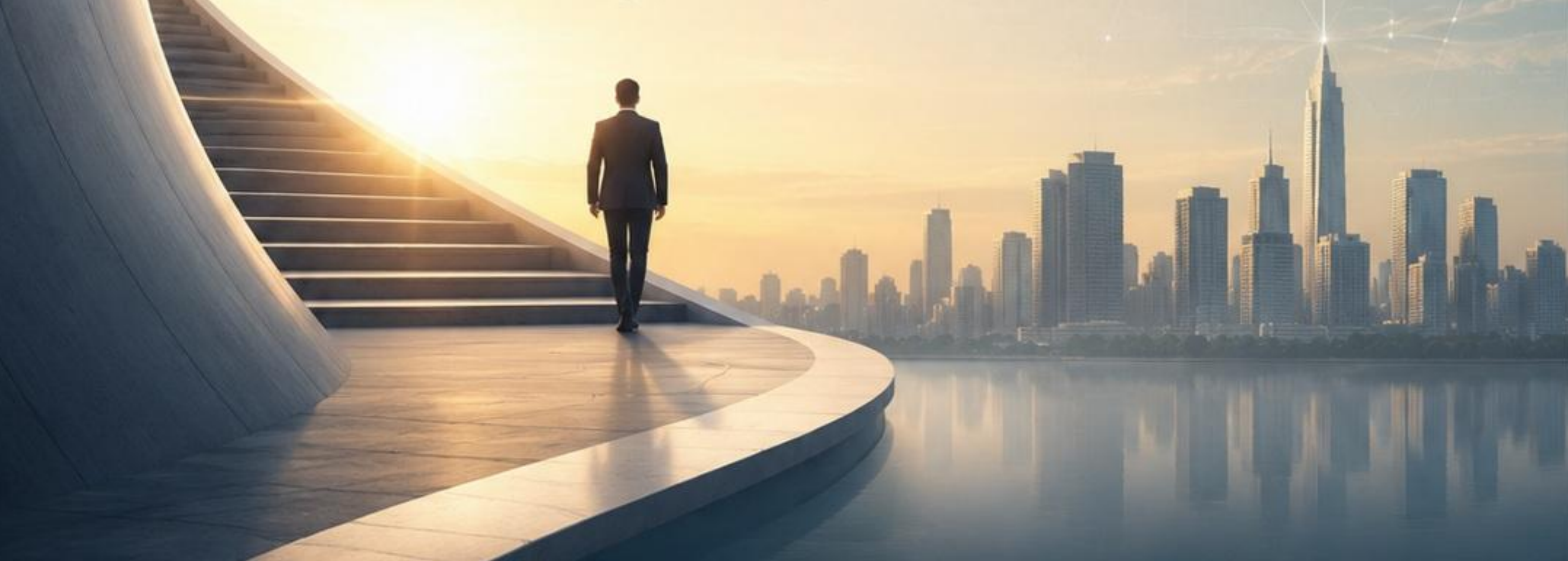
ABDUS SLAM & CO

Chartered Accountants

INSIDE FINANCE ACT 2026

The Digital Compliance Shift



Key Tax Changes | Practical Implications | Firm's Views | Compliance Action Plan

CLARITY • INSIGHT • CONFIDENCE

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Initial Thoughts

The Finance Act, 2026 marks a decisive movement from conventional tax administration toward a digitally monitored, algorithm-driven and data-linked tax environment. While certain relief measures have been introduced, the larger policy direction is clear: documentation, integration, automated matching, electronic records and compliance visibility will increasingly define the relationship between taxpayers and the Federal Board of Revenue.

This publication has been prepared as a practical, reader-friendly guide. Instead of reproducing the law provision by provision, it explains the changes through summaries, comparison tables, flowcharts, risk indicators, sector impact cards and firm's views. Readers should be able to quickly understand what changed, who is affected, what risks arise and what practical steps may be required.

At Abdus Slam & Co., our tax advisory approach is built around clarity, commercial understanding and timely guidance. We help clients interpret legislative change not only as a compliance obligation, but also as a planning opportunity. In an environment where tax administration is becoming increasingly digital, proactive documentation, system readiness and informed decision-making are more important than ever.

Disclaimer: This publication is intended for general information and discussion purposes only. It should not be treated as legal, tax or professional advice for any specific transaction or taxpayer. Readers are encouraged to seek professional guidance before acting on any matter discussed in this document.

From Tax Advisory Desk

1. Executive Snapshot

The Finance Act, 2026 is not merely a rate-changing law; it is a structural compliance reform. Its strongest theme is the move toward digital tax administration through faceless assessment, faceless appeals, algorithmic settlement, electronic invoicing, production monitoring and data sharing by banks and financial institutions. The Act also reshapes several taxpayer segments, including salaried individuals, real estate participants, digital content creators, insurance policy holders, retailers, manufacturers and businesses required to integrate with FBR systems.

Relief	Digital Shift	Enforcement	New Tax Areas
Section 7E omitted; property advance tax rates revised.	Faceless assessment, e-hearing, electronic records and digital invoicing.	Banking data matching, invoice mismatch penalties and production monitoring.	Social media platform revenues and early insurance/takaful payouts.

Top Change	Practical Meaning	Impact
Faceless audit, assessment and appeals	Proceedings may move through electronic channels with confidential officer identity.	High
Algorithmic settlement mechanism	System-generated settlement offers may be available before final orders.	High
Banking data reporting	High-value bank activity may be digitally matched with tax records.	High
Electronic invoicing and production monitoring	Invoice verification and production tracking become core compliance controls.	High
Social media platform revenues	Digital platform receipts become more visible through withholding.	Medium to High

2. Finance Act 2026 at a Glance

Theme	Policy Direction	Practical Signal
Digital Administration	Faceless proceedings, e-hearings, electronic filing and algorithmic allocation.	Maintain searchable, electronically readable records.
Enforcement & Risk Matching	Banking data hub, invoice-risk controls, production monitoring and input matching.	Weak reconciliations and unsupported invoices now carry higher risk.
Revenue Collection	Withholding tax changes, new digital-platform withholding and penalty enhancements.	Collection at source remains central to the revenue strategy.
Targeted Relief	Section 7E omitted, property rates rationalized and integration tax credit introduced.	Relief exists, but within a more documented environment.

In one sentence: Finance Act 2026 moves Pakistan's tax system from declaration-based compliance toward data-led verification, source-based collection and automated enforcement.

The New Tax Environment

Before	After
Taxpayer declaration ↓ Audit selection ↓ Manual assessment ↓ Appeal	Taxpayer declaration ↓ Digital data collection ↓ Algorithmic matching ↓ Faceless proceedings ↓ Algorithmic settlement ↓ Faceless appeal

Our View: The most important change in Finance Act 2026 is not a tax rate amendment; it is the transformation of tax administration into a data-driven compliance ecosystem.

3. Income Tax Amendments

3.1 Revised Tax Rates for Individuals

The Finance Act, 2026 revises the individual tax slab structure. The lower slabs continue to provide relief up to Rs. 600,000, while the rate progression has been reshaped for higher income brackets. The introduction of new slabs between Rs. 4.1 million and Rs. 7 million makes the structure more graduated than the previous version.

Taxable Income	Rate of Tax
Up to Rs. 600,000	0%
Rs. 600,001 to Rs. 1,200,000	1% of the amount exceeding Rs. 600,000
Rs. 1,200,001 to Rs. 2,200,000	Rs. 6,000 plus 11% of the amount exceeding Rs. 1,200,000
Rs. 2,200,001 to Rs. 3,200,000	Rs. 116,000 plus 20% of the amount exceeding Rs. 2,200,000
Rs. 3,200,001 to Rs. 4,100,000	Rs. 316,000 plus 25% of the amount exceeding Rs. 3,200,000
Rs. 4,100,001 to Rs. 5,600,000	Rs. 541,000 plus 29% of the amount exceeding Rs. 4,100,000
Rs. 5,600,001 to Rs. 7,000,000	Rs. 976,000 plus 32% of the amount exceeding Rs. 5,600,000
Above Rs. 7,000,000	Rs. 1,424,000 plus 35% of the amount exceeding Rs. 7,000,000

Annual Taxable Income	Tax under 2025 Rates	Tax under 2026 Rates	Difference	Movement
Rs. 600,000	0	0	0	No change
Rs. 1,200,000	6,000	6,000	0	No change
Rs. 2,200,000	116,000	116,000	0	No change
Rs. 3,200,000	346,000	316,000	-30,000	Relief
Rs. 4,100,000	616,000	541,000	-75,000	Relief
Rs. 5,600,000	1,141,000	976,000	-165,000	Relief
Rs. 7,000,000	1,631,000	1,424,000	-207,000	Relief
Rs. 10,000,000	2,681,000	2,474,000	-207,000	Relief

Our View: The revised slab structure continues relief at the lower income level and introduces a more graduated progression for higher salary brackets. Compared with the 2025 structure, the 2026 slabs reduce the tax burden in several middle and upper-middle income ranges before reaching the maximum rate at higher income levels.

3.2 Omission of Section 7E

Section 7E, which dealt with tax on deemed income from immovable property, has been omitted. This is one of the most significant relief-oriented changes for property owners and the real estate sector.

Our View: The omission may improve sentiment in the real estate sector. However, documentation, source of investment, capital gains, advance tax and banking trail issues will remain highly relevant. Therefore, this should be presented as relief from one controversial provision, not as a complete relaxation of property taxation.

3.3 Tax on Certain Life Insurance and Takaful Payouts

A new tax applies to certain payouts, benefits, surrender values, maturity proceeds or similar payments received by individuals from life insurance businesses or takaful operators. The taxable amount is generally the gross payout reduced by premiums or contributions paid by the policyholder or participant. Payments on death, disability or after completion of four years are excluded from this provision.

LIFE INSURANCE / TAKAFUL PAYOUT FLOWCHART				
Payout Received	→	**Death or Disability?**	Yes →	**No tax under this provision**
		No ↓		
		Held for more than four years?	Yes →	**No tax under this provision**
		No ↓		
Within one year **15%**	or	**After one year but before four years** 10%		**Who is affected?** Individuals considering early surrender or encashment of insurance or takaful policies.

3.4 Withholding Tax on Social Media Platform Revenues

The Act introduces withholding tax on revenues received from social media platforms. Banking and non-banking financial institutions are required to deduct tax at 5% where amounts credited or received in an account represent revenues from digital platforms. For a resident person, the tax deducted is treated as minimum tax. For a non-resident person not having a permanent establishment in Pakistan, the tax deducted is treated as final tax.

SOCIAL MEDIA & DIGITAL CREATOR TAXATION		
Platforms Covered **YouTube** **Facebook** **Instagram** **TikTok** **Similar platforms**	**Who is affected?** Content creators Influencers Affiliate marketers Digital educators Online entertainers	**Planning Point** Separate business receipts, maintain expense records and reconcile bank receipts with tax declarations.

Person	Nature of Tax	Practical Meaning
Resident person	Minimum tax	Tax deducted is adjustable only to the extent permitted under the minimum tax framework; proper income declaration and expense documentation remain important.
Non-resident person without permanent establishment in Pakistan	Final tax	Tax deducted generally settles the tax liability on that income stream under this provision.

Our View: The new withholding framework gives digital platform receipts a clearer tax footprint. For resident creators, the minimum tax character means that proper declaration, expense support and reconciliation with bank credits will remain essential. For non-residents without a permanent establishment, the final tax treatment simplifies collection but also places significant responsibility on financial institutions to correctly identify the nature of receipts.

3.5 Faceless Audit, Assessment and Appeals

The Act introduces faceless audit and assessment under the Income Tax Ordinance. Proceedings may be conducted electronically through the National Faceless Centre. The identity of the officer conducting e-hearing may be kept confidential, while separate functions for audit, assessment and quality control may be performed by separate officers.

Our View: Faceless proceedings can reduce physical interaction and improve process standardization, but they also increase the importance of record quality, written submissions, digital evidence, response timelines and document formatting. Taxpayers should maintain searchable, electronically readable and well-indexed records.

FACELESS TAX ADMINISTRATION	
Income Tax	**Sales Tax**
Notice	Selection
↓	↓
Electronic reply	Electronic audit
↓	↓
E-hearing	E-hearing
↓	↓
Faceless assessment	Faceless order
↓	↓
Faceless appeal	Review / appeal

3.6 Algorithmic Settlement Mechanism

A digitally operated algorithmic settlement mechanism may generate settlement offers during specified tax proceedings. The offer may be based on the stage of proceedings, taxpayer compliance history, nature of discrepancy and other relevant factors. If the taxpayer accepts the offer within the specified time and revises the return, the relevant issues may stand abated.

SHOULD YOU ACCEPT THE ALGORITHMIC SETTLEMENT OFFER?	
Consider Settlement **Weak documentation** **Small disputed amount** **High litigation costs** **Quick closure required**	**Consider Litigation** Strong legal position Significant tax exposure Industry-wide issue Important legal precedent
System-generated offer ↓ Risk review ↓ Accept? **Yes → Revised return** **No → Continue proceedings**	

3.7 Banking Data Reporting and Central Data Hub

The Act introduces reporting of financial transaction data by banking companies and financial institutions to a central data hub for algorithmic cross-matching of tax and banking information. The reporting focuses on account holders having deposits or withdrawals exceeding Rs. 100 million during a reporting period.

BANKING DATA HUB
Deposits | Withdrawals | Transactions | Banking Activity ↓ Central Data Hub ↓ **Algorithmic Matching** ↓ **Risk Profiling** ↓ **Compliance Action**

Compliance Alert: Businesses and high-value account holders should reconcile bank deposits, withdrawals, peak credits, opening balances, closing balances, declared turnover, capital introductions, loans and inter-account transfers before filing returns.

3.8 Tax Credit for Integration

The Act substitutes section 64D to provide a tax credit for expenditure incurred exclusively on purchase, acquisition, installation or implementation of equipment, hardware, software or electronic components directly used for integration with FBR's computerized system. The credit is 10% of the amount actually invested in the electronic resource, subject to prescribed conditions.

Our View: This credit is a policy signal: the government is not only mandating integration but also partially recognizing the cost of compliance. Businesses should separately track eligible capital expenditure from routine maintenance and operating expenses.

3.9 Property Transactions

The advance tax on sale or transfer of immovable property under section 236C is specified at 2.75% of the gross consideration received. The advance tax on purchase of immovable property under section 236K is specified at 1.25% of the fair market value of the property.

Our View: Combined with the omission of section 7E, the revised property tax framework may support transaction activity. However, the tax system is now increasingly data-led, so source documentation and bank trail remain critical.

3.10 Withholding Tax Amendments under Section 153

The Finance Act, 2026 revises the withholding tax framework for services under section 153. The key change is the increase in withholding tax on specified services from 6% to 7%. A separate category for independent professional services has also been introduced, while other services are covered at 14%.

Category	Previous Position	Finance Act 2026 Position	Practical Impact
Specified services	6%	7%	Higher withholding burden on notified service sectors.
Independent professional services	Not separately highlighted in this manner	15% for doctors, lawyers, accountants, software engineers/developers and architects working independently	Clearer classification of professional services.
Other services	General residual services category	14%	Residual service category retained.

Our View: The amendment shows a stronger focus on service-sector documentation and collection at source. The increase from 6% to 7% may directly affect cash flows for businesses operating on thin margins, while the separate recognition of independent professionals indicates sharper taxpayer classification.

3.11 Penalty

The Finance Act, 2026 also strengthens the penalty framework under the Income Tax Ordinance, particularly for electronic-resource failures, integrated-organization non-compliance and excessive withholding tax credit claims.

Penalty Area	Finance Act 2026 Position
Electronic resource failure	1% of turnover or Rs. 1 million for first default, whichever is higher; Rs. 2 million for every subsequent quarterly default.
Integrated organization non-compliance	Rs. 500,000 for first default and Rs. 1 million for every subsequent default.
Specified penalty increases	Rs. 25,000 to Rs. 100,000; Rs. 50,000 to Rs. 200,000; Rs. 1 million to Rs. 3 million; and 50% to 100% in relevant entries.
Excess withholding tax credit claim	Penalty equal to the amount of excess credit claimed.

4. Sales Tax Amendments

4.1 Electronic Invoicing and FBR Invoice Number

The Sales Tax Act now recognizes electronic invoicing systems and requires invoices, including advance receipt invoices where notified, to carry a verifiable and unique FBR invoice number from the notified time. This indicates a shift from invoice issuance as a paper formality to invoice verification as a digital compliance control.

Compliance Alert: Businesses should review billing systems, advance receipt processes, invoice numbering, system integration and customer-facing invoice formats before implementation dates are notified.

4.2 Faceless Sales Tax Audit and Assessment

Faceless audit and assessment have also been introduced into the sales tax regime. Audit, certain orders and rectification proceedings may be conducted in a faceless manner. Where hearing is required, it may be conducted electronically, while the identity of the officer conducting the hearing may remain confidential.

Our View: Sales tax proceedings are usually document-heavy. Under faceless proceedings, reconciliation statements, invoice-level workings, supplier confirmations, input-output matching and electronic records will become more important than verbal explanations.

4.3 National Faceless Centre and Faceless Jurisdiction

The Sales Tax Act introduces a National Faceless Centre and faceless jurisdiction. Functions and jurisdiction may be assigned through algorithms developed by the Board. Communications are expected to be electronic, and the identity of the authority exercising jurisdiction may remain confidential from the registered person.

FACELESS SALES TAX PROCESS FLOW				
Digital selection or notice	→	**Electronic submission**	→	**E-hearing where required**
↓		↓		↓
Faceless audit or assessment	→	**Rectification / appeal / settlement route**		

4.4 Production Monitoring and Digital Integration

The concept of production monitoring system is introduced, covering systems or technologies used for monitoring production and sale of goods, whether in real time or otherwise. Section 40C is amended to provide for monitoring, tracking or identification through tax stamps, banderols, labels, barcodes, production monitoring equipment, video analytics or other prescribed mechanisms.

Compliance Alert: Where monitoring systems are prescribed, taxable goods may be exposed to seizure and confiscation if manufactured, removed, transported or supplied without required tracking, labels or monitoring compliance.

4.5 Simulated or Fictitious Invoices

A new penalty framework addresses simulated or fictitious invoices. A person issuing an invoice for a transaction where no actual supply has taken place may be liable to a penalty equal to the face value of the simulated or fictitious invoice. The person may also be placed on a publicly accessible simulated invoice issuers register, and input tax claimed by counterparties may be automatically reversed.

Our View: This change significantly increases counterparty risk. Buyers can no longer rely only on possession of an invoice. They should review supplier registration, transaction genuineness, delivery evidence, payment trail and supplier compliance history.

4.6 Input Tax Mismatch

Where FBR's computerized system identifies that input tax credit claimed by a registered person cannot be matched with corresponding output tax declared by the supplier, and the mismatch is confirmed after notice and hearing, a penalty of 20% of the unmatched input tax amount may apply in addition to reversal and default surcharge.

INPUT TAX CLAIM CHECKLIST			
✓ **Supplier registration confirmed**	✓ Invoice validity checked	✓ Correct tax period verified	✓ Payment evidence retained
✓ **Goods receipt documented**	✓ Supplier return filing reviewed	✓ Matching status checked where available	✓ Input claim reconciled before filing

4.7 Third Schedule Expansion

The Third Schedule is expanded to include a wider range of retail-packed goods. Rather than treating this as a mere product-list amendment, businesses should read it as a pricing, valuation and supply-chain issue.

NEWLY INCLUDED RETAIL CATEGORIES				
Pasta products	Dairy products	Cosmetics	Footwear	Tissue products
Household plastics	Vehicle accessories	Confectionery	Bathroom accessories	Jams and preserves

Our View: This is a major retail and FMCG sector change. Inclusion in the Third Schedule can shift tax collection toward retail price-based valuation and may affect manufacturers, importers, distributors and retailers. Businesses should review pricing, packaging, product classification and margin impact.

4.8 Steel Sector Electricity-Based Sales Tax

For steel melters, steel re-rollers and composite units, sales tax may be collected on the basis of per unit electricity consumption, including electricity produced through captive power plants or alternative energy sources. The tax so collected is adjustable input tax, subject to prescribed mechanism.

Our View: This measure links tax collection with production benchmarks. Steel sector taxpayers should maintain production records, electricity consumption analysis, wastage calculations, captive power data and stock reconciliations.

4.9 Penalty

The Finance Act, 2026 materially enhances sales tax penalties, especially in relation to non-compliance, integration defaults, simulated invoices, input tax mismatch and failure to reverse inadmissible input tax credit.

Penalty Area	Previous Position / Change	Finance Act 2026 Position
Late filing of return	Several Rs. 10,000 references increased	Rs. 50,000 in relevant entries
Failure to issue invoice	Rs. 5,000 or 3%	Rs. 25,000 or 5%
Integration default	Substituted framework	Penalty up to Rs. 1 million; second penalty up to Rs. 5 million if default continues; premises may be sealed.
Simulated or fictitious invoices	New specific penalty	Penalty equal to the face value of simulated/fictitious invoice; public register listing and automatic input reversal exposure.
Input tax mismatch	New specific penalty	20% of unmatched input tax amount, in addition to reversal and default surcharge.

Compliance Alert: The penalty amendments reinforce the need for supplier due diligence, invoice verification, digital integration readiness and periodic input-tax reconciliation.

5. Sector-wise Impact Dashboard

Real Estate Impact: High Action: Review transaction planning.	**Digital Creators** Impact: High Action: Monitor platform receipts.	**Retail & FMCG** Impact: High Action: Assess Third Schedule impact.
Manufacturers **Impact: High** **Action: Prepare production monitoring systems.**	**Insurance Policy Holders** Impact: Medium Action: Review surrender timing.	**Banks & Financial Institutions** Impact: High Action: Strengthen reporting framework.

6. Interactive Reader Tools

6.1 Change Impact Meter

Change	Impact	Risk	Action Required
Faceless assessment	High	High	Prepare electronic records and written submissions.
Algorithmic settlement	High	Medium	Evaluate settlement offers against merits and litigation cost.
Social media withholding	Medium	Medium	Track receipts and declare income properly.
Third Schedule expansion	High	High	Review product classification and retail price impact.
Simulated invoice register	High	High	Strengthen supplier due diligence and invoice verification.

6.2 Compliance Readiness Checklist

- Are accounting records maintained in searchable electronic form?
- Can bank deposits and withdrawals be reconciled with declared turnover and income?
- Are invoices verifiable and supported by actual supply evidence?
- Are supplier invoices matched with supplier output tax declarations?
- Are financial statements available in electronically readable format where required?
- Has the business identified whether it is required to integrate with FBR systems?
- Are production, stock and sales records reconciled monthly?
- Are social media, platform or foreign receipts separately identified?
- Are property transactions supported by source, valuation and bank trail documents?
- Is there a response plan for faceless notices and electronic hearings?

7. Taxpayer Action Plan 2026

Immediate Priority	Recommended Response
Reconcile banking data	Match bank credits, withdrawals, peak balances and transfers with declared income, turnover and wealth statements.
Review electronic records	Maintain searchable, indexed and electronically readable records for tax proceedings.
Validate supplier compliance	Confirm supplier registration, invoice authenticity, actual supply evidence and input-output matching.
Assess integration requirements	Evaluate whether electronic invoicing, POS, production monitoring or FBR integration applies.
Prepare for faceless proceedings	Develop response templates, document indexes and internal responsibility matrix for electronic notices.
Review sector-specific impacts	Assess exposure for real estate, digital creators, retail/FMCG, manufacturing, steel, insurance, banking and exporters.
Strengthen documentation	Preserve contracts, invoices, delivery records, bank trails, valuation records and management approvals.
Update internal tax controls	Align finance, sales, procurement, IT and compliance teams with the new digital tax environment.

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THANK YOU

> *"In a rapidly evolving digital tax landscape, preparedness is no longer optional—it is a strategic advantage."*

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