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EXECUTIVE SUMMARY

FEDERAL BUDGET 2026–27

Finance Bill, 2026 | Presented on 12 June 2026

As presented — subject to enactment as Finance Act, 2026-27

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FEDERAL BUDGET 2026

This memorandum summarizes Pakistan's economic status and the major updates proposed in the Finance Bill 2026 (FB). Once approved by the National Assembly and signed by the President, these changes will take effect on **July 1, 2026** (unless a different date is noted).

Read or download the complete memorandum at https://www.wedoat.com

June 27th, 2026

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1. INCOME TAX
Income Ordinance, 2001

A. RELIEF MEASURE

- **Restructured Tax Slabs for Salaried Individuals:**
  The slab structure has been rebuilt with lower entry rates and additional intermediate slabs. The threshold for the maximum rate of 35% has been raised from **Rs. 4.1 million to Rs. 7 million**. The revised structure is as follows:

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

- **Surcharge on Salaried Individuals Withdrawn:**
  The surcharge previously applicable to salaried taxpayers has been abolished, reducing the overall tax burden for high-income employees. Surcharge on other individuals and AOPs remains unchanged.
- **Abolition of Section 7E - Deemed Income Tax:**
  Tax on deemed income from capital assets (immovable property) situated in Pakistan has been omitted entirely, a significant relief for property owners.
- **Rationalization of Super Tax (Section 4C):**
  Super tax abolished for income up to **Rs. 500 million**; reduced **from 10% to 8%** for income above **Rs. 500 million**. Banking, fertilizer, and E&P sectors remain subject to **10% super tax** on income exceeding **Rs. 150 million**.
  Super Tax under **Section 4C** is also announced to be abolished for exporters, but the relevant proposed amendment is not part of this Finance Bill.
- **Advance Tax on Immovable Property Transactions:**

Advance tax on sellers **(Section 236C)** reduced from **4.5% - 5.5%** to a flat **2.75%;** on buyers **(Section 236K)** from **1.5% - 2.5%** to a flat **1.25%.** Enhanced rates for late filers are also proposed to be withdrawn.

- **Relief for Exporters:**
  Aggregate collection on export proceeds reduced from **2% to 1.25%** (1% withholding under Section 154 increased to 1.25%; additional 1% advance tax under Section 147(6C) omitted)
- **IT and IT-Enabled Services:**
  Concessionary rate of 0.25% on IT/ IT enable services export proceeds extended to **Tax Year 2029**
- **Foreign Card Payments:**
  Advance tax on foreign remittances through debit, credit, and prepaid cards has been slashed from **5% to 0.5%.**
- **E-Commerce Sellers:**
  Tax deducted on e-commerce transactions made adjustable for sellers with annual turnover exceeding **Rs. 200 million.**
- **Tax Credit for FBR System Integration:**
  New **10% tax credit** on investment in electronic resources for integration with FBR's computerized systems.
- **Small Traders - Withholding Threshold:**
  Threshold for individual traders to become prescribed withholding agents raised from **Rs. 100 million to Rs. 200 million.**
- **Inherited Property & Family Settlements:**
  Cost basis for inherited immovable property clarified as fair market value under **Section 68(5)** on the date of death. Family settlements after death are confirmed to be tax-neutral.
- **Abolition of CVT on Foreign Assets:**
  Capital Value Tax on foreign movable and immovable assets of resident Pakistanis has been abolished, facilitating offshore asset declaration.

B. REVENUE MEASURE

- **Social Media & Digital Content Income:**
  New withholding regime **(5%)** on revenues of content creators from YouTube, Facebook, Instagram, TikTok, etc.; banks and financial institutions to deduct at source.
- **Life Insurance Payouts:**
  Payouts, surrender values, and maturity proceeds under life insurance policies and family takaful certificates are now taxable as final tax (excluding payouts on death, disability, or after 7 years from policy issuance).

➢ Withholding on Services - Revised Rates:

    - Specified services: rate increased from **6% to 7%**
    - General services: rate reduced from **15% to 14%**
    - Independent professionals (doctors, lawyers, architects, accountants, software engineers): 15% rate maintained
    - Terminal/port services: new reduced rate of 12%
- **Minimum Tax on Distributors:**
  Reduced minimum tax rate for pharmaceutical, FMCG, and cigarette distributors (0.25%) withdrawn; standard **1.25%** rate now applicable. Distributors of specified other products: rate doubled from **0.25% to 0.5%.**
- **Capital Gains on Debt Securities:**
  Withholding on capital gains from the disposal of debt instruments increased from 15% to 20%. Non-ATL exclusion from enhanced capital gains rates on listed securities withdrawn.
- **Algorithmic Bank Data Cross-Matching:**
  Banking companies and EMIs to electronically report high-value deposits/withdrawals (exceeding Rs. 100 million in six months) for algorithmic cross-matching against tax declarations.
- **Enhanced Penalties:**
  Penalties for failure to furnish statements, integration failures, late ATL inclusion, and incorrect withholding claims substantially enhanced. ATL surcharge post-deadline: Rs. 100,000 (companies), Rs. 50,000 (AOPs), Rs. 25,000 (individuals).

C. STRUCTURAL & STREAMLINING MEASURES

- **National Faceless Center:**
  Faceless audits, assessments, and appeals to be conducted through technology-driven processes with confidential officer identities and E-hearings.
- **Algorithmic Settlement Mechanism:**
  Automated settlement of identified discrepancies without separate penalty or default surcharge; taxpayers may accept system-generated settlement offers and file revised returns without Commissioner approval.
- **Independent Case Scrutiny Committee:**
  Independent vetting of departmental litigation; recommendations binding on Commissioner IR; members protected from legal proceedings.
- **Machine-Readable Financial Statements:**
  Companies to file financial statements in an electronically readable format from Tax Year 2026.

- **Limited Liability Partnerships:**

LLPs included in the definition of 'association of persons'; income of LLP members taxable where LLP income is exempt.

2. SALES TAX
Sales Tax Act, 1990

A. RELIEF MEASURE

- **Magazines:** Sales tax exemption granted.
- **Abolition of the Tampon Tax:** Sales tax on sanitary products withdrawn.
- **Electric Vehicles:** Exemption on import of CKD kits extended to 30 June 2027.
- **Aviation & Shipping:** Exemptions enhanced for aircraft parts (PIACL) and strategic shipping investment.
- **Refineries:** Exemption on import of capital goods for upgrading/overhauling existing refineries.
- **Tier-1 Retailer Definition Streamlined:** Annual turnover threshold set at Rs. 200 million.

B. REVENUE MEASURE

- **Expanded Third Schedule:**
  More consumer goods are brought within retail-price taxation (tax charged at consumer price at the manufacturing stage). New inclusions include: confectionery, fermented beverages, sauces, tableware, kitchenware, household plastics, furniture, bags, suitcases, footwear, crockery, cosmetics, disinfectants, milk and related products, and more.
- **3% Value-Addition Tax on Re-Sold Imports:**
  3% VAT recovery from manufacturers supplying imported goods in the same state; prosecution where such supplies exceed 50% of total imports in a financial year.
- **Withholding on Unregistered Persons:**
  Sales tax withholding extended to individuals, AOPs and registered persons engaged in toll manufacturing purchasing from unregistered buyers.
- **Section 21 Powers Broadened:**
  Board and its officers may de-register, suspend or blacklist registered persons for failure to integrate e-invoicing systems or comply with Section 40C monitoring.

C. STRUCTURAL & STREAMLINING MEASURES

- **Faceless Administration:**
  New faceless audit (Section 11H), faceless jurisdiction (Section 30AA) and faceless appeals (Section 45C) introduced.

- **Algorithmic Settlement Mechanism:**
  New Section **47AA** enables automated settlement; **Section 47AAA** establishes the Independent Case Scrutiny Committee.
- **Electronic Debit/Credit Notes:**
  Adjustments under **Section 9** to be made through electronically issued debit and credit notes.
- **Invoice Obligations Expanded:**
  Registered persons engaged in both taxable and exempt supplies are now required to issue invoices for exempt supplies; an advance invoicing mechanism has been introduced.
- **Production Monitoring:**
  Section 40C revamped for production monitoring with video analytics; seizure and confiscation powers for goods lacking tax stamps/stickers. **Section 47AA** - Algorithm-Based Settlement: Board may issue settlement offers before orders under **Sections 11D** or 11E; payment within 10 days required to avail.

3. FEDERAL EXCISE DUTY

Federal Excise Act, 2005

A. RELIEF MEASURE

- **Foreign Air Travel:** FED on international air tickets has been substantially reduced.
- **Acetate Tow:** FED slashed from Rs. 44,000 to Rs. 10,000 per kg.
- **Health - Compliant Beverages:** FED removed on WHO-standard compliant sports/electrolyte beverages.
- **Electric Vehicles:** Exemption on CKD kit imports extended to 30 June 2027.

B. REVENUE MEASURE

- **E-Liquids:** FED on electronic cigarette liquids raised from Rs. 10,000 to Rs. 16,500 per kg.
- **Petroleum Derivatives:** New FED on naphtha, solvent oil, turpentine (Rs. 80/liter); FED extended to base oil and base lubricating oil (5% ad valorem).
- **Luxury Vehicles:** Special Excise Duty of 40%–41% on imported luxury vehicles exceeding 2,000cc engine capacity (excluding electric four-wheelers) through 30 June 2027; FED of 30%–40% on luxury imported electric vehicles with import value exceeding Rs. 20 million.

C. STRUCTURAL & STREAMLINING MEASURES

- Faceless audit and assessment adopted under new **Section 7A.**
- Independent Case Scrutiny Committee established under new **Section 34AA.**
- Production monitoring and video analytics are made part of the monitoring/tracking scheme.
- Commissioners are empowered to conduct an audit more than once a year and direct a re-audit or an inventory revaluation.

4. CUSTOMS DUTY

Customs Act, 1969

A. RELIEF MEASURE

- Customs Duty (CD) on industrial inputs: Reduced across 92 tariff lines
  - 20% reduced to 15% / 10%
  - 15% reduced to 10%
  - 10% reduced to 5%
  - 5% reduced to 0%
- Additional Customs Duty (ACD): Reduced across 3,125+ tariff lines
  - 6% to 4% on 449 tariff lines
  - 4% to 2% on 2,107 tariff lines
  - 2% eliminated on 569 tariff lines
- Regulatory Duty (RD): Comprehensive review
  - All RD rates above 20% capped at 20% on 359 tariff lines
  - 20% across-the-board reduction on rates between 2.5%–20% across 1,347 tariff lines
  - RD rates of 2.5%, 2% and 1% reduced by 20% or eliminated on 208 tariff lines
- Agriculture: Full CD, ACD, and RD exemption on agricultural machinery.
- Public Health: CD exemption on critical cancer-related Active Pharmaceutical Ingredients.
- Construction: CD on specialized construction vehicles reduced from 20% to 10%.
- Defence & Security: Exemptions on defence imports and bullet-proof vehicles for the SCO Summit and counter-terrorism.

B. REVENUE MEASURE

- **Delay Detention Certificates:** The maximum penalty on terminal operators has been raised from Rs. 0.5 million to Rs. 10 million.
- **Smuggled Goods:** Definition of 'removal' expanded to include all acts facilitating movement or possession of smuggled goods; all authorities must hand over seized goods to Customs.
- **Asset Freezing:** Special Judges empowered to freeze assets of accused persons in illegal fund transfer cases.
- **Misdeclaration:** Exemption threshold for framing cases now applies by reference to the revenue involved, irrespective of the number of GDs.

C. STRUCTURAL & STREAMLINING MEASURES

- **Faceless adjudication:** Virtual proceedings to eliminate face-to-face interaction between officers and respondents.
- **Cargo Scanning:** Non-intrusive cargo scanning given express legal cover.

- Independent Case Scrutiny Committees introduced to vet departmental appeals.
- **Service of Summons:** Permitted through newspaper publication where accused is untraceable.
- **Trade Facilitation:** 15 new PCT codes created; two PCT code descriptions amended.