

SALIENT FEATURES

BUDGET 2026-27

CUSTOMS ACT 1969

1. GUIDING PRINCIPLES:

- Strategic tariff rationalization via the National Tariff Policy (NTP) 2025-30.
- Simplification, trade facilitation, and enhancement of system efficiency.
- Targeted public health relief and economic stimulus for key sectors.

2. TARIFF RATIONALIZATION (NTP 2025-30):

- Reduction of the existing Customs Duty (CD) from 20% to 15% and 10%, existing 15% and 10% to 10% and 5%, and existing 5% to 0% respectively for input goods of different industrial sectors on 92 tariff lines.

3. REDUCTION IN ADDITIONAL CUSTOMS DUTY (ACD) RATES:

- Reduction of ACD from **6% to 4%** on **449 Tariff Lines**.
- Reduction of ACD from **4% to 2%** on **2,107 Tariff Lines**.
- Elimination of ACD from **2% to 0%** on **569 Tariff Lines**.

4. REVIEW OF REGULATORY DUTY (RD) REGIME:

- RD greater than 20% are brought down and capped at 20% for **359 Tariff Lines**.
- **20% reduction** on all RD rates between 2.5% and 20% across **1,347 Tariff Lines**.
- RD rates of 2.5%, 2% and 1% are reduced by 20% or completely eliminated – **208 Tariff Lines**

5. REVIEW OF EXEMPTION REGIME (FIFTH SCHEDULE):

- Deletion of entries from the Fifth Schedule where concessionary CD equals or exceeds the First Schedule general tariff.
- Exemption of **CD** on critical cancer-related Active Pharmaceutical Ingredients (APIs) under the Fifth Schedule.
- Reduction of Customs Duty from **20% to 10%** on specialized construction-related vehicles for construction sector.
- Exemption of CD on import on Defence Imports.

6. Exemption of CD, ACD and RD on import of Agricultural Machinery.
7. Exemption of CD on import of bullet proof vehicles for Shanghai Cooperation Organization Summit and for the import of bullet proof vehicles by Federal or Provincial government, for the on-going war against terrorism.
8. 15 new PCT Codes created and description of 2 PCT Codes amended for trade facilitation and statistical purposes.
9. State warehouses authorized by Collector of Customs have been defined to bring legal clarity in the type of warehouses.
10. To remove a legal lacuna, it has been clarified that the threshold of exemption for framing of misdeclaration case shall be irrespective of the number of Goods declaration involved and shall only be limited by the amount of revenue involved; by removing the words “in a case”.
11. Scanning of cargo has been given legal cover to facilitate non-intrusive process of “Scanning” under the Act.
12. The Board is authorized to rationalize the penalties and prescribe appeal mechanism and exempt specified class of goods or Customs stations from such penalty through Rules; for delayed GD filing/clearance of goods at ports, and also authorized Collectors to reduce such penalties.
13. The Board may authorize any person, as defined under the Customs Act, to conduct auctions of auctionable goods in the prescribed manner, thereby improving efficiency and transparency.
14. The maximum penalty on terminal operators for failure to honor Delay Detention Certificates issued by Customs has been increased from Rs. 500,000 to Rs. 10 million.
15. A new penal clause added to prescribe specific penalty for unauthorized removal and misappropriation of goods from customs state warehouses.
16. An explanation is introduced for legal clarity of the word, “removal” which shall include carrying, transporting, depositing, harboring, keeping, concealing, retailing, or any other act facilitating the movement or possession of smuggled goods.

17. Any authority is now required to hand over seized goods liable to confiscation to the Customs authorities for proceedings under the Customs Act, irrespective of any pending proceedings under any other law for the time being in force with corresponding change in its penal clause.
18. Faceless Adjudication introduced to avoid face to face interaction between adjudicating officer and the respondents through virtual proceedings to enhance transparency, efficiency and quick disposal of cases.
19. Special Judges is being empowered to freeze assets of accused persons involved in illegal transfer of funds into or out of Pakistan to prevent dissipation of their assets during trial.
20. Independent Case Scrutiny Committees being introduced to examine and decide matters relating to filing of appeals before courts to avoid frivolous litigation.
21. Provision has been introduced allowing service of summons through newspaper publication where the accused person is not traceable.

SALIENT FEATURES

BUDGET 2026-27

SALES TAX ACT 1990

The proposed budgetary measures pertaining to Sales Tax for FY 2026-27 are:

1. RELIEF MEASURES

- i. Grant of exemption from sales tax to magazines
- ii. Extension in exemption on import of CKD for electric vehicles till 30.06.2027
- iii. Enhancement in scope of exemption on parts of aircrafts for import and lease by M/s PIACL
- iv. Withdrawal of exemption of sales tax on family planning devices
- v. Abolition of tampon tax
- vi. Exemption of sales tax to boost strategic investment in shipping
- vii. Exemption to strategic imports for SCO summit and counter terrorism
- viii. Exemption of sales tax on import of capital goods for upgradation and overhaul of existing refineries.
- ix. Addition of new S. No. in the Sixth Schedule
- x. Extension in date of sunset for electric vehicles till 30.06.2027

2. REVENUE MEASURES

- i. Expansion of Third Schedule to ensure payment of sales tax at consumer price by the manufacturers at manufacturing stage
- ii. Withholding of sales tax by the toll manufacturers from unregistered buyers
- iii. Enhancement in scope of withholding sales tax by AOPs and individuals from unregistered persons
- iv. Imposition/recovery of 3% VAT from the manufacturers if the imported raw material is sold in same state
- v. Rationalization of amount of penalty on certain offences and inclusion of three more offences in section 33 for imposition of penalty

3. STREAMLINING MEASURES

- i. Insertion definition of advance receipt invoice, algorithmic settlement mechanism, electronic invoicing system, national faceless centre and production monitoring system
- ii. Streamlining of definition tier-1 retailers. Inclusion of retailer having two hundred million or more annual turnover, in the category of tier-1 retailer
- iii. Insertion of explanation to clarify the time of delivery of goods to the recipient
- iv. Grant of power to Board to outsource the function of valuation of goods
- v. Addition of new proviso in section 6 to impose tax on steel sector on the basis of monthly electricity units consumed
- vi. Addition of new proviso in section 8B to enhance or decrease limit of input tax adjustment
- vii. Insertion of proviso in section 9 for adjustment through issuance of debit and credit notes electronically.
- viii. Insertion of new section 11H for faceless audit and assessment.
- ix. Substitution of sub-section (2) of section 21 to discourage fake/flying invoices and fraudulent activities
- x. Substitution of sub-section (1) of section 23 for issuance of invoice against exempt supplies also.
- xi. Insertion of new sub-section (8A) in section 25 for audit by the Chartered Accountant or Cost and Management Accountant
- xii. Insertion of section 30AA – faceless jurisdiction
- xiii. Insertion of section 30DDDB for establishment of Directorate General (Field Compliance) by Inland Revenue
- xiv. Insertion of new section 32C for creation of National Faceless centre
- xv. Substitution of section (2) and (3) of 40C for production monitoring system and video analytic
- xvi. Addition of new sub-section (6) in section 40C for seizure and confiscation of goods without affixing tax stamps, stickers etc.
- xvii. Insertion of new section 40F for auction of confiscation goods

- xviii. Insertion of section 45C – faceless appeal procedure
- xix. Insertion of section 47AA – Algorithmic Settlement Mechanism
- xx. Insertion of section 47AAA – Independent case scrutiny committee
- xxi. Addition of new sub-section (3) of section 56B for maintaining centralized directory
- xxii. Addition of proviso under Twelfth Schedule to restrict sale of imported same state goods.

SALIENT FEATURES

BUDGET 2026-27

INCOME TAX ORDINANCE 2001

1. RELIEF MEASURES:

- i. **Reduction in 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 for the maximum tax rate of 35% has been increased from Rs. 4.1 million to Rs. 7 million.
- ii. **Abolition of tax on deemed income from immovable property:** Section 7E, relating to taxation of deemed income from capital assets situated in Pakistan, has been omitted.
- iii. **Rationalization of Super Tax:** Super Tax has been abolished for persons having income of up to Rs. 500 million. The rate has been reduced from 10% to 8% for persons having income of more than Rs. 500 million. However, these concessions do not apply to banking, ENP and fertilizer sectors.
- iv. **Reduction in advance tax on sale and purchase of immovable property:** Advance tax rates under sections 236C (4.5 to 5.5 percent) and 236K (1.5 to 2.5 percent) have been reduced and converted into lower flat rates of 2.75% and 1.5% to encourage documentation and facilitate transactions in the real estate sector.
- v. **Rationalization of tax collection from exporters:** Tax collection on export proceeds (1% withholding tax and 1% advance tax) has been reduced from 2 % to 1.25% in order to encourage exports.
- vi. **Extension of concessional tax rate for IT and IT-enabled services exports:** The reduced tax rate of 0.25% for exporters of IT and IT-enabled services has been extended from 2026 up to Tax Year 2029.

- vii. **Reduction in tax on foreign payments through cards:** Advance tax on foreign remittances made through debit, credit and prepaid cards has been reduced from 5% to 0.5%.
- viii. **Adjustability of tax on e-commerce transactions:** Tax deducted on e-commerce transactions shall be adjustable for sellers having turnover exceeding Rs.200 million.
- ix. **Tax credit for integration with FBR systems:** A tax credit equal to 10% of the investment made in electronic resources for integration with FBR's computerized systems has been introduced to facilitate documentation and digital compliance.
- x. **Withdrawal of advance tax on foreign TV plays and advertisements:** Advance tax on payments for foreign television plays and advertisements has been withdrawn.
- xi. **Exemptions for welfare and charitable entities:** Income tax exemption has been extended to specified charitable and welfare organizations including Pakistan Red Crescent Society, Shaheen Foundation, Bahria Foundation, SIUT and Dawat-e-Hadiya. These entities already had approval u/s 2(36) of the Ordinance and two exemption as available in Clause 66 of Part I of the First Schedule. This exemption facilitates the entities as they are not required to obtain exemption from the Commissioner every year.
- xii. **Exemption for Special Purpose Vehicles under asset-backed securitization:** Income of qualifying Special Purpose Vehicles established for asset-backed securitization has been exempted to facilitate capital market development.
- xiii. **Facilitation for Resident Pakistanis on ownership of foreign moveable and immovable assets:** Currently Capital Value Tax is being charged on foreign movable and immovable assets of resident Pakistanis. The same is proposed to be abolished.

- xiv. **Enhanced turnover threshold for withholding exemption of small traders:** The turnover threshold for exemption from withholding tax for small traders has been increased from Rs. 100 million to Rs. 200 million.
- xv. **Automatic issuance of exemption certificates for whole year:** Funds and eligible non-profit organizations meeting prescribed conditions shall be entitled to issuance of exemption certificates for the whole financial year.
- xvi. **Determination of cost of inherited immovable property and family settlements:** The law has been clarified regarding determination of cost basis of inherited immovable property and tax treatment of family settlements after death.

2. REVENUE MEASURES:

- i. **Tax on sham life insurance policies:** In order to discourage misuse of life insurance policies and to reduce arbitrage through sham life insurance policies, a tax has been proposed on such schemes.
- ii. **Withholding tax on income from social media platforms:** A withholding tax regime has been introduced on revenues received by digital content creators and social media influencers from platforms such as YouTube, Facebook, Instagram and TikTok. Banking and financial institutions shall deduct tax on such receipts.
- iii. **Rationalization of withholding tax rates on services:** The withholding tax structure on services has been revised. The rate for specified services has been enhanced, independent professionals have been separately categorized and rates for certain other services have been rationalized.
- iv. **Revision of minimum tax rate for distributors and wholesalers:** The reduced minimum tax rate for distributors, dealers, sub-dealers and wholesalers of specified sectors has been increased from 0.25% to 0.5%, subject to prescribed documentation requirements.

- v. **Algorithmic cross-matching of banking and tax information:** Banking companies and Electronic Money Institutions shall electronically provide information relating to high-value deposits and withdrawals for algorithmic comparison with tax declarations to identify significant mismatches and broaden the tax base.
- vi. **Strengthening of electronic integration of businesses:** The Board has been empowered to require specified persons to install electronic resources and integrate business systems for real-time reporting of transactions. Failure to comply may result in disallowance of expenditure.
- vii. **Rationalization of penalty regime:** Penalties for non-compliance, including failure to furnish statements, integration failures, late inclusion in ATL and incorrect withholding tax claims, have been enhanced to improve deterrence and adjust inflation.
- viii. **Application of Tenth Schedule to capital gains on listed securities:** The exclusion available from enhanced tax rates applicable to non-ATL persons on capital gains from listed securities has been withdrawn to encourage tax compliance and return filing.

3. STREAMLINING MEASURES:

- i. **Establishment of National Faceless Centre:** A National Faceless Centre is being established to conduct faceless audits, assessments and appeals through technology-driven processes, reducing taxpayer interface and enhancing transparency.
- ii. **Introduction of Algorithmic Settlement Mechanism:** A new automated settlement mechanism has been introduced to allow taxpayers to settle identified discrepancies through a technology-based process without separate penalty or default surcharge.

- iii. **Independent Case Scrutiny Committee:** An independent mechanism has been introduced for scrutiny of departmental litigation to improve quality and consistency of tax litigation management.
- iv. **Streamlining of Alternative Dispute Resolution (ADR):** The ADR framework has been revised to improve efficiency and facilitate quicker resolution of tax disputes.
- v. **Streamlining taxation of shipping income of non-residents:** Comprehensive provisions have been introduced to define Authorized Shipping Agents and strengthen taxation and compliance relating to non-resident shipping operations.
- vi. **Streamlining computation of capital gains on listed securities:** The role of NCCPL in computation and determination of capital gains on listed securities has been expanded and clarified.
- vii. **Mandatory electronic filing and machine-readable financial statements:** Companies shall be required to submit financial statements in electronically readable formats to facilitate automated processing and analysis.
- viii. **Special audit through accountants, cost accountants and actuaries:** The Commissioner has been empowered to require re-audit, inventory valuation or actuarial valuation by independent experts in appropriate cases.
- ix. **Engagement of audit experts and rationalization of disclosure provisions:** The Board has been enabled to engage specialists and strengthen disclosure mechanisms to improve audit effectiveness and compliance.
- x. **Establishment of Directorate General (Field Compliance), Inland Revenue:** A dedicated Directorate General (Field Compliance) has been created to strengthen compliance functions.

- xi. **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.
- xii. **Technical, consequential and administrative amendments:** Various streamlining, administrative and consequential amendments have been made to improve clarity, implementation and administration of the Income Tax Ordinance, 2001.

SALIENT FEATURES
BUDGET 2026-27
FEDERAL EXCISE ACT 2005

The proposed budgetary measures pertaining to Federal Excise for FY 2026-27 are:

1.RELIEF MEASURES

- i. Reduction in Federal Excise Duty on foreign travel
- ii. Reduction in FED on import of acetate tow Rs. 44000 to Rs. 10000
- iii. Removing Federal Excise Duty on WHO standard compliant sports/ electrolytes replenishing beverages
- iv. Exemption to strategic imports of vehicle for SCO summit and counter-terrorism
- v. Extension of Exemption on Import of CKD kits for electric vehicles for one year extended to 30.06.2027

2. REVENUE MEASURES

- i. Imposition of FED at Rs. 16500 from Rs. 10000 per kg e-liquid for electronic cigarettes. This measure also remove the highest possible tariff of 65% of the retail price imposed under the previous regime.
- ii. Imposition of FED on Naphtha, solvent oil and turpentine etc.
- iii. Imposition of FED on luxury EVs and other Luxury Vehicles
- iv. Imposition of FED on base oil, base lubricating oil in addition to lubricating oil
- v. Insertion of New Table 1A of the First Schedule to the Federal Excise Act, 2005 for imposition of FED on luxury imported vehicles

3. STREAMLINING MEASURES

- i. Insertion definition of advance receipt invoice, algorithmic settlement mechanism, electronic invoicing system, national faceless centre and production monitoring system
- ii. Addition of New Section 7A, for adoption of Faceless Audit and Assessment
- iii. Substitution of Sub-Section (1) of Section 18 for issuance of invoice for dutiable and zero-rated supply of goods
- iv. Substitution of Sub-Section (4) of Section 19 – penalty for destruction of goods without approval of the Commissioner.
- v. Substitution of Sub-Section (1) of Section 26 – seizure of counterfeited cigarette and beverages and other goods without tax stamp, barcodes etc.
- vi. Substitution of Sub-Section (1) of Section 27 – seizure and destruction of counterfeited cigarettes and beverages
- vii. Insertion of Section 34AA – establishment of Independent Case Scrutiny Committee
- viii. Substitution of Section 45A of The Federal Excise Act, 2005 – monitoring or tracking by electronic or other means of excisable goods
- ix. Insertion of New Sub-Section (3A) In Section 46, hiring of auditors or accountant for conducting for specialized where the Commissioner deem necessary on account of complexity of financial transaction
- x. Addition of new entry in Second Schedule to make FED levied on above mentioned petroleum products in VAT mode
