 8423.8900, 8423.9000, 8517.6970, 8514.3900, 9016.0010, 9016.0090, 9032.1010, 9032.2000, 9032.8100, 9032.8990, 9032.9000
Machinery and equipment for marble, granite and gem stone extraction and processing industries.	Integral drilling steel for horizontal and vertical drilling, extension thread rods for pneumatic super long drills, tools and accessories for rock drills.	8466.9100
Off-grid/On-grid solar power system (with or without provision for USB/charging port)	PV Module, Charge controller	8541.4200, 8541.4300, 8541.4900, 9032.8990
Solar Parabolic Trough Power Plants	Solar Parabolic Trough Power Plants	8502.3900
Parts for Solar Parabolic Power Plants.	Parabolic Trough collectors modules, Steam turbine of an output exceeding 40MW, Steam turbine of an output not exceeding 40MW, Sun tracking control system	8503.0010, 8406.8100, 8406.8200, 8543.7090
Solar Dish Stirling Engine.	Solar Dish Stirling Engine	8412.8090
Parts for Solar Dish Stirling Engine	Solar concentrating dish, Sterling engine, Sun tracking control system	8543.7090
Parts for Solar Air Conditioning Plant	Charging & testing equipment	9031.8000
Parts for Solar Desalination System	Solar photo voltaic panels, Charge controllers	8541.4200/8541.4300/ 8541.4900, 9032.8990

Solar Thermal Power Plants with accessories	Solar Thermal Power Plants with accessories	8502.3900
PV Modules	PV Modules	8541.4200, 8541.4300, 8541.4900
Parts for PV Modules	Solar cells, Flux and preparations for metal surfaces, Bypass diodes	8541.4200, 8541.4300, 8541.4900, 3810.1000, 8541.1000
Solar Cell Manufacturing Equipment	Crystal (Grower) Puller (if machine), Diffusion furnace, Oven, Wafering machine, Cutting and shaping machines for silicon ingot, Solar grade polysilicon material, Phosphene Gas, Pyranometers and accessories for solar data collection, Wind Turbines for grid connected solution above 200 KW (complete system).	8479.8990, 8514.3900, 8486.1000, 8461.9000, 3824.9999, 2853.9000, 9030.8900, 8412.8090
Renewable energy	Wind turbines including alternators and mast	8502.3100
technologies or for conservation of energy	Light emitting diodes (light emitting in different colors), Sun Tracking Control System, Solar air water generator, Charge controller/Current controller	8541.5100, 8541.5900, 8543.7090, 8479.8990, 9032.8990
Equipment for food fortification	Micro feeder	8437.8000
Cinematographic, film production and post-film production equipment	Parts and accessories for projector, Other instruments and apparatus for cinema, Screen, Cinematographic parts and accessories	9007.9200, 9032.8990, 9010.6000, 9010.9000
Tourism Project	Paragliders, parachutes, Hot Air Balloons, Balloons and dirigibles; gliders, hang gliders and other non-powered aircraft, Parachutes (including dirigible parachutes and paragliders) and rotochutes; parts thereof and accessories thereto.	8804.0000, 8801.0000

The following goods have been deleted from Part I of the Fifth Schedule and incorporated in the First Schedule. The existing and amended rates are as follows:

Description	Types of goods	HS Codes	Fifth Schedule rate	First Schedule rate
Parts for Solar Dish	Control panel with accessories	8537.1090/ 8537.2000	0%	20%
Stirling Engine	Stirling Engine Generator	8501.6100	0%	20%
Solar Cell Manufacturing Equipment	Remote control for solar charge controller	8543.7010	3%	5%
Geothermal energy equipment.	Thermostats and IntelliZone.	9032.1090	0%	15%
Medical Equipment imported by hospitals and medical or diagnostic institutes	Dentist chairs	9402.1010	5%	Ο%

The Act has streamlined the Customs duty on the following goods by omitting these from Part III of the Fifth Schedule and inserting in the First Schedule. The customs duty rates are varied, at 0%, 5% and 15%.

Description	PCT Code
Poly back sheet	3920.1000, 3920.9900
Raw hides and skin	41.01, 41.02, 41.03 (excluding 4103.3000)
Silver	71.06
Gold	71.08
Bicycle Chain Parts	7315.1990
Permanent magnets of metal	8505.1100
Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus	8517.6210, 8517.6220, 8517.6230, 8517.6240, 8517.6250, 8517.6260 8517.6290
Ships and other floating crafts including tugs, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistani entity and flying Pakistani flag.	8901.1000, 8901.2000, 8901.3000, 8901.9000, 8902.0000, 8904.0000 8905.1000, 8905.2000, 8905.9000 8906.1000, 8906.9000, 8907.9000
Aluminum sheets & Coils	7606.9290
Yarn and film grades	3907.6110
Glucose precursors, Yeast, Toxin Binders, Energy supplements for cows transition period, Acidifiers Electrolytes for calves, Biotin Buffers, Copper boluses, Non-protein nitrogen sources	2309.9000
Chain parts	7315.1990
Carbon black other than rubber grade	2803.0020
Of circular cross-section measuring less than 7mm in diameter	7213.9191 7227.9010

The following goods have been deleted from Part III of the Fifth Schedule and incorporated in the First Schedule. The existing and amended rates are as follows:

PCT Code	Description	Fifth Schedule rate	First Schedule rate
3920.2040, 3921.9090	Biaxially Oriented Polypropylene (BOPP) film, metallized and other	10%	15%
3920.9900	Polyethylene Film	16%	O%
3921.9090	Waist Band Barrier	16%	15%
5402.4500	Yarn of nylon or other polyamides	7%	O%
5403.3100	Yarn of viscose rayon, untwisted or with a twist not exceeding 120 turns per meter	5%	0%
5501.2000	Of Polyester	6.5%	5%
5501.3000	Acrylic or modacrylic	6.5%	O%
5501.4000	Of polypropylene	6.5%	11%

PCT Code	Description	Fifth Schedule rate	First Schedule rate
5501.9000	Filament tow of other polymers	6.5%	11%
5502.9090	Artificial filament tow	6.5%	O%
5503.2010	Of polyesters not exceeding 2.22 decitex	7%	11%
5503.2090	Of other polyester	6%	11%
5503.3000	Acrylic or modacrylic	6.5%	O%
5503.4000	Of polypropylene	6.5%	11%
5503.9000	Other synthetic staple fibre	6.5%	11%
5505.1000	Of synthetic fibers	6.5%	O%
5505.2000	Of artificial fibers	6.5%	O%
5506.2000	Of polyesters	6.5%	11%
5506.3000	Acrylic or modacrylic	6.5%	O%
5506.9000	Other synthetic staple fibre	6.5%	11%
5603.1100, 5603.1200	Non-wovens, whether or not impregnated, coated, covered or laminated for man-made filaments.	11%	10%
6001.2210 6001.2290	Loop pile fabric	16%	10%
7607.1990	Aluminum foil	5%	15%
7606.1100	Aluminum sheets & Coils	5%	O%
7606.9190	Aluminum sheets & Coils	5%	O%
3907.6910	Yarn and film grades	5%	11%
3507.9000	Ednozym Pectofruit Endozym Pectofruit PR Endozym Alphamyl MG	3%	Ο%
4805.9390	Other uncoated paper and paperboard and	O%	5%
4806.1000	Vegetable parchment	O%	5%

The Act has streamlined the Customs duty by omitting the goods from Part VII of the Fifth Schedule in the following manner:

- Goods specified in Table A are currently subject to a rate of duty at 0% and have been moved to First Schedule
 mostly at the same rate of 0% of Customs duty
- Goods specified in Table B are subject to varied rates of Customs duty at 3%, 5%, 7%, 10%, 11%, 15% and 16%. These goods are now to be charged under the First Schedule at the rates of 0%, 5%, 10% and 15%.

The Act has streamlined and updated the conditions under the chapter related to "Imports of Aviation Related Goods, i.e., Aircrafts and Parts etc. by Airline Companies/Industry" through substitution of the previous framework under the National Aviation Policy 2015 with a revised framework under the National Aviation Policy 2023. The changes are summarized below:

- Previously, the customs duty exemption was admissible only to airline companies having valid registration and license from the Aviation Division of the Government of Pakistan. This scope has now been expanded to include Maintenance, Repair and Overhaul (MRO) Companies and Aircraft Maintenance Organizations (AMOs) duly authorized by the Defence Division. Airline companies must now be licensed under the Pakistan Civil Aviation Act, 2023 (XLIX of 2023) by the Pakistan Civil Aviation Authority. All such authorizations must be shared with the Customs Computerized System or Pakistan Single Window.
- The list of imported items for each consignment by MROs or AMOs must be duly approved by the Pakistan Airports Authority and the Defence Division, Government of Pakistan, in line with the Policy Framework approved by the Government of Pakistan. This condition did not exist previously.
- The requirement for certification by the Chief Executive or a duly authorized senior official remains consistent. However, the certification must confirm that the goods will be used for purposes defined or notified by the Defence Division (previously the Aviation Division) under the Aviation Policy. The condition that the importer must declare all relevant information to the Customs Authority through the Customs Computerized System or Pakistan Single Window, also remains consistent.
- The condition that, in case of deviation from the stipulated requirements, the Collector of Customs shall initiate proceedings for the recovery of duty and taxes under the relevant laws, remains intact.

33. Regulatory Duty (RD) and Additional Customs Duty (ACD)

The following measures have been outlined in the salient features of the Budget 2025-26 concerning ACD and RD:

- Reduction in tariff from 2% to 0% on tariff slabs of 0%, 5% and 10%, consisting of 4,383 tariff lines, except 95 tariff lines chargeable to ACD at 2%
- Reduction from 4% to 2% on 518 tariff lines under the tariff slab of 15%
- Reduction from 6% to 4% on 2,166 tariff lines under the tariff slab of 20%
- Reduction from 7% to 6% on 468 tariff lines under tariff slabs of above 20%
- Removal of RD on goods falling under 554 PCT codes
- Reduction in rate of RD on goods falling under 595 PCT codes
- Reduction in maximum rate of RD from 90% to 50%

Stamp Act

1. Amendment in Stamp Act, 1899 (the Stamp Act)

Article 23 of the Schedule I to the Stamp Act has been substituted to the extent of Islamabad Capital Territory as follows:

Description	Current Article 23	Revised Article 23
Description	Current stamp duty	Revised stamp duty
Conveyance as defined under sub-section (10) of section 2 not being a transfer charged or exempted under Article 62:		
(a) Any instrument or set of instruments relating to a future flow transaction for fund raising by any bank or financial institution, including but not limited to:		
(i) Any instrument involving a conveyance, whether by way of assignment, transfer, sale or another manner, of rights, titles or interests relating to bank accounts, receivables or cash flows, whether in foreign currency or Pakistani Rupees, in existence or which are to come into existence in future	(a) PKR1,000	1% of the value of the immovable property
Or		
(ii) Any other instrument setting out the terms and conditions pertaining to such future flow transaction		
(b) In any other case	(b) 4% of the value of the property	

Petroleum Products (Petroleum Levy) Ordinance

1. Amendment in the Petroleum Products (Petroleum Levy) Ordinance, 1961 (the Petroleum Levy Ordinance)

The Petroleum Levy Ordinance authorizes the government to impose a levy on petroleum products, commonly known as PDL, which is a tax charged on the sale of various petroleum products, including gasoline, diesel and liquefied petroleum gas. The Act has amended the Petroleum Levy Ordinance in order to provide for a new levy being 'Climate Support Levy' in addition to PDL. Previously, furnace oil was not in the category of products on which PDL was imposed. The Act has included furnace oil in such products thereby imposing both PDL and Climate Support Levy thereon.

The rates of Climate Support Levy are as follows:

- Motor spirit and high-speed diesel:
 - FY 2025-26: PKR2.50 per liter
 - FY 2026-27: PKR5.00 per liter
- Furnace oil:
 - FY 2025-26: PKR2.50 per liter (PKR2,665/MT)
 - FY 2026-27: PKR5.00 per liter

The Fifth Schedule providing maximum petroleum levy rates has been deleted in its entirety.

New Energy Vehicles Adoption Levy Act

1. Enactment of New Energy Vehicles Adoption Levy Act, 2025 (NEVALA Act)

The Act has introduced a new law to impose levy on Internal Combustion Engine (ICE) motor vehicles, The proceeds from the levy are intended to be used for promoting the adoption of new energy vehicles and matters ancillary thereto as determined by the Federal Government from time to time.

ICE motor vehicle has been defined to mean a motor vehicle powered wholly or partially by fossil fuels including petrol, diesel, compressed natural gas or liquefied petroleum gas. As per the NEVALA Act, the levy would be imposed on:

- (i) Manufacturers of ICE vehicles assembled or manufactured in Pakistan
- (ii) Importers of such vehicles into Pakistan

The levy is not applicable to:

- (i) A new energy vehicle as defined in the NEVALA Act
- (ii) An ICE motor vehicle manufactured or imported exclusively for export purposes under an order of the Federal Government
- (iii) An ICE motor vehicle owned by a diplomatic mission or consulate, and an international organization enjoying privileges under the Diplomatic and Consular Privileges Ordinance, 1972
- (iv) Any other ICE motor vehicle or category of ICE motor vehicle that the Federal Government may, by a notification in the official Gazette, exempt from the application of the levy with or without any conditions

The levy for imported vehicles shall be collected like import duty under the Customs Act and for locally manufactured vehicles like sales tax under the ST Act.

The rate and manner of the aforesaid levy is prescribed under the First Schedule as referred under the NEVALA Act. However, the Official Gazetted copy of the Act available on the website of FBR does not contain the First Schedule of the NEVALA Act as prescribed thereunder. Apparently, the First Schedule of the NEVALA Act to implement the levy is yet to be introduced by the legislation.

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