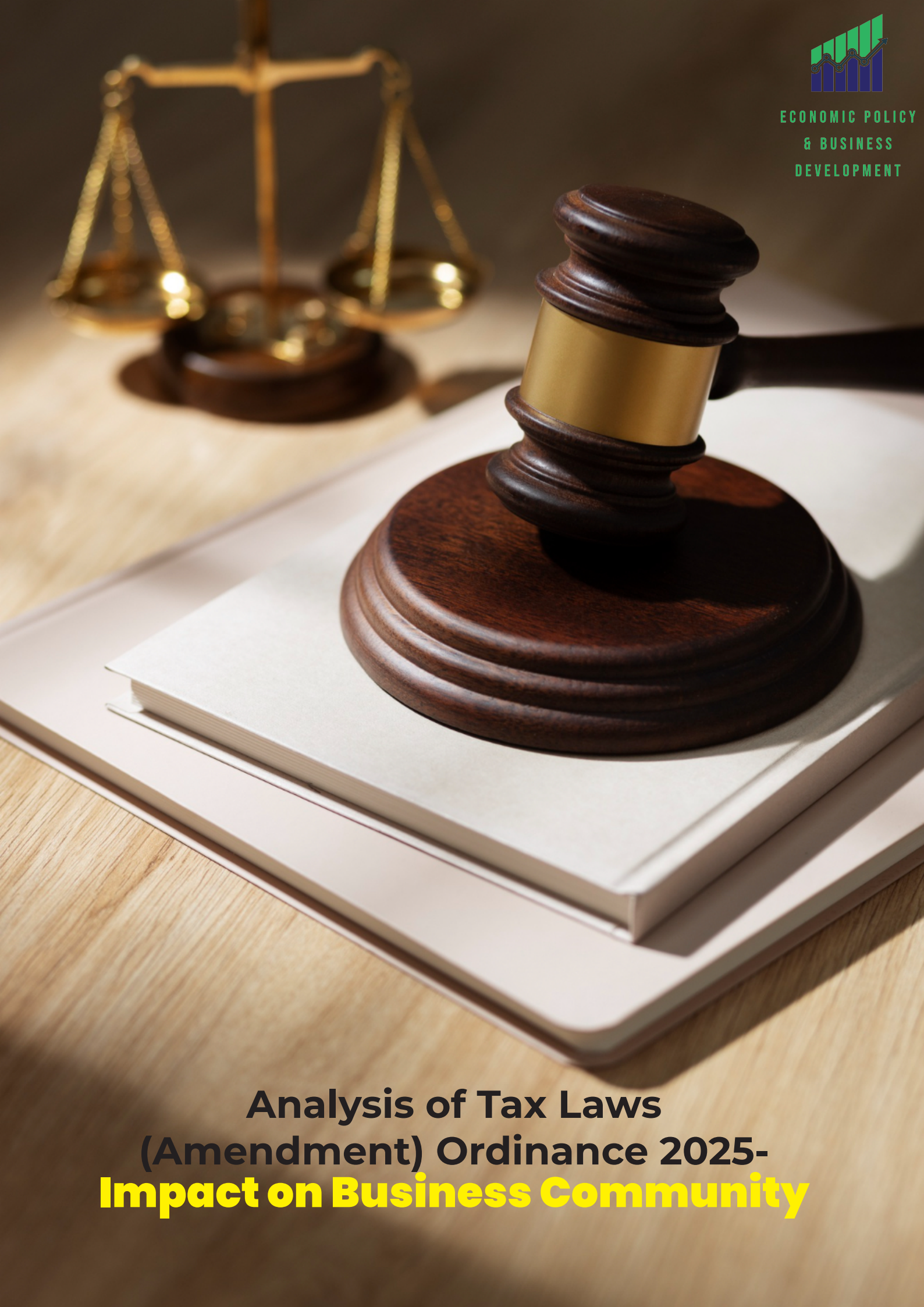




ECONOMIC POLICY
& BUSINESS
DEVELOPMENT



**Analysis of Tax Laws
(Amendment) Ordinance 2025-
Impact on Business Community**

Introduction

The Tax Laws (Amendment) Ordinance 2025 (Ordinance No. IV of 2025), promulgated by the President on May 2, 2025, introduces three significant amendments that pose grave concerns for Pakistan's business community. While the government purports these measures address urgent legal and administrative gaps, our analysis reveals these amendments threaten business operations, investor confidence, and fundamental constitutional rights at a critical economic juncture for Pakistan.

Top 3 Amendments Raising Alarms

- 1 Retrospective Taxation Authority
- 2 Enhanced Discretionary Powers to FBR
- 3 Expanded Penal Provisions Without Safeguards

Business Community Concerns



Business Operations
Unpredictable tax liability,
cash flow shocks



Investor Confidence Regulatory
overreach scares off FDI &
local investment



Constitutional Rights Breach
of due process, legal protection,
and appeal rights

Problematic Provisions

Immediate Tax Recovery

(Sections 138(3A) & 140(6A))

Income Tax Ordinance 2001

The amendments establish non-obstante provisions that fundamentally alter tax recovery procedures. They empower tax authorities to demand immediate payment of tax liabilities when cases are decided by High Courts or the Supreme Court, effectively overriding established legal timeframes, other laws, rules or judgments, and existing appeal or stay procedures.

Implication

These provisions create the potential for sudden, catastrophic cash flow disruptions across the business sector. The nullification of procedural safeguards represents a significant departure from established legal principles that have long protected taxpayers from arbitrary enforcement. Of particular concern is how these amendments effectively undermine the judicial process by allowing tax authorities to bypass stays and appeals that would otherwise protect

businesses during disputes.

Furthermore, the retroactive application to existing cases creates immediate jeopardy for numerous businesses currently engaged in tax litigation.

Arbitrary Monitoring Powers

Section 175C **Income Tax Ordinance 2001**

The newly inserted Section 175C grants unprecedented authority to the Federal Board of Revenue or Chief Commissioner to post tax officials at business premises for continuous monitoring of production processes, supply of goods and services, and inventory of unsold goods. This represents an extraordinary intrusion into normal business operations.

Implication

The implementation of continuous surveillance mechanisms will inevitably disrupt standard business activities and create an environment where confidential business information is exposed. The additional compliance costs associated with accommodating such monitoring will place further strain on businesses already operating in challenging and chaotic economic conditions. Perhaps most concerning is the creation of an environment that is highly conducive to

harassment and rent-seeking behavior, issues that have historically plagued Pakistan's regulatory landscape. disputes. Furthermore, the retroactive application to existing cases creates immediate jeopardy for numerous businesses currently engaged in tax litigation.

Expanded Seizure & Confiscation Authority

Sections 26 & 27 **Federal Excise Act 2005**

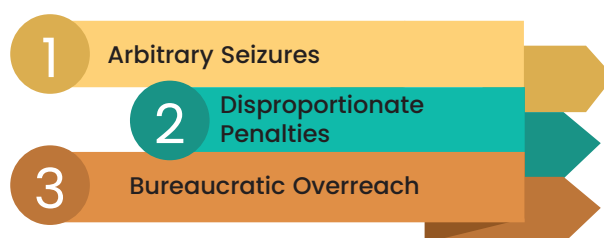
The amendments to the Federal Excise Act significantly expand the government's authority regarding seizure and confiscation of goods. They broaden the grounds for seizure to include goods without proper tax stamps or labels, expand authority to confiscate and destroy such goods, and—most troublingly—empower any federal or provincial government officer, not just specialized tax officials, to exercise these sensitive functions.

Implication

These changes substantially increase the vulnerability of businesses to arbitrary seizures based on technical non-compliance issues. The disproportionate penalties, which include total confiscation and destruction of goods, create an environment of heightened business uncertainty.

Furthermore, the expansion of enforcement authority beyond trained tax officials to any government officer represents a concerning level of bureaucratic overreach that lacks appropriate safeguards.

Tax Enforcement Risks for Businesses



Economic Implications

The introduction of these draconian measures must be viewed in the context of the government's substantial revenue challenges. The federal revenue target for FY25 was initially set at PKR 12.9 trillion but subsequently revised downward to PKR 12.3 trillion. Despite this adjustment, a significant shortfall of PKR 833 billion has accumulated in the first ten months of the fiscal year, with only PKR 9.31 trillion collected by April 2025.

What makes these enforcement measures particularly unjustified is that the business community has already demonstrated remarkable compliance under challenging economic conditions. In the first ten months of FY25, tax collection has reached PKR 9.31

trillion—a substantial 27% increase (PKR 1.95 trillion) over the same period in FY24. For perspective, the total tax collected during the entire 12 months of FY24 was PKR 9.2 trillion.

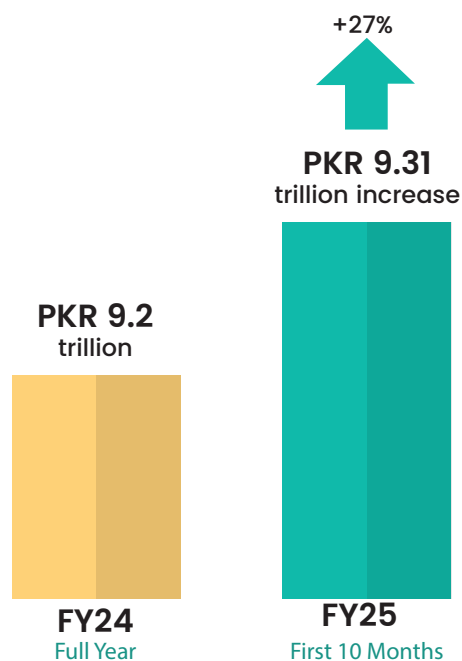
This significant improvement in tax collection clearly indicates that the shortfall is not due to taxpayer non-compliance but rather to the government's unrealistic target-setting and administrative inefficiencies. Instead of acknowledging its own failure in fiscal planning and management, the government is putting the burden on the business community through these punitive measures. The approach reflects a fundamental misallocation of regulatory energy that penalizes compliant businesses while failing to address the root causes of revenue shortfalls within the government's own systems.

If the government is serious about sustainable revenue generation, it must focus more on right-sizing and rationalizing expenses rather than implementing measures that undermine business confidence and economic stability. The arbitrary enforcement mechanisms introduced through this ordinance represent an attempt to meet unrealistic revenue targets through extraordinary measures that risk damaging the very economic activity needed to generate sustainable tax revenue.

The cumulative impact of these amendments extends far beyond tax administration and threatens fundamental aspects of Pakistan's economic environment. The creation of an unpredictable tax regime with diminished procedural safeguards signals a disregard for legal due process that will inevitably damage Pakistan's international competitiveness and deter both domestic and foreign investment at a time when capital formation is critically needed.

The financial stability of businesses across sectors is placed at risk through the threat of unexpected and potentially devastating tax demands that bypass normal judicial processes. Companies will be forced to maintain excessive cash reserves as protection against sudden tax liabilities, thereby reducing productive investment and economic growth potential. The diversion of management attention toward compliance with intrusive monitoring requirements will further impede business efficiency and innovation.

Of particular concern are the constitutional implications of these amendments. By effectively limiting the authority of the courts to grant meaningful relief through stays and appeals, these provisions challenge fundamental protections established under Article 199 of the Constitution. The undermining of judicial authority and the resulting threat to separation of powers represents a troubling precedent that extends beyond tax matters to broader questions of governance.



TAX COLLECTION COMPLIANCE: FY24 vs FY2

Recommendations

The government should consider reviewing and withdrawing the Ordinance to allow for open parliamentary debate and comprehensive stakeholder consultations. This would ensure that revenue objectives can be balanced against economic stability and constitutional principles through a deliberative process.

The restoration of legal due process is essential for maintaining business confidence. This requires maintaining established timeframes for tax recovery and respecting judicial stays and appeals as foundational elements of Pakistan's legal framework. A more balanced approach would implement targeted rather than blanket monitoring provisions and create robust safeguards against official overreach.

For establishment of a genuine collaborative approach between government-business community, a structured business-government dialogue to address legitimate revenue concerns through consensus rather than unilateral action. EPBD stands ready to facilitate such constructive engagement.

Conclusion

While we acknowledge the government's fiscal challenges and revenue imperatives, the extreme measures introduced through this ordinance threaten business viability, economic stability, and constitutional principles. The cumulative effect will likely inflict lasting damage on Pakistan's business climate at a time when our economy can least afford such disruption.

We present this analysis respectfully and with grave concern for Pakistan's economic future. Our organization remains committed to supporting balanced policy approaches that serve both fiscal needs and economic growth objectives.

We formally request an urgent meeting with relevant authorities to discuss these matters in greater detail and to explore constructive alternatives.