

**PROPOSED AMENDMENTS
TO THE PUNJAB SALES TAX
ON SERVICES ACT
THROUGH **THE PUNJAB
FINANCE BILL 2026****

RHZA





PROPOSED AMENDMENTS TO THE PUNJAB SALES TAX ON SERVICES ACT 2012 VIDE THE PUNJAB FINANCE BILL 2026

The information contained in this document has been prepared on the basis of the Punjab Finance Bill 2026¹ (the “PFB 2026”) and is intended for general information purposes only. It does not constitute legal, tax, or financial advice and should not be relied upon as such. No person should act or refrain from acting on the basis of any content in this document without obtaining appropriate professional advice tailored to their specific circumstances.

Readers are requested to provide their valuable feedback and suggestions for improvement. All such inputs will be duly considered while preparing the final commentary after the enactment of the Punjab Finance Act 2026.

This document can be accessed at www.hza.com.pk.

FOR: REANDA HAROON ZAKARIA ASSOCIATES

JUNE 22, 2026

¹ <https://pap.gov.pk/bills/details/en/22/531>

PROPOSED AMENDMENTS TO THE PUNJAB SALES TAX ON SERVICES ACT 2012 VIDE THE PUNJAB FINANCE BILL 2026

#	AMENDMENT TYPE	PROPOSED AMENDMENT
1	AMENDMENT	Definition of 'Active Taxpayer' Tightened – Two-Period Filing Threshold [Section 2(1)] <u>The definition of 'active taxpayer' is substituted in full.</u> The existing positive formulation – requiring the taxpayer to have filed a return for at least one of the preceding three consecutive tax periods – is replaced with a negative formulation: a registered person who has failed to file a return by the due date for the last two consecutive tax periods is excluded from active status. This narrows the window for non-compliance: where three missed periods previously triggered inactive status, two consecutive defaults now suffice, making it materially harder for delinquent taxpayers to retain active status on the Punjab Revenue Authority's list. The proposed amendment/substitution reads as under: <i>“(1) “active taxpayer” means a registered person who does not fall in any of the following: (i) whose registration has been suspended or blacklisted by the Authority; and</i> <i>(ii) who has failed to file the return by the due date for the last two consecutive tax periods;”</i>
2	AMENDMENT	First Schedule Notifications to be Tabled Before the Assembly [Section 5(3)] The annual parliamentary-notification obligation is extended to cover the First Schedule (tax-free services). Previously, the Government was required to lay before the Provincial Assembly only notifications relating to amendments in the Second Schedule. Going forward, changes to the First Schedule – which governs services exempt from Punjab sales tax – must also be formally tabled. This closes an accountability gap and ensures legislative oversight over the full scope of exemptions, not merely rates.
3	NEW PROVISION	Input Tax Credit Barred for Purchases from Non-ATL Suppliers [New Section 16B(1)(ff)] A new disqualification clause is inserted in the catalogue of inadmissible input tax claims. Input tax credit is expressly denied on goods and services received against invoices issued by persons not appearing on the active taxpayers list (ATL) of the Punjab Revenue Authority or the Federal Board of Revenue. This closes a gap in the existing framework, which barred credits for blacklisted or suspended suppliers but did not separately address suppliers who had simply fallen off the active list. The practical effect is that registered persons must now verify supplier ATL status at the time of each transaction.

4	AMENDMENT	Input Tax Adjustment Cap Reduced from 90% to 80% of Output Tax [Section 16C(1)] The ceiling on input tax adjustment in any tax period is reduced from ninety percent to eighty percent of the output tax payable for that period. This means that at least twenty percent of any registered person's output tax liability must now be discharged, regardless of accumulated input credits. The measure appears to be intended to limit carry-forward and ensure a minimum contribution to the revenue stream in each tax period.
5	NEW PROVISION	Capital Goods Input Tax to be Claimed in Twelve Monthly Instalments [New Section 16CC] A new provision is inserted specifically governing input tax on capital goods, machinery, and fixed assets. Notwithstanding the general 80% adjustment cap in section 16C, and subject to the inadmissibility rules in section 16B, input tax on such capital expenditure must be adjusted against output tax in twelve (12) equal monthly instalments rather than being claimed in full in the period of acquisition. The proposed insertion reads as under: <i>“16CC. Adjustment of input tax on certain goods and services.- Notwithstanding anything contained in section 16C and subject to section 16B, input tax on capital goods, machinery, and fixed assets shall be adjusted against output tax in twelve equal monthly instalments.”</i>
6	NEW PROVISION	Risk-Based Input Tax Evaluation System Introduced [New Section 16CCC] A dedicated risk-management framework for input tax claims is introduced. The Punjab Revenue Authority may establish, administer and implement a risk-based evaluation system for identifying, analyzing, evaluating and monitoring risks associated with input tax claims, adjustments, credits and refunds. The Authority may maintain a risk register profiling taxpayers, suppliers and transactions. Where an input claim is flagged as high-risk, the Authority may – after recording reasons in writing – defer admissibility pending verification, disallow the credit in whole or in part, require additional documents, or select the case for audit or investigation. No adverse action may be taken without an opportunity of hearing. An aggrieved person may file a written application before the Commissioner, who must decide it within thirty days. The proposed insertion reads as under: <i>“16CCC. Input tax management through risk-based evaluation system.-</i> <i>(1) Notwithstanding anything contained in this Act or the rules, the Authority may establish, administer, and implement a risk-based evaluation system for the purpose of identifying, analyzing, evaluating, and monitoring the risks associated with the input tax claims, adjustments, credits, and refunds.</i> <i>(2) The Authority may, on the basis of risk parameters, data analytics, or any other relevant information, establish and maintain a risk register for the categorization and profiling of taxpayers, suppliers, transactions, or classes thereof, for the purposes of risk assessment, compliance monitoring, and enforcement under this Act.</i> <i>(3) Where any input tax claim or adjustment is identified as carrying risk, the Authority may, for the reasons to be recorded in writing and subject to such procedure as may be prescribed:</i> <i>(a) defer the admissibility of such claim pending for verification; or</i>

		(b) disallow input tax credit or adjustment, in whole or in part; or (c) require the registered person to furnish additional information or evidence; or (d) select the case for audit or investigation. (4) All input tax claims, credits, adjustments, or refunds shall be subject to verification, evaluation, and determination through the risk management system established by the Authority under this Act. (5) No adverse action under this section shall be taken without providing an opportunity of being heard to the person to be affected thereby. (6) The person, aggrieved by the action taken under this section, may contest such action by filing application along with relevant documents before the Commissioner concerned, who shall decide such application within thirty days. (7) The Authority may prescribe the manner of operation, risk parameters, safeguards, and governance framework of the risk management system."
7	AMENDMENT	Record Production Penalties Sharply Increased and Differentiated by Taxpayer Type [Section 48(2), S.No. 5] The penalty for failure to produce record or information despite notice is increased and split by entity type. Individuals: up to Rs. 100,000 for the first default and up to Rs. 100,000 for each subsequent default. Companies or associations of persons: up to Rs. 500,000 for the first default and up to Rs. 500,000 for each subsequent default – a five-fold increase.
8	AMENDMENT	Penalty for Damaging Electronic Invoice Monitoring System Raised Five-Fold [Section 48(2), S.No. 16] The per-act penalty for intentionally damaging or impeding the electronic invoice monitoring system – or obstructing the transmission of invoice data to the Authority – is raised from Rs. 100,000 to Rs. 500,000 per act of commission. The three-act threshold triggering premises sealing (up to one month) and criminal prosecution (imprisonment up to one year) is retained unchanged. This sharply escalating penalty structure is designed to deter deliberate technological interference with the digital audit trail.
9	AMENDMENT	Penalty for Failure to Issue Tax Invoice Dramatically Increased [Section 48(2), S.No. 17] The penalty for failure or refusal to issue a tax invoice is increased by a factor of twenty-five for the first default and twenty for subsequent defaults: first default rises from Rs. 20,000 to Rs. 500,000; each subsequent default rises from Rs. 50,000 to Rs. 1,000,000. The three-consecutive-default premises-sealing provision is retained. This reflects the centrality of invoice issuance to the audit trail and signals a zero-tolerance policy toward persistent non-compliance.

10	AMENDMENT	Penalty for Non-Compliance with Electronic Invoicing System Restructured [Section 48(2), S.No. 20] The tiered 'not less than Rs. 25,000 / up to Rs. 100,000' penalty structure for avoiding or bypassing the electronic invoicing system is replaced with a single flat figure of Rs. 500,000. The removal of the minimum-maximum band simplifies the penalty but significantly increases the effective quantum for minor infractions previously attracting the lower end of the old range.
11	AMENDMENT	Premises Access Authorization Delegated to Commissioner Level [Section 56(1)] The power to authorize officers to access business premises, records, accounts and documents is transferred from the Authority (requiring a public Gazette notification) to the Commissioner, with the Gazette notification requirement removed. This allows authorization to be granted administratively on a case-by-case or targeted basis without the formality of a Gazette, conferring greater operational flexibility and speed for enforcement actions.
12	AMENDMENT	Adjudication Jurisdiction of Asst./Deputy Commissioner Raised Five-Fold [Section 60(1)(b)] The monetary threshold for cases adjudicable by Assistant Commissioners and Deputy Commissioners is raised from Rs. 10 million to Rs. 50 million. This substantially expands the class of cases that can be decided at the AC/DC level without referral to the Additional Commissioner, expediting case disposal and reducing upward referrals for what are now a much larger proportion of disputes.
13	AMENDMENT	Adjudication Jurisdiction of Enforcement / Audit-cum-Risk Compliance Officers Raised [Section 60(1)(c)] The threshold for Enforcement Officers and Audit-cum-Risk Compliance Officers is raised from Rs. 5 million to Rs. 25 million – a five-fold increase. These officers can now independently adjudicate a significantly larger volume of cases, relieving pressure on the AC/DC tier and enabling faster resolution of lower-value disputes.
14	AMENDMENT	Section 76A Expanded – NOCs and Procuring Agencies Now Covered; ATL Condition Added [Section 76A] <u>Section 76A is substituted in full.</u> First, licensing authorities must also withhold no objection certificates (NOCs) unless the applicant is registered and on the active taxpayers list – previously registration alone sufficed. Second, an entirely new limb is added: procuring agencies awarding or renewing contracts for taxable services must not award or renew unless the bidder, contractor, supplier or consultant is registered and on the ATL of PRA. A six-month grace period applies to newly registered businesses. The cumulative effect significantly expands the ecosystem of economic gatekeepers enforcing tax registration and ATL compliance. The proposed amendment/substitution reads as under: <i>“76A. Power to restrain certain authorities.- The Authority may, by notification in the official Gazette, require that:</i> <i>(a) any authority competent to issue or renew a license or to grant permission or to issue no objection certificate to any person to engage in an</i>

		<i>economic activity which is a taxable service, shall not issue or renew such license or grant permission or issue no objection certificate unless the licensee or the grantee furnishes the evidence that he is a duly registered person under the Act and is on the active taxpayers list of the Authority; and</i> <i>(b) any procuring agency awarding or renewing any contract constituting taxable services shall not award or renew contract, unless the bidder, contractor, supplier or consultant is a registered person and is also on the active taxpayers list under the Act:</i> <i>provided that a newly established business shall be exempt from the application of this section for a period of six months from the date of its registration."</i>
15	AMENDMENT	Tax-Free Status of Foreign Exchange Services Removed [First Schedule, S.No. 25] The exemption entry for services provided by foreign exchange dealers, exchange companies, money changers and money exchangers is omitted from the First Schedule. Simultaneously, these services are brought within the Second Schedule (Part III) as a new taxable entry at a 3% reduced rate without input tax adjustment. The rationale for the shift appears to be revenue mobilisation from a high-volume sector previously entirely outside the tax net, while calibrating the rate at a level that accounts for the spread-based nature of the income.
16	RATE CHANGE	Five Percent Rate Raised to Eight Percent Across Twelve Service Categories [Second Schedule, Part III] The 5% reduced rate (without input tax adjustment) is uniformly raised to 8% across: hotels and motels (non-corporate tier); restaurants (digital-payment tier); tour operators and travel agents; property dealers and realtors; architects, town planners, landscape designers and interior decorators; rent-a-car services to end consumers; health care, gym and fitness services; laundries and dry cleaners; accountancy, audit and tax consultancy services; warehouse and cold storage services; rental of construction equipment; and apartment/real estate management services. The 60% increase in effective tax rate across these sectors represents the most broad-based rate change in the Bill. The 'without input tax adjustment' condition is retained in all cases.
17	AMENDMENT RATE CHANGE	Hotel Rate Structure Converted from Size-Based to Digital-Payment Incentive [Second Schedule, Part III, S.No. 1] The rate for hotels, motels and guest houses is restructured. The previous structure, 5% for non-corporate, non-franchise, non-chain businesses with fewer than 20 rooms and 16% for others, is replaced with 8% where payment is received through debit/credit cards, mobile wallets or QR scanning, and 16% for others. The small-hotel carve-out based on corporate status and room count is discontinued; the incentive now universally rewards digital payment adoption regardless of hotel size or structure, while also raising the reduced rate from 5% to 8%.

18	AMENDMENT	Event Management Services Carved Out of Consultants Entry and Separately Rated at 8% [Second Schedule, Part III, S.Nos. 9 & 36] Event management services – previously grouped under the general 'other consultants' entry (S.No. 9) at 16% – are removed from that entry and re-categorised as a standalone entry (new S.No. 36) at 8% without input tax adjustment. This reduces the applicable rate by half and reflects a policy decision to treat event management distinctly from professional consultancy.
	RATE CHANGE	
19	NEW PROVISION	Foreign Exchange Services Brought into Tax Net at 3% Reduced Rate [New S.No. 35, Second Schedule, Part III] A new entry is added for foreign exchange services provided by any person including exchange companies, Forex dealers and money changers in respect of currency exchange transactions. The applicable rate is 3% without input tax adjustment. An Explanation clarifies that the rate applies to services involving consideration of spread charges as permitted by the State Bank of Pakistan in relation to the buying and selling of foreign currencies.
	RATE CHANGE	
20	NEW PROVISION	Event Management Services Added as Standalone Reduced-Rate Entry at 8% [New S.No. 36, Second Schedule, Part III] Consequential to the carve-out from S.No. 9, a new standalone entry for event management services (described as 'whole range and variety of their services regardless of separate or individual classification thereof') is inserted at 8% without input tax adjustment. This is a net reduction from the 16% that previously applied under the general consultants' entry and provides regulatory certainty by giving event management its own dedicated classification.
	RATE CHANGE	