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TAX HIGHLIGHTS

FEDERAL BUDGET 2026-27

Finance Act, 2026 Key Changes

in Income Tax & Sales Tax

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TAX ADVISORY MEMORANDUM
BUDGET HIGHLIGHTS 2026–27
Finance Act, 2026 — Key Changes in Income Tax & Sales Tax

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This memorandum is divided into two parts: Part I — Income Tax | Part II — Sales Tax

PART I — INCOME TAX

1. RELIEF TO SALARIED PERSONS

The surcharge under Section 4AB on salaried individuals has been abolished. Tax slabs have simultaneously been revised to provide meaningful relief to middle-class and upper middle-class taxpayers.

2. SUPER TAX

With effect from Tax Year 2027, super tax is abolished for all persons (other than the three sectors carved out below) where prescribed income does not exceed Rs. 500 million.

Sectors where super tax is retained:

- Banking companies — super tax retained at 10% on income exceeding Rs. 150 million.
- Oil and gas exploration companies — super tax retained at 10%, capped per Rule 4 of the Fifth Schedule; threshold Rs. 150 million.
- Persons deriving income from the sale of any kind of fertilizer — super tax retained at 10%.

The amended Bill has added a new exemption. Any business whose export proceeds represent more than 80% of its total turnover in a tax year will be completely exempt from the super tax for that year. (2nd Schedule, Part-IV, 104B)

> **KEY CHANGE**
> Where prescribed income exceeds Rs. 500 million, the super tax rate is reduced from 10% to 8% for all sectors other than the three carved-out above.

3. ADVANCE TAX ON PURCHASE / SALE / TRANSFER OF IMMOVABLE PROPERTY

Transaction	Section	Current Rate	Proposed Rate
Purchase of immovable property	236K	**1.5%**	**1.25% ↓**
Sale of immovable property	236C	**4.5%**	**2.75% ↓**

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4. CONCESSIONARY TAX RATE FOR IT AND IT-ENABLED SERVICES EXPORTS

The Final Tax Regime (FTR) for IT export services has been extended to Tax Year 2029, providing exporters in this sector continued certainty over their tax position for the next several years. This is a welcome measure for Pakistan's growing technology sector.

5. EXPORT OF GOODS

- The 1% adjustable advance tax on exporters is proposed to be abolished.
- The withholding tax rate under Section 154 on export proceeds is proposed to increase from 1% to 1.25%.
- Tax collected at 1.25% under Section 154 will be treated as the minimum tax liability of exporters, aligning it with the minimum tax rate under Section 113.
- The withholding tax rate applicable to indirect exporters is also proposed to increase from 1% to 1.25%.

6. REDUCTION IN TAX ON FOREIGN PAYMENTS THROUGH CARDS

Transaction	Current Rate	Proposed Rate
Credit / debit card transactions (foreign payments)	**5%**	**0.5% ↓**

This significant reduction is aimed at incentivizing the use of banking channels for international transactions and reducing the cost of doing business globally.

7. RATIONALIZATION OF WITHHOLDING TAX TREATED AS MINIMUM TAX

The Federal Government is proposed to be empowered to reduce withholding tax rates that operate as minimum tax (other than minimum tax under Section 113) up to 1% for specified sectors or classes of taxpayers, based on economic viability. This aims to address concerns about excessive withholding tax burdens relative to actual income and to promote equitable, income-based taxation.

The amended Bill has added a new sub-section (3) to Section 53A defining the term 'economic viability' (a term that was previously undefined and left to the discretion of tax authorities). The term is now defined to include an anticipated net loss of business income due to tax burden (either directly, or indirectly due to non-availability of resources to maintain or increase business efficiency), as certified by a Category A chartered accountant firm rated by the State Bank of Pakistan. This provides greater certainty and legal protection for businesses seeking relief under Section 53A, by introducing an objective, CA-certified standard in place of unguided discretion, though it also places a certification cost on businesses seeking to rely on the provision.

8. EXEMPTION CERTIFICATES FOR NON-PROFIT ORGANIZATIONS

Exemption certificates will henceforth be issued to non-profit organizations for the whole tax year, simplifying administration and reducing procedural friction for the NPO sector.

9. LIMITED LIABILITY PARTNERSHIP (LLP)

An amendment is proposed to bring LLPs within the ambit of Associations of Persons (AOPs). Income of an LLP will be taxed at the LLP level, and members will be exempt from tax on their respective share of profit. This aligns the treatment of LLPs with conventional partnership structures.

The amended Bill has replaced the proposed sub-section (4A) with a revised version stating that where the income of an LLP is exempt from tax, any amount received by a member as a share from profits of such LLP shall be included in the member's income. This means that such income, in the hands of the partner of an LLP, is not necessarily be taxable, rather it will add in the income of the partner to ascertain the appropriate tax rate of the Partner.

10. SUBMISSION OF FINANCIAL STATEMENTS — ELECTRONICALLY READABLE FORMAT

For Tax Year 2026 onwards, financial statements filed alongside a company's income tax return must be submitted in an electronically readable file format only. Companies should update their filing workflows accordingly.

The amended Bill has inserted the phrase 'but not limited to' after the word 'including' in this definition, making the list of qualifying formats illustrative rather than exhaustive. This is beneficial for businesses required to submit financial data, accounts, or returns in electronically readable formats, as it ensures that new digital formats emerging in the future will also satisfy the requirement without needing further regulatory amendment

11. TAX ON PAYMENTS FROM LIFE INSURANCE POLICIES

Currently, all payments received from life insurance policies — payouts, benefits, surrender value, maturity proceeds, or similar amounts (including family takaful certificates) — are exempt from tax, with no withholding obligation.

A new Section 7G is proposed, introducing tax on such payments as follows:

Timing of Payout / Benefit	Proposed Tax Rate
Within one year from date of issuance	**15%**
After one year from date of issuance	**10%**

The amended Bill has substituted 'seven' with 'four' years in sub-section (3)(c) of the proposed Section 7G, i.e. the holding period after which a payout or benefit from a life insurance policy, family takaful certificate or plan falls outside the scope of this tax has been reduced from seven years to four years. This change makes long-term insurance and takaful savings products more commercially attractive, as policyholders now qualify for exemption from this tax after a shorter four-year holding period rather than seven years, easing the impact of the new levy on medium-term savers.

12. AUTHORIZED SHIPPING AGENT

The Finance Bill introduces the concept of an "authorized shipping agent" — a person in Pakistan authorized (expressly or impliedly) by a non-resident shipowner, charterer, or operator to act on its behalf.

The authorized agent is proposed to be:

- Treated as a representative of the non-resident person.
- Jointly and severally liable for tax, assessments, and recovery for the relevant vessel/voyage.
- Jointly responsible with the ship's master for other compliance obligations, including return filing.

The amended Bill has removed the words 'expressly or impliedly' from the definition of authorized shipping agent in Section 2(6A) (originally proposed as Section 2(6)). Under current law, no such definition existed; non-resident ship owners' agents' liability was unclear. Further an agent's authorization will need to be explicit/formal rather than implied, meaning persons cannot inadvertently or informally be classified as authorized shipping agents and thereby become jointly and severally liable for a non-resident's entire tax obligations. Only formally appointed agents will now bear this liability, reducing the risk of unexpected tax exposure for port agents and freight forwarders who may casually act on behalf of foreign carriers.

13. TAX ON PAYMENTS FOR DIGITAL TRANSACTIONS

Through the Finance Act 2025, Section 6A levied tax on persons receiving payments for digitally ordered goods and services delivered from within Pakistan via locally operated online platforms. This was treated as a final tax.

Proposed changes for FY 2026–27 and onwards:

- The tax will now be adjustable (rather than final) where a person's turnover exceeds Rs. 200 million in a tax year.
- A terminology inconsistency is corrected: Section 6A referred to "digitally ordered services" while the First Schedule rates referred to "digitally delivered services." Both are now aligned to "digitally ordered services."

The amended Bill has now provided an option to the taxpayers having turnover up to two hundred million rupees to opt out of final tax regime at the time of filing of return for tax year 2027 and onward.

PRACTICAL EFFECT

This amendment reduces the compliance burden on larger digital businesses by allowing adjustability, and removes ambiguity caused by inconsistent terminology between the charging and withholding provisions.

14. RATIONALIZATION OF MINIMUM TURNOVER TAX

The current reduced rate of 0.25% minimum turnover tax is proposed to be restructured as follows:

Category	Current Rate	Proposed Rate
Pharma / cigarettes / FMCG / edible oil / cement / steel distributors	**0.25%**	Withdrawn
Fertilizers, locally manufactured mobile phones, sugar, electronics	**0.25%**	**0.5% ↑**
Packaged foods (subject to prescribed conditions)	—	**0.5%**
Tier-1 retailers — FMCG products only	**0.25%**	**0.25% (retained)**

The amended Bill has expanded this list to 14 categories, adding pharmaceuticals, cigarettes, fresh and frozen packaged food, beverages and dairy products, pasta, cereals and biscuits, bottled condiments and baking items, skincare and cosmetics, cleaning agents, tissue products, and household consumables like trash bags and air fresheners.

Note: The generic definition of FMCG is also proposed to be abolished, which will need to be reinstated given the reduced rate available to Tier-1 retailers of FMCG.

15. RATIONALIZATION OF WITHHOLDING TAX RATE FOR SERVICES

Service Category	Current Rate	Proposed Rate
Specified services	**6%**	**7% ↑**
General services — doctors, lawyers, architects, accountants, software engineers (independent)	**15%**	**14% ↓**
Terminal and port services	**15%**	**12% ↓**

16. COST OF INHERITED IMMOVABLE PROPERTY AND FAMILY SETTLEMENTS

Currently, the cost of inherited immovable property in the hands of a beneficiary is the same as it was for the deceased.

Proposed changes:

- The cost of inherited property will now be its Fair Market Value (as determined under Section 68(5)) at the date of death of the original owner — stepping up the cost base and reducing future capital gains exposure on appreciation during the deceased's lifetime.
- Transfer of immovable property among family members through settlements following a death will be treated as transmission on death, making such transfers tax-neutral under Section 79.

The amended Bill has made two changes to this provision: (a) inserted the words 'as defined under this Ordinance' after the word 'value'; and (b) replaced the trigger event 'the death of the original owner' with 'transfer of such property to the beneficiary'. This is practically important for estate and succession planning, as the tax liability under this provision will now crystallize only when the property actually passes into the beneficiary's hands, rather than at the moment of the original owner's death, giving families more time to arrange their affairs, since legal transfer processes can take months or years after death.

17. WITHDRAWAL OF ADVANCE TAX ON FOREIGN TV PLAYS AND ADVERTISEMENTS

Advance tax on payments for foreign television plays and advertisements is proposed to be withdrawn, reducing the cost of sourcing international broadcast content.

18. CONCESSIONS TO INDIVIDUAL TRADERS

Individual traders are currently exempt from making income tax withholding on purchases where turnover does not exceed Rs. 100 million. The Finance Bill proposes to increase this threshold from Rs. 100 million to Rs. 200 million, effectively doubling the coverage of this exemption.

19. SURCHARGE FOR LATE RETURN FILING — ENHANCED SUBSTANTIALLY

For inclusion in the Active Taxpayer List, where an income tax return is not filed by the due date, the following surcharges are proposed:

Taxpayer	Current Surcharge	Proposed Surcharge	Increase
Individual	Rs. 1,000	Rs. 25,000	25×
Association of Persons (AOP)	Rs. 10,000	Rs. 50,000	5×
Company	Rs. 20,000	Rs. 1,00,000	5×

⚠ CLIENT ALERT — ACTION REQUIRED

The proposed surcharge represents a 25× increase for individuals and a 5× increase for AOPs and companies. Late-filing penalties of this scale make timely return submission a materially higher priority for FY 2027. Please build this into your filing calendars and engage your tax advisor well in advance of due dates.

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PART II — SALES TAX

1. DEFINITION OF TIER-1 RETAILER

The definition of a Tier-1 retailer is proposed to be amended for wholesaler-cum-retailers and retailers by introducing a turnover threshold of Rs. 200 million. The POS-based and withholding-based categories are proposed to be omitted from the definition.

2. TIME OF SUPPLY

An explanation is proposed to be added to the definition of 'time of supply', deeming goods as delivered or made available when they become ready for dispatch from the business premises of the supplier (factory, warehouse, godown, or branch). This clarification will assist in determining the correct tax period for output tax liability.

This explanation is removed in amended Bill. The attempt to fix the exact movement of "delivery" for tax is abandoned.

3. VALUE OF SUPPLY

For 'value of supply', it is proposed that the Board may adopt valuations notified by the Pakistan Bureau of Statistics, or outsource the valuation function to prescribed third parties. This provides greater flexibility and objectivity in determining taxable values.

4. STEEL SECTOR

Sales tax on steel melters, re-rollers, and composite units is proposed to be collected on the basis of per-unit electricity consumption, with an adjustment and monthly refund mechanism for registered persons integrated with the Board's production-monitoring and digital invoicing systems.

In the amended Bill, the tax is now an adjustable input tax claimed in the monthly return (no automatic refund); rate anchored to the minimum notified price and electricity-per-ton benchmarks. Its mean Steel mills lose the automatic monthly refund — the electricity tax is just credited in the return, and the rate is benchmarked.

5. INPUT TAX ADJUSTMENT

The Board is proposed to be empowered to reduce or enhance the 90% input tax adjustment cap under Section 8B for a registered person, depending upon compliance with production monitoring, digital invoicing, e-bilty, POS, or other prescribed electronic systems. This creates a strong incentive for full digital integration.

6. DEBIT / CREDIT NOTES

Issuance of debit and credit notes is proposed to be governed by a mechanism prescribed by the Board, including electronic adjustments. This aims to streamline and digitize the credit note process across the supply chain.

7. THIRD SCHEDULE — EXPANDED SCOPE

Several goods currently taxed on an ad valorem basis are proposed to be taxed based on their retail price under the Third Schedule, at the already prescribed rates, where that rate exceeds 18%. This measure is aimed at curbing under-invoicing and ensuring tax is levied on actual retail values.

The amended Bill has reworded the footwear entry in the Third Schedule to read: 'Footwear (all types) except where the manufacturer exclusively sells its products through digitally integrated and POS compliant retail outlets', effectively excluding fully POS-integrated footwear manufacturers from Third Schedule (retail-price-based) treatment.

The amended Bill has also excluded ‘Plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls, sold in retail packing’ from the third schedule.

The amended Bill has also restricted entry ‘Household utensils, including Stainless steel, aluminum, melamine and other utensils and tableware’ to the items which are put up for retail sale.

8. SALES TAX WITHHOLDING

The scope of sales tax withholding agents is proposed to be expanded to include Association of Persons and Individuals. Additionally, registered persons engaged in toll manufacturing are proposed to be designated as withholding agents. Affected businesses should review their invoicing and withholding obligations accordingly.

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