Government of Pakistan
Revenue Division
Federal Board of Revenue
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C.No. 4(32)IT-Budget/2025 Islamabad, the 2nd August, 2025

Circular No. 01 of 2025-26
(Income Tax)

SUBJECT: FINANCE ACT, 2025 - EXPLANATION OF IMPORTANT AMENDMENTS MADE IN THE INCOME TAX ORDINANCE, 2001

The Finance Act, 2025 has brought about certain amendments in the Income Tax Ordinance, 2001 (the Ordinance, hereafter). Some significant amendments are explained hereunder: -

1. Introducing Tax Regime for E-commerce [Clause (17C) and (19AA) of Section 2, Sections 153, 165C, 181 and 182]

The changing dynamics of retail market in Pakistan along with the fact that a large number of population of sellers connected with on-line marketplace or working through their e-stores are not registered and operate informally encouraged to design a framework to register these sellers, assign them National Tax Numbers through a simplified process and to ensure that a contribution to tax on every digitally ordered transaction is collected through placing a workable withholding tax regime.

For taxing domestic e-commerce transactions, a charging section 6A has been introduced which stipulate that every payment received for digitally ordered goods or services using an online market place (OMP) or website shall be charged to tax. Corresponding changes for ensuring upfront withholding tax collection has been introduced in section 153(2A) whereby payment intermediary (banking company, financial institution, licensed dealer of foreign exchange and payment gateways) and courier involved in Cash on Delivery (CoD) are made responsible to collect withholding tax @1% and 2% on gross amount of receipts respectively at the time of remitting payment to the seller. The differential in tax rate between these withholdings is for encouraging the use of digital means for payment to meet overall national objective of transforming to cashless economy. The tax collected under the scheme is a final tax u/s 6A on the income derived by the seller from local e-commerce transactions and the export transactions. However, withholding under section154 and 154A will fall outside the ambit of taxation under this regime. For the purpose of clarity, the terms relevant to this scheme such as e-commerce, digitally delivered services, online marketplace, payment intermediary and courier service have been incorporated in the Ordinance.

Payment intermediary and courier have to collect tax in the name of each seller, deposit it in the treasury on the monthly basis beside filing the prescribed WHT statement in this regard. The payment intermediary and courier service are required to file a prescribed withholding statement containing information of all transactions of every seller making sales through OMP and or e-stores.

Every seller has been required under the law to get itself registered in income tax and OMP and courier service are also now barred to offer their services to any unregistered sellers. OMPs are obligated to file statements about the vendors using their platforms.

Penalties have been prescribed if compliance is not made with respect to filing of statutory statements. Penalties on online marketplace and courier service have also been placed in case of default to withheld tax or to comply with registration requirement of the seller.

Regarding the responsibility of collecting tax under this section, it is clarified that in the case of vendors being e-stores and similar mobile applications where payment is made online, the acquiring bank will be the payment intermediary for the purpose of this provision and shall be responsible to collect tax. On the other hand, in the case of vendors being e-stores and similar mobile applications where payment is made on Cash on Delivery (CoD) basis, the courier which could be an aggregator, providing service to the e-store or mobile application of delivering goods and collecting cash at the doorstep of the buyer shall be responsible to comply with all the statutory obligations in this regard.

Further, in case a vendor sells goods through Online Market Place (OMP) and payment is made online, the bank or financial institution of OMP in the second and final arm of transaction settling the payment between vendor and buyer shall be the payment intermediary for the purpose of the collection of tax. It may be noted that the issuing and acquiring banks in the first arm of transaction could not be the payment intermediaries as they are involved in settling transaction between the buyer and OMP, which is acting as an agent for the vendor/seller and not a seller in real sense. On the other hand, in case a vendor sells goods through OMP or otherwise and payment is made on Cash on Delivery (CoD) basis, the courier, which could be an OMP in case vendor is using its services; or the aggregator who indirectly provides such services to e-store; or the courier directly providing those services to the e-store or mobile application of delivering goods and collecting cash at the doorstep of the buyer shall be responsible to comply with all the statutory obligations in this regard.

2. Taxing the Pension Income [Sections 12(2)(f), 39 and 149]

The pension income is chargeable to tax either under section 12(2)(f) or section 39 of the Ordinance. Earlier pension received from a former employer was exempt under clauses (8) and sub-clause (i) of clause (9) of the Ordinance. Through Finance Act 2025, the clauses (8) and sub-clause (i) of clause (9) of the Ordinance have been omitted. Resultantly, pension from former employer is now chargeable to tax. As per section 12(2)(f) of the Ordinance pension received by a former employee is chargeable as final tax at the rate of 5% if it exceeds rupees ten million per annum and the recipient is less than 70 years old.

A recipient of pension shall not be chargeable to tax if he/she is older than seventy years of age or the amount of pension per annum is less than ten million rupees.

Pension of a person who continues to work for the said employer or its associate shall be chargeable at normal slab rates specified in Division I of Part I of the First Schedule of the Ordinance. The employer will continue to be responsible for withholding under section 149 and of collecting surcharge, if applicable under the provision of section 4AB, at the rate of 9%.

The private pension disbursed by Pension Fund Manager of voluntary Pension Scheme Rules 2005 and any other amount of pension not received from a former employer will continue to be charged to tax under section 39 of the Ordinance. Moreover, the commutation of pension, gratuity, fifty percent of the available balance in a pension account under certain specified conditions will continue to be exempt from tax under the relevant clauses of Part I of the Second Schedule of the Ordinance.

3. Advance Tax on Cash Withdrawal from Bank [Section 231AB]

Section 231AB was introduced through Finance Act, 2023 whereby every banking company was authorized to deduct advance adjustable tax @ 0.6% from a person whose name is not appearing in Active Taxpayer List, where the aggregate of cash withdrawals in a single day exceeds Rs.50,000/- .

Through Finance Act 2025, the tax rate on cash withdrawal has been increased to 0.8% of the amount of cash withdrawn.

4. Tax Rebate to Full-Time Teachers and Researchers [Clause (3A) of Part III of the Second Schedule]

The tax rebate of 25% against tax payable by full-time teachers or researchers was admissible up to tax year 2022 under omitted sub-clause (2) of clause (1) of Part III of Second Schedule to the Income Tax Ordinance, 2001. No rebate was therefore available to full-time teachers and researchers for tax year 2023 and onwards.

Amendment has been incorporated in the Ordinance through Finance Act, 2025, whereby 25% tax rebate to full time teachers and researchers has been reintroduced by way of inserting a new clause (3A) in Part III of the Second Schedule of the Ordinance. The said amendment allowed the tax rebate to these persons for three tax years only mentioned above and will no longer be available for tax year 2026 and onwards.

5. Tax Relief for Salaried Persons [Clause (2) of Division I of Part I of the First Schedule]

To provide relief to lower and middle tier salary income as well as reduce tax liability in a significant way for upper tier salaried individuals the following changes have been introduced:

S#	Taxable Income	Rate of Tax
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs. 600,000/-	0%
2.	Where taxable income exceeds Rs. 600,000/- but does not exceed Rs. 1,200,000/-	1% of the amount exceeding Rs. 600,000/-
3.	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-	Rs. 6,000/- + 11% of the amount exceeding Rs. 1,200,000/-
4.	Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-	Rs. 116,000/- + 23% of the amount exceeding Rs. 2,200,000/-
5.	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-	Rs. 346,000/- + 30% of the amount exceeding Rs. 3,200,000/-
6.	Where taxable income exceeds Rs. 4,100,000/-	Rs. 616,000/- + 35% of the amount exceeding Rs. 4,100,000/-

6. Rationalization of Appeal Filing before Appellate Forum

In order to lessen the extra burden and references on questions of facts in High Courts resulting from amendments of 2024, the criteria of monetary threshold for filing appeal either before CIR (Appeals) or ATIR have been withdrawn. Now the taxpayer can exercise its discretion to file appeal to the CIR (Appeals) or directly before the ATIR.

Some corrective provisions have also been incorporated in section 133 of the Ordinance:

i) Now a taxpayer can file an appeal before High Court within sixty days of the receipt of judgement of ATIR

ii) only question relevant to law arising out of the judgment of ATIR can be filed before the High Court.

7. Recreation Clubs Taxability

The clause (b) of sub-section (1) of section 18 of the Ordinance, which provides for taxability of income derived by cooperative societies from the sale of goods, immoveable property or provision of services to its members has been explained through earlier Act, to always include aforementioned incomes as chargeable to tax under the provisions of this Ordinance. The scope of this explanation regarding tax on income on account of sale of goods or rendering of services by cooperative societies to its members has been expanded to say that it shall mutatis mutandis apply to recreational clubs involved in similar kind of transactions with its members.

The corresponding amendment has been made in clause (36) of section 2 of the Ordinance wherein those recreational clubs have been excluded from the definition of non-profit organizations which charge membership fee exceeding rupees one million for any class of new members as joining fee.

8. Disallowance of Certain Expenditure [Sections 21 & 22]

As explained below, new clauses have been inserted to make disallowance for expenditure under certain specific circumstances:

(i) Through Finance Act, 2025, a new clause (q) has been inserted in Section 21 of the Income Tax Ordinance, 2001 whereby ten percent expenditure attributable to purchases from persons who are not NTN holder will be liable to disallowed. It aims to enable formal sector to capture more market share as compared to that of informal sector. This provision will not apply on agriculture produce unless it is sold by middle men. This provision also authorizes the board to exempt any class of persons subject to conditions and limitations as it deems appropriate.

(ii) Through Finance Act 2025, a new clause (s) has been inserted in Section 21 of the Income Tax Ordinance, 2001, which envisages that where a person makes

i) a sale of Rs. 200,000 or above on a single invoice and

ii) and payment is not received through banking channel or digital means

50 % of the proportionate business expenditure attributable to such sales shall be disallowed. For the purposes of section 21(s), it is clarified that when a person, whether an NTN holder or otherwise, deposits the cash against invoices in the bank account of the seller, the payment shall be treated as having taken place through banking channel and no disallowance of the expenditure will be made in this regard under this clause.

(iii) Through Finance Act, 2025, in section 22 of the Ordinance, the depreciation expense of any capital asset shall be inadmissible if the capital asset has been acquired without discharging the withholding obligation on the payments made under sections 152 or 153 of the Ordinance as the case may be. The said amount paid to a supplier of capital assets on which tax was not withheld and deposited will not become part of the cost of asset for the purpose of computation of tax depreciation for the tax year in which the acquisition is made.

9. Amortization of Intangibles [Section 24]

Earlier intangible assets which does not have a determinable useful life was allowed to be amortized for twenty-five years. Through an amendment vide Finance Act, 2025 this period has been reduced to fifteen years for any intangible assets having indeterminable useful life.

10. Restriction of Inter-head adjustment of losses [Section 56]

Earlier losses under any head of income including loss under section 18 were allowed to be set off against income chargeable to tax under any head except salary. Finance Act 2025 has introduced a proviso whereby the setting off of the business losses with the income from property has been disallowed.

11. Preventing Tax Avoidance Loophole Under Group Relief Scheme [Section 59B]

Finance Act, 2025 has introduced additional condition which prevents any company within the group whose income is not chargeable to tax under Division II of Part I of the First Schedule to the Ordinance to become part of the group relief scheme under the Ordinance. This means that any income of a company within the group chargeable to tax other than Division II of Part I of the First Schedule to the Ordinance will lead to such company to get disqualified for group relief under section 59B of the Ordinance.

14. Restructuring of Entitlement to Exemption under clause (66) of Part I of the Second Schedule

Previously, the entities representing institutions, foundations, societies, boards, trust and funds were classified into two broad categories. The Table I, entities enjoyed complete exemption on their any income for a tax year and entities in Table II were given the same privilege subject to such conditions and limitations as specified in section 100C of the Ordinance.

Through Finance Act, 2025 both the Tables have been reorganized to do away with blanket exemptions unless there are any rational basis. Consequently, the entities with whom Government of Pakistan have entered into a sovereign agreement and those which have been established for carrying out the purposes of Government of Pakistan would continue to the entitlement of un-conditional exemption on their any head of income and have been placed under clause (57) of Part I of the Second Schedule to the Ordinance.

The rest of the entities, which have characteristics of Non-Profit Organization, are placed in a single Table and that table continues to be part of clause (66) of Part I of the Second Schedule and these will be entitled to hundred percent tax credit on their any income subject to the conditions and limitations as specified in section 100C of the Ordinance.

15. Reduction in carry forward period for minimum turnover tax [Section 113]

Prior to Finance Act, 2025 the minimum tax paid in excess of the tax liability on normal income was allowed to be carried forward and remained available for adjustment against income of the next three succeeding tax years until fully setoff. Now through an amendment vide Finance Act, 2025 this period has been reduced to two years for adjustment of left-over minimum tax under section 113 of the Ordinance.

16. Restriction on Economic Transactions by Certain Persons [Section 114C]

Section 114C has been introduced through Finance Act, 2025. This provision introduces a concept of eligible and ineligible person based upon the financial capacity of a person to conduct an economic transaction in terms of cash or cash equivalent assets declared in the wealth statement filed for the latest tax year or an evidentiary source reflected in investment and expenditure statement filed as justification for availability of funding for conducting an economic transaction during the year.

To be qualified as an eligible person for carrying out specified economic transaction, sufficient resources must be available either in the wealth statement or in the financial statement for the tax year immediately preceding the year of transaction; or in a statement of source of investment and expenditure filed during the year of transaction showing sufficient resources.

Sufficient resources have been defined as one hundred and thirty percent of cash and cash equivalent assets comprising cash denominated in local or foreign currency, fair market value of gold, net realizable value of stocks, bonds, receivables; or any other cash equivalent asset as may be prescribed.

Moreover, an economic transaction involving exchange of already declared capital assets as consideration has been treated as part of cash and cash equivalent assets to the extent of the value mentioned in the transaction agreement.

In case of an individual, the term 'eligible person' includes his immediate family members i.e. parents, spouse and dependent children. Under this new regime, an ineligible person has been barred from:

a. purchase of motor vehicle with an invoice value exceeding seven million rupees,

b. acquisition or transfer of immoveable property having fair market value exceeding one hundred million rupees,

c. investment in securities, unit of mutual funds or similar investment having its cost of acquisition exceeding fifty million rupees subject to the condition that the investment up to fifty million rupees must be a new investment in any financial year excluding reinvestment out of liquidation or profit of already held investment.

It is highlighted that the sufficient resources declared in source of expenditure statement will not constitute as nature or sources of income for the purposes of section 111 of the Ordinance. Cash withdrawal from any of his bank account exceeding an amount one hundred million rupees is also prohibited under this section. The provision of this section will not apply on transactions made by a non-resident person or a public company except the transaction of withdrawal of cash. Moreover, the provisions of this section will come into force from such date as may be notified by the Federal Government through notification in the official Gazette.

17. Change in Modality for Recovery of outstanding tax dues [Sections 138 and 140]

Sub-sections (3A) and (6A) of section 138 and 140 have been introduced respectively with fast track recovery of outstanding tax dues. The dues will become immediately payable for recovery by the Commissioner Inland Revenue, subject to the conditions that the department has won the case in all three appellate forums from CIR (Appeals) to High Court, if the amount of outstanding dues exceeds rupees two hundred million.

18. Gain arising on disposal of certain debt securities [Section 151A]

The debt securities sold at a bank's counters give rise capital gains, but there has been no mechanism of withholding tax on such gains and in many reported instances the gain was being declared by the sellers in their tax returns. To prevent the revenue loss and capture the tax base on account of capital gains arising to the seller of debt security sold over the bank counter, all custodian of the debt securities including banking companies holding any investment portfolio through Investor Portfolio Securities (IPS) account have been declared as withholding agent to collect advance tax on account of income arising from capital gains at the rate of 15% at the time of disposal of securities and deposit the same in to government treasury. The capital gain arising to the seller of debt securities will be computed as differential of the cost of acquisition and the price at which the debt securities have been disposed of.

19. Tax Rate Differential on Capital Gains for Non-resident Persons [Section 152(ID)]

Prior to enactment of Finance Act, 2025, the capital gain arising to non-resident person having no permanent establishment in Pakistan invested through Special Convertible Rupee Account (SCRA) on debt securities of the Federal Government was charge to tax at the rate of 10% without any holding period. Now the tax rate of 10% will apply on capital gains on disposal of debt securities which have been held for a period of more than six months. In case of early disposal within specified period of six months, tax rate of 20% will apply on capital gains arising from such disposal.

20. Increase in Withholding Tax Rates on Services [Section 152 & 153]

Withholding tax rates on non-categorized services u/s 153 applicable prior to Finance Act, 2025 were applied at the rate 9% and 11% for company and other than companies respectively. The rate of withholding for Sports Person was 10%. Similarly, under section 152 and 153 of the Ordinance categorized services were chargeable to withholding tax at the rate of 4%. Through Finance Act, 2025 the withholding tax rate for unspecified services as well as for sports person will be charged at the flat rate of 15%. However, for specified services mentioned under section 152 the withholding tax rate have been increased from 4% to 8%; and the rate under section 153 is increased from 4% to 6%

excluding IT and IT enabled services which will continue to be subject to withholding tax rate of 4%.

21. <u>Grant of Exemption with respect to 236C under specified conditions [Section 159 and Clause (104A) of Part IV of Second Schedule]</u>

Capital gain on immoveable property acquired on or before 30th day of June, 2024 is charge to tax at slab rates ranging from 15% to 0% depending upon the holding period. In case of an immoveable property being an open plot, the tax on capital gains after the holding period of six years become 0%. Similar in the case of constructed property on which capital gain is chargeable to tax at the rate of 0% after the holding period of four years. For simplicity of a person whose income from disposal of immoveable property is chargeable at the rate of 0%, exemption provision has been introduced in section 159 whereby such person may apply for exemption certificate on account of advance tax on sale or transfer of immoveable property subject to the following conditions and to the fact that such immovable property giving rise to tax free capital gains –

(a) has been in the personal use for the last fifteen years;

(b) has been declared by the person in his wealth statement under section 116 for the last fifteen years; and

(c) appears as residence for personal use in tax record of the person.

Moreover, under the situations specified regarding above immoveable property, the super tax under section 4C will also not be payable by the seller or transferee on capital gains arising from disposal of such specified residential immovable property. The exemption certificate for any person under this section read with section 236C and waiver from section 4C will be issued or applied once every fifteen years.

22. <u>Exchange of Banking and Tax Information Related to High Risk Persons [Section 175AA]</u>

This new section envisages secure exchange of information allowing Board to share particulars of a taxpayer declared in its income tax/sales tax return as well as financial/wealth statement with scheduled banks through database algorithms for cross matching. After needful has been performed, the scheduled banks will provide to the Board data of such bank transactions which is at variance with the given input of the Board. The implementation of this provision will be helpful in compliance risk management. The information will be kept confidential and only be used for tax purposes.

23. <u>Condonation of Time Period by the Board [Section 214A]</u>

The power of the Board to grant condonation for unlimited period have been curtailed to a period of two years through Finance Act, 2025. However, in case of certain exigencies involving significant revenue loss to exchequer or the taxpayer have been caused due to an act of omission or commission by the person or the Commissioner, a committee will be constituted by the Board which can condone time limitation beyond period of two year after providing an opportunity of heard to the person concerned.

24. Change in Advance Tax Rates on sale or transfer or purchase of immovable Property [Sections 236C and 236K]

To provide relief to the purchaser/buyer of the immoveable property, the progressive advance withholding tax rates have been reduced by 1.5 % for each slab. Correspondingly for seller/transferee increased in withholding tax rates by 1.5% have been made for each slab. The reason for increase in the withholding tax rates is for its adjustment against capital gains derived by such seller on the sale of immoveable property. The corresponding changes have also been made in Tenth Schedule for late filers and non-filers and withholding tax rates on purchase specified for such category of persons have been reduced by 1.5% and corresponding increase in withholding tax rates for seller across the board.

25. Change in Tax Rate of Dividend from Mutual Fund [Division III of Part I of the First Schedule]

Prior to Finance Act, 2025, a flat tax rate of 25% was applicable on dividend income of the unit holders if mutual fund derived income from profit on debt is equal to or in excess of fifty percent from investment in debt securities. Now tax rates of 25% and 15% will apply on the income derived from debt securities and income from investment in equities respectively when mutual fund distributes that income to the unit holders as dividend. Respective change in the withholding tax rate of dividend from mutual fund have also been incorporated in Division I of Part III of the First Schedule. Moreover, if the recipient of the dividend from mutual fund is a company, then in such case the dividend as distributed by the mutual fund out of profit on debt from debt securities will be charge to tax at the rate specified in Division II of Part I of the First Schedule instead of tax rate 25%.

26. Change in Tax Rate of Profit on Debt [Division IIIA of Part I and Division IA of Part III of the First Schedule]

The tax rate on profit on debt derived from deposits in banking companies, financial institutions and investment in government securities, except the profit derived by individuals from government securities, have been increased from 15% to 20%. The tax rate on profit on debt derived from sources such as National Saving Schemes or Post Office Savings Account etc. remains unchanged. Necessary changes in this regard have been incorporated in Division IA of Part III of the First Schedule. Prior to Finance Act, 2025 in Tenth Schedule the rate for non-filer persons were specified at 35% on profit on debt. Now this entry has been omitted and for tax year 2026 and onwards hundred percent increase in tax rates for non-filers persons deriving income from profit on debt will apply.

27. Incorporation of sunset clause for exemption to Special Economic Zone (SEZ) and Special Technology Zone (STZ) [Clause (126E) and (126EA) of Part I of the Second Schedule]

Through Finance Act, 2025 a sunset period has been introduced for the purposes of availing exemption on income by SEZ and STZ. Now such exemption will be restricted up to tax year 2035 or for a period of ten years starting from the date of commandment commercial operation for SEZ or for a period of ten years from the date of issuance of license by the Special Technology Zone Authority for STZ whichever is earlier.

28. Extension of Exemptions available to the erstwhile Tribal Areas [Clause 145A) of Part I and Clauses (109A) and (110) of Part-IV of the Second Schedule]

The exemption, available under clause (145A) of Part I of the Second Schedule to the Ordinance to any income of any individual domiciled or company and association of persons resident in the erstwhile Tribal Areas forming part of the provinces of the Khyber Pakhtunkhwa and Baluchistan under paragraph (d) of Article 246 of the Constitution, has been extended up to the 30th June, 2026. Corresponding change has also been incorporated in respect to withholding tax exemption in clause (109A) and (110) of Part IV of the Second Schedule.

29. Limitation for Exemption on Income Derived from Cinema Operation [Clause (151) of Part I of Second Schedule]

Through Finance Act, 2025, the exemption of income derived from cinema operations will be available to a person till 30th June, 2030 or five years from commencement of cinema operations whichever is earlier.

30. Selection of a Person for Audit [Clause (105A) of Part IV of the Second Schedule]

The original clause in this regard was introduced through Finance Act, 2022 placing bar on selection of any case for audit under sections 177 and 214C for four years if audit of income tax affairs of that case has been audited in any of the four proceeding years. The original intension of the said clause was to avoid repeated audits which have been resulting in genuine hardship to taxpayers. However, multiple interpretation of said clause resulted in multiple outcomes resulting in inconsistency in application of the said clause by the field formation. Through Finance Act, 2025 the said clause has been redrafted for clarity which stipulates that a person whose income tax affairs have been selected for audit in any of the proceeding three tax years, such person will be immune from the selection for audit under sections 177 and 214C of the Ordinance during the currency of that time frame.

31. Change in the Seventh Schedule Provisions for Banking Companies [Seventh Schedule]

The seventh schedule has been amended to align the banking income close to the taxable income. In this regard, rental expenses and expenses on refurbishment of offices are allowed in a specified manner as laid down in the provisions. The expense on account of bad debts is also reinforced in accordance with the laid down principles. Some filing requirements are also placed upon the external auditors to bring authenticity in expense claim on account of bad debts.

The Board reaffirms its commitment to provide every support for facilitating compliance to the newly introduced provisions in the ordinance. The Board will also ensure that the provisions related to enforcement be carried out in judicious manner with redressal committees in place comprising of representatives of business community and the Board.

(Muhammad Amin Qureshi)
Secretary (IT Budget)

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