

FINANCE ACT

2026-2027

**INCOME TAX
AMENDMENTS**



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- MEMBER ADVISORY COMMITTEE FEDERAL BOARD REVENUE





THE INCOME TAX ORDINANCE, 2001

AMENDMENTS

- The amendments introduced in the Tax Budget 2026-27 is categorized into three broad areas:

Relief measures

- Aimed at reducing tax burden

Revenue measures

- Intended to enhance government revenue

Streamlining measures

- Focused on simplifying tax laws



RELIEF MEASURES



Reduction in tax rates for salaried individuals



Abolishment of surcharge



Abolition of tax on deemed income from immovable property



Reduction in Super Tax



Reduction in advance tax on purchase and sale of immovable property



Rationalization of tax collection from exporters



Extension of concessionary tax rate for IT and IT-enabled services exports



Reduction in tax on foreign payments through cards



Adjustability of tax on e-commerce transactions



RELIEF MEASURES



Tax credit for integration with FBR systems



Enhanced turnover threshold for withholding exemption of small traders



Withdrawal of advance tax on foreign TV plays and advertisements



Extension in exemptions of certain welfare and charitable entities



Determination of cost of inherited immovable property and family settlements



Removal of Capital Value Tax (CVT)



Tax rates for salaried individuals

- Income tax rates for salaried taxpayers have been reduced through **restructuring of tax slabs**.
- Additional intermediate slabs** have been introduced and the threshold of salary for the maximum tax rate of **35%** has been increased from **Rs. 4.1 million** to **Rs. 7 million**.

S. No.	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 the 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 the 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 + 20% of the amount exceeding Rs. 2,200,000/-
5.	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000	Rs. 316,000 + 25% of the amount exceeding Rs. 3,200,000/-
6.	Where taxable income exceeds Rs. 4,100,000/- but does not exceed Rs. 5,600,000	Rs. 541,000 + 29% of the amount exceeding Rs. 4,100,000/-
7.	Where taxable income exceeds Rs. 5,600,000/- but does not exceed Rs. 7,000,000	Rs. 976,000 + 32% of the amount exceeding Rs. 5,600,000/-
8.	Where taxable income exceeds Rs. 7,000,000/-	Rs. 1,424,000 + 35% of the amount exceeding Rs. 7,000,000/-

Relief starts from 4th slab onwards



Impact of tax relief for salaried individuals

Sr. No.	Taxable Income	Tax liability		Decrease in Tax Liability	
		Existing	Revised		
	Rupees	Rupees	Rupees	Rupees	%
1.	600,000	-	-	-	0%
2.	1,200,000	6,000	6,000	-	0%
3.	22,00,000	116,000	116,000	-	0%
4.	3,200,000	346,000	316,000	(30,000)	8.67%
5.	4,100,000	616,000	541,000	(75,000)	12.18%
6.	5,600,000	1,141,000	976,000	(165,000)	14.46%
7.	7,000,000	1,631,000	1,424,000	(207,000)	12.69%
8.	8,000,000	1,981,000	1,774,000	(207,000)	10.45%



Abolishment of Surcharge (Sec 4AB)

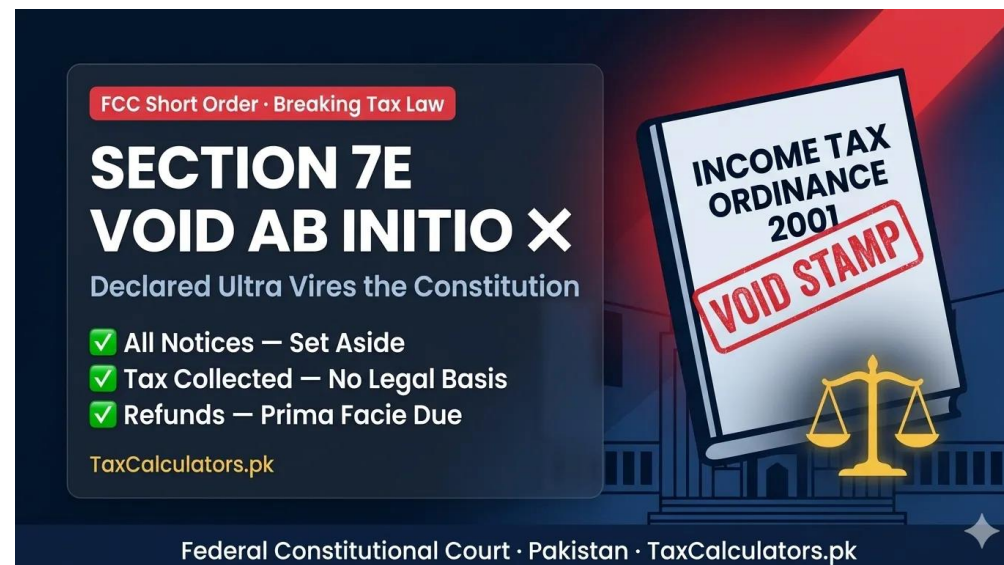
The 9% surcharge on salaried individuals with taxable income exceeding Rs. 10 million has been abolished. However, it continues to apply to non-salaried individuals and AOPs.



Abolition of tax on deemed income from immovable property

- **Section 7E**, which imposed tax at 1% on deemed income from capital assets situated in Pakistan based on fair market value, has been **omitted**.
- This relief measure follows the Federal Constitutional Court's ruling that deemed income from immovable property is ultra vires.
- The tax was introduced in **Tax Year 2022** and remained applicable thereafter.

Now the **Question** arises regarding the refund of **7E** paid in previous tax years.





Reduction in Super Tax (Sec. 4C)

- **Abolished** from TY 2027 for persons (excluding banks, oil and gas exploration & fertilizer manufacturers) with income less than **Rs. 500 million**.
- For income exceeding Rs. 500 million super tax rate reduced from **10% to 8%**.
- Banking companies, oil & gas exploration companies & fertilizer manufacturers made liable to super tax at 10% where income exceeds **Rs. 150 million**.
- Moreover, 4C shall not be applicable on **Exporters** who have realized exports proceeds more than 80% of their total turnover during that tax year.



Reduction in advance tax on immoveable property

Purchase – 236K

S. No.	Amount	Tax Rate	Now
1	Where the fair market value does not exceed Rs. 50 million	1.5%	1.25%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	2%	
3	Where the fair market value exceeds Rs. 100 million	2.5%	

Sale – 236C

S. No.	Amount	Tax Rate	Now
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	4.5%	2.75%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million	5%	
3	Where the gross amount of the consideration received exceeds Rs. 100 million	5.5%	

Furthermore, the distinction between ***filer and late filer*** has been abolished, and the concept of a late filer is no longer recognized for the purposes of this provision.



Rationalization of tax collection from exporters (Sec. 154)

- Tax collection on export proceeds has been **reduced from 2 % to 1.25%**.
- It also synchronizes with turnover tax on other line of business as prescribed under section 113 of the Income Tax Ordinance, 2001.
- Abolition of the adjustable advance tax at the rate of 1% under Section 147(6C).
- Tax deducted under **Section 154** at the rate of **1.25%** shall be treated as **minimum tax** rather than **adjustable tax**.
- **Withholding tax** rate applicable to indirect exporters has been enhanced from **1% to 1.25%**.





Extension of concessionary tax rate for IT and IT-enabled services exports:

- The reduced tax rate of **0.25%** applicable to exporters of Information Technology (IT) and IT-enabled services has been **extended up to Tax Year 2029**.
- Previously it was only available till **Tax Year 2026**.
- The extension is intended to;
 - provide tax relief and
 - support to the IT and IT-enabled services sector.





Reduction in tax on foreign payments through cards

A substantial reduction in the rate of advance tax on foreign payments made through;

Debit card

Credit card

Prepaid card

The applicable rate has been reduced from **5%** to **0.5%**.





Adjustability of tax on e-commerce transactions

- Tax to be deducted on payments made through e-commerce platforms at the rate of **1% on digital banking transactions and 2% on cash-on-delivery (COD) transactions.**
- The tax deducted under this regime will be constituted as **final tax liability** for the sellers.
- The tax deducted on e-commerce transactions shall be treated as **adjustable tax** for sellers whose **annual turnover exceeds Rs. 200 million.**
- This change is intended to **shift such taxpayers from the final tax regime to an adjustable tax regime**, allowing the tax deducted to be credited against their overall income tax liability.
- A choice to opt out is given to seller having turnover up to **Rs. 200 million in Tax Year 2027 and onwards.**





Tax credit for integration with FBR system (Sec. 64D)

Introduction of tax credit equal to 10% of the investment made in electronic resources utilized for integration with the Federal Board of Revenue's (FBR) computerized systems.

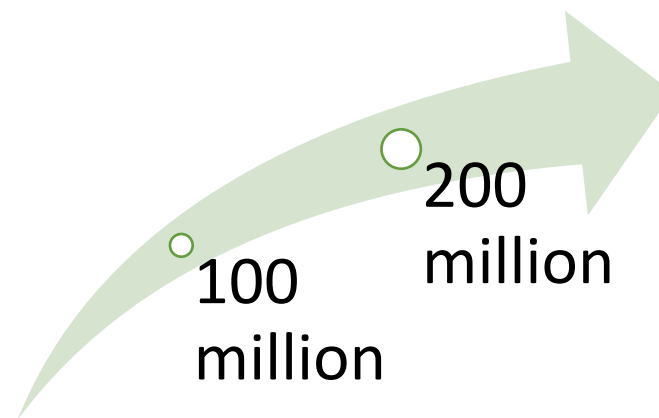
This incentive is aimed at encouraging documentation, automation, and greater digital compliance among taxpayers.





Enhanced turnover threshold for withholding exemption of small traders

Increase in the turnover threshold for exemption from withholding tax for small traders under ***clause 115 Part IV Second Schedule*** from **Rs. 100 million to Rs. 200 million.**



This measure is aimed at;

- broadening the scope of relief available to small businesses and
- reducing their compliance and cash flow burden.



Withdrawal of advance tax on foreign TV plays and advertisements (Sec. 236CA)

Withdrawal of advance tax on payments made for foreign television plays and advertisements.

Such payments will no longer be subject to advance tax deduction.

Reducing the

- tax burden and
- compliance requirements

associated with these transactions.





Extension in exemptions of certain welfare and charitable entities



- Income tax exemption extended to specified charitable and welfare organizations including;

- Pakistan Red Crescent Society,*
- Shaheen Foundation,*
- Bahria Foundation,*
- SIUT, and*
- Dawat-e-Hadiya, etc.*



Dawat-e-Hadiyah
Administration of His Holiness
Syedna Mufaddal Saifuddin



- These organizations will now be included in Part I of Second Schedule.
- This exemption provides **administrative relief** by eliminating the requirement for these entities to obtain annual exemption approvals from the Commissioner.
- This helps in simplifying compliance and ensuring continuity of their tax-exempt status.



Determination of cost of inherited immovable property and family settlements

- The law clarified the
 - determination of the cost basis for inherited immovable property and
 - the tax treatment of family settlements upon death.

Previously	Now
the cost of inherited immovable property for legal heirs was considered to be the original cost in the hands of the deceased owner.	The cost of the property in the hands of the inheritor shall be deemed to be its fair market value as on the date of death of the original owner.



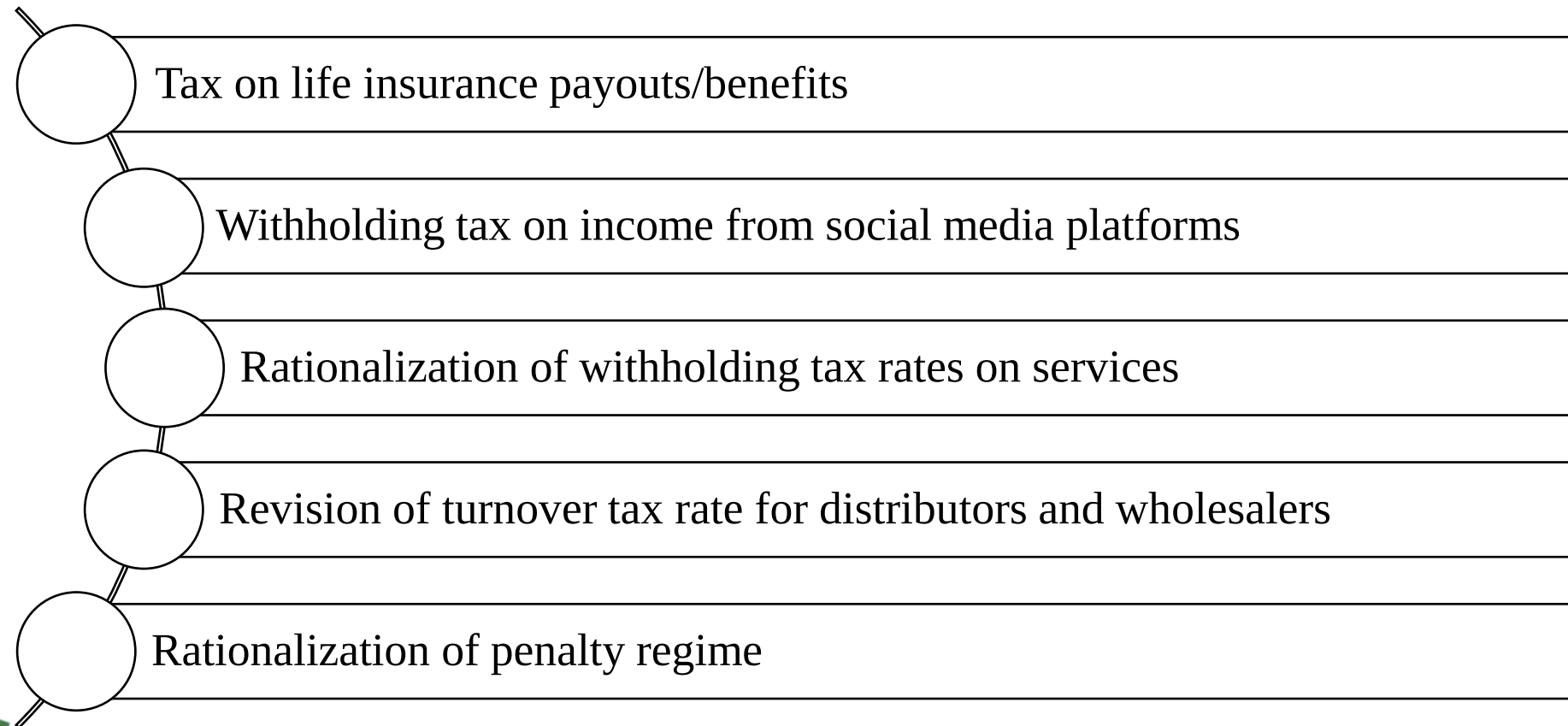


Removal of Capital Value Tax (CVT)

- Capital Value Tax being charged on foreign movable and immovable assets of resident Pakistanis has been **abolished**.
- The constitutional validity of CVT is still pending before the Federal Constitutional Court of Pakistan.
- This was introduced under **Finance Act, 2022** and was applicable to;
 - foreign moveable,
 - immoveable assets and
 - specified motor vehicles.
- The tax was charged at the rate of **1% of the value of the relevant asset**.
- This imposed an annual levy on high-value assets falling within the prescribed categories.
- CVT on foreign assets was required to be paid along with Income Tax Returns.



REVENUE MEASURES





Tax on life insurance payouts/benefits (Sec. 7G)

In order to discourage misuse of life insurance policies and to reduce arbitrage through life insurance policies, a tax has been imposed on every individual who receives the payout/benefit/surrender value or maturity proceed on such schemes, The tax collected under such section shall be **Final Tax**. The new rates are as under:

S. NO.	Description	Rate of Tax
1	Where payout or benefit is made within one year from the date of issuance of the life insurance policy, family takaful certificate or plan	15%
2	Where payout or benefit is made after one year but before completion of seven years from the date of issuance of the life insurance policy, family takaful certificate or plan	10%

Exemption from such tax is available in the event of death, disability, or upon completion of seven years.





Rationalization of withholding tax rates on services

The withholding tax structure for services has been revised;

- Rate for specified services increased,
- Independent professionals separately categorized and
- Certain service categories rationalized.

Service Category	Existing	Now
Specified Services	6%	7%
General Services (except independent professional services)	15%	14%
Independent professional services (such as doctors, lawyers, accountants, architects, software engineers or developers, working independently)	15%	No change
IT/IT-enabled services	4%	No change

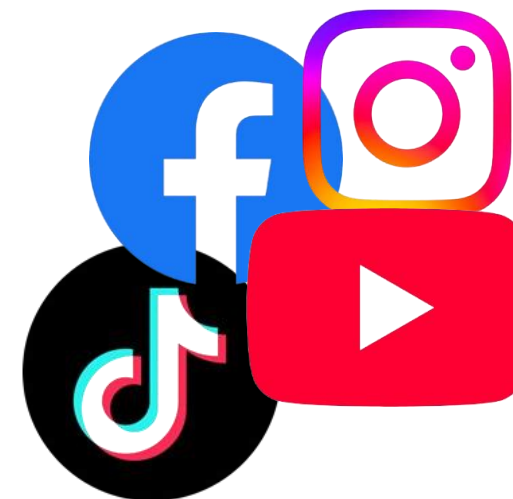


Withholding tax on income from social media platforms

- Withholding tax regime has been introduced on income earned by digital content creators and social media influencers from platforms such as
 - YouTube,
 - Facebook,
 - Instagram, and
 - Tiktok.

Financial institutions are required to deduct tax from such payments.

Under Section 154B, the rate of tax deduction shall be:



Clause	Description	Rate of Tax
a	Resident persons	5%
b	Non-resident persons not having a permanent establishment in Pakistan	5%

Provided that tax collected under clause (a) shall be minimum tax and under clause (b) shall be final tax.



Revision of turnover tax rate for distributors and wholesalers

- **Reduced turnover tax rate for**

- Distributors,
- Dealers,
- Sub-dealers and
- Wholesalers

of specified sectors such as

- fertilizers,
- local manufactured mobile phones,
- sugar, and
- electronics

have been **increased from 0.25% to 0.5%**, subject to prescribed documentation requirements.





Rationalization of penalty regime

Penalties for;

- non-compliance,
- failure to furnish statements,
- integration failures,
- late inclusion in ATL and
- incorrect withholding tax claims,

have been enhanced to improve deterrence and adjust inflation.

PENALTY

New Penalties [Sec.182]

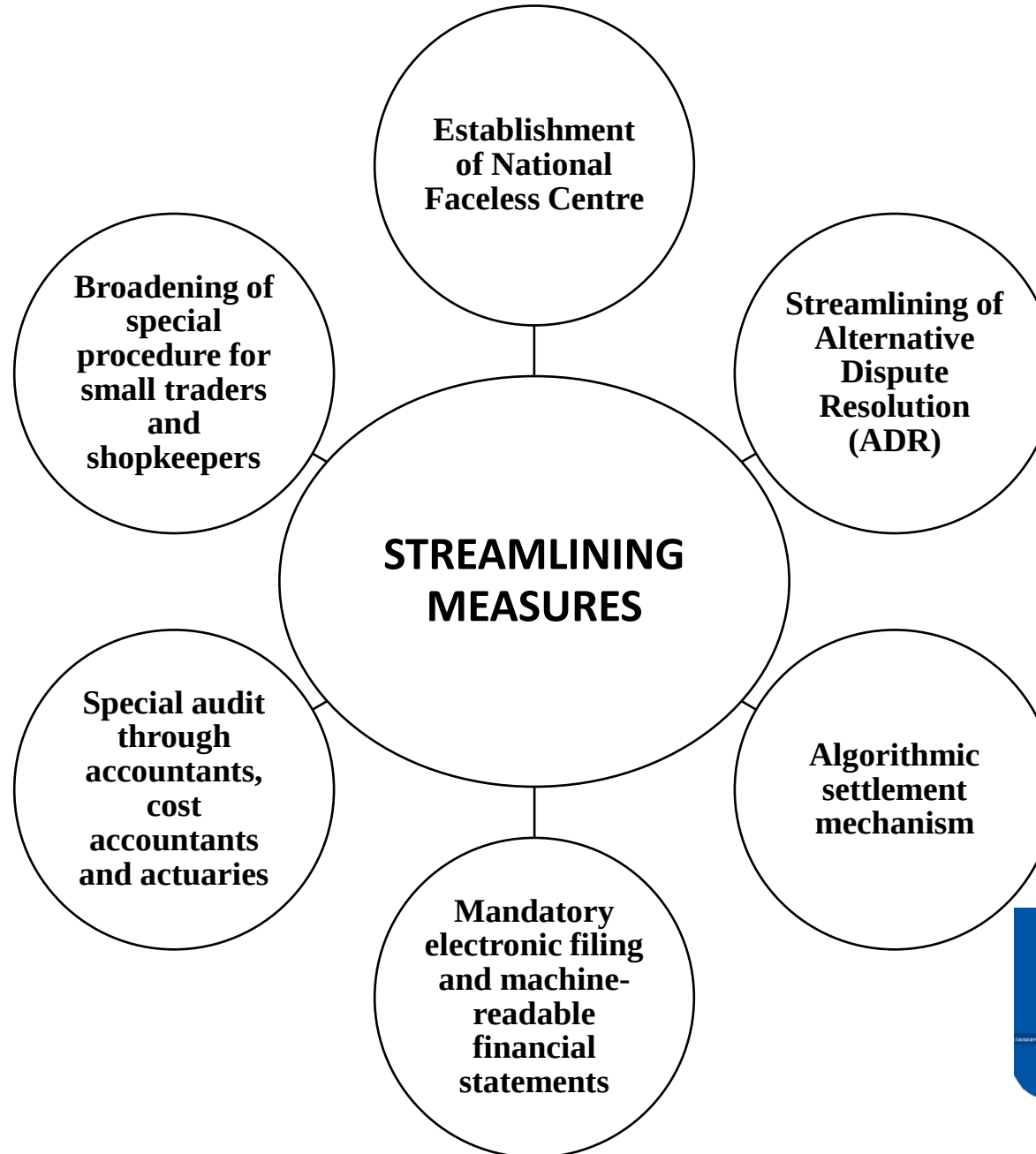
Offence	Revised Penalty
Failure to install/use/maintain prescribed electronic resources, or tampering	Rs. 1,000,000/- (first); Rs. 2,000,000/- (subsequent)
Integrated organization failing to Integrate IT platform/ share date	Rs. 500,000/- (first); Rs. 1,000,000/- (subsequent) on principal officer
Claiming tax credit in excess of verified WHT deducted/deposited	Amount equal to excess credit claimed

Return not filled within Due date [Sec. 182A]

Offender	Existing	Revised
Company	Rs. 20,000	Rs. 100,000
Association Of Person	Rs. 10,000	Rs. 50,000
Individual	Rs. 1,000	Rs. 25,000

Enhanced (Revised) Penalties [Sec. 182]

Offence	Existing	Revised
Non-Compliance with audit (Sec-177) – 1 st /2 nd /3 rd Notice	Rs. 25,000/50,000 /100,000	Rs. 100,000/200,000/300,000
False or misleading statement	Rs. 25,000 or 50% of shortfall	Rs. 500,000 or 100% of shortfall
Concealment/ Inaccurate Particulars	Rs. 100,000 or tax evaded	Rs. 1,000,000 or tax evaded
Failure to deduct/collect tax	Rs. 40,000 or 10% of tax	Rs. 500,000 or 10% (+ Rs 500K on principal officer)





Establishment of National Faceless Centre

- The Board have been empowered to establish a National Faceless Centre for conducting tax proceedings in a fully digital and faceless manner.
- A National Faceless Centre is being established for conducting faceless tax proceedings.
- **Faceless assessment and audit proceedings** shall be conducted in accordance with **Sec 122E** and respective portion of **Sec 177**.
- The hearing shall be done through E-hearing as defined under Section 227-E.
- The identity of the officer, including facial and voice identity, conducting the E-hearing shall be confidential.
- The National faceless center will have powers to process faceless appeals. Procedures governing appeals to the Commissioner Appeals u/s 127 to 129 of the ITO have been made applicable to faceless appeals as well.



Algorithmic Settlement Mechanism (Sec. 134B)

- A digital settlement mechanism has been introduced to resolve tax disputes before finalization of assessment or amended assessment under sections 121, 122 and 122E through revision of return under section 114(6).
- Settlement offers are system-generated based on the taxpayer's compliance history, stage of proceedings, and nature of discrepancies, including issues under sections 111 and 177.
- Taxpayers accepting the offer must, within 10 days, accept it on IRIS, pay the settlement amount, and file a revised return.
- Upon acceptance, proceedings relating to notices under sections 111, 177(6), 122(9), or audit selection stand abated to the extent covered by the settlement.
- The settlement does not affect other issues or tax years not covered by the offer.



Streamlining of Alternative Dispute Resolution (ADR)

The Alternative Dispute Resolution (ADR) framework has been revised to

- improve efficiency and
- facilitate quicker resolution of tax disputes.

The power of rectification has been vested in the Alternative Dispute Resolution (ADR) Committee, which may exercise it either *suo moto* or upon an application by either party.

Such rectification must be made within 30 days of the taxpayer or Commissioner receiving the committee's decision.





Special **AUDIT** through accountants, cost accountants and actuaries

The Commissioner has been empowered to require re-audit by;

- an accountant, (not defined)
- inventory valuation by a cost accountant or
- actuarial valuation by actuary.

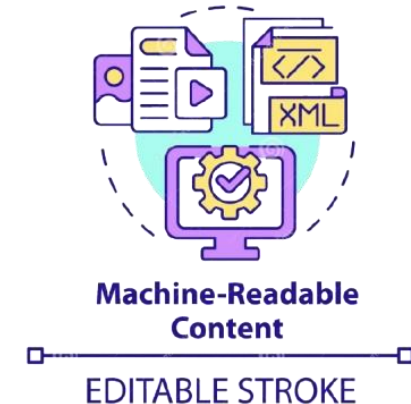
All experts must be independent experts in appropriate cases.

The relevant professionals are to be nominated by the Commissioner from a panel notified by the board, and the report must include responses to the Commissioner's specific queries.



Mandatory electronic filing and machine-readable financial statements

Companies are required to submit financial statements in electronically readable formats to facilitate automated processing and analysis (*applicable for Tax Year 2026 and onwards*).



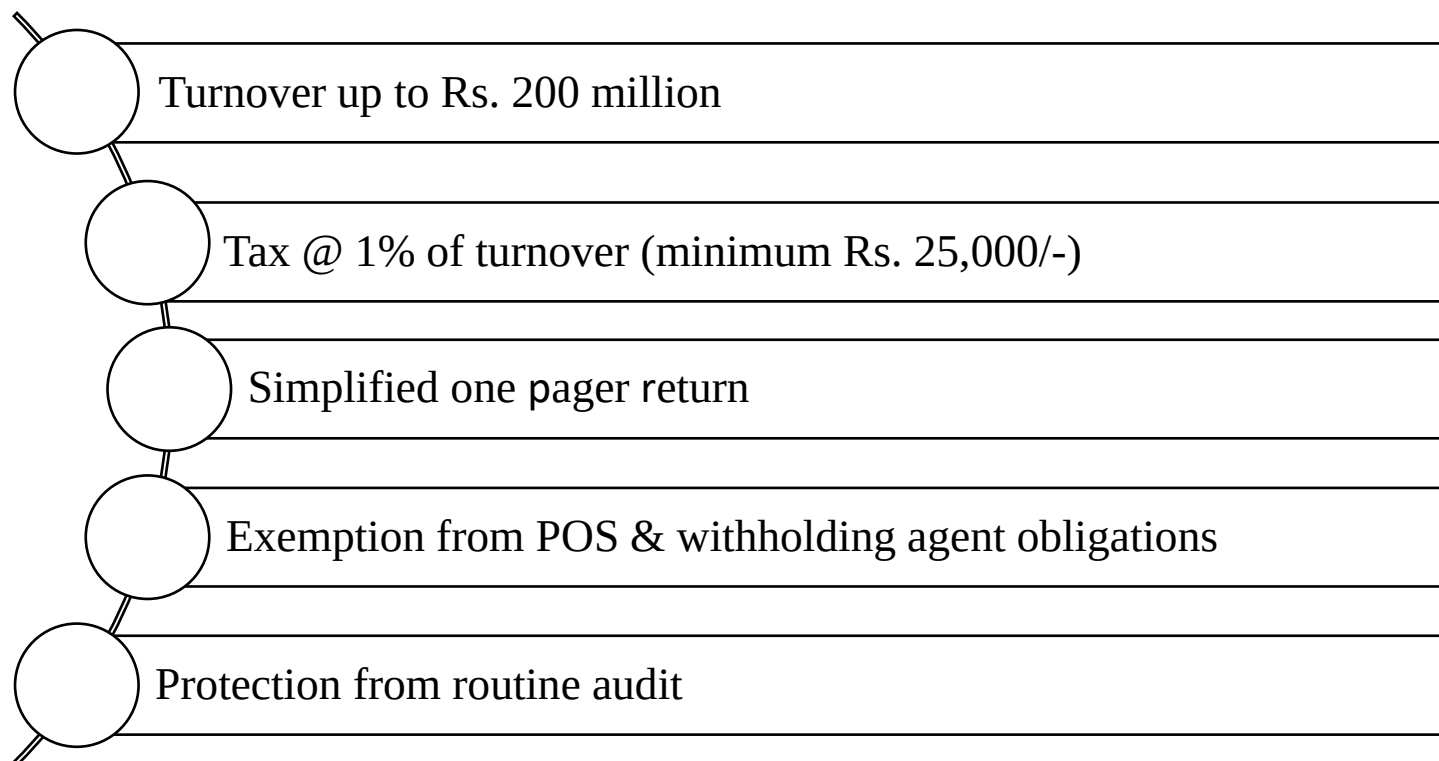
“Electronically Readable Format” means any digital format in which data is structured so that it can be read, extracted, validated and processed by computer systems without human intervention. Spreadsheet formats such as; CSV, XLSX, XML, XBRL, JSON, and other structured or semi-structured data formats but excluding formats primarily designed for human readability, such as PDF, scanned images or photographs;



Broadening of special procedure for small traders and shopkeepers

The scope of special procedures for small traders and shopkeepers has been expanded through amendments in **section 99B**.

Amendments introduced in **section 99B** to enhance the scope:



(based on budget speech)

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Thank you