

Real Estate **Tax Reforms**

Section 7E abolished · WHT reduced to flat rates · Late-filer category removed

Effective July 1, 2026 | Federal Budget

1. Section 7E – Deemed income tax abolished

Section 7E (deemed income tax on immovable property) has been completely scrapped. Previously, this section deemed 5% of Fair Market Value (FMV) of the property as taxable income, which was then subject to normal tax rates (e.g., 20% for most individuals), resulting in an effective tax of approximately 1% of FMV. The provision faced extensive litigation and was struck down. This removal eliminates this notional tax burden entirely.

2. Withholding tax – Buyer (Section 236K)

Fair Market Value	Previous Rate (ATL Filers)
Does not exceed Rs. 50 Million	1.5%
Exceeds Rs. 50 Million but not Rs. 100 Million	2.0%
Exceeds Rs. 100 Million	2.5%

Previous slab system u/s 236K (now abolished)

PREVIOUS (UPPER SLAB)

2.5%

Slab-based for filers

NEW FLAT RATE – ATL

1.25%

Regardless of property value

Slab system abolished. Active taxpayers now pay 1.25% flat WHT on

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3. Withholding tax – Seller (Section 236C)

Gross Consideration Amount	Previous Rate (ATL Filers)
Does not exceed Rs. 50 Million	4.5%
Exceeds Rs. 50 Million but not Rs. 100 Million	5.0%
Exceeds Rs. 100 Million	5.5%

Previous slab system u/s 236C (now abolished)

PREVIOUS (UPPER SLAB)

5.5%

NEW FLAT RATE – ATL

2.75%

Exactly half of previous top rate

Uniform 2.75% withholding tax on sale/transfer for active taxpayers. Slab system removed.

4. Late-filer category scrapped

Major compliance overhaul

Previously, even after paying surcharge for ATL inclusion, "late filers" were subject to higher withholding rates under Rule 1A (Tenth Schedule). The Finance Bill 2026-27 completely removes the intermediate late-filer category. Any person filing return after due date (and paying applicable surcharge) will be treated as a full active taxpayer, eligible for the new reduced rates: 1.25% (236K) and 2.75% (236C).

⚠ Note: Surcharge for restoration of ATL status revised to PKR 25,000 for individuals (previously PKR 1,000).



Projected market impact

Halving withholding tax rates for buyers and sellers is expected to significantly increase registered transaction volumes. Lower tax incidence reduces under-invoicing, leading to better documentation.

Revenue & compliance dynamics

Despite rate reduction, total collection under sections 236K and 236C is projected to remain stable due to increased transaction frequency. Uniform flat rates remove valuation disputes.

Capital gains & inheritance

Inherited property will be valued at original owner's date-of-death FMV, lowering capital gains tax for heirs. Capital Value Tax on foreign properties removed.

Strategic advisory

✔ Ensure ATL status before property deals – new flat rates apply exclusively to ATL persons.

✔ Late filers: pay surcharge (PKR 25,000) to regain ATL status and access reduced rates.

 Section 7E repeal: prior payments may be adjustable for open tax years.

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