

SALIENT FEATURES

BUDGET 2025-26

CUSTOMS ACT 1969

1. GUIDING PRINCIPLES:

- i. Export-led growth.
- ii. Consumer welfare.
- iii. Availability of cheaper industrial raw materials.
- iv. Economic sovereignty.
- v. Employment generation.
- vi. FBR Transformation Plan.
- vii. Innovation, efficiency and productivity.

2. TARIFF RATIONALIZATION:

- i. New tariff slabs of 5%, 10% and 15% introduced.
- ii. Existing tariff slabs of 3%, 11% and 16% abolished.
- iii. 0% tariff slab, previously applicable on 2201 tariff lines, extended to further 916 PCT codes.
- iv. CD reduced on goods falling under 2624 PCT codes.

3. REDUCTION IN ADDITIONAL CUSTOMS DUTY (ACD) RATES:

- i. Reduced 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 @2%.
- ii. Reduced from 4% to 2% on 518 tariff lines under tariff slab of 15%.
- iii. Reduced from 6% to 4% on 2166 tariff lines under tariff slab of 20%.
- iv. Reduced from 7% to 6% on 468 tariff lines under tariff slabs of above 20%.

4. REVIEW OF REGULATORY (RD) REGIME:

- i. Regulatory duty on goods falling under 554 PCT codes removed.
- ii. Rate of Regulatory duty reduced on goods falling under 595 PCT codes.
- iii. Maximum rate of RD reduced from 90% to 50%.

5. **REVIEW OF EXEMPTION REGIME:**

To streamline and reduce the cost of exemptions, 479 entries in Part-I, Part-III and Part-VII of Fifth Schedule deleted.

6. **LEGISLATIVE CHANGES:**

- i. Provision for establishment of Centralized Assessment Units (CAUs) and Centralized Examination Units (CEUs) for transparent, speedy and uniform assessments.
- ii. Provision for establishment of Digital Enforcement Units (DEUs) at key locations and to use technology to strengthen anti-smuggling operations.
- iii. Cargo Tracking System (CTS) introduced for monitoring the movement of cargo. The system will identify the movement of smuggled/non-duty paid cargo through the use of technology while facilitating Bonafide cargo.
- iv. Incentivizing pre-arrival clearance by allowing filing of Goods Declarations without advance payment of duties and taxes.
- v. To reduce litigation, the existing limit of Rs. 20,000/- for initiating contravention proceedings enhanced to Rs. 100,000/- subject to payment of recoverable amount.
- vi. To reduce port congestion and dwell time, penalty introduced for unclaimed/uncleared cargo beyond specified time limit.
- vii. Time period for adjudication of cases and filing of appeals before Appellate Tribunal rationalized.
- viii. Directorate General of Intelligence and Investigation, Customs and Directorate General of Risk Management System merged and re-organized for effective intelligence gathering, targeted operations and advancement of RMS.
- ix. A new Directorate General of Customs Auction has been created to streamline the auction of goods.
- x. A new Directorate General of Communications and Public Relations has been created for dissemination of Customs related information for trade facilitation and stakeholder engagement.

- xi. Provision to hire services of technology specialists, auditors, accountants and goods evaluators on short term contracts for specialized functions.
- xii. Provision for establishment of Customs Command Fund introduced to incentivize anti-smuggling operations.
- xiii. De-minimis limit for courier/postal parcels reduced to PKR 500 to check misuse.
- xiv. Facility of scrapping and mutilation of goods at ports restricted to bonafide requests up to 10% of the cargo.
- xv. Provision added to discourage attempts of belated claim of ownership of goods liable for confiscation by filing frivolous appeals before the appellate fora.
- xvi. Provisions has been added that a tampered chassis vehicle shall be presumed to be a smuggled vehicle, irrespective of its registration status with MRAs.

SALIENT FEATURES

BUDGET 2025-26

SALES TAX ACT 1990

The proposed budgetary measures pertaining to Sales Tax for FY 2025-26 are:

1. **DEFINITION OF CARGO TRACKING SYSTEM & E-BILTY:**

The definition of the Cargo Tracking System to for electronic monitoring and tracking of goods transported within or across Pakistan's territory has been inserted in the Act. This aims to enhance tax enforcement, ensure compliance, and prevent tax evasion. Additionally, e-Bilty has been defined as a transport document generated through the Cargo Tracking System, as prescribed by the Board, to accompany goods during their movement.

2. **E-COMMERCE:**

To better incorporate digitally ordered taxable goods into the e-commerce sales tax framework, the definition of 'e-commerce' has been introduced, and 'online marketplace' is redefined to include all taxable activities.

Currently, online marketplaces are required to withheld 1% sales tax on local supplies made by non-active taxpayer vendors. However, this does not fully capture the growing e-commerce sector, especially businesses using websites, apps etc for online sales to consumers. To address this, the withholding tax scope has been expanded to cover transactions settled via online payment or CoD.

Under the proposed regime—substituting S. No. 8 of the Eleventh Schedule—payment intermediaries (banks, financial institutions, exchange companies, and payment gateways) will collect sales tax on digital payments, while couriers will handle tax collection for CoD transactions. Additionally, the withholding tax rate is set to increase from 1% to 2%.

3. **STRENGTHENING ENFORCEMENT AND CREATING DETERRENCE AGAINST TAX FRAUD:**

The government is actively combating tax fraud through a range of policy and administrative measures. These efforts include enhancing enforcement mechanisms to identify and prevent tax evasion and imposing tougher penalties to serve as a deterrent. Likewise, distinguishing between civil and criminal liability improves the likelihood of winning cases at appellate fora. Following measures are proposed in this regard, namely:

- (a) The existing legal provisions does not envisage the role of an ‘abettor’ who connives with the registered persons involved in fraudulent activities to evade the sales tax. Now, the term “abettor” is proposed to be defined and punishment for this offence is also proposed.
- (b) Tax fraud is currently defined under clause (37) of section 2. The scope of this definition is broadened to cover all kinds of frauds including those involving technology.
- (c) A number of amendments are introduced in penalty section of law to discourage tax fraud.
- (d) A clear distinction has been created in the law for proceeding against the non-compliance and tax frauds. The cases involving tax frauds shall be prosecuted before the special judges based on the inquiry and investigation by the department and the final decision shall be taken by a judge instead of an officer of the department.

4. **VALUE OF IMPORTED GOODS:**

A proviso is added in the definition of the retail price in section 2 for enhancing its scope to cover the imported goods falling within the ambit of Third Schedule.

5. **LIMIT OF INPUT TAX ADJUSTMENT:**

It is proposed that the Board be empowered to set a limit on input tax adjustment to restrict claims related to suspicious or illegal transactions. However, registered persons will have the opportunity to file applications regarding the proposed adjustment limits.

6. **BAR ON OPERATIONS OF BANK ACCOUNTS:**

Sections 14AC, 14AD, and 14AE are proposed to be added to the Act to promote sales tax registration and economic documentation. These provisions introduce enforcement measures such as restrictions on bank account operations, transfer of immovable property, business premises sealing, property seizure, and the appointment of a receiver to compel unregistered persons to comply. The current sales tax law does not include such enforcement mechanisms.

7. **APPOINTMENT OF EXPERTS AND AUDITORS:**

Board or the Commissioner is empowered to appoint experts for assistance in audit, investigation, litigation or valuation. Furthermore, Board has also been vested with the power to appoint auditors (not more than 2000 in number) through direct engagement or through third party.

8. **ADDITION IN THIRD SCHEDULE:**

Importers and manufacturers are required to collect sales tax on items listed in the Third Schedule of the Sales Tax Act, 1990, based on the retail price at applicable rates as embossed on the packaging of the product. The purpose of the inclusion in the Third Schedule to capture the down-stream value addition in the supply chain beyond manufacturing. The following items are proposed to be included in the Third Schedule for the same purpose as stated above:

- Imported pet food including 'dogs and cats' food in retail packing
- imported coffee in retail packing
- imported chocolates in retail packing
- imported cereal bars in retail packing

9. **WITHDRAWAL OF EXEMPTION:**

- i. Currently, S. No. 151 of Table-1 of Sixth Schedule provides exemption of sales tax on supplies, imports and import of plant and machinery by the industrial units located in the erstwhile FATA/PATA. Local industrial units such as iron, steel, tea etc. in settled areas have raised concerns about the misuse of this exemption.

It is proposed that the exemption be gradually withdrawn by charging sales tax in phased manner at the following rates:

Tax period	Rate of ST
July, 2025 to June, 2026	10%
July, 2026 to June, 2027	12%
July, 2027 to June, 2028	14%
July, 2028 to June, 2029	16%

- ii. Both import and supply of photovoltaic cells whether or not assembled in modules or made up into panels is exempt from sales tax. This exemption disproportionately benefits commercial importers, while the local industry has been rendered uncompetitive due to the absorption of input tax costs on purchases.

In order to create level playing field and generate revenue, it is proposed that exemption available to solar panels/PV modules may be withdrawn.

10. **WITHDRAWAL OF REDUCED RATE:**

- i. S. No. 53 of Table-1 in the Eighth Schedule provided a reduced 5% import tax rate on cinematographic equipment until June 30, 2023. Since this provision is now redundant, its omission has been proposed.
- ii. Currently, reduced rate of 12.5% is chargeable on supply of locally manufactured or assembled motorcars upto 850cc. This concession was intended to provide relief to middle-class consumers using small cars which was not effectively passed on to end consumers. Furthermore, as part of GST reforms, all existing concessionary rates are being reviewed and withdrawn wherever feasible. Therefore, this provision is proposed to be omitted.

- iii. Currently, reduced rate of 10% is available on local supply of vermicillies and sheer mall. As part of the GST reforms, all existing concessionary rates are reviewed and withdrawn wherever possible. Therefore, reduced rate of 10% is proposed to be withdrawn.

11. **GRANT OF EXEMPTION ON LOCAL SUPPLY OF BUN & RUSK:**

Bun and rusk are currently subject to a reduced 10% sales tax. Since they are staple foods for lower-income groups, it is proposed that their local sale be exempted from sales tax.

12. **EXTENSION IN EXEMPTION ON SUPPLY OF ELECTRICITY TO EX-FATA/PATA:**

Currently, supply of electricity to residential, commercial and industrial units located in erstwhile FATA/PATA is exempt till 30.06.2025. In order to provide relief to electricity consumers in these areas, it is proposed that above-mentioned exemption may be extended till 30.06.2026.

13. **STREAMLINING OF EXEMPTION ON IMPORT OF CYSTAGON, CYSTA DROPS & TRIENTINE CAPSULES:**

To streamline the aforementioned exemption, the condition 'for personal use only,' which has been causing hardship for patients, is proposed to be omitted to better accommodate the limited number of patients who have repeatedly requested its removal.

14. **APPEAL TO CIR (APPEAL), ATIR & REFERENCE TO HIGH COURT:**

Currently, the Commissioner (Appeals) can only entertain appeals where the assessed tax or refund value does not exceed Rs. 10 million. It is proposed that all orders under sections 10, 11A, 11D, 11E, 11F, 21, 33, 34, and 66 be appealable before CIR (Appeals), regardless of pecuniary limits. Additionally, registered

persons will have the option to file an appeal directly before the ATIR if they choose to do so.

Similarly, the procedures for filling appeal before ATIR and reference to high court have also been streamlined.

15. **CONDONATION OF TIME LIMIT:**

Earlier the condonation could be given for any period as may be required under the circumstances. However, for inculcating rationality, it is proposed that the condonation may be given for a period of two years. In the case of huge loss of revenue, the same can be extended for a longer period as may be appropriate by processing through a committee.

16. **EXEMPTION OF SALES TAX ON IMPORT OR LEASE OF AIRCRAFTS BY PAKISTAN INTERNATIONAL AIRLINES:**

In order to facilitate the privatization of Pakistan International Airline, it is proposed to grant the exemption from the payment of sales tax on the import or lease of aircrafts.

SALIENT FEATURES
BUDGET 2025-26
INCOME TAX ORDINANCE 2001

1. REVENUE MEASURES:

- i. 'Digital Transactions Proceeds Levy' has been introduced along with necessary changes in Income Tax Ordinance, 2001 to cover domestic vendors supplying digitally ordered goods and digitally delivered services. Banks and courier services designated as withholding agents to capture entire payment chain.
- ii. Withholding tax rate increase for specified services from 4% to 6% with the exception of IT and IT enabled Services has been proposed. For other non-specified services, a flat 15% will be imposed and from 10% to 15% on Sports person.
- iii. Provisions regarding assessment of banking companies has been made more disclosure oriented to determine true and fair income of the banking companies and tax payable thereon.
- iv. Tax rate on profit on debt has been proposed to be increased from 15% to 20%. The dividend tax rate has been enhanced to 25% & 15% on dividend from mutual funds.
- v. Pension income received by an individual below the age of 70 years and over and above of Rs. 10,000,000 has been charged to tax at the flat rate of 5%. There will be 0% tax rate on pension income not exceeding Rs. 10,000,000.
- vi. Adjustable withholding tax rate on cash withdrawal on non-filers proposed to be increased from 0.6% to 0.8%.
- vii. Custodian of debt securities other than Sukuk bonds has been proposed to act as withholding agent to prevent tax evasion due to coupon washing scheme.
- viii. Upper cap on profit on debt upto rupees five million under final tax regime proposed to be removed for individuals and Association of Persons (AoP). The tax withheld on profit on debt for company will continue to be adjustable.

2. **RELIEF MEASURES:**

- i. Super tax rates under section 4C proposed to be reduced by half a percentage point for income slabs between Rs. 200 million to Rs. 500 million against each slab respectively.
- ii. Tax rates for salaried individuals for income slab upto Rs. 3,200,000 has been reduced to provide relief to lower and middle tiers income bracket. Similarly, surcharge rate proposed to be reduced from 10% to 9% for salaried individuals only.
- iii. Income tax exemption along with withholding tax exemption for erstwhile FATA/PATA areas propose for extension for one year i.e. upto TY 2026
- iv. 25% rebate against tax payable by full time teachers and researchers will be restored retrospectively i.e. from TY 2023 to TY 2025.
- v. Proportionate tax credit to on profit on debt on loan obtained for construction or acquisition of a house of 250 sq. yd. and a flat having 2000 sq ft. or less area.

3. **STREAMLINING MEASURES:**

- i. Powers of Officer of Inland Revenue to work out Fair Market Rent of a domestic or commercial property proposed to be curtailed to the extent of commercial properties. A flat 4% Fair Market Value (FMV) notified rates by Board or Deputy Collector proposed to be annual rental value of commercial properties unless actual rent declared justified through evidence.
- ii. It has been proposed that any purchase from an unregistered person will make the purchaser liable, shifting the focus to those buying from the unregulated market. In such cases, 10% of the purchase-related expenditure will be disallowed.
- iii. 50% of the expenditure related to purchases will be disallowed in case of payment is received in cash against a single invoiced sale transaction exceeding rupees two hundred thousand by a vendor.

- iv. Proportionate depreciation deduction disallowance for the tax year if withholding tax not deducted by the withholding agent. Disallowed amount will not become part of written down value of such capital assets.
- v. No adjustment of brought forward accumulated business losses available to taxpayer in the first tax year and subsequent tax years under Normal Tax Regime after switching from prior applicable Final Tax Regime.
- vi. Period of amortization of an intangible asset having undeterminable useful life has been reduced from 25 years to 15 years.
- vii. Coal supply scope of person engaged in coal mining project in Sindh has been enhanced. Such person can now supply coal to any sector of economy and pay income tax on income from such supply and also can avail one hundred percent tax credit on supply to power generation projects.
- viii. Period of three years carry forward for adjustment of minimum tax on turnover has been reduced to two years.
- ix. Limitation period of 180 days provided for completing proceedings for amendment of assessment has been withdrawn.
- x. Appeal procedure before appellate fora has been majorly reverted back to the period which was in vogue prior to Tax Laws (Amendment) Act, 2024.
- xi. Recovery proceeding for immediate payment or specified time limit in the notice against a taxpayer can only be initiated where the decisions at both the forums i.e. Appellate Tribunal and High Court, are against the taxpayer.
- xii. Board power to grant condonation has been restricted to an aggregated period of two years and in the case of huge revenue loss, the same can be extended for a longer period by processing through a committee.
- xiii. All the entities in a group structure has been made mandatory to derive income chargeable under Normal Tax Regime for availing group relief.
- xiv. Table (I) and Table (II) of clause (C66) of Part I of Second Schedule to the Ordinance listing entities granted complete exemption on any income and exemption subject to 100C provision respectively have been merged. Now all entities require approval under 100C to be declared as Non-Profit Organization and availing exemption against income.

- xv. Exemption to Special Economic Zone (SEZ) and Special Technology Zone (STZ) entities, developers has been restricted to TY 2035 or expiry of ten years exemption period, whichever is earlier.

4. **PROCEDURAL MEASURES:**

- i. All online marketplace, payment intermediary and courier service will file a statement to Commissioner sharing data of sellers involved in digitally ordered goods and digitally delivered services.
- ii. Online marketplace made responsible to get registered all sellers using their platform in e-commerce.
- iii. Sharing of taxpayer data with Tax Policy Office (TPO) and anonymized data with international donor and recognized universities have been allowed.

SALIENT FEATURES
BUDGET 2025-26
ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES)
ORDINANCE, 2001

The proposed budgetary measures pertaining to Sales Tax on Services for FY 2025-26 are:

1. REVENUE MEASURES:

- i. Integration of service providers with Board's computerized system for real-time reporting of taxable service activity – General Order to prescript mode and manner.
- ii. Board to notify a Negative List of exempt services for harmonized, smooth and gradual transition from positive list to negative list. This will expand the scope of services leviable to service sales tax under Islamabad Capital Territory.

2. STREAMLINING MEASURES:

- i. Exemption of sales tax on services acquired by diplomats and diplomatic missions etc. aligned with the scope of exemptions to such persons available under the Sales Tax Act, 1990 for uniformity and harmonized regime on goods and services.

SALIENT FEATURES
BUDGET 2025-26
FEDERAL EXCISE ACT 2005

1. **POWER TO SEIZE AND CONFISCATE COUNTERFEITED CIGARETTES, BEVERAGES OR GOODS:**

To create deterrence, dutiable goods manufactured or produced without affixing or affixing counterfeited tax stamps, banderols, stickers, labels or barcodes are proposed to be made liable to seizure along with the conveyance used for movement of such goods. Furthermore, such seized goods are also made liable to outright confiscation.

2. **APPEALS:**

The procedure for filing appeals to the Commissioner (Appeals), the Appellate Tribunal Inland Revenue, and references to the High Court has been streamlined. The pecuniary jurisdiction of the Commissioner (Appeals) has been withdrawn. However, a registered person will have the option to file an appeal directly with the Appellate Tribunal Inland Revenue without first availing the right of appeal before the Commissioner (Appeals).

3. **WITHDRAWAL OF FED ON ALLOTMENT OR TRANSFER OF RESIDENTIAL / COMMERCIAL PROPERTY:**

Federal excise duty on the allotment and transfer of residential and commercial plots, imposed through the Finance Act, 2024, is now proposed to be withdrawn.

4. **AUTHORIZE OFFICERS OF OTHER DEPARTMENT FOR ENFORCEMENT ACTIONS UNDER FE ACT:**

It is proposed that FBR may be empowered to authorize officers or employees from other departments within the Federal or Provincial Governments, through a notification in the official Gazette, to perform functions or exercise powers under section 26 (power to seize dutiable goods) and sub-section (1) of section 27 (confiscate dutiable goods) of the Act.