



ProSustena

ProSustena Research Centre

Federal Budget Brief 2026–27

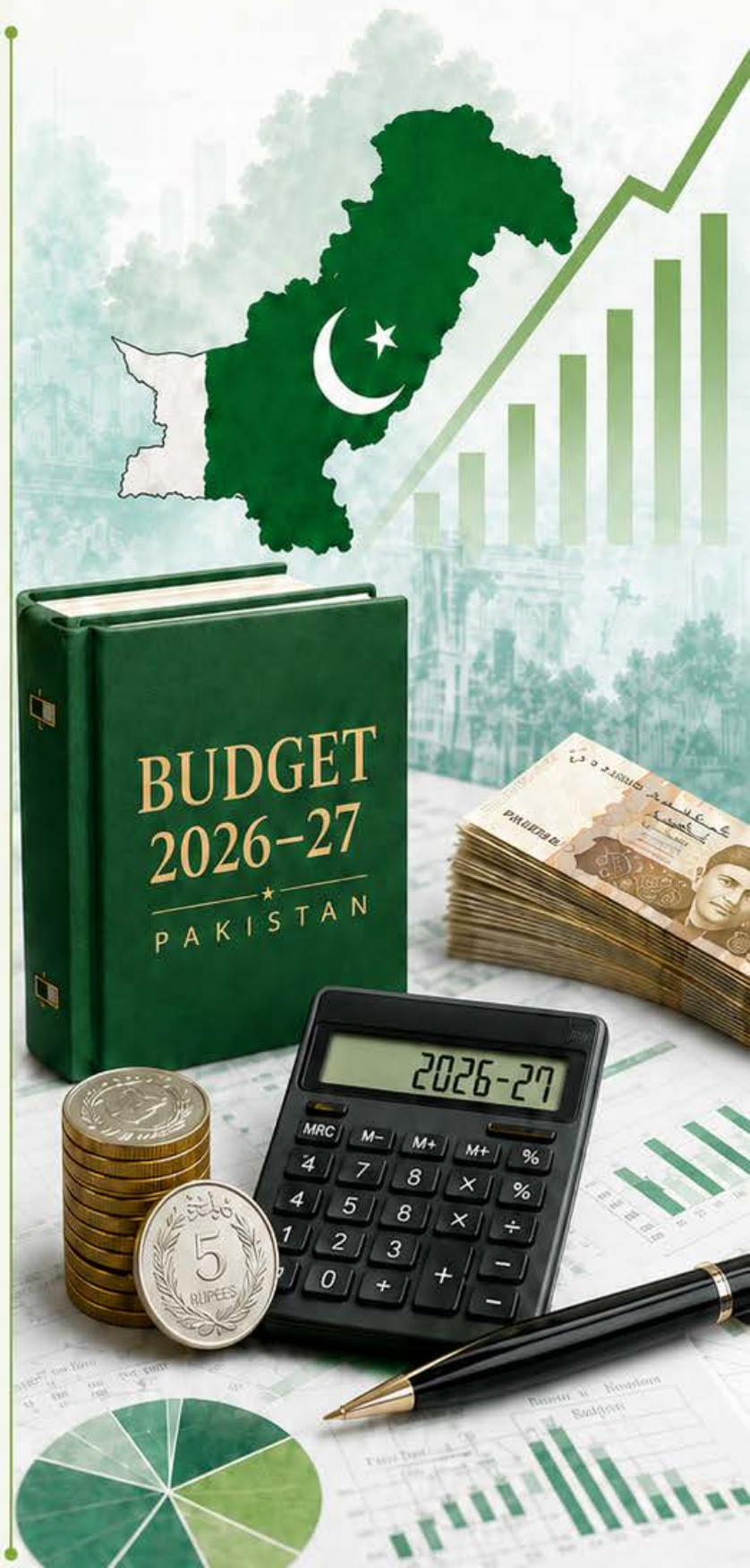
Key Fiscal, Tax, Compliance and
Sectoral Implications

Prepared by
ProSustena Research Centre



Contents

Disclaimer	2
Abbreviations	2
Executive Summary	3
Budget at a Glance	4
A. Salient Features of Federal Budget 2026–27	9
B. Income Tax	24
C. Sales Tax	39
D. Federal Excise Duty	45
E. Customs Duty and Trade Measures	48
F. Petroleum Levy, Climate Support Levy and Energy-Related Measures	51
G. Expected Economic Impacts	53
H. Sector-Wise Impact of Budget 2026–27	58
I. Cross-Cutting Themes	69
J. ProSustena Research Centre Analysis	71
K. Conclusion and Outlook.....	75
Annexures	77





Disclaimer

This Budget Brief has been prepared by ProSustena Research Centre for general information, research and management discussion purposes only. It is based on the Finance Bill, 2026, Budget in Brief 2026–27, Budget Speech 2026–27, Notes on Clauses, Salient Features and selected professional commentaries available at the time of preparation.

The proposed fiscal and tax measures are subject to approval, amendment, enactment through the Finance Act, 2026, and subsequent rules, notifications, circulars, clarifications and administrative guidance issued by the relevant authorities. Accordingly, this document should not be treated as legal, tax, accounting, investment or professional advice.

Readers are advised to consult the final enacted law and seek appropriate professional advice before making any business, tax, financial, compliance or investment decision. ProSustena Research Centre, its authors and contributors accept no responsibility for any loss or liability arising from reliance on this document.

Abbreviations

ACD — Additional Customs Duty

ADR — Alternative Dispute Resolution

AOP — Association of Persons

ATL — Active Taxpayers List

B2B — Business to Business

B2C — Business to Consumer

CD — Customs Duty

CKD — Completely Knocked Down

CVT — Capital Value Tax

E&P — Exploration and Production

EMI — Electronic Money Institution

ERP — Enterprise Resource Planning

ETR — Effective Tax Rate

EV — Electric Vehicle

FBR — Federal Board of Revenue

FED — Federal Excise Duty

FY — Financial Year

GDP — Gross Domestic Product

GD — Goods Declaration

ICT — Islamabad Capital Territory

IMF — International Monetary Fund

IRIS — Inland Revenue Information System

IT — Information Technology

ITeS — IT-enabled Services

NCCPL — National Clearing Company of Pakistan Limited

NFC — National Finance Commission

NTP — National Tariff Policy

OGRA — Oil and Gas Regulatory Authority

OMC — Oil Marketing Company

PCT — Pakistan Customs Tariff

PL — Petroleum Levy

POS — Point of Sale

PRAL — Pakistan Revenue Automation Limited

PSDP — Public Sector Development Programme

RD — Regulatory Duty

SRO — Statutory Regulatory Order

ST — Sales Tax

TY — Tax Year

WHT — Withholding Tax



Executive Summary

Budget 2026–27: Overall Direction

The Federal Budget 2026–27 reflects a continued policy focus on fiscal consolidation, revenue mobilisation, documentation of the economy, targeted relief for selected taxpayers and sectors, and expansion of technology-based tax administration. The budget attempts to balance immediate revenue needs with selective incentives for salaried individuals, exporters, the IT sector, real estate, electric vehicles, refineries and selected industrial inputs.

At the same time, the Finance Bill, 2026 significantly expands the compliance and enforcement framework through faceless audit and assessment, algorithmic settlement, electronic invoicing, banking data reporting, enhanced penalties, sectoral monitoring and stronger documentation requirements.

Key Fiscal Snapshot

The Budget in Brief 2026–27 estimates total federal resources and expenditures at Rs. 18,771 billion. FBR tax revenue is budgeted at Rs. 15,264 billion, while non-tax revenue is estimated at Rs. 5,336 billion. Gross revenue receipts are estimated at Rs. 20,600 billion, out of which Rs. 8,848 billion is projected to be transferred to provinces, leaving net federal revenue receipts of Rs. 11,751 billion.

Current expenditure is budgeted at Rs. 17,495 billion, including interest payments, pensions, defence affairs and services, grants and transfers, subsidies, running of civil government and emergency-related provisions. Development and net lending is budgeted at Rs. 1,276 billion, including Federal PSDP of Rs. 1,000 billion and net lending of Rs. 276 billion.

The federal fiscal deficit is estimated at Rs. 7,020 billion, to be financed mainly through

domestic financing, external financing and privatisation proceeds.

Key Tax Policy Themes

The Finance Bill, 2026 introduces amendments across major federal fiscal laws, including the Income Tax Ordinance, 2001, Sales Tax Act, 1990, Customs Act, 1969 and Federal Excise Act, 2005.

The key tax policy themes include:

1. relief for salaried individuals through revised tax slabs;
2. rationalisation of Super Tax for certain taxpayers;
3. omission of deemed income provisions on immovable property;
4. reduction in tax rates on certain property transactions;
5. relief for exporters and IT / IT-enabled services;
6. broadening of withholding tax coverage for digital, e-commerce and social media income;
7. tariff rationalisation under the National Tariff Policy 2025–30;
8. continuation of relief for electric vehicles and refinery upgradation;
9. enhanced enforcement, penalties and documentation requirements;
10. movement towards faceless, automated and data-driven tax administration.

Compliance and Enforcement Shift

A major feature of the Finance Bill, 2026 is the shift from traditional tax administration towards a digitally integrated enforcement model. The proposed framework includes the



National Faceless Centre, faceless audit and assessment, faceless appellate proceedings, algorithmic settlement mechanism, electronic invoicing, machine-readable financial statements, banking data exchange, independent case scrutiny committees, and sectoral monitoring systems.

This represents a significant compliance shift for companies, banks, retailers, digital platforms, distributors, exporters, manufacturers and other formal businesses. Businesses will need to update withholding tax matrices, payroll systems, ERP configurations, invoicing systems, import classifications, sales tax compliance processes and documentation controls.

Sectoral Implications

The budget is expected to have different impacts across sectors. Salaried individuals, exporters, IT and IT-enabled services, real estate, electric vehicles, refineries and selected manufacturing segments may benefit from targeted relief and incentives. However, sectors such as banking, exploration and production, fertilizer, steel, wholesale / distribution, tobacco, excisable goods and digitally monetised income streams may face higher compliance, reporting or tax exposure.

Oil marketing companies and refineries require special attention due to changes in the Petroleum Levy and Climate Support Levy framework, including monthly reporting, annual audited certification and recovery provisions.

ProSustena Research Centre View

The Budget 2026–27 is not merely a tax-rate adjustment exercise. It is a documentation-led and compliance-driven budget. While selected relief measures may support disposable income, exports, technology services, real

estate activity and industrial competitiveness, the larger direction is clear: businesses will increasingly be required to operate through traceable, integrated, digitally verifiable and well-documented systems.

For businesses, the immediate priority is not only to understand the tax rates, but to assess system readiness, compliance exposure, cash flow impact, sectoral implications and documentation risks before the commencement of FY2026–27.

1. Budget at a Glance

1.1 Key Fiscal Numbers

The Federal Budget 2026–27 has been presented with total federal resources and total federal expenditure of Rs. 18,771 billion. The budget reflects continued focus on fiscal consolidation, revenue mobilisation and controlled expenditure management, while maintaining allocations for debt servicing, defence, subsidies, grants and development spending.

The key fiscal numbers are summarised below:

Particulars	Budget 2026–27
FBR Tax Revenue	Rs. 15,264 billion
Non-Tax Revenue	Rs. 5,336 billion
Gross Revenue Receipts	Rs. 20,600 billion
Less: Provincial Share	Rs. 8,848 billion
Net Federal Revenue Receipts	Rs. 11,751 billion
Total Federal Expenditure	Rs. 18,771 billion
Federal Budget Deficit	Rs. 7,020 billion



Provincial Surplus	Rs. 1,794 billion
Overall Fiscal Deficit	Rs. 5,226 billion
Overall Fiscal Deficit as % of GDP	3.6%
Primary Surplus	Rs. 2,828 billion
Primary Surplus as % of GDP	2.0%
Nominal GDP	Rs. 143,604 billion

The budget assumes a primary surplus of 2.0% of GDP, indicating that fiscal policy remains aligned with deficit control and debt sustainability objectives. However, the overall fiscal position continues to remain under pressure due to high interest payments and other committed expenditures.

1.2 Revenue and Expenditure Snapshot

Gross revenue receipts for FY2026–27 are estimated at Rs. 20,600 billion, comprising FBR tax revenue of Rs. 15,264 billion and non-tax revenue of Rs. 5,336 billion. After transfer of Rs. 8,848 billion to provinces under the NFC framework, net revenue available to the Federal Government is estimated at Rs. 11,751 billion.

On the expenditure side, total federal expenditure is budgeted at Rs. 18,771 billion. Current expenditure remains the dominant component at Rs. 17,495 billion, while development and net lending is budgeted at Rs. 1,276 billion.

The major expenditure components are as follows:

Expenditure Head	Budget 2026–27
Interest Payments	Rs. 8,054 billion
Pension	Rs. 1,169 billion

Defence Affairs and Services	Rs. 3,000 billion
Grants and Transfers	Rs. 2,680 billion
Subsidies	Rs. 1,091 billion
Running of Civil Government	Rs. 1,071 billion
Provision for Emergency and Others	Rs. 430 billion
Federal PSDP	Rs. 1,000 billion
Net Lending	Rs. 276 billion

Interest payments alone represent the largest current expenditure component. This indicates that debt servicing continues to absorb a substantial portion of federal resources, limiting fiscal space for development, social spending and broad-based tax relief.

1.3 Federal Deficit and Financing Plan

The Federal Government's net revenue receipts are estimated at Rs. 11,751 billion against total federal expenditure of Rs. 18,771 billion, resulting in a federal budget deficit of Rs. 7,020 billion.

The financing plan for the federal deficit is structured as follows:

Financing Source	Budget 2026–27
Net External Financing	Rs. 813 billion
Net Domestic Financing	Rs. 6,046 billion
Privatisation Proceeds	Rs. 161 billion
Total Financing	Rs. 7,020 billion



Net domestic financing remains the principal source of deficit financing. Within domestic financing, government securities are expected to provide Rs. 5,772 billion, while National Savings Schemes, GP Fund, deposits and reserves are expected to contribute Rs. 274 billion.

Net external financing is budgeted at Rs. 813 billion, comprising Rs. 30 billion from multilateral and bilateral sources and Rs. 783 billion through commercial and bond-related sources. Privatisation proceeds are estimated at Rs. 161 billion.

The financing mix suggests continued dependence on domestic borrowing, particularly government securities. This may keep pressure on public debt servicing costs unless supported by improved revenue performance, lower borrowing needs and sustained macroeconomic stability.

1.4 Primary Balance and Overall Fiscal Deficit

The federal budget deficit for FY2026–27 is estimated at Rs. 7,020 billion. However, after accounting for the projected provincial surplus of Rs. 1,794 billion, the overall fiscal deficit is estimated at Rs. 5,226 billion, equivalent to 3.6% of GDP.

The budget also projects a primary surplus of Rs. 2,828 billion, equivalent to 2.0% of GDP. A primary surplus means that, excluding interest payments, the government expects revenues to exceed non-interest expenditure. This is an important signal of fiscal consolidation.

However, the difference between the primary surplus and the overall fiscal deficit highlights the pressure created by interest payments. In practical terms, the budget aims to control the non-interest deficit, but the overall deficit

remains significant due to debt servicing obligations.

1.5 Key Policy Direction of Budget 2026–27

Budget 2026–27 appears to follow a controlled and compliance-driven fiscal strategy. The broad policy direction can be summarised as follows:

Fiscal Consolidation

The budget seeks to maintain fiscal discipline through a targeted primary surplus, controlled development spending and continued revenue mobilisation. This reflects the Government's intention to stabilise public finances and remain aligned with macroeconomic commitments.

Revenue Mobilisation

The FBR tax revenue target has been set at Rs. 15,264 billion. The strategy appears to rely not only on tax rate changes, but also on broadening the tax base, improving documentation, strengthening withholding mechanisms and expanding digital enforcement.

Documentation of the Economy

A clear policy direction is visible towards formalising economic transactions. Measures relating to e-commerce, digital payments, social media income, electronic invoicing, machine-readable financial statements, banking data reporting and sales tax integration indicate a shift towards data-driven tax administration.

Targeted Relief Rather Than Broad-Based Tax Cuts

The Finance Bill, 2026 provides relief to selected categories including salaried individuals, exporters, IT and IT-enabled services, real estate transactions, certain electric vehicle arrangements, refineries and selected industrial inputs. However, the relief is targeted



and calibrated, indicating limited fiscal space for broad-based tax reduction.

Digital and Faceless Tax Administration

The budget introduces or expands mechanisms such as the National Faceless Centre, faceless audit and assessment, faceless adjudication, faceless appeal procedure, algorithmic settlement mechanism and independent case scrutiny committees. These measures indicate a transition towards technology-based tax administration and reduced physical interaction between taxpayers and tax authorities.

Tariff Rationalisation and Trade Facilitation

Customs measures continue the implementation of the National Tariff Policy 2025–30, including reduction in customs duty, additional customs duty and regulatory duty across several tariff lines. The policy intent appears to be simplification, reduction of cascading protection, trade facilitation and support for industrial inputs.

Stronger Enforcement and Penalties

The Finance Bill also enhances enforcement powers and penalties across tax statutes. These include higher penalties, expanded monitoring, production monitoring systems, video analytics, seizure and confiscation powers, special audit provisions and stricter compliance requirements.

1.6 Major Relief, Revenue and Compliance Measures

The major measures proposed through Budget 2026–27 and the Finance Bill, 2026 may be grouped into three categories: relief measures, revenue measures and compliance / enforcement measures.

Major Relief Measures

The key relief measures include:

1. restructuring of tax slabs for salaried individuals;
2. increase in the income threshold for the maximum salaried tax rate;
3. proposed withdrawal of surcharge for salaried individuals;
4. rationalisation of Super Tax for certain businesses;
5. omission of tax on deemed income from immovable property under section 7E;
6. reduction / rationalisation of advance tax on immovable property transactions;
7. reduction in tax on export proceeds;
8. extension of concessionary tax rate for IT and IT-enabled services exports;
9. reduction in advance tax on foreign card-based remittances;
10. extension of sales tax exemption on CKD kits for electric vehicles up to 30 June 2027;
11. sales tax exemption on import of capital goods for upgradation and overhaul of existing refineries;
12. customs duty relief on selected industrial inputs, agricultural machinery, cancer-related APIs and specialised construction vehicles;
13. selected FED relief measures, including reduction in FED on foreign travel and removal of FED on WHO-standard compliant sports / electrolyte replenishment beverages.

Major Revenue Measures

The key revenue measures include:



1. broadening of withholding tax coverage for digital transactions, e-commerce, services and social media / influencer income;
2. expansion of sales tax Third Schedule coverage to ensure tax collection at retail / consumer price at manufacturing stage;
3. withholding of sales tax by toll manufacturers from unregistered buyers;
4. enhanced scope of withholding sales tax by AOPs and individuals from unregistered persons;
5. recovery of 3% value addition tax from manufacturers where imported raw material is sold in the same state;
6. imposition / enhancement of FED on e-liquids and electronic cigarettes;
7. imposition of FED on naphtha, solvent oil, turpentine, luxury electric vehicles, other luxury vehicles, base oil and base lubricating oil;
8. increased documentation of banking, digital and high-value transactions;
9. mandatory reporting mechanism for Petroleum Levy and Climate Support Levy payments.
4. algorithmic settlement mechanism;
5. independent case scrutiny committees;
6. mandatory electronic invoicing framework;
7. machine-readable financial statement filing;
8. production monitoring system and video analytics;
9. enhanced penalties for non-compliance;
10. special audit through Chartered Accountants, Cost and Management Accountants and other experts;
11. establishment of Directorate General Field Compliance;
12. broader powers for inventory valuation, re-audit and automated processing;
13. stricter sales tax registration, suspension, deregistration and blacklisting provisions;
14. legal cover for cargo scanning and stronger customs enforcement;
15. recovery mechanism for Petroleum Levy and Climate Support Levy through Inland Revenue where applicable.

Major Compliance and Enforcement Measures

The key compliance and enforcement measures include:

1. establishment and expansion of the National Faceless Centre;
2. faceless audit and assessment;
3. faceless adjudication and appeal procedures;

Overall, Budget 2026–27 is not limited to tax rate adjustments. It represents a wider shift towards fiscal consolidation, documented transactions, digitally verifiable reporting, targeted relief and stricter enforcement. Businesses will need to assess not only the tax cost, but also the compliance, system, cash flow and documentation impact before implementation from 1 July 2026.



A. Salient Features of Federal Budget 2026–27

A.1 Fiscal Framework

The Federal Budget 2026–27 has been framed around a fiscal consolidation approach, with emphasis on revenue mobilisation, controlled expenditure, primary surplus generation and deficit financing through a combination of domestic borrowing, external financing and privatisation proceeds.

The fiscal framework reflects a continued effort to strengthen federal revenues while managing high committed expenditure, particularly interest payments, defence, pensions, subsidies, grants and transfers. Although the budget targets a primary surplus, the overall fiscal position remains constrained due to debt servicing and other recurring obligations.

A.1.1 Gross Revenue Receipts

Gross revenue receipts for FY2026–27 are budgeted at Rs. 20,600 billion. These receipts comprise FBR tax revenue of Rs. 15,264 billion and non-tax revenue of Rs. 5,336 billion.

The revenue structure indicates continued reliance on tax collection as the principal source of federal receipts. Non-tax revenue also remains significant and includes receipts from various federal sources such as levies, fees, dividends, mark-up, royalties and other non-tax inflows.

For management purposes, the gross revenue target shows that the budget depends heavily on achievement of the FBR tax collection target. Any shortfall in tax revenue may directly affect deficit financing requirements, borrowing needs and fiscal space for development and relief measures.

Particulars	Budget 2026–27
FBR Tax Revenue	Rs. 15,264 billion
Non-Tax Revenue	Rs. 5,336 billion
Gross Revenue Receipts	Rs. 20,600 billion

A.1.2 Net Federal Revenue Receipts

After deduction of the provincial share under the NFC framework, net revenue receipts available to the Federal Government are budgeted at Rs. 11,751 billion.

This amount represents the effective revenue available to the Federal Government for financing its current expenditure, development expenditure, net lending and other federal obligations. The difference between gross receipts and net federal revenue highlights the significance of provincial transfers in the fiscal structure.

Particulars	Budget 2026–27
Gross Revenue Receipts	Rs. 20,600 billion
Less: Provincial Share	Rs. 8,848 billion
Net Federal Revenue Receipts	Rs. 11,751 billion

The net federal revenue of Rs. 11,751 billion is significantly lower than total federal expenditure of Rs. 18,771 billion, resulting in a federal deficit of Rs. 7,020 billion.

A.1.3 Federal Transfers to Provinces

Federal transfers to provinces are budgeted at Rs. 8,848 billion for FY2026–27. These transfers represent the provincial share in divisible pool taxes and are deducted from



gross revenue receipts to arrive at net federal revenue.

The size of provincial transfers shows that a substantial portion of federal tax collection is passed on to provinces under the constitutional fiscal arrangement. Therefore, improvement in gross revenue collection does not fully translate into federal fiscal space, as the Federal Government retains only its net share after transfers.

For the overall fiscal position, the federal deficit is partly adjusted by the projected provincial surplus of Rs. 1,794 billion. Accordingly, while the federal deficit is budgeted at Rs. 7,020 billion, the overall fiscal deficit is estimated at Rs. 5,226 billion.

A.1.4 Current Expenditure

Current expenditure for FY2026–27 is budgeted at Rs. 17,495 billion. It is the largest component of total federal expenditure and mainly comprises interest payments, pensions, defence affairs and services, grants and transfers, subsidies, running of civil government, and provision for emergency and other requirements.

Current Expenditure Head	Budget 2026–27
Interest Payments	Rs. 8,054 billion
Pension	Rs. 1,169 billion
Defence Affairs and Services	Rs. 3,000 billion
Grants and Transfers	Rs. 2,680 billion
Subsidies	Rs. 1,091 billion
Running of Civil Government	Rs. 1,071 billion

Provision for Emergency and Others	Rs. 430 billion
Total Current Expenditure	Rs. 17,495 billion

Interest payments remain the largest expenditure head, reflecting continued pressure from public debt servicing. This limits fiscal flexibility and reduces the space available for development expenditure, social sector expansion and broad-based tax relief.

The allocation for defence affairs and services is budgeted at Rs. 3,000 billion, while grants and transfers are budgeted at Rs. 2,680 billion. Subsidies are budgeted at Rs. 1,091 billion, indicating continued support for selected sectors and public policy obligations.

A.1.5 Development Expenditure and Net Lending

Development and net lending for FY2026–27 is budgeted at Rs. 1,276 billion. This includes Federal PSDP of Rs. 1,000 billion and net lending of Rs. 276 billion.

Particulars	Budget 2026–27
Federal PSDP	Rs. 1,000 billion
Net Lending	Rs. 276 billion
Development and Net Lending	Rs. 1,276 billion

The development allocation is relatively modest compared with current expenditure. This reflects the constrained fiscal space available to the Federal Government after meeting interest payments, defence, pensions, subsidies, grants and other recurring expenditure.

From a business and sectoral perspective, PSDP spending remains important for construction,



cement, steel, energy, infrastructure, logistics and allied industries. However, the overall impact will depend on actual releases, project prioritisation and implementation pace during the year.

A.1.6 Fiscal Deficit and Financing Mix

The federal deficit for FY2026–27 is budgeted at Rs. 7,020 billion. This arises from net federal revenue receipts of Rs. 11,751 billion against total federal expenditure of Rs. 18,771 billion.

The deficit financing plan is as follows:

Financing Source	Budget 2026–27
Net External Financing	Rs. 813 billion
Net Domestic Financing	Rs. 6,046 billion
Privatisation Proceeds	Rs. 161 billion
Total Financing	Rs. 7,020 billion

Net domestic financing is the dominant source of deficit financing. Within this, government securities are expected to contribute Rs. 5,772 billion, while National Savings Schemes, GP Fund, deposits and reserves are expected to contribute Rs. 274 billion.

Net external financing is budgeted at Rs. 813 billion, comprising Rs. 30 billion from multilateral and bilateral sources and Rs. 783 billion from commercial and bond-related sources. Privatisation proceeds are estimated at Rs. 161 billion.

The financing mix indicates continued reliance on domestic borrowing, particularly government securities. This may sustain pressure on debt servicing costs unless supported by lower interest rates, improved

revenue collection, expenditure discipline and successful fiscal consolidation.

A.1.7 Primary Surplus Target

The budget projects a primary surplus of Rs. 2,828 billion, equivalent to 2.0% of GDP. A primary surplus means that, before interest payments, government revenues are expected to exceed non-interest expenditure.

Particulars	Budget 2026–27
Primary Surplus	Rs. 2,828 billion
Primary Surplus as % of GDP	2.0%
Overall Fiscal Deficit	Rs. 5,226 billion
Overall Fiscal Deficit as % of GDP	3.6%
Nominal GDP	Rs. 143,604 billion

The primary surplus target is a key indicator of fiscal consolidation. It shows that the Government intends to control non-interest expenditure and improve revenue performance. However, the overall fiscal deficit remains significant due to the high burden of interest payments.

Accordingly, the main fiscal challenge for FY2026–27 is not only revenue collection, but also debt servicing management. Sustained improvement in the fiscal position will require tax base broadening, expenditure rationalisation, controlled borrowing, improved public sector efficiency and consistent implementation of fiscal discipline.

A.2 Revenue Measures at a Glance

The revenue framework of Budget 2026–27 is built around a higher FBR tax collection target, significant non-tax revenue receipts, tariff rationalisation, documentation of transactions



and stronger compliance enforcement. The budget targets gross revenue receipts of Rs. 20,600 billion, comprising FBR tax revenue of Rs. 15,264 billion and non-tax revenue of Rs. 5,336 billion.

The revenue strategy is not limited to rate increases. It includes broadening of the tax base, enhanced withholding coverage, digitisation of tax administration, reduction of selected distortions, tariff rationalisation and strengthened monitoring of petroleum levies, sales tax, FED and customs-related compliance.

A.2.1 FBR Tax Revenue Target

The FBR tax revenue target for FY2026–27 is budgeted at Rs. 15,264 billion. This represents the main source of federal revenue and is central to achieving the fiscal deficit and primary surplus targets.

Classification	Budget 2026–27
Direct Taxes	Rs. 7,613 billion
Indirect Taxes	Rs. 7,651 billion
Total FBR Taxes	Rs. 15,264 billion

The FBR target is almost equally divided between direct and indirect taxes. Direct taxes are budgeted at Rs. 7,613 billion, while indirect taxes are budgeted at Rs. 7,651 billion. The relatively balanced structure indicates reliance on both income-based taxation and transaction / consumption-based taxation.

From a business perspective, achievement of the FBR target will depend on timely implementation of Finance Bill measures, withholding tax collection, documentation of digital transactions, sales tax integration, customs valuation and improved enforcement.

A.2.2 Direct Taxes

Direct taxes are budgeted at Rs. 7,613 billion for FY2026–27. The major component is income tax, budgeted at Rs. 7,480.521 billion. Other direct tax receipts include Capital Value Tax, Workers Welfare Fund and Workers Profit Participation Fund.

Direct Tax Component	Budget 2026–27
Income Tax	Rs. 7,480.521 billion
Capital Value Tax	Rs. 26.581 billion
Workers Welfare Fund	Rs. 22.318 billion
Workers Profit Participation Fund	Rs. 83.580 billion
Total Direct Taxes	Rs. 7,613 billion

The Finance Bill, 2026 proposes a mixed direct tax approach. It provides relief in selected areas, including salaried individuals, certain Super Tax rationalisation, real estate transactions, export proceeds and IT / ITeS exports. At the same time, it expands documentation and withholding-based revenue collection through measures relating to services, e-commerce, digital transactions, social media income, banking data reporting and machine-readable financial statements.

The direct tax measures show a policy shift towards broadening the base through information, withholding and data integration rather than relying only on higher headline rates.

A.2.3 Sales Tax

Sales tax is budgeted at Rs. 4,927 billion for FY2026–27 and remains the largest component of indirect taxes.



Indirect Tax Component	Budget 2026–27
Sales Tax	Rs. 4,927 billion
Customs Duties	Rs. 1,651 billion
Federal Excise	Rs. 1,073 billion
Total Indirect Taxes	Rs. 7,651 billion

Sales tax measures under the Finance Bill, 2026 include both relief and revenue / enforcement measures. Relief measures include exemption for magazines, extension of exemption on import of CKD kits for electric vehicles till 30 June 2027, exemption on import of capital goods for upgradation and overhaul of existing refineries, exemption for strategic shipping investment and certain strategic imports.

Revenue and compliance measures include expansion of the Third Schedule for collection of sales tax at consumer price by manufacturers, withholding of sales tax by toll manufacturers from unregistered buyers, expanded withholding sales tax obligations for AOPs and individuals, and recovery of 3% value addition tax from manufacturers where imported raw materials are supplied in the same state.

The sales tax framework is also moving towards electronic invoicing, verifiable FBR invoice numbers, integration, faceless audit and stricter suspension / deregistration / blacklisting powers. Businesses will need to review POS integration, invoice formats, buyer / supplier status, toll manufacturing arrangements and system readiness.

A.2.4 Customs Duty

Customs duties are budgeted at Rs. 1,651 billion for FY2026–27. The customs policy direction is primarily linked with tariff rationalisation under the National Tariff Policy 2025–30.

Key customs measures include reduction of customs duty on input goods of different industrial sectors across 92 tariff lines, reduction / elimination of Additional Customs Duty on various tariff lines, rationalisation of Regulatory Duty, review of Fifth Schedule concessions and targeted exemptions for selected goods.

The major customs relief and rationalisation measures include:

Area	Key Measure
Customs Duty	Reduction of CD on selected industrial input tariff lines
Additional Customs Duty	Reduction / elimination across specified tariff lines
Regulatory Duty	Capping and reduction of RD across various tariff lines
Fifth Schedule	Removal of redundant concessions where concessionary CD equals or exceeds general tariff
Healthcare	Exemption of CD on critical cancer-related APIs
Agriculture	Exemption of CD, ACD and RD on agricultural machinery
Construction	Reduction of CD on specialised construction-related vehicles



Defence / Security	Exemption for defence imports and specified bullet-proof vehicles
--------------------	---

The customs measures are intended to support industrial inputs, trade facilitation, simplification and selected sectoral relief. However, businesses will need to review PCT classifications, landed cost calculations, import pricing, inventory costing and tariff-related budget assumptions.

A.2.5 Federal Excise Duty

Federal Excise Duty is budgeted at Rs. 1,073 billion for FY2026–27. The proposed FED measures include relief, revenue generation and stronger monitoring of excisable goods.

Relief measures include reduction in FED on foreign travel, reduction in FED on import of acetate tow from Rs. 44,000 to Rs. 10,000, removal of FED on WHO-standard compliant sports / electrolyte replenishment beverages, exemption for strategic vehicle imports, and extension of exemption on import of CKD kits for electric vehicles till 30 June 2027.

Revenue measures include FED on e-liquids for electronic cigarettes, FED on naphtha, solvent oil and turpentine, FED on luxury EVs and other luxury vehicles, FED on base oil and base lubricating oil, and introduction of a new table for luxury imported vehicles.

The FED framework also introduces or strengthens definitions and mechanisms relating to advance receipt invoices, algorithmic settlement mechanism, electronic invoicing system, National Faceless Centre and production monitoring system. Monitoring of excisable goods through electronic means, video analytics, tax stamps, barcodes and

seizure provisions indicates a stronger enforcement focus.

A.2.6 Non-Tax Revenue

Non-tax revenue for FY2026–27 is budgeted at Rs. 5,335.598 billion. This is a major part of the federal revenue framework and includes levies, fees, income from property and enterprises, receipts from civil administration and other functions, and miscellaneous receipts.

Non-Tax Revenue Category	Budget 2026–27
Levies and Fees	Rs. 41.589 billion
Income from Property and Enterprises	Rs. 435.760 billion
Receipts from Civil Administration and Other Functions	Rs. 1,480.183 billion
Miscellaneous Receipts	Rs. 3,378.066 billion
Total Non-Tax Revenue	Rs. 5,335.598 billion

Major non-tax revenue components include SBP profit, dividends, mark-up receipts, petroleum levy, gas-related levies, royalties, passport fees, defence receipts, economic services receipts, grants / receipts from provinces under Article 164 and other attached department receipts.

The non-tax revenue target is significant for fiscal management because it reduces reliance on borrowing and supports the financing of current expenditure. However, several non-tax revenue items may depend on administrative collection, commodity / energy-related flows, profits of public entities and policy implementation.



A.2.7 Petroleum Levy and Climate Support Levy

Petroleum Levy is budgeted at Rs. 1,676.509 billion for FY2026–27, while Climate Support Levy is budgeted at Rs. 50 billion. Petroleum Levy is one of the largest non-tax revenue items and remains highly relevant for the petroleum, refinery, oil marketing and downstream energy sectors.

Levy / Receipt	Budget 2026–27
Petroleum Levy	Rs. 1,676.509 billion
Petroleum Levy on LPG	Rs. 3.455 billion
Climate Support Levy	Rs. 50.000 billion

The Finance Bill, 2026 also proposes amendments to the Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961. Payment of Petroleum Levy and Climate Support Levy is proposed to be treated as a licence condition for every company, refinery or licensee from the date of issuance of licence by OGRA.

The proposed framework also includes late payment surcharge, recovery mechanism through Inland Revenue where dues remain unpaid beyond the prescribed period, monthly reporting requirements and annual audited certification. Every company, refinery or licensee is required to submit monthly statements supported by documentary evidence and furnish an annual audited certificate to the Petroleum Division through an authorised audit firm.

For OMCs, refineries and licensees, this creates a significant compliance and cash flow area. Timely payment, reconciliation, documentary

support, monthly statements and audit certification will need to be closely monitored.

A.3 Expenditure Priorities

The expenditure side of Budget 2026–27 is dominated by current expenditure. Total current expenditure is budgeted at Rs. 17,495.417 billion. The largest components are mark-up payments, defence affairs and services, grants and transfers, pension, subsidies, running of civil government, and emergency-related provisions.

Expenditure Head	Budget 2026–27
Mark-up Payments	Rs. 8,054.000 billion
Pension	Rs. 1,169.000 billion
Defence Affairs and Services	Rs. 3,000.000 billion
Grants and Transfers	Rs. 2,680.417 billion
Subsidies	Rs. 1,091.000 billion
Running of Civil Government	Rs. 1,071.000 billion
Provision for Emergency and Others	Rs. 430.000 billion
Total Current Expenditure	Rs. 17,495.417 billion

The composition of expenditure shows that committed and recurring expenditure continues to absorb most federal resources. This limits fiscal space for broad-based relief and development spending.



A.3.1 Interest Payments

Mark-up payments are budgeted at Rs. 8,054 billion for FY2026–27 and remain the largest current expenditure head.

Mark-up Component	Budget 2026–27
Mark-up on Domestic Debt	Rs. 6,982.607 billion
Mark-up on Foreign Debt	Rs. 1,071.393 billion
Total Mark-up Payments	Rs. 8,054.000 billion

The high mark-up allocation indicates that debt servicing continues to be the most significant pressure on the federal budget. Domestic debt servicing is the larger component, reflecting reliance on domestic borrowing and government securities. Unless borrowing needs decline and interest costs moderate, mark-up payments will continue to restrict fiscal flexibility.

A.3.2 Defence Affairs and Services

Defence affairs and services are budgeted at Rs. 3,000 billion for FY2026–27. This allocation represents one of the largest federal expenditure components after mark-up payments.

The defence allocation reflects national security priorities and committed expenditure requirements. From a fiscal perspective, it also forms part of the large current expenditure base, contributing to limited space for development and social-sector spending.

Defence Expenditure Head	Budget 2026–27
Defence Services	Rs. 3,000 billion

Total Defence Affairs and Services	Rs. 3,000 billion
------------------------------------	-------------------

A.3.3 Pension Expenditure

Pension expenditure is budgeted at Rs. 1,169 billion for FY2026–27. The pension allocation includes military pension, civil pension, Federal Pension Fund and pension increase for civil and defence pensioners.

Pension Component	Budget 2026–27
Military Pension	Rs. 822.000 billion
Civil Pension	Rs. 272.500 billion
Federal Pension Fund	Rs. 10.000 billion
Pension Increase (Civil + Defence)	Rs. 64.500 billion
Total Pension	Rs. 1,169.000 billion

Pension expenditure remains a material recurring liability. The size of the pension bill highlights the importance of pension reform, actuarial planning and long-term liability management in public finance.

A.3.4 Grants and Transfers

Grants and transfers are budgeted at Rs. 2,680.417 billion for FY2026–27. This includes grants to provinces and grants to others.

Grants and Transfers Component	Budget 2026–27
Grants to Provinces	Rs. 152.000 billion
Grants to Others	Rs. 2,528.417 billion
Total Grants and Transfers	Rs. 2,680.417 billion



Grants and transfers cover a wide range of government obligations, policy support measures and inter-governmental or institutional transfers. The size of this head shows that transfer payments remain an important part of the federal expenditure structure.

A.3.5 Subsidies

Subsidies are budgeted at Rs. 1,091 billion for FY2026–27. Subsidy allocations generally reflect government support for selected sectors, consumers, energy-related obligations and other public policy commitments.

The subsidy bill remains significant, though lower than some other major current expenditure heads. From a fiscal management perspective, subsidies require careful targeting and monitoring to ensure that support reaches intended beneficiaries without creating persistent fiscal leakage.

Expenditure Head	Budget 2026–27
Subsidies	Rs. 1,091 billion

A.3.6 Running of Civil Government

Running of Civil Government is budgeted at Rs. 1,071 billion for FY2026–27. This head includes expenditure required for operation of federal ministries, divisions, departments and related administrative functions.

Expenditure Head	Budget 2026–27
Running of Civil Government	Rs. 1,071 billion

The allocation reflects the cost of federal administration. In a constrained fiscal environment, efficiency in administrative spending, digitalisation of government

processes and expenditure control remain important for improving fiscal discipline.

A.3.7 Emergency and Other Provisions

Provision for emergency and other requirements is budgeted at Rs. 430 billion for FY2026–27. The Budget in Brief specifies that Rs. 20 billion within this provision relates to natural disasters triggered by natural hazards.

Expenditure Head	Budget 2026–27
Provision for Emergency and Others	Rs. 430 billion
Of which: Natural Disasters Triggered by Natural Hazards	Rs. 20 billion

This provision provides fiscal space for unforeseen requirements, contingencies and emergency-related spending. The specific provision for natural disasters indicates the increasing importance of climate and disaster-related fiscal planning in the federal budget.

A.4 Development and Public Sector Spending

Development expenditure under Budget 2026–27 reflects a restrained but targeted public investment approach. The Federal PSDP has been maintained at Rs. 1,000 billion, while the total National PSDP, including SOEs and provincial development programmes, is budgeted at Rs. 3,675 billion.

The development framework appears focused on infrastructure, water resources, roads, power transmission, education, special areas, railways, IT, health and selected strategic initiatives. However, compared with current expenditure, development spending remains



relatively limited due to the fiscal burden of debt servicing, defence, pensions, grants and subsidies.

A.4.1 Federal PSDP 2026–27

The Federal Public Sector Development Programme for FY2026–27 is budgeted at Rs. 1,000 billion. This includes allocations for federal ministries / divisions, corporations, project liabilities and new initiatives under CPEC 2.0.

PSDP Component	Budget 2026–27
Federal Ministries / Divisions	Rs. 682.485 billion
Corporations	Rs. 312.515 billion
Project Liabilities	Rs. 4.000 billion
New Initiatives — CPEC 2.0	Rs. 1.000 billion
Total Federal PSDP	Rs. 1,000.000 billion
SOEs	Rs. 451.000 billion
Provinces	Rs. 2,224.000 billion
Total National PSDP	Rs. 3,675.000 billion

The Federal PSDP is therefore concentrated mainly in federal ministries / divisions and corporations. The allocation to corporations includes National Highway Authority and Power Division, indicating continued priority for transport and energy infrastructure.

A.4.2 Major Development Priorities

The major Federal PSDP allocations indicate priority towards water resources, highways, power infrastructure, special areas, railways, higher education, federal education, health, IT, interior and provincial / regional projects.

Key allocations include:

Area / Division	Budget 2026–27
National Highway Authority	Rs. 224.515 billion
Water Resources Division	Rs. 103.086 billion
Special Areas — AJK and GB	Rs. 89.023 billion
Provincial Projects	Rs. 88.286 billion
Power Division — NTDC / PEPCO	Rs. 88.000 billion
Cabinet Division	Rs. 64.080 billion
Merged Districts of Khyber Pakhtunkhwa	Rs. 56.076 billion
Higher Education Commission	Rs. 46.000 billion
Railways Division	Rs. 40.658 billion
Federal Education & Professional Training Division	Rs. 36.312 billion
Planning, Development & Special Initiatives Division	Rs. 22.626 billion
Interior & Narcotics Control Division	Rs. 21.825 billion
Information Technology & Telecommunication Division	Rs. 19.580 billion
National Health Services Division	Rs. 16.065 billion
Housing & Works Division	Rs. 16.395 billion

The allocation pattern indicates that infrastructure, connectivity, energy



transmission, education and regional development remain core development priorities. For businesses, these allocations are relevant for construction, cement, steel, logistics, engineering, energy, IT, education and health-related sectors.

A.4.3 Infrastructure and Energy-Related Allocations

Infrastructure and energy-related spending is reflected mainly through the National Highway Authority, Power Division, Water Resources Division, Railways Division, Housing & Works Division and selected regional development allocations.

The National Highway Authority has been allocated Rs. 224.515 billion, making it the largest corporation-level PSDP allocation. The Power Division has been allocated Rs. 88.000 billion through NTDC / PEPCO, while Water Resources Division has been allocated Rs. 103.086 billion.

Infrastructure / Energy Area	Budget 2026–27
National Highway Authority	Rs. 224.515 billion
Power Division — NTDC / PEPCO	Rs. 88.000 billion
Water Resources Division	Rs. 103.086 billion
Railways Division	Rs. 40.658 billion
Housing & Works Division	Rs. 16.395 billion

These allocations are expected to support transport connectivity, power transmission, water infrastructure, railways and public works. The actual sectoral impact will depend on

project releases, implementation pace, procurement activity and timely execution.

A.4.4 Social Sector Development Spending

Social sector development allocations are reflected through education, higher education, health, special areas, merged districts and selected welfare-oriented programmes.

Federal Education & Professional Training Division has been allocated Rs. 36.312 billion, while the Higher Education Commission has been allocated Rs. 46.000 billion. National Health Services, Regulations & Coordination Division has been allocated Rs. 16.065 billion.

Social Sector Area	Budget 2026–27
Federal Education & Professional Training Division	Rs. 36.312 billion
Higher Education Commission	Rs. 46.000 billion
National Health Services Division	Rs. 16.065 billion
Special Areas — AJK and GB	Rs. 89.023 billion
Merged Districts of Khyber Pakhtunkhwa	Rs. 56.076 billion

The allocation to special areas and merged districts also reflects a regional development and social inclusion dimension. These allocations may support public infrastructure, service delivery, education, health and local development in less-developed regions.



A.4.5 Loans, Advances and Current Investments

Budget 2026–27 also includes current loans and advances, current investments and development loans and advances.

Current loans and advances are budgeted at Rs. 90.457 billion. Major items include advances to the Government of AJK, loans and advances to government servants, privatisation contingency, ways and means to provinces and loans / mark-up related to Pakistan Steel Mills.

Current investments are budgeted at Rs. 4.258 billion, including equity from GoP for Pak-China Investment Company Limited, investment in Pakistan Mortgage Refinance Company Limited and Pakistan’s annual contribution to Inter-Governmental Group IF 24.

Development loans and advances are budgeted at Rs. 962.517 billion, comprising Rs. 169.210 billion for development loans and advances and Rs. 793.307 billion for external development loans and advances.

Classification	Budget 2026–27
Current Loans and Advances	Rs. 90.457 billion
Current Investments	Rs. 4.258 billion
Development Loans and Advances	Rs. 962.517 billion

These allocations show that development financing is not limited to direct PSDP spending. Loans, advances and external development financing remain important instruments for public sector projects and related development obligations.

A.5 Social, Climate and Green Budgeting

Budget 2026–27 includes specific tagging for gender, climate and disaster-related allocations. It also identifies green components in subsidies and revenues. This reflects a gradual movement towards thematic budgeting, where fiscal allocations and receipts are assessed not only by ministry or function, but also by their social, climate and environmental relevance.

The tagging approach is useful for policy monitoring and donor / stakeholder reporting. However, the quality of such budgeting will depend on classification accuracy, implementation tracking and outcome measurement.

A.5.1 Social Protection Allocations

Social protection remains a major current expenditure function. Social protection expenditure is budgeted at Rs. 857.007 billion for FY2026–27.

Social Protection Component	Budget 2026–27
Administration	Rs. 4.975 billion
Others	Rs. 2.556 billion
Social Protection not elsewhere classified	Rs. 849.477 billion
Total Social Protection	Rs. 857.007 billion

Within grants and transfers, the Benazir Income Support Programme is allocated Rs. 838.000 billion, which is a major social protection-related allocation. This indicates continued reliance on targeted cash transfer and welfare programmes to support vulnerable segments.



A.5.2 Gender-Responsive Budgeting

The Budget in Brief includes gender-related tagging across education, health, government and data systems, employment and economic opportunity, safety and security, and agency / political participation.

Gender Classification	Budget 2026–27
Equality & Quality of Education	Rs. 60.271 billion
Health & Well-being	Rs. 21.481 billion
Government & Data Systems	Rs. 513.572 billion
Employment & Economic Opportunity	Rs. 653.203 billion
Safety & Security	Rs. 869.979 billion
Agency, Political Participation & Meaningful Engagement	Rs. 4.350 billion

The gender tagging indicates that several mainstream expenditure areas are being mapped for their gender relevance. For meaningful impact, this should be supported by outcome indicators, beneficiary analysis and monitoring of actual utilisation.

A.5.3 Climate-Related Budget Tagging

Climate-related budget tagging is provided under adaptation, mitigation and supporting areas. The Budget in Brief clarifies that climate data is exclusive of subsidies, while green subsidy details are separately provided in the green component in subsidies table.

Climate Classification	Budget 2026–27
Adaptation	Rs. 70.462 billion
Mitigation	Rs. 124.067 billion
Supporting Areas	Rs. 19.490 billion

Climate mitigation receives the largest allocation within climate-tagged expenditure. However, the allocation for adaptation also remains important given Pakistan’s exposure to floods, heatwaves, water stress and other climate-related risks.

A.5.4 Disaster-Related Allocations

Disaster-related allocations are categorised into preparedness, response, recovery and rehabilitation, and reconstruction.

Disaster Classification	Budget 2026–27
Preparedness	Rs. 42.844 billion
Response	Rs. 32.774 billion
Recovery & Rehabilitation	Rs. 21.485 billion
Reconstruction	Rs. 19.135 billion

In addition, the current expenditure provision for emergency and others includes Rs. 20 billion specifically for natural disasters triggered by natural hazards. This indicates increasing recognition of disaster risk as a fiscal planning issue.

A.5.5 Green Components in Subsidies

The Budget in Brief identifies Rs. 476.000 billion as green component in subsidies for FY2026–27.



Sector	Class	Category	Green Component
Energy	Mitigation	Directly Favorable	Rs. 423.000 billion
Food	Adaptation	Indirectly Favorable	Rs. 19.000 billion
Industries	Mitigation	Directly Favorable	Rs. 8.000 billion
Transport	Mitigation	Directly Favorable	Rs. 5.000 billion
Agriculture	Adaptation	Indirectly Favorable	Rs. 21.000 billion
Total			Rs. 476.000 billion

Energy-related subsidies form the largest green subsidy component. This indicates that the Government has classified a significant portion of subsidy support as climate-relevant, particularly in mitigation-related areas.

A.5.6 Green Components in Revenues

The Budget in Brief also identifies green components of revenues. These include petroleum levy, petroleum levy on LPG, motor vehicle-related receipts, EV Adoption Levy, Climate Support Levy, environmental and industrial safety receipts, gas-related levies and oil and gas royalties.

Category / Description	Budget 2026–27
Petroleum Levy	Rs. 1,676.509 billion
Petroleum Levy on LPG	Rs. 3.455 billion
Motor vehicles, road usage, route permits etc.	Rs. 20.500 billion

EV Adoption Levy	Rs. 22.481 billion
Climate Support Levy	Rs. 50.000 billion
Pakistan Environmental Protection Agency	Rs. 0.001 billion
Industrial Safety Explosive Department	Rs. 0.950 billion
Gas Development Surcharge	Rs. 70.814 billion
Discount retained on local crude price	Rs. 20.500 billion
Windfall Levy against Crude Oil / Gas	Rs. 18.127 billion
Gas Infrastructure Development Cess	Rs. 2.248 billion
Oil and Gas Royalties	Rs. 140.504 billion

The inclusion of petroleum levy, climate support levy, EV adoption levy and other energy / natural resource receipts under green revenue components shows an attempt to link revenue classification with environmental and climate relevance. However, policy evaluation should consider whether such revenues are actually earmarked for climate action or primarily used for general budgetary financing.

A.6 Policy Direction

The overall policy direction of Budget 2026–27 is shaped by fiscal consolidation, revenue mobilisation, targeted relief, documentation of the economy, digital tax administration, broadening of the tax base and stronger enforcement.



The budget is not merely a rate-change exercise. It signals a structural shift towards automated, digitally verifiable and transaction-based compliance monitoring. Businesses should therefore assess both tax cost and compliance readiness.

A.6.1 Fiscal Consolidation

Budget 2026–27 targets a primary surplus of Rs. 2,828 billion, equivalent to 2.0% of GDP. The overall fiscal deficit is budgeted at Rs. 5,226 billion, equivalent to 3.6% of GDP, after accounting for the projected provincial surplus.

This indicates that fiscal consolidation remains a central policy objective. The Government is attempting to control the non-interest deficit, while high interest payments continue to keep the overall deficit under pressure.

For businesses, fiscal consolidation may support macroeconomic stability over time, but it may also mean continued tax enforcement, limited fiscal space for broad-based relief and careful control over public spending.

A.6.2 Documentation of Economy

A major direction of the budget is documentation of economic activity. Measures relating to e-commerce, digital transactions, social media income, withholding taxes, sales tax integration, electronic invoicing and machine-readable financial statements show an attempt to improve visibility of transactions.

The policy intent is to reduce informal activity, improve traceability and bring more economic flows into the tax system. This will particularly affect retailers, wholesalers, digital platforms, e-commerce sellers, banks, payment intermediaries, service providers and businesses dealing with unregistered persons.

A.6.3 Digital Tax Administration

The Finance Bill, 2026 introduces and expands several digital tax administration mechanisms. These include National Faceless Centre, faceless assessment, faceless audit, faceless appellate proceedings, electronic invoicing system, algorithmic settlement mechanism, electronically readable financial statements and system-based transaction monitoring.

This represents a major shift from manual, interface-heavy administration towards technology-driven compliance. For taxpayers, this means that accounting systems, ERP data, invoice documentation, banking records and tax filings must be internally consistent and digitally verifiable.

A.6.4 Broadening of Tax Base

Broadening of the tax base is a recurring theme of the Finance Bill, 2026. The measures are focused on capturing under-documented and emerging areas of income, including e-commerce, digital transactions, social media and influencer income, services, unregistered persons, retail transactions and banking-based financial activity.

The broadening strategy appears to rely heavily on withholding, reporting and data integration. This may improve revenue visibility but can also increase compliance costs for businesses already operating in the documented sector.

A.6.5 Relief for Selected Taxpayers and Sectors

The budget also provides targeted relief to selected taxpayers and sectors. These include salaried individuals, exporters, IT and IT-enabled services, real estate transactions, electric vehicles, refineries, certain industrial inputs, agriculture-related machinery, cancer-



related APIs, and selected social / strategic categories.

The relief is selective rather than broad-based. This reflects limited fiscal space and a policy preference for targeted incentives linked to documentation, exports, technology, industrial competitiveness, climate transition and selected social priorities.

A.6.6 Enhanced Penalties and Enforcement

The Finance Bill, 2026 also strengthens penalties and enforcement powers across tax laws. Key measures include enhanced penalties, special audit provisions, inventory revaluation powers, faceless audit and assessment, independent case scrutiny committees, production monitoring, video analytics, electronic tracking, customs scanning, stronger sales tax registration controls and recovery mechanisms for petroleum levy and climate support levy.

For businesses, the enforcement direction means that non-compliance risk is increasing. The practical focus should be on timely system updates, correct tax deduction / collection, verified invoicing, proper documentation, accurate classification of transactions, retention of supporting evidence and readiness for automated scrutiny.

B. Income Tax

B.1 Overview of Income Tax Amendments

The Finance Bill, 2026 proposes several amendments in the Income Tax Ordinance, 2001. The measures combine targeted tax relief, revenue broadening, digital enforcement and procedural streamlining. The overall direction is to reduce tax burden in selected areas while

expanding documentation and automated compliance monitoring.

B.1.1 Relief Measures

The main income tax relief measures include:

Area	Proposed Measure
Salaried individuals	Tax slabs restructured and maximum 35% rate threshold increased from Rs. 4.1 million to Rs. 7 million
Immovable property	Section 7E relating to deemed income from capital assets omitted
Super Tax	Abolished for income up to Rs. 500 million and reduced to 8% above Rs. 500 million, except banking, E&P and fertilizer sectors
Property transactions	Advance tax under sections 236C and 236K reduced and converted into lower flat rates
Exporters	Tax collection on export proceeds reduced from 2% to 1.25%
IT / ITeS exporters	Concessionary tax rate of 0.25% extended up to Tax Year 2029
Foreign card payments	Advance tax reduced from 5% to 0.5%
E-commerce	Tax on digital transactions made adjustable for persons exceeding prescribed turnover threshold

These measures are expected to provide relief to salaried persons, exporters, IT businesses,



real estate participants and certain mid-sized corporates.

B.1.2 Revenue Measures

The revenue measures focus on expanding the tax base and improving visibility of transactions. Key measures include taxation / withholding coverage for digital transactions, social media income, services, e-commerce and certain under-documented activities.

The Bill also proposes changes relating to minimum tax, capital gains, non-resident shipping income, insurance / takaful payouts and withholding tax rationalisation. The policy direction is to generate revenue through documentation and transaction reporting rather than broad rate increases only.

B.1.3 Compliance and Enforcement Measures

The Bill introduces a stronger technology-based compliance framework. Key measures include:

Area	Compliance Measure
Digital administration	National Faceless Centre for audits, assessments and appeals
Automated settlement	Algorithmic Settlement Mechanism
Litigation control	Independent Case Scrutiny Committee
Financial statements	Mandatory filing in electronically readable format
Business integration	Requirement to install electronic resources and integrate business systems

Audit	Special audit / re-audit through experts, including accountants, cost accountants and actuaries
Field compliance	Establishment of Directorate General Field Compliance, Inland Revenue
Penalties	Enhanced penalties for non-compliance, incorrect claims, delayed statements and integration failures

These measures increase the need for strong tax documentation, reconciliations, system integration and timely compliance.

B.1.4 Administrative and Procedural Amendments

The administrative amendments include new definitions for algorithmic settlement mechanism, National Faceless Centre, electronically readable format and authorised shipping agent. The Bill also introduces faceless assessment, faceless audit, faceless appellate proceedings, revised ADR framework and litigation scrutiny mechanism.

These changes indicate a shift from manual tax administration to system-based assessment and dispute resolution. Taxpayers will need to ensure that returns, financial statements, withholding statements, bank records and ERP data remain consistent.

B.2 Salaried Individuals

The Finance Bill, 2026 provides direct relief to salaried individuals through restructuring of tax slabs. Additional intermediate slabs have been introduced and the threshold for the maximum tax rate has been increased.



B.2.1 Revised Tax Slabs

The proposed revised tax slabs for salaried persons are as follows:

Annual Taxable Income	Proposed Tax Rate
Up to Rs. 600,000	0%
Rs. 600,001 to Rs. 1,200,000	1% of amount exceeding Rs. 600,000
Rs. 1,200,001 to Rs. 2,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
Rs. 2,200,001 to Rs. 3,200,000	Rs. 116,000 + 20% of amount exceeding Rs. 2,200,000
Rs. 3,200,001 to Rs. 4,100,000	Rs. 316,000 + 25% of amount exceeding Rs. 3,200,000
Rs. 4,100,001 to Rs. 5,600,000	Rs. 541,000 + 29% of amount exceeding Rs. 4,100,000
Rs. 5,600,001 to Rs. 7,000,000	Rs. 976,000 + 32% of amount exceeding Rs. 5,600,000
Above Rs. 7,000,000	Rs. 1,424,000 + 35% of amount exceeding Rs. 7,000,000

B.2.2 Increase in Threshold for Maximum Tax Rate

The threshold for the maximum 35% tax rate has been increased from Rs. 4.1 million to Rs. 7 million. This is a meaningful relief for middle and upper-middle salaried taxpayers.

The change will reduce effective tax burden for employees falling between Rs. 4.1 million and Rs. 7 million annual taxable income.

B.2.3 Withdrawal / Rationalisation of Surcharge, Where Applicable

The Finance Bill proposes consequential amendments relating to surcharge provisions. Professional summaries indicate that surcharge on salaried individuals is proposed to be withdrawn, while surcharge for other individuals and AOPs may continue where applicable.

This should be confirmed against the final Finance Act before payroll implementation.

B.2.4 Impact on Monthly Payroll and Take-Home Salary

The revised slabs are expected to increase monthly take-home salary for many employees, particularly those falling in higher middle-income brackets.

Employers will need to revise payroll tax calculations from the effective date. Incorrect implementation may result in short deduction, excess deduction, employee grievances or withholding tax exposure.

B.2.5 Practical Action Points for Employers

Employers should:

Action Area	Required Action
Payroll system	Update tax slabs and salary tax formulas
Employee tax projections	Recompute annual taxable salary and monthly withholding
Surcharge	Confirm final treatment after enactment



Documentation	Retain working papers for salary tax computation
Communication	Inform employees where take-home salary changes materially
Compliance	Ensure monthly withholding deposits and statements reflect revised rates

B.3 Business Individuals and AOPs

Business individuals and AOPs are affected mainly through withholding tax changes, minimum tax measures, documentation requirements, digital integration and expanded compliance obligations.

B.3.1 Changes in Applicable Tax Treatment

The Finance Bill proposes changes relevant to business individuals and AOPs, including amendments relating to minimum tax, digital transactions, services, e-commerce, small traders / shopkeepers and withholding tax rationalisation.

For distributors, dealers, sub-dealers and wholesalers of specified sectors, the minimum tax rate is proposed at 0.5%, subject to appearance on the Active Taxpayers Lists under Income Tax and Sales Tax laws.

B.3.2 Withholding Tax Implications

The withholding tax net is being broadened for services, e-commerce, social media income and digital transactions. Business individuals and AOPs dealing with digital platforms, service providers, unregistered persons or non-ATL persons may face higher deduction / collection obligations.

Businesses should review withholding tax matrices, vendor categories, payment types and ATL status before making payments.

B.3.3 Compliance and Filing Obligations

Business individuals and AOPs will need to maintain better documentation due to the increasing use of automated tax matching. Relevant obligations may include timely return filing, withholding statements, sales / purchase reconciliations, banking records and compliance with any prescribed digital integration requirements.

Failure to comply with integration and reporting requirements may result in penalties, disallowance of expenditure or automated scrutiny.

B.3.4 Impact on Small and Medium Businesses

For SMEs, the budget has mixed implications. Some relief may arise from simplified or rationalised provisions, but compliance burden is expected to increase due to digital reporting, withholding obligations and documentation requirements.

The practical impact will depend on business size, sector, registration status, ATL status, use of digital platforms and level of documentation. SMEs should prioritise tax registration status, proper invoicing, vendor verification, withholding compliance and reconciliation of bank transactions with books of account.

B.4 Companies and Corporate Taxpayers

The Finance Bill, 2026 provides selective relief to companies, mainly through Super Tax rationalisation, while also increasing documentation, reporting and system-



integration expectations. Corporate taxpayers should assess the impact on effective tax rate, deferred tax, advance tax recoverables and segment-wise tax provisioning.

B.4.1 Corporate Tax Implications

The core corporate tax rate has not been presented as a broad-based reduction. The main corporate relief is through reduction / abolition of Super Tax for eligible sectors.

Key corporate implications include:

Area	Impact
Super Tax	Relief for general sectors, subject to income threshold
Digital compliance	Increased system integration and machine-readable reporting
E-commerce / digital transactions	Certain taxes may become adjustable where turnover threshold is crossed
Financial reporting	ETR and deferred tax workings need revision
Sector-specific taxation	Banking, E&P and fertilizer require separate analysis

B.4.2 Super Tax Rationalisation

Super Tax has been rationalised for general sectors. It is proposed to be abolished for persons having income up to Rs. 500 million and reduced from 10% to 8% for persons having income above Rs. 500 million.

This is a positive measure for mid-sized and large corporates outside excluded sectors.

B.4.3 Sector Exclusions from Super Tax Relief

The Super Tax relief does not apply to:

Excluded Sector	Treatment
Banking companies	Existing higher Super Tax treatment retained
Exploration & Production	Relief not available
Fertilizer sector	Relief not available

Groups operating in both excluded and general sectors should avoid applying one uniform tax assumption across all segments.

B.4.4 Effective Tax Rate Impact

Eligible companies may see a reduction in effective tax rate due to lower Super Tax exposure. However, the benefit will depend on taxable income level, sector classification, minimum tax position, final / adjustable tax exposure and brought-forward tax attributes.

Companies should recompute:

Area	Required Review
Current tax provision	Apply revised Super Tax treatment
ETR	Recalculate by entity and segment
Management budgets	Update FY2026–27 tax assumptions
Advance tax	Reassess quarterly advance tax estimates



Sector split	Separate excluded and non-excluded activities
--------------	---

B.4.5 Deferred Tax and Financial Reporting Considerations

Companies should review deferred tax balances where Super Tax changes or omission of section 7E affect future tax consequences. Investment property, real estate holdings and segmental tax rates require special attention.

Practical financial reporting actions include:

Area	Action
Deferred tax	Recompute based on revised expected tax rates
Section 7E	Remove deemed income-related provision, where applicable
Super Tax	Update tax rate assumptions
Segment reporting	Separate banking, E&P, fertilizer and general segments
Disclosure	Consider impact on tax expense and ETR reconciliation

B.5 Super Tax

Super Tax rationalisation is one of the major corporate relief measures in the Finance Bill, 2026.

B.5.1 Abolition for Income up to Prescribed Threshold

For general sectors, Super Tax has been abolished for persons having income up to Rs. 500 million.

This reduces tax cost for mid-sized corporates and improves post-tax profitability, subject to final enactment and sector eligibility.

B.5.2 Reduced Rate for General Sectors Above Threshold

For general sectors having income above Rs. 500 million, the Super Tax rate is proposed to be reduced from 10% to 8%.

Income / Sector	Proposed Treatment
General sectors — income up to Rs. 500 million	Super Tax abolished
General sectors — income above Rs. 500 million	Super Tax reduced to 8%
Banking, E&P and fertilizer	Relief not available

B.5.3 Treatment of Banking, E&P and Fertilizer Sectors

Banking companies, E&P companies and fertilizer sector taxpayers are excluded from the proposed Super Tax relief. Their existing treatment is retained.

This may keep the effective tax burden high for these sectors compared with general corporate taxpayers.



B.5.4 Group and Segment-Level Tax Planning Considerations

Groups should compute tax impact at entity and segment level. This is particularly important where a group has operations in both general and excluded sectors.

Key planning points include:

Planning Area	Action
Segment-wise ETR	Separate eligible and excluded sectors
Tax provisioning	Update company-wise computations
Group budgets	Avoid applying one uniform Super Tax rate
Deferred tax	Reassess future tax rate assumptions
Board reporting	Explain policy-driven tax variance clearly

B.6 Immovable Property

The Finance Bill, 2026 proposes significant relief for immovable property by omitting section 7E and reducing advance tax on sale and purchase transactions.

B.6.1 Omission of Section 7E

Section 7E, relating to deemed income from capital assets situated in Pakistan, is proposed to be omitted.

This removes a disputed and compliance-heavy provision that taxed deemed income from immovable property even where actual rental income was not earned.

B.6.2 Advance Tax on Sale of Immovable Property

Advance tax under section 236C on sale of immovable property is proposed to be reduced and converted into a flat rate of 2.75%.

Transaction	Proposed Rate
Sale of immovable property — section 236C	2.75%

This reduces transaction cost for sellers and may support documented property transfers.

B.6.3 Advance Tax on Purchase of Immovable Property

Advance tax under section 236K on purchase of immovable property is proposed to be reduced and converted into a flat rate of 1.25%.

Transaction	Proposed Rate
Purchase of immovable property — section 236K	1.25%

This simplifies tax collection and reduces upfront cost for buyers.

B.6.4 Real Estate Sector Implications

The real estate sector is expected to benefit from lower transaction taxes and omission of section 7E. The measures may reduce litigation, improve transaction documentation and encourage formal transfers.

However, actual recovery in the sector will also depend on interest rates, property valuation practices, investor confidence, construction activity and enforcement consistency.



B.6.5 Impact on Investors, Developers and Documented Transactions

The proposed measures may improve liquidity and reduce tax friction for investors and developers. Lower advance tax rates can reduce upfront cash outflow, while omission of section 7E may simplify tax compliance for property owners.

Practical implications include:

Stakeholder	Likely Impact
Investors	Lower transaction cost and reduced deemed income exposure
Developers	Potential improvement in formal transaction activity
Corporate property holders	Review tax provisions and deferred tax balances
Buyers / sellers	Lower upfront advance tax burden
Documented market	Possible increase in recorded transactions

B.7 Exporters

The Finance Bill, 2026 provides targeted relief to exporters by reducing tax collection on export proceeds. The measure is intended to improve exporters' cash flows and support export competitiveness.

B.7.1 Reduction in Tax on Export Proceeds

Tax collection on export proceeds has been reduced from 2% to 1.25%. The previous 2% represented 1% withholding tax and 1% advance tax. The additional advance tax under section 147(6C) is proposed to be omitted, while tax under section 154 is proposed at 1.25%.

Area	Previous Treatment	Proposed Treatment
Export proceeds	2%	1.25%

B.7.2 Cash Flow Impact

The reduction improves net cash retention at the time of realisation of export proceeds. This may ease working capital pressure, especially for businesses operating on tight margins or longer export recovery cycles.

B.7.3 Impact on Textile and Manufacturing Exporters

Textile and manufacturing exporters are expected to benefit from lower tax deduction on export proceeds. The relief may partly offset cost pressures from energy, finance cost, exchange movement and global price competition.

B.7.4 Compliance Considerations

Exporters should update tax deduction workings, export proceeds reconciliation, advance tax ledgers and cash flow forecasts. Export documentation, bank realisation certificates and tax deduction certificates should be properly retained.



B.8 IT and IT-Enabled Services

The Finance Bill, 2026 continues support for IT and IT-enabled services by extending the concessionary tax regime. This provides multi-year certainty for technology exporters.

B.8.1 Extension of Concessionary Tax Regime

The reduced tax rate of 0.25% for exporters of IT and IT-enabled services has been extended up to Tax Year 2029.

Area	Proposed Treatment
IT / ITeS export income	0.25% concessionary rate up to TY 2029

B.8.2 Export Proceeds and Documentation Requirements

IT and ITeS exporters should ensure proper remittance through banking channels, accurate classification of export proceeds and complete documentation of foreign clients, invoices, contracts and realisation records.

B.8.3 Freelancer and Digital Service Provider Implications

Freelancers and digital service providers may benefit where they qualify under the IT / ITeS export regime. However, income routed through digital platforms, payment intermediaries or social media platforms may also attract reporting or withholding provisions depending on the nature of income.

B.8.4 Policy Outlook for Technology Exports

The extension up to TY 2029 is a positive signal for technology exports. It supports pricing

certainty, contract planning, foreign client acquisition and investment in IT service capacity.

B.9 E-Commerce and Digital Economy

The Finance Bill, 2026 increases focus on e-commerce, digital transactions, social media income and platform-based revenue. The policy direction is to document digital income streams while providing adjustability for larger formal operators.

B.9.1 Tax Treatment of E-Commerce Transactions

Tax on e-commerce transactions is proposed to be made adjustable for sellers exceeding the prescribed turnover threshold. This reduces the final-tax burden for larger documented sellers and aligns them more closely with normal business taxation.

B.9.2 Adjustable Tax for Large Online Sellers

For sellers with turnover exceeding Rs. 200 million, e-commerce tax is proposed to become adjustable.

Category	Proposed Treatment
Online sellers above Rs. 200 million turnover	Tax adjustable
Smaller / other sellers	Treatment to be reviewed as per final law and applicable rules

Large online sellers should reclassify such deductions from tax expense to advance tax recoverable, where applicable.



B.9.3 Digital Marketplaces and Platform Reporting

Digital marketplaces are expected to face increased documentation and reporting expectations. Platforms may need to maintain seller data, transaction records, payment trails and tax deduction information in a system-verifiable manner.

B.9.4 Social Media Income and Digital Creators

A new withholding tax regime is proposed for revenues received from social media platforms. The regime covers digital content creators and social media influencers earning through platforms such as YouTube, Facebook, Instagram, TikTok and similar platforms.

Area	Proposed Treatment
Social media platform income	Withholding through banking / financial channels
Resident persons	Minimum tax treatment as per proposed law
Non-resident persons	Final tax treatment as per proposed law

Finance Bill proposed withholding rate at 5%, subject to final enactment and applicable statutory wording.

B.9.5 Banks, EMIs and Payment Intermediaries' Role

Banking companies, non-banking financial institutions and digital financial intermediaries are expected to play a key role in deduction, reporting and transaction visibility.

The Finance Bill also proposes banking data reporting for high-value deposits and withdrawals, digital processing through FBR systems and routing of mismatches to compliance risk management / faceless proceedings. This will increase tax visibility of digital and platform-based income.

B.10 Withholding Tax Regime

The Finance Bill, 2026 continues to use withholding tax as a key tool for revenue collection and documentation. Major changes relate to services, exports, property transactions, digital income, small traders and non-ATL persons.

B.10.1 Changes in Withholding on Services

Withholding tax on services has been rationalised. The rate for specified services is proposed to be enhanced, while the general services rate is rationalised. Independent professionals have been separately categorised.

Area	Proposed Change
Specified services	Rate enhanced
General services	Rate rationalised
Independent professionals	Separately categorised
Terminal / port services	Specific reduced rate proposed

Businesses should review service contracts, vendor categories and withholding tax rates before processing payments.

B.10.2 Withholding on Digital Transactions

Digital transactions receive specific attention. Tax on e-commerce transactions is proposed to



become adjustable for sellers exceeding the prescribed turnover threshold. A new withholding regime is also proposed for social media platform income.

Digital Area	Proposed Treatment
E-commerce sellers above Rs. 200 million turnover	Tax adjustable
Social media / influencer income	WHT through banking / financial institutions
High-value banking transactions	Reporting for algorithmic cross-matching

This will increase visibility of platform-based income and digital business receipts.

B.10.3 Withholding on Exports

Tax collection on export proceeds is proposed to be reduced from 2% to 1.25%.

Area	Previous	Proposed
Export proceeds	2%	1.25%

The reduction improves cash flow for exporters and should be reflected in export proceeds reconciliation and advance tax records.

B.10.4 Withholding on Property Transactions

Advance tax on immovable property transactions is proposed to be reduced and converted into flat rates.

Transaction	Proposed Rate
Sale / transfer under section 236C	2.75%
Purchase under section 236K	1.25%

The measure reduces upfront tax cost and may support documented real estate transactions.

B.10.5 Withholding on Payments to Non-Active Taxpayers

The Finance Bill strengthens consequences for non-compliance with ATL and documentation requirements. The exclusion from enhanced Tenth Schedule rates for capital gains on listed securities is proposed to be withdrawn.

Late ATL inclusion surcharge is also proposed to be increased as follows:

Person	Proposed Surcharge
Company	Rs. 100,000
AOP	Rs. 50,000
Individual	Rs. 25,000

Businesses should verify ATL status of vendors, customers and other counterparties before applying reduced or normal withholding rates.

B.10.6 Practical Update of Withholding Tax Matrices

Businesses should immediately update their withholding tax matrices.

Action Area	Required Action
Vendor master	Update category, ATL status and registration status



Services	Recheck specified services and independent professionals
Exports	Apply revised 1.25% rate
Property	Apply flat rates for sale and purchase
Digital income	Identify e-commerce and social media payments
Accounting treatment	Separate adjustable tax from final / minimum tax
Compliance	Update challans, statements and reconciliations

B.11 Capital Markets and Investment

The Finance Bill, 2026 introduces measures affecting listed securities, debt instruments, SPVs and foreign assets of resident Pakistanis.

B.11.1 Capital Gains on Listed Securities

The exclusion from enhanced rates under the Tenth Schedule for non-ATL persons on capital gains from listed securities is proposed to be withdrawn.

This is intended to encourage return filing and ATL compliance by investors.

B.11.2 NCCPL Role and Computation Mechanism

The role of NCCPL in computation and determination of capital gains on listed securities has been expanded and clarified.

Area	Impact
Listed securities	NCCPL computation role strengthened
Investors	Reduced self-computation disputes
Brokers / institutions	Greater reliance on system-based CGT computation

The option to remain outside the NCCPL CGT mechanism is also proposed to be withdrawn in relevant cases.

B.11.3 Special Purpose Vehicles and Asset-Backed Securitisation

Income of qualifying Special Purpose Vehicles established for asset-backed securitisation is proposed to be exempt.

This is a capital market development measure and may support securitisation of receivables, mortgages and other financial assets.

B.11.4 Capital Value Tax Changes

Capital Value Tax on foreign movable and immovable assets of resident Pakistanis is proposed to be abolished.

This may reduce valuation disputes and compliance burden relating to foreign assets.

B.11.5 Impact on Investors and Financial Institutions

The proposed changes increase system-based monitoring of capital market transactions and foreign account-related investment income.



Stakeholder	Likely Impact
Individual investors	Stronger need for ATL compliance
Brokers	Higher reliance on NCCPL-based computation
Banks	Reporting and deduction role enhanced
Asset managers	Review treatment of funds and SPVs
Resident Pakistanis with foreign assets	CVT exposure may be removed

B.12 Non-Profit, Charitable and Welfare Organisations

The Finance Bill, 2026 provides administrative relief to specified welfare and charitable organisations and eligible funds.

B.12.1 Statutory Exemption Treatment

Income tax exemption has been extended through statutory schedule treatment to specified charitable and welfare entities, including Pakistan Red Crescent Society, Shaheen Foundation, Bahria Foundation, SIUT and Dawat-e-Hadiya.

This provides certainty and reduces recurring approval requirements.

B.12.2 Removal of Annual Renewal Burden

Eligible NPOs and funds meeting prescribed conditions may be entitled to exemption certificates for the whole financial year.

This reduces administrative delays and improves certainty for donations, grants and programme funding.

B.12.3 Compliance Requirements

The relief does not remove basic compliance obligations. Eligible organisations should continue to maintain approval status, accounts, donation records, utilisation evidence and filing compliance.

Area	Required Compliance
Approval status	Maintain prescribed eligibility
Accounts	Keep proper books and audited records
Donations / grants	Retain donor and utilisation records
Certificate	Obtain annual exemption certificate where applicable
Filing	Ensure timely return / statement compliance

B.13 Digital Enforcement and Tax Administration

The Finance Bill, 2026 introduces a major shift towards digital and faceless tax administration. The objective is to reduce direct taxpayer-officer interaction, increase transparency, improve automated scrutiny and enhance transaction-level documentation.



B.13.1 National Faceless Centre

A National Faceless Centre is proposed for conducting faceless audits, assessments and appeals through technology-based processes.

Area	Proposed Role
Audit	Case processing through faceless mechanism
Assessment	System-based proceedings without direct officer interface
Appeals	Faceless appeal processing where prescribed
Communication	Electronic communication and document submission

B.13.2 Faceless Audit and Assessment

Faceless audit and assessment may apply to audits, assessments, orders, rectifications and selected cases as prescribed by the Board.

Where hearing is required, the process may be conducted through e-hearing, while the identity of the officer may remain confidential.

B.13.3 Algorithmic Settlement Mechanism

The Algorithmic Settlement Mechanism allows taxpayers to resolve system-identified discrepancies through an automated offer.

Feature	Impact
System-flagged discrepancy	Taxpayer may accept settlement
Revised return	May be filed without

	Commissioner's approval
Penalty / default surcharge	Not separately payable where settlement is availed
Objective	Reduce disputes and early-stage litigation

B.13.4 AI / Data-Based Cross Matching

The budget framework supports greater use of banking data, business integration, transaction reporting and automated cross-matching.

This may identify mismatches between returns, withholding statements, bank transactions, financial statements, invoices and third-party data. Businesses should ensure consistency across books, tax filings and banking records.

B.13.5 Machine-Readable Financial Statements

Companies will be required to file financial statements in electronically readable format from Tax Year 2026 onwards.

This will allow automated processing, data extraction and comparison of financial statements with returns, withholding data and other records.

B.13.6 Directorate General Field Compliance

A Directorate General Field Compliance, Inland Revenue is proposed to strengthen field-level compliance functions.

Its role is expected to support monitoring, verification, integration compliance,



transaction reporting and enforcement of tax obligations.

B.13.7 Special Audit through Accountants, Cost Accountants and Actuaries

The Commissioner may require audit, re-audit, inventory valuation or actuarial valuation through independent experts, including Chartered Accountants, Cost and Management Accountants and actuaries.

Area	Possible Use
Complex accounts	Independent audit / re-audit
Inventory	Valuation verification
Actuarial matters	Valuation through actuary
Tax risk	Support for audit observations

B.14 Penalties, Appeals and Litigation

The Finance Bill, 2026 strengthens penalties, appeal controls and litigation management. The policy direction is to improve compliance discipline and reduce weak departmental litigation.

B.14.1 Enhanced Penalties

Penalties are proposed to be enhanced for various defaults, including failure to furnish statements, integration failures, incorrect withholding tax claims, late ATL inclusion and data-sharing failures by integrated organisations.

Default Area	Compliance Risk
Non-filing / delayed statements	Monetary penalties
Failure to integrate systems	Penalty and possible expenditure disallowance
Incorrect withholding claims	Penalty exposure
Late ATL inclusion	Higher surcharge
Failure to share required data	Penalty on responsible officer

B.14.2 Independent Case Scrutiny Committee

An Independent Case Scrutiny Committee is proposed for departmental litigation before higher courts.

Departmental reference, appeal or review will require approval of the committee before filing. The committee is expected to include judicial, legal and FBR expertise.

B.14.3 Departmental Litigation Control

The committee mechanism is intended to filter weak cases, improve litigation quality and reduce unnecessary departmental appeals.

This may help taxpayers where matters have already been decided by appellate forums and further litigation lacks merit.

B.14.4 Practical Implications for Taxpayers

Taxpayers should prepare for more automated scrutiny and higher penalty exposure.



Action Area	Practical Step
Data consistency	Reconcile return, books, bank data and withholding records
Digital readiness	Prepare for e-filing, e-hearing and document uploads
Financial statements	Ensure machine-readable format capability
Integration	Review ERP, invoicing and reporting systems
Audit readiness	Maintain working papers and supporting evidence
Litigation	Track cases and assess settlement / ADR options

C. Sales Tax

C.1 Overview of Sales Tax Amendments

The Finance Bill, 2026 proposes relief, revenue, streamlining and enforcement measures under the Sales Tax Act, 1990. The overall direction is to increase documentation, strengthen electronic invoicing, expand withholding and improve system-based monitoring.

C.1.1 Relief Measures

Key relief measures include:

Area	Proposed Measure
Magazines	Sales tax exemption granted
Electric vehicles	CKD kit exemption extended till 30 June 2027
PIACL	Aircraft parts import / lease exemption expanded
Menstrual hygiene products	Sales tax abolished
Shipping	Exemption to support strategic investment
Strategic imports	Exemption for SCO Summit and counter-terrorism purposes
Refineries	Exemption on import of capital goods for upgradation / overhaul

The EV and refinery measures are the most commercially significant reliefs.

C.1.2 Revenue Measures

Major revenue measures include:

Area	Proposed Measure
Third Schedule	Expanded for sales tax collection at consumer price



Toll manufacturing	Sales tax withholding from unregistered buyers
AOPs / individuals	Withholding from unregistered persons expanded
Imported raw material	3% value addition tax recoverable if sold in same state
Penalties	Penalty regime rationalised with additional offences

These measures shift tax collection earlier in the supply chain and reduce leakage from unregistered transactions.

C.1.3 Streamlining Measures

Streamlining measures include new definitions, revised Tier-1 retailer scope, electronic debit / credit notes, faceless audit, FBR-verifiable invoices, and clearer treatment of exempt supplies.

C.1.4 Enforcement and Integration Measures

The Bill strengthens enforcement through electronic invoicing, faceless proceedings, production monitoring, video analytics, system-based input-output matching, suspension / blacklisting and audit by Chartered Accountants or Cost and Management Accountants.

C.2 Scope and Definitions

Several new definitions have been inserted to support digital sales tax administration.

C.2.1 New Definitions

New definitions include:

Term	Purpose
Advance receipt invoice	Invoice for advance receipts in prescribed format
Algorithmic settlement mechanism	Automated settlement of system-identified discrepancies
Electronic invoicing system	Approved system for electronic sales tax invoices
National Faceless Centre	Centre for faceless proceedings
Production monitoring system	System / technology for monitoring production and sales

C.2.2 Advance Receipt Invoice

An advance receipt invoice means an invoice in the format notified by the Board. This extends invoicing requirements to advance receipts and improves tax-point documentation.

C.2.3 Electronic Invoicing System

The electronic invoicing system will be used for issuance and recording of sales tax invoices electronically. Businesses will need compatible ERP / billing systems.

C.2.4 National Faceless Centre

The National Faceless Centre will support faceless audit, assessment and appeal procedures under the Sales Tax Act.

C.2.5 Algorithmic Settlement Mechanism

The Algorithmic Settlement Mechanism will allow registered persons to settle system-



detected discrepancies through an automated offer before formal order issuance.

C.3 Tier-1 Retailers and Retail Documentation

The Tier-1 retailer regime has been revised to strengthen retail documentation and POS / electronic integration.

C.3.1 Revised Scope of Tier-1 Retailers

The definition of Tier-1 retailer has been streamlined. Retailers with turnover exceeding Rs. 200 million are included within the Tier-1 regime.

C.3.2 Turnover-Based Threshold Changes

Category	Proposed Treatment
Retailer with turnover exceeding Rs. 200 million	Tier-1 retailer
Wholesaler-cum-retailer with turnover exceeding Rs. 200 million	Tier-1 retailer
Board-notified exclusions	May be excluded through notification

Turnover may be based on declaration or worked-back value from tax deductions under sections 236G / 236H of the Income Tax Ordinance.

C.3.3 POS / Digital Integration Requirements

Tier-1 retailers are expected to integrate with FBR systems through POS / electronic

invoicing. Invoices should be system-verifiable and properly recorded.

C.3.4 Consequences of Non-Integration

Non-integration may result in suspension, deregistration, blacklisting, penalty exposure and possible disallowance / denial of related tax benefits.

C.3.5 Impact on Chain Stores and Mid-Sized Retailers

Chain stores and mid-sized retailers near or above the Rs. 200 million threshold should review turnover, POS readiness, invoice formats, branch-wise reporting and integration status.

C.4 Electronic Invoicing and Digital Integration

Electronic invoicing is a core sales tax reform in Budget 2026–27.

C.4.1 Mandatory E-Invoicing

Registered persons may be required to issue invoices through the approved electronic invoicing system. This will increase real-time visibility of taxable and exempt supplies.

C.4.2 FBR Verifiable Invoice Number

Tax invoices, including advance receipt invoices, must bear a verifiable and unique FBR invoice number where prescribed.

C.4.3 Invoicing for Exempt Supplies

Registered persons engaged in exempt supplies are also required to issue invoices. This improves transaction documentation and matching.



C.4.4 Advance Invoicing

Advance receipt invoices will be required for advance receipts in the prescribed format. Businesses should align billing, receipt and tax accounting systems.

C.4.5 Debit and Credit Note Adjustment System

Adjustment through debit and credit notes will be made electronically in the prescribed manner.

Area	Required Action
Sales returns	Use electronic credit note
Price adjustments	Use electronic debit / credit note
Tax adjustments	Ensure system-based matching

C.4.6 System Readiness Considerations

Businesses should assess ERP capability, invoice sequencing, FBR integration, internet reliability, branch-wise POS linkage, customer / supplier master data and tax reconciliation controls.

C.5 Input Tax and Output Tax Adjustments

The Bill strengthens control over input tax adjustment and output tax matching.

C.5.1 Changes in Adjustment Mechanism

The Board is empowered to enhance or reduce the input tax adjustment limit. This may affect businesses with high input tax claims.

C.5.2 Restrictions and Disallowances

Input tax may be restricted where invoices are unmatched, simulated, issued by blacklisted persons or unsupported by corresponding output tax.

C.5.3 Documentation Requirements

Businesses should retain valid invoices, goods receipt notes, supplier ATL / registration status, payment evidence, debit / credit notes and reconciliations.

C.5.4 Impact on Working Capital

Restrictions on input tax adjustment may increase working capital pressure where tax is paid upfront but credit is delayed, reversed or disputed.

C.6 Sales Tax Withholding

Sales tax withholding has been expanded to capture transactions with unregistered and non-active persons.

C.6.1 Extension of Withholding Obligations

The withholding regime is extended to specified AOPs, individuals and registered persons engaged in toll manufacturing.

C.6.2 Toll Manufacturing Arrangements

Toll manufacturers are required to withhold sales tax from unregistered buyers. Contracts and billing systems should be updated accordingly.

C.6.3 Purchases from Non-Active Taxpayers

Purchases from non-active taxpayers may attract withholding and higher compliance risk.



Vendor status should be checked before purchase processing.

C.6.4 Purchases from Unregistered Persons

Transactions with unregistered persons will carry increased withholding, documentation and input tax risk.

C.6.5 Compliance Risk Areas

Risk Area	Control Required
Unregistered buyers	Apply withholding where required
Non-active suppliers	Verify status before purchase
Toll manufacturing	Update billing and deduction process
Supplier invoices	Match with output tax record
Monthly returns	Reconcile withholding and input claims

C.7 Manufacturing and Industrial Sectors

Manufacturers are affected by Third Schedule expansion, same-state sale restrictions, value addition tax and sector-specific monitoring.

C.7.1 Value Addition Tax on Imported Goods Supplied in Same State

If a manufacturer imports raw material and sells it in the same state without further processing, 3% value addition tax may be recoverable with default surcharge.

C.7.2 In-House Consumption vs Trading Treatment

Manufacturers should distinguish between imported goods used in production and imported goods sold as trading stock. Incorrect classification may trigger recovery.

C.7.3 Prosecution Risk for Misuse of Exemption

Where goods supplied in the same state exceed 50% of total imports during a financial year, prosecution risk may arise as per proposed provisions.

C.7.4 Impact on Importers, Manufacturers and Distributors

Stakeholder	Likely Impact
Manufacturers	Need stronger import consumption tracking
Importers	Review landed cost and VAT exposure
Distributors	May face higher documented tax cost
Finance teams	Need item-wise reconciliation of import and sale

C.8 Sector-Specific Sales Tax Measures

C.8.1 Steel Sector

A new proviso is proposed to impose sales tax on the steel sector based on monthly electricity units consumed.

This may increase tax predictability for FBR but may create valuation and consumption disputes for steel units.



C.8.2 Electric Vehicles

Exemption on import of CKD kits for electric vehicles is extended till 30 June 2027. Reduced rate treatment for locally assembled EVs is also extended.

This supports EV assembly and investment planning.

C.8.3 Oil Refineries and Refinery Upgradation

Sales tax exemption is proposed on import of capital goods for upgradation and overhaul of existing refineries.

This supports refinery modernisation and energy-sector investment.

C.8.4 Retail and Wholesale Trade

Retailers and wholesaler-cum-retailers above Rs. 200 million turnover are brought within Tier-1 documentation requirements. This increases POS / electronic invoicing obligations.

C.8.5 Exempt and Reduced-Rate Goods

Relief is proposed for magazines, menstrual hygiene products, selected shipping investment, strategic imports and EV-related goods. Exemption on family planning devices is proposed to be withdrawn.

C.9 Audit, Enforcement and Penalties

The Finance Bill, 2026 strengthens sales tax audit, enforcement and penalties.

C.9.1 Re-Audit Powers

The Commissioner may require re-audit of accounts where considered necessary.

C.9.2 Inventory Revaluation

The Commissioner may require inventory revaluation through Chartered Accountants or Cost and Management Accountants in appropriate cases.

C.9.3 Suspension, Deregistration and Blacklisting

The Board or its officers may suspend, deregister or blacklist persons for non-integration, fake / flying invoices and non-compliance with monitoring and tracking provisions.

C.9.4 Enhanced Penalties

Penalties are enhanced for simulated invoices, unmatched input tax, non-compliance with monitoring systems, non-integration and related offences.

C.9.5 Practical Compliance Checklist

Area	Immediate Action
E-invoicing	Assess ERP / POS readiness
Tier-1 status	Review Rs. 200 million turnover threshold
Input tax	Match supplier output tax and invoice validity
Exempt supplies	Start invoice documentation
Toll manufacturing	Update withholding mechanism
Imports	Track raw material consumed vs sold in same state



Steel	Assess electricity-based tax exposure
EV / refinery	Review exemption eligibility
Penalties	Strengthen invoice and return review controls
Audit readiness	Maintain reconciliations and supporting records

D. Federal Excise Duty

D.1 Overview of FED Amendments

The Finance Bill, 2026 proposes relief, revenue, streamlining and enforcement measures under the Federal Excise Act, 2005. The amendments mainly affect foreign travel, tobacco inputs, electronic cigarettes, petroleum-related products, luxury vehicles, lubricants and excisable goods monitoring.

D.1.1 Relief Measures

Key FED relief measures include reduction in FED on foreign travel, reduction in FED on acetate tow, removal of FED on WHO-standard compliant sports / electrolyte replenishment beverages, exemption for strategic vehicle imports and extension of CKD kit exemption for electric vehicles up to 30 June 2027.

D.1.2 Revenue Measures

Revenue measures include FED on e-liquids for electronic cigarettes, naphtha, solvent oil, turpentine, luxury EVs, other luxury vehicles, base oil and base lubricating oil.

D.1.3 Streamlining Measures

The Bill introduces definitions for advance receipt invoice, algorithmic settlement

mechanism, electronic invoicing system, National Faceless Centre and production monitoring system. It also introduces faceless audit / assessment and Independent Case Scrutiny Committee.

D.1.4 Monitoring and Tracking Measures

Monitoring and tracking provisions are strengthened through production monitoring systems, video analytics, tax stamps, barcodes and seizure / confiscation powers for non-compliant excisable goods.

D.2 Relief Measures

D.2.1 Reduction in FED on Foreign Travel

FED on foreign travel is proposed to be substantially reduced. This may reduce ticket cost for international passengers and support travel demand.

D.2.2 Reduction in FED on Acetate Tow

FED on import of acetate tow is proposed to be reduced from Rs. 44,000 to Rs. 10,000 per kg.

Item	Previous Rate	Proposed Rate
Acetate tow	Rs. 44,000 per kg	Rs. 10,000 per kg

This provides cost relief to sectors using acetate tow as an input.

D.2.3 Removal of FED on WHO-Compliant Sports and Electrolyte Beverages

FED is proposed to be removed on WHO-standard compliant sports / electrolyte



replenishment beverages. This reduces tax burden on specified health-oriented beverages.

D.2.4 Exemption for Strategic Vehicle Imports

FED exemption is proposed for strategic vehicle imports related to the SCO Summit and counter-terrorism purposes, subject to prescribed conditions.

D.2.5 Extension of CKD Kit Exemption for Electric Vehicles

Exemption on import of CKD kits for electric vehicles is proposed to be extended for one year up to 30 June 2027.

This supports EV assembly and provides short-term policy certainty to EV investors and assemblers.

D.3 Revenue Measures

D.3.1 FED on E-Liquids and Electronic Cigarettes

FED on e-liquids for electronic cigarettes is proposed at Rs. 16,500 per kg. The previous framework included Rs. 10,000 per kg or 65% of retail price, whichever was higher.

Item	Previous Treatment	Proposed Treatment
E-liquid for electronic cigarettes	Rs. 10,000 per kg or 65% of retail price, whichever higher	Rs. 16,500 per kg

The measure increases fixed duty per kg but removes the previous highest possible 65% retail price mechanism.

D.3.2 FED on Naphtha, Solvent Oil and Turpentine

FED is proposed on naphtha, solvent oil and turpentine etc. Finance Bill proposed rate as Rs. 80 per litre under sales tax / VAT mode.

D.3.3 FED on Luxury Electric Vehicles

FED is proposed on luxury electric vehicles. Finance Bill proposed FED range of 30% to 40% on luxury imported electric vehicles having import value exceeding Rs. 20 million.

D.3.4 FED on Other Luxury Vehicles

FED is also proposed on other luxury vehicles. Finance Bill a proposed special excise duty of 40% to 41%, in addition to existing FED, on imported luxury vehicles with engine capacity exceeding 2,000cc, except four-wheeler electric vehicles till 30 June 2027.

D.3.5 FED on Base Oil and Base Lubricating Oil

FED is proposed on base oil and base lubricating oil, in addition to existing FED on lubricating oil. Finance Bill proposed rate as 5% ad valorem.

D.3.6 New Table for Luxury Imported Vehicles

A new Table 1A is proposed in the First Schedule to the Federal Excise Act, 2005 for imposition of FED on luxury imported vehicles.

D.4 Excisable Goods and Monitoring

D.4.1 Production Monitoring System

Production monitoring system is proposed as part of the monitoring and tracking mechanism for excisable goods. This will support real-time



or system-based monitoring of production and clearances.

D.4.2 Video Analytics

Video analytics is proposed to be included in the monitoring and tracking framework. Any attempt to damage, destroy, erase or manipulate production monitoring or video analytics systems may attract penalty.

D.4.3 Electronic Tracking and Tax Stamps

Excisable goods may be required to carry tax stamps, barcodes, banderoles, stickers, labels or other prescribed identifiers. Goods without prescribed tracking may be liable to seizure and confiscation.

D.4.4 Seizure of Non-Compliant Excisable Goods

The Bill strengthens seizure and confiscation powers for dutiable goods produced, processed, removed, transported or supplied without prescribed monitoring, tracking or identification.

D.4.5 Counterfeit Cigarettes, Beverages and Other Goods

Sections relating to seizure and destruction of counterfeit cigarettes, beverages and other goods are proposed to be substituted. The measure strengthens enforcement against counterfeit excisable goods.

D.5 FED Administration and Enforcement

D.5.1 Faceless Audit and Assessment

A new section is proposed for faceless audit and assessment under the Federal Excise Act. This aligns FED administration with the broader faceless tax administration framework.

D.5.2 Algorithmic Settlement Mechanism

The Algorithmic Settlement Mechanism is proposed to allow system-based settlement of discrepancies, reducing manual disputes and early-stage litigation.

D.5.3 Independent Case Scrutiny Committee

A new Independent Case Scrutiny Committee is proposed to examine and decide departmental appeals before courts. This aims to reduce weak or unnecessary litigation.

D.5.4 Special Audit and Re-Audit Powers

The Commissioner may engage specialised auditors or accountants where required due to complexity of financial transactions. Finance Bill proposed powers for audit more than once in a year, re-audit or inventory revaluation.

D.5.5 Penalties and Confiscation Powers

Penalties and confiscation powers are enhanced for non-compliance with production monitoring, tax stamps, barcodes, video analytics and other prescribed tracking mechanisms.

D.6 Sectoral FED Impact

D.6.1 Tobacco and Nicotine Products

The tobacco and nicotine sector is affected through reduction in acetate tow FED, FED on e-liquids, and stronger monitoring / tracking of excisable goods. Counterfeit and unstamped goods will face higher seizure risk.



D.6.2 Beverages

WHO-compliant sports / electrolyte beverages receive FED relief. However, beverages remain under stronger monitoring, anti-counterfeit and tracking provisions.

D.6.3 Lubricants and Base Oils

Base oil and base lubricating oil are proposed to be brought within FED coverage. Lubricant manufacturers and traders should assess pricing, costing and inventory impact.

D.6.4 Automobile and Luxury Vehicle Market

Luxury imported vehicles and luxury EVs face new / higher FED exposure. This may increase landed cost and affect demand in the premium vehicle segment.

D.6.5 Aviation and Foreign Travel

Reduction in FED on foreign travel may lower ticket cost and support passenger demand. Airlines and travel agents should update pricing systems once final rates are enacted.

E. Customs Duty and Trade Measures

E.1 Overview of Customs Amendments

The Finance Bill, 2026 proposes customs amendments focused on tariff rationalisation, trade facilitation, system efficiency, targeted concessions and stronger enforcement.

E.1.1 Strategic Tariff Rationalisation

The customs measures continue tariff rationalisation through reduction of Customs Duty, Additional Customs Duty and Regulatory Duty on selected tariff lines.

E.1.2 Trade Facilitation

Trade facilitation measures include new PCT codes, amended PCT descriptions, legal cover for scanning, outsourcing of customs auctions and clearer state warehouse rules.

E.1.3 Enforcement and Anti-Smuggling Measures

Enforcement measures include enhanced penalties, legal clarity on “removal” of smuggled goods, mandatory handover of confiscable goods to Customs, and penalties for illegal removal from state warehouses.

E.1.4 Alignment with National Tariff Policy 2025–30

The measures are aligned with the National Tariff Policy 2025–30, which aims to simplify tariffs, reduce cascading protection and support industrial inputs.

E.2 Customs Duty Rationalisation

E.2.1 Reduction in Customs Duty on Industrial Inputs

Customs Duty is proposed to be reduced on input goods of different industrial sectors across 92 tariff lines.

Existing Rate	Proposed Rate
20%	15% / 10%
15% / 10%	10% / 5%
5%	0%

E.2.2 Changes Across Tariff Lines

The reduction applies to selected industrial input tariff lines. Businesses should review PCT-wise impact before revising landed cost assumptions.



E.2.3 Impact on Manufacturing Cost

Reduced Customs Duty may lower input cost for eligible manufacturers. The actual impact will depend on import mix, PCT classification, supplier pricing and inventory timing.

E.2.4 Impact on Import Substitution and Competitiveness

Lower duties on inputs may improve competitiveness of local manufacturing. However, reduced protection may also increase pressure on sectors relying on high tariff barriers.

E.3 Additional Customs Duty

E.3.1 Reduction in ACD Rates

Additional Customs Duty is proposed to be reduced across several tariff lines.

Existing ACD	Proposed ACD	Tariff Lines
6%	4%	449
4%	2%	2,107
2%	0%	569

E.3.2 Elimination of ACD on Selected Tariff Lines

ACD is proposed to be eliminated from 2% to 0% on 569 tariff lines.

E.3.3 Sectoral Implications

The ACD reduction may reduce landed cost for importers and manufacturers using affected inputs. Importers should update costing sheets, tariff assumptions and purchase budgets.

E.4 Regulatory Duty

E.4.1 Capping of RD Above Prescribed Levels

Regulatory Duty above 20% is proposed to be capped at 20% on 359 tariff lines.

E.4.2 Reduction in RD Rates

A 20% reduction is proposed on RD rates between 2.5% and 20% across 1,347 tariff lines.

E.4.3 Removal / Rationalisation of Lower RD Slabs

RD rates of 2.5%, 2% and 1% are proposed to be reduced by 20% or completely eliminated across 208 tariff lines.

RD Measure	Tariff Lines
RD above 20% capped at 20%	359
RD between 2.5% and 20% reduced by 20%	1,347
RD of 2.5%, 2% and 1% reduced / eliminated	208

E.4.4 Impact on Import Pricing and Landed Cost

RD rationalisation may reduce landed cost for affected imported goods. Businesses should reassess import prices, procurement planning, inventory valuation and selling prices.

E.5 Exemptions and Concessions

E.5.1 Fifth Schedule Review

Entries from the Fifth Schedule are proposed to be deleted where the concessionary Customs Duty equals or exceeds the general First Schedule tariff.



This removes redundant concessions and simplifies the customs exemption regime.

E.5.2 Agricultural Machinery

Customs Duty, Additional Customs Duty and Regulatory Duty are proposed to be exempted on import of agricultural machinery.

This supports farm mechanisation and may reduce machinery cost for the agriculture sector.

E.5.3 Cancer-Related APIs

Customs Duty exemption is proposed on critical cancer-related Active Pharmaceutical Ingredients under the Fifth Schedule.

This is a targeted public health relief measure.

E.5.4 Construction-Related Vehicles

Customs Duty on specialised construction-related vehicles is proposed to be reduced from 20% to 10%.

This may reduce cost for construction, infrastructure and project-based contractors.

E.5.5 Defence and Strategic Imports

Customs Duty exemption is proposed for defence imports and specified strategic imports.

E.5.6 Bullet-Proof Vehicles for Specific Public Purposes

Customs Duty exemption is proposed for import of bullet-proof vehicles for the Shanghai Cooperation Organization Summit and for Federal or Provincial Governments in connection with the ongoing war against terrorism.

E.6 Customs Administration

E.6.1 Definition of State Warehouse

A “State Warehouse” is proposed to be defined as any place authorised by the Collector of Customs to store detained, seized or confiscated goods.

E.6.2 Non-Intrusive Cargo Scanning

Legal cover is proposed for non-intrusive cargo scanning during customs examination.

E.6.3 Outsourcing of Customs Auctions

The Board may authorise any person to conduct auctions of auctionable goods in the prescribed manner.

E.6.4 Delayed GD Filing and Clearance Penalties

The Board is empowered to rationalise penalties and prescribe appeal mechanisms for delayed GD filing and delayed removal of goods from ports after clearance. Collectors may also reduce such penalties where permitted.

E.6.5 Penalty on Terminal Operators

The maximum penalty on terminal operators for failure to honour Delay and Detention Certificates issued by Customs is proposed to be increased from Rs. 500,000 to Rs. 10 million.

E.6.6 Illegal Removal from State Warehouses

A new penal clause is proposed for unauthorised removal, substitution, damage, tampering or misappropriation of goods from state warehouses.



Default	Proposed Consequence
Illegal removal / tampering of goods from state warehouse	Penalty up to two times value of goods and possible imprisonment up to five years upon conviction

E.7 Customs Litigation and Enforcement

E.7.1 Faceless Adjudication

Faceless adjudication is proposed through virtual proceedings to reduce face-to-face interaction, improve transparency and support quicker disposal of cases.

E.7.2 Independent Case Scrutiny Committee

An Independent Case Scrutiny Committee is proposed to examine and decide whether departmental appeals should be filed before courts.

E.7.3 Freezing of Assets in Illegal Fund Transfer Cases

Special Judges are proposed to be empowered to freeze assets of accused persons involved in illegal transfer of funds into or out of Pakistan.

E.7.4 Service Through Newspaper Publication

Where an accused person is not traceable, service of summons through newspaper publication is proposed.

E.7.5 Anti-Smuggling and Confiscation Measures

The Bill clarifies that “removal” includes carrying, transporting, depositing, harbouring, keeping, concealing, retailing or any act facilitating movement or possession of smuggled goods.

Any authority seizing goods liable to confiscation is required to hand over such goods to Customs without waiting for conclusion of proceedings under any other law.

F. Petroleum Levy, Climate Support Levy and Energy-Related Measures

F.1 Petroleum Products Levy Framework

The Finance Bill, 2026 proposes amendments to the Petroleum Products (Petroleum Levy and Climate Support Levy) Ordinance, 1961. The amendments clarify key definitions and link payment of Petroleum Levy and Climate Support Levy with OGRA licensing.

F.1.1 Revised Definitions

The Bill revises the definition of “company” and “refinery” and inserts definitions of “Oil Marketing Company” and “OGRA”.

F.1.2 Oil Marketing Company

“Oil Marketing Company” means a company, other than a lubricant marketing company, engaged in purchasing or obtaining petroleum products from refineries, blending plants or foreign sources for selling, distributing or marketing through agents, dealers, dispensing outlets or filling stations.

F.1.3 Refinery



“Refinery” means a facility or industrial plant where crude oil is refined to produce petroleum products.

F.1.4 OGRA-Linked Licence Condition

Payment of Petroleum Levy and Climate Support Levy is proposed to be treated as a licence condition for every company, refinery or licensee from the date of issuance of licence by OGRA.

F.2 Petroleum Levy and Climate Support Levy

Petroleum Levy and Climate Support Levy remain important non-tax revenue items. For FY2026–27, Petroleum Levy is budgeted at Rs. 1,676.509 billion and Climate Support Levy at Rs. 50 billion.

Levy / Receipt	Budget 2026–27
Petroleum Levy	Rs. 1,676.509 billion
Petroleum Levy on LPG	Rs. 3.455 billion
Climate Support Levy	Rs. 50.000 billion

F.2.1 Payment Obligations

Every company, refinery or licensee is required to pay Petroleum Levy and Climate Support Levy to the Federal Government on petroleum products at rates notified in the official Gazette from time to time.

F.2.2 Due Dates and Reporting Mechanism

The due date is linked with:

Product Source	Due Date Reference
Local production	Date of filing of Sales Tax or Federal Excise return
Imported products	Date of payment of customs duty

Monthly reporting is also proposed for levy payments on sale of petroleum products.

F.2.3 Late Payment Surcharge

Where Petroleum Levy or Climate Support Levy is not paid by the prescribed due date, late payment surcharge will apply. The surcharge is to be calculated in the manner specified under section 40D(1) of the Public Finance Management Act, 2019.

F.2.4 Recovery Mechanism through Inland Revenue

If the levy or surcharge remains unpaid for ninety days, the relevant department may request the Commissioner Inland Revenue to recover the amount as income tax arrears under the Income Tax Ordinance, 2001.

The Commissioner Inland Revenue will not have authority to extend time or allow instalments for outstanding levies or surcharge.

F.2.5 Monthly Statements and Documentary Evidence

Every company, refinery or licensee is required to submit a monthly statement regarding payment of Petroleum Levy and Climate Support Levy. The statement must be supported by documentary evidence, including monthly sales invoices submitted to FBR and any other document required by the relevant department.



An annual audited certificate must also be furnished to the Petroleum Division, issued by an authorised audit firm registered with the Audit Oversight Board. Audit cost will be borne by the relevant company, refinery or licensee.

F.3 Impact on Petroleum Sector

The amendments increase compliance responsibility for the petroleum sector and create stronger linkage between levy payment, licensing, reporting and recovery.

F.3.1 Oil Marketing Companies

OMCs will need to ensure timely payment, monthly reconciliation and documentary support for levy calculations. Non-payment may create recovery exposure and licensing risk.

F.3.2 Refineries

Refineries will need to align production, sales, levy computation, monthly invoicing and reporting records. Annual audit certification will require strong internal controls over levy accrual and payment.

F.3.3 Lubricant Manufacturers and Reclaimers

The revised definition of “company” includes persons engaged in manufacturing, refining or reclaiming lubricating oil from used lubricating oil under OGRA licence. Such entities may fall within levy-related compliance where applicable.

F.3.4 Working Capital and Pricing Implications

Timely payment obligations may affect working capital. Any delay may lead to surcharge and recovery action. Companies should factor levy timing into cash flow planning and pricing assumptions.

F.3.5 Compliance and Reporting Burden

The proposed framework increases reporting burden through monthly statements, documentary evidence and annual audited certification.

Compliance Area	Required Action
Levy payment	Ensure payment by due date
Monthly statement	Submit with supporting documents
Sales invoices	Reconcile with FBR records
Annual certificate	Obtain from authorised audit firm
Cash flow	Budget levy payment timing
Recovery risk	Avoid 90-day unpaid exposure
Internal controls	Reconcile product-wise levy accrual and payment

G. Expected Economic Impacts

G.1 Macroeconomic Outlook

Budget 2026–27 is framed around fiscal consolidation, revenue mobilisation and controlled expenditure. The budget supports macroeconomic stability but leaves limited room for broad-based fiscal stimulus due to high debt servicing and committed current expenditure.



G.1.1 Fiscal Consolidation and IMF-Linked Discipline

The budget targets a primary surplus of Rs. 2,828 billion, equal to 2.0% of GDP. This indicates continued fiscal discipline and alignment with IMF-linked consolidation objectives.

Indicator	Budget 2026–27
Primary Surplus	Rs. 2,828 billion
Primary Surplus as % of GDP	2.0%
Overall Fiscal Deficit	Rs. 5,226 billion
Overall Fiscal Deficit as % of GDP	3.6%

G.1.2 Inflation and Purchasing Power

Targeted relief for salaried individuals may improve disposable income for selected brackets. However, inflationary pressure may continue if energy prices, indirect taxes, levies or exchange-rate pressures increase business costs.

G.1.3 Interest Cost and Debt Servicing Pressure

Interest payments are budgeted at Rs. 8,054 billion, making them the largest current expenditure head. This reduces fiscal space for development, social spending and wider tax relief.

G.1.4 External Account and Import Dependence

The economy remains exposed to import dependence, particularly energy and industrial inputs. Customs rationalisation may reduce input cost, but external-sector stability will still

depend on exports, remittances, reserves, exchange-rate stability and global commodity prices.

G.1.5 Growth Outlook

The budget may support moderate growth through selected relief for exporters, IT services, real estate, EVs, refineries and industrial inputs. However, growth impact may remain gradual unless supported by policy consistency, investment confidence and structural reforms.

G.2 Revenue Mobilisation Strategy

The revenue strategy is based on higher FBR collection, non-tax revenue, documentation, withholding, digital reporting and enforcement.

G.2.1 Broadening of Tax Base

The budget seeks to broaden the tax base by covering e-commerce, social media income, digital transactions, services, retail trade and high-value banking activity.

G.2.2 Documentation-Led Revenue Growth

Revenue growth is expected through greater documentation rather than only higher tax rates. Electronic invoicing, POS integration, banking data reporting and machine-readable financial statements are central to this approach.

G.2.3 Shift from Rate Increases to Compliance Enforcement

The Finance Bill combines selected relief with stronger compliance tools. This reflects a shift towards enforcement, data matching and automated scrutiny.



G.2.4 Tax Expenditure and Policy Trade-Offs

The Tax Expenditure Report identifies total federal tax expenditure of Rs. 2,352.81 billion for FY2024–25, including Sales Tax of Rs. 1,273.98 billion, Income Tax of Rs. 579.70 billion and Customs Duty of Rs. 499.14 billion.

Tax Head	Tax Expenditure
Sales Tax	Rs. 1,273.98 billion
Income Tax	Rs. 579.70 billion
Customs Duty	Rs. 499.14 billion
Total	Rs. 2,352.81 billion

This shows the fiscal cost of exemptions and concessions. Future policy may increasingly review whether such concessions deliver measurable economic benefits.

G.3 Business Cost and Competitiveness

The budget has mixed implications for business cost. Tariff relief and selected tax reductions may lower cost, while documentation and enforcement requirements may increase compliance cost.

G.3.1 Tariff Rationalisation Impact

Customs Duty, Additional Customs Duty and Regulatory Duty rationalisation may reduce landed cost for selected industrial inputs and imported goods.

G.3.2 Export Competitiveness

Reduction in tax collection on export proceeds from 2% to 1.25% and continued support for IT / ITeS exports may improve exporters' cash flow. However, export competitiveness will also depend on energy cost, financing cost, exchange rate and global demand.

G.3.3 Cost of Compliance

Businesses will face higher compliance cost due to electronic invoicing, system integration, machine-readable financial statements, withholding changes, digital reporting and audit readiness.

G.3.4 Working Capital and Cash Flow Effects

The budget creates both positive and negative cash flow effects.

Positive Impact	Pressure Area
Lower WHT on export proceeds	Higher compliance and system cost
Lower property transaction tax	Sales tax withholding expansion
Customs tariff relief on selected inputs	Potential input tax restrictions
IT / ITeS tax certainty	FED on selected products
Super Tax relief for eligible sectors	Petroleum levy reporting and payment controls

G.3.5 Investment Sentiment

Investment sentiment may improve in IT, EVs, refineries, asset-backed securitisation, real estate and selected manufacturing inputs. However, investors may remain cautious due to enforcement intensity, fiscal pressure and implementation risk.

G.4 Digital Economy and Formalisation

The budget strongly pushes digital formalisation. Digital income, digital transactions, e-commerce, social media



revenues and platform-based activity are brought under greater tax visibility.

G.4.1 E-Commerce Documentation

E-commerce sellers, particularly those above the prescribed turnover threshold, will face clearer tax and reporting treatment. For large sellers, tax may become adjustable, supporting formalisation without treating the deduction as final cost.

G.4.2 Social Media and Creator Economy Taxation

Social media and influencer income is brought into the withholding framework through banking and financial channels. This is expected to document a previously under-taxed income stream.

G.4.3 Banking Data Cross-Matching

High-value banking data is expected to be used for automated cross-matching with returns, withholding statements and declared income. This may improve detection of mismatches but may also increase automated notices.

G.4.4 Electronic Invoicing and Real-Time Reporting

Electronic invoicing, FBR-verifiable invoice numbers and system integration will increase real-time transaction visibility. Businesses should ensure ERP, POS, sales, tax and accounting systems are aligned.

G.5 Public Finance and Development

The budget gives priority to fiscal consolidation while maintaining development spending, social protection and climate-related allocations within constrained fiscal space.

G.5.1 PSDP and Development Spending

Federal PSDP is budgeted at Rs. 1,000 billion, while National PSDP is budgeted at Rs. 3,675 billion. Development spending may support infrastructure, construction, energy, transport, education, health and regional development.

G.5.2 Subsidy Rationalisation

Subsidies are budgeted at Rs. 1,091 billion. The size of subsidies indicates continued policy support, but fiscal constraints may require better targeting and efficiency.

G.5.3 Social Protection Priorities

Social protection expenditure is budgeted at Rs. 857.007 billion. BISP remains a major welfare allocation, supporting vulnerable households and partially cushioning inflationary pressures.

G.5.4 Climate and Disaster Financing

Budget tagging identifies climate and disaster-related allocations, including adaptation, mitigation, preparedness, response, recovery and reconstruction. Emergency provisions also include allocation for natural disasters triggered by natural hazards.

G.5.5 Green Budgeting Signals

The budget identifies green components in subsidies and revenues. Green subsidy components amount to Rs. 476 billion, while green revenue items include Petroleum Levy, EV Adoption Levy, Climate Support Levy, gas-related levies and oil and gas royalties.

These classifications show a gradual shift towards climate and green budgeting, although effectiveness will depend on actual spending, revenue use and measurable environmental outcomes.



G.6 Risk Assessment

Budget 2026–27 presents opportunities through targeted relief, tariff rationalisation and digital formalisation. However, successful implementation depends on administrative capacity, system readiness, taxpayer compliance and consistency in enforcement.

G.6.1 Implementation Risk

Several measures require rules, notifications, system changes and administrative guidance. Delays or inconsistent implementation may create uncertainty for taxpayers.

Risk Area	Possible Impact
Delayed rules / SROs	Uncertainty in compliance
Ambiguous provisions	Different field interpretations
Sector-specific measures	Uneven implementation
Transitional issues	Errors in withholding, invoicing and reporting

G.6.2 Technology and System Reliability Risk

The budget relies heavily on digital systems, including electronic invoicing, POS integration, machine-readable financial statements, faceless proceedings and automated data matching.

System downtime, integration failures or data errors may create compliance exposure even for documented businesses.

G.6.3 Dispute and Litigation Risk

Automated scrutiny and data matching may increase disputes where returns, bank records, invoices, withholding statements and financial statements do not match.

Although faceless proceedings and Independent Case Scrutiny Committees may reduce weak litigation, taxpayers may still face disputes due to interpretation, system-generated mismatches or sector-specific enforcement.

G.6.4 Compliance Cost Risk

Businesses will need to invest in ERP upgrades, POS integration, e-invoicing, tax reconciliations, staff training, documentation and advisory support.

Business Area	Likely Cost Pressure
Finance / tax	Updated withholding and return processes
IT / ERP	System integration and data formatting
Retail	POS and e-invoicing compliance
Manufacturing	Input-output and inventory reconciliations
Petroleum sector	Monthly levy reporting and annual certification

G.6.5 Inflationary and Pass-Through Risk

New or increased taxes, levies, FED, compliance costs and financing pressures may be passed on to consumers through higher prices.

The inflationary impact may be higher in sectors where tax cost cannot be absorbed, including petroleum-linked products, logistics,



imported goods, luxury vehicles, excisable goods and formal retail supply chains.

Overall, the key risk is that documentation-led reform may improve revenue visibility, but businesses may face higher compliance cost and system exposure during the transition period.

H. Sector-Wise Impact of Budget 2026–27

H.1 Oil Marketing Companies and Petroleum Sector

The budget has a direct impact on OMCs and the wider petroleum sector through Petroleum Levy, Climate Support Levy, FED on petroleum-related products, stronger reporting and recovery provisions.

H.1.1 Petroleum Levy and Climate Support Levy

Petroleum Levy is budgeted at Rs. 1,676.509 billion and Climate Support Levy at Rs. 50 billion. These levies remain major non-tax revenue sources and directly affect petroleum-sector pricing, cash flows and compliance.

H.1.2 Monthly Reporting Requirements

Every company, refinery or licensee is required to submit monthly statements for Petroleum Levy and Climate Support Levy payments, supported by documentary evidence including monthly sales invoices submitted to FBR.

H.1.3 Recovery and Late Payment Surcharge Risk

Late payment surcharge applies where levy payments are not made by the prescribed due date. If unpaid for ninety days, recovery may be

initiated through Inland Revenue as income tax arrears.

H.1.4 FED on Petroleum-Related Products

FED is proposed on naphtha, solvent oil and turpentine etc. FED is also proposed on base oil and base lubricating oil. This may affect pricing, inventory valuation and product margins.

H.1.5 Refinery Upgradation Incentives

Sales tax exemption on import of capital goods for upgradation and overhaul of existing refineries may indirectly benefit OMCs through improved domestic product quality and supply reliability.

H.1.6 Working Capital and Compliance Implications

Area	Sector Impact
Levy payments	Higher cash flow discipline required
Monthly statements	Stronger reconciliation and documentation
Annual certificate	Audit cost and certification requirement
FED on base oils / related products	Product costing impact
Recovery risk	Exposure if dues remain unpaid for ninety days



H.2 Refineries

Refineries are among the key beneficiaries of targeted sales tax relief, but they also face stricter levy reporting, recovery and certification requirements.

H.2.1 Sales Tax Exemption / Relief on Capital Goods for Upgradation

Sales tax exemption is proposed on import of capital goods for upgradation and overhaul of existing refineries. This supports refinery modernisation and may reduce capital project cost.

H.2.2 Levy Compliance and Recovery Framework

Refineries are covered under the Petroleum Levy and Climate Support Levy framework. Payment of levies is linked with OGRA licensing and non-payment may trigger surcharge and recovery proceedings.

H.2.3 Capital Expenditure and Modernisation Impact

The sales tax exemption may improve project feasibility for refinery upgrade, overhaul and quality improvement projects. It may also support compliance with improved fuel standards and reduce reliance on imported refined products over time.

H.2.4 Cash Flow and Regulatory Exposure

Area	Impact
Capital imports	Possible reduction in project tax cost
Levy due dates	Payment linked with return / customs duty timelines

Monthly reporting	Mandatory statement and evidence requirement
Annual audit certificate	Additional compliance and audit burden
Recovery mechanism	Inland Revenue recovery after ninety days of non-payment

H.3 Cement Sector

No major direct cement-specific tax relief has been identified in the reviewed Finance Bill material. The sector impact is mainly indirect through PSDP, construction demand, energy costs, logistics and general compliance requirements.

H.3.1 Indirect Tax and FED Exposure

Cement remains sensitive to indirect taxes, energy costs, freight and federal / provincial levies. Any increase in fuel-linked costs, logistics charges or compliance cost may affect margins or selling prices.

H.3.2 Impact of Development Spending and PSDP

Federal PSDP is budgeted at Rs. 1,000 billion and National PSDP at Rs. 3,675 billion. Development spending, particularly on highways, water resources, housing, railways and regional projects, may support cement demand depending on actual releases and execution.

H.3.3 Construction Sector Demand

Customs duty reduction on specialised construction-related vehicles from 20% to 10% may support construction-sector activity. Any improvement in real estate transactions due to lower property taxes may also indirectly support cement demand.



H.3.4 Energy and Logistics Cost Implications

The sector may face indirect cost pressure through petroleum-linked levies, freight, power tariffs and imported inputs. Companies with efficient energy mix and logistics control may be better positioned.

H.3.5 Compliance and Documentation Requirements

Cement companies should focus on e-invoicing readiness, withholding tax updates, sales tax reconciliations, vendor verification, transport documentation and automated audit preparedness.

Area	Sector Action
PSDP monitoring	Track project releases and construction demand
Energy cost	Review fuel and power cost assumptions
Logistics	Assess freight and levy pass-through
Tax systems	Prepare for e-invoicing and digital scrutiny
Documentation	Strengthen sales, dispatch and input records

H.4 Steel Sector

The steel sector is specifically impacted by the proposed sales tax assessment based on monthly electricity units consumed.

H.4.1 Electricity-Consumption-Based Sales Tax Assessment

A new proviso is proposed to impose sales tax on the steel sector based on monthly electricity units consumed. This shifts assessment towards a consumption-proxy method.

H.4.2 Valuation and Documentation Issues

The electricity-based method may reduce under-declaration but can create disputes over conversion factors, furnace efficiency, production mix, downtime, captive power use and scrap quality.

H.4.3 Impact on Cost of Production

If tax liability is linked to electricity consumption, inefficient units may face higher effective tax cost. Cost impact will depend on prescribed rates, actual power consumption and ability to pass cost to customers.

H.4.4 Risk of Informal Competition

Compliant steel units may face cost pressure if informal or unregistered operators remain outside effective enforcement. Consistent monitoring will be necessary to avoid competitive imbalance.

H.4.5 Sector Compliance Outlook

Area	Required Focus
Electricity records	Reconcile units consumed with production
Production data	Maintain heat-wise / batch-wise records
Scrap consumption	Document input-output relationship



Sales tax returns	Align declared sales with consumption-based liability
Disputes	Prepare technical basis for conversion factors
Informal competition	Monitor market pricing and enforcement consistency

H.5 Banking and Financial Services

The banking and financial services sector is affected through continued Super Tax exposure, enhanced reporting obligations, banking data cross-matching and withholding responsibilities for digital income streams.

H.5.1 Super Tax Treatment

Banking companies are excluded from the proposed Super Tax relief. Accordingly, the benefit of abolition / reduction of Super Tax available to general sectors does not apply to banking companies.

H.5.2 Banking Data Reporting and Cross-Matching

Banks may face enhanced data reporting and cross-matching requirements. High-value deposits, withdrawals and other banking information may be used for automated matching with tax returns, withholding statements and declared income.

H.5.3 Withholding and Reporting Obligations

Banks, non-banking financial institutions and digital financial intermediaries are expected to act as withholding agents for certain digital

income streams, including social media platform revenues.

H.5.4 Impact on Compliance Infrastructure

The sector will need stronger tax reporting systems, customer data classification, transaction tagging, withholding tax controls and interfaces with FBR / PRAL systems.

H.5.5 Customer Transaction Monitoring

Increased tax visibility may require banks to monitor customer transactions more carefully for reporting and withholding purposes, while maintaining data quality and compliance with confidentiality obligations.

H.6 Exploration and Production Sector

The E&P sector is mainly affected through exclusion from Super Tax relief and broader petroleum / energy-sector fiscal measures.

H.6.1 Super Tax Exclusion from Relief

E&P companies are excluded from the proposed Super Tax rationalisation. Therefore, the reduced Super Tax treatment for general sectors is not available to this sector.

H.6.2 Petroleum and Energy-Sector Fiscal Measures

Energy-sector measures, including petroleum-related levies, royalties, FED on petroleum-related products and customs / sales tax changes, may affect sector economics depending on the nature of operations and product flows.



H.6.3 Investment and Cash Flow Implications

Continued higher tax burden may affect project cash flows and investment appraisal. Long-term exploration investment will also depend on pricing policy, circular debt management, foreign exchange availability and regulatory certainty.

H.6.4 Sector Outlook

The outlook remains mixed. Energy security supports continued policy importance of the sector, but tax intensity and fiscal pressures may weigh on new investment decisions.

H.7 Fertilizer Sector

The fertilizer sector is affected through exclusion from Super Tax relief and its linkage with agriculture, subsidy policy, gas pricing and food security.

H.7.1 Super Tax Exclusion from Relief

Fertilizer companies are excluded from the proposed Super Tax relief. Accordingly, their effective tax burden may remain higher than general corporate sectors receiving relief.

H.7.2 Subsidy and Agricultural Policy Linkage

The budget includes agriculture and food-related subsidies, including subsidy for import of urea fertilizer. Fertilizer sector performance remains linked with farm economics, subsidy policy, gas availability and government pricing interventions.

H.7.3 Input Cost and Pricing Considerations

Gas cost, energy availability, taxation and subsidy timing remain key pricing factors. Any delay in subsidy settlement or increase in input cost may affect margins and working capital.

H.7.4 Compliance Implications

Fertilizer companies should reassess Super Tax provisions, subsidy receivables, sales tax / withholding compliance, related-party transactions and documentation of government claims.

H.8 Textile and Export-Oriented Sectors

Export-oriented sectors receive cash flow relief through reduction in tax collection on export proceeds.

H.8.1 Reduction in Tax on Export Proceeds

Tax collection on export proceeds is reduced from 2% to 1.25%. This directly improves net export receipts.

H.8.2 Export Refinance and Subsidy Measures

The budget includes subsidy support linked with export refinance / related schemes. Actual benefit will depend on scheme eligibility, SBP / Exim implementation and timely availability of financing.

H.8.3 Tariff Rationalisation for Inputs

Customs Duty, ACD and RD rationalisation on selected tariff lines may reduce input cost where relevant PCT codes are covered.



H.8.4 Competitiveness and Cash Flow Impact

Lower export tax deduction and possible import-duty relief may improve cash flow. However, competitiveness will still depend on energy cost, financing cost, exchange rate, refund processing and global demand.

H.8.5 Compliance Readiness

Exporters should update export proceeds deduction rates, advance tax ledgers, bank realisation reconciliations, refund tracking and input classification under revised tariff lines.

H.9 IT and IT-Enabled Services

The IT and ITeS sector is one of the clearer beneficiaries of Budget 2026–27.

H.9.1 Extension of Concessionary Tax Rate

The concessionary tax rate of 0.25% for IT and IT-enabled services exports is extended.

H.9.2 Export Certainty up to Tax Year 2029

The extension up to Tax Year 2029 provides multi-year tax certainty for exporters of IT and IT-enabled services.

H.9.3 Digital Payments and Documentation

IT exporters should ensure proper routing of export proceeds through banking channels, client documentation, export invoices and realisation records.

H.9.4 Freelancer and Platform-Based Income

Freelancers and platform-based service providers may benefit where they qualify under the IT / ITeS export regime. However, income

from social media platforms or other digital channels may attract separate withholding / reporting treatment.

H.9.5 Sector Growth Outlook

The sector outlook is positive due to tax certainty, export potential and global demand. Continued growth will depend on payment channels, skills development, exchange-rate stability and policy consistency.

H.10 Real Estate and Construction

The real estate and construction sector receives direct relief through omission of section 7E and lower advance tax on property transactions.

H.10.1 Omission of Section 7E

Section 7E relating to deemed income from immovable property is proposed to be omitted. This reduces litigation and compliance burden for property owners.

H.10.2 Reduction in Property Transaction Taxes

Advance tax on sale / transfer and purchase of immovable property is proposed to be reduced and converted into lower flat rates.

Transaction	Proposed Rate
Sale / transfer under section 236C	2.75%
Purchase under section 236K	1.25%

H.10.3 Impact on Transaction Volumes

Lower upfront tax cost may encourage documented property transactions. Actual recovery will depend on valuations, interest rates, investor confidence and provincial taxes.



H.10.4 Construction Vehicle Duty Relief

Customs Duty on specialised construction-related vehicles is proposed to be reduced from 20% to 10%, which may reduce equipment cost for contractors and infrastructure projects.

H.10.5 Housing Finance and Subsidy Measures

Budget subsidies include housing-related schemes such as affordable housing finance, low-cost housing and PM Apna Ghar-related support. These may support construction demand depending on implementation and financing availability.

H.11 Automobile and Electric Vehicles

The automobile sector faces mixed impact: EVs receive continued policy support, while luxury imported vehicles and luxury EVs face FED exposure.

H.11.1 CKD Kit Exemption Extension

Exemption on import of CKD kits for electric vehicles is extended up to 30 June 2027.

H.11.2 Reduced Sales Tax Rate for Selected EVs

Reduced sales tax rate of 1% for locally assembled electric vehicles is extended up to 30 June 2027. EV transport buses of 25 seats or more and electric trucks in CBU condition are also proposed at 1%.

H.11.3 FED on Luxury Vehicles and Luxury EVs

FED is proposed on luxury EVs and other luxury imported vehicles. Finance Bill proposed FED of 30% to 40% on luxury

imported EVs with import value exceeding Rs. 20 million and 40% to 41% on imported luxury vehicles exceeding 2,000cc, subject to final enactment.

H.11.4 Impact on Assemblers, Importers and Consumers

Segment	Likely Impact
EV assemblers	Positive due to CKD extension
Commercial EVs	Positive where 1% sales tax applies
Luxury importers	Negative due to FED exposure
Consumers	Mixed: EV support but luxury vehicle cost increase
Auto vendors	Depends on local assembly volumes

H.11.5 EV Policy Continuity

The extension up to 30 June 2027 provides short-term continuity for EV investment and assembly planning. Longer-term certainty will depend on future EV policy, charging infrastructure and local vendor development.

H.12 Retail, Wholesale and Distribution

Retail, wholesale and distribution businesses are directly affected through Tier-1 retailer changes, POS / e-invoicing requirements, withholding obligations and minimum tax exposure.

H.12.1 Tier-1 Retailer Scope

Retailers and wholesaler-cum-retailers having turnover exceeding Rs. 200 million are brought



within the Tier-1 retailer framework. Turnover may be based on declaration or worked-back value from tax deductions under sections 236G and 236H.

H.12.2 E-Invoicing and POS Integration

Tier-1 retailers will need to maintain POS / electronic invoicing integration with FBR systems. Invoices should be system-verifiable and supported by proper sales records.

H.12.3 Minimum Tax and Withholding Impact

Distribution and wholesale trade may face higher minimum tax exposure. Advisiti notes that minimum tax for distribution / wholesale trade is increased from 0.25% to 0.5%, linked with documentation compliance.

H.12.4 Small Trader Threshold Changes

The special procedure for small traders and shopkeepers has been broadened. Businesses near turnover thresholds should reassess whether they fall within small trader treatment or Tier-1 retailer requirements.

H.12.5 Documentation and Compliance Cost

Area	Likely Impact
POS / e-invoicing	System upgrade and integration cost
Vendor / customer records	Stronger master data requirement
Withholding	Updated deduction / collection controls

ATL / registration status	Regular verification required
Returns and reconciliations	Higher compliance workload

H.13 E-Commerce, Digital Platforms and Creators

The budget brings digital transactions, e-commerce sellers and social media income into greater tax visibility.

H.13.1 Adjustable Tax for Large E-Commerce Sellers

Tax on e-commerce transactions is proposed to become adjustable for sellers above the prescribed turnover threshold. For large documented sellers, this may reduce final tax cost and improve advance tax recoverability.

H.13.2 Social Media Income Withholding

A new withholding regime is proposed for income earned through social media platforms. This may apply to digital creators, influencers and online content earners receiving platform-based income.

H.13.3 Platform Reporting Obligations

Digital platforms may be required to maintain transaction records, seller information, payment details and tax deduction data in a system-verifiable manner.

H.13.4 Banks and EMIs as Collection Agents

Banks, EMIs and payment intermediaries are expected to act as collection / withholding



points for certain digital and social media income streams.

H.13.5 Impact on Digital Formalisation

Area	Expected Impact
E-commerce	Better documentation of online sales
Digital creators	Formal tax visibility of platform income
Banks / EMIs	Increased withholding and reporting role
Marketplaces	Higher data and compliance obligations
Tax base	Expansion into under-documented digital income

H.14 Tobacco, Beverages and Excisable Goods

Tobacco, beverages and other excisable goods face stronger FED, tracking, monitoring and anti-counterfeit enforcement.

H.14.1 FED Changes

FED changes include revised duty on e-liquids, FED on selected petroleum-related products, FED on luxury vehicles, removal of FED on WHO-compliant sports / electrolyte beverages and reduction in FED on acetate tow.

H.14.2 Production Monitoring and Video Analytics

Production monitoring systems and video analytics are proposed for monitoring production, clearance, stocks and related activities of specified goods.

H.14.3 Counterfeit Goods Seizure

Counterfeit cigarettes, beverages and other goods without prescribed tax stamps, barcodes or monitoring compliance may be seized and destroyed as per proposed provisions.

H.14.4 Tax Stamps and Tracking Systems

Excisable goods may require tax stamps, banderols, stickers, labels, barcodes, production monitoring equipment or other prescribed identifiers before removal or sale.

H.14.5 Enforcement Outlook

Area	Sector Impact
Tobacco / nicotine	Stronger FED and track-and-trace control
Beverages	Anti-counterfeit and monitoring focus
Manufacturers	Higher production data controls
Distributors	Risk on unstamped / non-compliant goods
Enforcement	Greater seizure and confiscation exposure

H.15 Pharmaceutical and Healthcare

The healthcare impact is mainly through targeted customs relief and selected indirect tax exemptions.

H.15.1 Customs Relief for Cancer-Related APIs

Customs Duty exemption is proposed for critical cancer-related Active Pharmaceutical Ingredients under the Fifth Schedule.



H.15.2 Healthcare-Related Exemptions

The budget also includes relief for menstrual hygiene products and selected health-related items. FED is removed on WHO-standard compliant sports / electrolyte replenishment beverages.

H.15.3 Impact on Cost of Critical Medicines

Customs relief on cancer-related APIs may reduce import cost for eligible inputs. Actual consumer impact will depend on pricing regulation, manufacturer margins, exchange rate and supply chain costs.

H.15.4 Sector Compliance Considerations

Pharma and healthcare businesses should verify PCT classifications, exemption conditions, import documentation, sales tax treatment and pricing impact before applying relief.

H.16 Agriculture and Farm Mechanisation

Agriculture receives targeted customs relief through exemption on agricultural machinery.

H.16.1 Customs Relief on Agricultural Machinery

Customs Duty, Additional Customs Duty and Regulatory Duty are proposed to be exempted on import of agricultural machinery.

H.16.2 Farm Mechanisation Subsidy / Credit Schemes

The budget includes agriculture-related support and subsidies. The practical benefit will depend on implementation, financing access and availability of machinery.

H.16.3 Impact on Productivity and Rural Investment

Lower import cost for agricultural machinery may support mechanisation, productivity improvement and rural investment, particularly where credit availability and after-sales support exist.

H.16.4 Fertilizer and Input-Cost Linkage

Agriculture remains linked with fertilizer pricing, energy cost, subsidy policy and input availability. Fertilizer-sector tax treatment and subsidy timing may indirectly affect farm economics.

H.17 Construction and Infrastructure

Construction and infrastructure are affected through PSDP spending, customs relief on specialised construction vehicles, property tax relief and housing-related schemes.

H.17.1 PSDP Impact

Federal PSDP is budgeted at Rs. 1,000 billion and National PSDP at Rs. 3,675 billion. Actual impact on construction activity will depend on releases, project execution and procurement timelines.

H.17.2 Customs Duty Relief on Specialised Construction Vehicles

Customs Duty on specialised construction-related vehicles is proposed to be reduced from 20% to 10%. This may reduce equipment cost for contractors and infrastructure developers.

H.17.3 Cement and Steel Demand Linkage

PSDP, housing schemes, real estate relief and infrastructure activity may support cement and steel demand. However, demand impact will



depend on project execution, financing cost and market confidence.

H.17.4 Housing and Infrastructure Schemes

Budgetary support for housing and infrastructure may improve construction-sector activity where funds are released on time and financing channels remain available.

Area	Likely Impact
PSDP	Supports infrastructure demand
Construction vehicles	Lower import duty cost
Real estate relief	May improve transaction activity
Cement / steel	Demand linked with project execution
Housing schemes	Positive if financing is implemented

H.18 Capital Markets

Capital market measures focus on system-based capital gains computation, improved investor documentation and support for asset-backed securitisation.

H.18.1 Capital Gains Mechanism

The role of NCCPL in computation and determination of capital gains on listed securities has been expanded and clarified. This may reduce self-computation errors and support automated tax matching.

H.18.2 SPV Exemption for Asset-Backed Securitisation

Income of qualifying Special Purpose Vehicles established for asset-backed securitisation is proposed to be exempt. This measure supports securitisation and capital market development.

H.18.3 Impact on Mutual Funds and Securitisation

NCCPL's role in capital gains computation for banking companies, insurance companies and mutual funds has been clarified. SPV exemption may support securitisation of receivables, mortgages and other financial assets.

H.18.4 Investor Documentation Requirements

Investors should maintain ATL status, account statements, NCCPL capital gain reports, tax certificates and investment records. Non-ATL persons may face enhanced tax consequences on capital gains from listed securities.

H.19 Non-Profit and Welfare Sector

The Finance Bill, 2026 provides administrative relief and exemption certainty for selected welfare organisations, funds and eligible NPOs.

H.19.1 Statutory Exemptions

Standing exemptions are provided to specified charitable and welfare organisations, including entities such as Pakistan Red Crescent Society, SIUT, Shaheen Foundation, Bahria Foundation and Dawat-e-Hadiya.

H.19.2 Reduced Administrative Burden

Eligible NPOs and funds meeting prescribed conditions may receive exemption certificates



for the whole financial year. This reduces repeated approval and renewal burden.

H.19.3 Governance and Compliance Requirements

The relief does not remove basic governance obligations. NPOs should maintain approval status, audited accounts, donor records, utilisation evidence and timely filing compliance.

Area	Required Focus
Exemption status	Maintain eligibility and approval conditions
Accounts	Keep audited financial records
Donations	Maintain donor and utilisation evidence
Certificate	Obtain annual exemption certificate where applicable
Filing	Submit returns / statements on time

I. Cross-Cutting Themes

I.1 Digital Enforcement Architecture

The most significant cross-cutting theme of Budget 2026–27 is the shift towards technology-driven and faceless tax administration.

I.1.1 National Faceless Centre

The National Faceless Centre will support faceless audits, assessments and appeals. The objective is to reduce direct taxpayer-officer interaction and improve transparency.

I.1.2 Algorithmic Settlement Mechanism

The Algorithmic Settlement Mechanism allows taxpayers to settle system-identified discrepancies through a technology-based process. Where accepted, taxpayers may revise returns without separate penalty or default surcharge, subject to prescribed conditions.

I.1.3 Electronic Invoicing System

Electronic invoicing will increase transaction-level visibility. Registered persons may be required to issue FBR-verifiable invoices, including advance receipt invoices and invoices for exempt supplies.

I.1.4 Machine-Readable Financial Statements

Companies are required to submit financial statements in electronically readable format from Tax Year 2026 onwards. This will enable automated analysis and comparison with tax returns and third-party data.

I.1.5 Banking Data Cross-Matching

Banking companies and EMIs will electronically provide information on high-value deposits and withdrawals for algorithmic comparison with tax declarations. This may identify mismatches and broaden the tax base.

I.1.6 Production Monitoring and Video Analytics

Production monitoring systems and video analytics are introduced for selected excisable / sales tax sectors. These tools will support track-and-trace, production verification and seizure of non-compliant goods.



I.2 Documentation and Formalisation

The budget increases focus on documented, traceable and system-verifiable transactions.

I.2.1 Formalisation of Retail

Tier-1 retailer scope has been revised, and retailers / wholesaler-cum-retailers above the prescribed turnover threshold are expected to comply with POS / e-invoicing integration.

I.2.2 Formalisation of E-Commerce

E-commerce sellers, especially larger sellers, will face greater reporting and tax visibility. Adjustable treatment may support formal sellers while keeping transactions within the tax net.

I.2.3 Formalisation of Social Media Income

Social media and influencer income will be brought into the withholding framework through banking and financial institutions.

I.2.4 Integration of Business Systems

The Board may require specified persons to install electronic resources and integrate business systems for real-time reporting. Failure may result in penalties or disallowance of expenditure.

I.2.5 Impact on Informal Economy

The measures may reduce space for undocumented activity. However, impact will depend on consistent enforcement, system reliability and coverage of informal operators.

I.3 Enhanced Enforcement and Penalties

The Finance Bill, 2026 strengthens penalties and enforcement across Income Tax, Sales Tax, Customs and FED.

I.3.1 Income Tax Penalties

Income tax penalties are enhanced for non-compliance, failure to furnish statements, integration failures, late ATL inclusion and incorrect withholding tax claims.

I.3.2 Sales Tax Penalties

Sales tax penalties are strengthened for non-integration, simulated invoices, unmatched input tax, monitoring failures and related defaults.

I.3.3 Customs Penalties

Customs penalties include enhanced penalty on terminal operators, penalties for illegal removal from state warehouses and stronger anti-smuggling enforcement.

I.3.4 FED Penalties

FED penalties are strengthened for non-compliance with production monitoring, video analytics, tax stamps, barcodes and electronic tracking requirements.

I.3.5 Audit and Re-Audit Powers

Commissioners may require special audit, re-audit, inventory valuation or actuarial valuation through independent experts where appropriate.

I.3.6 Litigation Filtering Through Scrutiny Committees

Independent Case Scrutiny Committees are introduced to review departmental litigation before filing appeals or references before higher courts. This may reduce weak litigation.

I.4 Compliance Readiness for Businesses

Businesses should treat Budget 2026–27 as a compliance-readiness exercise, not only a tax-rate update.



I.4.1 Payroll System Updates

Employers should update revised salaried tax slabs and verify surcharge treatment after final enactment.

I.4.2 Withholding Tax Matrix Updates

Withholding tax matrices should be updated for services, exports, property transactions, e-commerce, digital income, social media income and non-ATL persons.

I.4.3 ERP and Invoicing Integration

Businesses should assess ERP, POS and billing systems for e-invoicing, advance receipt invoices, debit / credit notes and FBR-verifiable invoice numbers.

I.4.4 Import PCT Code Review

Importers should review PCT codes against customs duty, ACD, RD, exemption and concession changes before revising landed cost assumptions.

I.4.5 Sector-Specific Tax Impact Assessment

Sector-specific impact should be assessed for OMCs, refineries, banking, E&P, fertilizer, exporters, steel, retail, e-commerce, EVs, real estate and excisable goods.

I.4.6 Documentation and Evidence Retention

Businesses should retain invoices, contracts, bank records, tax certificates, import documents, production records, withholding challans, reconciliations and audit working papers.

Compliance Area	Immediate Action
Payroll	Update slabs and monthly tax deduction
WHT	Revise vendor / customer tax matrix
ERP / POS	Check integration and invoice capability
Imports	Review PCT-wise landed cost impact
Sector tax	Prepare entity-wise impact memo
Documentation	Strengthen evidence retention and reconciliations

J. ProSustena Research Centre Analysis

J.1 Overall Assessment

Budget 2026–27 is a targeted-relief and compliance-driven budget. It provides relief to selected taxpayers and sectors, while strengthening documentation, digital enforcement and automated tax administration.

J.1.1 Relief vs Revenue Balance

The budget provides relief to salaried individuals, exporters, IT / ITeS exporters, real estate, EVs, refineries, selected industrial inputs and welfare organisations.

At the same time, revenue mobilisation is strengthened through withholding, digital reporting, e-commerce taxation, social media income taxation, sales tax integration, FED measures and enhanced penalties.



Relief Areas	Revenue / Compliance Areas
Salaried tax slabs	Digital income withholding
Super Tax relief for general sectors	Enhanced reporting and penalties
Export proceeds tax reduction	E-invoicing and POS integration
IT / ITeS concession	Banking data cross-matching
Property tax relief	Sales tax withholding expansion
Tariff rationalisation	FED and monitoring measures

J.1.2 Fiscal Consolidation vs Growth Stimulus

The budget aims to maintain fiscal consolidation through a primary surplus target and higher revenue collection. Growth stimulus is selective rather than broad-based.

Relief is focused on sectors with perceived economic multiplier, such as exports, IT, real estate, EVs, refinery upgradation, construction inputs and industrial raw materials.

J.1.3 Documentation vs Compliance Burden

The budget strongly supports documentation of the economy. However, the transition may increase compliance cost for formal businesses.

Key pressure areas include e-invoicing, POS integration, machine-readable financial statements, withholding updates, banking data reporting and automated tax matching.

J.1.4 Sector Winners and Pressure Points

Positive / Supportive Impact	Pressure Points
Salaried individuals	Banking, E&P and fertilizer excluded from Super Tax relief
Exporters	Digital creators subject to withholding
IT / ITeS exporters	Retailers face POS / e-invoicing requirements
Real estate	Steel faces electricity-based sales tax assessment
Refineries	Petroleum sector faces levy reporting and recovery risk
EV assemblers	Excisable sectors face monitoring and seizure risk

J.2 Key Opportunities for Businesses

Businesses should treat the budget as an opportunity to optimise tax position, reduce cash flow leakage and improve compliance readiness.

J.2.1 Tax Relief Optimisation

Companies should review eligibility for Super Tax relief, export tax reduction, property tax relief, IT / ITeS concession, EV incentives, refinery exemptions and customs duty reductions.



J.2.2 Digital Integration Tax Credit

A 10% tax credit is proposed for investment in electronic resources used for integration with FBR’s computerised systems. Eligible expenditure may include equipment, hardware, software and electronic components directly used for integration.

This creates an opportunity to partially offset the cost of ERP, POS, e-invoicing and real-time reporting readiness, subject to prescribed conditions.

J.2.3 Export and IT Sector Incentives

Exporters should benefit from reduction in tax on export proceeds from 2% to 1.25%. IT / ITeS exporters benefit from continuation of the 0.25% concessionary tax rate up to Tax Year 2029.

These measures improve cash flow forecasting and support pricing certainty for export contracts.

J.2.4 Tariff Rationalisation Benefits

Customs Duty, Additional Customs Duty and Regulatory Duty reductions may reduce landed cost for eligible inputs. Importers and manufacturers should perform PCT-wise review to capture savings.

J.2.5 Capital Market Opportunities

Exemption for qualifying SPVs engaged in asset-backed securitisation may support structured finance and capital market development. Investors should also review NCCPL-based capital gains computation and ATL compliance.

J.3 Key Risks for Businesses

The budget increases tax visibility and enforcement risk. Businesses with weak systems, incomplete documentation or

inconsistent reporting may face higher exposure.

J.3.1 Non-Compliance Penalties

Enhanced penalties apply across Income Tax, Sales Tax, Customs and FED. Risk areas include non-filing, non-integration, incorrect withholding, simulated invoices, unmatched input tax and non-compliance with monitoring systems.

J.3.2 System Integration Failures

Failure to integrate required systems with FBR may create penalties, audit exposure and possible disallowance of expenditure. Retail, manufacturing, e-commerce and excisable sectors are especially exposed.

J.3.3 Withholding Tax Errors

Frequent changes in withholding rates and treatment may lead to under-deduction, over-deduction or incorrect classification between final, minimum and adjustable tax.

Businesses should update withholding tax matrices immediately.

J.3.4 Incorrect Invoice and Documentation Practices

Incorrect invoices, non-verifiable invoices, missing exempt-supply invoices, simulated invoices or unmatched input tax claims may trigger reversal, penalty and default surcharge.

J.3.5 Sector-Specific Audit Exposure

Sector	Key Audit Exposure
Petroleum / OMCs	Levy payment, monthly statements and annual certification



Banking / EMIs	Data reporting and withholding on digital income
Retail / wholesale	POS, e-invoicing and Tier-1 classification
Steel	Electricity-based sales tax computation
Excisable goods	Production monitoring, tax stamps and video analytics
Exporters	Export proceeds, WHT and realisation records
IT / ITeS	Export income eligibility and remittance documentation
Real estate	Property transaction tax and Section 7E transition

J.4 Immediate Action Checklist

Businesses should treat Budget 2026–27 as an implementation exercise. The key priority is to update tax rates, systems, contracts, documentation and internal controls before the Finance Act, rules and FBR guidance become fully operational.

J.4.1 Update Tax Rates and Withholding Tables

Update withholding tax rates in accounting, ERP, payable, receivable and tax modules for services, exports, property transactions, e-commerce, social media income, digital transactions and non-ATL persons.

J.4.2 Review Payroll Implications

Revise salaried tax slabs in payroll systems. Recompute monthly salary withholding and confirm final surcharge treatment after enactment.

J.4.3 Review Sales Tax Registration and Integration Status

Assess Tier-1 retailer status, POS integration, electronic invoicing readiness, advance receipt invoice capability and debit / credit note system requirements.

J.4.4 Review Import Tariff and PCT Classifications

Review PCT codes against revised Customs Duty, Additional Customs Duty, Regulatory Duty, exemptions and concessions. Update landed cost, purchase budgets and inventory costing.

J.4.5 Assess Exposure to Super Tax Changes

Recompute Super Tax exposure by company, segment and sector. Banking, E&P and fertilizer should be assessed separately as they are excluded from the proposed relief.

J.4.6 Assess E-Commerce and Digital Income Reporting

Identify e-commerce transactions, platform-based income, social media payments and digital receipts. Classify whether tax is final, minimum or adjustable.

J.4.7 Review Contracts with Vendors, Distributors and Toll Manufacturers

Update tax clauses, withholding responsibility, invoice requirements, sales tax registration status, ATL status and documentation



obligations in vendor, distributor and toll manufacturing arrangements.

J.4.8 Prepare for Machine-Readable Financial Statements

Companies should ensure that accounting and reporting systems can generate financial statements in the prescribed electronically readable format.

J.4.9 Train Finance, Tax, Sales and Procurement Teams

Train relevant teams on revised WHT rates, sales tax withholding, e-invoicing, vendor verification, import classifications, levy reporting, documentation and penalty exposure.

J.4.10 Monitor Finance Act, SROs, Rules and FBR Clarifications

All proposed measures should be tracked until final enactment. Businesses should monitor the Finance Act, SROs, notifications, circulars, rules and FBR clarifications before final implementation.

Action Area	Immediate Priority
Payroll	Update salaried tax slabs
WHT	Revise deduction / collection matrix
Sales tax	Check registration and integration
Customs	Review PCT-wise impact
Super Tax	Recompute by sector and segment
Digital income	Identify platform and social media income

Contracts	Update tax and documentation clauses
Financial statements	Prepare machine-readable format
Training	Brief finance, tax, sales and procurement
Legal updates	Track Finance Act and FBR guidance

K. Conclusion and Outlook

K.1 Budget 2026–27: Likely Winners and Losers

Budget 2026–27 provides targeted relief to selected taxpayers and sectors, while increasing compliance requirements for documented businesses.

Likely Beneficiaries	Pressure Areas
Salaried individuals	Banking, E&P and fertilizer
Exporters	Digital creators and influencers
IT / ITeS exporters	Retail, wholesale and distribution
Real estate and construction	Steel sector
EV assemblers	Excisable goods sectors
Refineries	Businesses with weak systems
Selected importers of industrial inputs	Non-ATL / undocumented persons



NPOs and welfare organisations	Businesses failing integration requirements
--------------------------------	---

K.2 Expected Direction of Tax Policy

The expected direction of tax policy is documentation-led revenue growth. The Government appears to be moving from broad rate increases towards data-based monitoring, withholding, e-invoicing, banking data cross-matching, machine-readable financial statements and faceless proceedings.

K.3 Medium-Term Business Implications

In the medium term, businesses will need stronger tax governance and digital readiness. ERP systems, POS systems, invoicing, bank reconciliations, tax statements, financial statements and management accounts will need to be internally consistent.

Formal businesses may benefit from relief and transparency, but they will also carry higher compliance cost during the transition.

K.4 Areas Requiring Clarification After Enactment

Key areas requiring post-enactment clarification include:

Area	Clarification Required
Faceless proceedings	Detailed procedure and taxpayer rights
Algorithmic settlement	Scope, payment timelines and dispute options

E-invoicing	Rollout date, formats and exemptions
Machine-readable statements	Prescribed format and filing process
Integration tax credit	Eligible cost, limitations and documentation
Social media income WHT	Scope, rate and collection mechanism
Tier-1 retailers	Practical turnover determination
Same-state imported goods	Calculation and prosecution thresholds
Super Tax	Sector classification and group-level application
Petroleum levy	Monthly statement format and audit certificate requirements

K.5 Final ProSustena Viewpoint

Budget 2026–27 is a documentation-first budget. It offers selective relief, but its deeper direction is digital enforcement, system integration and automated tax visibility.

For businesses, the key message is clear: tax compliance is moving from return filing to real-time data consistency. Companies that invest early in systems, documentation, reconciliations and tax governance will be better positioned to capture relief, avoid penalties and manage audit exposure.



ProSustena Research Centre views this budget as a transition point towards a more formal and technology-led tax environment. The immediate challenge for businesses is not only to understand the rates, but to prepare their systems, people and records for the new compliance architecture.

Annexures

Annexure I — Budget 2026–27 Key Fiscal Numbers

Particulars	Budget 2026–27
Gross Revenue Receipts	Rs. 20,600 billion
FBR Tax Revenue	Rs. 15,264 billion
Non-Tax Revenue	Rs. 5,336 billion
Provincial Share	Rs. 8,848 billion
Net Federal Revenue Receipts	Rs. 11,751 billion
Current Expenditure	Rs. 17,495 billion
Development and Net Lending	Rs. 1,276 billion
Total Federal Expenditure	Rs. 18,771 billion
Federal Budget Deficit	Rs. 7,020 billion
Overall Fiscal Deficit	Rs. 5,226 billion
Overall Fiscal Deficit as % of GDP	3.6%
Primary Surplus	Rs. 2,828 billion
Primary Surplus as % of GDP	2.0%
Federal PSDP	Rs. 1,000 billion

National PSDP	Rs. 3,675 billion
---------------	-------------------

Annexure II — Revised Salaried Tax Slabs

Annual Taxable Income	Proposed Tax
Up to Rs. 600,000	Nil
Rs. 600,001 to Rs. 1,200,000	1% of amount exceeding Rs. 600,000
Rs. 1,200,001 to Rs. 2,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
Rs. 2,200,001 to Rs. 3,200,000	Rs. 116,000 + 20% of amount exceeding Rs. 2,200,000
Rs. 3,200,001 to Rs. 4,100,000	Rs. 316,000 + 25% of amount exceeding Rs. 3,200,000
Rs. 4,100,001 to Rs. 5,600,000	Rs. 541,000 + 29% of amount exceeding Rs. 4,100,000
Rs. 5,600,001 to Rs. 7,000,000	Rs. 976,000 + 32% of amount exceeding Rs. 5,600,000
Above Rs. 7,000,000	Rs. 1,424,000 + 35% of amount exceeding Rs. 7,000,000



Annexure III — Key Withholding Tax Changes

Area	Proposed Change
Export proceeds	Tax reduced from 2% to 1.25%
Sale of immovable property — section 236C	Flat rate of 2.75%
Purchase of immovable property — section 236K	Flat rate to be confirmed from final enacted law
E-commerce sellers above prescribed turnover	Tax proposed to become adjustable
Social media / influencer income	Withholding through banking / financial channels
Services	Rates / categories rationalised
Non-ATL persons	Enhanced consequences continue / strengthened
Late ATL inclusion	Higher surcharge proposed

Annexure IV — Super Tax Comparison

Category	Proposed Treatment
General sectors — income up to Rs. 500 million	Super Tax abolished

General sectors — income above Rs. 500 million	Super Tax reduced to 8%
Banking companies	Relief not available
Exploration & Production sector	Relief not available
Fertilizer sector	Relief not available

Annexure V — Sales Tax Compliance Matrix

Compliance Area	Key Requirement
Tier-1 retailer threshold	Retailers / wholesaler-cum-retailers above Rs. 200 million turnover
POS / e-invoicing	Integration with FBR systems where applicable
Advance receipt invoice	Required in prescribed format
FBR verifiable invoice	Unique invoice number where prescribed
Exempt supplies	Invoice documentation required
Debit / credit notes	Electronic adjustment mechanism
Toll manufacturing	Sales tax withholding from unregistered buyers
Input tax	Stronger matching and documentation required



Same-state sale of imported raw material	3% value addition tax exposure
Suspension / blacklisting	Enhanced enforcement risk for non-compliance

Annexure VI — Customs Duty / ACD / RD Rationalisation Snapshot

Area	Proposed Measure
Customs Duty	Reduction on industrial inputs across 92 tariff lines
Existing CD 20%	Reduced to 15% / 10%
Existing CD 15% / 10%	Reduced to 10% / 5%
Existing CD 5%	Reduced to 0%
ACD 6%	Reduced to 4% on 449 tariff lines
ACD 4%	Reduced to 2% on 2,107 tariff lines
ACD 2%	Eliminated on 569 tariff lines
RD above 20%	Capped at 20% on 359 tariff lines
RD between 2.5% and 20%	Reduced by 20% on 1,347 tariff lines
Lower RD slabs	Reduced / eliminated on 208 tariff lines

Annexure VII — FED Measures Snapshot

Area	Proposed Measure
Foreign travel	FED reduced
Acetate tow	FED reduced from Rs. 44,000 per kg to Rs. 10,000 per kg
WHO-compliant sports / electrolyte beverages	FED removed
E-liquids / electronic cigarettes	FED revised / enhanced
Naphtha, solvent oil and turpentine	FED imposed
Luxury EVs	FED proposed
Other luxury vehicles	FED proposed / enhanced
Base oil and base lubricating oil	FED proposed
CKD kits for EVs	Exemption extended up to 30 June 2027
Excisable goods	Production monitoring, video analytics and tracking strengthened

Annexure VIII — Sector-Wise Impact Matrix

Sector	Key Impact
OMCs / Petroleum	Levy reporting, surcharge and recovery exposure
Refineries	Sales tax relief on capital goods for



	upgradation; levy compliance
Cement	Indirect benefit from PSDP and construction demand
Steel	Electricity-consumption-based sales tax assessment
Banking	Excluded from Super Tax relief; increased data reporting
E&P	Excluded from Super Tax relief
Fertilizer	Excluded from Super Tax relief; subsidy and gas-cost linkage
Textile / Exporters	Export proceeds tax reduced to 1.25%
IT / ITeS	0.25% concessionary rate extended to TY 2029
Real Estate	Section 7E omitted; property transaction tax reduced
EV / Auto	CKD exemption extended; luxury vehicle FED exposure
Retail / Wholesale	Tier-1 threshold and e-invoicing / POS requirements
E-commerce / Creators	Adjustable tax for large sellers; social media WHT
Tobacco / Beverages	FED, tracking, monitoring and seizure provisions

Pharma / Healthcare	Customs relief for cancer-related APIs
Agriculture	Customs relief on agricultural machinery
Construction	Duty relief on specialised construction vehicles

Annexure IX — Business Readiness Checklist

Area	Required Action
Payroll	Update revised salaried tax slabs
Withholding tax	Revise tax deduction / collection matrix
Sales tax	Review registration, POS and e-invoicing readiness
Customs	Review PCT codes and landed cost impact
Super Tax	Recompute exposure by sector and segment
E-commerce	Identify digital transactions and platform income
Vendor contracts	Update tax, withholding and documentation clauses
Toll manufacturing	Confirm withholding and invoicing responsibilities
Financial statements	Prepare for machine-readable format



Petroleum sector	Prepare monthly levy statements and annual certificate
Training	Brief finance, tax, procurement, sales and IT teams
Legal monitoring	Track Finance Act, rules, SROs and FBR clarifications

Annexure X — Key Effective Dates

Date / Period	Matter
1 July 2026	General commencement of Finance Bill, 2026, unless otherwise provided
Tax Year 2026 onwards	Machine-readable financial statements requirement for companies
Up to Tax Year 2029	IT / ITeS concessionary tax rate extended
Up to 30 June 2027	CKD kit exemption for electric vehicles extended
Monthly	Petroleum Levy and Climate Support Levy statements
Within prescribed due dates	Levy payment linked with Sales Tax / FED return or customs duty payment, as applicable
After final enactment	Confirm final rates, rules, SROs, procedures and effective dates

Annexure XI — Source Documents Reviewed

Source Document	Nature
Budget in Brief 2026–27	Official fiscal framework, revenue, expenditure, deficit, PSDP, subsidies, social protection and green budgeting data
Budget Speech 2026–27	Policy narrative, budget priorities and Government’s stated economic direction
Finance Bill 2026	Primary legal source for proposed statutory amendments and effective provisions
Notes on Clauses 2026	Clause-wise explanation of proposed legal amendments
Salient Features 2026	Official summary of major proposed measures relating to Income Tax, Sales Tax, Customs Duty and Federal Excise Duty
Tax Expenditure Report / Annexures to Finance Bill 2026, where applicable	Reference for tax expenditure, exemptions, concessions and revenue impact analysis
Relevant official schedules, tables and annexures forming part of the Federal Budget 2026–27 documents	Supporting reference for fiscal numbers, tax measures, sectoral implications and compliance-related analysis

Beyond Compliance. Toward Sustainable Value.



Corporate
Governance



ESG &
Sustainability
Advisory



IFRS S1 & S2
Implementation



Board &
Committee
Advisory



ESG Training
& Capacity Building

ProSustena (Private) Limited

Where Purpose Drives Performance

www.prosustena.com | contact@prosustena.com

+92 317 0158 289 / +92 51 874 3694