



**ECONOMIC POLICY  
& BUSINESS DEVELOPMENT**  
THINK TANK

*'an independent, non-partisan, not for profit organization'*



# TAX POLICY & ADMINISTRATION REFORMS

*'An Alternate Plan: From Stabilization to Growth'*



# ABOUT EPBD

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## OUR VISION

EPBD's vision is to provide strategic advice and thought leadership to policy makers in shaping a dynamic, inclusive, and forward-looking economic policy ecosystem that unleashes the full potential of private enterprise, drives sustainable GDP growth, and ensures equitable prosperity for all.

## OUR MISSION

Advocacy for evidence-based and market-friendly economic policies; that catalyze industrial growth, job creation, and export competitiveness:

- Champion private sector led development by identifying and promoting reforms that incentivize innovation, investment, and fair competition.
- Promote inclusive growth by ensuring that policy outcomes support social mobility, reduce inequality, and enable Pakistan's youth to thrive in a modern, industrial economy.
- Foster informed dialogue between policy makers and business leaders to align national economic priorities with global opportunities.

Minar-e-Pakistan



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# MESSAGE FROM THE PATRON-IN-CHIEF

**Mr. Bashir Jan Muhammad**

It is my pleasure to present what, I believe, is a defining moment in Pakistan's policy history and advocacy - EPBD's shadow policy document; first ever produced by any think tank in the country. This initiative is rightly aligned with EPBD's founding purpose of providing independent, evidence-based alternatives to official policy frameworks, and advocacy for human centric policy approaches. I am delighted to note that EPBD is presenting 'Tax Policy & Administration Reforms' based on the principle, '*Taxation that Enables, Not Strangles*' as part of this landmark suite of four shadow documents. I would like to commend the lean, and highly committed team of EPBD, for the dedication, passion and rigour they have brought to this work.

All proposals in these documents are demand-driven and evidence-based, developed through rigorous sectoral research, structured stakeholder consultations, and expert peer reviews. It is my sincere hope that these will prove genuinely useful to policymakers and that this effort yields positive, tangible outcomes for growth of Pakistan's economy and its people. I would like to express my deep appreciation for the Board, particularly the Chairman Dr. Gohar Ejaz and the CEO Sardar Ahmad Nawaz Sukhera, whose vision, initiative, guidance and steadfast support have made this pioneering endeavour possible.

**Bashir Jan Muhammad**



# MESSAGE FROM THE CHAIRMAN

**Dr. Gohar Ejaz, HI, SI**

It is my pleasure to present the 'Tax Policy & Administration Reforms' document – EPBD's first ever foundational contribution to Pakistan's tax and economic policy discourse. This document is the first of its kind, being citizen-centric and proposing an alternate framework: an independent, demand-driven, and data-based assessment of the government's existing tax policy, offered in a spirit of constructive engagement rather than mere political commentary. Fully aligned with EPBD's mission and core work plan, it provides a human-centric alternative to policy documents that have traditionally been shaped by fiscal compulsions and short-term fixes, rather than economic realities. Its authenticity is rooted in an extensive consultative process – over 200 Business Chambers and Associations were approached and consulted - all reform proposals received were considered and rigorously analyzed, and all those meriting inclusion were incorporated into this paper. Grounded in evidence and informed by the voices of Pakistan's business community and citizens alike, the observations and research findings presented here have been translated into credible, actionable policy recommendations.

Pakistan's tax policy, in its current form, has strangled economic growth. Regressive policy structures have deterred investment, suppressed industrial output, and contributed to chronic export underperformance – even as regional competitors have surged ahead. The EPBD team has examined these distortions with rigour, identified the structural flaws in the existing policy framework, and developed an alternate policy architecture supported by proposals and key recommendations designed to unlock sustainable, broad-based growth.

The highlights of this Reforms document include: reducing the effective corporate tax burden from 29 to 25 percent; withdrawal of the Super Tax (except for the banking sector); reforms to the individual tax category, including the reinclusion of standard and itemized deductions for non-business individual filers; lowering the maximum income tax slab for salaried individuals from 35 to 20 percent; reducing the number of Withholding Tax heads from 52 to 32; deleting the non-filer category; introducing joint filing by spouses; and removing the requirement of depositing 30 percent of the tax amount for filing a case in a High Court, while setting time limits for deciding tax cases in High Courts. These are not aspirational figures – each proposal is backed by detailed financial workings demonstrating feasibility and projected impact. But these are merely a glimpse. The paper contains a far broader set of reform proposals, each substantiating the core purpose of this initiative. Taken together, they make a compelling, evidence-based case that, if implemented, Pakistan's economic trajectory can – and will – change for the better.

I invite policymakers, expert practitioners, legislators, businessmen and all stakeholders to this discourse for the sake of Pakistan. The cost of inaction is one Pakistan can no longer afford.

**Dr. Gohar Ejaz, HI, SI**

# FOREWORD BY CEO



**Sardar Ahmad Nawaz Sukhera, HI, PAS (Retd.)**

There is a particular cruelty to regressive taxation: it extracts the most from those who can least afford it, while hollowing out the very engines of economic growth. Pakistan has lived this reality for decades. Factories that once hummed with activity have shut their gates – not because of a lack of ambition or entrepreneurial spirit, but because the cumulative burden of an irrational, distorted tax system made survival impossible. Industries that should have scaled and competed globally have instead contracted. Meanwhile, peer economies – Vietnam, Bangladesh, India – have leveraged progressive, investment-friendly fiscal frameworks to capture global market share, build export industries, and attract capital that Pakistan has consistently pushed away. The contrast is not incidental. It is the direct consequence of policy choices.

Pakistan's tax policy has, for too long, been distorted, imbalanced, and regressive. It has prioritized short-term revenue extraction over long-term economic stability – and paid a steep price for it. EPBD, a young non-partisan and independent think tank but with an ambitious nationalistic agenda of becoming peoples' and businesses' voice and pushing reforms, embarked upon developing and presenting its first 'The Tax Policy and Administration Reforms' document, which offers a viable and actionable reform roadmap to change that. Its objectives are clear: stabilize and move the economy to growth path through consistent, predictable and long-term tax policy; gradually enhance the tax-to-GDP ratio beyond 18 percent; put the economy on a sustainable growth trajectory; and reduce business costs to boost export competitiveness toward 8.5 percent GDP growth in five years. These are not abstract targets – they are achievable, sequenced, and substantiated.

Taxation, when well-designed, is an instrument of growth. When implemented regressively, it becomes a brake on it. Consider what Pakistan's current structure demands of its people: a salaried professionals pay up to 35-40 percent on their income in a country where per capita income stands at \$1,901 – compared to \$2,878 in India and \$3,897 in Iran. A corporate entity navigates an effective tax burden of 55 percent, making Pakistan one of the most expensive places in the region to do business. Under these conditions, professionals and entrepreneurs are not just discouraged – they are structurally penalized. The middle class, already stretched, is left with little capacity to save, invest, or build. This paper, accordingly, proposes reducing the Corporate Tax Rate to 25 percent and the maximum salary tax slab to 20 percent - not as concessions, but as prerequisites for a functioning, growth-oriented economy.

The analytical foundation of this document is robust. The methodology draws on five pillars: synthesis of the 5-Year Development Plan and three core shadow policy documents; structured stakeholder input from leading business bodies and tax experts; a systematic Tax Policy Inefficiency Evaluation assessing structural complexities, distortions, and administrative capacity gaps; a Data Utilization Gap Analysis identifying enforcement and compliance opportunities; and Revenue Potential Estimation modelling through compliance improvements, base broadening, and reduction of distortions. Underpinning all of this are 21 in-house, research-based sectoral briefs developed using a uniform research framework. The process was guided by EPBD's Board, overseen by senior management, executed by a dedicated research team, and refined through consultations with experts, business chambers, and independent peer

The reform proposals span five interconnected domains. On tax policy, the document calls for a 3 to 5 year stable tax framework; corporate tax reduction to 25 percent aligned with regional benchmarks; withdrawal of the Super Tax; rationalization of the salary slab; reduction of Withholding Tax heads from 52 to 32; broadening the tax net, deleting non-filer category, simplifying procedures, and reforms to housing, agricultural income, and sales tax structures. On tax administration, it recommends a Two-Board structure for FBR – separating IRS and Customs – with a qualified Chairman on a fixed, accountable tenure, supported by experts and specialized field units and a data-driven compliance framework. On trade and export promotion, it advocates for accelerated trade agreements, focusing on reducing trade imbalance with countries Pakistan has largest trade deficits, competitive energy cost for export industries, overland trade route development, and a concerted push to shift textile exports up the value chain.

Beyond these, the document addresses the digital and structural enablers without which any policy reform remains aspirational. It calls for ending the harassment of compliant taxpayers, full automation of refund payments, AI-powered risk-based audit selection, and integration of NADRA, SECP, SBP, FBR, and land records for 360-degree taxpayer profiling. On the regulatory side, it proposes a mandatory Taxpayer Charter, withdrawal of distortionary tariffs on industrial inputs, and single-window business registration to reduce the cost and friction of doing business in Pakistan.

This document owes support, and generosity of many, particularly our Board and the Chairman. I wish to record my gratitude to the government officials that participated in our consultative sessions, bringing institutional knowledge and candor to difficult conversations. To the business chambers across Pakistan whose proposals form the backbone of this document – your engagement gave this effort its credibility. To FPCCI, whose ownership of this initiative has been both motivating and essential. And to the entire EPBD team: the analysts, researchers, and senior management who worked long hours with the expert external consultant, absorbed constructive feedback, and held to deadlines on what was, by any measure, a first-of-its-kind undertaking. Their commitment to quality, under pressure, deserves recognition.

Pakistan stands at a fiscal crossroads. The Tax Policy and Administration Reforms is not a lament – it is a blueprint. It is offered in the conviction that reform is possible, that the evidence supports it, and that the will to act can be found. A stable, broad-based, and progressive tax system is not a distant ideal; it is within reach. With the right and informed decisions, taken with urgency and resolve, Pakistan can move from a cycle of extraction and contraction to one of investment, productivity, and growth. That future begins with implementation of the proposed reforms.

**Sardar Ahmad Nawaz Sukhera, HI, PAS (Retd.)**

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# LIST OF ACRONYMS

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AEO	Authorized Economic Operator
AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
ATIR	Appellate Tribunal Inland Revenue
BRA	Balochistan Revenue Authority
CGT	Capital Gains Tax
CPEC	China-Pakistan Economic Corridor
CVT	Capital Value Tax
DLTL	Duty Drawback on Local Taxes and Levies
FBR	Federal Board of Revenue
FBC	Federal Board of Customs
FBIR	Federal Board of Inland Revenue
FED	Federal Excise Duty
FATF	Financial Action Task Force
FIA	Federal Investigation Agency
FMU	Financial Monitoring Unit
FTO	Federal Tax Ombudsman
GDP	Gross Domestic Product
GST	General Sales Tax
GSP+	Generalized Scheme of Preferences Plus
IMF	International Monetary Fund
IT	Information Technology
ITO	Income Tax Ordinance, 2001
KPI	Key Performance Indicator
KPRA	Khyber Pakhtunkhwa Revenue Authority
MMF	Man-Made Fibre
NAB	National Accountability Bureau

NADRA	National Database and Registration Authority
NBFI	Non-Banking Financial Institution
NTN	National Tax Number
NTP	National Tariff Policy
OECD	Organization for Economic Co-operation and Development
PCT	Pakistan Customs Tariff
POS	Point of Sale
PRA	Punjab Revenue Authority
PSEB	Pakistan Software Export Board
PTA	Preferential Trade Agreement
REER	Real Effective Exchange Rate
rPET	Recycled Polyester (rPET)
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SME	Small and Medium Enterprise
SRB	Sindh Revenue Board
SRO	Statutory Regulatory Order
STA	Sales Tax Act, 1990
TDAP	Trade Development Authority of Pakistan
TPB	Tariff Policy Board
TPO	Tax Policy Office
WCO	World Customs Organization
WeBOC	Web-Based One Customs
WHO	World Health Organization
WHT	Withholding Tax
WTO	World Trade Organization



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# EXECUTIVE SUMMARY

Tax policy plays a crucial role in shaping the growth and development of any country, and Pakistan is no exception. The sine qua non of sound tax policy is a prudent balance between revenue generation and development imperatives. Pakistan's tax policy has, over the years, been distortive and devoid of this essential balance, a deficiency that has been exacerbated in recent times.

Pakistan is confronting a potentially severe macro-fiscal shock amid escalating geopolitical tensions in the Gulf region. A prolonged conflict poses immediate risks through elevated oil prices, disrupted remittance inflows, higher import costs, exchange rate pressures, and tightening external financing conditions.

In this context, this document – a pioneering shadow tax policy effort – presents a fiscal and tax policy reform roadmap offering a coherent and actionable strategy aimed at stabilizing Pakistan's economy against external shocks, promoting sustainable growth, and strengthening revenue mobilization. Key objectives include reducing the cost of doing business, providing relief to the masses, removing structural distortions, helping to balance the budget, enhancing export competitiveness, raising the tax-to-GDP ratio over 18 percent, and achieving GDP growth of 8.5 percent over the medium term, accelerating poverty reduction through a more equitable distribution of the tax burden, and creating a people- and business-friendly fiscal environment that places Pakistan on a sustainable growth path.

The proposed framework is grounded in a synthesis of four core policy documents and findings from the Five-Year Development Plan covering 21 identified and prioritized sectors. It has been assessed through a qualitative policy framework and complemented by input from leading business bodies and tax experts on tax policy and customs proposals.

The analysis reveals excessive taxation of compliant sectors, systemic under-taxation of others, and administrative capacity gaps – particularly the underutilization of existing economic and taxpayer data. Revenue potential is estimated through compliance improvements and base broadening, informed by international best practices in export competitiveness, digitization, documentation, and tax reform. The approach prioritizes efficiency, enforcement, and documentation over new taxation, combining immediate interventions with medium-term structural reforms.

Sectoral analysis across 21 sectors reveals persistent informality and under-taxation in retail, services, and agriculture, alongside significant real estate distortions. The tax system places an excessive burden on corporate entities and salaried individuals, while extensive exemptions disproportionately benefit upper-income groups. Heavy reliance on withholding and presumptive taxes limits transparency and documentation. The sales tax regime compounds these problems, with an effective collection rate of just 12 percent against a standard rate of 18 percent; eroded by multiple rates, widespread exemptions, federal–provincial misalignment, and inefficient refund mechanisms that constrain exporter liquidity.

Multiplicity of duties, taxes, surcharges, and levies, combined with fluctuating tariff rates, opaque regulations, and bureaucratic delays, create financial uncertainty, disrupt supply chains, and erode export competitiveness. These inefficiencies impose disproportionate burdens on industrial manufacturers and SMEs, raising the cost of doing business and discouraging formal trade.

Pakistan's tax administration is characterized by a narrow base, fragmented and under-digitized systems, institutional capacity gaps, and pervasive corruption – collectively producing one of the lowest tax-to-GDP ratios in the region. Vast economic data exists but remains underutilized. Enforcement inadequately targets high-risk segments, smuggling, and mis-invoicing, while limited POS integration and e-invoicing entrench informality. The compliance burden falls almost entirely on already registered taxpayers.

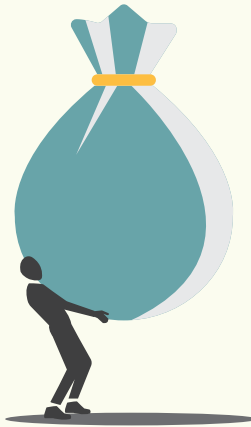
Pakistan's trade model is dangerously overexposed to Gulf energy, Gulf remittances, and shipping route insecurity. The export sector suffers from structural inertia, limited market and product diversification, a narrow base concentrated in low-value-added textiles, high energy costs, overregulation, tariff complexity, and an anti-export bias. High import dependence, particularly on energy, deepens external vulnerability and constrains the economy's adjustment capacity.

The proposed reforms collectively aim to strengthen revenue mobilization, raise the tax-to-GDP ratio by 4–6 percentage points over the medium term, and increase the investment-to-GDP ratio over 18 percent, subject to policy certainty and continuity. These reforms can transform Pakistan's fiscal trajectory, enabling sustained GDP growth of 8.5 percent in the medium to long term and restoring double-digit export growth.

These projections are, however, premised on a broadly stable and consistent policy and external environment. They should be treated with caution given the heightened geopolitical uncertainty surrounding the Gulf and West Asia, where an escalation of conflict could materially disrupt regional trade flows, energy prices, remittance inflows, and investor confidence, with significant adverse consequences for Pakistan's fiscal and external accounts.

# SECTION 1

## Introduction & Current Trends



### Introduction

Pakistan is currently confronting a potentially severe macro-fiscal shock arising from escalating geopolitical tensions in the Gulf region. A protracted conflict could pose immediate and substantial risks through elevated oil prices, disruptions in remittance inflows, rising import costs, intensifying exchange rate pressures, and increasingly constrained external financing conditions. These vulnerabilities are further compounded by longstanding structural weaknesses, including a low tax-to-GDP ratio, a narrow tax base, and heavy reliance on indirect taxation, all of which limit the country's capacity to absorb external shocks.

In this context, incremental measures are unlikely to suffice. The reform agenda outlined in this document seeks to provide a strategic pathway to stabilize revenues, safeguard the external account, and strengthen fiscal resilience, without imposing additional burdens on economic activity. It does so through mobilizing untapped domestic resources, enhancing compliance, rationalizing distortions, and accelerating digitization.

### Current Trends and Performance Appraisal

FBR tax collections grew by over 26 percent year-on-year in FY2024–25, driven primarily by strong direct tax performance and increased sales tax receipts. Despite this growth, the tax-to-GDP ratio reached only 10.3 percent – an improvement over prior years – but still below the IMF programme target of 10.7 percent and well short of the 16–18 percent threshold considered necessary for fiscal sustainability in a developing economy.

**Table 1: FBR Revenue Collection by Tax Head (Rs. millions)**

Year	Income Tax (Rs. mn)	Sales Tax (Rs. mn)	FED (Rs. mn)	Customs Duty (Rs. mn)	Total (Rs. mn)	YoY Growth
FY2021	2,061,000	1,918,000	244,000	522,000	4,745,000	18.7%
FY2022	2,285,000	2,532,000	320,000	1,011,000	6,148,000	29.6%
FY2023	3,271,000	2,591,000	370,000	932,000	7,164,000	16.5%
FY2024	4,528,000	3,098,000	576,000	1,104,000	9,306,000	30.0%
FY2025	5,792,000	3,901,000	767,000	1,284,000	11,744,000	26%
FY2026 (Jul–April)*	5,084,000	3,425,000	673,000	108,000	10,262,000	~10.5%

Source: Federal Board of Revenue (FBR). \*Provisional figures. Original FY2026 target: Rs. 14.13 trillion.

Tax revenue remains highly concentrated: approximately 80 percent of income tax is paid by just 1 percent of taxpayers. Despite headline growth, total collections fell short of the FY2025 target by approximately Rs. 328 billion. In FY2026, a shortfall of Rs. 683 billion was recorded in the first ten months, with collections reaching Rs. 10.262 billion against a target of Rs. 10.946 billion. During recent discussions with IMF, the FBR has sought to revise the annual target downward from Rs. 13.98 trillion to Rs. 13.45 trillion. Independent estimates suggest annual collections may not exceed Rs. 13.2 trillion.

Provincial tax collections also increased, reaching approximately Rs. 929–979 billion in FY2025. However, this represents only 0.85–0.9 percent of GDP, well below the roughly 3 percent of GDP considered a minimum threshold for development financing.

The tax structure continues to exhibit significant distortions. Although the share of direct taxes has risen in recent years, partly reflecting steep increases in corporate tax rates and heavier taxation of salaried employees, revenue remains heavily reliant on indirect taxation. Tax expenditures from exemptions and preferential treatments exceed 3 percent of GDP, distorting markets and substantially eroding the revenue base.

The FBR Chairman, addressing the National Assembly Standing Committee on Finance in June 2025, acknowledged that the tax gap had reached Rs. 7.1 trillion in FY2024–25, with revenue losses from petroleum smuggling alone estimated at Rs. 0.5 trillion. These figures underscore the urgent need for structural reform, enhanced enforcement, and deepened digitization to broaden the tax base and secure fiscal stability.

IMF target for FY2025-26 stand at Rs. 14,307 billion under the program, revised to Rs. 13,979 billion in the IMF’s December 2025 report. For FY2026-27, the IMF has projected the target of Rs. 15,712 billion, Rs. 1,582 billion higher than the previous year. Finance Division and FBR are expected to align with the revenue targets agreed upon during the Third Review of EFF and RSF in March 2026. The detailed breakdown of IMF targets and revenue proposals is provided in Annexure C.

# SECTION 2

## Tax Policy- Analysis and Proposals



### Overview

Taxation is essential for funding public services and driving development. Governments must carefully balance raising sufficient revenue without harming economic growth. Countries typically impose a General Sales Tax (Value Added Tax), income tax, and import duties to raise revenue. Effective tax design, coupled with strong administration, is particularly important in developing economies such as Pakistan – countries that often fall short of the recommended 15 percent of GDP tax threshold. Ultimately, successful taxation hinges on public trust: when citizens believe the system is fair and their money is well spent, compliance improves and sustainable development becomes possible.

### Structural Weaknesses in the Current Tax System

#### Structural Imbalances in Tax Collection

A defining feature of Pakistan's tax architecture is its disproportionate dependence on revenue collection at the import stage. Approximately 35 percent of total FBR revenues are collected at the border, comprising customs duties, sales tax on imports, and withholding income tax on imports, compared to 5–8 percent in developed economies and 20–28 percent in comparable developing countries. This over-reliance makes fiscal performance acutely sensitive to fluctuations in import volumes and leaves the domestic tax base severely underdeveloped.

Within direct taxation, withholding taxes and presumptive tax regimes account for an estimated 68–70 percent of income tax receipts, equivalent to roughly 22–25 percent of total FBR revenues. While administratively convenient, these mechanisms impose substantial cash flow costs on formal businesses and actively disincentivize formalization, an outcome fundamentally at odds with the goal of broadening the tax base.

The fragmentation of tax authority across federal and provincial bodies compounds these challenges. Income tax and customs duties are federally administered; sales tax on goods is a federal matter, while sales tax on services falls under provincial jurisdiction, except for the federal capital territory, where sales tax on services is collected by the federation through FBR. This division generates compliance duplication, jurisdictional disputes, and a significant administrative burden for businesses operating across provincial boundaries.

## The Tax Gap: Scale and Composition

The scale of foregone revenue is substantial. A tax gap analysis jointly conducted by the IMF and FBR, based on FY2022–23 data, estimated Pakistan's overall tax gap at 6.9 percent of GDP, equivalent to approximately Rs. 7 trillion annually. The gap is broadly split between a policy gap (3.4 percent of GDP), arising from deliberate exemptions, concessionary rates, and zero-ratings embedded in legislation, and a compliance gap (3.5 percent of GDP), reflecting evasion, under-reporting, and non-filing concentrated in the retail, transport, real estate, and agricultural sectors.

**Table 2: Tax Gap – Scale and Composition**

Gap Type	% of GDP	Rs. Billion	Primary Driver
Policy Gap	3.4%	~Rs. 3,400 bn	GST exemptions (2.0%)
Compliance Gap	3.5%	~Rs. 3,500 bn	Retail + income tax evasion
<b>Total Tax Gap</b>	<b>~6.9%</b>	<b>~Rs. 7,100 bn</b>	—
FBR Actual Collection (FY25)	10.3%	Rs. 11,744 bn	—
Revenue Potential (gap closed)	>~17%	>Rs. 18,800 bn	—

Source: IMF–FBR Tax Gap Analysis (FY2022–23 data); FBR Year Book 2024–25.

## An Inequitable & Excessive Burden on the Corporate Sector & Salaried Class

The distributional consequences of the current system are severe. Corporate entities, manufacturing industries, and salaried individuals bear a disproportionate tax burden relative to the largely untaxed informal and other non-compliant sectors. Agriculture contributes nearly 20 percent of GDP yet accounts for under 1 percent of FBR revenues; the services sector, representing close to 60 percent of GDP, contributes only 29 percent of tax revenues. This concentration of liability on a narrow base of compliant taxpayers undermines competitiveness, reduces profitability, and in a growing number of cases precipitates the contraction or closure of formal businesses.

The corporate sector faces an excessive burden due to a combination of high taxation, policy unpredictability, and elevated operational costs, resulting in an effective tax rate that can reach 48-50 percent. This punitive environment is shrinking the formal economy, encouraging tax evasion, and driving away both foreign and local investment. Corporate companies face a standard 29 percent income tax

rate, while banking companies are subject to rates of up to 39 percent, among the highest in the region. In addition, the Super Tax, introduced in 2015 as a temporary measure for the rehabilitation of internally displaced persons, has effectively become permanent at rates reaching 10 percent of income. Dividend income is additionally taxed at 15 percent, constituting a form of double taxation on distributed profits. Cumulatively, these rates compare quite unfavorably with regional peers and represent a material impediment to domestic and foreign investment.

Likewise, the salaried class faces an equally disproportionate burden. Beyond marginal income tax rates reaching 35 percent, salaried individuals are subject to a proliferation of fixed levies and withholding charges that collectively push their effective tax incidence to approximately 38 percent of gross income, substantially higher than the corresponding burden in most regional economies.

**Table 3: Year-wise Income Tax Collected from the Salaried Class (Section 149 Withholding Tax)**

Fiscal Year	Tax Collected (Rs. bn)	Growth	Key Driver
FY 2020–21	115	Baseline	Tax slabs unchanged from FY2019–20
FY 2021–22	152	+32%	Salary growth and more filers; slabs unchanged
FY 2022–23	264	+74%	New slabs; peak rate raised to 35%
FY 2023–24	391	+48%	Higher rates across middle and upper brackets
FY 2024–25	606	+55%	Steep slab hike plus 10% surcharge above Rs. 10M

Source: Federal Board of Revenue Withholding Tax Reports. All figures in Pakistani Rupees (billions).

**Table 4: Marginal Tax Rates Applicable to Salaried Individuals by Fiscal Year**

Income Bracket	FY20–21	FY21–22	FY22–23	FY23–24	FY24–25	FY25–26
Up to Rs. 600K/yr	0%	0%	0%	0%	0%	0%
Rs. 600K – 1.2M	5%	5%	2.5%	2.5%	5%	1%
Rs. 1.2M – 2.2M	10%	10%	12.5%	12.5%	15%	11%
Rs. 2.2M – 3.2M	15%	15%	20%	22.5%	25%	23%
Rs. 3.2M – 4.1M	17.5%	17.5%	25%	27.5%	30%	30%
Above Rs. 4.1M	20–30%	20–30%	32.5–35%	32.5–35%	35%	35%

Source: Federal Board of Revenue.

## Policy Inconsistency & Uncertainty

Pakistan's chronic pattern of revising income taxes, customs duties, sales tax rates, and concessionary SROs through annual Finance Bills and frequent mid-year notifications has created a debilitating climate of policy uncertainty that strikes at the foundation of investment decision-making. Businesses can no longer confidently plan capital investments, negotiate multi-year supply contracts, or commit export orders when the tax environment governing their operations can be materially altered with little notice and no meaningful consultation.

This instability is not a peripheral inconvenience, it is a structural deterrent to domestic and foreign investment and a direct contributor to informalization, as businesses migrate transactions off the books to insulate themselves from unpredictable tax exposure.

International best practice, as demonstrated by Chile, Malaysia, and the OECD's Tax Policy Framework Guidelines, mandates that fundamental tax parameters be locked in for a minimum of three to five years, with any mid-period amendment subject to a mandatory Regulatory Impact Assessment, prior stakeholder consultation, and Parliamentary approval.

## Tax Policy Proposals<sup>1</sup>

### Statutory Tax Policy Continuity Commitment

In view of the afore-stated, it is proposed that the Government introduce a statutory Tax Policy Continuity Commitment: all duties and tax rates, sales tax structures, and concessionary arrangements applicable to industrial inputs and capital goods would be locked in for a minimum of three years, but preferably up to five years, with any mid-period amendment subject to a mandatory Regulatory Impact Assessment and Parliamentary approval.

### Income Tax Proposals

In order to mitigate the excessive tax burden on the corporate and salaried classes and ensure a fairer and more equitable tax system, the following proposals related to Income Tax are presented for immediate implementation.

#### i- Reduction in Corporate Tax Rate

It is proposed that the corporate tax rate be immediately reduced from 29 percent to 25 percent, providing much-needed relief to the corporate sector.

#### ii- Withdrawal of the Super Tax

The Super Tax was initially introduced as a temporary measure targeting high-earning corporations and banks. Its continued imposition has, however, produced a range of

damaging consequences: deterring investment, resulting in double taxation, discouraging formal corporatization, encouraging business fragmentation, and harming industrial growth. It is proposed that the Super Tax be abolished except for the banking companies as the banking sector has posted

<sup>1</sup> Net impact of the major proposals is available at Annex-A to this document. Moreover, additional list of Tax Policy, i.e. income tax, sales tax, federal excise duty and customs policy and tariff proposals is available at Annex-B to this document. Besides, FBR revenue projections during the mid-term (2026-2029) based on FBR tax revenue projections @Rs. 13.45 trillion during 2025-2026 are at Annex-C.

record-high profits, with listed banks recording Rs 671 billion in profit during 2025 – an 11 percent year-on-year increase, and they have the capacity to pay due to high interest rates.

### iii- Withdrawal of the 15 Percent Tax on Inter-Corporate Dividends

The corporate sector is burdened by double taxation in the case of inter-corporate dividends. It is proposed that the 15 percent tax on inter-corporate dividends be withdrawn.

### iv- Reinstating Investment Tax Credits & Accelerated Depreciation

In order to provide a much-needed boost to the industrial sector, it is proposed that investment tax credits be reinstated and that accelerated depreciation be permitted for plant and machinery.

### v- Reduction in Tax on the Salaried Class

It is proposed that, to ease this excessive burden, the maximum marginal rate on the salaried class be reduced to 20 percent, with corresponding relief across other slabs. Additionally, the minimum threshold may be increased to

Rs. 800,000 from the existing Rs. 600,000. The proposed income tax structure for salaried persons is as follows:

**Table 5: Proposed Annual Taxable Income Slabs for Salaried Persons**

Slab	Income Range (PKR)	Rate	Tax Calculation
1	Up to PKR 800,000	0%	Nil — fully exempt
2	PKR 800,001 – PKR 1,200,000	1%	1% of amount exceeding PKR 800,000
3	PKR 1,200,001 – PKR 2,200,000	9%	PKR 4,000 + 9% of amount exceeding PKR 1,200,000
4	PKR 2,200,001 – PKR 3,200,000	13%	PKR 94,000 + 13% of amount exceeding PKR 2,200,000
5	PKR 3,200,001 – PKR 4,100,000	16%	PKR 224,000 + 16% of amount exceeding PKR 3,200,000
6	Above PKR 4,100,000	20%	PKR 368,000 + 20% of amount exceeding PKR 4,100,000

**Rate progression: 0% → 1% → 9% → 13% → 16% → 20%.**

*Note: Each slab applies only to the income falling within that bracket. The fixed amount in the formula represents the cumulative tax already charged on all lower slabs. For example, a taxpayer with annual income of PKR 2,500,000 falls in Slab 4: their tax is PKR 94,000 (tax on the first PKR 2,200,000) plus 13% of the amount exceeding PKR 2,200,000 (i.e. 13% × PKR 300,000 = PKR 39,000), giving a total liability of PKR 133,000. The effective tax rate is always lower than the marginal rate shown, since lower slabs are taxed at progressively lower rates.*

Similarly, tax burden on the Individuals and AOPs is proposed to be reduced as below:

Proposed Non-Salaried Slabs (Individuals & AOPs)	
Taxable Income	Rate of Tax
Where taxable income does not exceed Rs. 800,000/-	0%
Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	12% of the amount exceeding Rs. 800,000
Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 48,000 + 14% of the amount exceeding Rs. 1,200,000
Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 104,000 + 17% of the amount exceeding Rs. 1,600,000
Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 376,000 + 20% of the amount exceeding Rs. 3,200,000
Where taxable income exceeds Rs. 5,600,000	Rs. 856,000 + 25% of the amount exceeding Rs. 5,600,000

Moreover, following is proposed on account of standard deduction of expenses from the gross income on account of salaries.

- **Salaried business individuals:** In order to align with the international best practices, a flat 12 percent deduction, on account of work related expenses, medical, rent, conveyance allowances, children education, charity, fuel, etc. is proposed from the gross income salaried business individuals, for the purpose of ascertaining taxable income, with maximum capping at Rs. 1 million, eliminating the need of documentation.
- **Salaried Individuals:** At present, Medical allowance is exempt from tax up to 10 percent of the basic salary if the facility of reimbursement of actual medical expenses is not available. If available, and if the employer provides reimbursement of actual medical expenses or free medical treatment, it is fully exempt from tax, provided the expenses are supported by documentation (NTN of the hospital/clinic, etc.). If a fixed medical allowance is provided, the exemption is the lower of 10 percent of the basic salary or Rs. 10,000 per month (Rs. 120,000 annually). In order to provide relief to the salaried individuals, it is proposed to enhance the deductible medical allowance from 10 to 12 percent of the basic salary or Rs. 12,000, whichever is lower.

The said standard deduction allowances will be revised in line with CPI growth rate every year.

## vi- Rationalization of Property Transaction Taxes (Sections 236C and 236K)

Current advance income tax rates on the sale (Section 236C) and purchase (Section 236K) of immovable property have significantly dampened market liquidity. As of early 2026, rates for filers can reach up to 5.5 percent depending on property value, with significantly higher rates for non-filers and late filers. High entry and exit transaction costs discourage formal participation. A rationalized rate will increase the velocity of transactions, ultimately broadening the tax

base by encouraging documentation. It is proposed that the advance income tax under Sections 236C and 236K be reduced to a flat 0.5 percent each for active taxpayers.

### vii- Elimination of Section 7E (Deemed Income Tax)

The provision discourages capital investment in the formal real estate sector and undermines investor confidence. It is proposed that Section 7E be eliminated from the Income Tax Ordinance, 2001.

Section 7E treats additional immovable property as generating 'deemed income,' taxing owners on an amount they have not actually earned. While intended to curb speculation, it is widely viewed as a wealth tax disguised as an income tax and has faced numerous legal challenges.

### viii- Time Bound Amendments in Section 65 & 111, and Special Investment Package

It is proposed to insert a new sub-section in Section 65 of the Income Tax Ordinance, 2001 reviving, for a period of one year, the incentive granted vide an amendment dated March 9, 2022 in Income Tax Ordinance whereby a person making 100% equity-based investment in industrial manufacturing shall not be required to declare or justify the source of funds. Furthermore, Section 111(4) of the Income Tax Ordinance, 2001 provides an exemption from scrutiny of unexplained income/assets for any amount of foreign exchange remitted from abroad through normal banking channels, up to a maximum limit of Rs. 5 million in a tax year.

In view of the prevailing geo-political tensions in the Middle East, rising energy prices and deficits, balance of payments issues, it is proposed that a time-bound incentive be offered. It is, therefore, proposed that the afore-stated maximum limit under Section 111(4) should be removed for a period of one year.

In addition to the above, and for the afore-stated reasons, to attract foreign direct investment, qualifying foreign investors should be offered a 20-year foreign-source income tax exemption through a tiered entry structure of USD 100,000 to USD 2 million, with zero corporate tax for five years in priority sectors. Legally enforceable protections include a 7-day profit repatriation guarantee, customs duty exemption on capital goods, and a non-retroactivity clause with net present value-based compensation. A 36-month application window is proposed to be applied, with 60-day processing and 30-day binding tax rulings.

The above may be implemented in full compliance with FATF, AML, and CFT obligations. Assets traceable to criminal proceeds, including drug trafficking, terrorist financing, or any FATF-designated predicate offence, should be declared to be categorically ineligible.

### ix- Reduction of Withholding Tax on IT Exporters

Information technology exports have risen to USD 3.8 billion in 2025, up from USD 3.2 billion in 2024. Currently, PSEB-registered exporters pay a final withholding tax of 0.25 percent, compared to 1 percent for non-registered exporters. It is proposed that the 0.25 percent withholding tax on IT exporters be reduced to 0.15 percent, in order to promote IT exports and incentivize inward remittances, and the term expiring on June 30, 2026 be extended for a further period of 3 years.

Approximately Rs. 300 billion in income tax refund claims are currently pending processing and payment, representing a significant forced retention of taxpayers' own

### x- Expedited Processing & Automated Payment of Income Tax Refunds

money that erodes confidence in the tax system and imposes real liquidity costs on individuals and businesses alike.

It is proposed that FBR establish a binding refund clearance programme with strict adherence to the timelines prescribed under the Income Tax Ordinance, 2001. Salaried taxpayers, whose tax liability is

unambiguous, should be prioritized as the first cohort for clearance. The end-to-end refund chain, encompassing FBR's IRIS system and the offices of the Accountant General, should be seamlessly integrated and automated, enabling refund payments to be credited directly to the bank accounts of eligible taxpayers without any manual interaction.

### xi- Reviving Section 65D

Tax incentives for industrial investment, previously available under Section 65D, should be reinstated to encourage capital formation and investment in the industrial sector.

### xii- Incentivizing Technology & Modernization

Chronic underinvestment in technology has eroded Pakistan's industrial competitiveness over the years. Targeted, tax-free incentives for R&D, modernization and technological upgrades are essential, particularly in an era shaped by automation and artificial intelligence.

### xiii- Capital Gains Tax Reform

The current Capital Gains Tax (CGT) structure discourages long-term investment. It is proposed that capital gains be exempted after five years for immovable and constructed property. Only real, inflation-adjusted gains should be subject to tax, and CGT should be unified across real estate and financial assets.

### xiv- Rationalization of Withholding Taxes

The Withholding Tax (WHT) regime in Pakistan is an advance tax collection system under which payers deduct tax at source on payments such as salary, contracts, imports, and services. The system has been heavily criticized for its over-reliance on indirect collection, with approximately 70 percent of tax revenue collected through agents such as banks and utilities rather than through direct FBR enforcement efforts. It penalizes the registered sector, pushes transactions into the informal economy, imposes presumptive taxes on gross receipts rather than net income, and contributes to inflationary pressure.

It is proposed that all WHTs not linked to income, including those on bank withdrawals, utility bills, and school fees, be phased out. Only WHTs on payroll, dividends, interest, and payments to non-residents should be retained. Additionally, the following 20 (twenty) withholding tax heads, which together generated only Rs. 1,143 million out of a total of Rs. 3,381,509 million during 2024–25, are proposed for abolition:

**Table 6:** Head-wise Withholding Collection of Direct Taxes (*Proposed for Abolition*), FY2024–25

S. No.	Heads of Collection	FY2024–25 (Rs. mn)
1	U/s 235B (Tax on steel melters, re-rollers etc.)	–
2	U/s 236V Advance tax on minerals extraction	0.05
3	U/s 236P (Advance Tax on Cable Operators & other Electronic media)	0.10
4	U/s 236E (Advance Tax on Foreign produced TV Plays and Serials)	0.74
5	U/s 233 AA (Collection of Tax by National Clearance Company of Pakistan Limited)	1.00
6	U/s 236L (Advance Tax on purchaser of international air ticket)	3.08
7	U/s 236J (Advance Tax on Dealers/Commission Agents/Arhatis)	3.11
8	U/s 236X Advance tax from Tobacco Dealers	3.53
9	U/s 236U Advance tax on insurance premium	13.34
10	U/s 236M (Bonus shares issued by companies quoted on stock exchange)	20.26
11	U/s 236W Advance tax from purchaser or transferee	33.72
12	U/s 236 HA (Advance Tax on sale of certain petroleum products)	35.56
13	U/s 236Q Payment to residents for use of machinery and equipment	47.25
14	U/s (Surcharge) U/s 4A (Surcharge on payable income tax @ 15%)	55.43
15	U/s 156B (Withdrawal from pension fund)	124.32
16	U/s 233A (Stock Exchange)	124.90
17	U/s 234A (On CNG Stations @4%)	160.48
18	U/s 236I (Advance Tax on Educational Institutions)	143.48
19	U/s 150A (Return on Investment in Sukuk)	171.09
20	U/s 7 (Builders and Developers)	171.35
	<b>Total</b>	<b>1,143</b>

Source: FBR Year Book 2024 - 2025. All figures in Rs. millions.

## Agriculture Income Tax

Unlike other commercial entities, the farming community in Pakistan is largely engaged in subsistence farming on holdings of up to 12.5 acres. Lowering the landholding exemption limit below this threshold would be inequitable. It is proposed that all forms of taxes on agricultural income, federal and provincial, be consolidated into a single tax levied on an acreage basis. An acreage-based tax would keep farmers away from the clutches of local revenue officials, constitute a simpler form of taxation readily understood by those with limited literacy, and, if the rate is kept fair, substantially increase revenue collection.

In view of the foregoing, the following rates are proposed, for applicability across provinces.

**Table 7: Proposed Agricultural Income Tax Rates**

Landholding (Acres)	Current Rate — Punjab (Rs/acre)	Proposed Rate (Rs/acre)	Irrigated Rate	Unirrigated Rate
0 – 12.5 acres	Exempt	Exempt	Exempt	Exempt
12.5 – 25 acres	300	1,000	Rs. 1,000/acre	Rs. 500/acre
25 – 50 acres	400	2,000	Rs. 2,000/acre	Rs. 1,000/acre
Above 50 acres	500	3,000	Rs. 3,000/acre	Rs. 1,500/acre

*Note: Rates applicable to irrigated lands. Unirrigated land rates are 50% less of the above. No distinction is drawn between orchards and non-orchards. Once established, rate increases may be considered after three years of operation.*

## Sales Tax Proposals

### Overview

Sales tax on the consumption of goods is levied by the Federal Government and represents one of the major revenue sources under indirect taxation. During FY2024–25, sales tax of Rs. 3.9 trillion was collected at the standard rate of 18 percent. However, due to widespread exemptions and reduced rates, with total exemptions amounting to Rs. 1,237,106 million, the effective collection rate was only 12 percent. Harmonization of sales tax between FBR and the four provincial revenue authorities – PRA, SRB, KPRA, and BRA – remains a significant structural challenge.

#### i- Expansion of the Third Schedule of the Sales Tax Act, 1990

The Third Schedule of the Sales Tax Act, 1990 lists goods subject to retail price taxation, whereby sales tax (at the standard rate of 18 percent) is charged on the printed retail price rather than through the value-added supply chain. This mechanism ensures that tax is collected upfront by manufacturers or importers, providing greater revenue visibility and price transparency for consumers. The Schedule currently covers a range of consumer items including cigarettes, soap, beverages, tea, biscuits, coffee, ice cream, chocolates, juices, and packaged food.

Expanding the Third Schedule to include a broader range of everyday food items would benefit the Government through increased visibility and predictability of the revenue stream, and benefit consumers through greater price transparency and stability.

## Proposals

It is proposed that the following categories be moved to the Third Schedule of the Sales Tax Act, 1990:

- Cooking oils
- Ketchups and tomato-based condiments
- Milk and dairy products
- Infant formula milk
- Frozen foods
- Flour and noodles

Bringing these widely consumed food categories within the Third Schedule regime would improve supply chain documentation, reduce the incidence of under-invoicing at the distribution stage, and provide consumers with a stable, clearly marked retail price inclusive of tax. This reform is consistent with the broader objective of base broadening and enhanced revenue transparency, without imposing any new tax liability on goods that are already subject to sales tax.

### ii- Reduction of the Standard Sales Tax Rate

Pakistan's standard sales tax rate of 18 percent is among the highest in the region, significantly above Bangladesh (15 percent), India (12 percent standard GST), and Vietnam (10 percent). At this level, the rate functions less as a revenue instrument and more as a driver of informality. It is proposed that the standard rate of GST be reduced from 18 percent to 15 percent over three years, by one percentage point annually commencing FY2026–27, to stimulate consumption, reduce input cost cascading, and incentivize compliance. The annual revenue cost per percentage point reduction is estimated at Rs. 150–180 billion.

This foregone revenue can be substantially recouped through four complementary measures: withdrawal of unwarranted exemptions in the Fifth and Sixth Schedules; accelerated POS integration and e-invoicing; enforcement against fake invoicing and input tax fraud – estimated to cost the exchequer Rs. 300–500 billion annually. The expansion of the tax net to the estimated 60–70 percent of Tier-1 retailers currently outside the formal GST chain.

### iii- Harmonization of Federal & Provincial Sales Tax

Pakistan's sales tax framework is currently fragmented across five distinct authorities. This multiplicity imposes a disproportionate compliance burden on businesses operating across provinces, generates cascading taxation where federal and provincial levies overlap on the same economic activity, and actively discourages formalization. With the establishment of the independent Tax Policy Office, harmonization of federal and provincial sales taxes must be accorded the highest strategic priority under the National Tax Council.

Three outcomes should be targeted: a unified, simplified return form accepted across all jurisdictions; complete digitalization and seamless interconnectivity of FBR and provincial revenue authority systems; and a single-window facility for the computation, filing, and payment of all sales tax obligations.

#### iv- Immediate Release of Pending Sales Tax Refunds & DLTL Arrears

Approximately Rs. 146 billion in sales tax refunds and significant Duty Drawback on Local Taxes and Levies (DLTL) arrears remain outstanding with FBR. Industry bodies report combined sales tax and DLTL dues exceeding Rs. 400 billion. It is proposed that FBR immediately issue a payment plan for all verified and eligible sales tax refunds and DLTL arrears, in strict adherence to the timelines prescribed under the Sales Tax Act, 1990. All future refund claims from export activity should be processed and paid within 72 hours of filing.

#### v- Input Tax Credit on Payment through Bank Accounts of NBFIs

It is proposed that the deposit of supplier payments through business bank accounts of Non-Banking Financial Institutions (NBFIs) be accorded the same treatment for input credit eligibility as payments through banking channels under Section 73.

#### vi- Three-year Audit Cycle

A three-year audit cycle protection for sales tax should be introduced, equivalent to that already applicable to income tax, while not barring refund-specific targeted verification.

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## Federal Excise Duty Proposals

#### i- Rationalization of FED on Tobacco Products

It is proposed that FED on cigarettes be rationalized with an immediate increase of 25–30 percent across all tiers. Pakistan's tobacco tax burden currently stands at approximately 45 percent of retail price, well below the WHO-recommended benchmark of 70 percent. This rate increase should be accompanied by simultaneous enforcement action against the illicit cigarette market – estimated at 35–40 percent of total consumption – through mandatory track-and-trace enforcement and digital tax stamps.

It is proposed that FED on cigarettes be rationalized with an immediate increase of 25–30 percent across all tiers. Pakistan's tobacco tax burden currently stands at

#### ii- Expansion of FED on Sweetened Beverages & Ultra-Processed Foods

It is proposed that FED on sugar-sweetened beverages be increased from 20 percent to 25 percent, with the levy extended to energy drinks, flavoured milk, and packaged ultra-processed snack foods. The incremental yield is estimated at Rs. 30 billion annually, with additional public health benefits from reduced consumption of harmful products.

It is proposed that FED on sugar-sweetened beverages be increased from 20 percent to 25 percent, with the levy extended to energy drinks, flavoured milk, and packaged

#### iii- Levy of FED on Luxury & Non-Essential Services

It is proposed that FED be extended to non-essential and luxury services currently outside the excise net, including private clubs, premium hospitality services, gyms, spas (in ICT only), online gaming in-app purchases, cryptocurrency transaction fees, and high-end real estate agents. The following FED rates are proposed for each category:

It is proposed that FED be extended to non-essential and luxury services currently outside the excise net, including private clubs, premium hospitality services, gyms, spas (in

<b>Private Clubs Membership fee</b>	<b>10%</b>
Premium hospitality services, Gyms, Spas (ICT only)	10%
Online gaming in-app purchases and Cryptocurrency transaction fees	5%
High end real estate agents (on transactions over Rs. 10 million)	2%

## SECTION 3

# Customs Law & Tariff Proposals

### i- Modernization of Pakistan Customs

Pakistan Customs, despite incremental reforms through WeBOC and the Pakistan Single Window, continues to operate substantially below the standards set by the World Customs Organization's (WCO) Revised Kyoto Convention, to which Pakistan is a signatory. It lags behind regional comparators such as India, Bangladesh, and Vietnam in average clearance time, paperless processing rates, and Authorized Economic Operator (AEO) programme uptake.



It is proposed that FBR commission a structured modernization programme benchmarked against WCO standards and World Bank Logistics Performance Index indicators. The programme should encompass the following core elements:

- Full end-to-end digitalization of the customs lifecycle from pre-arrival filing to post-clearance audit.
- Expansion and strengthening of the AEO programme to reward compliant traders with expedited clearance and reduced examination rates.
- Adoption of non-intrusive inspection technology at major ports to reduce reliance on physical examination.
- Integration of customs data systems with NADRA, SBP, and other government databases to enable real-time risk profiling without manual intervention.
- Adoption of Green Customs practices to meet climate commitments and safeguard GSP+ preferential access to the European Union.

## ii- Simplification of Customs Procedures

Pakistan Customs' current procedural framework imposes a compliance burden on legitimate importers and exporters that is disproportionate to its risk-management purpose. It is proposed that FBR undertake a systematic end-to-end review of all customs procedures under the Customs Act, 1969 and the Customs Rules, 2001. The review should eliminate redundant documentation requirements, expand self-assessment and trusted trader schemes under the AEO Programme, and maximize automation through the Pakistan Single Window. Physical and documentary intervention should be reserved strictly for high-risk consignments identified through intelligence-based selectivity.

## iii- Reduction of Dwell Time for Industrial Imports

It is proposed that FBR designate a dedicated Industrial Priority Lane within the WeBOC/Pakistan Single Window system. Consignments declared as industrial inputs by registered NTN-holding manufacturers would be automatically routed to Green Channel clearance, with a mandated clearance target of 24–48 hours from filing of the Goods Declaration.

## iv- Improving Enforcement & Curbing Smuggling

Smuggling of petroleum products from Iran and reverse transit from Afghanistan continue to cause significant revenue losses. The solution lies in country-to-country information exchange agreements and, where possible, coordinated cross-border enforcement operations. Customs enforcement squads should be monitored through live surveillance footage to strengthen field accountability. However, given the absence of viable economic opportunities in border areas, any enforcement crackdown should be complemented by the provision of alternative livelihoods for affected communities.

## Customs Tariffs – Current Position & Proposals

Global import tariffs are experiencing a marked upward trend. According to independent estimates, the trade-weighted average applied tariff on global trade rose from 5.7 percent in 2024 to 6.7 percent in 2025. Against this backdrop, a comparison of tariffs for Bangladesh, India, Pakistan, and Turkey reveals that Pakistan's tariff structure are at comparatively reasonable, though additional layers of regulatory duties and additional customs duties must be factored into any meaningful cross-country comparison.

**Table 8: Simple Average and Trade-Weighted Import Tariffs — Selected Comparators (2024)**

Country	Overall Simple Avg.	Overall Weighted Avg.	Agriculture Simple	Agriculture Weighted	Non-Agric. Simple	Non-Agric. Weighted
Bangladesh	14.1%	N/A	17.7%	N/A	13.5%	N/A
India	16.2%	12.0%	36.7%	64.3%	13.0%	9.2%
Pakistan	<b>10.3%</b>	<b>7.3%</b>	<b>13.0%</b>	<b>5.4%</b>	<b>9.9%</b>	<b>7.7%</b>
Turkey	17.3%	7.0%	40.9%	21.7%	13.6%	5.9%

Source: WTO. N/A = data not available. Pakistan row highlighted.

Pakistan has the lowest overall simple average tariff (10.3 percent) among the four comparators and one of the lowest trade-weighted averages (7.3 percent). This positions Pakistan as relatively open on headline tariff metrics. However, this relatively low tariff profile raises the question of whether concessionary rates are translating into industrial efficiency gains and export competitiveness.

The National Tariff Policy 2025–30 seeks to shift Pakistan toward export-led growth by rationalizing tariffs and simplifying structures to four slabs (0, 5, 10, 15 percent), while phasing out Additional Customs Duties and Regulatory Duties over 4–5 years. Recent FBR data show that the effective tariff rate has decreased from 7.6 percent to 6.6 percent following promulgation of this policy.

**Table 9A:** Effective Tariff Rate of Customs Duties — FY2024–25

Duty Slab %	Import Value (Rs. mn)	Customs Duties (Rs. mn)	% Share	Effective Rate %
0	6,882,797	271,617	43.3%	3.9%
3	3,415,434	151,151	21.5%	4.4%
11	1,580,702	160,824	10.0%	10.2%
16	701,154	99,668	4.4%	14.2%
20	1,144,212	275,364	7.2%	24.1%
30	42,319	7,956	0.3%	18.8%
35	118,096	33,297	0.7%	28.2%
50	113,765	35,665	0.7%	31.3%
55	17,526	8,117	0.1%	46.3%
60	211,492	43,816	1.3%	20.7%
75	64,850	15,477	0.4%	23.9%
90	141	5	0.0%	3.7%
100	62,960	41,179	0.4%	65.4%
Specific Rates	1,530,602	57,442	9.6%	3.8%
<b>Grand Total</b>	<b>15,886,050</b>	<b>1,201,578</b>	<b>100.0%</b>	<b>7.6%</b>

Source: FBR. All figures in Rs. millions.

**Table 9B: Effective Tariff Rate of Customs Duties — FY2025–26 (July–March)**

Duty Slab %	Import Value (Rs. mn)	Customs Duties (Rs. mn)	% Share	Effective Rate %
0	6,176,428	131,331	44.4%	2.1%
5	2,308,286	119,330	16.6%	5.2%
10	1,700,755	129,787	12.2%	7.6%
15	620,741	73,145	4.5%	11.8%
20	1,051,554	212,110	7.6%	20.2%
30	62,365	11,942	0.4%	19.1%
35	112,387	32,991	0.8%	29.4%
50	108,521	31,809	0.8%	29.3%
55	18,664	8,380	0.1%	44.9%
60	284,913	61,530	2.0%	21.6%
75	85,454	18,348	0.6%	21.5%
90	694	4	0.0%	0.6%
100	56,905	37,347	0.4%	65.6%
Specific Rates	1,322,255	52,066	9.5%	3.9%
<b>Grand Total</b>	<b>13,909,921</b>	<b>920,121</b>	<b>100.0%</b>	<b>6.6%</b>

Source: FBR. All figures in Rs. millions.

## Trade & Tariff Policy Proposals

### Tariff Policy 2025–2030

The National Tariff Policy 2025-2030 represents a meaningful and overdue step forward from Pakistan's historically protectionist trade posture, which for decades prioritized import substitution and revenue generation over industrial competitiveness and export-led growth.

At its core, the policy commits to the phased elimination of Additional Customs Duties (ACDs) over four years and Regulatory Duties (RDs) over five years – two instruments that had been layered onto the base

customs duty structure since the early 2000s and had collectively transformed Pakistan's tariff regime into one of the most complex and burdensome in South Asia.

By removing these para-tariff levies, the NTP addresses a long-standing grievance of manufacturers and exporters who faced inflated input costs due to duties on raw materials and intermediate goods that bore no relation to any coherent industrial strategy. In parallel, the policy rationalizes the customs duty slab structure from five tiers, previously set at 0 percent, 3 percent, 11 percent, 16 percent, and 20 percent, down to four cleaner slabs of 0 percent, 5 percent, 10 percent, and 15 percent, eliminating the anomalous 3 percent and 20 percent slabs that distorted relative prices across product categories.

Additionally, the NTP caps the maximum customs duty rate at 15 percent, ending the era of peak tariffs that had sheltered uncompetitive domestic industries, most notably the automotive sector, from the discipline of international competition – a shelter extended well beyond any defensible industrial policy rationale.

Taken together, these measures signal a genuine, if gradual, reorientation of Pakistan's trade philosophy away from protection and toward openness, with the ultimate objective of reducing the trade-weighted average tariff from approximately 10.6 percent today to below 6 percent by fiscal year 2030.

Drawing on the WTO's core principles of predictability, non-discrimination, and progressive liberalization, and on the experiences of East Asian and comparable economies, the following improvements are recommended:

### **a) Institutionalize Performance Conditionality**

Any sector retaining tariff protection beyond 10%, particularly auto and engineering, should be subject to mandatory export performance benchmarks, localization targets, and annual TPB review with public reporting – an approach consistent with South Korea's developmental state model.

### **b) Sequence Revenue Replacement**

A critical prerequisite for the success of the NTP 2025-2030 is a coordinated and sustained effort to strengthen domestic revenue mobilization in parallel with tariff liberalization, rather than as an afterthought. The Federal Government must urgently improve collections under the General Sales Tax on goods, while the provincial governments must significantly expand their respective Services GST regimes, close exemption leakages, and improve compliance enforcement. Pakistan must therefore treat Federal GST reform and provincial services tax expansion as co-equal and time-bound fiscal obligations that must be delivered in lockstep with each successive round of tariff reductions under the NTP.

### **c) Introduce a Green Tariff Schedule**

Zero-rate all imports of renewable energy equipment, EV components, clean manufacturing machinery, and climate-adaptation technology, while imposing a modest carbon adjustment surcharge on imports from high-emission sources to preempt CBAM exposure and align with WTO-permissible environmental exceptions under GATT Article XX.

### **d) Depoliticize the Tariff Policy Board**

Grant the TPB statutory independence with a majority of non-government members, and mandatory publication of all tariff review decisions with economic justification, consistent with the WTO's transparency requirements under its Trade Policy Review Mechanism.

## e) Accelerate FTA/PTAs Negotiations

This aspiration must be backed by an accelerated programme of Free Trade Agreement/PTAs negotiations, prioritizing the GCC, Central Asian republics, and ASEAN economies. FTA/PTAs negotiations must be sequenced concurrently with domestic tariff liberalization, so that Pakistani exporters gain preferential access to newly opened markets rather than entering at a structural disadvantage against better-capitalized regional rivals.



## Reorganize the Tariff Policy Board (TPB)

The effectiveness of the NTP 2025-2030 will ultimately depend on the institutional capacity and independence of the body overseeing its implementation. It is proposed that the TPB be co-chaired by the Ministers of Finance, Industries, and Commerce, ensuring that revenue considerations, industrial strategy, and trade policy receive equal institutional weight. Membership should be expanded to include independent economists, representatives of export-oriented industries, and a consumer welfare advocate. Finally, the TPB should be granted a statutory mandate to publish all recommendations and rationale publicly, with SRO-based concessions subject to mandatory TPB review.

## Rationalize Fifth Schedule Concessions

The Fifth Schedule of the Customs Act 1969 has evolved over time from a targeted instrument of industrial support into a sprawling catalogue of preferential treatments that disproportionately benefits entrenched industries and well-connected lobbies at the expense of fiscal transparency and tariff coherence. It is proposed that the government undertake a comprehensive, time-bound review of all Fifth Schedule entries, transferring the maximum number of tariff lines into the standard duty structure in line with NTP 2025-2030 recommendations. Concessionary treatment should be retained only for genuinely strategic inputs, with each retained concession subject to a mandatory sunset clause, a defined beneficiary criterion, and annual TPB review.

## Restrict Imports of Non-Essential & Luxury Goods

Pakistan's chronic vulnerability to balance-of-payments crises demands a calibrated policy mechanism to manage import growth in non-essential and luxury categories without resorting to the ad hoc import bans that damaged investor confidence in 2022. It is proposed that duty levels on completely built-up vehicles, high-end consumer electronics, luxury food items, and other finished consumer goods with readily available domestic substitutes be maintained at protective levels, calibrated to foreign exchange reserve adequacy thresholds. Critically, this measure must be ring-fenced to exclude industrial inputs, raw materials, and capital goods.

## Zero-Rating of Customs Duty on Industrial Spare Parts

Pakistan's industrial base and energy infrastructure are critically dependent on the operational integrity of machinery and power generation equipment. It is proposed that customs duty on spare parts for existing industrial machinery and power plants be zero-rated. This would reduce operational costs, minimize

equipment downtime, strengthen energy security, and support Balancing, Modernization, and Replacement (BMR) of industrial equipment.

## **Dedicated PCT Code & Duty Exemption for Recycled Polyester**

Pakistan's customs tariff lacks a dedicated PCT code for recycled polyester. It is proposed that FBR, in coordination with PSQCA and the Ministry of Commerce, introduce a dedicated PCT heading for recycled polyester (rPET) within Chapters 54 and 55 of the Pakistan Customs Tariff, with customs duty on imports under the new code zero-rated. This aligns with Pakistan's environmental policy commitments and positions domestic manufacturers to meet EU and UK sustainability requirements.

## **Equalizing Tax Treatment of Imported & Locally Produced Cotton**

Locally purchased raw cotton attracts sales tax and other levies, while imported cotton benefits from concessionary or zero-rated duty arrangements. This disparity incentivizes import dependence over domestic procurement. It is proposed that FBR conduct an immediate comparative tax incidence analysis and extend equivalent relief to local cotton procurement through sales tax zero-rating or exemption for registered textile manufacturers purchasing from domestic ginners.

## **Levelling the Tariff Structure for Man-Made Fibre Imports**

Pakistan's man-made fibre (MMF) sector operates under a fragmented and inconsistent tariff structure, creating arbitrary cost advantages for some fibre types over others. It is proposed that FBR undertake a comprehensive rationalization of duty structures applicable to all MMF imports under Chapters 54 and 55 of the Pakistan Customs Tariff, establishing a uniform, low, and predictable duty rate across all MMF categories. This would eliminate the inverted duty structure that currently penalizes domestic spinning and weaving relative to finished fabric imports.

## SECTION 4

# Procedural Tax Reform Proposals



## Overview

Pakistan's tax system suffers from deep structural and procedural infirmities that collectively suppress voluntary compliance, discourage formal economic activity, and undermine the FBR's capacity to broaden the tax base. The return filing process remains unnecessarily complex and inaccessible for the average taxpayer, while the continuation of the non-filer category, unique among comparable economies, has institutionalized a two-tier system that rewards non-compliance rather than penalizing it. Taxpayers navigating multiple overlapping federal and provincial levies face a multiplicity of taxes that imposes disproportionate compliance costs on small and medium enterprises, stifling the very businesses that should be driving formalization. Chronic refund delays, particularly in sales tax and income tax, have effectively turned the FBR into an involuntary creditor of exporters, eroding working capital and undermining export competitiveness. Addressing these procedural failures through a coherent, data-driven reform agenda is not merely a matter of administrative efficiency, it is a prerequisite for the revenue mobilization that Pakistan's fiscal consolidation and tariff liberalization programme urgently demands.

## Simplification of Tax Return & Filing Procedures

### The Importance of Return Filing

Filing income tax returns is a fundamental legal obligation under the Income Tax Ordinance, 2001. It carries significant practical benefits: access to lower withholding tax rates; eligibility for refunds; carry-forward of business losses; and qualification for loans and financial credibility. Despite steady growth in return filings, a persistent pattern of near-equal rises in nil (zero-tax) returns indicates that expansion of the filer base has not translated proportionately into revenue growth. Conservative

estimates suggest a potential gap of over 6 million individuals who are eligible to file but do not.

**Table 10:** Income Tax Return Filing Data — 2021 to 2025

Year	Total Returns Filed	Change (%)	Nil Returns	Change (%)	Admitted Tax (Rs. bn)
2021	4.94 mn	—	2.53 mn	—	74.85
2022	6.52 mn	+31.98%	3.81 mn	+50.59%	108.68
2023	7.15 mn	+9.66%	4.04 mn	+6.04%	153.96
2024	7.97 mn	+11.47%	4.29 mn	+6.19%	203.36
2025	6.99 mn	-12.30%	2.86 mn	-33.30%	177.79

*Source: Federal Board of Revenue. Nil returns have consistently represented approximately 50–54% of total filings*

## Key Filing Reform Proposals

### i- Timely Availability of Return Forms

Draft return forms should be placed for public comment by 15 April; final forms made available on the FBR portal by 1 July; and a firm deadline of 30 September maintained without general extensions.

### ii- Joint Filing for Husband & Wife

Joint income tax return filing by spouses should be introduced as an option alongside individual filing, to reduce compliance burden for households with significant income disparity.

### iii- Redesigning & Simplification of Returns

Both sales tax and income tax returns should be comprehensively redesigned in consultation with stakeholders. A clear benchmark should be set: a reasonably informed taxpayer should be able to file independently within minutes.

### iv- Prepopulated & Assisted Return filing

One of the most effective levers for improving voluntary tax compliance is the transition from self-declaration to Pre-Populated Return Filing, where the tax authority assembles a draft return on the taxpayer's behalf using data it already holds, requiring the taxpayer only to review, correct, and confirm. It is proposed that the FBR develop a centralized data integration engine that automatically cross-references customs declarations, sales tax invoices, withholding statements, banking transaction reports, and utility consumption data to pre-populate income tax and sales tax returns for the majority of individual and small business taxpayers. Alongside pre-population, taxpayer assistance must be institutionalized: user-friendly tutorial videos in

Urdu and regional languages, intelligent digital prompts, and free-of-cost filing helpdesks staffed by trained officers should be established at every FBR tax office and Regional Tax Office nationwide.

## **v- Error Correction & Penalty Rationalization**

No penalties should apply for non-filing or late filing where there is no revenue impact. Penalties should be confined strictly to willful non-payment, with late payments attracting only a system-calculated default surcharge.

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## **Abolition of Non-Filer Category**

The legal recognition of a 'non-filer' category has fundamentally undermined the culture of tax compliance, institutionalizing non-filing as a legitimate, albeit more expensive, alternative to registration. This architecture allows millions of economically active individuals to opt out of the tax net by paying a modest premium rather than fulfilling their legal obligation to file.

It is proposed that the non-filer category be abolished entirely through an amendment to the Income Tax Ordinance, 2001, replacing the current withholding premium structure with a strict enforcement regime under which non-filing is treated as a punishable offence. Economic transactions above defined thresholds should be blocked for unregistered individuals, and NADRA's database should be fully leveraged to identify and compulsorily register the estimated 4–5 million individuals who are economically active but outside the tax net.

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## **Elimination of Multiplicity of Taxes, Surcharges & Levies**

Pakistan operates one of the most complex tax systems in the world, with more than 70 unique taxes administered by at least 37 agencies. FBR must consolidate the 50-plus income tax withholding provisions into no more than eight broad categories: imports, salary, dividends, interest, services and contracts, property, securities, and foreign payments. The Federal Excise Duty schedule should be rationalized to cover genuine sin goods (tobacco, carbonated beverages, and cement) and high-end luxury items. Regulatory levies charged by NEPRA, OGRA, PEMRA, and PTA should be reviewed and rationalized under a unified Regulatory Fees Framework.

Pakistan's Workers Welfare Fund (WWF) and Workers Profit Participation Fund (WPPF) (both collected by FBR) were established to ensure industrial workers share in enterprise prosperity and receive support for their housing, education, and healthcare needs. However, decades of bureaucratic administration have rendered both funds chronically underutilized, administratively opaque, and distrusted by the workers they were designed to benefit. It is proposed that the operational management of both funds be transitioned to professionally constituted, private sector-led boards, structured along the lines of provident fund models successfully adopted in Malaysia, Singapore, and Sri Lanka, with mandatory quarterly public reporting, independent audits, and a dedicated workers' grievance mechanism.

Similarly, at the provincial level, the Council of Common Interests should drive harmonization of stamp duty, property registration fee, and Capital Value Tax structures across the four provinces into a unified tax structure.

As an immediate practical step, FBR should publish a consolidated single-page Taxpayer Obligation Summary mapping every levy payable at each stage of a common business transaction.

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## Automated Refunds & AI-Based Audits

Chronic delays and discretionary manipulation of tax refunds penalize compliant taxpayers and erode voluntary compliance. It is proposed that the entire refund and audit chain be fully automated with zero human interaction. Small and verifiable refunds should be disbursed automatically upon filing, while salaried taxpayer refunds should be mandatorily processed within 90 days, requiring real-time electronic integration between FBR and the Accountant General Pakistan Revenue and provincial AG offices. AI-based audit selection should be mandated in law, with selection criteria published transparently, audit logs locked and traceable, and a mandatory penalty framework enforced against officers breaching prescribed timelines.

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## Enforcement Actions & Subsequent Litigation

Pakistan's tax enforcement regime suffers from a structural tension: the revenue authorities hold broad coercive powers that are inadequately constrained by procedural safeguards. The Supreme Court's landmark judgment of 5 September 2025 (CJP Yahya Afridi, CPs 70-K to 72-K/2023) reaffirmed that each tax statute has its own coherent charging and recovery framework. The Sindh High Court's ruling in ITRA 320/2025 established a mandatory sequential requirement between Sections 111 and 122(5) of the Income Tax Ordinance.

Seven categories of procedural checks have been proposed by the higher fora, grounded in constitutional due process under Article 10A, to ensure enforcement is proportionate, transparent, and legally durable:

a) Show-cause notice content standard: Mandatory particularization under Article 10A; adjudication confined strictly to charges stated in the notice.

b) Sequential gatekeeping (ITO): Section 111 proceedings must precede Section 122(5) notices; concurrent proceedings on the same matter are prohibited.

c) Material Note for Section 11 STA: Pre-notice documentation required before targeted Section 11(4) notices, implementing CPLA 350-L/2023.

d) Search and seizure controls: Written warrant, independent witnesses, 60-day record return, damages for unlawful searches.

e) Coercive recovery proportionality: Automatic stay on 25% deposit pending first appeal; pre-attachment notice; structured Post-Clearance Audit (PCA) procedure for import-stage recoveries.

f) Jurisdictional clarity: No concurrent ITO/STA notices for the same underlying transaction; Customs–IR coordination protocol.

g) Officer accountability: IRIS enforcement log; adverse performance recording for procedurally defective actions; expanded FTO early-warning jurisdiction.

The 2024 tax amendment mandates that when an aggrieved taxpayer seeks a stay against recovery from the High Court, the court may grant it subject to a deposit of not less than 30% of the tax determined by the Appellate Tribunal. This acts as

a barrier to the fundamental right of appeal, as taxpayers may not have the liquidity.

It is proposed that this amendment be withdrawn and it should be left to the decision to the High Court's discretion. A stay should be granted based on the merits of the case, such as having a prima facie case, balance of convenience, and the risk of irreparable loss to the taxpayer, rather than a blanket financial requirement.

## Disposal of Pending Litigation Cases

At present, 50,732 cases of Customs and Inland Revenue Service, involving Rs. 5.7 trillion, are pending at different forums from Collector Appeals to the Supreme Court.

**Table 11:** Consolidated Summary of Pending Litigation Cases (*IR and Customs*)

Sr.	Forum	IR Cases	IR Revenue (Rs. bn)	Customs Cases	Customs Revenue (Rs. bn)	Total Cases
1	Supreme Court	3,277	169.5	684	14.1	3,961
2	Lahore High Court	7,590	963.0	642	14.8	8,232
3	Sindh High Court	2,081	480.0	3,446	78.4	5,527
4	Islamabad High Court	1,989	482.0	221	10.1	2,210
5	Peshawar High Court	241	27.0	277	1.1	518
6	Balochistan High Court	37	6.0	149	1.8	186
7	Collector Appeals	—	—	322	46.3	322
8	Collector Adjudication	—	—	2,155	58.3	2,155
9	Appellate Tribunal (ATIR/Customs)	21,767	3,330.0	5,854	53.2	27,621
	<b>Total</b>	<b>36,982</b>	<b>5,457.5</b>	<b>13,750</b>	<b>278.0</b>	<b>50,732</b>

*Source: Federal Board of Revenue.*

In order to clear this huge backlog, it is proposed that FBR should immediately constitute a dedicated High-Value Litigation Cell, prioritizing all pending cases by value and clustering common legal questions into lead cases for priority hearing. FBR must expand its Alternate Dispute Resolution (ADR) programme aggressively, proactively offering ADR settlements in cases where the legal position is weak or the cost of continued litigation exceeds the expected recovery. A structured alternative dispute resolution system, centered on arbitration, could yield recoveries of 10–15 percent over three years while unclogging the courts.

To ensure timely delivery of judgments in tax matters at the higher courts, it is proposed that the Honorable Chief Justices prescribe specific timelines for the expeditious disposal of tax litigation. Furthermore, competitive market remuneration for Panel lawyers is essential to attract counsel of the requisite quality for cases involving significant national revenue.

In addition, FBR should create a centralized ‘Decided Cases Recovery Register’ in IRIS and WeBOC for cases already decided in FBR’s favor, automatically flagging every case where a final decision has been

rendered and a demand remains outstanding, with escalating alerts to Chief Commissioners and Chief Collectors if recovery is not initiated within 30 days. FBR should publish a monthly public scorecard of recovery against decided cases.

## FBR Data Intelligence Reform Framework

FBR possesses vast volumes of data that remain largely underutilized. The shift from passive data storage to active, continuous data intelligence represents the highest-impact reform available at minimal additional cost.

**Table 12:** Framework of Seven Critical Reform Areas

Reform Area	Current Gap	Proposed Intervention
<b>Cross-matching of Tax Data</b>	Siloed IT systems; no cross-stream visibility	Continuous cross-matching of income tax, sales tax, withholding, and customs data
<b>Geo-mapping of Taxpayers</b>	Manual and outdated registration data	Registration data geo-mapped to identify unregistered and non-compliant persons
<b>Taxpayer Intimation</b>	Manual notices; adversarial in tone	Automated SMS/email alerts for discrepancies before any legal action is initiated
<b>Audit Case Selection</b>	Discretionary; prone to harassment	Risk-based, system-driven selection prioritized by revenue impact
<b>Fake/Flying Invoices</b>	Rampant and largely unchecked	Data analytics to identify and blacklist dubious entities rapidly
<b>Withholding Tax Leakage</b>	Weak monitoring; diversion window exists	Automated reconciliation with returns and banking data; real-time transfer to FBR account
<b>Cross-jurisdictional Evasion</b>	Beyond manual audit capacity	Centralized IT analysis of complex multi-jurisdiction transactions

*Note: A particularly significant priority is automated transfer of withholding tax payments directly to FBR's account at the point of collection.*

## Advanced Digital & AI-Driven Tax Reforms

Pakistan's revenue gap is not solely a function of low tax rates or narrow statutory coverage; it is also a function of weak monitoring, pervasive under-reporting, and the absence of real-time data linkages across the production, distribution, and retail chain. Four technology-driven reforms are proposed to address these reforms, creating an interlocking digital compliance architecture:

**Table 13:** Advanced Digital and AI-Driven Tax Reforms – *Four Pillars*

Reform	Description	Expected Impact
<b>AI-Powered Audit Analytics</b>	Machine learning models identify evasion patterns and assign risk scores automatically, enabling faceless, system-driven audits with minimal human discretion	Significant increase in audit hit-rate, revenue recovery, and measurable improvement in the tax-to-GDP ratio
<b>Track and Trace Systems (TTS)</b>	Expansion beyond tobacco and sugar to all manufacturing sectors; physical stamps and digital markers at production stage; real-time data transmitted to FBR	Curbs under-reporting of production volumes and sales; closes the gap between declared and actual output
<b>Mandatory POS Integration</b>	Required for all Tier-1 retailers and wholesalers; real-time sales data transmitted at point of transaction for both goods and services above thresholds	Real-time retail sales monitoring; eliminates suppression of retail turnover for sales tax purposes
<b>E-invoicing and Digital Production Tracking</b>	Mandatory e-invoicing linked with TTS data; digital production and distribution tracking across the supply chain; invoice matching in real time	Eliminates suppression of taxable turnover; creates an auditable digital trail for every commercial transaction

*Collective outcome: Production, distribution, sale, and invoicing are all tracked in real time and cross-matched automatically, creating a measurable improvement in compliance and a broader effective tax base.*

## SECTION 5

# Tax Administration Reform Proposals



### Overview

Tax administration reform is not merely a fiscal imperative for Pakistan; it is a foundational prerequisite for economic sovereignty. FBR revenues underpin the government's ability to finance public services, service debt, and reduce dependence on external borrowing. Yet decades of reform efforts, cycling between organizational restructuring, legislative simplification, and digital overhauls, have failed to deliver a sustainable increase in the tax-to-GDP ratio, which remains among the lowest in the region. The fundamental challenge is not the absence of reform initiatives but the lack of a coherent, long-term institutional vision insulated from political cycles and vested interests.

Two recent structural advances deserve acknowledgement: the establishment of an independent Tax Policy Office (TPO) within the Ministry of Finance, and the earlier transfer of customs tariff-setting powers to the Tariff Policy Board under the Ministry of Commerce, both of which align Pakistan with the international best practice of separating policy design from revenue administration.

## FBR's Institutional Restructuring

### i- Creation of Two Boards

The previously proposed restructuring of FBR into two independent bodies, a Federal Board of Inland Revenue (FBIR) and a Federal Board of Customs (FBC), deserves revival. Global experience consistently demonstrates that tax and customs administration perform best under distinct institutional mandates with career professionals, statutory autonomy, and robust accountability frameworks.

The Chairmen of both Boards should be appointed on merit and competency from their respective service cadres, for a fixed three-year tenure, with a clearly defined accountability mechanism, and supported by separate oversight boards – heavily featuring private sector experts – with appropriate conflict of interest safeguards.

## ii- Creation of Specialized Units

Within the Federal Board of Customs, the establishment of specialized units for high-risk customs areas and high-value customs functions is urgently needed. A dedicated High-Risk Cargo Unit should be established, drawing on real-time risk profiling, advance cargo information systems, and intelligence sharing with the Anti-Narcotics Force, FIA, and provincial law enforcement, should be established to concentrate scarce enforcement resources where the revenue and security stakes are highest. Similarly, a High-Value Customs Functions Unit should oversee transfer pricing adjustments on imported goods, customs valuation integrity, and preferential origin verification under Pakistan's FTA/PTA commitments.

Within FBR's Inland Revenue service, dedicated specialized units should be established for each major tax stream – income tax, sales tax, and federal excise duty. Functional specialization should be institutionalized through dedicated divisions for audit, enforcement, legal affairs, and taxpayer facilitation. Specialist units for international taxation, transfer pricing, and digital economy taxation are urgently needed to address the growing complexity of cross-border transactions and e-commerce.

## iii- Administering Sales Tax

The current arrangement whereby a single Member IR Operations oversees both income tax and sales tax is administratively untenable given the scale, complexity, and fundamentally different compliance dynamics of these two distinct tax streams. Sales tax is Pakistan's single most productive revenue instrument, contributing nearly Rs. 3.9 trillion in FY2024-25, yet it shares operational oversight with income tax under a unified membership structure that inevitably dilutes strategic focus, fragments enforcement priorities, and prevents the functional specialization that effective sales tax administration demands.

It is proposed that a dedicated Member Sales Tax be created at FBR, with full and exclusive operational responsibility spanning registration, return processing, refund management, audit, anti-fraud operations, and POS integration enforcement. In parallel, a dedicated Sales Tax Wing within the Tax Policy Office, staffed by specialist economists and legal experts, should provide exclusive focus on sales tax policy design, exemption review, federal-provincial harmonization, and legislative drafting.

## iv- Robust Integrity Framework

A robust, results-based integrity framework is indispensable to any sustainable tax administration reform. Corruption and rent-seeking within FBR are not merely ethical failures, they represent a direct and quantifiable drag on revenue collection, investor confidence, and the credibility of the entire reform agenda.

For Inland Revenue, the core strategy must shift decisively from punitive and reactive approaches toward proactive and preventive mechanisms, consistent with OECD and World Bank best practices. The essential pillars of this framework are: end-to-end digitalization to eliminate direct taxpayer-official interaction at every stage of assessment, audit, and refund processing; regular identification and continuous monitoring of high-risk functions and positions; mandatory annual asset declarations and lifestyle audits conducted by independent internal integrity units reporting directly to the Chairman FBIR;

represent a direct and quantifiable drag on revenue collection, investor confidence, and the credibility of merit-based recruitment and promotion; competitive, market-benchmarked compensation; and mandatory periodic rotation of staff serving in sensitive positions. Simplification of tax laws and the systematic reduction of discretionary powers are equally critical structural prerequisites.

For Customs, the WCO's Revised Arusha Declaration establishes the internationally recognized integrity standard for customs administration, built on ten core pillars: leadership commitment; full transparency in procedures and decisions; end-to-end process automation; AI-driven risk management; functional segregation between assessment, enforcement, and audit roles; CCTV surveillance at all key operational points; fully electronic payments; comprehensive digital audit trails; and secure, protected whistleblowing channels. Likewise, there should be mandatory annual asset declarations and lifestyle audits conducted by independent internal integrity units reporting directly to the Chairman FBC; merit-based recruitment and promotion; competitive, market-benchmarked compensation; and mandatory periodic rotation of staff serving in sensitive positions. Enhanced and institutionalized inter-agency coordination between FBR, NAB, FIA, and provincial anti-corruption bodies should be established through formal data-sharing protocols and joint investigation mechanisms.

### **v- Data Utilization, Tax Base Broadening & Documentation**

One of FBR's most underexploited assets is the vast volume of data it already holds or can access, covering industrial electricity consumption, foreign travel, high-end vehicle ownership, Pakistan Stock Exchange transactions, SECP filings, and banking activity. There is an urgent need for seamless data integration between FBR's internal systems, NADRA, banking institutions, property registration authorities, and provincial data repositories. The persistence of high-net-worth individuals filing nil or near-nil returns despite visible indicators of substantial wealth represents a fundamental enforcement failure that data-driven compliance management can directly address.

Broadening the tax base requires parallel structural reforms within FBR. The already established Directorate General of Broadening of Tax Base should be restructured and tasked exclusively with identifying and onboarding non-filers through data matching with NADRA, utility companies, land registries, banking transactions, and the Pakistan Single Window. A unified National Tax Data Intelligence Platform integrating FBR, SECP, SBP, NADRA, and provincial revenue authorities would enable automatic identification of taxable persons and transactions.

Pakistan's informal economy, conservatively estimated at 35–59 percent of GDP and employing nearly 75 percent of the non-agricultural workforce, represents both the most significant constraint on tax revenue and the most consequential frontier for reform. Tackling informality through enforcement alone has repeatedly proven insufficient; the more durable solution lies in making formalization genuinely attractive through tangible benefits, documented asset ownership, access to finance, enforceable legal rights, and digitally accessible registration processes.

Nonetheless, sustainable formalization ultimately rests on a credible social contract, when citizens perceive a direct link between taxes paid and public services received, voluntary compliance strengthens.

### **vi- Public Participation in Tax Compliance**

Incentivizing consumers to demand and report purchase invoices creates a grassroots layer of compliance enforcement and generates a culture of documentation. Two complementary mechanisms are proposed:

## a) Consumer Invoice Reporting

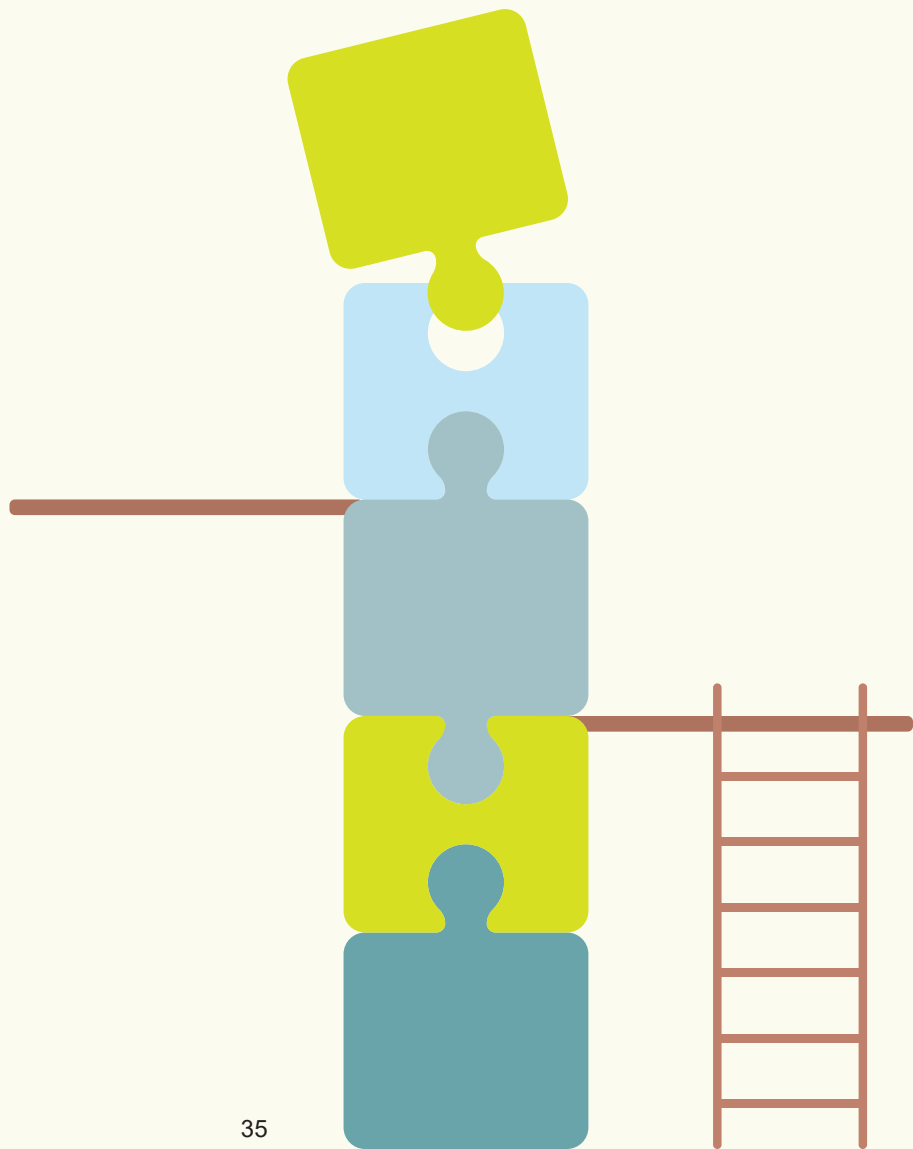
Replace the earlier tried, low-engagement lottery-based system with a transparent, points-based reward system offering cash payments or tax credits for consistent invoice reporting, integrated via the FBR app or IRIS portal.

## b) Whistleblower Incentives

Introduce a structured, transparent reward mechanism linked to the quantum of tax actually recovered, with protected identity disclosure and legal safeguards, administered through a dedicated FBR whistleblower portal with case tracking.

## Reduction in Discretionary Powers

Discretionary powers of tax and customs officers must be significantly reduced by automating assessment, clearance, and audit selection processes through robust IT systems. Clear, rule-based standard operating procedures (SOPs) should be established for all key functions, including assessment, audit, valuation, classification, exemptions, and penalty imposition, leaving no room for subjective judgment. All exceptions and overrides to automated decisions should require documented justification, dual approval, and be subject to mandatory post-facto audit by an independent internal review unit, directly reporting to the Head of the service.



## SECTION 6

# Trade Policy and Export Promotion Proposals



## The Global Trade Environment

The global trade landscape has entered a period of structural disruption unprecedented in the modern era. The Strait of Hormuz, through which 20 percent of global energy supply flows, is experiencing disruption from the Iran–US–Israel conflict, pushing energy prices sharply higher. The scale of trade fragmentation is quantifiable: 71 protectionist measures have been implemented across 39 jurisdictions by mid-March 2026, and tariffs introduced by the United States administration in early 2026 have triggered significant retaliatory countermeasures from China, Canada, and the EU.

Several irreversible trends are now reshaping the global trading order. South–South trade now accounts for 57 percent of developing country exports; digital and services exports are growing faster than goods exports globally; value chains are being redrawn by geopolitical tensions; and rising tariffs on manufacturing create competitive pressure on Pakistan's textile-heavy export basket. Four of these six major trends present clear opportunities for Pakistan; only rising manufacturing tariffs represents a net headwind.

## Pakistan's Structural Export Vulnerabilities

Pakistan's trade model is dangerously overexposed to Gulf energy, Gulf remittances, and shipping route insecurity. Pakistan's exports have stagnated at \$30–33 billion annually, trailing Bangladesh (\$55 billion) and Vietnam (\$371 billion), with over 60 percent concentrated in low-value-added textiles and apparel. This export monoculture, combined with Gulf dependency, represents a structural fragility that requires urgent and deliberate diversification.

A simultaneous shock across trade disruption, an oil price spike, remittance collapse, and loss of export markets could represent a combined monthly liquidity stress of \$4–5 billion, equivalent to a significant share of the country's total foreign exchange reserves. Structural diversification of export markets, remittance corridors, and energy sources is therefore an urgent near-term imperative, not merely a long-term aspiration.

## General Trade Policy Recommendations

### New Trade Agreements & Review of Existing Ones

Pakistan's trade diplomacy has historically been reactive and insufficiently anchored in economic analysis, producing agreements with asymmetric benefits, most starkly illustrated by the Pakistan-China FTA, under which the trade deficit has widened persistently. There is an urgent need to shift to a proactive strategy that identifies target markets, builds negotiating capacity, and ensures every agreement serves Pakistan's export interests rather than merely opening its domestic market to foreign competition.

New trade agreements should be actively pursued with ASEAN economies; African markets where Pakistan's pharmaceutical, textile, and agricultural sectors enjoy a natural competitive advantage; and Central Asian republics for whom Pakistan represents the shortest corridor to warm-water ports. Every new agreement must be preceded by a rigorous, independently conducted impact assessment.

Existing agreements equally warrant systematic review. The Pakistan-China FTA requires urgent renegotiation to secure meaningful market access for Pakistani value-added exports and address non-tariff barriers restricting Pakistani goods.

### Overland Trade Routes

CPEC must be reimagined beyond a bilateral corridor into a regional connectivity platform, integrating Xinjiang and Western China with Central Asian Republics through Pakistan. Gwadar remains significantly underutilized and should be expanded as a transshipment, storage, and logistics hub.

### Energy Supply Diversification

Pakistan must systematically reduce its dangerous concentration of energy imports from Gulf sources through procuring discounted Russian oil supplies, developing Central Asian gas pipelines, expanding long-term LNG contracts, and accelerating the transition to domestic renewable energy.

### Trade Finance & Risk Mitigation

War-risk shipping premiums have risen 15–25 percent. Pakistan must establish a state-backed trade insurance fund to shield exporters from conflict-driven logistics shocks, strengthen the Pakistan National Shipping Corporation fleet, and build strategic petroleum reserves of a minimum of 90 days.

## **Bilateral Currency Trade**

Pakistan should actively explore bilateral currency trade arrangements, particularly the use of the Chinese RMB for trade settlement, and utilize swap agreements to stabilize import financing, thereby reducing dollar dependency.

## **Export-Specific Structural Reform Proposals**

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### **Energy Cost Reduction**

Industrial energy tariffs, which have risen 183 percent over five years, are the single most frequently cited competitiveness barrier for Pakistani exporters. Reducing industrial electricity costs to the regional competitive rate of approximately \$0.09/kWh through power sector reform, capacity payment renegotiation, and accelerated renewable energy transition is a prerequisite for export competitiveness.

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### **Structural Deregulation**

Pakistan's export potential remains chronically suppressed not by lack of competitive capacity but by regulatory and procedural frictions. A decisive deregulation agenda targeting the most damaging structural impediments is required to allow Pakistan's competitive industries to access global markets on equal terms with regional peers.

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### **Demand-Driven Export Strategy**

Pakistan's export challenge is fundamentally a strategic alignment problem, not merely a supply problem. The country produces a wide range of goods and services for which genuine, growing, and under-served global demand exists, but fails to connect supply systematically to that demand.

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### **Textiles: Shifting Up the Value Chain**

Pakistan must shift textile exports toward the EU and East Asia, high-value, sustainability-conscious markets, through greater value addition, product diversification into man-made fibres and technical textiles, and compliance with EU sustainability requirements that will increasingly determine market access.

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### **Promoting IT & Digital Exports**

IT exports have grown significantly in recent years, sustaining strong annual growth. Scaling this further requires policy stability, a favorable tax regime, and systematic talent development - not annual uncertainty around withholding tax rates. The Gulf conflict has powerfully demonstrated the strategic superiority of digitally deliverable exports, which face no shipping risk, no port disruption, and no war-risk premium.

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### **Tying Export Rebates to Value Addition**

Export incentives and rebates must be explicitly conditioned on demonstrable value addition, measured by domestic content ratios and processing complexity, rather than export volume alone. This would redirect subsidy from commodity exports toward sophisticated, high-value production.

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## Trade Diplomacy with Measurable KPIs

Pakistan's diplomatic network must be systematically deployed for commercial intelligence and market development, with ambassadors and trade attachés assigned measurable export promotion KPIs, covering new market leads, buyer connections, and trade agreement progress, in active coordination with TDAP, SMEDA, and provincial industry departments.

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## Air Cargo Subsidies for High-Value Exports

Time-sensitive, high-value exports — surgical instruments, IT hardware, pharmaceutical products — should receive targeted air cargo subsidies to reduce their logistics cost disadvantage relative to sea freight-dependent competitors, unlocking niche export markets currently inaccessible due to prohibitive air freight costs.

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## REER Discipline

A competitive and market-determined Real Effective Exchange Rate (REER) must anchor trade competitiveness policy, preventing the chronic overvaluation that has historically penalized exporters while protecting importers and creating anti-export bias in the macro framework.

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## Development of a Skilled Labor Force for High-Value Exports

Pakistan's export base remains heavily concentrated in low-value, labour-intensive products, principally textiles, garments, and rice, reflecting not merely a capital deficiency but a chronic skills deficit that prevents Pakistani industry from ascending the value chain toward sophisticated, technology-intensive exports that generate higher unit prices and more durable foreign exchange earnings. No trade agreement or tariff reform can substitute for the fundamental prerequisite of a workforce capable of designing, engineering, and manufacturing products that compete on quality and innovation rather than price alone.

The experience of South Korea, Taiwan, Vietnam, and Bangladesh demonstrates that the transition from commodity to high-value exports is invariably preceded by deliberate, state-supported investment in technical and vocational education, industry-aligned curriculum reform, and apprenticeship frameworks.

Pakistan must urgently reform its technical training ecosystem, aligning course offerings with the specific skill demands of target export sectors, including engineering goods, pharmaceuticals, IT-enabled services, and agro-processing, through mandatory industry consultation. Sector-specific centres of excellence, jointly governed by industry and government and offering internationally accredited certifications recognized in export destination markets, would enable Pakistani enterprises to credibly signal quality and competence to foreign buyers and supply chain partners.



Balochistan

# SECTION 7

## Conclusion

Pakistan stands at a decisive fiscal crossroads. The proposals set out in this document, spanning income tax reforms, sales tax rationalization, customs law modernization, tariff realignment, green customs initiatives, tax administration transformation, ease of doing business improvements, economy-wide documentation, digitization of tax processes, and trade and export promotion reforms, collectively constitute a coherent, actionable, and long-overdue reform agenda.

Taken together, these reforms are designed to raise the tax-to-GDP ratio by 4–6 percentage points over the medium term, lift the investment-to-GDP ratio over 18 percent, and lay the institutional foundations for sustained GDP growth of 8.5 percent over five years alongside the restoration of double-digit export growth, outcomes that would represent a generational transformation of Pakistan's economic trajectory.

The Federal Board of Revenue and the Ministries of Finance, Commerce, and Industries must now move beyond incremental adjustment and embrace structural transformation as an institutional imperative. The window for reform is open: the current IMF programme provides both the external anchor and the fiscal space to implement measures that have historically been deferred. To this end, the FBR must leverage its ongoing digital infrastructure investments, the expanding filer base, and the emerging data integration architecture to move decisively from a reactive, audit-driven tax culture to a proactive, intelligence-led compliance model.

Trade facilitation and export promotion reforms, if implemented in tandem with domestic tax policy changes, can unlock Pakistan's considerable but underperforming export potential and broaden the indirect tax base as a natural consequence.

These projections and ambitions are, however, premised on a broadly stable external environment and must be treated with due caution. The heightened geopolitical uncertainty surrounding the Gulf and West Asia poses a material downside risk. An escalation of conflict could materially disrupt regional trade flows, energy prices, remittance inflows, and investor confidence, reinforcing rather than diminishing the urgency of building a resilient, broad-based, and domestically anchored revenue system. The cost of inaction, measured in foregone revenue, continued informality, investor reluctance, and diminished fiscal sovereignty, grows with every budget cycle that passes without meaningful change. The moment to act, with resolve and without reservation, is now.

# ANNEXURE A

## PROPOSALS

### Net Impact

Reductions	
Category	Amount (PKR Billion)
Super Tax (except Banking)	-165
Corp & Inter Corp. Dividend Tax	-270
Salary and Non-Salary Tax (Individuals/AOPs)	-390
Housing Sector	-62
IT WHT	-0.5
WHT & Misc.	-17.5
Customs	-15
Sales Tax (Y1)	-180
Abolishing Non-Filer Category	-280
<b>Total</b>	<b>-1,380 B</b>

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Gains	
Category	Amount (PKR Billion)
Data Driven Audit & Wealth Conciliation	+100
Expanding Tax Net	+100
E-Invoicing & Track and Trace	+100
FDI driven dividend growth and overseas investment	+150
Informal Eco / Crackdown on Smuggling	+125
Rationalisation of ST	+35
POS Integration	+25
Disposal of Pending Litigation	+150
Harmonisation of ST with Prov. ST	+20
FED	+90
Prov. Agri Tax	+5
Savings from Expenditure Rationalisation	+480
<b>Total</b>	<b>+1,380 B</b>

# ANNEXURE B

## BUDGET PROPOSALS

### Income Tax

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<b>Section (Income Tax Ordinance, 2001)</b>	<b>Proposed Amendment / Measure</b>
<b><u>Section 2(36)</u></b>	It is proposed that small non profit entities/ charitable entities having annual receipts upto Rs.50 million may be exempted for approvals u/s 2(36) and they should otherwise be exempted from income tax and exceptions be provided from compliances as mentioned in section 100C. However, requirement for NTN registration and filing of annual return should be mandatory.
<b><u>Sections 4C and 5A (Wealth and Super-Tax provisions)</u></b>	<b>Consolidation of Multiple High-Income Levies into Unified Structure</b>  Parallel super-tax and wealth-taxation mechanisms create overlapping obligations resulting in compounding burden exceeding reasonable proportionality standards. Unification into consolidated high-income framework eliminates double-taxation consequences, simplifies compliance administration, reduces tax-calculation complexity, and ensures transparent rate structures. Merged arrangement maintains revenue while dramatically improving taxpayer clarity and voluntary participation.
<b><u>Section 4AB</u></b>	Surcharge under Section 4AB imposes multiple taxation on high-income individuals (earning over PKR 10 million annually): normal income tax, Super Tax (Section 4C), and surcharge — resulting in unjustified additional taxation.  It is therefore proposed that Section 4AB be withdrawn in the upcoming Finance Act as it overlaps with objectives of Section 4C and results in unjustified additional taxation.

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p align="center"><b><u>Section 7B</u></b></p>	<p><b>Section 7B of the Income Tax Ordinance, 2001:</b></p> <ul style="list-style-type: none"> <li>• Profit on debt up to Rs. 5 million is charged at the rate of 15% and is treated under the Final Tax Regime (FTR).</li> <li>• If the income exceeds Rs. 5 million, the benefit of the FTR is no longer available, and the income is taxed under the Normal Tax Regime (NTR).</li> </ul> <p><b>Enhancement of limit of Rs.5 million to avail benefit of Final Tax Regime (FTR) u/s 7B.</b> Enhance the income threshold from Rs. 5 million to Rs. 15 million to allow taxpayers whose profit on debt is within this limit to continue availing the benefit of the Final Tax Regime (FTR) at the rate of <b>15%</b>.</p>
<p align="center"><b><u>Section 7E</u></b></p>	<p><b>Section 7E of the Income Tax Ordinance, 2001</b></p> <ul style="list-style-type: none"> <li>• Imposes a tax on the deemed income of a resident person based on the fair market value of capital assets, including hereditary assets, situated in Pakistan.</li> <li>• The tax is calculated at 5% of the fair market value of the assets held on the last day of the tax year, not based on the acquisition value of the assets.</li> <li>• <b>Section 7E</b> does not differentiate between assets purchased and assets acquired through inheritance, thus imposing the same tax treatment on both.</li> </ul> <p>It is, therefore, proposed to completely abolish it.</p>
<p align="center"><b><u>Section 15 and Section 155</u></b></p>	<p>Currently tax on rental income is very high which is 45% on last slab of rental income for individuals and AOPs. Similarly, the rate of withholding tax on rental payments is also upto 25%</p> <p><b>It is proposed that tax on rental income should be brought down 15% percent and be taxed as separate block of income. Withholding tax rate should also be reduced to maximum upto 15%.</b></p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 21(m)</u></b></p>	<p><b>Enhancing the limit for salary payable in cash</b>  Section 21 (m) of ITO, 2001 disallows the expenditure on account of salary exceeding Rs.32,000/- in cash. Keeping in view the high rate of inflation and that the minimum wage is fixed at Rs.40,000/ it is proposed that the existing limit of salary payable in cash may be enhanced to Rs.70,000/- by amending Section 21 (m).</p>
<p><b><u>Section 21(l), (m), (c)</u></b></p>	<p>Due to inflation, our currency has devalued over time. Other ancillary and nominal expenses at a time easily cross the Rs. 250,000/- benchmark thereby making compliance with the sections extremely difficult</p> <p>The limit for cash expenses under sections 21(l), (m)&amp;(c) of the ITO, 2001 should be set to at least Rs. 500,000/-</p>
<p><b><u>Section 22(13)</u></b></p>	<p>Leasing of vehicles is a commercial activity undertaken by the leasing company in its normal course of business. Leased vehicle therefore constitutes a commercial asset in the hands of the leasing company. The words plying for hire also imply that the curtailment of cost for depreciation as envisaged in the section 22(13)(a) is intended for vehicles other than vehicles being used for commercial purposes that is non-commercial vehicles. Since the leased vehicle is a commercial asset in the hands of the leasing company and its usage by the lessee for any purpose has no relevance with the leasing company which is entitled to depreciation on it therefore the proviso is wrongly being applied in case of vehicles leased by leasing companies.</p> <p>Because of the misapplication of the proviso many leasing companies have found the leasing of expensive vehicles a non-viable business option and have stopped leasing of vehicles above the prescribed monetary threshold.</p> <p>It is proposed that the following proviso may be added to section 22(13)</p> <p>“the provisions of section 22(13)(a) will not apply to the vehicles leased by a leasing company.”</p>
<p><b><u>Section 23</u></b></p>	<p><b>Reinstatement of Accelerated Capital Depreciation</b></p> <p>Capital modernization incentives were curtailed by prior legislation, reducing business motivation to upgrade manufacturing facilities. Reestablish accelerated write-offs at 50% for equipment and 25% for structures.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 29</u></b></p>	<p><b>Allowing bad debts:</b></p> <p>Provisioning of bad debts as admissible expenses may be allowed in that year, whereas recovery of amount to be credited to profit and loss account and to be taxed in the year of recovery.</p> <p>— <i>Additional Proposal</i> —</p> <p>Accounting recognition of credit losses should align with tax treatment. <b>Permit deduction of doubtful receivables in the year identified;</b> tax recovery proceeds when amounts are actually received.</p>
<p><b><u>Section 37 – Capital Value Tax on Foreign Assets</u></b></p>	<p>There is currently no comprehensive mechanism for taxing capital gains or value on foreign assets held by Pakistani residents. The absence of a proper framework creates inequity between domestic and foreign asset holders and leaves significant revenue immobilized. International OECD standards require transparent reporting and taxation of foreign assets.</p> <p>It is therefore proposed that:</p> <p>A clear and fair Capital Value Tax framework for foreign assets held by Pakistani residents be introduced. Ensure transparent reporting requirements aligned with international standards. Provide appropriate valuation methodology and rate structure.</p>
<p><b><u>Section 39(1)</u></b></p>	<p>Income of every kind received by a person in a tax year, [if it is not included in any other head] other than income exempt from tax under this Ordinance, shall be chargeable to tax in the year under the head “Income from Other Sources”.</p> <p>Non-returnable grants are received from International Group Company for Specific Purposes.</p> <p>Heavy tax rate of 29% of gross value, affect the outreach and effectiveness of the programs and other such events sponsored/supported events as the grants get restricted and fail to create the desired level of impact.</p> <p>It is proposed that either of the following two provision in the ITO 2001:</p> <p>“Grants from foreign group companies for specific purposes related to market research, development, capacity building, and trainings are exempt from tax”.</p> <p>OR</p> <p>“The expenses incurred out of grant money may be allowed as a deduction from taxable income.”</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<b><u>Section 65</u></b>	<p>Section 65 allows a taxpayer to claim tax credit permissible under Part X of chapter III of Income Tax Ordinance, 2001. Sub section (3) of section 65, however, bars from claiming refund of any amount of unutilized tax credit for the year. It is a hard provision especially in case of large export houses having exports of more than 80% as it is not possible for them to get credit for the whole amount. This condition discourages investment in export oriented sectors which ultimately affects exports adversely. To encourage investment in export oriented sectors and to make exports competitive in the global markets, <b>exporters may be allowed to get refund of their tax credits if any amount of credit is not able to be credited.</b></p>
<b><u>Section 65B</u></b>	<p><b>Reactivation of Machinery Investment Credits</b></p> <p>Previous incentives encouraging plant and equipment acquisition have been substantially reduced. Reinstate and expand credit provisions to motivate modernization spending.</p>
<b><u>Section 65B(2)</u></b>	<p>Tax credit on investment in plant and machinery may be restored to encourage more investment by corporate sector.</p>
<b><u>Section 65E</u></b>	<p><b>Extension of Infrastructure Credit Eligibility</b></p> <p>Current restrictions unnecessarily exclude manufacturing facility improvements. Broaden credit availability to encompass factory structures and production-supporting infrastructure.</p>
<b><u>Section 68 (4)</u></b>	<p>FBR is empowered to determine fair market value of immovable properties for the area or areas through notification</p> <p>It is proposed that representatives of the real state sector or representatives of Chambers should be included, and it may be amended as “board may determine fair market value after due consultation and recombination of relevant sector experts or representative of chambers of the relevant area”</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 77(4):</u></b></p>	<p>Section 77(1) is meant for the determination of consideration received on disposal of an asset by entities engaged in businesses other than leasing business.</p> <p>In case of leasing business, Section 77(4) is applicable because in this business the leasing company leases an asset to a lessee on certain terms and conditions for a certain period of time during which the leasing company is deemed to be the owner of the asset till the maturity of lease while the asset remains under the use of the lessee. In the lease agreement signed it is clearly stipulated that at the maturity of lease the asset will be handed over to the lessee on residual value. Since the terms and conditions of the lease agreement and accounting treatment on termination of lease whether on maturity or prior to maturity is identical therefore in both the eventualities section 77(4) is applicable however some officers of the FBR ignoring the leasing specific provisions of section 77(4) are applying section 77(1) in case of premature termination. This treatment is unlawful and unjust.</p> <p>It is therefore proposed that the following explanation may be added to the section 77(4):  “Explanation: For the removal of any doubt it is clarified that the term “maturity of the lease agreement” includes premature maturity/ termination of the lease also.”</p>
<p><b><u>Section 80</u></b></p>	<p>Limited Liability Partnership (LLPs) are not defined in the Income Tax Law and therefore no mechanism exists for taxation of LLPs and share of Partners from LLPs.</p> <p>It is proposed that Limited Liability Partnership (LLP) need to be defined under the definition of Association of Persons instead of Company as it is similar form of business though registered with SECP under the Limited Liability Partnership Act, 2017. LLP is a documented form of business; therefore, it should be promoted by the inclusion of incentive provisions under the tax law.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 99C / New Chapter IIA</u></b></p>	<p>It is proposed to introduce a special procedure for taxation of individuals earning income from remunerative social media content, covering platform-monetised income as well as supplementary income streams such as brand deals, sponsorships, collaborations, affiliate marketing, and paid promotions - whether received in cash, kind, or through wallet-to-wallet transfers. Social media platforms, banks, mobile wallet operators, and telecom companies should be required to report payments exceeding PKR 500,000 per annum to content creators, to facilitate cross-matching and enforcement.</p>
<p><b><u>Section 111</u></b></p>	<p><b>Section 111 of the Income Tax Ordinance, 2001</b></p> <ul style="list-style-type: none"> <li>• The amendment introduced through the Finance Act, 2011 allows the Commissioner to add any suppressed sales (as deemed by the Commissioner) directly to the income of the taxpayer. In effect, the entire value of the suppressed sales is considered part of the taxpayer's income.</li> <li>• This provision can lead to an exaggerated increase in the taxpayer's declared income, especially when only the sales figures are considered, without distinguishing between actual income and cost of goods sold.</li> </ul> <p>Rationalization of amendment in Section 111 of the Income Tax Ordinance, 2001, introduced through Finance Act, 2011</p> <p>Rationalize the provision by stipulating that only the gross profit (i.e., the difference between the sales price and the cost of the goods sold) on the suppressed sales should be added to the taxpayer's income, rather than the total sales amount.</p> <p>— <i>Additional Proposal</i> —</p> <p>Tax officers are issuing large-scale Section 111 notices without meeting the 'definite information' threshold required by Section 122(5) of ITO 2001.</p> <p>Supreme Court judgment (2024 SCMR 700) and FBR's own circular (No. 2(22) Rev.Bud./2020) clarify that amendment proceedings must be based on audit or definite external information — not information picked from taxpayer's own declarations.</p> <p>Officers also misuse Section 122(5A) for roving and fishing inquiries, effectively conducting full-fledged audits.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 111(4)</u></b></p>	<p>Section 111(4) of the Income Tax Ordinance, 2001 provides an exemption from scrutiny of unexplained income/assets for any amount of foreign exchange remitted from abroad through normal banking channels, up to a maximum limit of Rs. 5 million in a tax year.</p> <p>In view of the prevailing geo-political tensions in the Middle East, rising fuel energy prices and deficits, balance of payment issues, we need to offer a time bound incentive to the Pakistanis to bring their money invested abroad back to Pakistan. It is, therefore, proposed that the afore-stated maximum limit under Section 111(4) should be removed for a period of one year.</p>
<p><b><u>Section 113</u></b></p>	<p>Reduce the minimum turnover tax (MTT) to 0.5% and even lower (0.25%) for special sectors (Yarn Trade)</p> <p>The current MTT of 1.25% on turnover imposes an unsustainable burden on the textile sector, which operates on low margins and high volumes. On profit margins of 1–2%, for example, it translates into 62.5% to 125% of profits, rendering the business financially unviable. It is very harsh to collect tax on loss-making enterprises despite negative earnings.</p> <p>— <i>Additional Proposal</i> —</p> <p>The current Minimum Turnover Tax imposes a tax liability on companies regardless of profitability, which penalizes loss-making companies and discourages investment, especially among startups and SMEs. Maintaining the MTT on companies that are operating at a loss undermines the principles of fairness and equity in taxation and reduces the capacity of businesses to reinvest in operations. Exempting loss-making companies aligns with global tax practices and promotes financial stability and growth within the corporate sector in Pakistan.</p> <p>It is recommended that the exemption be applied to all loss-making companies, including startups and small to medium-sized enterprises, to encourage business continuity and investment. The Federal Board of Revenue should also provide clear guidance on calculation and reporting to ensure that only genuinely loss-making companies benefit from this relief.</p> <p><i>Conditional on the income of a company</i></p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 113C</u></b></p>	<p>Rate of corporate tax is highest in the region which adversely affects competitiveness of our export sector. To enhance its competitiveness, it is proposed to reduce the standard corporate tax rate from 29% to 25% to bring it at par with regional competitors.</p>
<p><b><u>Section 114</u></b></p>	<p>Taxpayer should be permitted to revise his/her return themselves without the approval of the commissioner before any discrepancy or issuing show cause notice.</p> <p>Although some amendments in the form of proviso have been inserted regarding revision of return within 60 days and upward revision of return i.e., increasing the income or reducing the loss but full-fledged revision of return in other cases is not permitted unless approval for commissioner is granted. The taxpayer should have the basic right to revise his tax returns if there is any omission that comes to his knowledge, but now they can do it only after seeking permission from the concerned commissioner. Most of the taxpayers have sent their requests which are still pending at the end of the department. The taxpayer should be permitted to revise their return themselves within 60 days without the approval of the commissioner before any discrepancy or issuing a show cause notice. Where discrepancy is found taxpayer should be allowed for upward and downward revision of return.</p> <p>Moreover, where there is no payment of tax involved, amendment should be allowed without any restriction of time. Where change in tax value is involved, it should be allowed on specific payment of fine, within an extended period.</p> <p>The whole process should be automated and faceless.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 116(3)</u></b></p>	<p>Section 116(3) of the Income Tax Ordinance, 2001</p> <ul style="list-style-type: none"> <li>• Currently, the time limitation to file a revised wealth statement is five years from the due date of filing the return of income for the corresponding tax year.</li> <li>• This means taxpayers have up to five years from the original due date to submit a revised wealth statement if necessary.</li> </ul> <p>Time Limitation to file revised Wealth Statement u/s 116(3)</p> <p>Revise the time limitation to be five years from the end of the financial year in which the Commissioner has issued or treated as having issued the assessment order to the taxpayer, as provided under Section 122(2) of the Ordinance, instead of reckoning the five-year period from the due date of filing the return of income.</p>
<p><b><u>Section 119</u></b></p>	<p>Extension in time</p> <p>Sub-section(1) of section 119 requires tax payers to apply to commissioner for extension in time to furnish return. There must be a time line for passing the order of extension. If no order is passed within one week, it should be deemed to have been allowed. It will facilitate the taxpayer as applications for extension remain lying with commissioner for a long time without any decision.</p>
<p><b><u>Section 122(4) &amp; 122 (5A)</u></b></p>	<p>Once an assessment order has been passed by the Commissioner, further amendment should not be allowed, unless there is some genuine concern of the tax payer. There must be an end to a tax year in a reasonable time, especially when power of amendment of assessment u/s 122(5A) delegated u/s 210 to an officer not below the rank of Add Commissioner Inland Revenue.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 122(D) – Activation of Agreed Assessments Mechanism</u></b></p>	<p>Section 122(D) was introduced via Finance Act 2020 to minimize litigation through agreed assessments. Despite six years, not a single assessment has been finalized under this provision. No committee has been formed and the required form has not been prescribed. Field formations consistently avoid invoking it, leading to unnecessary litigation and delayed revenue.</p> <p>It is therefore proposed that:</p> <ol style="list-style-type: none"> <li>1. FBR encourages field formations to invoke Section 122(D) in maximum cases.</li> <li>2. Constitute the required committee and prescribe the form for agreed assessments.</li> <li>3. Measure and monitor uptake to improve revenue realization through voluntary settlements.</li> </ol>
<p><b><u>Section 126-A</u></b></p>	<p>Section 126-A of the Income Tax Ordinance, 2001 provides that:</p> <ul style="list-style-type: none"> <li>• An appeal to the Commissioner (Appeals) shall lie where the value of assessment of tax or refund of tax does not exceed twenty million rupees.</li> <li>• An appeal to the Appellate Tribunal Inland Revenue (ATIR) shall lie where the value of assessment of tax or refund of tax exceeds twenty million rupees. Under the current law, cases involving a refund of tax below twenty million rupees cannot be appealed before the Appellate Tribunal, which limits taxpayers' rights.</li> </ul> <p>Restoration of Appeal Right to Appellate Tribunal in Cases Where Tax Refund Does Not Exceed Twenty Million Rupees</p> <p>Right of appeal to the Appellate Tribunal Inland Revenue (ATIR) should also be provided in cases where the refund of tax does not exceed twenty million rupees, after the forum of Commissioner (Appeals), as Court Fee for reference to High Court is Rs.50,000/-.</p>
<p><b><u>Section 128 (1A)</u></b></p>	<p>Existing period of stay is 30 days. It is proposed that this period may be enhanced to 180 days in line with the time provided for the stay orders of Appellate Tribunal and High Court</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<b><u>Section 134A</u></b>	<p>The process for alternate dispute resolution should be re-opened and made operational by the department with an easy application process. Further, a desk for ADRC should be set up in each chamber of commerce to help businessmen apply for ADRC The annual report of the ADRC should be published by the department.</p> <p>Chairman ADRC should always be a person of high standing from the private sector, with zero conflict of interest.</p>
<b><u>Section 137 &amp; 138</u></b>	<p>A mechanism should be developed wherein the tax demand created should at first instance be adjusted against the tax refundable outstanding in the name of the taxpayer and after adjustment tax liability (if any) be recovered from the taxpayer.</p>
<b><u>Section 147</u></b>	<p>Presently a taxpayer is liable to pay the advance tax under this section even though the taxpayer has tax refunds outstanding in previous tax years</p> <p>It is suggested that there should be an easy scheme/model in this system for adjustment of refund against the tax liability u/s 147 without the involvement of the department.</p> <p>— <i>Additional Proposal</i> —</p> <p>Quarterly advance Tax u/s 147 is being collected from all resident taxpayers except persons having income source from Dividend or Salary and Individual or AOPs having income of Rs.1million or above for the latest tax year.</p> <p>It is proposed that payment of advance tax may be exempted for the following.</p> <ol style="list-style-type: none"> <li>1. Taxpayers earning rental income u/s 15.</li> <li>2. The Individual and AOPs having latest assessed income of less than Rs.50 million</li> </ol>
<b><u>Section 148</u></b>	<p><b>Expedited Issuance of Import Duty Exemption Documents</b></p> <p>Delays in processing exemption certificates obstruct manufacturing timelines. Institute accelerated procedures for inputs and capital equipment certificates.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<b><u>Section 148 (7)</u></b>	It is proposed that Withholding Tax collected under section 148 from commercial importers to be prorated in the ratio of sales and be made adjustable according to the percentage of sale. The excessive tax be made adjustable in following years on the income arising from the sale of imported goods.
<b><u>Section 153</u></b>	<p>WHT rate on Supplies currently stand at 9%, 5%, &amp; 11%</p> <p>Services 15% (except few services at reduced rate)</p> <p>Contracts 7.5% &amp; 8%</p> <p>Withholding Tax Rates on Supplies, Services and Contracts are too high which is the cost of businesses paying for the supplies, services and contracts and on the other hand do not match with the tax on profit of the recipient whose withholding is being made.</p> <p>It is proposed that Withholding Tax Rates on Supplies, Services and Contracts be reduced proportionately.</p>
<b><u>Section 153 (7)</u></b>	Currently Proprietorship and AOPS having annual turnover less than Rs.100 million are not withholding agents whereas Companies are withholding agents regardless of quantum of turnover to collect tax on payment of goods, services, and contracts. There are small companies whose turnover is very low and it is difficult for such small companies to comply with the withholding provisions. Further, this discrimination to act as withholding agent discourages the corporate entities which is most documented form of business. Therefore it is proposed that small companies having turnover less than Rs.100 million should be excluded from the definition of withholding agents under Section 153(7).
<b><u>Sections 154</u></b>	<p>Simplification of Exporter Tax Treatment</p> <p>Overlapping fixed-regime and standard tax obligations create impossible combined rates. The tax scheme for the exporters may be made simple, predictable and transparent and should not be changed for at least three years.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<b><u>Section 154(2)</u></b>	<p>Reduction of Export Intermediary Withholding Obligations</p> <p>Export agent commissions face standard withholding rates. Lower to 1%.</p>
<b><u>Section 154(3B)</u></b>	<p>Inclusion of EFS-Licensed Entities in Withholding Framework</p> <p>Licensed export traders should function as withholding intermediaries for indirect supplier payments. Include in statutory agent category.</p>
<b><u>Section 155</u></b>	<p>Currently Proprietorship and AOPS paying gross rent of Rs.1.5 million annually are not withholding agents with exception of certain sectors whereas Companies and those sectors are withholding agents regardless of quantum of payment against rent u/s 155. There are small companies and other businesses whose turnover is very low, and it is difficult for such entities to comply with the withholding provisions. Further, this discrimination to act as withholding agent discourages such entities. Therefore, it is proposed that all entities irrespective of status paying rent less than prescribed amount should be excluded from the definition of withholding agents under Section 155.</p>
<b><u>Section 159</u></b>	<p>Problems in Exemptions Certificate U/S 159</p> <p>There should be a time limit i.e., one week or two weeks at a maximum from the filing of the exemption application, till its disposal. It is further emphasized that exemption certificates should be issued for one year instead of a quarter or semi-annual basis and should be automated as is already the case for listed companies.</p>
<b><u>Section 170 &amp; 170A</u></b>	<p>Currently refund of excess tax paid is claimed through an application which is required to be processed within two months of filing of application. Refund amount is adjustable against the tax liability for next year if application of refund is filed. Section 170A allows tax refunds without filing of application and to be transferred electronically in the taxpayers notified bank account.</p> <p>Adjustment of Previous Years Refund in Annual Income Tax Return should be allowed without filing of refund application. Any refund of any previous should be adjusted/accounted for current year or proceeding years e.g. Implementation and procedure under this section required to automatically process the refunds and credit in the bank accounts of the tax payers.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<b><u>Section 170(4)</u></b>	<p>Allowing automatic refunds to salaried individuals within one month</p> <p>Under Section 170 (4), the Commissioner has been authorized to allow refund of tax paid in excess of amount chargeable to tax within 60 days of receipt of a refund application. It is proposed that Section 170 (4) may be amended so as to allow income tax refund within one month automatically to salaried individual's through auto credit to the bank account of taxpayer for their facilitation and building confidence.</p>
<b><u>Section 177</u></b>	<p>Withdrawal of discretionary powers of Commissioner</p> <p>Discretionary power u/s 177 may be abolished. FBR should focus more on modernization of audit techniques and digital audit should be conducted on risk areas as evaluated by FBR.</p> <p>It is proposed that an audit oversight board shall be constituted and regularly conduct reviews of the audit reports issued by different commissioners to ensure no abuse of power has been done.</p>
<b><u>Section 177, 122, 122 (5A) and 214(C)</u></b>	<p>It is proposed that audit should be conducted once in three years. The audit through section 122 (5A) should be closed.</p> <p>Presently a taxpayer may be selected for audit for more than once in a tax year, through different sections, 177, 122(5A), 122, AND 214(c)</p>
<b><u>Section 182</u></b>	<p>Proportionate Withholding Agent Penalties</p> <p>Penalties imposed on unpaid government representatives exceed reasonableness. Reduce to encourage voluntary information filing.</p>
<b><u>Section 236-H</u></b>	<p>Section 236-H of the Income Tax Ordinance, 2001 pertains to the collection of advance tax on sales to retailers. Finance Act, 2024 increased the tax rate from 1% to 2.5%, significantly raising the tax burden on retailers and suppliers.</p> <p>Restoration of Advance Tax on Sales to Retailers under Section 236-H</p> <p>It is proposed to Restore the advance tax rate under Section 236-H to 1%, as it was before the Finance Act, 2024.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>Section 236-Y</u></b></p>	<p>Section 236-Y of the Income Tax Ordinance, 2001</p> <p>This section imposes a tax deduction of 5% on payments remitted abroad through debit, credit, or prepaid cards. The tax is deducted at the time of the transaction, and this rate applies regardless of the taxpayer's filing status.</p> <p>Reduction of tax rate on payments u/s 236-Y</p> <p>It is proposed that the tax deduction rate under Section 236-Y be reduced from 5% to 1% for filer/active taxpayers. This change aims to incentivize taxpayers to remain compliant with their tax obligations.</p>
<p><b><u>Section 236C &amp; 236K</u></b></p>	<p>The rate of advance adjustable tax for purchase and sale of immovable property for ATL persons be reduced to 0.5% as currently it is very much on the higher side and dampening the market sentiment. The reduction will enhance market sentiment and add to growth of the economy.</p>
<p><b><u>General/Multiple Sections</u></b></p>	<p>Cross-Liability Adjustment of Tax Positions</p> <p>Pending refunds should offset current assessed liabilities. Permit offsetting arrangements to improve cash positions.</p>
<p><b><u>General/Multiple Sections</u></b></p>	<p>System Enhancement for Withholding Tax Recording</p> <p>Incomplete FBR databases limit accurate verification. Expand FBR databases to cover utilities, debt returns, and vehicle levies with corrected year-assignment.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>General/Multiple Sections</u></b> <b><u>(Section 65F, 2, 154A, 153)</u></b></p>	<p>It is proposed that the Income Tax Ordinance 2001 be amended to provide clear and extended incentives for the IT and freelancing sector.</p> <p>Extending the tax exemption for IT exports provides long-term stability and incentivizes investment in technology infrastructure, startups, and innovation. Introducing a fair and predictable tax framework without overburdening individual service providers, thereby encouraging wider participation in the global digital economy.</p> <p>It is recommended that the government adopt this dual approach: extend the IT export tax exemption until 2030 and reduce the current 0.25% tax on freelancing remittances to 0.15% for those registered with PSEB. The Federal Board of Revenue should also develop clear SOPs for registration, invoicing, and reporting to ensure transparency and minimize disputes, strengthening Pakistan's position as a competitive hub for IT and digital services.</p>
<p><b><u>General/Multiple Sections</u></b> <b><u>(Section 2(59A), 2(30) 113, 153)</u></b></p>	<p>Many small businesses in Pakistan operate in the informal economy due to complex tax compliance requirements and high administrative costs. A simplified turnover-based tax provides an easy-to-understand, predictable, and low-cost method for small enterprises to meet their tax obligations.</p> <p>It is proposed that the Income Tax Ordinance 2001 be amended to introduce a turnover-based simplified tax regime for small businesses.</p> <p>Annual Turnover Tax</p> <p>Upto 5 M 0.25%</p> <p>5M - 20M 0.5%</p> <p>20M- 50M 0.75%</p>
<p><b><u>General/Multiple Sections</u></b> <b><u>(Section 37(1A) &amp; (3A), 236(C)</u></b></p>	<p>The current long holding periods for CGT create disincentives for real estate investment and reduce market liquidity in Pakistan. Investors are often forced to hold properties for extended periods to avoid higher tax, which slows transaction activity and limits development in the housing sector. Reducing the holding period aligns tax policy with market realities, encourages timely investment, and promotes a more active and dynamic real estate market.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>General/Multiple Sections</u></b> <b><u>(Section 172, 111, 122, 214(D), 218, 182</u></b></p>	<p>Issuing repeated or duplicate notices creates unnecessary stress for taxpayers, increases compliance costs, and can undermine confidence in the tax system. Frequent notices on the same matter can also lead to disputes, inefficiencies, and administrative burdens for both taxpayers and the Federal Board of Revenue.</p> <p>It is proposed that the Income Tax Ordinance 2001 be amended to discourage issuance of repeated or duplicate notices to taxpayers.</p> <p>It is recommended that the Board implement clear Standard Operating Procedures (SOPs) for notice issuance, including rules on timelines, single-point documentation, and escalation procedures. Clear guidance should also define exceptions where follow-up notices are permissible based on new evidence or material changes in circumstances.</p>
<p><b><u>General/Multiple Sections</u></b> <b><u>Chapters X &amp; XI</u></b></p>	<p>Withholding Tax Agents and Rates of withholding taxes should be low:</p> <p>It is proposed that withholding taxes should be brought down as follows:</p> <p>On supply withholding tax rate should be 1% to 3% instead of 4.5%</p> <p>On Services withholding tax rate should be 5% instead of 10%</p> <p>On contracts withholding tax rate should be 5%</p> <p>FMCG products should be subjected to 0.25% due to low margins.</p> <p>Further, if the withholding tax agent collects and deposits the tax in due time but due to some unforeseen reason or inadvertence files his return with delay, he should not be penalized.</p>
<p><b><u>General/Multiple Sections</u></b> <b><u>Section 7E &amp; 116</u></b></p>	<p>Imposition of Tax on wealth excluding working capital.</p> <p>As per the current scenario, a substantial sum of black money is being parked in the real estate sector thereby indirectly affecting real estate.</p> <p>A person should be liable to pay tax at the rate of 0.5% of immovable assets owned by him excluding his residential house and business working capital.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>General/Multiple Sections</u></b></p> <p><b><u>Section (2(59-A)177, 214C)</u></b></p>	<p><b>Part 1: Final Tax Regime (FTR)</b></p> <p>SMEs can opt to be taxed under the final tax regime (FTR). The said option is required to be exercised at the time of return filing, and the same will be irrevocable for three tax years. The SMEs who opt to be taxed under the FTR shall not be subject to tax audit under sections 177 and 214C.</p> <p>The category-wise rate of tax under the FTR is given below:</p> <ul style="list-style-type: none"> <li>• Category 1: 0.25% of the gross turnover, where annual business turnover does not exceed PKR 100 million.</li> <li>• Category 2: 0.50% of the gross turnover, where annual business turnover exceeds PKR 100 million but does not exceed PKR 250 million. Minimum tax on turnover shall not apply to SMEs.</li> </ul> <p>It is proposed that the turnover threshold may be revised as:</p> <ol style="list-style-type: none"> <li>1. For Category 1 threshold may be increased from PKR 100 million to 150 million, in line with the SME Definition</li> <li>2. For category 2: the threshold may be defined as the annual turnover exceeds PKR 150 million but does not exceed PKR 800 million, in line with the approved SME Definition.</li> </ol> <p><b>Part 2: Inclusion of IT &amp; ITES</b> Currently, IT and ITES sector are not included in the aforementioned schemes. It is proposed that mentioned SME Facilitation scheme may also be extended to the IT &amp; ITES sector.</p> <p><b>Part 3: Amendment of SME Definition in Income Tax Ordinance 2001</b></p> <p>The current definition of Small and Medium Enterprises (SMEs) under section 2(59-A) of Income tax ordinance 2001 does not align with the national definition of SMEs, limiting the applicability of specialized taxation benefits.</p> <p>It is proposed that definition of Small and Medium Enterprises under section 2(59-A) of Income Tax Ordinance may be amended in accordance with the National SME Definition as approved by the Federal Government.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<p><b><u>General/Multiple Sections</u></b></p>	<p>Introduce a time-bound 'SME Formalisation &amp; Growth Tax Regime' for newly registered micro enterprises:</p> <p>i. Progressive taxation slabs be introduced to enhance tax base. The government may consider the following for micro enterprises:</p> <p>a. 0.05% income tax for first 3 Years.</p> <p>b. Subsequent progressive increase as per revenue thresholds</p>
<p><b><u>General/Multiple Sections</u></b></p>	<p>Introduce an 'Investment &amp; Productivity Tax Credit' for manufacturing and export-oriented SMEs:</p> <p>Provide a 20% tax credit on incremental capital expenditure in:</p> <ul style="list-style-type: none"> <li>• Plant &amp; machinery</li> <li>• Energy efficiency and renewable/backup power</li> <li>• Quality certifications (ISO, CE)</li> <li>• Approved digitalization initiatives (ERP systems, automation)</li> </ul> <p>Provide accelerated depreciation on eligible assets</p> <p>This measure aims to incentivize capital investment, enhance productivity, reduce operational costs, and strengthen competitiveness of SMEs in domestic and international markets.</p>
<p><b><u>General/Multiple Sections</u></b></p>	<p>The recently introduced windfall tax has created uncertainty and is seen as reflective and arbitrary, discouraging long-term investment.</p> <p>It is therefore proposed that the FBR review and abolish the windfall tax in the upcoming budget.</p>

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
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<p><b><u>General/Multiple Sections</u></b> <b><u>(Section 113, 147, 153, 154A)</u></b></p>	<p>The Minimum Tax Regime (MTR) acts as a punitive measure for businesses suffering losses or operating on thin margins.</p> <p>Either convert the minimum tax regime to Final Tax Regime (FTR) or give businesses the option to be assessed under the normal tax regime based on audited financials, similar to the option for listed companies.</p>
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<p><b><u>General/Multiple Sections</u></b></p>	<p>Existing tax slabs for salaried individuals as well as non-salaried individuals and AOPs are excessively steep, particularly for middle and upper-middle income groups, creating disproportionate burdens.</p> <p>It is therefore proposed that tax slabs are rationalized and expanded to allow gradual progression rather than abrupt increases in tax liability.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="text-align: center;">Proposed Salaried Slabs</th> </tr> <tr> <th style="text-align: center;">Serial no</th> <th style="text-align: center;">Taxable Income</th> <th style="text-align: center;">Rate of Tax</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>Where taxable income does not exceed Rs. 800,000/-</td> <td>0%</td> </tr> <tr> <td style="text-align: center;">2</td> <td>Where taxable income exceeds Rs. 800,000/- but does not exceed Rs. 1,200,000/-</td> <td>1% of the amount exceeding Rs. 800,000/-</td> </tr> <tr> <td style="text-align: center;">3</td> <td>Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-</td> <td>Rs. 4,000/- + 9% of the amount exceeding Rs. 1,200,000/-</td> </tr> <tr> <td style="text-align: center;">4</td> <td>Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-</td> <td>Rs. 94,000/- + 13% of the amount exceeding Rs. 2,200,000/-</td> </tr> <tr> <td style="text-align: center;">5</td> <td>Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-</td> <td>Rs. 224,000/- + 16% of the amount exceeding Rs. 3,200,000/-</td> </tr> </tbody> </table>	Proposed Salaried Slabs			Serial no	Taxable Income	Rate of Tax	1	Where taxable income does not exceed Rs. 800,000/-	0%	2	Where taxable income exceeds Rs. 800,000/- but does not exceed Rs. 1,200,000/-	1% of the amount exceeding Rs. 800,000/-	3	Where taxable income exceeds Rs. 1,200,000/- but does not exceed Rs. 2,200,000/-	Rs. 4,000/- + 9% of the amount exceeding Rs. 1,200,000/-	4	Where taxable income exceeds Rs. 2,200,000/- but does not exceed Rs. 3,200,000/-	Rs. 94,000/- + 13% of the amount exceeding Rs. 2,200,000/-	5	Where taxable income exceeds Rs. 3,200,000/- but does not exceed Rs. 4,100,000/-	Rs. 224,000/- + 16% of the amount exceeding Rs. 3,200,000/-
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Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
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General/Multiple Sections

Proposed Salaried Slabs		
Serial no	Taxable Income	Rate of Tax
6	Where taxable income exceeds Rs. 4,100,000/-	Rs. 368,000/- + 20% of the amount exceeding Rs. 4,100,000/-

Proposed Non-Salaried Slabs (Individuals & AOPs)	
Taxable Income	Rate of Tax
Where taxable income does not exceed Rs. 800,000/-	0%
Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	12% of the amount exceeding Rs. 800,000
Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 48,000 + 14% of the amount exceeding Rs. 1,200,000
Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 104,000 + 17% of the amount exceeding Rs. 1,600,000
Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 376,000 + 20% of the amount exceeding Rs. 3,200,000
Where taxable income exceeds Rs. 5,600,000	Rs. 856,000 + 25% of the amount exceeding Rs. 5,600,000

Section (Income Tax Ordinance, 2001)	Proposed Amendment / Measure
<b><u>General/Multiple Sections</u></b>	Urgently establish an ATIR Bench in Quetta with proper office and staff appointments.
<b><u>General/Multiple Sections</u></b>	FBR officers' performance evaluations should include metrics on success rate of assessment orders in appellate forums.
<b><u>General/Multiple Sections</u></b>	<p>Tax refunds delayed for several years have created severe liquidity crises, particularly for exporters and small traders.</p> <p>It is therefore proposed that the government prioritize issuance of long-pending tax refunds without further delay.</p>
<b><u>General/Multiple Sections</u></b>	Delayed tax refunds create liquidity issues. Compensation at KIBOR rate was committed under law and prior precedents. It is therefore proposed that refunds, along with appropriate compensation, be issued to businesses as promptly as possible.
<b><u>New Provision — Digital Services Tax</u></b>	It is proposed to impose a 1% Digital Services Tax on revenues earned in Pakistan by streaming apps, and digital media platforms, aligned with international best practices. The measure is expected to generate PKR 10-15 billion annually and formalise digital business activities into the tax net.

# PROPOSALS

## Sales Tax

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S. No.	Section (Sales Tax Act, 1990)	Proposed Amendment / Measure
1	<b><u>Section 2</u></b>	The ambit of toll manufacturing may kindly be clarified as to whether it falls within the scope of federal tax bodies or provincial
2	<b><u>Sections 38 and 40</u></b>	It is recommended that the Board develop clear SOPs for Sections 38 and 40, including approval hierarchies, documentation requirements, and thresholds for notice issuance and recovery actions. Additionally, periodic review of cases where these powers are exercised should be conducted to monitor fairness and consistency.
3	<b><u>Section 73</u></b>	Addition to the Clause 3 has been made Italic bold.  The amount transferred in terms of this section shall be deposited in the business bank account of the supplier or a financial institution registered with the Securities and Exchange Commission of Pakistan or the State Bank of Pakistan to undertake discounting or factoring services, otherwise the Buyer shall not be entitled to claim input tax credit, adjustment or deduction, or refund, repayment or draw-back or zero-rating of tax under this Act.
4	<b><u>STGO No. 08/2025 dated 20-11-2025</u></b>	Current tracking at spinning stage misses origin issue occurring at cotton-processing stage. Redirect traceability to primary ginning operations.

S. No.	Section (Sales Tax Act, 1990)	Proposed Amendment / Measure
5	<u>General</u>	<ol style="list-style-type: none"> <li>1. At each RTO, office there should be a help desk for PRAL.</li> <li>2. It is recommended to process refunds of new manufacturers through ERS and move them to the FASTER system.</li> <li>3. Moreover, the new manufacturers should directly be entertained through FASTER system moving forward, as this will encourage entry of new manufacturer exporters in the market, thereby increasing exports of country</li> <li>4. It is recommended that registration for manufacturers / exporters should be automated with the subject to post-verification within 15 days. Moreover, the rest of categories may be treated as per present practice.</li> <li>5. It is, also recommended that for members of the Chambers / related Association Trade, the registration may be automated with subject to No Objection Certificate (NoC) from relevant Chamber and Association without any verification.</li> </ol>

## PROPOSALS

### Federal Excise Duty

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S. No.	Sections (Federal Excise Act, 2005)	Proposed Amendment / Measure
1	Section 3, read with First Schedule, Table I	Rationalisation and upward revision of FED on Tobacco Products BY 25-30% both in case of Tier I and II.
2	Section 3(2), read with First Schedule, Table I	FED on sugar-sweetened beverages be increased from 20% to 25%, and extended to energy drinks, flavoured milk, and packaged ultra-processed snack foods
3	Section 3(3), read with First Schedule, Table II	<p>10% FED be extended to non-essential and luxury services currently outside the excise net, including private clubs, premium hospitality services, Online Gaming Apps, In app purchases, Cryptocurrency transactions, Platform fees and high-end real estate agents as follows:</p> <p>Private Clubs, 10% of membership fees</p> <p>Premium Hospitality Services, Gym, Spas, (In ICCT only), 10%</p> <p>Online Gaming Apps, In app purchases, 5%</p> <p>Cryptocurrency services, Platform fees, 5%</p> <p>High-end Real Estate Agents, on transactions over Rs. 10 M 2%</p>

# BUDGET PROPOSALS

## Customs

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1. Due to high cost of input, Pakistan's steel industry faces over 50% cost disadvantage vis a vis China. Regionally competitive cost of inputs is a pre-requisite before any Tariffs Rationalization. Tariff reduction for steel imports should be linked to key performance milestones like reduction in energy price, lowering of taxes, improving Pakistan's global competitiveness ranking, etc.
2. Presently, impact of Additional Customs Duty on Tanning Industry is not included for calculation of duty drawback purpose. It is proposed to be included to enhance competitiveness of the industry. Moreover, additional customs duty and regulatory duty may be reduced on other raw materials and intermediate products required by the Tanning Industry.
3. Duty on Sulphate of Chromium 2833.2900 imported from China be reduced from 2.50% to 2% and from other destinations from 16% to 10% to support the Tanning Industry. Moreover, additional customs duty and regulatory duty may be reduced on other raw materials and intermediate products required by the Tanning Industry.
4. Duty on 2915.1100, Formic Acid be reduced from 15% to 10% to enhance export competitiveness of the Tanning Industry.
5. Establishment of a China-Style Free Trade Zone in Gilgit-Baltistan:

A Special Free Trade Zone (FTZ) may be established in Gilgit-Baltistan on the model of Tashkurgan Free Zone (China).

The proposed FTZ should include:

- International product display and exhibition centers
- Trade offices for multiple countries
- Warehousing, logistics, and fast-track customs clearance facilities This Free Zone will position Gilgit-Baltistan as a regional trade hub connecting Pakistan, China, Central Asia, and beyond. Moreover, procedures for Exports from Gilgit-Baltistan to China be Simplified and facilitative customs procedures may be introduced for exporting Agricultural products. Handicrafts, Herbal and organic products, Dry fruits and local value-added goods

Moreover, simplified documentation, Green Channel facility for small consignments, special border trade arrangements and quotas for GB-based traders, be introduced.

# ANNEXURE C

## FBR FY2026 TAX COLLECTION VS IMF TARGET

### Where We Stand

<b>Rs. 10.946 B IMF Target (10-months) Jul–Apr FY26</b>	<b>Rs. 10.262 B Actual Jul–Apr FY26</b>	<b>Rs. 683 B Shortfall Jul–Apr FY26 vs IMF Target</b>
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### Collection Summary (*Rs Billion*)

Collection Summary Table Metric	IMF Target (Rs Bn)	Actual / Est. (Rs Bn)	Shortfall (Rs Bn)
Jul–Mar FY26 (9 months)	10.94	10.26	(683)
Q4 Required (Apr–Jun)	3,187	-	-
Full Year — IMF revised Revenue Target	13.98(13.45)	-	-
Full Year — Base Case Estimate	-	13,050	(400)
Full Year — Low Estimate	-	12,700	(750)

### Full-Year Scenario Analysis (*Rs Billion*)

<b>High</b>	<b>Rs. 13,450</b>	Target (FBR) fully met — Q4 requires Rs. 1,381 Bn/month (+34% vs. 9-month average)
<b>Base Case</b>	<b>Rs. 13,050</b>	11-12% YoY growth sustained
<b>Low</b>	<b>Rs. 12,700</b>	War/import disruptions, elevated refunds — Rs. 750 Bn gap vs. IMF target

## REVENUE PROPOSALS & REFORM SCORECARD

Base revenue 2025–26: Rs. 13.45 T | FY 2026–27 Three-Scenario Outlook

### FY 2026–27 Revenue Outlook by Scenario

CDN Conservative	OPT Optimistic
<p><b>Rs. 14.50 T</b> Nominal GDP 491 USD High tax relief, Conservative elasticity</p>	<p><b>Rs. 14.97 T</b> Nominal GDP 491 USD High tax relief, Optimistic elasticity</p>

### Reform Scorecard

<p><b>Rs. 1,100 B</b> Tax relief proposed</p>	<p><b>40</b> Tax rates reduced / withdrawn</p>
<p><b>5 New Taxes</b> Rs. 90B additional revenue</p>	<p><b>+1.5 M</b> Minimum new taxpayers</p>

### Revenue Outlook — Base Case Projections (FY2027–29)

Starting base: Rs. 13.45 T during 2025–26

FY 2026–27	FY 2027–28	FY 2028–29
<p><b>Reform budget base</b> <b>Rs. 14.50 T</b> Conservative scenario due to high tax relief, Nominal GDP 491</p>	<p><b>Base case to optimistic</b> <b>Rs. 17-19.80 T</b> Laffer x2.5% + Reform uplift = +4% +Nominal GDP 535USD</p>	<p><b>Base case to optimistic</b> <b>Rs. Rs. 20.50-24.00 T</b> Full Laffer dividend x3.5% + Compounding + Reform +6% +Nominal GDP 582USD</p>

### Key Observations

FY 2026–27	FY 2027–28	FY 2028–29
<p>The larger Rs. 1,010 B relief creates a deeper short-run dip in FY2027 — more revenue foregone initially, increasing subsequent rebound.</p>	<p>By FY2027–28, larger relief generates a stronger rebound through more compliance recovery, less evasion, broadening of base, and increased FDI.</p>	<p>Stronger reform + uplift via POS integration, e-invoice, AI Audit, non-filer data net, Stronger overseas / FDI inflow due to investor confidence.</p>

Source: FBR FY2026 Tax Collection vs IMF Target Analysis





**ECONOMIC POLICY  
& BUSINESS DEVELOPMENT  
THINK TANK**



**Jasmine** (*Jasminum officinale*)

**National Flower of Pakistan**



**Shadow  
Federal Budget  
2026-27**

**Shadow  
Economic Survey  
2026-27**

**Shadow Five Year  
Development Plan  
2026-31**

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