



GROW INTERNATIONAL

Tax Advisory & Compliance Practice

FINANCE BILL 2026–27

Comprehensive Tax Comments Memorandum

Income Tax | Sales Tax | Federal Excise | Customs | CVT | Provincial Taxes

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Important Notice & Disclaimer

This memorandum has been prepared by Grow International for general informational purposes only. It is not intended to constitute legal, tax, or investment advice and should not be relied upon as such.

The analysis contained herein is based on the Finance Bill 2026–27 as tabled before the National Assembly on June 12, 2026, and reflects the state of the law as at that date. The Bill has not yet been passed by Parliament; accordingly, provisions may be amended or removed during legislative passage.

Grow International has drawn upon publicly available analyses, including those of leading tax advisory firms such as, Irshad Ali & Co., and the Pakistan Economic Survey 2025–26, in preparing this memorandum. Interpretations expressed are our own professional views and do not necessarily represent the position of the Federal Board of Revenue (FBR) or any other regulatory authority.

Readers are strongly advised to seek specific professional advice before making any business, tax, or investment decision based on the matters discussed herein.



Executive Summary

Macroeconomic Context

Pakistan's economy in FY2025–26 reached an all-time high nominal GDP of US\$452.1 billion, growing at 3.7% — the fastest pace in four years — yet falling short of the 4% target due to Middle East energy shocks and global tariff uncertainty. The fiscal deficit compressed dramatically from 2.6% to 0.7% of GDP, remittances hit a record US\$33.9 billion, and FX reserves surged 49% year-on-year to US\$17.2 billion.

Against this backdrop of improving but still fragile macroeconomic stability, the Federal Budget 2026–27 signals a strategic pivot: from crisis management to structural transformation. The Finance Bill 2026–27, tabled on June 12, 2026, embodies this shift through significant reforms across income tax administration, digital economy taxation, and indirect tax compliance.

Budget Headlines

FBR Tax Revenue Target: Rs. 15,264 billion (17.6% growth) | Total Expenditure: Rs. 18,771 billion | Federal Deficit: Rs. 7,020 billion (4.9% of GDP) | Projected Nominal GDP: Rs. 143,604 billion | Primary Surplus: Rs. 1,035 billion (0.7% of GDP)

Key Themes of Finance Bill 2026–27

- **Digital Tax Administration:** Introduction of a National Faceless Centre, faceless audit/assessment/appeals, algorithmic settlement mechanisms, and e-hearings represent the most fundamental restructuring of tax administration in decades.
- **Income Tax Relief for Salaried Class:** Reduction in tax rates for multiple salary brackets (20%–29% range) and removal of the 9% surcharge on salaried individuals earning above Rs. 10 million.
- **Broadening the Tax Net:** New withholding taxes on social media revenue, life insurance payouts, and digital transactions; stricter FMCG distributor taxes; and enhanced banking surveillance.
- **Removal of Section 7E:** The Federal Constitutional Court struck down the deemed income tax on immovable property as unconstitutional; the Bill formalises this removal.
- **Removal of CVT on Foreign Assets:** Capital Value Tax on foreign assets of resident individuals has been abolished, providing relief to overseas Pakistanis and attracting diaspora investment.
- **Sales Tax Compliance:** Major expansion of the Third Schedule (retail price-based taxation), enhanced penalties for fake invoices, and introduction of production monitoring systems.
- **Air Travel Relief:** Significant reduction in Federal Excise Duty on business/first class international air tickets (up to 80% reduction for certain destinations).
- **EV Incentives Extended:** Electric vehicle exemptions and reduced rates extended through June 2027.

Impact Summary by Tax Head

Tax Head	Key Change	Fiscal Impact	Net Effect
Income Tax – Salary	Rate reductions (multiple brackets)	Revenue reduction	▼ Revenue
Income Tax – Business	Surcharge removal for salaried; FMCG rate increase	Mixed	~ Neutral
Section 7E (Deemed Income)	Omitted (FCC ruling)	Revenue loss	▼ Revenue



Digital / social media WHT	New 5% WHT (Section 154B)	Revenue gain	▲ Revenue
Life Insurance Payouts	New tax 10–15% (Section 7G)	Revenue gain	▲ Revenue
CVT (Foreign Assets)	Abolished	Revenue loss	▼ Revenue
Sales Tax – 3rd Schedule	21 new items added (retail price)	Revenue gain	▲ Revenue
Sales Tax – Penalties	Enhanced 3–5x; new fake invoice penalties	Compliance improvement	▲ Compliance
Federal Excise – Air Tickets	Up to 80% rate reduction	Revenue reduction	▼ Revenue
Federal Excise – EVs	Extension to June 2027	Continued incentive	~ Neutral
Petroleum Levy / CSL	Climate Support Levy introduced	Revenue gain	▲ Revenue



Amendments to Income Tax Ordinance, 2001

1. Tax Administration Modernisation

1.1 National Faceless Centre (Section 227D, 209B)

The Finance Bill introduces the most transformative change in Pakistani tax administration since the establishment of the FBR. A National Faceless Centre is proposed to be established under Section 227D (ITO) and Section 32C (STA), enabling algorithm-driven allocation of tax proceedings to officers whose identities remain confidential.

- Audit, assessment, appeals, and quality control functions to be conducted exclusively through electronic means
- Officer identity (facial and voice) to remain confidential from taxpayers
- Algorithmic case allocation to reduce human discretion and potential corruption
- Board authorised to design algorithms for case allocation and function assignment
- Notices and orders issued by the Faceless Centre cannot be challenged on grounds of jurisdictional technicalities

Grow International Assessment

While the faceless system promises transparency and reduced corruption risk, the extensive reliance on technology with limited human oversight in complex tax matters, combined with identity confidentiality provisions, raises legitimate due process concerns. Taxpayers must prepare for a fully digital engagement model with FBR by FY27.

1.2 Faceless Audit, Assessment & Appeals

Section 122E (ITO) and Section 11H (STA) introduce faceless audit and assessment regimes. Section 129A and Section 45C introduce faceless appeals. These provisions give the Board overriding power to conduct all proceedings digitally, with e-hearings conducted under Section 227E.

1.3 Algorithmic Settlement Mechanism (Section 134B)

A novel Section 134B introduces an algorithmic settlement mechanism allowing the FBR's computer system to generate settlement offers to taxpayers based on: (a) stage of proceedings; (b) taxpayer compliance history; (c) nature of discrepancy (valuation, legal interpretation, concealment); and (d) other Board-determined criteria.

Taxpayers accepting the settlement offer must, within 10 days: accept on IRIS, deposit the settlement amount, and revise the relevant return. Upon acceptance, pending audit notices and show-cause notices are abated.

Note

The algorithmic settlement mechanism raises important questions about consistency, transparency, and the right of a taxpayer to contest a machine-generated demand. However, it offers certainty and avoidance of prolonged litigation.

2. Salary Income Tax — Rate Reductions

The Bill proposes meaningful reductions in income tax rates for salaried individuals across multiple brackets, providing partial relief from the heavy burden imposed in recent years:

Income Slab	Previous Rate	Proposed Rate	Reduction
Rs. 2.2M – 3.2M	23%	20%	3%



Rs. 3.2M – 4.1M	30%	25%	5%
Rs. 4.1M – 5.6M	35%	29%	6%
Rs. 5.6M – 7.0M (NEW)	N/A	32% (Rs.976K + 32% excess)	New slab
Above Rs. 7.0M (NEW)	N/A	35% (Rs.1.424M + 35% excess)	New slab

Additionally, the 9% surcharge on salaried individuals with taxable income exceeding Rs. 10 million (introduced via Finance Act 2024 and reduced to 9% in FA 2025) is proposed to be fully removed, providing significant relief to high-earning salaried professionals.

Grow International Assessment

The rate reductions are welcome but modest given Pakistan's high effective tax burden on the salaried class. The retention of the 9% surcharge for non-salaried individuals and AOPs creates an inequitable disparity that may deter business formation. Further rationalisation is needed.

3. Section 7E — Deemed Income Tax on Property (Omitted)

Section 7E, introduced by Finance Act 2022, levied an effective 1% tax on the Fair Market Value of immovable property held by resident persons. The Federal Constitutional Court (FCC) declared Section 7E ultra vires the Constitution and void ab initio via short order dated May 7, 2026, holding that Entry 50 of the Federal Legislative List does not permit the Parliament to tax immovable property independently.

The Finance Bill formalises this removal by omitting Section 7E and all related provisions (including Section 8 references and Division VIII C of the First Schedule). All FBR actions, proceedings, and notices under Section 7E are declared without lawful authority.

Taxpayer Action

Taxpayers who paid Section 7E tax in prior years should evaluate refund claims. The FCC's void ab initio declaration opens the door for refund applications, subject to limitation periods and procedural requirements.

4. Section 7G — Tax on Life Insurance / Takaful Payouts (New)

A new Section 7G imposes tax on payouts, surrender values, maturity proceeds, and benefits from life insurance policies and family Takaful certificates. The taxable amount is the gross payout reduced by total premiums/contributions paid (effectively taxing net investment return).

Scenario	Rate (Filer/ATL)	Rate (Non-Filer)
Payout within 1 year of policy issuance	15%	30%
Payout after 1 year but before 7 years	10%	20%
Payout on death/disability (exempt)	Nil	Nil
Payout after 7 years from policy date (exempt)	Nil	Nil

Business Impact

This measure will increase the effective cost of short-to-medium-term insurance and Takaful products, potentially discouraging insurance uptake in a country with already low insurance penetration (estimated



below 1% of GDP). Companies should review product pricing and communicate the tax impact to policyholders.

5. Digital Economy Taxation

5.1 social media / Digital Content Creator WHT (Section 154B — New)

A new Section 154B introduces a withholding tax regime on revenues received from digital platforms (YouTube, Facebook, Instagram, TikTok, and similar). Banking and non-banking financial institutions must deduct tax upon credit of such amounts.

- Rate: 5% for resident ATL-listed persons (minimum tax)
- Rate: 5% for non-resident persons without a PE in Pakistan (final tax)
- Rate: 10% for non-ATL resident persons

The definition of 'digital content creator' and 'payment' are broadly defined to cover monetised content income and all inward remittances through banking channels from digital platforms.

Concern

The measure may incentivise Pakistani YouTubers and content creators to receive payments through foreign banking channels or unofficial means, reducing transparency. Clear implementation guidelines from FBR are essential.

5.2 E-Commerce WHT (Section 6A — Amendment)

For persons whose annual turnover from digitally ordered goods/services exceeds Rs. 200 million, the withholding tax under Section 6A is made adjustable (previously final). This provides relief to larger e-commerce operators.

6. Capital Gains and Investment Income

- Gains on Disposal of Certain Debt Securities: Rate increased from 15% to 20%.
- Mutual Funds / REIT Capital Gains (Section 100B): Non-banking finance companies, modarabas, and companies in respect of debt securities are now brought under the Eighth Schedule (NCCPL mechanism).
- Inheritance Cost Basis (Section 76(8A) — New): Inherited immovable property to be valued at FMV on date of death of original owner for capital gains computation purposes (reducing taxable gain on subsequent sale).

7. Withholding Tax Changes — Key Rates

Transaction	Old Rate	New Rate	Notes
Export of Goods (Sec. 154)	1%	1.25%	Advance tax on exports (Sec. 147(6C)) removed
Services — General (Sec. 153(1)(b))	15%	14%	ATL filers
Independent Professionals (Sec. 153(1)(b))	15%	15%	Doctors, lawyers, architects, etc.
Specified Services (Sec. 153(1)(b))	6%	7%	Certain para 2(i) services
Purchase of Immovable Property (Sec. 236C)	Slab	1.25% ATL	2.5% non-ATL; late-filer rate removed
Sale/Transfer of Immovable Property (Sec. 236K)	Slab	2.75% ATL	5.5% non-ATL; late-filer rate removed



Remittance Abroad (Sec. 236Y)	5%	0.5%	Significant reduction; encourages documented remittances
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8. Penalties — Substantially Enhanced

The Finance Bill significantly increases penalties across the board, in some cases by more than 100%. Key changes include:

- ATL restoration surcharge: Individuals increased from Rs. 1,000 to Rs. 25,000; AOPs from Rs. 10,000 to Rs. 50,000; Companies from Rs. 20,000 to Rs. 100,000.
- Failure to produce records during audit: Penalties raised from Rs. 25,000/50,000/100,000 to Rs. 100,000/200,000/300,000.
- False/misleading statements: Increased from Rs. 25,000 or 100% of shortfall to Rs. 500,000 or 100% of shortfall.
- Concealment of income: Fixed penalty raised from Rs. 100,000 to Rs. 1,000,000.
- Failure to deduct/collect WHT: Penalty raised from Rs. 40,000 to Rs. 500,000 (with personal liability on company principal officer).

Compliance Advisory

Businesses must review their WHT deduction procedures, electronic integration requirements, and return filing processes immediately. The enhanced penalty regime makes non-compliance significantly more costly. Grow International recommends a WHT compliance health-check before July 1, 2026.

9. Super Tax (Section 4C)

The super tax framework has been restructured with more targeted application:

- Banking companies (income exceeding Rs. 150M): 10%
- Petroleum exploration and production companies (income exceeding Rs. 150M, up to Fifth Schedule Rule 4 limit): 10%
- Fertilizer companies (income exceeding Rs. 150M): 10%
- All other persons (income exceeding Rs. 500M): 8%

The removal of the super tax on salaried individuals is consistent with the overall theme of salary class relief in this budget.

PART II: SALES TAX

Amendments to Sales Tax Act, 1990

1. Third Schedule Expansion (Retail Price-Based Taxation)

The most commercially significant sales tax amendment is the addition of 21 new product categories to the Third Schedule, bringing them under retail price-based taxation. This significantly expands the sales tax net on packaged consumer goods. Key additions include:

New Third Schedule Items (Selected)	HS Code
Vegetable and animal fats and oils (retail packing)	Respective headings
Sugar confectionery (retail packing)	Respective headings
Pasta, spaghetti, macaroni, noodles, couscous (retail packing)	19.02
Sauces, ketchup, condiments, prepared mustard (retail packing)	Respective headings
Fermented beverages (retail packing)	Respective headings
Footwear (all types)	Respective headings
Milk, fat-filled milk, infant preparations (retail packing)	Respective headings
Hair preparations; pre-shave/shaving products; cosmetics (retail)	33.05 / 33.07
Household utensils (stainless steel, aluminum, melamine)	Respective headings
Ceramic products (washbasins, tiles, sanitary products)	69.10
Car and automobile accessories (retail packing)	Respective headings
Jams, fruit jellies, marmalades, fruit pastes (retail packing)	20.07 / 20.08
Crockery items (retail packing)	Respective headings
Plastic tableware, kitchenware, household articles	Chapter 39
Toilet or facial tissue, paper towels, napkin stock	48.03 / 48.18

FMCG & Retail Impact

Consumer goods companies, importers, and retailers across these categories must urgently review their pricing structures, invoicing systems, and sales tax compliance. Companies not currently integrated with FBR's POS/production monitoring systems will face both increased tax liability and penalty risk.

2. Faceless Audit, Jurisdiction & Algorithmic Settlement

Mirroring the ITO changes, the STA introduces Section 11H (Faceless Audit), Section 30AA (Faceless Jurisdiction), Section 32C (National Faceless Centre), Section 45C (Faceless Appeals), and Section 47AA (Algorithmic Settlement Mechanism) into the sales tax framework. These create a parallel faceless structure for sales tax proceedings.

3. Tier-1 Retailer Threshold Changes

The definition of Tier-1 retailer has been rationalised:

- Wholesaler-cum-retailers must now have turnover exceeding Rs. 200 million to qualify as Tier-1 (removing all such businesses from Tier-1 below this threshold).



- Retailers who have acquired POS for card payments but do not meet the turnover threshold are no longer automatically classified as Tier-1.
- The Rs. 200 million turnover thresholds now applies uniformly as the Tier-1 criterion.

4. Steel Sector — Electricity-Based Tax Collection

For steel melters, re-rollers, and composite units, sales tax will be collected on the basis of per unit electricity consumption at a rate notified by the Board (in PKR per unit). Excess tax collected over actual sales tax liability is refundable monthly through the Board's automated refund system to those integrated with production monitoring and digital invoicing systems.

5. Enhanced Penalties

Sales tax penalties have been dramatically increased:

- Fixed penalty for late return: From Rs. 10,000 to Rs. 50,000.
- Daily default penalty (within 10 days): From Rs. 200/day to Rs. 2,000/day.
- New penalty for fake invoice issuers: Equal to the face value of fictitious invoices. Board to publish names on a public 'Simulated Invoice Issuers Register'.
- New 20% penalty on unmatched input tax where the Board's system identifies input tax claims not matching supplier's declared output tax.
- New 20% penalty on unreversed input tax linked to fake invoice issuers (60-day reversal window).
- Business sealing: Second-stage penalty up to Rs. 5 million after one month of continued default; business premises sealing permitted without prior penalty in certain cases.

6. Sixth Schedule — New Exemptions

New exempt items added to the Sixth Schedule include:

- Contraceptives (HS 3926.9020 and 4014.1000)
- Female sanitary pads/tampons (HS 9619.0030)
- Import of certain maritime vessels (tankers, dredgers, drilling platforms)
- Magazines (HS 4902.1000)
- Machinery for upgrade of existing oil refineries (various HS codes)
- CKD imports of electric vehicles extended to June 30, 2027

Notably, the import of female sanitary pads and contraceptives as exempt items addresses long-standing public health and gender equity concerns.



PART III: FEDERAL EXCISE & CUSTOMS

Federal Excise Act, 2005 — Key Changes

1. International Air Travel — Major Duty Reduction

One of the most taxpayer-friendly measures in this Finance Bill is the substantial reduction in Federal Excise Duty on club, business, and first-class international air tickets issued on or after July 1, 2026:

Destination Zone	Existing Duty (Rs.)	Proposed Duty (Rs.)	Reduction %
IATA Area 1 (Americas)	250,000	50,000	80%
IATA Area 2 – Middle East & Africa	105,000	25,000	76%
IATA Area 2 – Europe	210,000	40,000	81%
IATA Area 3 (Far East, Australia, Pacific)	210,000	40,000	81%

Business Travel Impact

Corporates, frequent business travellers, and their travel managers should update travel policies and budgets to reflect substantially lower effective cost of premium international travel. This measure also enhances Pakistan's competitiveness as a transit hub.

2. Electric Vehicle Incentives — Extended

Excise duty exemptions/reductions on electric vehicles (4-wheelers) extended through June 30, 2027:

- Locally manufactured/assembled EVs (small cars, SUVs up to 50 kWh; LCVs up to 150 kWh): 1% reduced rate
- EV transport buses (25 seats or more): 1% rate extended; Electric Trucks newly included
- CKD imports of qualifying EVs: exemptions extended to June 30, 2027

For EVs imported for personal use in CBU condition, a new duty structure applies:

- Import value (including customs duty) not exceeding Rs. 20 million: 0%
- Rs. 20–30 million: 30%
- Exceeding Rs. 30 million: 40%

3. E-Cigarettes — Duty Increase

Federal excise duty on e-liquids for electronic cigarette kits increased from Rs. 10,000/kg or 65% of retail price (whichever is higher) to Rs. 16,500/kg — a 65% increase in the per-kg rate.

4. Special Excise Duty on Motor Vehicles

New Special Excise Duty on imported motor cars (including SUVs and station wagons):

- Cylinder capacity 2,001cc–3,000cc: 40% ad valorem
- Cylinder capacity exceeding 3,000cc: 41% ad valorem

5. New Levies

- Base lubricating oil: 5% Federal Excise Duty



- Petroleum top Naphtha, White Spirit/MTT, Solvent Oil: Rs. 80/litre duty (collectible in sales tax mode)
- Acetate tow: Duty reduced from Rs. 44,000/kg to Rs. 10,000/kg

Customs Duty (Finance Bill Context)

While the Finance Bill 2026–27 does not directly amend the Customs Act, 1969, it modifies related instruments affecting imports:

- Sixth Schedule exemptions (STA) cover numerous import categories including EV CKD kits, maritime vessels, oil refinery equipment, and bullet-proof vehicles for government use.
- Machinery and equipment for Karachi Shipyard & Engineering Works: exempted from customs duties.
- Sixth Schedule Table-3 additions: Oil refinery upgrade equipment (reactors, exchangers, vessels, coolers, pumps, compressors) made exempt subject to Ministry of Petroleum approval.

Businesses engaged in qualifying imports under these new exemptions should seek advance rulings from FBR to ensure smooth customs clearance.



PART IV: CAPITAL VALUE TAX & FINANCE ACT 2022

Capital Value Tax (CVT) — Foreign Assets Abolished

Background

The Finance Act, 2022 introduced Capital Value Tax (CVT) under Section 8, imposing a 1% tax on foreign assets of resident individuals exceeding Rs. 100 million, payable at the time of filing income tax returns. This measure was controversial and created compliance challenges for overseas Pakistanis with significant offshore holdings.

Proposed Changes

The Finance Bill 2026–27 proposes the complete abolition of CVT on foreign assets through the following amendments to the Finance Act, 2022:

- Section 8(2)(b): Omitted — removing foreign assets of resident individuals from the scope of CVT.
- Section 8(3)(c): Omitted — removing the valuation mechanism for foreign assets.
- Section 8(4)(g): Modified — collection mechanism restricted to remaining CVT asset categories.
- Section 8(13)(c): Omitted — definition of 'foreign assets' removed in entirety.
- First Schedule (Rate S. No. 4): Omitted — 1% rate on foreign assets removed.

Impact Assessment

CVT on domestic assets (certain other asset categories under Sections 8(2)(a), (ab), and (ac)) remains unaffected. The foreign assets CVT abolition is primarily targeted at:

- Overseas Pakistanis with foreign property, bank accounts, and investment portfolios
- High net worth residents with offshore holdings
- Roshan Digital Account holders and diaspora investors

Strategic Implication

Abolition of CVT on foreign assets, combined with record Roshan Digital Account inflows of US\$12.7 billion, signals a deliberate policy to court diaspora capital. Businesses should communicate this development to their overseas Pakistani investors and partners as it materially improves the tax cost of maintaining foreign asset exposure.

Note: The CVT on domestic assets, particularly on real estate (separate from the struck-down Section 7E), continues to apply. Taxpayers should seek advice on the precise current scope of remaining CVT obligations.



PART V: PROVINCIAL TAXES & STAMP DUTY

Provincial Tax Considerations

Overview

The Finance Bill 2026–27 operates at the Federal level. Provincial Finance Bills for FY27 are expected to be tabled in respective Provincial Assemblies in June/July 2026 and will introduce amendments to provincial tax laws. This section summarises the key provincial tax areas that businesses and individuals must monitor.

1. Sindh Revenue Board (SRB) — Services Tax

The Sindh Sales Tax on Services Act, 2011 is administered by the Sindh Revenue Board. Key areas to watch in the provincial budget:

- Standard rate on taxable services remains at 15% for most categories
- Information technology and IT-enabled services have historically benefited from reduced rates in Sindh; continuation or expansion likely
- Healthcare and educational services: exemption status may be reviewed in line with IMF revenue broadening requirements
- Restaurant and food services: The Sindh government has historically taxed dine-in services; alignment with Federal sales tax on packaged foods should be monitored

Sindh-Specific Compliance Note

Businesses registered for SRB services tax must ensure dual compliance under both FBR (goods) and SRB (services) frameworks. Many technology and professional services firms must file monthly SRB returns in addition to FBR returns. Provincial audits are increasingly active.

2. Punjab Revenue Authority (PRA)

The Punjab Sales Tax on Services Act, 2012 taxes services provided in Punjab at 16% (standard rate). Areas of note:

- Construction services: Subject to PRA tax; interface with FBR sales tax on goods creates classification disputes
- Ride-hailing and digital services: PRA has been active in taxing app-based transport and delivery services
- Hospitality sector: Hotels and restaurants face both PRA and FBR obligations depending on nature of supply

3. Stamp Duty

Stamp duty is levied under the Stamp Act, 1899 and applicable provincial Stamp (Amendment) Acts. Key rates applicable to common business transactions:

Instrument/Transaction	Typical Rate	Notes
Transfer of immovable property (urban)	1–3% of value	Varies by province; Sindh: 2%
Share transfer in private companies	0.5%	On face value; market value disputes common
Mortgage/hypothecation deeds	0.1–0.5%	On secured facility amount
Lease deeds (commercial property)	0.25–1% of annual rent	Multiplied by lease years in some cases



Corporate guarantees/indemnity bonds	Fixed duty	As per Schedule; often Rs. 300–500
Power of attorney (general)	Fixed duty	Rs. 200–1,000 depending on province

4. Urban Immovable Property Tax (UIPT)

UIPT is a provincial levy administered by respective Excise and Taxation Departments. It applies to all urban immovable properties and is computed on the Annual Rental Value (ARV). Rates typically range from 5% to 25% of ARV, with exemptions for owner-occupied properties below a certain threshold.

With the FCC striking down Section 7E, the exclusive provincial jurisdiction over taxation of immovable property has been affirmed. Provincial governments may seek to augment UIPT rates and widen valuations in FY27 to partially offset the revenue implications.

5. Professional Tax

Professional tax is levied by provincial governments on individuals engaged in professions, trades, and callings. Rates are typically fixed per category of professional (e.g., Rs. 200–2,000 per annum). While a minor levy, non-compliance can create complications for business licensing.

6. Agricultural Income Tax (AIT)

Following the IMF's emphasis on broadening the tax base, provincial governments are expected to enhance Agricultural Income Tax enforcement in FY27. Currently, approximately 44% of nominal GDP from agriculture and related sectors contributes minimally to direct taxes. Meaningful AIT reform could yield significant revenue but faces strong political resistance.

Advisory

Businesses with agricultural operations, agri-processing, or rural supply chains should monitor provincial AIT amendments closely. Tighter enforcement and revised rate schedules are anticipated in at least two provinces (Punjab and Sindh).

PART VI: STRATEGIC BUSINESS IMPACT

Strategic Business Impact Assessment

1. Financial Services Sector

Banks and insurance companies face a double burden in FY27:

- Banking Companies: Super tax at 10% (unchanged structure but formalised at lower threshold)
- Life Insurance Companies: Required to deduct and deposit WHT at 15%/10% on policy payouts — significant new administrative obligation
- Takaful Operators: Same WHT obligations as life insurers; may affect product competitiveness
- Non-Banking Finance Companies: Now under NCCPL regime for capital gains — operational change required
- Electronic Money Institutions (EMIs): New reporting obligation to Central Data Hub for account holders with deposits/withdrawals exceeding Rs. 100 million

2. Technology & Digital Economy

The Finance Bill signals a clear intent to bring the digital economy fully into the formal tax net:

- E-commerce platforms (with WHT obligations under Sections 6A and 154B)
- Digital content creators: New 5% WHT on YouTube, social media revenues
- IT companies registered with PSEB: Export WHT at 0.25% (unchanged; preferential treatment maintained)
- General IT/IT-enabled services WHT: 4% (ATL filers) — unchanged but implementation of Section 154B may create confusion

Recommendation

IT companies should proactively re-confirm PSEB registration status and ensure banking relationships reflect the 0.25% preferential WHT rate. Separation of PSEB-registered IT revenues from other digital revenues is critical for correct WHT application.

3. Manufacturing & Industry

- Steel sector: Electricity-based tax collection replaces complex input-output tracking; benefit for integrated manufacturers with production monitoring systems
- FMCG distributors: Minimum turnover tax increasing from 0.25% to 1.25% — significant margin impact for thin-margin distributors
- Oil refineries: Upgrade machinery exempt from sales tax; Climate Support Levy introduced on petroleum products
- Exporters: Advance tax on export proceeds (Section 147(6C)) removed; export WHT increased from 1% to 1.25% — net impact depends on export volume and liquidity position

4. Real Estate & Construction

- Section 7E abolition: Immediate relief for property owners; refund opportunity for prior payments
- New Section 76(8A): Inheritance valuation at FMV on death date — reduces future capital gains on inherited property
- Token tax structure revised under Motor Vehicles Taxation Act for ICT — moderate impact on vehicle owners
- UIPT: Expect increased enforcement at provincial level following FCC's affirmation of exclusive provincial jurisdiction



5. Importers & Traders

- Commercial importers: WHT rates maintained; fake invoice penalties significantly higher
- Retail sector: Third Schedule expansion requires immediate review of pricing, invoicing, and POS integration
- FMCG retailers (Tier-1): Rs. 200M turnover threshold provides relief for smaller wholesaler-cum-retailers
- Air cargo and logistics: FED reduction on business class tickets may reduce operational travel costs

6. Professionals & Service Providers

- Independent professionals (doctors, lawyers, accountants, architects, software developers): WHT at 15% on independent professional services
- Salaried professionals earning Rs. 2.2M–5.6M: Meaningful rate reductions of 3–6 percentage points
- High-income salaried professionals (above Rs. 10M): Removal of 9% surcharge is significant relief
- Corporate service providers (transport, hotels, manpower outsourcing): WHT at 7% (ATL filers)

PART VII: RECOMMENDATIONS

Recommended Actions for Businesses

Immediate Actions (Before July 1, 2026)

- Conduct a WHT compliance health-check: Review all withholding deductions, especially on service payments, exports, and property transactions. Update rates to reflect Finance Bill 2026–27 proposals.
- Review ATL status: Ensure all principals, vendors, and employees are on the Active Taxpayers List to benefit from lower WHT rates and avoid the substantially higher ATL restoration surcharge.
- FMCG/Retail companies: Assess Third Schedule impact on product pricing; update invoicing systems for retail price-based sales tax computation.
- Life insurers and takaful operators: Prepare for Section 7G/151B withholding obligations from July 1, 2026; update policy management systems to compute taxable payout amounts.
- Digital content creators and social media earners: Register on ATL and engage with banking institutions on WHT deduction mechanics under Section 154B.

Short-Term Actions (July–September 2026)

- Review electronic integration status: Ensure integration with FBR's computerized system through a licensed integrator (updated Section 2(30A) definition) to avoid 5% expense disallowance.
- Assess faceless centre preparedness: Review digital documentation and archiving practices to ensure all tax records are available in electronically readable formats (CSV, XLSX, XML, XBRL, JSON) per Section 2(19DA).
- Evaluate algorithmic settlement opportunities: When the mechanism goes live, assess whether pending audit cases may benefit from settlement offers versus continued litigation.
- Property portfolio review: Revisit implications of Section 7E abolition; assess inheritance cost basis positions under new Section 76(8A) for tax planning purposes.

Medium-Term Strategic Actions

- Corporate treasury review: CVT on foreign assets abolition and Section 236Y reduction to 0.5% create new opportunities for capital structure optimisation.
- Insurance product redesign: Companies should redesign insurance products to maximise the 7-year exemption window under Section 7G to maintain customer value proposition.
- Provincial tax alignment: Conduct province-by-province analysis of SRB, PRA, and other provincial obligations post-budget. Ensure provincial compliance is fully integrated into the compliance calendar.
- Engage with FBR on implementation circulars: Many Finance Bill provisions will require FBR clarification through Circulars and SROs. Engage proactively through industry associations.

Grow International Advisory Services

Our Tax Advisory Practice provides comprehensive post-budget support services including: WHT compliance reviews, FBR integration advisory, tax litigation strategy under the new faceless regime, provincial tax coordination, and executive briefings. Contact us at contact.us@growbizs.com or +92 21 37222485 or +92 324 3286835

APPENDIX: REFERENCES & GLOSSARY

References

This memorandum has been prepared with reference to the following primary and secondary sources:

- Finance Bill 2026–27 (as tabled in the National Assembly on June 12, 2026)
- Income Tax Ordinance, 2001 (as amended through Finance Act 2025)
- Sales Tax Act, 1990 (as amended through Finance Act 2025)
- Federal Excise Act, 2005 (as amended through Finance Act 2025)
- Finance Act, 2022 (Section 8 – Capital Value Tax)
- West Pakistan Motor Vehicles Taxation Act, 1958
- Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961
- Federal Constitutional Court Short Order dated May 7, 2026 (Section 7E ITO)
- Sindh Sales Tax on Services Act, 2011
- Punjab Sales Tax on Services Act, 2012
- Stamp Act, 1899 (and provincial amendments)
- IMF Extended Fund Facility Programme Documents for Pakistan (FY26)

Glossary of Key Terms

Term	Definition
ATL	Active Taxpayers List – maintained by FBR; determines preferential withholding tax rates
AOP	Association of Persons – a non-corporate entity comprising two or more persons
CVT	Capital Value Tax – a Federal levy on the capital value of specified assets
FBR	Federal Board of Revenue – Pakistan's national tax authority
FCC	Federal Constitutional Court – newly established constitutional court of Pakistan
FMV	Fair Market Value – the price at which an asset would trade between willing, informed parties
FMCG	Fast Moving Consumer Goods – consumer products with high sales velocity
ITO	Income Tax Ordinance, 2001
IRIS	Inland Revenue Information System – FBR's online taxpayer portal
LLP	Limited Liability Partnership
NFC	National Faceless Centre – new algorithm-driven digital tax authority
NCCPL	National Clearing Company of Pakistan Limited
PE	Permanent Establishment – a fixed place of business for non-resident taxation
PSEB	Pakistan Software Export Board – IT sector regulator and exporter registry
STA	Sales Tax Act, 1990
WHT	Withholding Tax – tax deducted at source by the payer before remitting to the payee

— END OF MEMORANDUM —

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