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Pakistan Government Raises Business Cash Sales Limit to Rs2.5 Million

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On July 20, 2025, Pakistan's federal government announced a significant policy shift, raising the limit for disallowing cash sales expenditures from Rs200,000 to Rs2.5 million per transaction for businesses, effective from July 1, 2025. This phased amendment to Section 24 of the Income Tax Ordinance 2001 aims to balance revenue collection with business flexibility, though it has sparked debate over its impact on economic documentation.

The Finance Act 2025 introduced this change to address concerns from the business community, particularly small and medium enterprises (SMEs), who found the previous Rs200,000 cap restrictive. Under the new plan, the Federal Board of Revenue (FBR) will implement the policy over three years, starting with a Rs2.5 million limit, reducing to

Rs1.5 million in the second year, and Rs500,000 by the third. The disallowance rate for cash transactions exceeding these thresholds will also adjust, dropping from 50% to 20% initially, then rising again. “This phased approach protects businesses while ensuring tax compliance,” an FBR official stated (Business Recorder, July 20, 2025). The policy applies only to income from business, leaving individual transactions unaffected.

Traders, led by the Karachi Chamber of Commerce and Industry (KCCI), have expressed mixed reactions. While some welcome the temporary relief, others, like KCCI President Jawed Bilwani, argue it fails to address deeper issues like bureaucratic overreach. “The FBR’s powers are still too intrusive,” he told Pakistan Today, referencing ongoing protests against enhanced FBR authority (Pakistan Today, July 20, 2025). The policy aims to curb undocumented cash flows, a persistent challenge in Pakistan’s economy, where the black market thrives.

Critics warn that while the higher limit offers short-term flexibility, the gradual reduction could pressure businesses to adopt digital payments prematurely, especially in rural areas with limited banking infrastructure. The government’s push for documentation aligns with broader economic reforms, but without addressing systemic inefficiencies, it risks alienating small traders. As Pakistan navigates this delicate balance, the policy’s success hinges on fostering compliance without stifling commerce, a challenge that demands careful execution to maintain economic stability.