ATIF FAISAL & CO.
CHARTERED ACCOUNTANTS

Strategic Commentary on Finance Bill 2025

A concise expert briefing for Taxpayers, Investors & Policymakers

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Finance Bill 2025 – Strategic Briefing for Policymakers, Business Leaders & Investors

Executive Overview

The Finance Bill 2025 reflects Pakistan's continued fiscal alignment with IMF program requirements, marked by aggressive revenue mobilization, a shift toward digital enforcement, and restructuring of key tax regimes. However, the over-reliance on existing taxpayers, the absence of significant broadening of the tax base and new compliance mandates pose risks to economic resilience and investment sentiment. Atif Faisal & Co., Chartered Accountants (AFCO) provides a strategic breakdown of reforms, sectoral impacts and policy risks.

Macroeconomic Highlights

- GDP Growth (FY 2025): 2.68% (vs. 2.38% last year)
- Inflation: Sharp drop to 0.3% (April 2025)
- Fiscal Deficit: Reduced to 2.6% of GDP
- Tax Revenues: PKR 9.3 trillion (26.3% YoY increase)
- Remittance Shift: USD 1.9B surplus (vs. USD 1.3B deficit)

AFCO's Strategic Perspective

The bill prioritizes short-term revenue enhancement over long-term structural reforms. While digital taxation, customs automation, and enforcement upgrades are steps in the right direction, the reforms may outpace SME readiness, reduce compliance incentives and challenge taxpayer privacy norms.

Cross-Tax Themes & Red Flags

- Digital Taxation: No SME thresholds; platform liabilities unclear
- Capital Gains on Non-Residents: May breach DTA obligations
- FBR Enforcement Powers: Raises due process and privacy concerns
- Real Estate Reforms: Potential for speculative surges post-FED rollback
- Tribunal Appeals: Restored, but institutional capacity remains limited

Sectoral Impact Matrix

Sector	Key Change	Risk / Opportunity
E-commerce	Digital levy & platform obligations	Fragmentation; cost burden for small vendors
Banking	WHT hike + debt gains taxed	Reduced lending; informal economy growth
Real Estate	FED rollback + Stamp Act revamp	Transaction volume boost; speculative risks
Manufacturing	Tariff cut on inputs	Cheaper imports; local SME competition
NGOs	Centralized exemption under 100C	Increased compliance; sector consolidation

AFCO Policy Snapshot

Theme	Strategic Risk	AFCO Recommendation
Digital Tax Regime	SME exclusion, tech cost burden	Introducing turnover based exemptions
Sales Tax Powers	Privacy risks & overreach	Judicial oversight protocols
Customs Tariff Reform	Revenue erosion, audit risk	Phase cuts + audit under-invoicing
Excise Seizures	Risk of wrongful confiscation	Blockchain based verification + SOPs
Appellate Reforms	Tribunal overload	Pre-appeal filtering + capacity building

AFCO remains committed to advancing informed tax dialogue and policy clarity. Our firm continues to advise business leaders, investors, and public institutions on how best to adapt to Pakistan's evolving fiscal landscape with confidence, compliance, and strategic foresight.

AFCO remains committed to supporting businesses and institutions with clarity-driven insights and regulatory preparedness. For personalized impact analysis, contact us at **info@afco.com.pk**

This commentary can also be accessed on our website **https://www.afco.com.pk**

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KEY ECONOMIC INDICATORS & BUDGET AT A GLANCE

Economic Growth and Inflation Trends

The economy is projected to grow by 2.68% in 2024-2025, aided by the IMF Extended Fund Facility. Inflation has drastically decreased from 20.7% in April 2024 to nearly zero at 0.3% in April 2025.

- GDP growth rate: 2.68% for FY 2025, up from 2.38% in FY 2024.
- Inflation rate dropped significantly to 0.3% in April 2025.
- Average inflation rate for July-April FY 2025 was lower than the previous year.

Fiscal Performance and Revenue Generation

The fiscal deficit has improved to 2.6% of GDP, with a notable increase in tax revenues. The primary surplus has also risen significantly, indicating better fiscal management.

- Fiscal deficit reduced to 2.6% of GDP from 3.7% in the previous year.
- Primary surplus increased to 3.0% from 1.5%.
- Tax revenues surged by 26.3%, totalling Rs 9.3 trillion from July to April FY 2025.

External Economic Indicators

The external economic position has shifted from a deficit to a surplus, primarily due to increased remittance inflows. This change reflects a positive trend in the balance of payments.

- Shift from a US 1.3 billion deficit to a US 1.9 billion surplus.
- Record remittance inflows contributed significantly to the surplus.

Key Budget Financials for 2025-2026

The budget for 2025-2026 outlines significant increases in both tax and non-tax revenues, with a projected deficit. The total receipts and expenditures reflect a growing fiscal framework.

- Tax revenue projected at Rs 14,131 billion for 2025-2026, up from Rs 11,900 billion in 2024-2025.
- Total receipts expected to reach Rs 19,488 billion in 2025-2026.
- Current expenditure estimated at Rs 22,073 billion, leading to a deficit of Rs 12,566 billion.

Breakdown of Tax Revenue Sources

The tax revenue structure shows a stable ratio of direct taxes, with a need for broadening the tax base. The proposed amendments aim to enhance tax collection efficiency.

- Direct taxes account for a significant portion of total tax revenue.
- Indirect taxes, including sales tax and customs duties, also contribute substantially.
- Proposed amendments include new levies and adjustments to existing tax rates.

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FINANCE BILL 2025: A CRITICAL CROSSROAD FOR PAKISTAN'S ECONOMY

The Finance Bill, 2025 has been presented before the National Assembly of Pakistan amid pressing economic challenges and stringent conditions set by the International Monetary Fund (IMF). While the government's intent to stabilize the fiscal framework is evident, the proposed measures — predominantly centred on heightened taxation — risk exacerbating existing strains on the economy, businesses and the general-public.

Current Economic Climate: A Sector Under Pressure: Pakistan's tax landscape has witnessed an increasingly burdensome regime, with existing taxpayers bearing the brunt of revenue generation. The consequences are palpable: stifled economic growth, dwindling foreign investment, rising unemployment and eroded purchasing power. Rather than fostering a conducive environment for expansion, the prevailing policies have further diminished investor confidence — both local and foreign.

Unrealized Potential for Broadening the Tax Base: While efforts to widen the tax net are theoretically sound, critical gaps remain unaddressed. Notably, the issue of "short filers"—those underreporting or inconsistently filing returns — has been overlooked, undermining the potential for equitable tax distribution. Instead, the focus remains on extracting higher revenues from an already strained economy, risking long-term sustainability for short-term fiscal targets.

Stakeholder Engagement: Limited Stakeholder Consultation? The formulation of this year's fiscal policies appears to have sidelined meaningful stakeholder consultation. The singular emphasis on revenue collection, dictated by IMF imperatives, disregards the broader implications for industry viability and public welfare. This approach not only alienates compliant taxpayers but also deters potential entrants into the formal tax system, further constricting economic revival.

AFCO's Perspective: Clarity Amid Complexity: This publication serves as an initial analysis of the key amendments proposed in the federal fiscal laws. Our objective is to provide stakeholders with a concise yet insightful overview of the changes, their implications, and the road ahead. A more detailed discourse on these amendments will follow in subsequent editions.

As Pakistan navigates these critical fiscal challenges, AFCO remains committed to fostering informed dialogue, advocating balanced policymaking, and supporting sustainable economic growth.

June 10, 2025

INCOME TAX AMENDMENTS

INTRODUCTION

The Finance Bill 2025 represents a pivotal shift in Pakistan's fiscal policy, introducing sweeping reforms to the Income Tax Ordinance, 2001. These amendments reflect the government's urgent need to bolster revenue collection while attempting to stimulate economic activity. However, the measures reveal a concerning imbalance between immediate fiscal needs and sustainable growth objectives. This AFCO analysis provides a structured examination of the amendments, evaluating their technical, economic and strategic implications for businesses, investors and individual taxpayers.

KEY AMENDMENTS:

1. REVENUE MOBILIZATION: EXPANDING THE TAX NET

Policy Intent: *Strengthen revenue streams through enhanced rates, new levies and stricter enforcement mechanisms.*

- **Digital Transactions Levy (New Regime):**
  - Introduction of 0.25%–2% final tax on domestic digital vendors, with e-commerce platforms and courier services designated as withholding agents.
  - Mandatory sales tax registration for all digital sellers.

  AFCO Perspective: While capturing the digital economy, this levy, lacking clear thresholds, risks disproportionately burdening small vendors by forcing significant upfront compliance costs (e.g., e-invoicing software, dedicated staff) that could stifle their nascent growth. Introducing turnover-linked slabs or transaction thresholds could ensure proportional compliance while nurturing early-stage digital entrepreneurs.

- **Withholding Tax Enhancements:**
  - Cash withdrawals exceeding PKR 60,000 per day now subject to 0.8% tax (up from 0.6%).
  - Profit on debt from banking institutions to be taxed at 20% (previously 15%), while other cases remain at 15% for amounts below PKR 5 million.
  - Dividend income tax increased to 25% (15% for mutual funds).

  AFCO Perspective: The banking sector tax hike may reduce credit availability. Additionally, the increased cash withdrawal tax could inadvertently push more transactions into the undocumented informal economy, hindering broader financial transparency goals.

- **Capital Gains Taxation:**
  - 15% tax on gains from debt securities not traded through registered exchanges.
  - Non-residents holding government securities for less than 12 months subject to 20% capital gains tax.

Our View: These measures may inadvertently reduce liquidity in the debt market and deter foreign portfolio investment. This also raises treaty override concerns for jurisdictions with DTAs—clarity on override clauses or exemption carve-outs would help ensure consistency with international obligations.

- **Pension Income Taxation:**
  5% tax plus 9% surcharge imposed on pension income exceeding PKR 10 million for recipients below age 70.

  AFCO Perspective: Targets high-net-worth retirees but fails to account for inflationary erosion of pension values over time.

2. TAXPAYER RELIEF: TARGETED CONCESSIONS

Policy Intent: *Provide measured relief to compliant taxpayers and priority sectors.*

- **Salary Income Adjustments:**
  - Marginal rate reductions for income brackets up to PKR 3.2 million.
  - Surcharge on salary income above PKR 10 million reduced from 10% to 9%.

  AFCO Perspective: While welcome, these nominal reductions fail to offset the impact of inflation on disposable incomes.

- **Super Tax Rationalization:**
  0.5% reduction across income slabs between PKR 200-500 million.

  Our View: The limited scope of reduction suggests continued reliance on corporate taxpayers for revenue generation.

- **Housing Finance Incentives:**
  Tax credit on profit from housing loans for properties up to 250 sq. yds./flats up to 2,000 sq. ft.

  AFCO Perspective: A positive step for middle-class homeownership, though geographic limitations exclude rural housing needs.

- **FATA/PATA Exemptions:**
  Income tax exemption extended to tribal areas until June 2026.

  Our View: Essential for regional economic stability but requires complementary development initiatives.

3. STRUCTURAL REFORMS: CLOSING LOOPHOLES

Policy Intent: *Align tax computation with economic realities and reduce evasion opportunities.*

- **Depreciation Disallowance:**
  Complete disallowance if withholding tax on capital asset payments was not deducted/deposited.

  Our View: While preventing abuse, this overly stringent mechanism risks discouraging legitimate capital investment; a phased penalty structure linked to compliance history might be more equitable.

- **Intangible Asset Amortization:**
  Reduction of amortization period from 25 to 15 years for assets with indeterminate useful life.

  Our View: Potentially disadvantages knowledge-based industries and R&D-intensive sectors.

- **Expenditure Disallowances:**
  - Disallowance for purchases from non-NTN holders: 10% (excluding agricultural produce).
  - Cash payments > PKR 200,000 per transaction: 50% disallowance.

  Our View: These measures, while promoting documentation, may increase compliance costs for small businesses.

- **Group Taxation Framework:**
  All group entities must derive income under the Normal Tax Regime to qualify for group relief.

  Our View: Limits tax planning flexibility for legitimate business reorganizations.

4. COMPLIANCE & ENFORCEMENT: NEW OBLIGATIONS

Policy Intent: *Enhance transparency and strengthen enforcement mechanisms.*

- **FBR Enhanced Powers:**
  - Authority to restrict transactions for non-filers and entities with unexplained wealth.
  - Physical posting of tax officers at taxpayer premises permitted.

  AFCO Perspective: Raises significant privacy concerns and potential for discretionary application.

- **Digital Compliance Mandates:**
  E-commerce platforms are required to maintain seller registrations and file periodic statements.

  AFCO Perspective: Implementation challenges may arise regarding foreign digital service providers.

- **Appellate Process Reforms:**
  Restoration of pre-2024 appeal options (Commissioner Appeals or direct ATIR filing).

  AFCO Perspective: Constructive reinstatement of taxpayer choice in dispute resolution.

5. SECTOR-SPECIFIC INTERVENTIONS

- **Banking & Financial Services:**
  - Disclosure-focused assessment methodology for accurate income determination.
  - Mandatory data sharing on high-risk clients with FBR.

  Expert Insight: Balancing transparency needs with client confidentiality remains challenging.

- **Real Estate Sector:**
  - Advance tax adjustments: +1.5% on sales, -1.5% on purchases.
  - Commercial property FMR set at a minimum 4% of FBR-determined value.

  Expert Insight: May moderate speculative trading but lacks measures to boost affordable housing supply.

- **Non-Profit Organizations:**
  Unified exemption process under Section 100C requirement.

  Expert Insight: Streamlines oversight but may burden smaller charitable organizations.

AFCO'S STRATEGIC ASSESSMENT

- ✓ **Reliance on existing taxpayers, not base widening:** Heavy reliance on existing taxpayers through rate hikes rather than base broadening.
- ✓ **Structural Gaps:** Several measures appear reactive rather than strategically planned.
- ✓ **Implementation Risks:** Multiple new compliance requirements may strain both taxpayers and FBR resources.

RECOMMENDATIONS:

- ✓ Introducing thresholds for digital levy (e.g., based on annual turnover or transaction volume) to protect small vendors from disproportionate compliance burdens.
- ✓ Index pension taxation to inflation parameters.
- ✓ Provide clearer amortization guidelines for intangible assets.
- ✓ Phase in expenditure disallowance provisions with awareness campaigns.
- ✓ Tribunal readiness and digital case management must accompany this restoration to avoid procedural bottlenecks.

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SALES TAX AMENDMENTS

INTRODUCTION

The Finance Bill 2025 introduces transformative reforms to Pakistan's sales tax regime, with a dual focus on **digitizing tax administration** and **combating tax fraud**. While these measures aim to enhance compliance and revenue collection, they also impose significant new obligations on businesses across sectors. This AFCO analysis provides a critical examination of the amendments, evaluating their operational impact, compliance burdens, and strategic implications for taxpayers and the economy.

KEY AMENDMENTS:

1. DIGITAL TRANSFORMATION OF TAX ADMINISTRATION

Policy Intent: *Leverage technology to improve transparency and reduce evasion in goods movement and e-commerce.*

- **Cargo Tracking System (CTS) & E-Bilty**
  - Mandatory electronic tracking of goods via FBR-notified CTS.
  - Registered persons must link tax invoices with e-Bilty documents.

  AFCO Perspective: While promising for supply chain visibility, implementation challenges may arise for SMEs lacking digital infrastructure, a common hurdle observed in similar digital tax reforms globally.

- **Expanded Definitions**
  - "Courier" now explicitly includes ride-hailing, food delivery, and e-commerce logistics.
  - "Online marketplace" updated to cover modern digital platforms.

  AFCO Perspective: Reflects evolving business models but creates ambiguity around platform liability thresholds.

- **Withholding Obligations**
  - 2% sales tax on digital payments (collected by banks/payment gateways).
  - Courier services made withholding agents for Cash-on-Delivery transactions.

  AFCO Perspective: Places disproportionate compliance burden on financial intermediaries; may increase transaction costs.

2. ANTI-FRAUD MEASURES & ENFORCEMENT POWERS

Policy Intent: *Deter tax evasion through stricter penalties and expanded investigative tools.*

- **Tax Fraud Framework**
  - New "Abettor" definition targets accomplices in fraud schemes.

- Broadened "Tax Fraud" definition now includes technology-enabled evasion.

  Our View: Necessary but requires safeguards against arbitrary application.

- **Enhanced Commissioner Powers**
  - Authority to seal premises, freeze assets, and appoint receivers for non-compliant taxpayers.
  - Access to telecom subscriber data during fraud investigations.

  Our View: Raises privacy concerns and requires structured oversight.

- **Real-Time Invoice Reporting**
  - Mandatory integration of taxpayer invoicing systems with FBR's digital platform.

  Our View: Will strain businesses with legacy accounting systems.

3. INPUT TAX & COMPLIANCE ADJUSTMENTS

Policy Intent: *Prevent input tax abuse while maintaining working capital flows.*

- **Input Tax Restrictions**
  - FBR empowered to defer or cap input adjustments based on risk profiling.
  - Disallowance for purchases from unregistered persons (thresholds to be notified).

  Expert Insight: May disrupt cash flows for compliant businesses amid inflationary pressures.

- **Third Schedule Expansion**
  - Retail price mechanism extended to imported pet food, coffee, chocolates.

  Expert Insight: Targets luxury imports but implementation may face valuation disputes.

4. SECTOR-SPECIFIC INTERVENTIONS

- **E-Commerce**
  - Platforms barred from servicing unregistered sellers.
  - Non-resident digital sellers must register under Sales Tax Act.

  Expert Insight: Could fragment Pakistan's digital economy; needs phased onboarding.

- **Energy & Industry: FATA/PATA**
  - Gradual reintroduction of sales tax (10%→16% over 4 years).
  - Electricity supply exemption extended to June 2026.

  AFCO Perspective: Balanced approach but may deter investment in transitional regions.

- **Solar Sector**
  - Withdrawal of PV cell/module exemptions.
    AFCO Perspective: Contradicts renewable energy goals; local industry unprepared for shock.

5. PROCEDURAL REFORMS & APPEALS

- **Assessment Timeline**
  - Extended from 120 to 180 days for show-cause orders.

    Expert Insight: Reduces taxpayer uncertainty but delays dispute resolution.

- **Appeals Process**
  - Restoration of pre-2024 appellate options (Commissioner or direct ATIR filing).

    Expert Insight: Welcome flexibility but requires capacity building in tribunals.

AFCO'S STRATEGIC ASSESSMENT

Strengths

✓ Digital reforms align with global best practices.
✓ Stronger anti-fraud measures address leakage.

Concerns

✓ Compliance Overload: 12+ new obligations for businesses.
✓ SME Impact: Digital mandates may exclude informal sector.
✓ Discretionary Powers: Lack of checks on Commissioner's coercive authority.

RECOMMENDATIONS

✓ Introduce SME thresholds for digital compliance.
✓ Publish risk parameters for input tax restrictions.
✓ Establish ombudsman mechanism for anti-fraud investigations.

CUSTOMS ACT, 1969 AMENDMENTS

INTRODUCTION

The proposed amendments to the Customs Act 1969 represent a paradigm shift in Pakistan's trade policy, balancing **trade facilitation** with **enforcement rigor**. While the reforms aim to stimulate exports, reduce input costs and digitize customs processes, they also introduce operational complexities for businesses and regulatory risks. This AFCO analysis evaluates the amendments through three lenses: economic impact, compliance burden and strategic trade-offs.

KEY AMENDMENTS

1. TARIFF & DUTY RESTRUCTURING: GROWTH VS. REVENUE TRADE-OFFS

Policy Intent: *Reduce cost of doing business and promote export competitiveness by rationalizing duties.*

- **Simplified Tariff Slabs**
  - New slabs: 5%, 10%, 15% (replacing 3%, 11%, 16%).
  - 0% duty expanded to 916 additional HS codes (previously 2,201 lines).

  AFCO Perspective: Likely to reduce input costs for exporters but may erode fiscal revenues (~PKR 50–70bn estimated annual loss).

- **Additional Customs Duty (ACD) Reductions**
  - 2%→0% for 4,383 lines (0%, 5%, 10% slabs).
  - 4%→2% for 518 lines (15% slab).

  AFCO Perspective: Potential revenue leakage if misused for under-invoicing.

- **Regulatory Duty (RD) Rationalization**
  - Abolished for 554 HS codes, reduced for 595 codes.
  - Max rate cut from 90%→50%.

  AFCO Perspective: Consumer goods (e.g., electronics) to benefit; local industries may face import competition.

2. DIGITAL & OPERATIONAL REFORMS: EFFICIENCY VS. ENFORCEMENT

Policy Intent: *Leverage technology to curb smuggling and expedite legitimate trade.*

- **Centralized Units (CAUs/CEUs)**
  Single-window assessment to reduce clearance delays.

  Our View: Potential bottlenecks if capacity lags demand.

- **Cargo Tracking System (CTS)**
  Mandatory electronic monitoring for high-risk shipments.

  Our View: Critical for supply chain transparency but requires SME tech adoption support.

- **Pre-Arrival Clearance**
  Goods Declaration filing without advance duty payment.

  Our View: Will improve cash flow for importers but demands robust risk analytics.

- **Digital Enforcement Units (DEUs)**
  AI-driven profiling at borders to detect smuggling.

  Our View: Lack of oversight on data usage.

3. ANTI-SMUGGLING & ENFORCEMENT: DETERRENCE VS. OVERREACH

Policy Intent: *Strengthen deterrence against illicit trade while reducing litigation.*

- **Presumption of Smuggled Vehicles**
  Tampered chassis = automatic smuggling presumption (even if registered).

  AFCO Perspective: May lead to arbitrary seizures without burden of proof.

- **Customs Command Fund:** Incentivizes seizures; risks overzealous enforcement.

- **De-minimis Limit Reduction**
  Courier parcels threshold slashed to PKR 500 (from ~PKR 10,000).

  AFCO Perspective: E-commerce/logistics sectors face higher compliance costs.

- **Port Congestion Penalties**
  Fees for unclaimed cargo to deter dwell time abuse.

  AFCO Perspective: May increase storage costs for genuine delays.

4. INSTITUTIONAL REFORMS: RESTRUCTURING & RISKS

- **Organizational Changes**
  - Merger of Intelligence & Risk Management Directorates: Aims to synergize data but may create bureaucratic overlaps.
  - New Directorates (Auctions, PR):
    - DG Customs Auction could improve transparency in seized goods disposal.
    - DG Communications must balance trade facilitation with enforcement messaging.

- **Human Capital:** Specialist Hiring (Tech/Audit) - Short-term contracts may hinder institutional knowledge retention.

5. PROCEDURAL STREAMLINING: LITIGATION & APPEALS

- **Contravention Threshold Hike (PKR 20k→100k):** Reduces petty litigation but may encourage duty evasion below threshold.
- **Strict Timelines for Adjudication/Appeals:** Faster resolutions but risks procedural fairness if under-resourced.

AFCO'S STRATEGIC ASSESSMENT

Opportunities

✓ Export Boost: Lower input costs for manufacturers (e.g., textiles, autos).
✓ Ease of Doing Business: Pre-arrival clearance, CAUs reduce delays.
✓ Anti-Smuggling Tech: DEUs/CTS could curb illicit trade (~30% of Pakistan's market).

Risks

✓ Revenue Erosion: Duty cuts may widen fiscal deficit if not offset by compliance gains.
✓ SME Exclusion: Digital mandates (e.g., CTS) may marginalize smaller traders.
✓ Enforcement Arbitrariness: Vehicle/seizure presumptions lack due process safeguards.

RECOMMENDATIONS

✓ Phase RD Reductions: Protect vulnerable sectors (e.g., agriculture).
✓ Publish CTS Guidelines: Clarify SME exemptions/tech subsidies.
✓ Clarity needed on CTS compliance documentation requirements for importers to avoid customs hold-ups.
✓ Tribunal readiness and digital case management must accompany this restoration to avoid procedural bottlenecks.
✓ Ombudsman Oversight: Establish an independent ombudsman for DEU/seizure disputes to ensure due process and prevent arbitrary overreach.
✓ Capacity Building: Invest in customs tech training to avoid CAU/CEU bottlenecks.

FEDERAL EXCISE ACT, 2005 AMENDMENTS

INTRODUCTION

The proposed amendments to the Federal Excise Act, 2005 prioritize **illicit trade deterrence** and **procedural efficiency**, with significant implications for manufacturers, the real estate sector, and enforcement agencies. While the reforms aim to curb counterfeiting and streamline litigation, they also introduce stringent confiscation powers and jurisdictional shifts in appeals. This analysis evaluates the amendments through the lenses of enforcement efficacy, sectoral impact and compliance risks.

KEY AMENDMENTS:

1. Enhanced Anti-Illicit Trade Measures: Deterrence vs. Overreach

Policy Intent: *Combat counterfeit goods through aggressive seizure and destruction powers.*

- **Expanded Seizure & Confiscation**:
  - All dutiable goods (not just cigarettes/beverages) without genuine tax stamps/barcodes now face seizure + confiscation, including transport vehicles.

    Our View: Critical to curb Pakistan's PKR 300bn+ illicit cigarette trade but risks arbitrary seizures if verification protocols are weak.

- **Destruction of Counterfeits:**
  - Authorities empowered to destroy non-compliant goods (previously limited to cigarettes/beverages).

    Our View: Pharmaceuticals, FMCG sectors may face higher compliance costs for traceability tech (e.g., QR codes).

- **Cross-Department Enforcement:**
  - FBR can now authorize non-customs officers (federal/provincial) to conduct seizures under Sections 26–27.

    Our View: Potential jurisdictional conflicts; requires clear SOPs to prevent misuse.

2. Appeals Process: Streamlining vs. Due Process Risks

Policy Intent: *Reduce litigation backlog by offering flexible appeal pathways.*

- **Direct Appeals to Tribunal:**
  - Taxpayers may bypass Commissioner (Appeals) and file directly with Appellate Tribunal.
  - Pecuniary jurisdiction of Commissioner (Appeals) withdrawn.

AFCO Perspective: Accelerates dispute resolution but may overwhelm tribunals without capacity upgrades.

- **Alignment with Income Tax Procedures:**
  Uniform appeal rules across tax regimes reduce complexity.

  AFCO Perspective: Positive for corporates with multi-tax disputes but requires training for SMEs.

3. SECTOR-SPECIFIC RELIEF: REAL ESTATE STIMULUS

Policy Intent: *Reduce transaction costs in property markets.*

Withdrawal of FED on Property Transfers:

- 5% FED on first allotment/transfer of residential/commercial plots (introduced in 2024) abolished.

  AFCO Perspective - Economic Impact:
  - *Pros: Boosts liquidity in stagnant real estate; aligns with construction-led growth agenda.*
  - *Cons: Revenue loss (~PKR 15–20bn annually) and potential for incentivizing speculative buying rather than genuinely boosting affordable housing supply.*

AFCO'S STRATEGIC ASSESSMENT

Strengths:

✓ Illicit Trade Crackdown: Expanded seizure powers address 40%+ counterfeit penetration in cigarettes/beverages.
✓ Litigation Efficiency: Direct tribunal appeals could cut resolution time by 6–12 months.
✓ Real Estate Revival: FED withdrawal may spur affordable housing projects.

Risks:

✓ Enforcement Arbitrariness: No safeguards against wrongful seizures (e.g., genuine stamp misreads).
✓ Capacity Gaps: Tribunals unprepared for influx of direct appeals; risk of inconsistent judgments.
✓ Shadow Economy Shift: Illicit operators may migrate to non-excisable sectors (e.g., textiles).

RECOMMENDATIONS:

✓ Digital Verification Protocols: Mandate blockchain-based tax stamps to minimize wrongful seizures.
✓ Tribunal Capacity Building: Hire 50+ additional judges and digitize case management by 2026.
✓ Real Estate Safeguards: Link FED relief to affordable housing quotas to prevent speculation.
✓ Enforcement Transparency: Publish seizure data (brand-wise/region-wise) to ensure accountability.

STAMP ACT. 1899 AMENDMENTS

INTRODUCTION

Proposed amendments to the Stamp Act of 1899 introduce a differentiated stamp duty rate for property transactions in the Islamabad Capital Territory (ICT) based on the tax filer status. This reform aims to incentivize tax compliance and formalize transactions, with potential impacts on real estate liquidity.

KEY AMENDMENTS:

1. DIFFERENTIAL STAMP DUTY RATES

Policy Intent: *To promote tax compliance by imposing higher costs on non-filers in property transactions.*

Taxpayer Status	Stamp Duty Rate	Impact on Rate
Filers (on ATL)	1% of property value	50% reduction (vs. previous rate of 2%)
Non-Filers	2% of property value	100% increase (vs. filers)

2. ECONOMIC & SECTORAL IMPACT

- **Intended Outcomes:**
  - Enhanced Tax Compliance: Non-filers face significantly higher costs, driving ATL integration.
  - Revenue Neutrality: Reduced filer rates may increase transaction volumes, offsetting revenue cuts.

- **Empirical Insights:**
  - 65% of ICT property buyers in 2023 were non-filers (FBR data).
  - Projections indicate a 15–20% decrease in non-filer transactions, offset by a 10–15% rise among filers.

- **Strategic Recommendations**
  - Consider exempting filers from CGT on property held >3 years for added incentive.
  - Implement AI-driven tracking to flag undervalued transactions.
  - Advise transferring non-filer assets to compliant entities.
  - Provinces should consider mirroring ICT's structure to avoid market fragmentation.

AFCO'S ASSESSMENT

The amendment is a positive step towards formalizing real estate. Its effectiveness hinges on robust technological integration for ATL verification, comprehensive anti-evasion safeguards (e.g., CNIC-linked registrations), and enhanced inter-provincial coordination to prevent regulatory arbitrage.

OTHER KEY LEGISLATIVE AMENDMENTS - OVERVIEW

AMENDMENTS TO REGISTRATION ACT, 1908

- **Core Changes**
  - **Expanded Definition of "Immovable Property":** The definition now incorporates "digital property," aligning with the Income Tax Ordinance 2001. This potentially extends formal registration requirements to digital assets like cryptocurrencies, NFTs, and various digital rights, fostering compliance and enabling legal recourse for these transactions.
  - **Mandatory Online Registration & Filer-Based Refusal:** All documents are now mandated for electronic registration. Critically, registration can be refused if any involved party is a non-filer. This aims to accelerate digitization of property records while potentially impacting market inclusivity for those not on the Active Taxpayer List (ATL).
  - **Withdrawal of Registration Fee:** The fee on property conveyance value has been abolished. This measure is intended to reduce transaction costs within the real estate sector, thereby stimulating activity.

- **Strategic Concerns**
  - **Ambiguity in "Digital Property" Definition:** The absence of explicit classification for "digital property" may lead to legal disputes, particularly concerning the distinction between various digital assets (e.g., NFTs versus software licenses).
  - **Risk of Non-Filer Exclusion:** The provision to refuse registration for non-filers could inadvertently lead to market distortions or encourage informal property transactions.

- **Recommendation**
  - Issuance of a clarifying Statutory Regulatory Order (SRO) is recommended to provide a precise definition of "digital property," complete with illustrative examples (e.g., cryptocurrencies, metaverse assets), to ensure regulatory clarity and facilitate smooth implementation.

DIGITAL PRESENCE PROCEEDS TAX ACT OVERVIEW

The Digital Presence Proceeds Tax Act aims to ensure that digital businesses contribute fairly to the jurisdictions they profit from, addressing fiscal challenges posed by the digital economy. It proposes a **5% levy** on foreign vendors with significant digital presence in Pakistan.

- Act aims to ensure fair tax contribution from digital businesses.
- Tax on foreign vendors with significant digital presence proposed.
- Focus on safeguarding public revenue from digital transactions.

AMENDMENTS TO PUBLIC FINANCE MANAGEMENT ACT

The proposed amendments aim to enhance governance and financial management of public entities. Key changes focus on broadening definitions and improving cash management practices.

- Expanded definition of 'Public Entity' to include various agencies funded by the Federal Consolidated Fund.
- New policies for cash management will apply to all public entities.
- Responsibility for dissolving special funds will shift to the concerned Division.
- Public entities must manage self-generated revenues in consultation with the Finance Division.
- Accounting frameworks will be developed to align with international standards, ensuring transparency and accountability.

INTRODUCTION OF CARBON LEVY ON FOSSIL FUELS

A new carbon levy is proposed to be levied on petrol, high-speed diesel, and furnace oil to reduce fossil fuel consumption and fund climate initiatives. The levy will be in addition to the existing Petroleum Levy.

- Proposed carbon levy rates:
  - 2025-2026: PKR 2.5 per liter
  - 2026-2027: PKR 5 per liter
- Furnace Oil (Bunker 'C') will also be subject to these levies.
- The omission of the Fifth Schedule will allow the Federal Government to impose unlimited Petroleum Levy.

NEW ENERGY VEHICLES ADOPTION LEVY ACT, 2025

The proposed Act aims to impose a levy on internal combustion engine vehicles to encourage the adoption of new energy vehicles. The levy will be collected from manufacturers for locally produced vehicles and from importers for imported vehicles.

- Levy rates are categorized based on engine capacity:
  - Less than 1300 cc: 1% of invoice price
  - 1300 cc to 1800 cc: 2% of invoice price
  - More than 1800 cc: 3% of invoice price
  - Buses and trucks: 1% of invoice price
- Exemptions include new energy vehicles, vehicles for export, and those owned by diplomatic missions.
- The Federal Government can revise rates and categories as needed.
- The Customs Act and ST Act will apply to the levy's implementation.

POLICY SNAPSHOT

Theme	Strategic Risk	AFCO Recommendation
Digital Tax Regime	SME exclusion, tech cost burden	Introducing turnover-based exemptions
Sales Tax Powers	Privacy risks & overreach	Require judicial pre-approval protocols
Customs Tariff Reform	Revenue erosion, DTA misalignment	Phase cuts + audit under-invoicing practices
Excise Seizures	Risk of wrongful confiscation	Blockchain-based verification + SOP enforcement
Appellate Reforms	Tribunal overload risk	Pre-appeal screening + capacity building

AFCO remains committed to supporting businesses and institutions with clarity-driven insights and regulatory preparedness. For personalized impact analysis, contact us at **info@afco.com.pk**

DISCLAIMER

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