

TAG NEWS UPDATE

MAY 2026

Tax, Audit & Advisory Insights | TAG & Co. Chartered Accountants

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1. SBP HALF-YEAR REPORT FY26 | RELEASED 12 MAY 2026

Pakistan's macroeconomic stability strengthened further in H1 FY26 despite global trade uncertainty and a domestic inflation spike. The Middle East War poses significant risks to the outlook through supply chain disruptions, inflation, trade and remittance flows.

CPI Inflation H1 5.2% 2pp lower YoY	Real GDP 2x last year Industry led	Fiscal Balance Surplus First since FY02	GDP Forecast FY26 3.75-4.75% Lower bound likely
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FY26 / FY27 Outlook

GDP growth is likely near the lower bound of the 3.75-4.75% range. Current account deficit expected to close to 0-1% of GDP. **NCPI inflation expected above 7%** (above target band) for most of FY27 due to oil price surge.

Climate Change Special Chapter

Pakistan contributes less than **1%** of global emissions yet ranks among the **top 10** most climate-vulnerable countries worldwide. High emissions intensity per GDP reflects structural inefficiencies. Substantial investment in climate mitigation is needed but remains largely unmet.

2. SECTION 7E STRUCK DOWN | FEDERAL CONSTITUTIONAL COURT

SHORT ORDER DATED 7 MAY 2026 | VOID AB INITIO

Section 7E (Finance Act 2022) imposed **1% deemed income tax on the fair market value** of immovable property. The Federal Constitutional Court has held it **ultra vires the Constitution** and struck it down as void ab initio (invalid from the beginning).

PRACTICAL IMPACT:

- Permanent removal:** No further Section 7E tax. All past assessments and notices are void.
- Refund eligibility:** Past Section 7E payments may be subject to refund claims under Section 170. Detailed reasons awaited.
- Action:** Review TY2023-TY2026 payments. Respond to pending notices citing a void ab initio ruling.

3. DRAFT TAX RETURN 2026 | MAJOR OVERHAUL

STRUCTURAL CONSOLIDATION | 9 RETURNS REDUCED TO 2

TY 2025 9 RETURN TYPES	DRAFT 2026 2 CORE TYPES
Company, AOP, Individual, Non-Resident, Foreign Income & Assets, Manufacturer, Traders, SME, Non-Resident Individual	A. Return for Individuals (all individuals) B. Return for AOPs/Firms Manufacturer, Traders, SME, Foreign Assets: ALL REMOVED

KEY NEW FEATURES:

- 1. Pre-filing Withholding Dashboard:** Mandatory screen showing FBR's pre-populated economic transactions before any entry. Shifts to verification-based filing.
- 2. Social Media Income section:** New sub-section for YouTubers, TikTokers, influencers. Captures posts, views, deemed revenue, actual remuneration, and expenses.
- 3. Property database:** Auto-detection warning for undeclared properties. Cross-matching with withholding tax under Sections 236C, 236K.
- 4. Multi-employer support:** Add multiple employers in a single return for mid-year job changes.
- 5. Foreign assets integrated:** Now sub-section 9.1 of Wealth Statement. Separate declaration eliminated.

4. LHC: BATTERIES QUALIFY AS FMCG

I.T.R. 99/2025 | LHC MULTAN BENCH | JUDGMENT 7 APRIL 2026

Battery distributors are entitled to a **minimum turnover tax at 0.2%** (FMCG rate under Division IX, Part 1, 1st Schedule), not the 1.25% under Section 113. The court held that batteries are consumer goods sold to end consumers via retail networks, meeting the FMCG definition. **Substance prevails over form.** Follows **Siddique Battery Centre (I.T.R. 13/2020)** and **Haier Pakistan (2018 PTD 1582)**. All FBR Reference Applications DISMISSED.

5. SECTION 75A | MANDATORY BANKING CHANNEL

Asset purchases above prescribed limits must be made through banking channels (crossed cheque, pay order, bank transfer). Cash payment denies tax benefits.

Rs. 50 Lakh Immoveable	Rs. 10 Lakh Other Assets
Plots, houses, flats, apartments, shops, commercial buildings	Vehicles, machinery, equipment, stock, business goods

NON-COMPLIANCE CONSEQUENCES

- 1. No depreciation/initial allowance under Sections 22-25.**
- 2. Purchase cost may not be accepted under Section 76, raising future CGT.**
- 3. FBR notices, penalties, and treatment as an undocumented transaction.**

6. S.R.O. 799(I)/2026 | PIA TAX RELIEF

DATED 4 MAY 2026 | SECTION 183, INCOME TAX ORDINANCE 2001

For PIACL divestment: **Rs. 8.77 billion default surcharge and penalties exempted** (Rs. 8,765,972,000). **Principal tax NOT exempted** | must be paid in full as at **30 June 2025**. Payment in equal annual instalments over **4 years** following a 1-year grace period, starting after **"First Completion"** of the SPSA with the successful bidder.

7. S.R.O. 879(I)/2026 | INGO REGISTRATION

FINAL | DATED 20 MAY 2026 | SECTION 237(1), RULE 80B AMENDED

ACCEPTABLE IDENTITY DOCUMENTS (AMENDMENT I)

CNIC, NICOP, POC (Pakistan Origin Card), or Foreign Passport for non-Pakistani individuals.

INGO REGISTRATION REQUIREMENTS (AMENDMENT II | SUB-RULE 6)

1. **Basic details:** Name, business address, accounting period, phone, principal activity in Pakistan.
2. **Principal officer:** Name, authority letter, phone, and email of authorized representative.
3. **Legal documents:** Foreign incorporation, embassy verification, lease + electricity bill, MOI NOC, Govt of Pakistan MoU.
4. **Ownership:** Directors, trustees, shareholders $\geq 10\%$ | name, nationality, passport, percentage.

PRIORITY: NOC and MoU should be obtained first, as these involve multiple government departments and require lead time.

8. SALES TAX UPDATES | MAY 2026

A. ATIR Pharmaceutical Decision (STA 245/IB/2024)

1% Sales Tax on pharmaceutical products = **final discharge**. **No Further Tax** on supplies to unregistered persons. Provides certainty for the pharmaceutical sector.

B. Annexure "L" for OMCs (Sales Tax Rules 2006)

Invoice-level reporting of **PDL (Petroleum Development Levy)** and **CSL (Climate Support Levy)** by Oil Marketing Companies. Improves reconciliation and facilitates PDL exclusion from turnover tax.

C. S.R.O. 880(I)/2026 | Electronic Production Monitoring

Under Sections 50 and 40C of the Sales Tax Act 1990 (Rule 150ZQR), four sectors are now subject to real-time electronic monitoring:

A. PACKAGED MILK	B. IRON & STEEL	C. EDIBLE OIL	D. VEGETABLE GHEE
UHT, pasteurized, tetra pack milk	Steel bars, billets, ingots, rebars	Manufacturers of edible oil	Vegetable ghee producers

Requirements: install production counters/sensors/flow meters, allow FBR integration, maintain production and stock records, facilitate audits. Non-compliance attracts penalties, registration suspension, and recovery of short-paid tax.

9. REGULATORY & CORPORATE UPDATES | MAY 2026

A. SECP | Record Corporatization Growth

During May 2026, SECP reported **3,161 new companies registered** and a record **415 companies incorporated in a single day**. **99.9% of registrations were online**, taking the total number of registered companies in Pakistan to **297,239**. Reflects continued formalization and growing use of SECP's digital registration framework.

B. SBP | Non-Resident Shareholding Registration System (NSRS)

State Bank of Pakistan has developed the **"Non-Resident Shareholding Registration System (NSRS)"** to streamline and automate record keeping of registration of non-residents' shareholding in locally incorporated companies, and subsequent **repatriation of dividend and disinvestment proceeds**. The system is expected to improve transparency and reduce processing time for foreign investors.

10. LABOUR LAW UPDATES | MAY 2026

A. Minimum Wage & Compliance

Punjab, Sindh, and KP are implementing minimum wages of around **Rs. 40,000/- per month** for unskilled workers. Increased scrutiny on EOBI/PESSI/SESSI registration,

payroll records, statutory deposits, workplace documentation, maternity benefits and workplace safety.

B. Workers Welfare Fund | Enhanced Welfare Grants

At the federal level, the Workers Welfare Fund has enhanced labour welfare grants for industrial workers:

MARRIAGE GRANT (Daughter)	DEATH GRANT
PKR 100,000 to PKR 200,000 Doubled +100%	PKR 500,000 to PKR 600,000 Increased +20%

C. Punjab Labour Code 2026 | New Consolidated Framework

The Punjab Labour & Human Resource Department's laws and policies section now lists the **Punjab Labour Code 2026** as part of Punjab's labour law framework. This consolidated code requires employers operating in Punjab to review:

1. HR documentation and appointment letters
2. Wage records and leave policies
3. Contractor arrangements
4. Social security compliance (EOBI, PESSI, SESSI)
5. Occupational safety measures and workplace policies

ACTION POINT: Employers operating in Punjab should conduct a comprehensive HR and compliance audit in light of the consolidated Punjab Labour Code 2026 framework.

11. TRADEMARK UPDATE | SINDH HIGH COURT

Sanofi Aventis vs Muhammad Abdullah | Trademark "PROGREL"

2026 SLD 658 / 2026 SHC 655: Sindh High Court allowed registration of "PROGREL" (Class 5), reversing refusal based on similarity with INN "CLOPIDOGREL". Key principles:

1. Trademarks assessed as a whole, not by isolating suffixes/prefixes.
2. Common industry elements (e.g., "**GREL**") are in the public domain.
3. Distinctiveness is the key requirement for invented marks.
4. Actual or likely consumer confusion must be proven, not theoretical similarity.

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