



SINCE 1971

Zahid Jamil & Co.
CHARTERED ACCOUNTANTS
Precision . Integrity . Confidence

FEDERAL BUDGET

2026-2027

HIGHLIGHTS

*Tax Reforms, Economic Outlook &
Business Implications*



Independent Member of

PrimeGlobal

The Association of Advisory and Accounting Firms

www.zahidjamilco.com

Federal Budget 2026–27: Balancing Growth, Stability and Tax Reform

ZAHID JAMIL & CO.

MANAGING PARTNER'S MESSAGE

The Federal Budget 2026–27 has been presented at a critical stage in Pakistan's economic journey. Following a period characterized by economic stabilization measures, inflationary pressures, external account challenges and fiscal consolidation efforts, the Government has now attempted to shift its focus toward sustainable economic growth while maintaining fiscal discipline. The Finance Bill 2026 reflects a policy direction that seeks to balance three competing priorities. First, the Government aims to provide relief to taxpayers and productive sectors of the economy. Second, it seeks to improve tax collection through enhanced documentation and digital compliance. Third, it intends to strengthen confidence among investors, businesses and international development partners by continuing structural reforms initiated during the previous fiscal year.

One of the most notable features of this year's budget is the relief provided to the salaried class. The restructuring of income tax slabs and reduction in applicable tax rates demonstrate recognition of the increasing burden borne by salaried individuals over the last several years. Similarly, the abolition of Section 7E and rationalization of taxes applicable to property transactions indicate a policy shift intended to support activity in the real estate and construction sectors. The export sector has also received positive attention through reduction in tax collection mechanisms and continuation of concessionary tax treatment for information technology exporters. Given Pakistan's need to enhance foreign exchange earnings and diversify exports, these measures are expected to contribute positively toward economic growth and external sector stability.

At the same time, the Finance Bill introduces a new era of technology-driven tax administration. The introduction of faceless audits, algorithmic settlement mechanisms, electronic invoicing systems, production monitoring frameworks and automated data matching demonstrates the Government's intention to move away from traditional compliance models and towards a more data-centric tax environment. For businesses, the implications of these reforms extend beyond taxation. Enhanced transparency requirements, real-time reporting obligations and increased digital integration with tax authorities will require organizations to strengthen internal controls, governance mechanisms and compliance processes. Companies that proactively adapt to this evolving environment are likely to benefit from greater operational efficiency and reduced regulatory risk.

At Zahid Jamil & Co., we believe that the success of these reforms will depend not only upon legislative changes but also upon their practical implementation. Effective administration, taxpayer facilitation and stakeholder engagement will be essential to achieving the intended objectives of broadening the tax base and promoting economic growth. This publication aims to provide businesses, investors, professionals and taxpayers with a practical understanding of the key provisions contained in the Federal Budget 2026–27 and the Finance Bill 2026. We hope this analysis assists stakeholders in evaluating the potential implications of the proposed measures and making informed decisions in the year ahead.

Executive Summary

KEY THEMES EMERGING FROM THE FEDERAL BUDGET 2026–27

The Federal Budget 2026–27 represents a transition from economic stabilization towards growth-oriented reforms. The Government has attempted to provide targeted tax relief while simultaneously strengthening tax administration and improving revenue collection mechanisms.

Salaried Individuals

The most significant tax relief measure introduced through the Finance Bill is the reduction in tax rates applicable to salaried individuals. Through restructuring of tax slabs and revision of applicable rates, the Government has sought to alleviate the burden on middle-income earners and professionals. This measure is expected to increase disposable income and support domestic consumption.

Section 7E Abolished

Another landmark development is the abolition of Section 7E of the Income Tax Ordinance, 2001. The removal of deemed income taxation on immovable property addresses a longstanding concern raised by taxpayers and investors. This change is expected to improve sentiment in the real estate market and encourage greater documentation of property transactions.

Super Tax Rationalized

The rationalization of Super Tax is another significant development. The abolition of Super Tax for taxpayers with income up to Rs. 500 million and reduction in applicable rates for larger taxpayers reflects an effort to reduce the overall tax burden on businesses while maintaining revenue generation from high-income sectors.

Digital Tax Administration

From a compliance perspective, the Finance Bill introduces substantial reforms aimed at digitizing tax administration. The proposed establishment of a National Faceless Centre, introduction of faceless audits and appeals, implementation of electronic invoicing systems and algorithmic settlement mechanisms collectively signal a fundamental transformation in the manner in which tax authorities interact with taxpayers.

Export Sector Priority

The export sector remains a priority area. Reduction in tax collection from export proceeds and extension of preferential tax treatment for IT and IT-enabled services exporters are expected to strengthen Pakistan's export competitiveness in international markets.

The Government has also focused on broadening the tax base through enhanced information gathering and automated risk assessment. Financial institutions, electronic money institutions and other reporting entities will be required to provide information that may be utilized for algorithmic matching and verification of taxpayer declarations. Overall, the budget reflects a strategy focused on promoting economic activity while strengthening documentation and compliance across the economy.

Budget at a Glance

MAJOR RELIEF MEASURES

The Finance Bill 2026 introduces several measures intended to reduce the tax burden on individuals and businesses. Among the most notable initiatives is the reduction in tax rates applicable to salaried taxpayers. The revised structure introduces additional tax slabs and increases the income threshold for higher tax rates, thereby providing meaningful relief to a broad segment of the workforce.

Individual Relief

- Restructured income tax slabs for salaried individuals with additional slabs and increased thresholds for higher rates
- Abolition of Section 7E deemed income tax on immovable property
- Reduction in advance tax rates on property purchase and sale transactions
- Reduction in advance tax on foreign payments through debit and credit cards

Business & Export Relief

- Reduction in tax collection mechanisms applicable to export proceeds
- Concessionary tax regime for IT and IT-enabled services exporters continued up to Tax Year 2029
- Exemption measures under the Sales Tax Act for strategic sectors
- Incentives aimed at supporting industrial modernization and technological investment

The abolition of Section 7E removes the concept of deemed income from immovable property. Since its introduction, this provision had generated considerable debate regarding equity, practicality and documentation. Its removal is expected to improve confidence among property owners and investors. The budget also provides relief to the real estate sector through reduction in advance tax rates applicable to purchase and sale transactions. Lower transaction costs are expected to encourage formal documentation and increase market activity.

Export-oriented businesses have also received support through reduction in tax collection mechanisms applicable to export proceeds. Furthermore, exporters of information technology and IT-enabled services will continue to benefit from a concessionary tax regime up to Tax Year 2029. Additional relief measures include reduction in advance tax on foreign payments through debit and credit cards, exemption measures under the Sales Tax Act for strategic sectors and incentives aimed at supporting industrial modernization and technological investment. Collectively, these measures indicate a policy approach focused on stimulating economic activity, encouraging investment and improving competitiveness.

Pakistan's Economic Landscape

ECONOMIC PERFORMANCE DURING FY 2025–26

Pakistan's economy demonstrated signs of gradual stabilization during FY 2025–26 following a period of significant macroeconomic adjustment. Fiscal consolidation measures, improvements in external account management and moderation in inflation contributed to strengthening overall economic conditions. The Government's reform agenda focused on restoring investor confidence, improving revenue collection and maintaining compliance with commitments made under international financial support programmes. These efforts contributed toward stabilization of foreign exchange reserves and improved external sector indicators.



Inflation Moderation

Inflationary pressures, which had significantly impacted households and businesses in previous years, showed signs of moderation. This development provided some relief to consumers while also improving the business environment.



Banking Sector Resilience

The banking sector remained resilient, supported by prudent regulatory oversight and improving macroeconomic conditions.



Export Performance

At the same time, export-oriented sectors continued to play an important role in generating foreign exchange earnings and supporting economic activity.



IT Sector Growth

The information technology sector emerged as one of the strongest contributors to export growth. Continued demand for digital services and increasing participation of Pakistani technology companies in international markets created opportunities for expansion and investment.

Despite these positive developments, challenges remain. Fiscal pressures, energy sector inefficiencies, public debt management and the need for sustained structural reforms continue to influence the economic outlook. The Federal Budget 2026–27 has therefore been formulated within a framework that seeks to preserve economic stability while creating conditions conducive to growth and investment.

Economic Outlook for FY 2026–27

OPPORTUNITIES AND CHALLENGES AHEAD

The outlook for FY 2026–27 is shaped by a combination of domestic reforms and global economic developments. The Government expects continued improvement in economic activity supported by fiscal discipline, export growth and private sector investment.

Key Opportunities

- **Export Expansion:** The continuation of incentives for IT exporters and reduction in tax collection on exports may improve competitiveness and encourage additional investment in export-oriented industries.
- **Real Estate Revival:** The real estate and construction sectors are also expected to benefit from the removal of Section 7E and reduction in transaction taxes. These measures may stimulate investment and contribute positively to economic activity.
- **Digital Transformation:** Increased adoption of technology, expansion of e-commerce and integration of business processes with government systems may improve efficiency and transparency across multiple sectors of the economy.

Persistent Challenges

- **Global Uncertainty:** Global economic uncertainty, geopolitical tensions, fluctuations in commodity prices and external financing requirements continue to pose risks.
- **Regulatory Oversight:** From a taxation perspective, organizations should prepare for increased regulatory oversight, enhanced reporting requirements and greater reliance on technology-driven compliance mechanisms.
- **Digital Readiness:** The ability of businesses to invest in digital systems, strengthen governance frameworks and improve operational efficiency will play a critical role in determining competitiveness in the years ahead.

Businesses will need to remain vigilant and adaptive in response to changing market conditions.

Five Major Policy Themes of the Federal Budget 2026–27



1. Taxpayer Relief

The Government has introduced targeted relief measures aimed at reducing the burden on salaried individuals, exporters and investors. These measures are intended to support economic activity and encourage voluntary compliance.



2. Documentation of the Economy

The Finance Bill places significant emphasis on documenting economic activity through digital integration, information sharing and enhanced reporting requirements. Greater transparency is expected to improve tax compliance and broaden the tax base.



3. Technology-Driven Tax Administration

The proposed National Faceless Centre, electronic invoicing systems, algorithmic settlement mechanisms and automated data matching represent a substantial shift towards technology-enabled tax administration.



4. Export Promotion

Export competitiveness remains a key policy objective. Reduction in tax collection mechanisms, continuation of incentives for IT exporters and support for strategic industries reflect the Government's focus on increasing foreign exchange earnings.



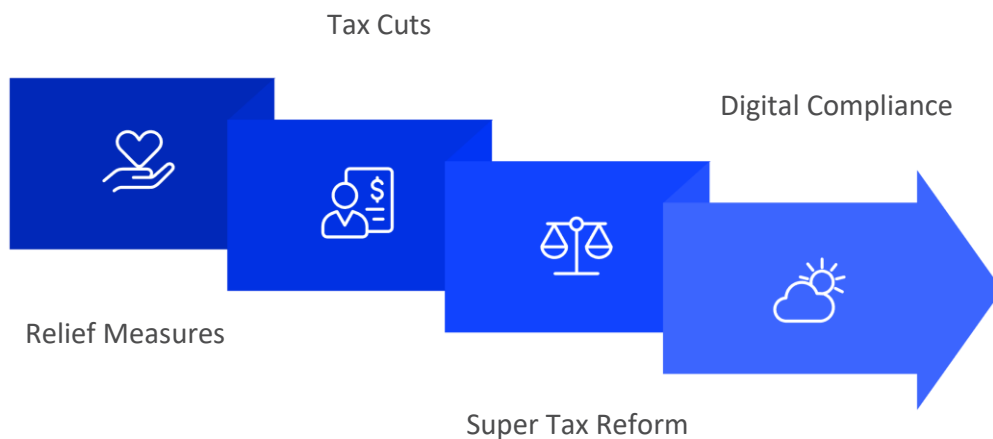
5. Revenue Mobilization Through Compliance

Rather than relying solely on higher tax rates, the Government has focused on improving compliance through digital monitoring, data analytics and enhanced enforcement mechanisms. This approach seeks to generate sustainable revenue growth while promoting fairness and transparency within the tax system.

The interaction of these five policy themes will shape Pakistan's fiscal and economic environment during FY 2026–27 and influence the operating landscape for businesses, investors and taxpayers across the country.

Budget Highlights: A Year of Relief and Digital Transformation

The Federal Budget 2026–27 introduces a combination of taxpayer relief measures and compliance-focused reforms. While the Government has provided meaningful concessions to salaried individuals, exporters and investors, it has simultaneously strengthened enforcement mechanisms through increased digitization and data-driven monitoring.



The budget demonstrates a shift away from imposing additional tax burdens on compliant taxpayers and towards expanding the tax base through documentation and technology. This approach is evident from the introduction of faceless tax administration, algorithmic settlement systems and enhanced information sharing between government agencies and financial institutions.

Several measures have been introduced to improve business confidence. These include the abolition of Section 7E, reduction in advance tax rates applicable to property transactions, rationalization of Super Tax and continuation of incentives for the information technology sector. Collectively, these measures are expected to encourage investment, improve liquidity and support economic growth.

From a policy perspective, the budget sends a clear signal that future revenue growth will increasingly depend upon documentation of economic activity rather than repeated increases in tax rates. Businesses should therefore prepare for an environment characterized by greater transparency, enhanced reporting obligations and technology-based compliance monitoring. The following pages provide a detailed analysis of the most significant income tax amendments proposed through the Finance Bill 2026 and their likely implications for taxpayers and businesses.

Reduction in Tax Rates for Salaried Individuals

RELIEF FOR THE FORMAL WORKFORCE

One of the most significant announcements in the Federal Budget 2026–27 is the reduction in income tax rates applicable to salaried taxpayers. Over recent years, the salaried class has experienced a substantial increase in tax burden due to inflation, rising living costs and revisions to tax slabs. Recognizing these challenges, the Government has restructured the tax framework applicable to salaried individuals by introducing additional tax slabs and increasing the income threshold for higher tax rates. As a result, a larger proportion of income earned by middle-income professionals will now be taxed at lower rates.

The revision is intended to achieve several policy objectives:

1

Increase Disposable Income

Lower tax liability increases disposable income available to households. This may contribute positively to consumption and economic activity.

2

Encourage Voluntary Compliance

Excessive taxation often discourages compliance. A more balanced tax structure may encourage greater participation in the formal economy.

3

Improve Tax Equity

The revised slab structure seeks to distribute tax burdens more equitably among different income groups.

4

Support Economic Growth

Higher household spending can contribute to growth in retail, services and other sectors.

For employers, payroll systems will require updating to reflect revised withholding obligations. Employees should also review annual tax planning strategies in light of the new tax structure. The reduction in tax rates is expected to benefit a broad segment of Pakistan's salaried workforce and represents one of the most visible taxpayer relief measures introduced through the Finance Bill 2026.

Abolition of Section 7E – A Landmark Reform

END OF DEEMED INCOME TAX ON IMMOVABLE PROPERTY

The abolition of Section 7E represents one of the most significant tax reforms introduced in the Finance Bill 2026. Section 7E was originally introduced to impose tax on deemed income arising from certain immovable properties situated in Pakistan. The provision assumed that property owners earned a notional return from their assets and imposed tax accordingly, regardless of whether any actual income had been generated.

Since its introduction, the provision remained controversial. Taxpayers frequently argued that taxation should be based on actual income rather than hypothetical income. Concerns were also raised regarding implementation challenges and documentation requirements associated with property transfers. The proposed abolition of Section 7E addresses these concerns and is expected to provide multiple benefits:

Improved Investor Confidence

Removal of deemed taxation may encourage additional investment in the property sector.

Increased Transaction Activity

Property transfers are likely to become simpler and more efficient.

Enhanced Documentation

Lower tax friction may encourage more transactions to be formally documented.

Reduced Litigation

The removal of a contentious provision may reduce disputes between taxpayers and tax authorities.

The abolition of Section 7E represents a significant policy shift and is expected to be welcomed by investors, developers, property owners and other stakeholders within the real estate sector.

Rationalization of Super Tax

RELIEF FOR CORPORATE TAXPAYERS

Super Tax was initially introduced as a temporary measure to generate additional revenue from high-income individuals and corporations. Over time, however, the scope and rates of Super Tax expanded significantly, resulting in concerns regarding the overall tax burden imposed on businesses. The Finance Bill 2026 proposes substantial relief through rationalization of the Super Tax regime.

Proposed Amendments

- Super Tax will no longer apply to persons earning income up to Rs. 500 million
- The rate applicable to higher-income taxpayers has been reduced
- Certain sectors remain subject to separate treatment under the law

Business Impact

- **Improved Cash Flows:** Lower tax obligations leave additional funds available for operations and expansion.
- **Increased Investment Capacity:** Companies may allocate resources toward modernization, technology and workforce development.
- **Enhanced Competitiveness:** Lower tax costs may improve profitability and competitiveness.
- **Better Investment Sentiment:** Investors often consider tax burdens when making investment decisions. Rationalization of Super Tax may contribute positively toward investor confidence.

The rationale behind these changes is to improve Pakistan's investment climate and reduce the effective tax burden imposed on productive sectors of the economy. Businesses should evaluate the financial impact of these changes and incorporate them into budgeting and forecasting exercises for FY 2026–27.

Real Estate Sector Relief

FINANCE BILL 2026

The Finance Bill 2026 introduces significant relief for the real estate sector through reduction in advance taxes applicable to purchase and sale transactions.

Historically, taxes collected under Sections 236C and 236K represented a substantial cost associated with property transactions. Market participants frequently highlighted these taxes as a factor discouraging formal documentation and reducing market activity.

Advance Tax Reductions & Export Promotion

Real Estate Tax Impact

The revised rates are intended to reduce transaction costs, encourage market activity, support construction sector growth, and promote documentation. Lower taxes decrease the overall cost of buying and selling property, and reduced costs may stimulate demand and improve liquidity within the market.

A more active property market often contributes to increased construction and related economic activity. Lower tax burdens may encourage taxpayers to conduct transactions through formal channels.

The real estate sector has significant linkages with construction, cement, steel, banking and numerous ancillary industries. Consequently, reforms affecting property transactions often generate broader economic benefits. The proposed reductions are expected to improve investor sentiment and contribute positively to market activity during FY 2026-27.

Improved Working Capital

Reduced tax deductions leave more funds available for business operations.

Enhanced Competitiveness

Lower tax costs contribute to more competitive pricing internationally.

Export Growth

Improved profitability may encourage exporters to expand operations.

Foreign Exchange Earnings

Greater export activity contributes positively to the country's external account position.

Export-oriented industries including textiles, apparel, information technology, agriculture and manufacturing are expected to benefit from these measures. The Government's continued focus on exports reflects recognition of the importance of foreign exchange earnings in supporting long-term economic stability.

Export Promotion Measures

Exports remain a critical component of Pakistan's economic strategy. The Finance Bill 2026 introduces several measures intended to strengthen export competitiveness and improve cash flow for exporters.

The reduction in tax collection on export proceeds represents one of the most important initiatives. By lowering the tax burden associated with exports, the Government seeks to improve liquidity available to exporting businesses.

Extension of Incentives for IT & IT-Enabled Services

DIGITAL ECONOMY

TAX YEAR 2029

Pakistan's information technology sector has emerged as one of the fastest-growing segments of the economy. The industry has demonstrated significant potential in generating export revenues, attracting investment and creating high-value employment opportunities.

Recognizing this potential, the Finance Bill 2026 extends the concessionary tax regime applicable to exporters of IT and IT-enabled services until Tax Year 2029.



Encourage Foreign Investment

Predictable tax policies improve investor confidence.



Support Export Growth

Lower taxes enhance competitiveness in international markets.



Promote Innovation

Technology companies may allocate additional resources toward research and development.



Generate Employment

Expansion of the sector may create new opportunities for skilled professionals.

The extension provides certainty to existing businesses while also encouraging entrepreneurs and investors to pursue opportunities within Pakistan's growing digital economy.

Taxation of Digital Content Creators

NEW WITHHOLDING FRAMEWORK

The Finance Bill 2026 introduces a withholding tax framework applicable to digital content creators and social media influencers receiving income from online platforms.

Over recent years, content creation has evolved into a significant economic activity. Thousands of individuals now earn income through platforms such as YouTube, Facebook, TikTok and Instagram.

The Government has introduced this measure to ensure that taxation keeps pace with evolving business models and digital economic activity.

Who Is Affected?

- Social media influencers
- YouTube content creators
- Digital marketers
- Online educators
- Gaming streamers
- Content production businesses

Compliance Requirements

Digital entrepreneurs should review their tax compliance procedures and maintain adequate documentation regarding income generated from online platforms.

The proposal reflects a broader global trend towards taxation of digital economic activities and enhanced transparency in online income generation.

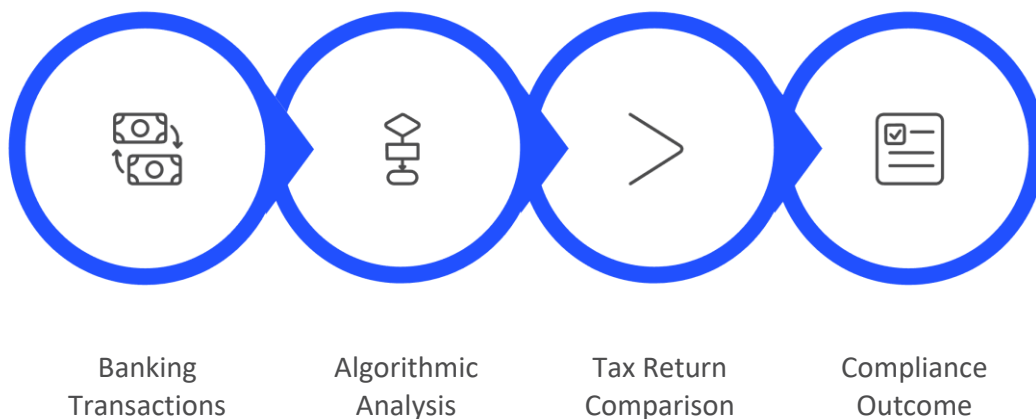
Algorithmic Cross-Matching of Banking & Tax Data

STRUCTURAL REFORM

DATA-DRIVEN COMPLIANCE

One of the most important structural reforms proposed in the Finance Bill 2026 is the introduction of algorithmic cross-matching between banking information and taxpayer declarations.

Under this framework, information relating to significant banking transactions may be electronically compared with information disclosed in tax returns and statements.



The primary objectives include detection of undeclared income, broadening of the tax base, improved risk assessment, and enhanced voluntary compliance. This initiative reflects the increasing use of technology and data analytics by tax administrations worldwide.



Detection of Undeclared Income



Broadening of the Tax Base



Improved Risk Assessment



Enhanced Voluntary Compliance

i Businesses and individuals should ensure that financial records, banking transactions and tax declarations remain consistent and adequately documented. As tax authorities gain access to increasingly sophisticated analytical tools, the importance of accurate record-keeping and timely compliance will continue to increase.

Digital Transformation of Tax Administration

FINANCE BILL 2026

Perhaps the most defining characteristic of the Finance Bill 2026 is its emphasis on digital transformation. The proposed framework includes:

National Faceless Centre

Faceless audits

Faceless assessments

Faceless appeals

Electronic invoicing

Production monitoring systems

Algorithmic settlement mechanisms

Automated data analysis

Collectively, these reforms represent a fundamental transformation in the relationship between taxpayers and tax authorities.

Traditional Model

The traditional compliance model relied heavily upon physical interaction, manual review processes and paper-based documentation.

Proposed Framework

The proposed framework seeks to replace these mechanisms with technology-driven systems designed to improve efficiency, transparency and accountability.

Businesses that invest early in digital readiness, robust internal controls and modern accounting systems will be better positioned to operate successfully within this evolving regulatory environment.

The Finance Bill 2026 therefore represents not only a set of tax amendments but also the beginning of a broader transformation in Pakistan's tax administration landscape.

Sales Tax Reforms – Overview

FEDERAL BUDGET 2026-27

The Sales Tax proposals contained in the Federal Budget 2026-27 reflect the Government's continued focus on documentation, digitization and revenue enhancement. While several relief measures have been introduced for strategic sectors, the overall direction of policy remains focused on improving compliance and reducing opportunities for tax leakage.

The proposed amendments seek to modernize indirect tax administration through greater reliance on technology, real-time reporting and automated verification processes. The Government's objective is to improve transparency throughout the supply chain while ensuring that tax liabilities are accurately reported and collected.

Key Themes Emerging from the Sales Tax Proposals

1 Expansion of Documentation

The scope of withholding obligations has been broadened, particularly in relation to transactions involving unregistered persons.

2 Technology Integration

Electronic invoicing, production monitoring systems and faceless audits are expected to become central components of the sales tax compliance framework.

3 Industry-Specific Reforms

Targeted measures have been introduced for sectors such as electric vehicles, shipping, aviation and refining.

4 Enhanced Enforcement

The introduction of additional penalties and strengthened monitoring mechanisms reflects the Government's intention to improve compliance levels across the economy.

For businesses, these developments highlight the growing importance of robust accounting systems, accurate record-keeping and digital readiness. Organizations that continue to rely on manual processes may face increasing compliance risks in the years ahead.

The following pages examine the most significant sales tax amendments proposed through the Finance Bill 2026 and their implications for taxpayers.

Sales Tax Relief Measures

STRATEGIC INDUSTRIES

ECONOMIC GROWTH

The Federal Budget 2026-27 includes several relief measures under the Sales Tax Act aimed at promoting investment, supporting industrial modernization and reducing costs for targeted sectors.



Electric Vehicles

One notable proposal is the extension of sales tax exemptions applicable to electric vehicles and related imports. The Government continues to view the EV sector as an important component of future industrial and environmental policy. By extending existing incentives, policymakers aim to encourage investment in cleaner transportation technologies and support development of a domestic EV ecosystem.



Shipping & Maritime

Additional relief has been provided for strategic investments in shipping and maritime activities. Given Pakistan's dependence on international trade, strengthening shipping capacity is expected to contribute positively toward economic resilience and supply chain efficiency.



Refinery Modernization


The budget also provides sales tax exemptions relating to the import of capital goods required for modernization and upgradation of existing refineries. Energy security remains a critical national priority, and investments in refining capacity are expected to improve efficiency while reducing dependence on imported petroleum products.



Consumer Relief

Further measures include exemptions for certain strategic imports and removal of sales tax on selected products intended to reduce costs for consumers.

These initiatives indicate a policy preference for targeted incentives rather than broad-based exemptions. The Government appears focused on supporting sectors that contribute to economic growth, technological advancement and long-term competitiveness.

 Businesses operating within affected sectors should carefully evaluate eligibility criteria and potential opportunities arising from these relief measures.

Expansion of Withholding & Compliance Obligations

SUPPLY CHAIN ACCOUNTABILITY

The Finance Bill 2026 introduces several measures designed to strengthen withholding mechanisms and improve monitoring of commercial transactions.

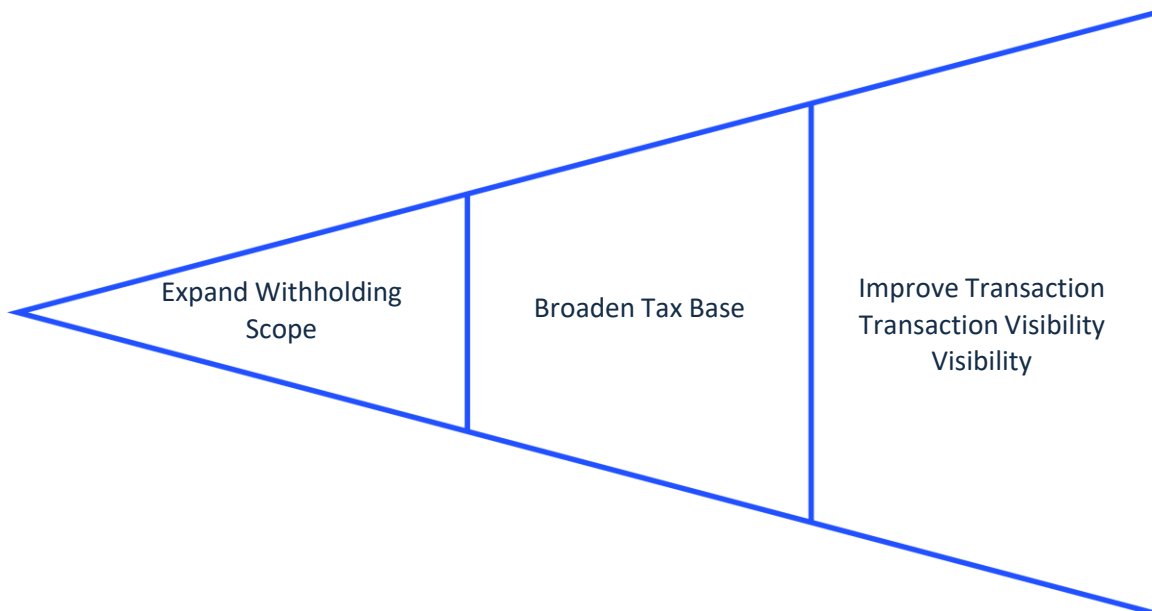
Toll Manufacturers

A key proposal relates to withholding of sales tax by toll manufacturers in respect of transactions involving unregistered persons. This measure seeks to reduce opportunities for tax leakage and encourage registration within the formal economy.

Individuals & Associations

Similarly, the scope of withholding obligations applicable to certain individuals and associations of persons has been expanded. The objective is to improve tax collection from segments of the economy that may previously have remained outside effective documentation frameworks.

The Government's strategy reflects a broader policy objective of integrating informal economic activity into the documented sector. By expanding withholding obligations, tax authorities aim to improve visibility over commercial transactions and generate more reliable data regarding economic activity.



Businesses should review procurement, sales and payment processes to ensure that revised withholding requirements are properly implemented. Failure to comply may result in financial penalties, disallowances and increased scrutiny by tax authorities.

⚠️ The expansion of withholding obligations demonstrates the Government's continued reliance on indirect collection mechanisms as a tool for improving compliance and broadening the tax base.

Electronic Invoicing – The Future of Indirect Tax Compliance

REAL-TIME REPORTING

DIGITAL TRANSFORMATION

Electronic invoicing represents one of the most significant developments proposed under the Finance Bill 2026.

Traditionally, businesses have relied upon manual invoicing processes and periodic reporting requirements. Under the proposed framework, transactions may increasingly be reported electronically through systems integrated with tax authorities.



Improved Transparency

Real-time transaction data enhances visibility throughout the supply chain.



Reduced Fraud

Automated reporting makes it more difficult to generate fictitious or duplicate invoices.



Faster Verification

Tax authorities can verify transactions more efficiently through electronic systems.



Improved Business Efficiency

Digitization may reduce administrative burdens and improve record management.

International experience demonstrates that electronic invoicing systems can significantly improve compliance while reducing opportunities for tax evasion.

Implementation Requirements

However, successful implementation will require businesses to invest in technology infrastructure, staff training and process improvements. Organizations that adopt modern enterprise resource planning (ERP) systems and integrated accounting solutions are likely to be better positioned for compliance under the new framework.

Strategic Perspective

Electronic invoicing should therefore be viewed not merely as a regulatory requirement but as part of a broader digital transformation strategy.

Faceless Audits, Assessments & Appeals

FINANCE BILL 2026

TAX ADMINISTRATION REFORM

The Finance Bill 2026 introduces a technology-driven framework for conducting audits, assessments, and appeals without requiring physical interaction between taxpayers and tax authorities. This concept of faceless administration has gained popularity globally as a means of improving transparency, consistency, and efficiency within tax systems.

Reduced Subjectivity

Automated case allocation reduces opportunities for bias.

Greater Transparency

Digital processes create clear audit trails.

Faster Resolution

Technology-driven workflows improve processing times.

Improved Taxpayer Experience

Reduced physical interaction lowers compliance costs.

For taxpayers, this shift requires greater emphasis on maintaining complete digital records and responding promptly to electronic communications. Organizations should review document management practices, data retention policies, and internal controls to ensure readiness for an increasingly digital compliance environment. The success of faceless administration depends upon implementation quality and effective taxpayer support mechanisms.

National Faceless Centre & Production Monitoring Systems

National Faceless Centre

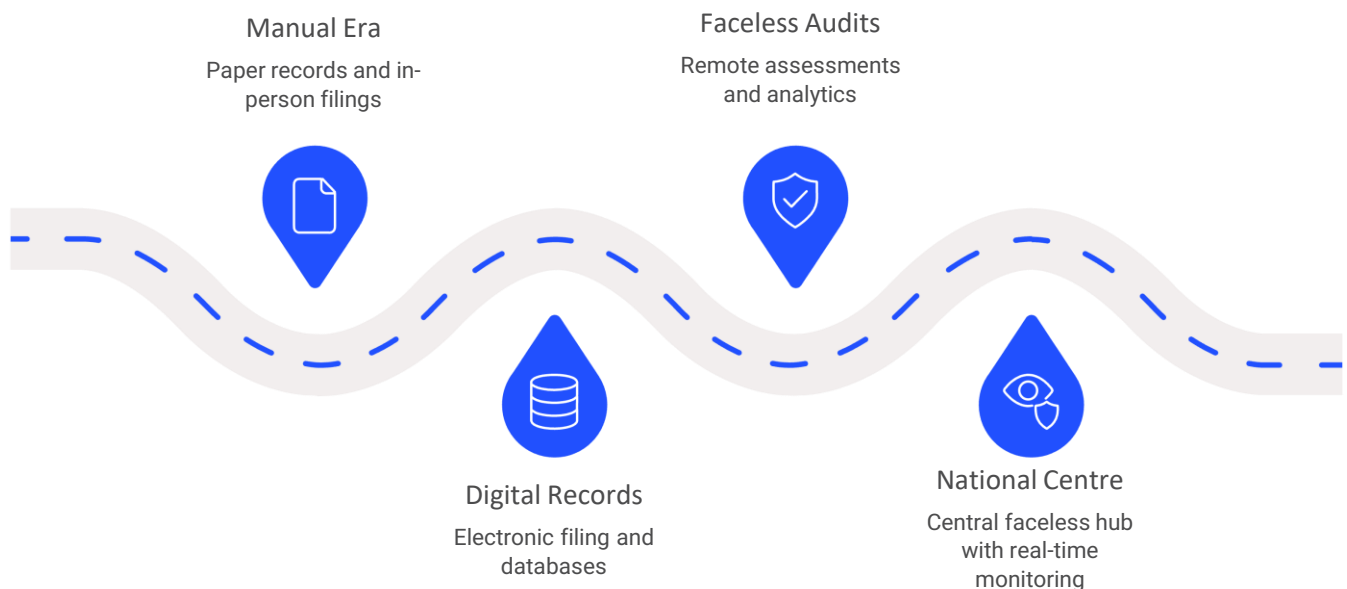
The proposed National Faceless Centre represents one of the most transformative initiatives in the Finance Bill 2026. It is expected to serve as the primary platform for faceless audits, assessments, and appeals. By centralizing administrative functions and leveraging technology, the Government seeks to improve consistency and efficiency across the tax administration system.

Key objectives include: uniform application of tax laws, reduced administrative delays, improved data analytics, enhanced transparency, and better resource utilization. For taxpayers, this may fundamentally alter traditional interactions with revenue authorities, making success increasingly dependent upon accurate reporting, timely responses, and strong digital record-keeping.

Production Monitoring & Video Analytics

The Finance Bill 2026 also introduces enhanced production monitoring mechanisms for manufacturing sectors, including video analytics to verify manufacturing activity and monitor production levels. Tax authorities globally have increasingly adopted such tools to address underreporting and undocumented production.

Potential objectives include: verification of production volumes, reduction in tax evasion, improved data accuracy, enhanced risk assessment, and better industry analysis. Manufacturers should assess existing systems and evaluate readiness for potential reporting requirements as part of a broader trend toward real-time compliance monitoring.



This progression illustrates the Government's strategic shift from manual, paper-based administration toward a fully digital, centralized, and technology-enabled tax ecosystem under the Finance Bill 2026.

Impact on Manufacturing & Industrial Sectors

The manufacturing sector occupies a central position within Pakistan's economy and is likely to experience both benefits and challenges from the Finance Bill 2026.

Positive Developments

- Incentives for refinery modernization
- Continued support for strategic industries
- Tax credits relating to digital integration investments

Increased Compliance Obligations

- Electronic invoicing
- Production monitoring
- Enhanced reporting requirements

Opportunities vs. Challenges

Key Opportunities

Improved operational efficiency

Better supply chain visibility

Enhanced access to incentives

Greater investor confidence

Potential Challenges

Technology investment requirements

Compliance costs

Data management responsibilities

Increased regulatory scrutiny

Organizations that proactively invest in digital transformation are likely to derive competitive advantages while minimizing compliance risks. The manufacturing sector's response to these reforms may play a significant role in determining the overall success of the Government's documentation strategy.

Retail & Wholesale Sector Implications

ZJC COMMENTARY

Expanding the Documentation Net

Retailers and wholesalers are expected to face increased compliance obligations. The Government has consistently emphasized documentation of retail activity as a key policy objective. The Finance Bill 2026 continues this trend through expanded reporting requirements, enhanced integration obligations, and broader use of technology-based compliance mechanisms.

Particular attention is directed toward:

- High-turnover retail businesses
- Tier-1 retailers
- Cash-intensive businesses
- Unregistered economic activity

Retail Businesses Should Focus On:

- Upgrading accounting systems
- Strengthening inventory controls
- Enhancing transaction documentation
- Improving tax governance frameworks

ZJC Commentary – The Emergence of a Digital Tax Economy

The Federal Budget 2026-27 may be remembered less for changes in tax rates and more for the structural transformation it initiates. Historically, tax administration relied on periodic reporting and manual verification. The emerging framework depends on data quality, system integration, and real-time transparency. Successful implementation requires investment in administrative capacity, taxpayer education, and technological infrastructure. Organizations should begin preparing immediately for this transition.

Sector Impact Analysis – Information Technology

THE BIGGEST WINNER OF BUDGET 2026-27

The IT sector continues to be one of Pakistan's most promising economic success stories. Recognizing its strategic importance, the Government has extended the concessionary tax regime for IT and IT-enabled service exporters until Tax Year 2029. This decision provides certainty to investors and reinforces Pakistan's ambition to become a regional technology hub.



Expansion of Export Revenues

Competitive tax environment encourages business expansion.



Attraction of Foreign Investment

Policy certainty provides a longer planning horizon.



Growth of Freelancing & Digital Services

Continued support may increase foreign exchange inflows.



Job Creation

Technology businesses generate high-value employment opportunities.

Despite these positive developments, technology businesses should prepare for increased documentation and compliance obligations, including enhanced reporting mechanisms, digital monitoring, and data integration initiatives. Overall, the IT sector remains one of the strongest beneficiaries of the Federal Budget 2026-27.

Sector Impact Analysis – Textile, Manufacturing & Export Industries

SUPPORTING PAKISTAN'S EXPORT ENGINE

The textile sector remains the backbone of Pakistan's export economy. The reduction in tax collection on export proceeds is expected to improve liquidity and working capital availability for exporters, allowing businesses to allocate more resources toward operations and capacity expansion.

Positive Developments

- Improved cash flow position
- Continued export incentives
- Technology adoption incentives

Compliance Preparations Required

- Electronic invoicing requirements
- Enhanced monitoring of production activities
- Increased documentation obligations
- Greater data sharing and verification



While compliance costs may increase in the short term, businesses that successfully adopt technology and strengthen governance frameworks may ultimately benefit from improved operational efficiency and greater transparency. The overall outlook for export-oriented industries remains positive, provided businesses proactively adapt to the changing regulatory environment.

Sector Impact Analysis – Banking, Financial Services & Real Estate Estate

INCREASED TRANSPARENCY & MARKET ACTIVITY

Banking & Financial Services

The banking sector occupies a central position within the Government's documentation strategy. The Finance Bill introduces measures facilitating algorithmic cross-matching of financial information with taxpayer declarations. Banks may be required to strengthen reporting systems and compliance frameworks.

For the financial sector, reforms are expected to result in: greater regulatory integration, enhanced reporting requirements, increased use of technology, and improved risk assessment capabilities.

Real Estate Sector Developments

The abolition of Section 7E and reduction in advance taxes on property transactions represent significant relief measures for investors, developers, and property owners.

Expected benefits include: improved investor confidence, increased market liquidity, greater transaction volumes, and enhanced documentation of property transactions. Given the importance of real estate to construction, cement, steel, banking, and numerous supporting industries, increased activity in the sector may generate positive spillover effects throughout the economy.

Expected Benefits Across Financial & Property Sectors



Improved Investor Confidence



Increased Market Liquidity



Greater Transaction Volumes



Enhanced Documentation

Action Plan for Taxpayers & Businesses

PREPARING FOR THE NEW COMPLIANCE ENVIRONMENT

The Federal Budget 2026-27 introduces reforms that will require businesses to rethink traditional approaches toward tax compliance and governance. Rather than waiting for enforcement actions, organizations should begin preparing proactively.

01

Review Existing Tax Structures

Evaluate the impact of revised tax provisions on financial projections, cash flows, and operational strategies.

02

Upgrade Accounting Systems

Electronic invoicing, digital reporting, and enhanced information sharing may necessitate modernization of accounting infrastructure.

03

Strengthen Internal Controls

Accurate reporting and reliable documentation will become increasingly important under technology-driven verification mechanisms.

04

Improve Data Governance

Establish clear policies regarding record retention, transaction documentation, and digital security.

05

Conduct Compliance Assessments

Periodic reviews can help identify weaknesses before they become regulatory issues.

06

Train Key Personnel

Finance teams, tax managers, and operational staff should be educated on new compliance obligations.

07

Prepare for Digital Integration

Assess readiness for electronic interaction with tax authorities and implementation of technology-based compliance systems.



Organizations that invest early in preparedness will experience lower compliance risks and greater operational efficiency.

ZJC Perspective & Policy Recommendations

LOOKING BEYOND FINANCE BILL 2026

The Federal Budget 2026-27 represents an important milestone in Pakistan's economic and fiscal reform journey. Several measures deserve recognition:

1

Relief for Salaried Individuals

2

Abolition of Section 7E

3

Rationalization of Super Tax

4

Support for Exporters & IT Sector

At the same time, the Finance Bill signals a decisive shift toward technology-driven tax administration through faceless tax systems, electronic invoicing, algorithmic settlement mechanisms, and enhanced data analytics.

ZJC Policy Recommendations

To maximize the effectiveness of these reforms, we recommend:



Gradual Implementation of Digital Reforms

Businesses should be provided sufficient time to adapt to new compliance requirements.



Enhanced Taxpayer Education

Awareness programmes and practical guidance should accompany major regulatory changes.



Simplification of Tax Laws

Reducing complexity can improve compliance and reduce disputes.



Continued Support for Export-Oriented Sectors

Exports remain critical for economic stability and foreign exchange generation.



Promotion of Investment & Entrepreneurship

Stable and predictable tax policies encourage long-term investment decisions.

Conclusion

The Federal Budget 2026-27 reflects a policy framework focused on growth, documentation, and modernization. While challenges remain, the direction of reform suggests increasing reliance on technology, transparency, and data-driven governance.

Key Takeaways

Faceless Audits

Digital monitoring is transforming taxpayer interactions.

IT Sector

The biggest winner with extended tax concessions until 2029.

Manufacturing & Retail

Higher compliance but also opportunities for efficiency gains.

Banking & Real Estate

Benefit from increased transparency and market activity.

Proactive Investment

Essential in systems and governance for long-term success.

Businesses that embrace digital transformation, strengthen governance practices, and proactively manage compliance obligations will be best positioned to succeed in this evolving environment. The future of tax compliance is increasingly digital, data-driven, and technology-enabled. Those who recognize this shift early will be best positioned to manage risk, maintain compliance, and capitalize on emerging opportunities.

- As always, **Zahid Jamil & Co.** remains committed to assisting clients in understanding legislative developments, managing regulatory obligations, and identifying opportunities arising from changes in Pakistan's fiscal and economic landscape.



SINCE 1971

Zahid Jamil & Co.

CHARTERED ACCOUNTANTS
Precision . Integrity . Confidence

OFFICES

ISLAMABAD

Office No.9, 3rd Floor, Sajid Sharif
Plaza, Markaz, G-11.
Tel: +92-51-6142257

KARACHI

4th Floor, Azad Trade Center, Plot No
ST- 2 & 3, Gulshan-e-Iqbal - 14. Tel:
+92-21-33409426

LAHORE

702 - 7th Floor, Eden Heights,
Main Gulberg, Jail Road.
Tel: +92-42-35786824, 35786825

FAISALABAD

First Floor, Al-Jamil Plaza, 7-Madina
Town Ext, Off Jaranwala Road.
Tel: +92-41-8725065, 8725066

PESHAWAR

3rd Floor, Bhattani Plaza, 41-D,
3-A Park Ave, University Town, .
Tel: +92-91-5700348

www.zahidjamilco.com