ACCOUNTRIX

THE FINANCIAL CONSULTANT

BUDGET SUMMARY

PAKISTAN

FY 2026 27

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1. Pakistan Budget 2026-27 – Executive Overview

The Federal Government of Pakistan presented the **Finance Bill 2026** on **12 June 2026**, marking the fiscal roadmap for the year beginning **1st July 2026**. The budget continues Pakistan's fiscal consolidation journey under the IMF Extended Fund Facility (EFF), aiming to expand the tax base, digitise revenue administration, and reduce the fiscal deficit.

The headline fiscal target for FY2026-27 includes a **Gross Revenue of Rs. 20,600 billion**, **Federal Expenditure of Rs. 18,771 billion**, and an **Overall Fiscal Deficit of Rs. 5,226 billion (3.6% of GDP)**. The Nominal GDP is projected at **Rs. 143,604 billion** – a growth of 13.2% over revised estimates.

Key policy themes: **Digital transformation** (faceless assessments, algorithmic settlements, e-invoicing); **Broader tax base** (social media earners, professionals, insurance payouts); **Relief measures** (Section 7E abolished, surcharge removed); and **Strict enforcement** (5x higher penalties, mandatory integration).

2. Fiscal Highlights at a Glance

The following table summarises the key fiscal indicators from the Budget 2026-27:

Indicator	Budget 2025-26	Revised 2025-26	Budget 2026-27	Change
FBR Revenue (Rs. Bn)	14,131	12,983	**15,264**	+17.6%
Non-Tax Revenue (Rs. Bn)	5,147	5,093	**5,336**	+4.8%
Gross Revenue (Rs. Bn)	19,278	18,076	**20,600**	+13.9%
Federal Expenditure (Rs. Bn)	17,573	15,642	**18,771**	+20.0%
Federal Budget Deficit (Rs. Bn)	-6,501	-5,157	**-7,020**	
Provincial Surplus (Rs. Bn)	1,464	1,379	**1,794**	+30.1%
Overall Fiscal Deficit (Rs. Bn)	-5,037	-3,778	**-5,226**	-3.6% GDP
Primary Surplus (Rs. Bn)	3,170	3,159	**2,828**	2.0% GDP
Nominal GDP (Rs. Bn)	129,567	126,870	**143,604**	+13.2%

Source: Finance Bill 2026 / Pakistan Budget at a Glance Documents | All figures in Rs. Billion

FBR Revenue Target	Expenditure Budget	Primary Surplus	Fiscal Deficit % GDP
Rs. 15,264 Bn	**Rs. 18,771 Bn**	**Rs. 2,828 Bn**	**3.6% of GDP**
↑ 17.6% vs Revised 25-26	Current Exp: Rs. 17,495 Bn	2.0% of Nominal GDP	vs -3.9% budgeted 25-26

Figure: Budget 2026-27 Key Fiscal Metrics at a Glance

3. Income Tax Amendments – Finance Bill 2026

The Finance Bill 2026 introduces comprehensive amendments to the **Income Tax Ordinance, 2001 (XLIX of 2001)**. The amendments span personal income tax slabs, withholding taxes, new taxes, enforcement mechanisms, and dispute resolution tools.

3.1 Revised Personal Income Tax Slabs

The **First Schedule, Division I** (covering individuals – both salaried and non-salaried) has been comprehensively revised. The tax-free threshold remains at **Rs. 600,000 per annum**.

S. No	Taxable Income	Tax Rate / Amount
1	Up to Rs. 600,000	**0% – Nil**
2	Rs. 600,001 – Rs. 1,200,000	1% of amount exceeding Rs. 600,000
3	Rs. 1,200,001 – Rs. 2,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
4	Rs. 2,200,001 – Rs. 3,200,000	Rs. 116,000 + 20% of amount exceeding Rs. 2,200,000
5	Rs. 3,200,001 – Rs. 4,100,000	Rs. 316,000 + 25% of amount exceeding Rs. 3,200,000
6	Rs. 4,100,001 – Rs. 5,600,000	Rs. 541,000 + 29% of amount exceeding Rs. 4,100,000
7	Rs. 5,600,001 – Rs. 7,000,000	Rs. 976,000 + 32% of amount exceeding Rs. 5,600,000
8	Above Rs. 7,000,000	**Rs. 1,424,000 + 35% of amount exceeding Rs. 7,000,000**

Table: Income Tax Slabs FY2026-27 – Division I, Part I, First Schedule (Finance Bill 2026)

Key Notes on Income Tax Slabs
• Tax-free limit: Rs. 600,000 annual income – unchanged. No tax for low earners.
• Slab 3 (11%): Covers income Rs. 1.2M to 2.2M – provides moderate relief vs prior rates.
• Top bracket 35% kicks in at Rs. 7 million annual income (prior bracket was different).
• These slabs apply to BOTH salaried and non-salaried individuals.
• Surcharge of 9% (previously on income >Rs. 10M) is NOW ABOLISHED. See 3.2.

3.2 Surcharge on High Earners – Abolished (Section 4AB)

The **9% surcharge** on income tax applicable where annual taxable income exceeded **Rs. 10 million** has been **completely abolished** via an amendment to Section 4AB. The proviso now reads: ***"no surcharge shall be payable."***

- **Effective from:** Tax Year 2026 (FY 2025-26) onwards.
- **Impact:** High-income individuals and business owners earning above Rs. 10M annually will save up to 9% of their income tax liability.

3.3 Withholding Tax Rate Changes – First Schedule Part III

Multiplewithholdingtaxrateshave been revised.Thechangesaffect contractors, service providers, professionals, property transactions, and new digital categories:

Category / Section	Old Rate	New Rate	Impact
Contractors & Suppliers (Div. III, para 2(i))	6%	**7%**	Increase
Independent Professionals – doctors, lawyers, architects, CA, software engineers (Div. III, para 2(ii))	Not specified separately	**15%**	New Specific Rate
Advertising – Electronic & Print Media (Div. III, para 2(iii))	N/A (pooled)	**1.5%**	New Specific Rate
Other Services (Div. III, para 2(iv))	Varied	**14%**	Standardised
Non-Resident Shipping / Air Transport (Div. IIIAA)	15%	**20%**	Increase
Social Media Platform Revenue (NEW – Div. IIIAB, Sec 151B)	None	**5% (Resident & Non-Resident)**	Brand New Levy
Advance Tax – Sale of Immovable Property (Div. X, Sec 236C)	Varied	**2.75% of gross consideration**	Revised
Advance Tax – Purchase of Immovable Property (Div. XVIII, Sec 236K)	Varied	**1.25% of fair market value**	Revised
Bank Transactions / Imports (Div. IV, para 1 & 3)	1%	**1.25%**	Increase

Table: Key Withholding Tax Rate Changes – Finance Bill 2026, First Schedule Part III

3.4 New Tax on Life Insurance / Takaful Payouts (Section 7G)

Anew **Section7G** introducestax onpayouts received from lifeinsurancepolicies,family takaful certificates, and similar plans. This is a **Final Tax** deducted at source by the insurer.

When Payout is Made	Tax Rate	Notes
Within 1 year of policy issuance	**15%**	Highest rate – early exit
After 1 year, before 7 years	**10%**	On profit element only
After 7 years	**EXEMPT**	No tax – long term
On Death of insured	**EXEMPT**	Full exemption
On Disability of insured	**EXEMPT**	Full exemption

Table: Tax on Life Insurance/Takaful Payouts – Section 7G, Finance Bill 2026

- **Advisory:** Tax applies on the profit element only (gross payout minus total premiums paid). Policies held beyond 7 years are fully exempt – making long-term family takaful highly tax efficient.

3.5 Section 7E (Deemed Income on Property) – Completely Abolished

Section 7E, which imposed a **1% tax on the fair market value of immovable property** held by individuals (treated as deemed income), has been **completely omitted** from the Income Tax Ordinance 2001. This was one of the most contested provisions since its introduction.

- **RELIEF: Property owners are no longer subject to deemed income tax on their real estate holdings. This is expected to revive real estate investment and resolve pending litigation.**

3.6 Faceless Assessment & National Faceless Centre (Section 122E)

A landmark change in tax administration – the Finance Bill introduces **Faceless Audit and Assessment** under Income Tax (Section 122E) and a **National Faceless Centre** (Section 227D):

- Audits (Sec 177, 214C), assessments (Sec 111), and rectifications (Sec 221) can now be conducted **remotely without physical appearance**.
- Hearings conducted through **E-hearing** (electronic/video format).
- **Officer identity kept confidential** from the taxpayer – preventing undue influence.
- **Algorithmic case assignment** – reduces officer discretion in selecting cases for audit.
- Audit, assessment, and quality control in a specific case handled by **separate officers**.
- Jurisdiction objections cannot be raised on grounds of territorial jurisdiction or officer identity.

3.7 Algorithmic Settlement Mechanism (Section 134B)

A novel dispute resolution tool – FBR's system will generate a **system-calculated settlement offer** to taxpayers with outstanding tax demands:

- Taxpayer can **accept or reject** the system-generated settlement offer.
- On acceptance: File a **revised return** without Commissioner's approval.
- **No penalty or default surcharge** on amounts settled through this mechanism.
- Settlement is limited to the specific tax year; does not affect other tax years.
- Also applies under **Sales Tax (Sec 26AAA)** and **Federal Excise Act**.

3.8 Capital Gains & Immovable Property

- **Inherited Property – Cost Base Revised (Sec 76):** Where property is inherited, the cost basis for CGT purposes is now the **fair market value on date of death** (previously original purchase cost) – significantly reducing taxable capital gain on future sale.
- **Family Settlement on Death (Sec 79):** Transfer of property among family members consequent upon death (family settlement) is now explicitly clarified as a valid transmission event.
- **Advance Tax on Sale (Div. X):** Rate revised to **2.75%** of gross consideration received.
- **Advance Tax on Purchase (Div. XVIII):** Rate revised to **1.25%** of fair market value.

3.9 Tax Credit for Digital Integration – Section 64D (Revised)

Section 64D has been substituted to offer a **10% tax credit** on expenditure incurred for equipment/software for FBR-prescribed digital systems (production monitoring, sales recording):

- Credit available in the year of **installation and integration** with FBR's computerized system.
- Available only against **normal tax** (Div. I or II of Part I) – not final/minimum taxes.
- Excludes operation and maintenance costs.

3.10 Social Media Platform Revenue – New WHT (Section 151B / Division IIIAB)

Abrandnew**DivisionIIIAB** introduces **5%withholdingtaxon revenuesreceivedfromsocialmedia platforms** (YouTube, TikTok, Instagram, Facebook, etc.) under new Section 151B:

- **Resident persons on ATL:** 5% – ***adjustable*** against final tax liability.
- **Non-resident persons:** 5% – treated as ***Final Tax***.
- **Impact:** Digital content creators, influencers, and channel operators receiving platform monetization are now within the WHT net.

3.11 Enhanced Surcharge for ATL Inclusion

Person	Current	Proposed
Individual	Rs 1,000	Rs 25,000
Association of person	Rs 10,000	Rs 50,000
Company	Rs 20,000	Rs 100,000

3.12 Higher Penalties for Non Compliance

Area	Current	Proposed
FBR electronic resources	Not specifically provided	Rs. 1M first default; Rs 2M thereafter
Integrated data sharing	Not specifically provided	Rs. 500k first default; Rs 1M thereafter
Statement / Info default	Rs. 25k/50k/100k	Rs. 100k/200k/300k
False or misleading statement	Rs. 20k or 50% of tax shortfall	Rs. 20k or 50% of tax shortfall
Concealment / inaccirate particulars	Rs. 100k	Rs. 1M
WHT deduction / collection default	Rs. 40k	Rs. 500k

4. Sales Tax Amendments – Finance Bill 2026

The Finance Bill 2026 introduces extensive amendments to the **Sales Tax Act, 1990 (VII of 1990)**. The **standard GST rate of 18%** remains unchanged. The focus is on **digitisation, enforcement, transparency, and expanding the registered person base**.

4.1 Electronic Invoicing & Digital Integration (Section 23)

The Finance Bill mandates a comprehensive shift to **fully electronic invoicing** with FBR-assigned unique invoice numbers:

- All registered persons (including those making **exempt supplies**) must issue a **tax invoice bearing a verifiable, unique FBR Invoice Number**.
- New concept of **"Advance Receipt Invoice"** for advance payments received before supply.
- **"Electronic Invoicing System"** formally defined and to be prescribed/approved by FBR.
- Issuance of **debit and credit notes** to be governed through Board-prescribed electronic adjustment mechanisms (Sec 9 amendment).
- **Non-compliance with Sec 23(5) and 23(6)** (electronic invoicing rules) is now an explicit ground for **suspension of registration** under Section 21.

4.2 Expanded Tier-1 Retailer Definition (Section 2(43A))

- **Wholesaler-cum-retailer** now requires **turnover exceeding Rs. 200 million** to qualify as Tier-1.
- New sub-clause (gb): Retailers with turnover exceeding **Rs. 200 million** – whether declared or determined via WHT deduction under Secs 236G or 236H of ITO – are now Tier-1.
- FBR can exclude any person or class from Tier-1 status via official gazette notification.
- **Impact:** More retailers will now fall under the regular GST regime (18%) rather than the fixed tax/simplified regime – significantly expanding the sales tax base.

4.3 Faceless Audit for Sales Tax – Section 11H (New)

- Audits (Secs 25, 72B), orders (Sec 11E), and rectifications (Sec 57) can be conducted in a **faceless manner** as prescribed by FBR.
- **E-hearing** required where taxpayer opportunity of being heard is necessary.
- **Identity of conducting officer kept confidential** during E-hearing.
- Formal **Audit Report** required after completion, incorporating taxpayer explanations on all audit observations.
- During audit contest: Deposit requirement reduced from **100% to 50%** of tax involved to suspend recovery (Sec 25(11)).

4.4 Steel Sector – Electricity-Based GST Collection (Section 6)

- For **steel melters, re-rollers and composite units**: GST collected based on **per unit electricity consumption** at FBR-notified rates.
- Tax is **adjustable** (not final) – excess refunded monthly via FBR's automated refund system.
- Monthly refund available ONLY to those integrated with **FBR production monitoring AND digital invoicing systems**.

4.5 Massively Increased Penalties for Non-Compliance (Section 33)

Inthestrongestenforcementsignalinyears,**Section33penalties**havebeenincreasedbyup to **5 times**:

Offence (S.No.)	Old Penalty	New Penalty – Finance Bill 2026
Late/non-filing of return (S.No. 1)	Rs. 10,000 min	**Rs. 50,000** min (5x increase)
Non-payment / short payment (S.No. 2)	Rs. 5,000 or 3% of tax	**Rs. 25,000 or 5%** of tax
Non-issuance of invoice (S.No. 3)	Rs. 10,000; 5% of tax	**Rs. 50,000; 10%** of tax
Non-registration (S.No. 5)	Rs. 10,000 or 5%	**Rs. 50,000** or 5%
Other standard offences (S.No. 7 & 8)	Rs. 10,000	**Rs. 50,000**
Non-integration with FBR IT systems (S.No. 25)	Up to Rs. 100,000	**Rs. 1 million**; Rs. 5 million on repeat within 1 month

Table: Revised Penalty Structure – Sales Tax Act, 1990, Section 33 (Finance Bill 2026)

4.6 National Faceless Centre for Sales Tax (Section 32C)

- FBRto establishaа**NationalFaceless Centre (NFC)** for remote/facelessproceedings under the Sales Tax Act.
- Headed by a **Director General**; staffed with officers of Inland Revenue.
- **Algorithmic case assignment** – FBR can design algorithms for jurisdiction assignment within the NFC.
- **Separate officers** for audit, assessment, and quality control in each case – ensures checks and balances.
- All communications with registered persons conducted through **electronic means only**.
- Officer identity kept confidential; proceedings cannot be challenged merely on grounds of territorial jurisdiction.

4.7 Algorithmic Settlement Mechanism for Sales Tax (Section 26AAA)

The SalesTaxActnowincludesan**AlgorithmicSettlementMechanism(Sec26AAA)**–mirroring the Income Tax provision:

- System-generated settlement offers for outstanding sales tax demands.
- On acceptance: **No separate penalties or default surcharge** payable.
- Also mirrors in the **Federal Excise Act** for excise duty settlements.

5. Impact Analysis & Accountrix Advisory

■ Relief / Positive Measures	■■ New Costs / Compliance Burdens
• 9% Surcharge abolished – relief for income >Rs. 10M	• 5% WHT on social media/content creator earnings – new cost
• Section 7E Deemed Income Tax abolished – property owners benefit	• Independent professionals: 15% WHT (doctors, lawyers, CA, engineers)
• 11% slab for Rs. 1.2M-2.2M – moderate individual relief	• Contractors/suppliers: WHT raised from 6% to 7%
• Life insurance payouts exempt after 7 years – long-term holders safe	• Non-resident shipping/transport: WHT raised 15% to 20%
• Algorithmic settlement – penalty-free dispute resolution	• Life insurance payouts taxed 10-15% if encashed within 7 years
• Inherited property FMV cost base – reduces future CGT	• Retailers (>Rs. 200M turnover) now Tier-1: full 18% GST applies
• 10% tax credit for digital integration investment (Sec 64D)	• Mandatory electronic invoicing with FBR unique invoice numbers
• Sales tax audit deposit reduced from 100% to 50%	• Sales tax penalties increased 5x across all major offences

Taxpayer / Business Category	Key Impact & Action Required
Salaried Individuals	Marginally better slabs; surcharge removed if >Rs. 10M. Ensure ATL compliance for filer rates.
Self-Employed Professionals	New specific 15% WHT rate. Ensure registration and file returns to claim credit. Maintain proper fee invoices.
Real Estate Investors	Section 7E abolished – MAJOR relief. Check advance tax on sale (2.75%) and purchase (1.25%). Inherited property gets FMV cost base.
Retailers (Turnover >Rs. 200M)	Now classified Tier-1 – full 18% GST applies. Must integrate with FBR POS/production monitoring. Plan for increased compliance cost.
Steel Industry	GST via electricity units – new mechanism. Must integrate with FBR systems to claim monthly refunds.
Life Insurance Policyholders	New 10-15% tax on early policy encashment. Hold policies >7 years for full exemption. Review existing portfolio.
Content Creators / Influencers	5% WHT on platform earnings. Register as taxpayer; claim WHT as adjustable credit against income tax.
All Businesses	Faceless audits are now standard. Electronic invoicing with FBR unique numbers is mandatory. 5x higher penalties for non-compliance – ACT NOW to integrate.

Accountrix Top Advisory Points

1	**Ensure ATL Compliance** Filing your returnontimekeeps you on the Active Taxpayer List (ATL), unlocking lower withholding tax rates across ALL categories.
2	**Integrate with FBR Digital Systems Immediately** TheFinanceBill makes FBRsystemintegrationpracticallymandatory. Non-integration means 5x penalties plus denial of digital refunds in manufacturing.
3	**Transition to Electronic Invoicing NOW** AllbusinessesmustprepareforFBR-assignedunique invoice numbers. Engage your ERP/accounting software provider immediately.
4	**Property Portfolio Review** Section 7E abolished – reviewyour holdings. For pending transactions, note revised WHT rates on sale (2.75%) and purchase (1.25%).
5	**Professionals: Review WHT Position** At15%WHT,professionalsneedstrongrecord-keeping and timely return filing to claim WHT credits against final tax.
6	**Insurance: Review Policy Tenure** Avoidearlyencashmentofpolicieswithin 7 years. Long-term family takaful (7+ years) remains fully exempt.
7	**Use Algorithmic Settlement for Old Disputes** Outstanding FBR demands?ThenewAlgorithmicSettlement offers penalty-free resolution. Contact Accountrix to evaluate your options.
8	**Social Media Earners: Register & File** 5%WHTappliesonplatformrevenues.Register with FBR, declare income, and file returns to remain compliant.

Contact Accountrix – Your Financial & Tax Partner

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