



A.D. Akhawala & Co.
Chartered Accountants



TAX HIGHLIGHTS

FEDERAL BUDGET

2025-26



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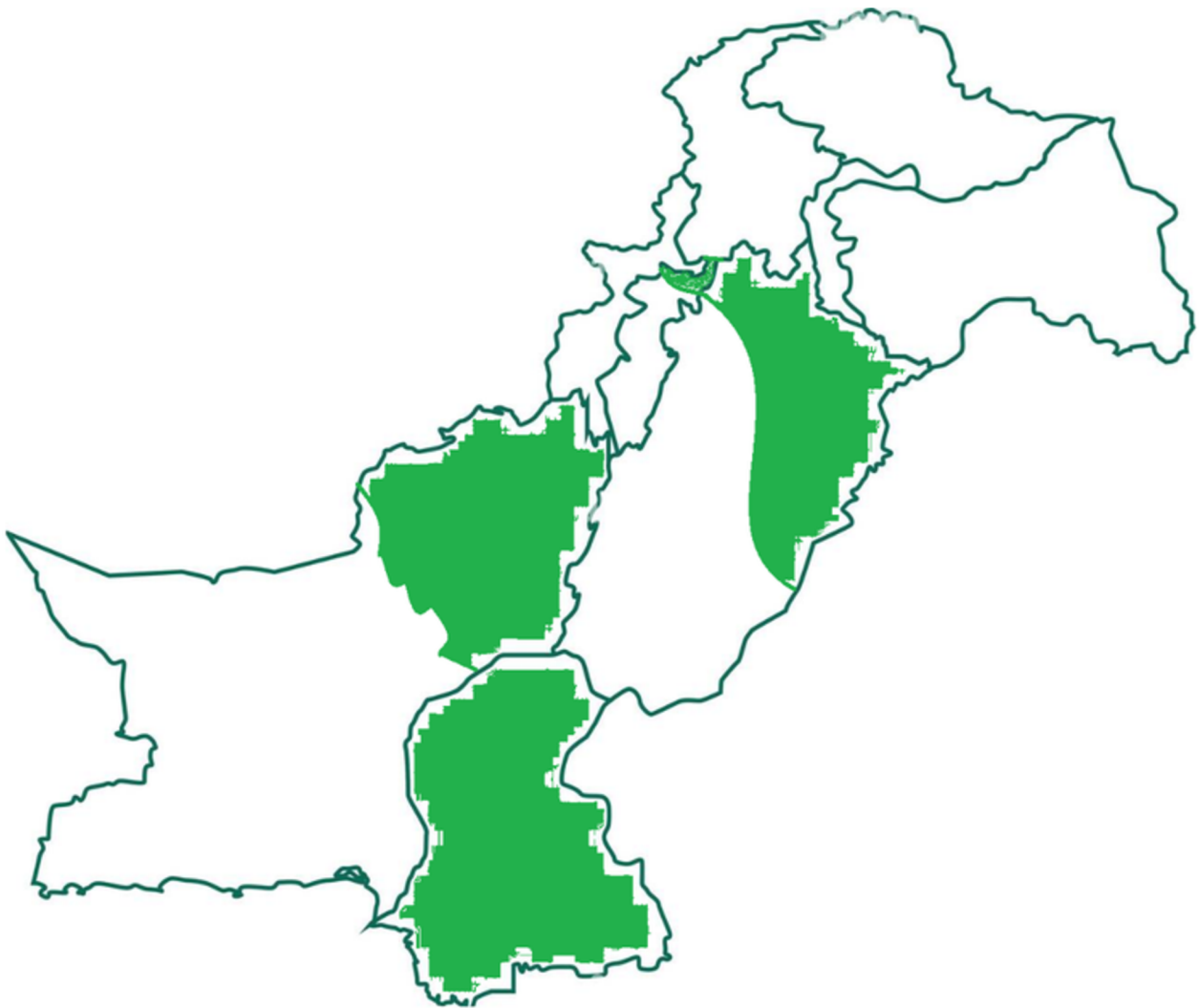


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Foreword



This publication contains an economic review, highlights of fiscal proposals and explanatory description of the significant changes in the Income Tax, Sales Tax and Federal Excise.

Amendments proposed in the Finance Bill, 2025 will take effect from July 01, 2025, once it is approved by the Parliament.

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Karachi

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INCOME TAX

Relief Measures

Salary

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. Comparative chart of existing and proposed rates is as under:

Taxable Income	Existing Rate of Tax	Proposed Rate of Tax	Relief %	Net Benefit
Where taxable income does not exceed Rs. 600,000/-	0%	0%	N/A	N/A
Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000/-	5% of the amount exceeding Rs. 600,000/-	1% of the amount exceeding Rs. 600,000/-	4% reduction	24,000 (2.0%)
Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000/-	Rs. 6,000/- + 11% of the amount exceeding Rs. 1,200,000/-	4% reduction	64,000 (2.91%)
Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000/-	Rs. 116,000/- + 23% of the amount exceeding Rs. 2,200,000/-	2% reduction	84,000 (2.625%)
Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000/-	Rs. 346,000/- + 30% of the amount exceeding Rs. 3,200,000/-	No Change	No Relief
Where taxable income exceeds Rs. 4,100,000/-	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000/-	Rs. 616,000/- + 35% of the amount exceeding Rs. 4,100,000/-	No Change	No Relief

Super Tax

Super tax rates under section 4C proposed to be reduced by 0.5% for income slabs between Rs. 200 million to Rs. 500 million against each slab respectively. Comparative chart of existing and proposed rates is as under:

Income under section 4C	For tax year 2025	For tax year 2026 and onwards
Upto Rs. 150 million	0%	0%
Exceeding Rs. 150 million but does not exceed Rs. 200 million	1%	1%
Exceeding Rs. 200 million but does not exceed Rs. 250 million	2%	1.5%
Exceeding Rs. 250 million but does not exceed Rs. 300 million	3%	2.5%
Exceeding Rs. 300 million but does not exceed Rs. 350 million	4%	3.5%
Exceeding Rs. 350 million but does not exceed Rs. 400 million	6%	5.5%
Exceeding Rs. 400 million but does not exceed Rs. 500 million	8%	7.5%
Exceeding Rs. 500 million	10%	10%

Advance Tax on Purchase Property

The rate of advance tax on the purchase of immovable property has been proposed to be reduced as under:

S. No.	Amount	Existing Rate	Proposed Rate
1	Where the fair market value does not exceed Rs. 50 million	3%	1.5%
2	Where the fair market value exceeds Rs.50 million but does not exceed Rs.100 million	3.5%	2%
3	Where the fair market value exceeds Rs.100 million	4%	2.5%

The rates of advance tax on the purchase of immovable property for the persons not appearing on the Active taxpayers' list have been proposed to be reduced as under:

S. No.	Fair Market Value of Immovable Property	Existing Rate	Proposed Rate
1	Where the fair market value does not exceed Rs. 50 million	12%	10.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	16%	14.5%
3	Where the fair market value exceeds Rs. 100 million	20%	18.5%

For late filers, the rate of advance tax on the purchase of immovable property has been proposed to be reduced as under:

S. No.	Amount	Existing Rate	Proposed Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	6%	4.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs.100 million	7%	5.5%
3	Where the gross amount of the consideration received exceeds Rs.100 million	8%	6.5%

Tax Credit on Interest paid on Loan for Purchase of House/ Acquisition of Flat

Proportionate tax credit has been proposed for individuals in respect of interest on loan obtained for construction of a house upto 250 sq. yd. and acquisition of a flat having areas upto 2000 sq. ft. A tax credit shall be allowed to such individual on the amount of interest paid or 30% of the taxable income, whichever is less.

Revenue Measures

Taxation of Capital Gains on Certain Debt Securities

Every custodian of debt securities including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of holder of a debt security, is required to withhold tax at the rate of 15% on the gross amount of capital gain arising to such holder. This withholding tax requirement does not apply on transactions executed through stock exchange and settled through NCCPL.

Rate of tax on disposal of debt instruments and Government securities by a non-resident person not having a Permanent Establishment (PE)

Gain arising on disposal of debt instruments and Government securities by a non-resident person not having a PE and maintaining a Special Convertible Rupee Account is subject to tax withholding at the rate of 10%, which constitute final discharge of tax liability. The rate of tax, as above, has been enhanced to 20% where holding period of the above securities is less than twelve months.

Digital Transactions Proceeds Levy - Foreign

A new law has been proposed to be 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 shall deduct tax at the rate of 5% from the gross amount paid as withholding agents to capture entire payment chain.

Digital transactions in e-commerce - Local

A tax has been introduced at rates varying from 0.25%, 1% and 2% 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 tax so charged is a final discharge of tax liability.

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.

Every payment intermediary and courier service responsible for deducting tax, as above, is also required to file a quarterly withholding statement in respect of tax deduction regarding sale of digitally ordered goods and services.

Enhanced rate of tax deduction on specified services

The rate of withholding tax has been proposed to be increased from 4% to 6% in the case 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 including architectural services, warehousing services, services rendered by asset 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, 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 except for IT and It enabled services, for which rate of 4% continues to apply.

Further, for all other categories of service providers, the rate of withholding tax has been enhanced from 9% (corporate taxpayers) and 11% (non-corporate taxpayers) to 15%. In case of sportsperson, the rate of withholding tax has been enhanced from 10% to 15%.

Tax on Profit on Debt / Interest

The banking companies and financial institutions paying profit on debt to non-corporate taxpayers will now be required to withhold tax at the rate of 20%. The tax so withheld would constitute a final discharge of tax liability of the non-corporate taxpayers where the annual profit does not exceed PKR 5 million. In cases where annual profit exceeds PKR 5 million, the tax withheld would become adjustable against the tax liability of the taxpayer. For corporate taxpayers, the tax withheld at 20% by banking companies and financial institutions, will be adjustable against their eventual corporate tax liability.

Enhanced Tax on Cash Withdrawals

Adjustable withholding tax rate on cash withdrawal on non-filers proposed to be increased from 0.6% to 0.8%.

Advance Tax on Disposal of Property

S. No.	Amount	Existing Rate	Proposed Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million.	3%	4.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million.	3.5%	5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million.	4%	5.5%

The rate of advance tax on the disposal of immovable property by the persons not appearing on the Active taxpayers' list have been proposed to be increased from 10% to 11.5%.

For late filers, the rate of advance tax on the disposal of immovable property has been proposed to be increased as under:

S. No.	Amount	Existing Rate	Proposed Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million.	6%	7.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million.	7%	8.5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million.	8%	9.5%

Other Measures**Fair Market Rent for commercial properties**

In case of commercial properties given on rent, the minimum value of fair market rent chargeable to tax under the head 'income from property' should be four percent of the prescribed fair market value per annum, unless it can be demonstrated otherwise.

Deductions not allowed against business income

For the purpose of computing income under the head 'income from business', ten percent of the purchases made from persons not holding National Tax Number shall be disallowed.

Additionally, in case where a taxpayer receives payment exceeding two hundred thousand rupees otherwise than through a banking channel or digital means against a single invoice, fifty percent of the corresponding expenditure shall be disallowed.

Depreciation deduction not allowed

Where a taxpayer fails to withhold tax at the time of making payment against purchase of a capital asset, no depreciation expense shall be allowed on such assets throughout the life of the asset.

Useful life of an intangible asset

Period of amortization of an intangible asset having undeterminable useful life has been proposed to be reduced from 25 years to 15 years.

Offsetting of business loss against income from property

Loss under the head 'income from business' can no longer be setoff against income under the head 'income from property' for the year.

Group relief restricted

The benefit of group relief is restricted to companies deriving income from business chargeable to tax at corporate rates, under the Normal Tax Regime.

Carry forward of minimum tax

Period of three years carry forward for adjustment of minimum tax on turnover has been proposed to be reduced to two years.

Amendment of assessment

Limitation period of 180 days provided for completing proceedings for amendment of assessment under Section 122 of the Income Tax Ordinance, 2001 has been proposed to be withdrawn.

Restriction on economic transactions by certain persons

Except under specified circumstances, following transactions can now be undertaken only by eligible persons :

- Purchase of a motor vehicle
- Transfer of any immovable property
- Purchase or sale of securities including debt securities and mutual funds

Additionally, the Board may notify persons who would be ineligible to open an account or operate an existing account with a banking company or permit cash withdrawal from such account beyond prescribed limits.

Fee for Offshore Digital Services

Rate of tax on fee for offshore digital services is proposed to be enhanced from 10% to 15%.

SALES TAX

Sales tax on e-commerce sales

Definition of e-commerce has been proposed to be introduced in the Sales Tax Act, 1990 to better incorporate digitally ordered taxable goods into the ecommerce sales tax framework at a reduced rate of 2%.

Mandatory registration of sellers engaged in supply of digitally ordered goods through online marketplace, website and software applications in the prescribed form and manner.

Online marketplace and courier to carryout business only with persons registered under sales tax and income tax.

Measures introduced for unregistered persons

Following actions shall be taken against the person who is liable to be registered and fails to get himself registered under the Act -

- Bar on Operations of Bank Accounts
- Bar on Transfer of Immoveable Property
- Seal the Business Premises
- Seize Moveable Property
- Appoint a Receiver for the Management of the Taxable Activity of a person

Unless the said person get himself registered under the Act.

Monitoring and tracking

Introduction of new concept of e-bilty through the 'Cargo Tracking System' for electronic monitoring and tracking of movement of goods within or across Pakistan. Linkage of e-bilty with respective sales tax invoice is required to be ensured.

Adjustable input tax

The Board is empowered to use the data based automated risk management system to defer certain input tax or fix, higher or lower limits of input tax adjustment. However, registered person may contest such action by filing application against such action with the Commissioner concerned who is bound to decide the case within thirty days.

Best judgment assessment in case of unregistered distributors, dealers and wholesalers

Scope of assessment is proposed to be enlarged to empower the officer Inland Revenue to pass best judgement assessment in case of a Distributor, Dealer and Wholesaler who is liable to be registered under the Act and does not furnish a return. The Officer Inland Revenue may assess sales tax liability of such dealer/distributor/wholesaler on the value addition on any reasonable basis which includes the purchase data obtained from the income tax collected under Section 236G of the Income Tax Ordinance, 2001.

Tax fraud proceedings enforced through specific provisions

Tax Fraud inquiry and investigation currently included under the provision of assessment and recovery of non-payment or short payment of taxes is proposed to be revamped through specific provision. The Officer Inland Revenue will be empowered to prosecute or arrest such person who committed a tax fraud as per the Act by following the procedure prescribed under the Code of Criminal Procedure, 1898. The procedure for compounding of offences is also introduced where the Commissioner is empowered to exercise the process.

Time limitation of assessment of sales tax

Statutory time limit for completion of an assessment initiated under the Act is proposed to be enhanced from 120 days to 180 days.

E-Invoicing

The Board has been empowered to notify mode manner and date for implementation of E-invoicing.

Transactions not admissible for input tax adjustment

Currently in case of supply of taxable goods to unregistered person, input adjustment is restricted if the amount of supply exceeds 100 million rupees in a financial year or 10 million rupees in a tax period. A proportionate amount of input tax is disallowed against such taxable supplies. The above value of transaction is now proposed to be abolished and the Board with the approval of Federal Minister-in-Charge may prescribe such limits subsequently through rules or notifications in the official gazette.

Additions in the Third Schedule

The following items are proposed to be included in the Third Schedule for taxing at retail price:

- 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

Amendments in the Sixth Schedule exemptions

Exemptions on following items are proposed to be withdrawn.

Supplies and imports of plant and machinery by the industrial units located in the erstwhile FATA/PATA.

Import and supply of photovoltaic cells ("solar panels") whether or not assembled in modules or made up into panels.

The exemption of sales tax on supply of electricity to residential, commercial and industrial units located in FATA/PATA is proposed to be extended till 30 June 2026. The above exemption in relation to FATA/PATA will be gradually withdrawn by charging sales tax in phased manner at different rates on annual basis.

Amendments in the Eighth Schedule

The reduced rate of 12.5% on locally manufactured motorcars having engine capacity up to 850cc is proposed to be withdrawn and therefore, will be subject to standard rate of sales tax.

FEDERAL EXCISE DUTY

Duties specified in the First Schedule to be levied

The Bill proposes that liability to pay duty by the person other than “goods produced, manufactured and imported in Pakistan, goods produced and manufactured in non-tariff areas brought to tariff area and services provided or rendered in Pakistan”, may be specified under the provisions of FE Act.

Power to seize

The scope of power to seize goods is proposed to be enhanced in the Bill to the excisable goods which are removed or sold by the manufacturer or any other person without affixing counterfeit tax stamps, bard codes, stickers, labels or bar codes as required under Section 45A of the FE Act for monitoring and tracking by electronic or other means. Before proposed amendment, such seizure was restricted to the counterfeited cigarettes or beverages which have been manufactured or produced unlawfully and other dutiable goods on which duty of excise has not been paid in the manner as prescribed in the FE Act.

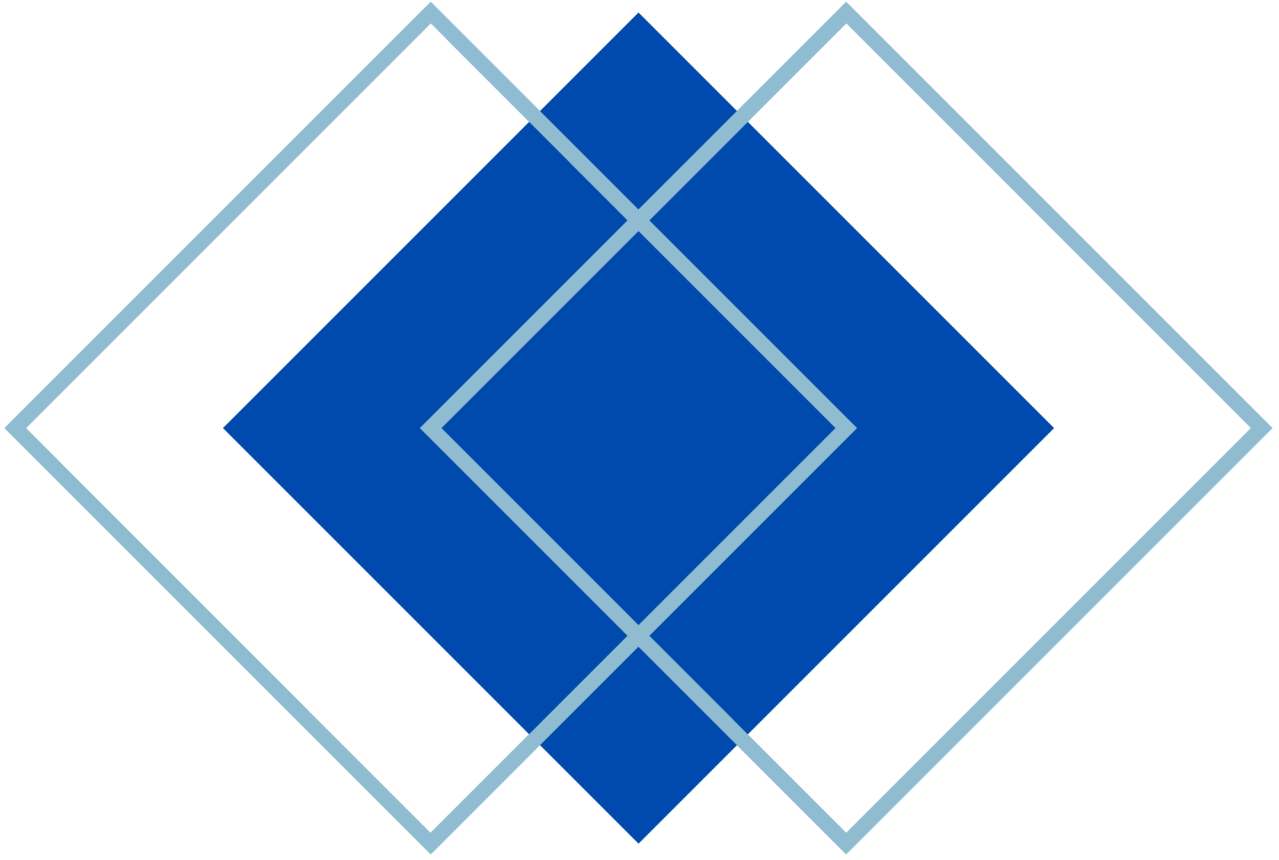
Confiscation of goods subject to federal excise duty

The scope of power of confiscation of goods is proposed to be enhanced in the Bill to the excisable goods which are removed or sold by the manufacturer or any other person without affixing counterfeit tax stamps, bard codes, stickers, labels or bar codes as required under Section 45A of the FE Act for monitoring and tracking by electronic or other means. Before proposed amendment, such confiscation was restricted to the cigarettes and beverages.

It is also proposed that Board may authorize any officer or employee of the Federal or Provincial Government to exercise the powers of the Officer Inland Revenue to seize and confiscate (a) goods subject to monitoring and tracking by electronic or other means in terms of Section 45A of the FE Act; and (b) counterfeited goods.

Amendments in the First Schedule

Federal Excise Duty imposed through the Finance Act, 2024 on allotment or transfer of commercial property and first allotment or first transfer of open plots or residential property is proposed to be abolished.



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