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Pakistan Placing Crippling Tax Burden On People & Businesses

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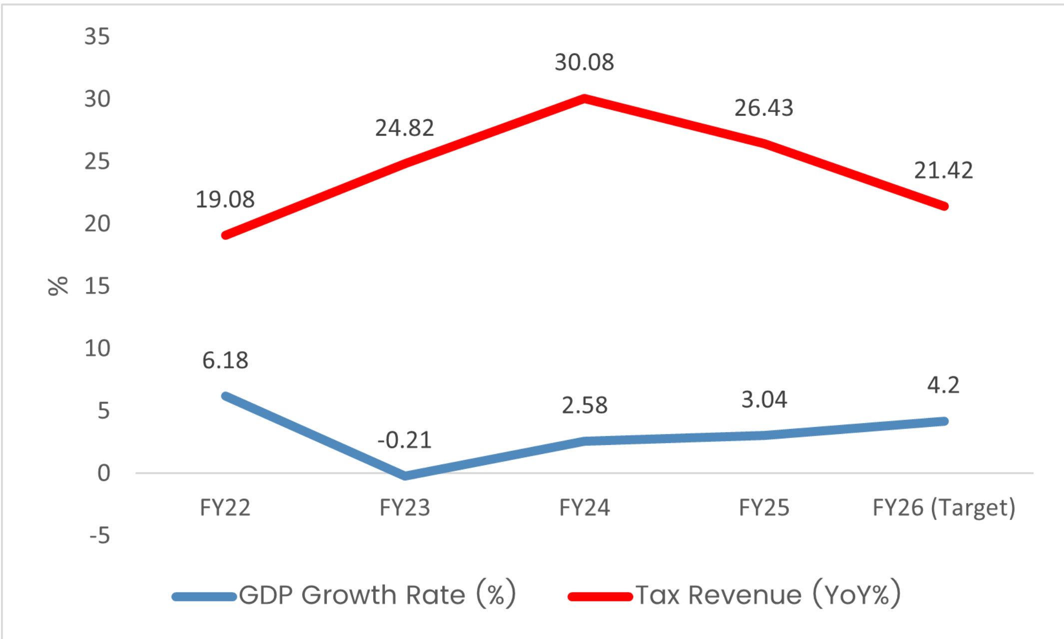
Current Tax Landscape

Pakistan's tax collection has shown significant growth over recent years despite sluggish economic performance. Total tax revenue has increased from PKR 6.8 trillion in FY22 to PKR 13.95 trillion in FY25, representing a 105% increase. For FY26, the government has set an ambitious target of PKR 16.94 trillion, which would represent a 21.4% increase over FY25 (details are given in Table 2 in Annex).

However, deeper analysis reveals that growth rates of tax collection vastly outpace economy's growth. While the tax revenue has increased at the rates of 30.1% and 26.4% in FY24 and FY25 respectively, the economy has grown at an average of only 1.8% over the last three years (figure 1). While the Government attributes this rise to enhanced compliance and broadening of the tax base, the disproportionate burden on both the salaried individuals and the business sector raises valid concerns regarding the Fiscal Policy's correctness and fairness, and its economic sustainability.

Figure 1 Tax Revenue has increased by 105% since FY22 while GDP growth rate has stagnated at an average of 1.8%



Source: Economic Survey of Pakistan, Annual Budget Statements, MoF

Both the business sector and the salaried class are suffering under an excessive tax burden that has intensified significantly in recent years. Businesses have seen their income tax obligation surge from Rs 2.2 trillion in FY22 to Rs 5.3 trillion in FY25 (increased by 131%), while salaried individuals' tax burden has simultaneously grown from Rs 188 billion to Rs 580 billion (increased by 206%). This relentless extraction of revenue from an economy growing at just 1.8% is unsustainable and counterproductive.

Table 1: Tax collection from business sector and salaried class over the years, (PKR Billion)

FY	Business Sector	YoY (%)	Salaried Class	YoY (%)
FY22	2280	-	188	-
FY23	3237	42.0	264	40.4
FY24	4207	30.0	364	37.9
FY25	5259	25.0	575	58.0

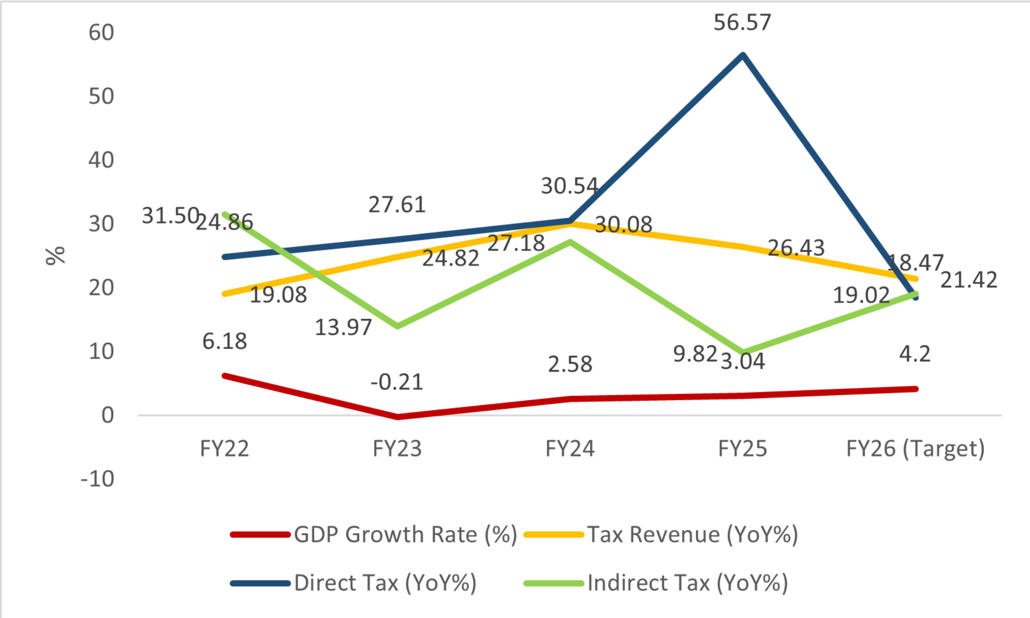
Missed Targets & False Narrative

Recent reports highlight the Federal Board of Revenue's "shortfall" of PKR 76 billion in October 2025, with a cumulative gap of PKR 274 billion for the first four months of FY26. However, this narrative obscures the stark reality that tax collections still grew by 12% year-on-year, extracting PKR 3.84 trillion from an economy barely growing. The government's focus on "missed targets" diverts attention from the escalating burden on compliant taxpayers while presenting an artificially low Tax-to-GDP ratio of approximately 10% by excluding essential levies such as PDL.

The actual tax burden has already increased from 10% in FY23 to 12.2% in FY25, with the Petroleum Development Levy increasing by 760% from PKR 0.135 trillion in FY22 to PKR 1.16 trillion in FY25. Against this backdrop, the government's ambitious 18% Tax-to-GDP ratio target for 2028 represents a 38% jump from current levels while simultaneously claiming "no new tax measures"—a contradiction that signals either unrealistic expectations of economic formalization or, more likely, plans for further extraction from already overtaxed compliant sectors.

Moreover, government's persistent claim of a 10% Tax-to-GDP ratio deliberately obscures the stark reality that the comprehensive burden already exceeds 12% when all levies are properly accounted for. This systematic underreporting creates a misleading baseline that officials exploit to justify the reasoning of imposing new tax measures to increase Tax-to-GDP ratio. This statistical manipulation enables policymakers to continue punishing compliant sectors while avoiding the challenging task of bringing untaxed segments into the formal economy.

Figure 2:Taxes have increased over the years while economy has stagnated



Source: Economic Survey of Pakistan, Annual Budget Statements, MoF

While GDP growth has remained anemic—falling to negative territory in FY23 (-0.21%) before marginally recovering to 2.58% in FY24, 3.04% in FY25, and a projected 4.2% in FY26—tax collection has grown at significantly higher rates. Direct taxes show the most alarming pattern, peaking at a staggering 56.57% growth in FY25 despite minimal economic expansion. Overall tax revenue has consistently outpaced GDP growth by factors of 7-12 times, with rates of 24.82% in FY23, 30.08% in FY24, and 26.43% in FY25. This widening gap between economic growth and tax extraction reveals an unsustainable fiscal approach that is effectively strangling the productive sectors of the economy to meet government revenue targets.

Composition of Direct and Indirect Taxes

A detailed breakdown of Pakistan's tax collection reveals that the burden has been increasing across multiple fronts, with significant increases in both direct and indirect taxes.

Direct Taxes

The growth in direct taxes has been particularly striking, with Income Tax showing the most significant increase:

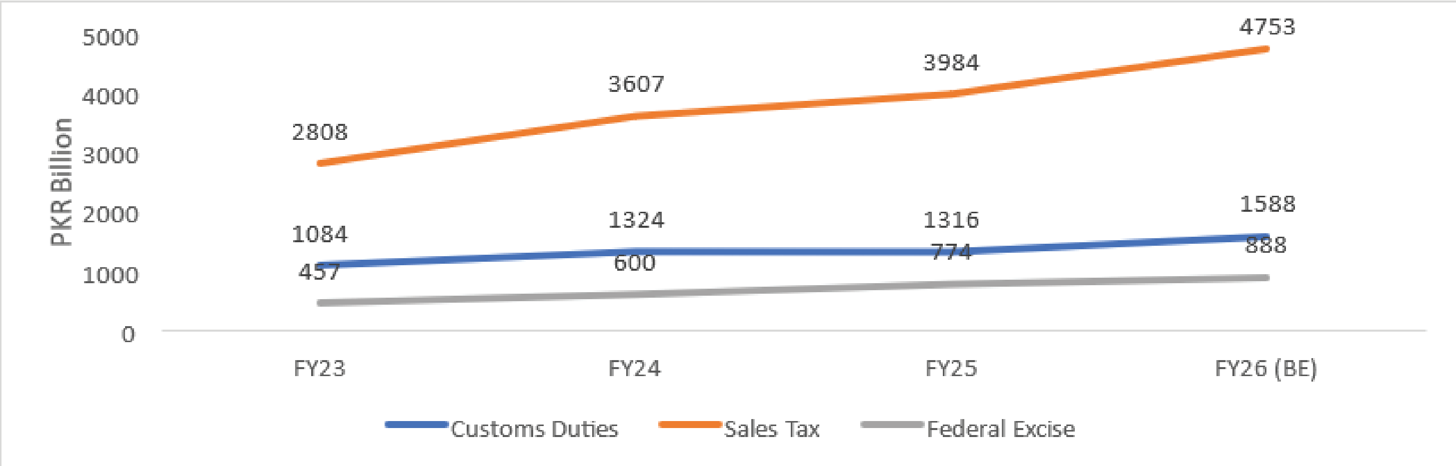
- **Income Tax:** Rose from PKR 2,816 billion in FY23 to PKR 5,749.4 billion in FY25, representing a significant 104% increase in just two years. The government is targeting a further increase to PKR 6,811.24 billion in FY26, which would represent an additional 18.5% growth.

• **Capital Value Tax:** Increased from PKR 0.62 billion in FY23 to PKR 14.5 billion in FY25, with a target of PKR 17.19 billion for FY26.

Indirect Taxes

Indirect taxes, which affect the entire population including those below the income tax threshold, have also seen significant increases:

Figure 3: Indirect Tax collection has increased significantly over the years



Source: Annual Budget Statements, MoF

• **Sales Tax:** Increased from PKR 2,808 billion in FY23 to PKR 3,984 billion in FY25 (a 42% increase), with a target of PKR 4,753 billion for FY26.
• **Customs Duties:** Increased from PKR 1,084 billion in FY23 to PKR 1,316 billion in FY25 (a 21% increase), with a target of PKR 1,588 billion for FY26.
• **Federal Excise:** Grew from PKR 457 billion in FY23 to PKR 774 billion in FY25 (a 69% increase), with a target of PKR 888 billion for FY26.

This across-the-board increase in taxation is placing pressure on businesses and consumers in multiple ways. The doubling of income tax collections in just two years is particularly concerning, as it represents a significant additional burden on the formal sector and registered businesses, potentially discouraging formalization and investment, and, thereby, growth.

Adverse Impact on Economic Growth

The widening gap between tax growth and economic expansion creates a destructive cycle that undermines Pakistan's economic development, particularly stifling the businesses and industry. With tax collection growing at 20-30% annually while GDP struggles below 4%, this fiscal approach extracts maximum revenue regardless of economic reality.

- **Suppressed Business Activity:** Doubling of income tax within two years discourages investment
- **Informal Economy Growth:** Punitive taxation incentivizes businesses to remain undocumented
- **Flight of Capital:** Excessive taxation is driving businesses and wealth abroad, shrinking the tax base and forcing higher rates on remaining taxpayers
- **Reduced Consumption:** Rising indirect taxes dampen consumer spending
- **Multilayered Pressure:** Provincial taxes compound the burden (Sindh: 102% increase)
- **Unrealistic Revenue Targets:** Government prioritizes extraction over economic sustainability

Suggested Way Forward

Pakistan's fiscal strategy of extracting ever-greater revenue from a stagnant economic base is counterproductive and unsustainable. With a Tax-to-GDP ratio already approaching 13% while growth hovers at 1.8%, a fundamental shift from revenue extraction to economic stimulation is essential for long-term fiscal stability.

- **Prioritize Economic Growth:** Focus on policies that expand the economy rather than intensifying extraction from existing taxpayers
- **Stop Punishing Compliance:** Halt additional taxation of already overtaxed businesses and salaried individuals
- **Widen Tax Base Genuinely:** Develop effective mechanisms to bring untaxed sectors (especially retail) into the formal economy
- **Transparent Reporting:** Include all levies (PDL, provincial taxes) when reporting Tax-to-GDP ratio to provide accurate picture of the fiscal burden
- **Reduce Tax to Spur Growth:** Lower tax rates would stimulate investment and increase revenue through economic expansion rather than higher extraction
- **Business-Friendly Reforms:** Simplify tax procedures, reduce frequency of changes, and provide targeted incentives for growth sectors
- **Realistic Target Setting:** Align revenue targets with economic realities rather than creating contingency plans for more taxation
- **Long-Term Perspective:** Recognize that sustainable revenue growth comes through economic expansion, not higher rates on compliant sectors

ANNEX

Table 2: Total Tax Collection along with Tax-to-GDP ratio

PKR Trillion

FY	Tax Revenue	Provincial Tax Revenue				PDL	Total Tax Revenue*	Tax Revenue (YoY)	GDP (Nominal)	Tax-to-GDP ratio[1]
		Punjab	Sindh	Balochistan	KPK					
FY22	6.1	0.277	0.268	0.023	0.044	0.135	6.80	19.1	66.95	10.2
FY23	7.2	0.324	0.335	0.0297	0.053	0.542	8.48	24.8	84.66	10.0
FY24	9.25	0.339	0.397	0.0337	0.056	0.96	11.04	30.1	106.04	10.4
FY25	11.7	0.421	0.567	0.0339	0.07	1.16	13.95	26.4	114.69	12.2
FY26 (Target)**	14.13	0.524	0.676	0.056	0.084	1.47	16.94	21.4	129.56	13.1

Source: Annual Budget Statements, MoF

**Total Tax Revenue includes Tax Revenues (Federal) + Petroleum Development Levy + Provincial Tax Revenues*
***Budgetary Estimates are taken for FY26 (Values in PKR Trillion)*

[1] Tax-to-GDP ratio has been calculated by dividing Total Tax Revenue by GDP (Nominal)