



COMMENTS ON FINANCE ACT 2025-26

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PREAMBLE

In pursuit of fiscal consolidation, economic resilience, and inclusive growth, the National Assembly of Pakistan has enacted the Finance Act, 2025–2026 on 26th June 2025. This legislation gives effect to the financial proposals of the Federal Government for the fiscal year commencing on 1st July 2025, and introduces amendments to key fiscal statutes including the Income Tax Ordinance, 2001; the Sales Tax Act, 1990; and the Federal Excise Act, 2005.

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Amendments in Income Tax Ordinance, 2001.

1. Tax on payments for Digital Transactions In E-Commerce - Section 6A (Local E-Commerce Platforms)

The Finance Bill introduces a new Section 6A, which levies a tax under **final tax regime** on payments received from digital transactions (goods & services) conducted within Pakistan's e-commerce sector at the rate specified in **Division IVA of Part I of the First Schedule which is 1% for digital payments and 2% for Cash on Delivery**. This tax is applicable to individuals or entities receiving payments for goods or services ordered digitally and delivered from within Pakistan, through locally operated online platforms such as marketplaces or websites.

The responsibility for collection of tax is on:

- Every "payment intermediary" at the time of processing payment through digital means, on behalf of a seller of digitally ordered goods or services.
- Every Courier business providing "courier services" collecting cash from a buyer under cash on delivery (COD) payment terms on behalf of a seller for the supply of digitally ordered goods and services through e-commerce platforms (including websites).

2. Salary [Section 12] (Treatment of Pension Income)

A new sub-section (2A) has been added to Section 12 of the Finance Act to address the tax treatment of pension income specified under clause (f) of sub-section (2). Under this provision, pension income exceeding Rs. 10 million received in a tax year from a former employer will be subject to a **final tax of 5%**.

Pension income received by individuals aged 70 years or older shall be fully exempt from taxation, irrespective of the amount received.

If an individual remains employed with their former employer or an associated entity, their pension income will not be eligible for final tax treatment and will instead be taxed according to regular slab rates.

The aforementioned amendments grant an age-based exemption exclusively to individuals aged 70 or above who receive pension income from a former employer. However, they do not explicitly extend this exemption to individuals who remain employed with the former employer or its associated entities. This indicates that such cases are not covered by the exemption.

3. Income from property [Section 15] (Minimum Annual Rental Value)

The Bill had initially proposed adding two provisos to Section 15, aiming to establish a minimum annual rental value for commercial immovable property at 4% of its Fair Market Value (FMV) under Section 68 of the Income Tax Ordinance.

Minimum value of fair market rent at 4% would not apply if the taxpayer is able to provide evidence for actual rent received to the satisfaction of the Commissioner, proving otherwise.

The Act has withdrawn the previously proposed amendment. As a result, the pre-existing legal position is reinstated, meaning that there is no prescribed minimum annual rental value of commercial immovable property set at 4% of the Fair Market Value under Section 68.

4. Income from business (of recreational clubs)- [section 18(1)(b)] Recreational clubs are no longer eligible as NPO.

Income of recreational clubs from sale of goods and provision of services to its members was outside the scope of "Income" under the concept of mutuality which has been brought chargeable under the head "

Income from business" retrospectively.

Recreational clubs where the joining fee does not exceed Rupees one million can avail 100% tax credit prospectively under section 100C as a Non-Profit Organization under section 2(36).

5. Deductions not allowed [Section 21Q]

a) Disallowance of Expenditure for Non NTN Holders

The Finance Bill proposed a major change by introducing a **10% disallowance** on claimed expenditures related to purchases made from individuals who do not possess a National Tax Number (NTN). However, this disallowance would not apply to agricultural produce acquired directly from growers.

The Act has now clarified that, in the case of **agricultural produce**, the disallowance clause applies only to purchases made through intermediaries or middlemen, and not to direct purchases from growers.

b) Expenditure against cash sales exceeding Rs. 200,000 disallowed-[21(S)]

50% of the expenditure claimed in respect of any sale shall be disallowed where the payment received exceeds Rs. 200,000 per invoice and is made otherwise than through a banking channel or digital means.

Threshold: Applies to payments exceeding Rs. 200,000 per invoice.

6. Tax Credit for Certain Persons – Section 65F(1)(A)

Prior to the Bill, Section 65F(1)(a) granted a 100% tax credit under the Income Tax Ordinance to individuals engaged in coal mining projects in Sindh who supplied coal exclusively to power generation projects.

The Bill had proposed to expand this provision by removing the word “exclusively,” thereby allowing tax credit eligibility for coal supplied to various buyers, including power producers.

However, the final Act amended Section 65F(1)(a) to limit the tax credit strictly to income earned from the supply of coal to power generation projects.

This clause enhances clarity and ensures consistent alignment between the primary provision and its intended interpretation.

7. Restrictions on Economic Transactions by Certain Persons – Section 114c

The Finance Bill proposed the introduction of Section 114C to impose restrictions on specified high-value economic transactions by individuals and entities that fail to comply with their tax obligations.

The Act has now introduced the Fifteenth Schedule, which outlines the specified thresholds. Additionally, the Act has substituted following clauses and section:

Through the Finance Act, a monetary threshold has been established under the Fifteenth Schedule, thereby restricting its application to **vehicles and immovable properties** that exceed the specified value.

Under the enacted Finance Act, the scope of the restriction on the **sale, account opening, or clearance of securities and mutual fund** transactions for ineligible persons, has been narrowed and now applies where an ineligible person’s **total investment** surpasses the threshold outlined in the Fifteenth Schedule.

The Finance Act has retained only the restriction on **cash withdrawals** exceeding the threshold prescribed in the Fifteenth Schedule. As a result, banking companies are permitted to open and maintain accounts for all individuals without limitation. **one hundred million** rupees, as prescribed.

This provision offers limited scope for expanding the tax base and primarily introduces an additional bureaucratic layer for affluent individuals seeking eligibility certificates to undertake certain transactions.

8. Amendment of assessments [Section 122]

Timeframe of passing an order u/s 122(9) has been increase to 365+90 days

Previously, proceedings for the amendment of assessment under Section 122 were required to be finalized and an order passed within 180 days from the issuance of the show cause notice. This timeline could be extended by the Commissioner, provided written reasons were recorded, but such extension could not exceed 90 days.

Now, the Act, has increased the original timeframe of passing an

order u/s 122(9) from 180 + 90 days, to 365 + 90 days.

The Act has restored the second proviso. *“The second proviso provided that any period during which proceedings are adjourned due to a stay order or ADRC proceedings or agreed assessment proceedings under Section 122D or adjournments taken by taxpayer shall be excluded in counting the 180 + 90 days time limit provided under the first proviso”.*

9. Recovery Of Tax [Sections 138 and 140]

The Finance Bill proposed that, in cases where the High Court rules in favor of the department on an appeal filed by the Commissioner under Section 133, the recovery of the disputed amount shall commence seven days after the date of the High Court’s order.

The Act has imposed restrictions on immediate recovery, making it conditional upon the fulfillment of specific requirements.

- a) That the case has been resolved in favor of the department across three appellate forums, including a ruling by the High Court.

- b) Recovery under this section shall be limited to the lowest amount of demand that has been upheld by any one of the three appellate forums.
- c) Where the tax payable exceeds Rs. 200 million, the Commissioner shall initiate recovery of the amount regardless of any timelines prescribed under other provisions or any decisions or judgments passed.

10. Imports [Section 148]

Restrict to collect advance tax under Proceeds Levy Act 2025

The Act has amended Section 148, stipulating that the Collector of Customs shall not collect tax under this section where the recipient of goods is liable under the Digital Proceeds Levy Act 2025, and the applicable levy has already been collected by the payment intermediary as defined in Section 153.

This clarification helps mitigate the risk of double taxation by ensuring that tax is not simultaneously collected at the import stage and under the Digital Presence Proceeds Levy framework.

11. Payments to non residents [Section 152 (1d)]

For non-residents having capital gain on govt securities, bonds

Banks and financial institutions managing the Special Convertible Rupee Account (SCRA) of a non-resident company—without a Permanent Establishment in Pakistan—are required to deduct tax at a rate of 10% on the gross proceeds from capital gains earned through the disposal of debt instruments and government securities, such as Treasury Bills and Pakistan Investment Bonds, invested via the SCRA.

The Finance Bill proposed a change in withholding tax rate based on holding period of such securities, whereby, the bank or financial institution shall deduct tax at the rate of 10% for securities held for 12 months or more. Whereas for securities held for less than 12 months, the capital gains shall be taxed at 20%.

The Act has revised the holding period threshold to six months. Consequently, capital gains on securities retained for less than six months will be taxed at 20%, whereas gains on securities held for six months or longer will be subject to a reduced rate of 10%. This adjustment

is intended to promote medium-term investment behavior while curbing short-term speculative trading.

12. Payment for goods, services and contracts [Section 153(4)]
Granting power to commissioner to issue 100% tax deduction certificate.

Under the existing provisions of Section 153 of the Ordinance, the Commissioner holds the authority to issue a certificate for reduced or lower tax rates. However, any such reduction is capped at a maximum of 80% of the rate prescribed in the relevant Division.

The Act introduces a relief measure by authorizing the Commissioner, under Section 153, to issue exemption certificates granting a full (100%) waiver of tax deduction for public limited companies, wherever applicable.

13. Exemption or lower rate certificate [Section 159(1B)]
from deduction of advance tax under section 236C

The Act introduces a new exemption mechanism from the collection of advance tax on the sale or transfer of immovable property. Under newly inserted subsection (1B), the Commissioner may, upon

application, issue an exemption certificate from advance tax deduction under Section 236C, provided certain conditions are met.

- a) The person's income from capital gains on the property is not chargeable to tax under section 37(1A)
- b) The property must have been in the personal use of the individual for at least the last fifteen years
- c) It must have been declared in the wealth statement under section 116 for the same 15 year period; and
- d) The property must be reflected as residence for personal use in tax records.

An exemption certificate under this provision can be issued only once in fifteen years. This amendment is aimed at facilitating genuine long-term property owners who are not liable to capital gains tax, by exempting them from unnecessary deduction of advance tax.

14. Exchange of Banking and Tax Information Related to High Risk Persons [175AA]

FBR and Banks will exchange high risk individual data.

Through the insertion of Section 175AA, the Finance Bill aimed to enhance the framework for exchanging financial information

concerning high-risk individuals by enabling structured data sharing with scheduled banks.

The Act has refined Section 175AA, authorizing the Board to share taxpayer information derived from tax declarations with scheduled banks in Pakistan. This data exchange aims to facilitate cross-verification using algorithmic comparisons

In cases where discrepancies arise between tax filings and banking data, scheduled banks are required to report the final outcomes based on the variance identified through the Board's data-driven algorithms.

This section risks eroding public trust in the Federal Government, as it grants officers access to taxpayer data based on opaque algorithmic evaluations.

15. Tax Payer's Registration [Section 181(IA)]

Mandatory registration for online plate e-commerce plate form

The Finance Bill had proposed the insertion of new sub-section (1A), mandating that online marketplaces and courier services facilitating e-commerce ensure vendor registration under both the Sales Tax Act, 1990 and the Income Tax Ordinance.

However, the enacted Act omits the sales tax registration requirement, requiring vendors to be registered only under the Income Tax Ordinance.

16. Offences and penalties [Section 182]

Penalties introduced through the Finance Act as compared to the ones proposed by the Bill are as under:

Offences

15A

Any seller supplying digitally ordered goods and digitally delivered services through online marketplace who is required to register under Sales Tax Act, 1990 and Income Tax Ordinance, 2001, fails to register under the aforementioned statutes.

Penalty As per Finance Bill

Such seller shall pay a penalty of five hundred thousand rupees for the first default and one million rupees for every subsequent default.

As per Act

The Act has removed mandatory requirement for sales tax registration. Therefore, if taxpayer is not registered under Sales Tax Act, 1990, the penalty shall not be applicable.

The First Schedule Rates of Tax

Part I

Salary Income/Pension Income

As per finance Act concessional rates as proposed in finance bill are solely available to pension income sourced from a previous employer.

Income Slabs	Rate of Tax
Where the amount of pension received does not exceed rupees ten million	0% of the amount
Where the amount of pension received exceeds rupees ten million	5% of the amount exceeding rupees ten million

As a result, pension income derived from sources other than a former employer shall be subject to taxation according to the relevant slab rates applicable to salaried or non-salaried individuals, depending on the nature of the recipient's income.

Consequently, payments received under retirement benefit schemes, such as annuity plans, pension supplements, or lump sum commutations (excluding regular pension), are no longer eligible for

concessional tax treatment and will instead be taxed in accordance with the standard slab rates.

Rate of Dividend Tax [Division III]

The Finance Act amendment stipulates that when a corporate entity receives dividends from mutual funds or REITs, the portion attributable to debt securities shall be subject to tax at the rate of 29%.

Rate for Profit on Debt [Division IIIA]

7B

The taxation of profit on debt is governed by Section 7B of the Ordinance. It is applicable to individual taxpayers—excluding corporate entities—who earn profit on debt from parties specified under Section 151(1), including banking companies, financial institutions, and governmental bodies.

As per the Act following changes will be incorporated.

- (a) Profit on debt paid by banking companies or financial institutions on accounts or deposits maintained with them shall be taxed at a rate of 20%.
- (b) Profit on debt paid by Government securities under clause.
- (c) of sub section (1) of section 151 to person other than an individual shall be taxed at a rate of 20%. (a) For all

other cases, the tax rate shall remain at 15%.

Rate of Tax on Payments for Digital Transactions in E-commerce Platforms [Division IVA]

Under Section 6A of the Ordinance, the Finance Act introduced below mentioned tax rates applicable to payments for goods ordered digitally and services delivered electronically via e-commerce platforms.

1% of gross amount paid or payable irrespective of what amount paid.