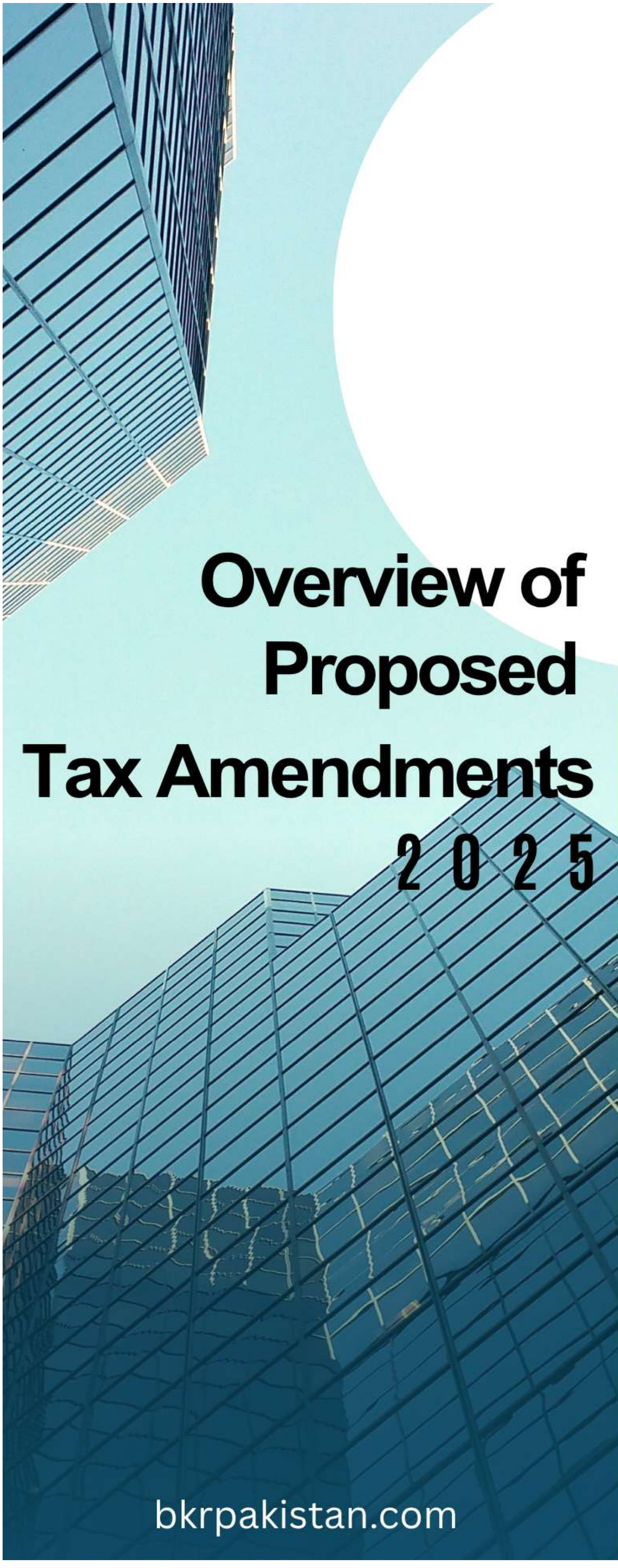

Overview of Proposed Tax Amendments 2025

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Contextual Preface to the Finance Bill 2025

The Finance Bill, 2025 has been presented before the National Assembly of Pakistan.

This publication provides our interpretation and analysis of the key proposals set out in the Finance Bill, 2025. It offers explanatory notes on significant fiscal measures and proposed amendments in the following areas:

- Income Tax Ordinance, 2001
- Sales Tax Act, 1990
- Federal Excise Act, 2005
- Islamabad Capital Territory (Tax On Services) Ordinance, 2001

These proposed amendments will come into effect from July 1, 2025, subject to approval by the Parliament.

This document is intended for general information purposes only and does not constitute professional, financial, or legal advice. Readers are strongly advised to refer to the final, enacted legislation and seek appropriate professional counsel before making any decisions or taking any actions based on the contents of this publication.

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INCOME TAX ORDINANCE, 2001

A summary of certain significant proposal is as follows: -

- The Finance Bill 2025 proposes a reduction in the Super Tax rates under Section 4C by 0.5 percentage points for income slabs between Rs. 200 million and Rs. 500 million, as shown below:

Slab of Income	Existing	Proposed
Where income does not exceed Rs 150mn	0% of the Income	0% of the Income
Where income exceeds Rs 150mn but does not exceed Rs 200mn	1% of the Income	1% of the Income
Where income exceeds Rs 200mn but does not exceed Rs 250mn	2% of the Income	1.5% of the Income
Where income exceeds Rs 250mn but does not exceed Rs 300mn	3% of the Income	2.5% of the Income
Where income exceeds Rs 300mn but does not exceed Rs 350mn	4% of the Income	3.5% of the Income
Where income exceeds Rs 350mn but does not exceed Rs 400mn	6% of the Income	5.5% of the Income
Where income exceeds Rs 400mn but does not exceed Rs 500mn	8% of the Income	7.5% of the Income
Where income exceeds Rs 500mn	10% of the income	10% of the income

- New tax rates on salary income have been proposed. Similarly, surcharge rate proposed to be reduced from 10% to 9% for salaried individuals only.

S.#	Taxable Income	Rate of Tax
1	Where taxable income does not exceed Rs. 600,000/-	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	1% of amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 116,000 + 23% of amount exceeding Rs. 2,200,000
5	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 346,000 + 30% of amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 4,100,000	Rs. 616,000 + 35% of amount exceeding Rs. 4,100,000

- The Finance Bill introduces the Digital Transactions Proceeds Levy on persons receiving payments on account of digitally ordered Goods and Services. This tax is applicable on goods and services delivered from within Pakistan using locally operated online platforms including online marketplace or websites at prescribed rates. Banks and courier services designated as withholding agents to capture entire payment chain. The rates on the payment method and transaction type as follows:

(i) Digital Means or banking channels by payment intermediary:

Slabs	Rate of Tax
Where the amount paid does not exceed rupees ten thousand	1% of the gross amount paid
Where the amount paid exceeds rupees ten thousand but does not exceed rupees twenty thousand	2% of the gross amount paid
Where the amount paid exceeds rupees twenty thousand	0.25% of the gross amount paid

(ii) Paid Cash on Delivery by courier service:

Slabs	
On supply of electronic and electrical goods	0.25% of the gross amount paid
On supply of clothing articles, apparels, garments etc.	2% of the gross amount paid
On supply of goods other than mentioned above	1% of the gross amount paid

- Withholding Tax rate on certain specified services and other services excluding IT enabled services has been enhanced which is tabulated as under:-

S. No.	Description	Existing Rates	Proposed Rate
1	Provision or rendering of 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, services rendered of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services, oilfield services	4%	8% (applicable to PE of a non-resident person) 6% (applicable to resident person)
2	IT services and IT enabled services	4%	4%
3	Other services: Company Others	 9% 11%	 15% 15%
4	Execution of contract by sports persons	10%	15%

- 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.

- Increase in Tax rate on profit on debt from 15% to 20%. The dividend tax rate has been increased to 25% & 15% on dividend from mutual funds.

- 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.

- Adjustable withholding tax rate on cash withdrawals by non-filers enhanced to 0.8%.

- 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.

- 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.

- Income tax exemption along with withholding tax exemption for erstwhile FATA/PATA areas propose for extension for one year i.e. upto TY 2026.

- 25% rebate against tax payable by full time teachers and researchers will be restored retrospectively i.e. from TY 2023 to TY 2025.

- 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.

- 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.
- Purchases from non-NTN holders proposed to be disallowed at 10%.

- 50% of 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.

- Depreciation on addition in capital asset would not be allowed, if withholding tax is not deducted on its payment.

- 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.

- 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.

- Maximum period to claim amortization on intangible to be reduced from 25 years to 15 years.

- Period of carry forward for adjustment of minimum tax on turnover has been reduced from 3 years to 2 years.

- Limitation period of 180 days provided for completing proceedings for amendment of assessment has been withdrawn.

- Appeal procedure before appellate fora has been majorly reverted back to the period which was in vogue prior to Tax Laws (Amendment) Act, 2024.

- 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.

- The 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.

- Group relief to be restricted to companies paying tax under normal tax regime.

- Table (I) and Table (II) of clause (C66) of Part I of Second Schedule to the Ordinance listing entities have been merged and as an effect, Now all entities require approval under 100C to be declared as Non-Profit Organization and availing exemption against income.

- 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.

- 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.

- Online marketplace made responsible to get registered all sellers using their platform in e-commerce.

- Sharing of taxpayer data with Tax Policy Office (TPO) and anonymized data with international donor and recognized universities have been allowed.

- Withholding Tax on Immovable Properties (Section 236C and 236K) for which tax rates on sale and purchase of immovable properties under sections 236C and 236K are proposed to be as follows:

236C

S. No.	Amount	Tax Rate	Tax Rate for Non-Filer	Tax Rate for Late-Filer
(1)	(2)	(3)	(4)	(5)
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	4.5%	11.5%	7.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	5%	11.5%	8.5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	5.5%	11.5%	9.5%

236K

S. No.	Amount	Tax Rate	Tax Rate for Non-Filer	Tax Rate for Late-Filer
(1)	(2)	(3)	(4)	(5)
1	Where the fair market value does not exceed Rs. 50 million	1.5%	10.5%	4.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	2%	14.5%	5.5%
3	Where the fair market value exceeds Rs. 100 million	2.5%	18.5%	6.5%

SALES TAX ACT, 1990

- The Bill proposes to introduce a definition of the Cargo Tracking System in the Act, referring to the electronic monitoring and tracking of goods transported within or across Pakistan's territory. Additionally, it defines an e-Bilty as a transport document, generated through the Cargo Tracking System as prescribed by the Board, to accompany goods during transit.

- 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. The withholding tax scope has been expanded to cover transactions settled via online payment or COD. Payment intermediaries (banks, financial institutions, exchange companies, and payment gateways) to withhold and remit tax on digital payments while couriers will handle tax collection for COD transactions. Furthermore, the withholding tax rate is set to increase from 1% to 2%.

- The bill proposes to define the term "abettor" who connives with the registered persons involved in fraudulent activities to evade the sales tax and punishment for this offence is also proposed. Definition of term "Tax fraud" is broadened to cover all kinds of frauds including those involving technology.

- 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.

- 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.

- The bill proposes the insertion of Sections 14AC, 14AD, and 14AE for 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 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.

- The 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 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.

- The bill proposed that the exemption of sales tax on supplies, imports and import of plant and machinery by the industrial units located in the erstwhile FATA/PATA 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%

- The currently available sales tax exemption on the import and supply of "Photovoltaic cells, whether or not assembled in modules or made into panels," is proposed to be withdrawn.

- The reduced sales tax rate for cars up to 850cc is now proposed to be replaced with the standard rate.

- The Bill proposes to replace this exemption to the local supply of iron and steel scrap with exclusion.

- 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.

- 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.

- Currently, the supply of electricity to residential, commercial, and industrial units in the former FATA/PATA regions is exempt from tax until 30.06.2025. To continue providing relief to electricity consumers in these areas, it is proposed that this exemption be extended until 30.06.2026.

- The pecuniary limit for determining the appellate jurisdiction has been eliminated, allowing the taxpayer the option to file an appeal either with the Commissioner (Appeals) or directly with the Tribunal. Similarly, the procedures for filling appeal before ATIR and refence to high court have also been streamlined.

- Previously, condonation could be granted for any duration based on the circumstances. However, to introduce a more rational approach, it is proposed that condonation be limited to a period of two years. In cases involving significant revenue loss, this period may be extended further as deemed appropriate, subject to approval through a committee process.

- 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.

Proposed Amendment Regarding Audit Oversight of Registered Persons

In circumstances where the financial accounts of registered persons are subject to statutory audit under the Companies Act, 2017, it is proposed that the **Chief Commissioner Inland Revenue** be vested with the authority—**subject to prior approval by the Federal Board of Revenue (FBR)**—to refer the relevant **audit firm** to the **Audit Oversight Board (AOB)** for inspection.

This referral power may be exercised in instances where the Chief Commissioner has **credible reasons to believe** that the audited financial statements of the registered person **fail to present a true and fair view** of critical financial information, specifically with respect to:

- **Sales**
- **Purchases**, and
- The corresponding **sales tax liability** of the registered person.

FEDERAL EXCISE ACT 2005

- The 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.

- The process for filing appeals before 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 removed. However, registered persons will now have the option to file an appeal directly with the Appellate Tribunal Inland Revenue, without first pursuing an appeal before the Commissioner (Appeals).

- The federal excise duty on the allotment and transfer of residential and commercial plots, introduced through the Finance Act, 2024, is now proposed to be withdrawn.

- 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.

ISLAMABAD CAPITAL TERRITORY (SALES TAX ON SERVICES) ORDINANCE, 2001

Mandatory Integration of Service Providers with Real-Time Reporting System

A proposal has been made to mandate the integration of all service providers with the Board's computerized real-time service reporting system. The timeline, method, and procedural details for this integration will be outlined in a general order issued by the Board.

Tax Exemption for Services Rendered to GIZ, UN Agencies, and Diplomatic Entities

It is proposed that services delivered to the German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ), United Nations-affiliated agencies, diplomats, diplomatic missions, and other privileged entities be exempted from tax. This exemption will be governed by the applicable laws, statutory instruments, and international agreements ratified by the Federal Government.

Authority to Declare a Negative List of Services

A proposal is also under consideration to authorize the Board to identify and notify a Negative List of services that will be exempt from taxation under this Ordinance. These exemptions, along with their specific conditions and limitations, will be detailed in Table 3 of the Schedule and published in the official Gazette.

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