Important changes introduced in VAT Deduction & Collection at Source by the Finance Ordinance 2025



Introduction of VAT Deduction and Collection at Source Guidelines, 2025



SRO no. 182/AIN/2025/310-MUSHAK dated 27 May 2025

The VAT Deduction and Collection at Source Guidelines, 2025 has been introduced by replacing the previous VAT Deduction and Collection at Source Guidelines, 2021





VDS Guidelines 2025

VDS Guidelines 2021

Highlights on changes brought about by the VDS Guidelines, 2025

Inclusion of new service in mandatory VDS list

VAT @15% under Service Code S017.00 (Community Center) has been newly included in the list of services under mandatory VAT deduction at source.



Increase in VDS rates



VDS rate of Construction Contractor under Service Code S004.00 has been increased from 7.5% to 10%. However, it will remain 7.5% for construction contract signed before 30 June 2025.

VDS rate of Credit Rating Agency under Service Code S99.50 has been increased from 10% to 15%.



Highlights on changes brought about by the VDS Guidelines, 2025



- ✓ A VAT registered recipient of supply is required to make increasing adjustment in his or her VAT return for VAT deducted or collected at source from suppliers and deposit the same as a part of the net VAT liability before submission of VAT return.

- ✓ Previously VDS was required to be separately deposited in government exchequer within 07 days of expiry of the tax period concerned. Hence, the new mechanism will significantly reduce the time and effort required to be spent for depositing VDS.

Highlights on changes brought about by the VDS Guidelines, 2025



- ✓ Certificate of VAT deducted or collected at source i.e. form Mushak-6.6 is required to be issued within 03 working days of filing VAT return which was previously required to be issued within 03 working days of depositing the VDS. However, the form of certificate of VDS (Mushak 6.6) need to be updated mentioning increasing adjustment with other methods of depositing VDS.

- ✓ A VAT un-registered entity is required to deposit the VAT deducted at source into the government exchequer by A-challan or E-payment systems within 15 days of payment to suppliers and issue a certificate (i.e. form Mushak 6.6) to the supplier within 03 working days of depositing the VAT deducted at source. Different modes (A-challan or E-payment systems) of depositing VDS by unregistered persons have been elaborately discussed in the new guideline.

Highlights on changes brought about by the VDS Guidelines, 2025



- ✓ In the case of import of service by a VAT un-registered entity, the bank responsible for effecting the outward remittance will make an increasing adjustment for the VAT deducted or collected at source in its VAT return of the related tax period instead of directly depositing the VAT to govt. exchequer.

- ✓ In the case of import of service by a VAT registered entity, if proper treasury challan is not available or a lesser amount of VAT is deducted, the remitting bank will deduct the applicable VAT and make increasing adjustment in its VAT return for the related tax period.

Highlights on changes brought about by the VDS Guidelines, 2025

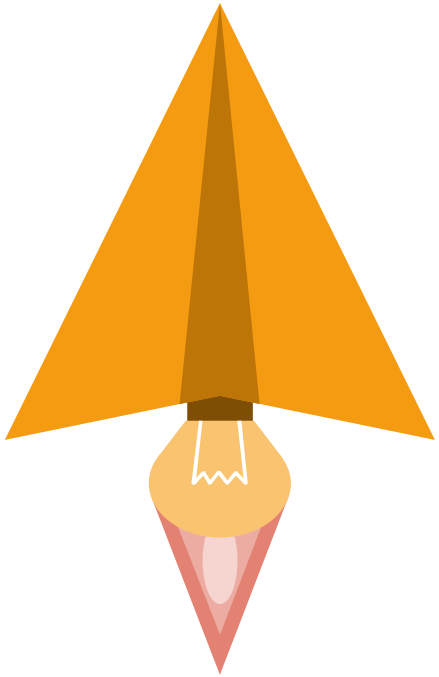


- ✓ VAT is not required to be deducted at source if invoices are issued from Public Key Infrastructure (PKI) and Point of Sales (POS) machines mentioning the BIN number and name of the purchaser.

- ✓ VAT is not required to be deducted at source for purchase of locally manufactured medicines from traders.

- ✓ Previously decreasing adjustment could be claimed in the period of receiving payment of consideration and next 03 tax periods. Now this period has been extended up to 06 tax periods.

Highlights on changes brought about by the VDS Guidelines, 2025



- ✓ In the case of taking rent of a place and establishment, the tenant of the premises shall be required to pay VAT @ 15%.
- ✓ If the tenant is a VAT-registered entity, he shall make an increasing adjustment in his or her VAT return.
- ✓ If the tenant is an un-registered entity, he shall deposit the applicable VAT into government exchequer by A-Challan or E-payment system.

Highlights on changes brought about by the VDS Guidelines, 2025

Exemption from VAT deduction at source from lower tiers of subcontractors, agents and service renderers appointed in a project

The facility of inapplicability of VAT and non-deduction of VAT at source on appointment of subcontractors, agents and other service renderers for delivering a part of the whole service under a project has been restricted to the **first tier** of subcontractors, agents, and other service rendering persons only.

Section 49(5) of the VAT & SD Act, 2012

- ✓ VAT is to be deducted at source from payment to lower tier subcontractors.
- ✓ It would resolve field level disputes on applicability of VAT on lower tiers of subcontractors.

New provision for commercial importers and implication of VDS

A commercial importer paying Advance Tax @ 7.5% at import stage is not required to pay VAT again at the time of first sale of imported goods subject to the conditions that:

a. value addition at the time of fist sale after import would not be greater than 50%; and
b. the importer would issue tax invoice in prescribed manner.

Final settlement of AT paid at import stage (Section 31)

General Order No-06/Mushak/2025 dated 15 July 2025

It has been mentioned in the general order that the benefit allowed to the commercial importers will not be applicable if the supply comes under the purview of "Procurement Provider" under Service Code S037.



It transpires there is a contradiction between the law and the general order.

Non-deduction of VAT at source

Effective date of the changes

All the changes regarding VAT deduction and collection at source will be effective from 01 July 2025

Q & A





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