



# Taxation Proposals

2025-2026

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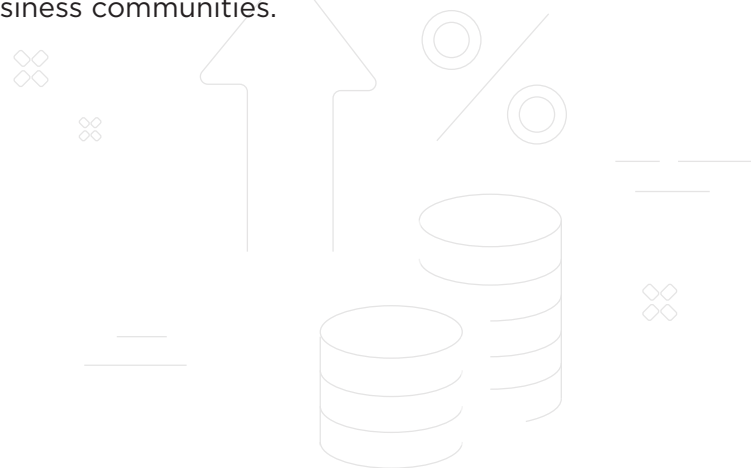


## Vision

To be the premier body for promoting new and existing overseas investment in Pakistan by leveraging the world-class expertise of OICCI members for the benefit of the investor and the country.

## Mission

- To assist in fostering a conducive, open and equitable business environment in Pakistan.
- To facilitate transfer of best global practices to Pakistan.
- To enhance the image of overseas investors in Pakistan, and the image of Pakistan in overseas business communities.



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## Foreword

The Overseas Investors Chamber of Commerce and Industry (OICCI), representing over 200 of the largest foreign investors in Pakistan, remains committed to supporting the government in advancing economic reforms that promote sustainable growth, enhance fiscal transparency, and attract meaningful foreign direct investment (FDI). In this context, OICCI appreciates the Government of Pakistan's landmark decision to separate tax policy formulation from tax administration by establishing an independent Tax Policy Board (TPB) under the Ministry of Finance. This positive step, long advocated by OICCI, marks a critical shift towards establishing a more transparent, predictable, and equitable tax framework—one that is essential to broadening the tax base and building investor confidence.

For over a decade, OICCI through its annual tax proposals has consistently advocated for structural reforms to align Pakistan's taxation policies with global best practices and the country's evolving economic realities. The attached OICCI Tax Proposals 2025-2026, include a phased reduction of the Corporate Tax Rate to 25 percent, gradual abolition of Super Tax, and reduction of turnover tax for regulated industries, like oil refineries. Additionally, we recommend declaring all major petroleum products as taxable supplies to enhance transparency and broaden the tax net. Our proposals also call for the rationalization of Sales Tax rates, which at 18% are well out of line with the regional benchmark.

OICCI proposes an overhaul of the withholding tax regime by reducing the number of rates, streamlining categories, and automating the taxation related processes to ensure efficiency and transparency. Equally critical is the need for a comprehensive strategy to Broaden the Tax Base by leveraging technology and data analytics, ensuring fair contributions from all sectors, including agriculture, wholesale and retail trade, real estate and a large services sector.

OICCI also emphasizes transparency as a key pillar of tax reform, publication of import data to curb under-invoicing, implementation of SWAPS (real-time reconciliation of withholding tax deductions eliminating the need for manual certificates and reconciliations) and enhanced visibility and transparency through the monthly publication of refund disbursements/settlements. OICCI members have an accumulated pending tax refunds in excess of Rs 110 Billion. These recommendations are critical for strengthening trust and accountability in the tax system.

OICCI strongly advocates for the establishment of a Federal Revenue Authority (FRA)—a unified, single taxation platform that provides one-window solution for tax collection and administration. The establishment of one federal authority will have a high impact on ease of doing business. The scope of revenue collection, the level of compliance and authority of enforcement, needs to be settled between the different revenue jurisdictions, and should not result in complexity for the taxpayer.

We propose tax incentives to promote corporatization, boost exports and encourage investments in green energy and sustainable initiatives. In the area of personal taxation, we recommend measures to reduce the burden on salaried individuals and compliant taxpayers—such as abolishing the 10 percent surcharge, increasing the taxable income threshold, and allowing deductions for education, health, and housing expenditures.

In parallel, OICCI has submitted a brief proposal for the scope, structure, and deliverables of the soon to be established Tax Policy Board (TPB) under Ministry of Finance, referred above. We recommend that the TPB develop a long-term, cohesive national tax policy, aligned with Pakistan's fiscal objectives, economic realities and investment needs. The TPB should focus on policy continuity, minimizing abrupt changes, and ensuring proportional taxation across all income segments, including traditionally under-taxed sectors.

As the largest contributor of tax revenue to the country, OICCI members are committed to collaborate with the Government of Pakistan to deliver a progressive, equitable, and investor-friendly tax policy and its implementation. We look forward to working closely with the Ministry of Finance , Federal Board of Revenue ( FBR) and other key stakeholders to realize these shared objectives—paving the way for inclusive economic growth, enhanced tax compliance, and the expansion of Pakistan's formal economy.

A handwritten signature in black ink, appearing to read 'Yousaf Hussain'.

**Yousaf Hussain**  
President, OICCI

A handwritten signature in black ink, appearing to read 'M. Abdul Aleem'.

**M. Abdul Aleem**  
CE/Secretary General, OICCI

## About OICCI

**Overseas Investors Chamber of Commerce and Industry (OICCI), the first port of call for foreign investment in Pakistan, is the oldest and largest business chamber in Pakistan in terms of economic contributions. Established over 160 years ago in 1860, the Chamber has emerged as a research body that provides evidence-based policy guidelines and advocacy to the Government of Pakistan and its members. The Chamber is consistently widening its operations from being an advocacy platform to attracting more FDI to Pakistan, to becoming a partner of the Government of Pakistan in boosting industrialization and steering the economy during critical times.**

The Chamber is involved in various research activities, and we share our insights with international investors, trade delegations and diplomatic missions visiting the Chamber to get an independent view of the business and investment environment in the country.

Being a collective body of over 200 top foreign investors in Pakistan, OICCI always highlights the incentives offered by the Government of Pakistan to foreign investors, spotlights members' success stories, presents investment opportunities, and shares the outcomes of various surveys conducted by the Chamber. These are often quoted at various international investment forums.

Alongside, OICCI also shares a seat on various policy boards under different departments and ministries to help shape the economic and business policy for improving the business and

investment landscape in the country and progressively narrow the gap between policies and their implementation to make it more conducive for investment.

OICCI actively fosters a competitive and investment-friendly ecosystem in Pakistan by advising policymakers on regulatory challenges, global trends, and best practices to ensure the country remains attractive amid growing regional FDI competition. Through regular engagement with government authorities and regulatory bodies, OICCI promotes consistent, predictable, and transparent policies that strengthen investor confidence, support retention, and attract new FDI.

We share our recommendations on key subjects like Taxation, Energy, Intellectual Property Rights, Ease of Doing Business, Digitization of the Economy, Women Empowerment, and Climate Change etc, which are critical to retaining the existing and

attracting more foreign direct investment (FDI) to the country.

These recommendations are widely appreciated by key ministries, including Finance, Commerce, Information Technology and Telecommunications, Energy, and Ministry for Climate Change – and key government bodies such as Federal Board of Revenue (FBR), Board of Investment, and Intellectual Property Organization of Pakistan etc.

Our taxation proposals are also designed to support the Ministry of Finance and FBR in unlocking untapped tax potential through balanced policy reforms and improved compliance, aiming to broaden the tax base and achieve a double-digit taxpayer ratio, in line with regional peers. OICCI remains committed to collaborating closely to overcome economic challenges and drive inclusive, sustainable growth.





**200+**  
Member Companies



In **14**  
Key Sectors



**30+**  
Countries Represented

## OICCI Members' Contributions



Total Assets  
**USD 193 Billion**

(As of 2023 reported by  
139 member companies)



**USD 23 Billion**  
invested in last decade



Average Member Capital  
Re-Investment  
**USD 2.2 Billion**  
per annum



Equivalent to 1/3rd  
**(USD 9.2 Billion)**  
country's tax and levies paid

## Corporate Social Responsibility



CSR contribution 2024  
**PKR 14.4 Billion**



Total Work hours  
**7,817,364**



Total Direct  
Beneficiaries  
**45 Million+**



**280+**  
Social Sector Partners

## Sectorial Representation of OICCI Members





## A Tapestry of 33 Nations



## OICCI Members



## OICCI Taxation Proposals 2025 - 2026





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**Key Taxation  
Proposals**

**Disclaimer:**

These proposals have been prepared by the Overseas Investors Chamber of Commerce and Industry (OICCI) based on inputs received from its members and consultations with industry and tax experts.



## OICCI Key Taxation Proposals 2025-2026

### A. Corporate Sector Tax Rationalization

1. Starting from 2025-26, GOP to reduce Corporate Tax Rate gradually from 28% to 25% through an annual 1% reduction to align with other emerging economies. (as announced in 2019).
2. Abolish the Super Tax gradually over three years (6% in 2025–26, 3% in 2026–27, and eliminate it in 2027–28) to reduce the financial burden on compliant taxpayers and improve business competitiveness.
3. Align the corporate tax rate for the banking sector with other sectors to promote fairness and equitable treatment across all industries.
4. Restoration of Commissioner's powers for issuing 100% exemption certificates u/s 153(4).
5. Relief from double taxation of Intercompany Dividends (ICD).
6. Remove tax on bonus shares.

### B. Sales Tax and Duty Adjustments

1. Sales tax rates on goods should be reduced to 17%, with a gradual reduction of 1%, every year to bring it down to 15% to align with the effective regional average, and harmonize the provincial rates, accordingly.
2. Declare petroleum products as taxable supplies allowing input tax adjustments (Energy sector).
3. Reduce tax on packaged milk to around 5% to encourage growth in Dairy sector, enhancing nutrition and affordability for general public.
4. Remove 5% regulatory duty on telecom power equipment, including batteries (Telecommunication sector).
5. Restore the zero-rated regime for pharmaceutical sector to ensure affordability of healthcare.
6. Exempt duties and taxes on infrastructure necessary for 5G deployment (Telecommunication sector).

7. Restore zero rating of sales tax on local supplies under Export Facilitation Schemes (EFS).
8. Reduce FED on aerated waters to 18% and juices to 15% (Beverage sector).

### **C. Broadening Tax Base, Automation and Enhancing Transparency**

1. All sectors to contribute to FBR tax collection in relation to their size in the economy especially those in the Trade, Agriculture and Services sector.
2. Phasing out of FATA/PATA tax exemptions in 3 years.
3. Implement a robust Track & Trace system and enforce strict penalties on illicit tobacco trade (Tobacco sector), which incur a loss in excess of Rs 300 billion of national exchequer (Tobacco sector)
4. Monthly disclosure of list of people / organisation getting tax refunds from FBR thereby enhancing transparency. OICCI members pending tax refunds have exceeded Rs. 120 billion
5. Custom authorities to publish import data to curb under-invoicing, improving accountability and transparency.
6. Demonetization of PKR 5,000 notes to discourage cash economy.
7. Digitize and integrate tax return filing processes with other governmental data.
8. Remove chemical dealers from the scope of Section 236G, already taxed under Section 233 (Chemicals/Pesticide sector).



## **D. Investment, Sustainability, and Local Manufacturing Promotion**

1. Provide a 10% tax credit or base rate reduction to first time listed companies to boost corporatization.
2. Promote export from new sectors through a 20% tax credit on incremental exports for 5 years.
3. Introduce Tax credit to promote sustainability initiatives including green energy and green finance investments.
4. Increase depreciation by 25% for locally manufactured machinery supporting domestic production and reducing import dependency.
5. Incentives for using locally sourced raw/packaging materials replacing imported items.
6. Incentivize local cultivation of strategic agricultural crops (e.g., Palm Oil, Oilseeds) to substantially reduce import.

## **E. Relief and Compliance Facilitation for Individuals**

1. Abolish 10% surcharge ("tax on tax") on individuals earning Rs. 10 million or more on compliant taxpayers as it places an unjust burden on regular filers.
2. Increase taxable income threshold to PKR 1.2 million, with mandatory filing of Tax return with PKR 1,000 token tax for incomes above PKR 600,000.
3. Restore tax credit on investments in mutual funds, IPOs, and life insurance.
4. Restore deductible allowances for housing loans, education, and medical expenses.
5. Limit taxation of company contributions to Provident Fund to 10%, eliminating the PKR 150,000 cap.
6. Specific exemption of CVT @1% on foreign assets for expatriate Pakistanis returning and foreign nationals becoming resident employees.



# **Tax Policy Board**

OICCI compliments MOF for taking the decision to separate Tax Policy from the Federal Board of Revenue (FBR) and house it under the Ministry of Finance (MOF). OICCI has, for over the last ten years, been recommending this step to broaden the tax base, duly aligned with the economic reality of the country. OICCI proposed top-line recommendations for the scope, structure, and deliverables of the proposed Tax Policy Board.



## Tax Policy Board (TPB)

### i. Scope of the Tax Policy Board

- a. Set a long-term tax policy which needs to be reviewed at least three months before presentation of the fiscal budget.
- b. Meet quarterly to monitor the effectiveness of policy decision taken earlier.

### ii. Key Deliverables and Mandate of the Tax Policy Board

- a. Defining National Tax policy aligned with economic and revenue objectives of the country, fully adjusted to the changing economic landscape and investment needs of the country.
- b. Ensuring that all segments of society, including agriculture, trade , services, are proportionately paying taxes without exception even for retirees from employment/business but with a regular income beyond a threshold.

### iii. Proposed Composition of the Tax Policy Board

- a. Headed by Minister of Finance, to include Secretary Ministry of Finance; Commerce; Economic Affairs, Law & Justice.
- b. Provincial Secretaries of Finance Ministries
- c. Chairman Federal Board of Revenue (FBR), Planning Commission and Provincial Revenue Authorities.
- d. Chief Economist of the Government of Pakistan from Ministry of Finance and Planning Commission.
- e. Industry representative from Overseas Investors Chamber of Commerce and Industry (OICCI), The Federation of Pakistan Chamber of Commerce and Industry (FPCCI), and The Pakistan Business Council (PBC).
- f. Public Finance experts, independent Economists, and Governor State Bank of Pakistan (SBP).
- g. By invitation, and on selective basis, invite specific sector representative to understand emerging regional and domestic business challenges and opportunities.

### iv. Terms of Reference (TORs)

- a. TPB to recommend tax measures, amendments if any or new initiative to Government of Pakistan and parliament through Ministry of Finance.
- b. TPB to formally meet at least once a quarter and issue a statement of the state of affairs on policy vs performance of the revenue side of the economy.



# **Executive Summary**



## A. Taxation Proposals

| S.No. | Proposal   | Page Reference |
|-------|--|----------------|
|       | <b>Income/Corporate Tax</b>  |                |
| 1.    | Reduce Corporate Tax Rate to 28% in 2025-26, and develop a 5-year roadmap to reduce corporate tax to 25%, through an annual 1% reduction to align with other emerging economies.   | 30             |
| 2.    | Super Tax threshold is to be enhanced from Rs. 150 million to Rs. 300 million and this should be phased out by reducing the rate to 6% in 2025-26, 3% in 2026-27, and eliminating it in 2027-28.   | 30             |
| 3.    | Minimum tax under Section 113 rates should be reduced to 0.25% for refineries and OMCs, with a phased reduction to 0.125% in 2026-27 and 0% in 2027-28. Further, adjustment period for excess minimum tax be extended from three to six years. | 30             |
| 4.    | Abolish the minimum tax under Section 113 in respect of those taxpayers who are already subject to minimum tax under other provisions.   | 31             |
| 5.    | Powers of the Commissioner to reject advance income tax estimates under section 147 of the Ordinance be withdrawn.   | 31             |
| 6.    | Section 108(6) of the Ordinance disallows 25% of sales promotion, advertisement, and publicity expenses where royalties are paid to foreign associates, placing an unjust burden on multinationals.  | 32             |
| 7.    | Section 59B(1A) restricts group loss adjustment based on shareholding percentage, thereby limiting the effectiveness of group relief.  | 32             |
| 8.    | Section 37 should be amended to apply advance withholding tax on the actual capital gains liability, instead of the fair market value of shares held by a taxpayer in unlisted companies, based on total assets without deducting liabilities. | 33             |
| 9.    | Current limits under sections 22 and 28(1)(b) of the Ordinance be increased from Rs. 7.5 million (for vehicle depreciation) and Rs. 2.5 million (for lease rental payments) to Rs. 10 million for vehicles not plying for hire.                | 33             |
| 10.   | Initial depreciation allowance at 50% for plant and machinery and 25% for buildings be restored. Further, 90% accelerated depreciation be introduced for installing plant and machinery in specified rural areas.                              | 33             |
| 11.   | Advance tax collected from non-ATL domestic customers for monthly bills up to Rs 30,000 and annual bills up to Rs 360,000 should be adjustable, instead of treating the same as minimum tax.   | 34             |
| 12.   | Final tax regime for exporters should be restored, where they are liable to a 1% tax only on their export turnover.  | 34             |

| S.No. | Proposal   | Page Reference |
|-------|--|----------------|
| 13.   | Exemption from withholding tax under Section 148 on raw materials should be provided based on the discharge of advance tax liability under Section 147, similar to Section 153. Additionally, advance tax under Section 148 should also be made adjustable for the service sector. | 34             |
|       | <b>Revamping Pakistan's Withholding Tax Regime</b>   |                |
| 14.   | Withholding tax rates should be reduced by 20% for goods and services across all sectors to ease the financial burden on businesses and improve liquidity.   | 37             |
| 15.   | The powers of the Commissioners to issue exemption certificate should be restored under section 159 of the Ordinance, to all corporate taxpayers who discharge their annual tax liability in advance.  | 37             |
|       | <b>Promotion of Corporatization and Exports</b>  |                |
| 16.   | A 10% tax credit should be given to newly listed companies in the first year of listing, along with a 2% reduction in the corporate tax rate if they maintain a 25% free float, for at least 5 years.  | 39             |
| 17.   | 5% tax credit against tax liability on export income should be introduced. Alternatively, a 10% tax credit on incremental exports against the related tax liability be provided.   | 39             |
| 18.   | To incentivize the purchase of locally manufactured machinery normal tax depreciation rate for locally manufactured machinery to be increased from 15% to 25%.   | 39             |
| 19.   | Tax credits to be introduced for companies transitioning to sustainable operations or investing in renewable energy for internal use.  | 40             |
| 20.   | Tax incentives to boost local cultivation of strategic crops such as oil palm and oilseeds.  | 40             |
| 21.   | A 5% tax credit on locally sourced packaging material, a 50% initial allowance on relevant machinery, and an additional 10% tax credit for eco-friendly production using local materials.  | 41             |
| 22.   | Relief from double taxation on intercorporate dividends under Clause (103C) of the Income Tax Ordinance should be reinstated.  | 41             |
|       | <b>Sales Tax</b>   |                |
| 23.   | Sales tax rate on goods be reduced from 18% to 17%, with a gradual annual reduction of 1% to reach 15%, aligning with the regional average.  | 43             |
| 24.   | Technical glitches in FASTER and ERS systems delaying sales tax refunds be resolved to address the cash flow issues for manufacturers and exporters, and to avoid manual verification.   | 43             |

| S.No. | Proposal   | Page Reference |
|-------|--|----------------|
| 25.   | Section 3(1) of the Sales Tax Act should be amended to clarify that further tax is applicable only for persons who are required to be registered but not registered. Extra tax under Section 3(5) of the Sales Tax Act should be exempted on supply of electricity to service providers registered under the Provincial Authorities and Not for Profit Organizations which are not engaged in sale of goods.   | 44             |
| 26.   | SRO 350(I)/2024 has caused compliant taxpayers to face additional liabilities due to suppliers' non-compliance, resulting in delayed payments and return filings. It is proposed to insert a proviso under sections 33 and 34 to exempt such cases from surcharge and penalties where delays are solely due to SRO 350-related issues.   | 44             |
| 27.   | Input tax adjustment should be allowed on building materials, office equipment, furniture, vehicles, and their parts, as these are part of business costs. Further, input tax adjustments be allowed on reduced-rate services under provincial laws, when used for business purposes. PRAL's system be modified to allow adjustment of provincial sales tax paid under the reverse charge mode.  | 45             |
| 28.   | Input tax adjustment should be allowed 100% by omitting Section 8B of the Sales Tax Act.   | 45             |
| 29.   | The recent amendment for charging sales tax at the time of advance payment be reversed to avoid complexity.  | 46             |
| 30.   | Zero rating on local supplies under the Export Facilitation Scheme (EFS) to be restored to eliminate the disparity between local and imported supplies and ensure a level playing field.   | 46             |
|       | <b>Broadening of Tax Base - Equitable and Fair Distribution</b>  |                |
| 31.   | Road map for bringing unregistered persons into tax net be introduced by considering the following:<br>(i) Re-enforce already introduced program with dedicated targets;<br>(ii) Tax on Wholesale / Retail Trade;<br>(iii) Taxing immovable property transactions;<br>(iv) Tax on Service Provider;<br>(v) Documentation of economy;<br>(vi) Effective Utilization of Available Data/Information;<br>(vii) Digitization of economy/Demonetization;<br>(viii) Track and Trace System; | 48-55          |

| S.No. | Proposal   | Page Reference |
|-------|--|----------------|
|       | <ul style="list-style-type: none"> <li>(ix) Stringent Controls to Curb Illegal Trade;</li> <li>(x) Incentivization of the Taxpayers;</li> <li>(xi) Public Awareness for promotion of Tax Culture in the country.</li> </ul>  |                |
|       | <b>Personal Taxation</b>   |                |
| 32.   | The taxable income threshold should be raised to Rs. 1.2 million per annum, subject to mandatory return filing for all persons earning annual income of Rs 600,000 and above. Additionally, the 10% surcharge on individuals earning Rs. 10 million or more should be abolished, as it unfairly penalizes compliant taxpayers.                       | 57             |
| 33.   | Tax credits should be restored for investments in mutual funds and IPOs, premiums paid towards life insurance and health policies. Further, deductible allowance for house loans be restored.  | 57             |
| 34.   | Car allowances should be taxed at 50% instead of 100% when used for both personal and business purpose, similar to taxation of company provided cars.  | 57             |
| 35.   | The taxability of the employer's contribution to the Provident Fund (PF) should apply when the employer's contribution is 10% of the employee's basic salary, removing the current annual cap of Rs. 150,000.  | 58             |
| 36.   | Expatriate Pakistanis returning to serve the country and foreign nationals becoming residents due to employment should be exempt from CVT on their foreign assets.   | 58             |
|       | <b>Simplification &amp; Ease of Doing Business</b>   |                |
| 37.   | A single Sales Tax return should be implemented for all sectors, like the model used for telecom, E&P companies, and microfinance banks, to streamline compliance, reduce duplication, and simplify tax filing across federal and provincial authorities   | 60             |
| 38.   | A single taxation platform, "Federal Revenue Authority (FRA)," should be established to unify tax administration. Sales Tax laws and rules for both goods and services should be harmonized to enable a single sales tax return filing, ensuring consistency and ease for taxpayers.   | 60             |
| 39.   | Trans-provincial entities should be allowed to claim WWF/WPPF liabilities as allowable expenses, regardless of payment to Federal or Provincial authorities. Additionally, there should be strong coordination between Federal and Provincial tax authorities to prevent arbitrary disallowances, like recent input tax claims under reverse charge. | 60             |
| 40.   | Exemption under Section 152(5) of the Income Tax Ordinance should be granted on an agreement basis rather than per invoice.  | 60             |



| S.No. | Proposal  | Page Reference |
|-------|---|----------------|
| 41.   | The tax audit and appellate framework should be reformed.   | 61             |
| 42.   | The provisions related to ADRC's decision to be binding on taxpayers be removed to make ADRC a flexible and an alternate voluntary dispute resolution avenue. | 61             |
| 43.   | To protect taxpayer confidentiality, access to print Computerized Payment Receipts under Rule 42 of the Income Tax Rules, 2002.                               | 62             |
| 44.   | Filing frequency be reduced to ease hardship, particularly for compliant taxpayers.   | 62             |
|       | <b>Custom Duty</b>  |                |
| 45.   | Structural Reforms in Customs to bring Illicit Trade into tax ambit   | 64             |
| 46.   | Custom Act (Export Facilitation Scheme)   | 65             |

## B. Industry Specific Taxation Proposals

| S.No.     | Proposal  | Page Reference |
|-----------|---|----------------|
| <b>1.</b> | <b>Tobacco</b>  | 68-70          |
|           | <ul style="list-style-type: none"> <li>(i) Rationalize excise rates to help the duty-paid segment reduce price inflation, making it more competitive against illicit brands.</li> <li>(ii) Strengthen the Track &amp; Trace system with better retail enforcement and improved coordination among tax and smuggling control agencies to address the issue of untracked cigarette packs and counterfeit stamps.</li> <li>(iii) Stricter penalties should be enforced on illicit tobacco production and sales to deter illegal operations.</li> <li>(iv) The current adjustable advance FED on acetate tow is excessively high at Rs. 44,000 per kg, which imposes a significant financial burden on the compliant industry. It is recommended to reduce the rate to Rs. 4,000 per kg and ensure strict enforcement to prevent smuggling via Afghan Transit Trade.</li> <li>(v) FED rates for premium cigarettes may be maintained while reducing the value tier rates by 25%, lowering the rate from PKR 5,050 to PKR 3,800 per 1,000 cigarettes.</li> <li>(vi) Full reconciliation of the advance tax collected from GLT units.</li> <li>(vii) Implement and expedite the enforcement of SRO 96(I)/2021 to limit the movement of taxable goods from non-tariff areas like AJK into taxable regions, aiming to reduce tax leakages.</li> </ul> |                |

| S.No.     | Proposal   | Page Reference |
|-----------|--|----------------|
|           | <p>(viii) Enforce STGO 07/2021 to ensure that illicit cigarette brands (over 200) are registered with the FBR, bringing untaxed brands under formal taxation.</p> <p>(ix) Enforce SRO 127 (KE) 2017 to ensure compliance with the Health Warning Ordinance, requiring graphical health warnings (GHW) to appear on 60% of all cigarette packs.</p> <p>(x) Launch public awareness campaigns to educate the public on the health risks of illicit cigarettes and promote support for legitimate companies, helping to reduce demand for illegal brands.</p> <p>(xi) The Khyber Pakhtunkhwa Provincial Excise Duty creates a double tax burden on the legitimate sector and is inconsistent with the Constitution. Immediate action is needed to remove this anomaly and eliminate the KPK PED.</p>  |                |
| <b>2.</b> | <b>Dairy Sector</b>  | 72             |
|           | <p>(i) Reduce the sales tax on packaged milk by around 5%, as the price increase has caused a significant drop in volume, severely impacting the industry.</p> <p>(ii) Withdraw the sales tax on infant and young children nutrition products, as its imposition through the Finance Act, 2024, has made these essential products unaffordable, exacerbating the malnutrition situation in Pakistan.</p> <p>(iii) Eliminate or reduce import duties on key raw materials for infant nutrition products, as high customs duties and taxes at the import stage increase product costs, making them less affordable for the general population.</p>   |                |
| <b>3.</b> | <b>Energy Sector</b>   | 74-82          |
|           | <p>(i) The Finance Act, 2024 exempted petroleum products like Mogas, Diesel, Kerosene, and LDO from sales tax, increasing operational costs and CAPEX for refineries. It is recommended to restore the taxable status of these products to allow refineries to recover the input sales tax, which they are unable to do under the current exemption.</p> <p>(ii) Reduce the minimum turnover tax rate under Section 113 of the ITO 2001 to 0.25% for OMCs and apply it to "gross profits." Additionally, the carry-forward of the minimum tax credit should be allowed for all taxpayers for at least 5 years, as it was before the Finance Act, 2022.</p> <p><b>Oil Exploration and Production Companies</b></p> <p>(iii) Condensate should be treated the same as Petroleum Crude Oil for sales tax purposes under entry no. 20 of the Fifth Schedule of the Sales Tax Act, 1990, which levies a 0% sales tax on crude oil. This is supported by the definitions in the OGRA Ordinance, 2002, and petroleum rules, which include condensate within the scope of crude oil.</p> |                |

| S.No. | Proposal   | Page Reference |
|-------|--|----------------|
|       | <p>(iv) Revive the 10% tax credit under Section 65B for plant and machinery investments and clarify that E&amp;P companies under the Fifth Schedule qualify as industrial undertakings.</p> <p>(v) Amend the Income Tax Ordinance to clarify that there will be no ring-fencing on exploration and development expenditures after the commencement of commercial production by Exploration and Production (E&amp;P) companies.</p> <p>(vi) Exempt Permanent Establishments of foreign companies assessed under the Fifth Schedule of the Ordinance from the interest expense cap of 15% of EBITDA under Section 106A, introduced by the Finance Act 2020.</p> <p>(vii) Imports of E&amp;P Companies and their contractors/subcontractors should be cleared strictly under SRO 678 (I)/2004 without any charge of additional custom duties.</p> <p>(viii) Customs Authorities should be advised to allow E&amp;P Companies, their contractors and subcontractors to export the imported items that are no longer in use or are otherwise surplus and needs to be disposed of.</p> <p>(ix) Reverse the changes introduced by the Tax Laws (Second Amendment) Ordinance, 2021, in the Third Schedule of the Ordinance, and restore the previous provision that allowed 100% tax depreciation in the year of incurrence.</p> <p><b>Coal Mining and Exploration</b></p> <p>(x) Broaden the 100% tax credit under Section 65F(1)(a) by removing the word "exclusively," allowing coal mining projects in Sindh to supply coal to both power and non-power generation projects.</p> <p>(xi) Expand the customs duty and additional customs duty exemption under the Fifth Schedule of the Customs Act, 1969, to cover a wider range of machinery, vehicles, and equipment—whether directly or indirectly related to Thar coal mining projects—for both the construction and extraction phases.</p> <p>(xii) Widen the sales tax exemption under Entry 4 (Table-3) of the Sixth Schedule to include a broader range of machinery, vehicles, and spares—directly or indirectly related to Thar coal mining projects—imported for both the construction and extraction phases in Sindh.</p> <p>(xiii) Extend the customs duty and ADC exemptions under SRO 678(I)/2004 to FSRU imports, as they qualify as offshore installations similar to those used by E&amp;P companies.</p> <p><b>Independent Power Producers (IPPs)</b></p> <p>(xiv) Reinstate the previous dividend tax rate of 7.5% for all IPPs, including those with non-pass-through agreements and coal suppliers, and to remove the new clause (d) introduced in the Finance Act 2019.</p> |                |

| S.No. | Proposal  | Page Reference |
|-------|---|----------------|
|       | <p>(xv) Income Tax exemptions and reliefs to be provided to water projects, similar to those available to IPPs and green projects to ensure sustainability of this sector and to encourage more investment.</p> <p><b>Oil Refineries and Marketing Companies</b></p> <p>(xvi) The Finance Act 2024 exempted major petroleum products (PMG, HSD, LDO, and Kerosene) from sales tax, disallowing input sales tax on related imports, which has increased operational costs for refineries and made upgradation projects unviable. It is recommended to declare these petroleum products as taxable supplies at the appropriate sales tax rate.</p>  |                |
| 4.    | <b>Telecommunication</b>  | 84-87          |
|       | <p>(i) Grant exemption from all withholding taxes to the telecom sector, similar to the banking and oil sectors, to reduce administrative burden and simplify compliance, as real-time advance tax payments under Section 147 ensure continued revenue without loss to the exchequer.</p> <p>(ii) Withholding tax at rate of 4% on telecom services under Section 153(1)(b) be made adjustable, as the capital-intensive nature and low margins of the industry cause this minimum tax to become a final burden.</p> <p>(iii) Abolish or reduce the 15% withholding tax on telecom services, restoring it to 8% as per the Finance Act 2021, to improve affordability for low-income users, promote digital inclusion.</p> <p>(iv) Reduce compliance burdens and avoid double taxation, a harmonized federal and provincial sales tax framework with a uniform service tax law and a single rate across all jurisdictions is recommended, especially for the telecom sector, which currently faces complex and conflicting regulations.</p> <p>(v) The advance tax on the auction or renewal of telecom licenses be abolished, as spectrum is not a tangible property sold but a temporary right of use. The tax is irrational, inconsistent with other sectors, and adds an undue burden on telecom operators already overpaying in advance taxes.</p> <p>(vi) Remove the 5% regulatory duty on telecom power equipment, including batteries, and exclude them from retail valuation to reduce costs and promote the use of renewable energy sources like solar in telecom networks.</p> <p>(vii) Exempt duties and taxes on optic fiber imports and deployment to ease the financial burden on telecom operators and accelerate 5G rollout.</p> <p>(viii) The requirement for income tax withholding under Section 152 of the Ordinance on imports of telecom equipment should be reconsidered.</p> |                |

| S.No.     | Proposal  | Page Reference |
|-----------|---|----------------|
|           | (ix) Currently, advance income tax on telecom equipment imports is collected at a rate of 5.5% as provided under Part-III, whereas for other industries, advance tax is collected at a rate of 1% for imports made for their own use. Therefore, the advance tax collection should be aligned with that of other industries.  |                |
| <b>5.</b> | <b>Banking, Leasing and Insurance</b>   | 89-90          |
|           | <ul style="list-style-type: none"> <li>(i) Corporate tax rate for the banking sector be reduced to 29% to align the same with other sectors and abolish supplementary taxes such as super tax to ensure a unified corporate tax regime and reduce the burden on the sector.</li> <li>(ii) Tax treatment for bad debts by allowing deductions for loan losses recognized under IFRS 9 be allowed, aligning tax rules with accounting standards to ease compliance and reduce litigation.</li> <li>(iii) Rule 3(1) &amp; (2) of the Seventh Schedule to be amended to allow computation of income tax liability based on the audited financial statements of Islamic banks and disclosed Islamic window operations submitted to the State Bank of Pakistan.</li> <li>(iv) Section 153 be amended to clarify that goods delivered under Islamic financing modes by SBP or SECP-approved banks or financial institutions shall not be treated as a "sale of goods" for withholding tax purposes.</li> </ul>                                   |                |
| <b>6.</b> | <b>Pharmaceutical</b>   | 92             |
|           | <ul style="list-style-type: none"> <li>(i) To restore the zero-rated sales tax regime for DRAP-registered pharmaceutical products and exempt packing materials and diagnostic kits to reduce costs, supporting the sector's viability and enhancing healthcare delivery.</li> <li>(ii) Pharma sector sales tax refunds under the FASTER system, introduced with the zero-rated regime in January 2022, remain pending despite a 72-hour processing rule, straining the industry's working capital amid the shift to a 1% final tax regime.</li> <li>(iii) To abolish the 3% value-added tax on imported finished pharmaceutical and diagnostic products under the Twelfth Schedule, as it raises the effective tax burden to 4% in a price-regulated industry, contrary to the intended 1% final tax under the Eighth Schedule.</li> <li>(iv) To extend the sales tax exemption under Entry No. 166 of the Sixth Schedule to include government institutions, departments, and hospitals, in addition to charitable hospitals.</li> </ul> |                |

| S.No.     | Proposal   | Page Reference |
|-----------|--|----------------|
| <b>7.</b> | <b>Beverage</b>  | 94             |
|           | <ul style="list-style-type: none"> <li>(i) FED on aerated waters be reduced from 20% to 18% to support industry sustainability, maintain affordability, and prevent volume decline that could impact long-term government revenue.</li> <li>(ii) FED on juices be reduced from 20% to 15% to support the agriculture sector, stimulate the juice industry, and promote exports.</li> </ul>   |                |
| <b>8.</b> | <b>Chemicals/Terminals/Pesticide/Fertilizers/Paints</b>  | 96-97          |
|           | <ul style="list-style-type: none"> <li>(i) Remove dealers in the chemical sector from the scope of Section 236G, as they are already paying tax on their commission income under Section 233 of the Income Tax Ordinance and are listed in the ATL.</li> <li>(ii) Clause (42) of Part IV of the Second Schedule is to be amended to exempt all terminal operators from withholding of tax under section 153(3), without any discrimination.</li> <li>(iii) Terminal businesses, working on thin margins, should also be brought under reduced rate withholding tax at 4% like various other sectors.</li> <li>(iv) Restate Clause (b) of Section 148(7) of the Ordinance, to treat tax deducted at the import stage by fertilizer manufacturers as adjustable instead of final, thereby providing relief to the industry.</li> </ul>   |                |
| <b>9.</b> | <b>Automobile</b>  | 99-101         |
|           | <ul style="list-style-type: none"> <li>(i) To promote the export of motor vehicles, the entire supply chain be incentivized through zero duties and taxes.</li> <li>(ii) Depreciation rate on imported used cars is to be reduced from 1% to 0.5% to ensure fair competition with locally manufactured vehicle.</li> <li>(iii) FED on locally manufactured vehicles is to be reduced or abolished to enhance competitiveness and support local industry by lowering production costs.</li> <li>(iv) Sales tax on locally manufactured / assembled vehicles be reduced from 25% to 18% to alleviate industry pressure and boost demand and production.</li> <li>(v) Minimum tax under Section 113 of the Income Tax Ordinance, 2001 be reduced from 1.25% to 0.25% for authorized vehicle dealers, aligning it with rates for other sectors like FMCG and pharmaceutical.</li> <li>(vi) Withholding tax under section 231B be exempted on sales from manufacturers to dealers.</li> </ul> |                |

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# **Comprehensive Taxation Proposals**





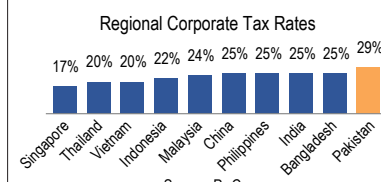


OICCI  
**Taxation  
Proposals**  
2025-2026

# **Income/ Corporate Tax**



## Income/ Corporate Tax

| S.No.     | Issue   | Recommendation   | Rationale or Benefit   |       |           |        |           |   |  |
|-----------|---|--|--|-------|-----------|--------|-----------|---|--|
| 1.        | <b>Gradual reduction in Corporate Tax Rates</b><br><br>The existing corporate tax rates are higher as compared to region. Further, the effective tax rates are even higher where taxpayers are also subject to levy of Super Tax and WWF, affecting the competitiveness of business.  | <b>Reduce Corporate Tax Rate (CTR) to 28% in 2025-2026, and develop a 5-year roadmap to reduce corporate tax to 25%, through annual 1% reduction to align with other emerging economies (as announced in 2019).</b>  | To provide level playing field to the documented sector.<br><br> <p>Regional Corporate Tax Rates</p> <p>Source: PwC</p> <ul style="list-style-type: none"><li>• CTR for banks is 44%, in addition to 10% super tax where income exceeds 500 mn.</li><li>• 2% WWF, 5%WPPF. Effective tax rate for non-banking Cos. is 45% &amp; banking Cos. is 60%.</li></ul> |       |           |        |           |   |  |
| 2.        | <b>Abolishment of Super Tax [Section 4C]</b><br><br>The imposition and continuation of super tax continues to add to the burden on a relatively small number of compliant taxpayers who contribute the majority of the taxes. This has led to Pakistan becoming less competitive in the region.<br><br>Therefore, we strongly advocate for the abolition or at least planned phasing out of the super tax imposed under Section 4C. This measure is essential to alleviate the burden on compliant taxpayers and to foster investor confidence.                     | <b>i. Gradually abolish Super Tax in 3 years,</b><br><table border="1" data-bbox="1085 793 1379 920"><tr><td>2025-2026</td><td>6%</td></tr><tr><td>2026-2027</td><td>3%</td></tr><tr><td>2027-2028</td><td>0</td></tr></table><br><b>ii. The burden of the super tax can be rationalized by increasing the minimum threshold to PKR 300 million.</b> | 2025-2026  | 6%    | 2026-2027 | 3%     | 2027-2028 | 0 | The removal of super tax and reduction in corporate tax rate will send a positive signal to the investors and businesses, promoting economic growth and development in Pakistan. |
| 2025-2026 | 6%  |  |  |       |           |        |           |   |  |
| 2026-2027 | 3%  |  |  |       |           |        |           |   |  |
| 2027-2028 | 0   |  |  |       |           |        |           |   |  |
| 3.        | <b>Minimum Turnover Tax [Section 113]</b><br><br>Considering current economic turmoil where the companies are struggling to generate profits, tax on turnover is a huge burden and has become a major concern for taxpayers paying minimum tax, where normal tax is not payable or is lower than the Turnover tax. Since the companies are already required to pay tax at higher of 29% of net taxable income or accounting profit [Sec 113C], as the case may be, the levy of minimum tax on such companies adds burden to its tax costs due to its high turnover. | <b>Reduce rate of turnover tax to 0.25% (for refineries and OMCs), and extend the adjustment of the excess minimum tax from 3 to 5 years - (Sec 113).</b><br><table border="1" data-bbox="1085 1256 1379 1383"><tr><td>2025-2026</td><td>0.25%</td></tr><tr><td>2026-2027</td><td>0.125%</td></tr><tr><td>2027-2028</td><td>0</td></tr></table>      | 2025-2026  | 0.25% | 2026-2027 | 0.125% | 2027-2028 | 0 | Thus, high rate of turnover tax does not provide fiscal space for such companies to absorb high taxes from their limited margins in addition to high operational costs.          |
| 2025-2026 | 0.25%   |  |  |       |           |        |           |   |  |
| 2026-2027 | 0.125%  |  |  |       |           |        |           |   |  |
| 2027-2028 | 0   |  |  |       |           |        |           |   |  |

| S.No. | Issue  | Recommendation   | Rationale or Benefit  |
|-------|--|--|---|
|       | There are certain industry sectors such as oil marketing companies, refineries, electricity distribution, telecommunication, wires and cables which operate on razor thin margins but are required to pay tax on high turnover due to nature of their business. Thus, high rate of turnover tax does not provide fiscal space for such companies to absorb high taxes from their limited margins in addition to high operational costs.  |  |   |
| 4.    | <p><b>Multiple Minimum Tax Regimes be abolished</b></p> <p>There are businesses who are subject to minimum tax under various sections such as section 153, etc. on basis of taxes deducted by the customers, in addition to Minimum Tax under section 113.</p> <p>Multiple Minimum taxes creates confusion as well as are redundant in various cases e.g. 1.25% Minimum Tax rate is lower than Minimum Tax under section 153 (5%, 9%, etc.)</p>  | <p><b>Minimum Tax under section 113 be abolished for taxpayers who are subject to minimum tax under other provisions of the law.</b></p>   | To remove ambiguity/redundancy in law.  |
| 5.    | <p><b>Estimate of Advance Tax</b></p> <p>The amendment to section 147 of the Income Tax Ordinance, 2001, through the Finance Act 2024, which empowers the Commissioner Inland Revenue to reject the advance tax estimate filed by a taxpayer, has created significant challenges for businesses. This provision has led to increased litigation, financial disruption, and operational hurdles. It introduces uncertainty and operational complexities related to tax payments, audits, and appeals.</p> | <p><b>Given the significant negative impact on business continuity and the added strain on taxpayers, it is recommended that the power of the Commissioner to reject the estimate of advance tax filed by the taxpayer should be revoked.</b></p> <p><b>As an alternate, a proviso may be added in section 147 requiring the taxpayers to submit a separate annexure with return of income, showing that taxpayers have discharged 90% tax liability through quarterly advance tax. The taxpayers may then be required to deposit the default surcharge for not discharging 90% tax through advance tax, at the time of filing of return.</b></p> <p><b>This is aligned with the provisions of section 205 as to levy of default surcharge for short payment of advance tax.</b></p> | This would promote a more transparent, predictable, and business-friendly tax environment, reducing unnecessary litigation and compliance challenges for taxpayers while maintaining the integrity of the tax system. |

| S.No. | Issue   | Recommendation   | Rationale or Benefit  |
|-------|---|--|---|
| 6.    | <p><b>Elimination of 25% Disallowance of Sales Promotion, Advertisement, and Publicity Expenses – Section 108(6)</b></p> <p>Amendments of The Income Tax Ordinance, 2001 introduced through Finance Act, 2024, in section 108 sub-section (6), disallowing sales promotion, advertisement and publicity expenses if the taxpayer fails to furnish any explanation or evidence that no benefit has been conferred on the associate, should be omitted.</p> <p>Despite being a legitimate business expense, 25% of sales promotion, advertisement and publicity expenses are not allowed as a deduction in deriving the taxable business income where any royalty is being paid to a foreign associate for the use of any intellectual property or for any other contractual right.</p> | <p><b>Sub-section (6) of section 108 be therefore deleted.</b></p>   | <p>There is no justification in disallowing a completely legitimate expense incurred by a multinational entity for the purpose of its business merely on the contention that such MNE has conferred a benefit to its associate while paying royalty.</p> <p>Moreover, it does not seem right that the MNE is held responsible to prove that no such benefit was conferred to its associate without explaining how such benefit would be measured and what are the measures to be taken or documentary evidence the taxpayer needs to arrange to the satisfaction of the Commissioner.</p> |
| 7.    | <p><b>Adjustment of tax losses for group relief should be provided in full, instead of restricting the same to percentage shareholding</b></p> <p>The existing condition in section 59B(1A) restricts the surrender of losses by one group company to another group company in the percentage of shareholding. This requirement should be removed as the condition for the holding company to maintain continuous ownership in subsidiary is already prescribed in section 59B(2) to qualify for group relief.</p>  | <p><b>To promote formation of groups, the adjustment of full amount of losses should be based on majority shareholding and not 100% shareholding. It is not always practically feasible to have 100% shareholding from same group.</b></p> | <p>Encourages continued investment and sustains struggling but viable businesses, leading to job preservation and long-term growth. Group relief, allowing loss transfer across group members, is a valuable tax policy tool that provides both microeconomic (business-level) and macroeconomic (economy-wide) benefits.</p>   |

| S.No. | Issue  | Recommendation   | Rationale or Benefit   |
|-------|--|--|--|
| 8.    | <p><b>Removal of anomaly in calculation of withholding tax on disposal of shares [Section 37]</b></p> <p>Through Finance Act 2023, via amendment in section 37, withholding tax @10% of fair market value (FMV) has been made applicable on disposal of shares of unlisted companies.</p> <p>The said FMV has been prescribed to be calculated as fair value of total assets of the subject unlisted companies, without reduction of liabilities, as provided in Rule 19H.</p> | <p>Withholding tax rate of 10% should be based on actual liability of capital gains u/s 37.</p> <p><b>Tax withholding on gross payment will always result higher tax deduction, as compared to actual capital gain tax liability of the seller. Section 37(5) empowers Commissioners to allow to make the payment, without deduction of tax or deduction of tax at a reduced rate, after an application is filed by the acquirer. However, getting such exemption or reduced rate certificate takes time and may delay the transaction.</b></p> <p>To address this, law should be amended to require the acquirer to withhold the tax on capital gain tax amount, instead of withholding the tax on gross payment.</p> | <p>This said prescribed calculation of FMV results in exorbitant amount of withholding tax, which is higher than the actual liability of capital gain tax, resulting unnecessary refunds for the seller entity. The situation is aggravated when the sellers operations are closed after sale of the shares, considering the delay in getting refunds processed.</p> |
| 9.    | <p><b>Revise limit of cost of vehicle for depreciation/ lease rental [section 22 and 28(1)(b)]</b></p>   | <p>Increase the current limits from Rs. 7.5 million (for depreciation) and Rs. 2.5 million (for lease rental) to Rs. 10 million under sections 22 and 28(1)(b) of the Income Tax Ordinance, 2001.</p>  | <p>The limit of the cost of vehicles for the purpose of depreciation/lease rental should be reviewed on an annual basis in line with inflation. With the current inflation rate &amp; vehicle prices in Pakistan, it's crucial to adjust these limits to reflect the changing economic landscape.</p>  |
| 10.   | <p><b>Initial Depreciation allowance [section 23 and 23A/23B]</b></p>  | <p>Initial Depreciation allowance be restored from 25% to 50% for plant and machinery, from 0% to 25% for building and from 0% to 90% for installation of plant &amp; machinery in specified rural areas.</p>  | <p>This measure would incentivize investments in Pakistan, especially in the manufacturing sector and is an accepted best practice for improving investment in under-developed/developing markets.</p>   |

| S.No. | Issue  | Recommendation   | Rationale or Benefit  |
|-------|--|--|---|
| 11.   | <b>Advance Tax Collection on electricity consumption from Inactive Domestic Customers [Section 235]</b>  | Advance tax charged and collected from inactive domestic customers under Section 235 of the Income Tax Ordinance, on bill of Rs 25,000 or above in a month on electricity consumption should be made adjustable in the hands of domestic customers which is presently minimum tax up to monthly bill of Rs 30,000 and annual bill up to Rs 360,000.  | Domestic consumption of electricity is not meant for any business activity and therefore advance tax collected on domestic bills should be made adjustable.   |
| 12.   | <b>Advance Tax rate on export proceeds [Section 147/154]</b><br><br>Exporters have been transitioned from the Final Tax Regime (FTR) to the Minimum Tax Regime (MTR). Under the new regime, they are required to pay 2% tax at the time of realization of export proceeds—1% treated as minimum tax and 1% as advance tax. | Exporter should be moved to FTR again or 1% advance tax deductible on each proceeds should be removed.   | Exports of the country are already documented and are subject to strict regulatory compliance with Customs authorities and State Bank of Pakistan.<br><br>Restoring the final tax regime for exports will reduce the cost to exporter in relation to unnecessary tax audits and litigations.<br><br>This will also help in promoting competitiveness of the exports as compared to our neighboring countries. |
| 13.   | <b>Exemption from tax withholding u/s 148 on import of goods</b>   | Exemption with respect to withholding tax u/s 148 on import of raw material should be available where the taxpayer has already discharged the advance tax liability as per section 147 of the ITO, 2001, as also in the case of section 153.<br><br>Adjustability of advance Tax collected u/s 148(7), currently available to industrial undertakings, should be extended to the service sector. | Exemption from advance tax withholding provides several tangible benefits to businesses, especially in terms of cash flow, compliance costs, and financial efficiency. Exemption helps avoid blocking of funds in refunds, and administrative burden in claiming and following up on refund application. This reduces the cost of capital associated with delayed refunds.                                    |





# **Revamping Pakistan's Withholding Tax Regime**





## Revamping Pakistan's Withholding Tax Regime

Withholding tax (WHT) constitutes a significant portion of Pakistan's direct tax revenue, accounting for 60% of total direct tax collection in FY 2023-24 as per the FBR year's book 2023-2024, tabulated below. This substantial contribution with increasing trend in 2023-2024 clearly shows the heavy reliance of FBR direct tax collection through withholding regime. Despite the fact, the current WHT system is overly complex, burdensome for withholding agents, and increases the cost of doing business for compliant taxpayers. This proposal identifies key issues and provides practical solutions for a simpler, business-friendly, and effective withholding tax regime.

### Collection from Major Revenue Spinners of Withholding Taxes (Rs. Million)

| (Rs. Million)                       |         |                                 |                  |                  |                       |             |
|-------------------------------------|---------|---------------------------------|------------------|------------------|-----------------------|-------------|
| Sr #                                | Section | Heads                           | FY2023-24        | FY2022-23        | Difference (Absolute) | Growth (%)  |
| 1                                   | 153     | Contracts                       | 496,050          | 389,386          | 106,663               | 27.4        |
| 2                                   | 151     | Bank Interest & Securities      | 489,100          | 320,012          | 169,087               | 52.8        |
| 3                                   | 149     | Salaries                        | 367,890          | 264,142          | 103,748               | 39.3        |
| 4                                   | 150     | Dividends                       | 145,006          | 85,352           | 59,654                | 69.9        |
| 5                                   | 235     | Electricity Bills               | 124,269          | 95,594           | 28,675                | 30.0        |
| 6                                   | 236K    | Tax on purchaser properties     | 104,076          | 83,955           | 20,121                | 24.0        |
| 7                                   | 236     | Telephone                       | 99,762           | 87,283           | 12,480                | 14.3        |
| 8                                   | 236C    | Tax on Sales of property        | 95,651           | 69,799           | 25,852                | 37.0        |
| 9                                   | 154     | Exports                         | 93,886           | 73,823           | 20,063                | 27.2        |
| 10                                  | 155     | Income from property            | 42,054           | 35,727           | 6,327                 | 17.7        |
| 11                                  | 152     | Technical Fee                   | 35,440           | 23,080           | 12,360                | 53.6        |
| 12                                  | 231A    | Cash Withdrawal                 | 32,422           | 20               | 32,402                | -           |
| 13                                  | 233     | Commission                      | 22,024           | 21,487           | 537                   | 2.5         |
| 14                                  | 236Y    | Tax on Remitting Amounts Abroad | 18,789           | 3,832            | 14,957                | -           |
| 15                                  | 236H    | Purchase by Retailers           | 17,414           | 15,693           | 1,722                 | 11.0        |
| <b>Sub-Total (15 Major Items)</b>   |         |                                 | <b>2,183,833</b> | <b>1,569,185</b> | <b>614,649</b>        | <b>39.2</b> |
| <b>Others</b>                       |         |                                 | 556,275          | 437,826          | 118,448               | 27.1        |
| <b>Total WHT</b>                    |         |                                 | <b>2,740,108</b> | <b>2,007,011</b> | <b>733,097</b>        | <b>36.5</b> |
| <b>Share of top 15 in Total WHT</b> |         |                                 | <b>79.7</b>      | <b>78.2</b>      |                       |             |

| S.No. | Issue   | Recommendation  | Rationale or Benefit   |
|-------|---|---|--|
| 14.   | <b>High Withholding Tax Rates &amp; Cash Flow Burden</b><br><br>High WHT rates, such as the 9% on services under Section 153, act as a minimum tax, increasing business costs and affecting liquidity. Even, WHT at 4% on gross sales for manufacturer, although adjustable, is even too high to survive for many business sectors. | Reduce WHT rates by 20% across sectors to alleviate the financial burden on businesses. For example: Section 153(1)(b) (Services): Reduce from 8% to 6%, Section 233 (Commission): Reduce from 12% to 10%.  | Considering the increase in WHT collection trend and removal of powers of the Commissioners to issue WHT exemption certificates under Section 153 through the Finance Act, 2024, this reduction in WHT rate by 20% is easy to digest proposal.   |
| 15.   | <b>Exemption from advance tax provisions</b>  | An enabling provision should be introduced in section 159 of the Ordinance to empower the Commissioner to issue withholding tax exemption certificate from all advance tax provisions to corporate taxpayers who discharge their annual tax liability in advance. | To avoid creation of tax refunds which remain stuck up for years thus causing cash flow problems for the businesses without any possibility of claiming compensation for delayed issuance of refunds.  |
| 16.   | <b>Restoration of exemption certificate for non-withholding of tax under Section 153(4)</b>   | The tabular analysis above clearly reflects that the FBR is making substantial collections through the withholding tax (WHT) regime, indicating that taxpayers are already paying significant direct taxes in advance under various WHT provisions.               | <p>Abolishing the issuance of exemption certificate for non-withholding of tax, through the Finance Act, 2024, has further increased the working capital cost for major business sectors and result in substantial tax costs and refunds for various sectors.</p> <p>Making this regime more burdensome will discourage compliance and increase the cost of doing business for compliant taxpayers. Therefore, it is proposed to restore the powers of the Commissioner to issue exemption certificates under Section 153(4) of the Ordinance.</p> |



# Promotion of Corporatization and Exports



## Promotion of Corporatization and Exports

| S.No. | Issue   | Recommendation  | Rationale or Benefit  |
|-------|---|---|---|
| 17.   | <b>Tax credit of 10%, or reduction on base rate should be given to new listed companies, at least for a period of 5 years.</b>  | <b>Section 65C, which previously provided a 20% tax credit for listed companies, was abolished in 2021. We propose to introduce tax incentives for newly listed companies, with tax credit of 10% of tax payable in first year of listing, and 2% reduction in corporate tax rate for subsequent 4 years, if it maintains a 25% free float.</b>   | To encourage companies to list on the stock exchange, improve transparency, and promote economic documentation.                                   |
| 18.   | <b>Tax credit of 10% to be given to exporters for at least 5 years.</b><br><br>The Federal Government has recently restructured the tax regime for exporters, transitioning from Final Tax to Minimum Tax Regime. As a result, exporters now face a significantly higher tax burden, with profits taxed at 29% instead of the previous 1% of export proceeds.   | This shift is discouraging export activity and impacting the country's foreign exchange reserves. It is therefore proposed to introduce a tax credit of 5% of tax payable against tax liability on export income.<br><br>Alternatively, a tax credit of 10% on incremental exports be introduced against related tax liability which will be computed based on following formula:<br><br><b>(A/B) x C, Where:</b> <ul style="list-style-type: none"> <li><b>A</b> is tax liability determined on export income in the current tax year</li> <li><b>B</b> is export revenue for the current tax year</li> <li><b>C</b> is increase in export revenue compared to the previous tax year.</li> </ul> | This will enhance the competitiveness of exports, and would increase foreign exchange reserves and provide space for exports to compete globally. |
| 19.   | <b>To ease out the pressure on Import Bill, normal depreciation on locally manufactured (not assembled) machinery should be increased by 25%.</b><br><br>Companies are currently importing machinery for industrial and commercial use, which significantly adds pressure on import bill and results in increased foreign exchange outflows. To address this issue, it is essential to introduce policy measures that encourage the purchase of locally manufactured machinery. | <b>Currently, both imported and locally manufactured machinery are subject to normal tax depreciation rate of 15%, which does not provide any additional incentive for businesses to choose locally produced machinery over imported ones.</b><br><br><b>It is proposed to increase the normal tax depreciation rate for locally manufactured machinery from 15% to 25%.</b>  | This will promote domestic manufacturing and reduce dependency on imports.  |

| S.No.                  | Issue   | Recommendation   | Rationale or Benefit  |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
|------------------------|---|--|---|------------------------|--|-------------|--|---|-----------------|---|---|-----------------|--|---|--------------------|---------|---------|---------------|---------|---------|--------------------|--|--|------------------------|---|--|--|
| 20.                    | <p><b>Tax Credit Incentives for Companies Investing in Sustainability, Green Energy, and Green Finance Projects</b></p> <p>Pakistan must align its economic growth with sustainable development. The existing Greenfield Industrial Undertakings Tax Credit (Section 65G of the Income Tax Ordinance, 2001) primarily supports new industrial projects and renewable energy equipment manufacturers. However, there is no specific tax credit for companies transitioning to sustainable operations, investing in renewable energy for internal use, or funding green finance projects.</p> | <p>We propose a 25% tax credit for companies investing in sustainability, green energy, or green finance projects.</p> <p><b>Existing Tax Credit vs. Proposed Tax Credit</b></p> <table><tr><th>Feature</th><th>Existing (Section 65G)</th><th>Proposed (Sustainability &amp; Green Energy)</th></tr><tr><td>Eligibility</td><td>New industrial undertakings &amp; renewable energy equipment manufacturers</td><td>Existing and new companies adopting sustainability initiatives.</td></tr><tr><td>Investment Type</td><td>Capital investment in plant, machinery, buildings, hardware, and software</td><td>Capital &amp; operational expenses for green energy, sustainability, and carbon reduction projects.</td></tr><tr><td>Tax Credit Rate</td><td>25% of investment in plant &amp; machinery</td><td>20% of capital expenditure + 5% of operational expenses for five years.</td></tr><tr><td>Utilization Period</td><td>5 years</td><td>5 years</td></tr><tr><td>Carry forward</td><td>2 years</td><td>3 years</td></tr><tr><td>Applicable Sectors</td><td>Manufacturing &amp; renewable energy equipment manufacturing</td><td>All industries transitioning to sustainability, including transport, agriculture, services, and finance.</td></tr><tr><td>Qualifying Investments</td><td>New industrial projects, renewable energy equipment</td><td>Renewable energy adoption (solar, wind, biomass), energy-efficient infrastructure, waste reduction, green finance investments, sustainability and R&amp;D.</td></tr></table> | Feature   | Existing (Section 65G) | Proposed (Sustainability & Green Energy) | Eligibility | New industrial undertakings & renewable energy equipment manufacturers | Existing and new companies adopting sustainability initiatives. | Investment Type | Capital investment in plant, machinery, buildings, hardware, and software | Capital & operational expenses for green energy, sustainability, and carbon reduction projects. | Tax Credit Rate | 25% of investment in plant & machinery | 20% of capital expenditure + 5% of operational expenses for five years. | Utilization Period | 5 years | 5 years | Carry forward | 2 years | 3 years | Applicable Sectors | Manufacturing & renewable energy equipment manufacturing | All industries transitioning to sustainability, including transport, agriculture, services, and finance. | Qualifying Investments | New industrial projects, renewable energy equipment | Renewable energy adoption (solar, wind, biomass), energy-efficient infrastructure, waste reduction, green finance investments, sustainability and R&D. | <p>This will encourage corporate investment in sustainable practices, reduce reliance on fossil fuels, attract FDI, and align Pakistan’s tax policies with global sustainability trends.</p> |
| Feature                | Existing (Section 65G)  | Proposed (Sustainability & Green Energy)   |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| Eligibility            | New industrial undertakings & renewable energy equipment manufacturers  | Existing and new companies adopting sustainability initiatives.  |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| Investment Type        | Capital investment in plant, machinery, buildings, hardware, and software   | Capital & operational expenses for green energy, sustainability, and carbon reduction projects.  |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| Tax Credit Rate        | 25% of investment in plant & machinery  | 20% of capital expenditure + 5% of operational expenses for five years.  |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| Utilization Period     | 5 years   | 5 years  |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| Carry forward          | 2 years   | 3 years  |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| Applicable Sectors     | Manufacturing & renewable energy equipment manufacturing  | All industries transitioning to sustainability, including transport, agriculture, services, and finance.   |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| Qualifying Investments | New industrial projects, renewable energy equipment   | Renewable energy adoption (solar, wind, biomass), energy-efficient infrastructure, waste reduction, green finance investments, sustainability and R&D.   |   |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |
| 21.                    | <p><b>Tax Incentives for Boosting Local Cultivation of Strategic Crops (e.g. Oil Palm, Oilseeds) to Substitute Agricultural Imports</b></p>   | <ul style="list-style-type: none"><li>• Introduce procurement assurance and Minimum Support Price framework (modelled on India’s system) for domestically grown agriculture.</li><li>• 5 Years Tax Holiday for Strategic Crop Cultivation Projects to companies engaged in the commercial cultivation of strategic crops on large scale and with the latest technologies.</li><li>• Initial allowance up to 100% in Year 1 against capital assets (buildings, plants, irrigation systems) used in Edible oil extractions or other strategic crops including for Cold storages by such companies.</li><li>• 0% Sales Tax on Agricultural Machinery &amp; Inputs for Strategic Crops</li></ul>   | <p>Pakistan continues to incur a significant import bill on agriculture-related commodities. In FY2023-24, palm oil imports alone exceeded USD 3.6 billion. Neighbouring economies, such as India, have successfully addressed similar challenges through targeted fiscal and non-fiscal incentives. India’s National Mission on Edible Oils – Oil Palm (NMEO-OP) have helped boost local output and reduced reliance on imports.</p> |                        |  |             |  |   |                 |   |   |                 |  |   |                    |         |         |               |         |         |                    |  |  |                        |   |  |  |

| S.No. | Issue   | Recommendation  | Rationale or Benefit  |
|-------|---|---|---|
| 22.   | <p><b>Tax Incentives for Companies Using Locally Sourced Raw/Packaging Materials</b></p> <p>Pakistan's packaging industry heavily depends on imported raw materials, including kraft paper, duplex board, BOPP and polyester films, polyethylene (PE) and polypropylene (PP) granules, PET resin, and aluminum foil. In FY2024 alone, PET resin imports reached approximately 0.6 million metric tons, valued at around USD 652 million, with the country relying almost entirely on imports due to limited local production capacity ([PACRA Report, Nov 2024] (<a href="https://www.pacra.com">https://www.pacra.com</a>)). The domestic packaging sector is valued at USD 5.4 billion with rising demand from FMCG, pharmaceuticals, e-commerce, and industrial sectors (<a href="https://www.trade.gov">https://www.trade.gov</a>).</p> | <ul style="list-style-type: none"> <li>To promote demand and buying from local manufacturers, provide 5% tax credit on the cost of packaging materials to companies who procure packaging material from local packaging manufacturers, which was earlier imported.</li> <li>Provide 50% first-year initial allowance on packaging related machinery designed to process local raw materials (e.g. extrusion lines, corrugators, blow molding units).</li> <li>Offer an additional 10% tax credit for packaging companies investing in eco-friendly production using local content (e.g., biodegradable film, recycled pulp).</li> </ul> | <p>Promoting the use of locally available raw materials through tax incentive, such as domestic kraft paper, recycled plastics, locally produced PE/PP granules, and aluminum sheets—will help build industrial resilience, reduce the import bill, and stimulate job creation across upstream sectors.</p>   |
| 23.   | <p><b>Relief from double taxation of Intercompany Dividends (ICD) and surrender of losses in Eligible Group Structures [section 59B]</b></p> <p>Relief from double tax on Intercompany Dividend (ICD) was introduced via Finance Act, 2008 as part of larger reforms to promote formation of Holding Company structures (Group Formation) in Pakistan from fragmented, family-owned ownership.</p> <p>Under the said reforms, relief from ICD taxation was given under Clause (103C) of Part I of the Second Schedule, to avoid double taxation of dividends between Group Companies who availed group relief under section 59B. In 2021, the ICD relief was withdrawn, under the mistaken interpretation that it is an exemption.</p>  | <p>To make the Holding company structures fully adaptable in true letter &amp; spirit, as introduced in 2007, and in line with global practices, ICD should not be taxable, clause (103C) be reinstated.</p>  | <p>The removal of ICD relief from double taxation has made Pakistan less competitive in comparison to several developed countries (such as China, USA, Germany, Singapore, Australia) as well as many developing countries (including India, Vietnam, Sri Lanka, Malaysia, Turkey, Brazil, Argentina, and others) where the relief from said double taxation is common.</p> |






# Sales Tax





## Sales Tax

| S.No. | Issue  | Recommendation  | Rationale or Benefit  |
|-------|--|---|---|
| 24.   | <b>Reduction in Sales Tax rates</b><br><br>The Sales tax rate in Pakistan, at 18%, is the highest in Asia. Moreover, different rates of Sales Tax on goods and Services i.e. standard, reduced, specified etc. prevailing in the country lead to a number of issues for business organizations operating all over the country.   | i. Sales tax rates on goods should be reduced to 17%, with gradual reduction of 1%, every year to bring it down to 15% to align with the effective regional average.<br><br>ii. Sales tax rates and policies, both on goods and services should be harmonized across all jurisdictions and sectors throughout the country. (Federal: 18%, Sindh: 15%, Punjab: 16%, ICT: 15%)  | Reducing the sales tax rate can help curb inflation and benefit low-income population. It may also boost economic activity and expand the tax base.<br><br>  |
| 25.   | <b>Fast Track procedural hassles in Processing of Outstanding Refunds</b><br><br>Technical glitches in FASTER and ERS systems are causing delays and complications in Sales Tax refund processing for corporates, leading to deferred or missing refunds. Additionally, the absence of clear guidelines from the FBR exacerbates the situation, forcing taxpayers to seek manual verification of refunds, which further deteriorate the Cashflow position for Manufacturers/ exporters, who are already under immense pressure due to increase utility prices and general reduction in demand. | i. Inventory of pending refunds and details of refunds issued to be published on regular basis to bring transparency, reduce corruption, and enhance confidence of taxpayers. The provisions with respect to confidentiality of taxpayers information can be relaxed in the larger interest of country and taxpayers.<br><br>ii. Implement an automated process for orderly clearance of tax refunds within 45 days.<br><br>iii. FBR to publish a monthly list of tax refunds settled for transparency.<br><br>iv. The efficiency of the FASTER and ERS system should be improved to facilitate accurate Sales Tax refund verification and timely processing without manual intervention by FBR officials.<br><br>v. Inter-adjustment of Income/Sales tax refunds against income tax/sales tax liability should be allowed as part of the law. Furthermore, adjustment of outstanding Income Tax/ Sales Tax Refunds against monthly Sales tax liability should be allowed for facilitating the Taxpayers. | Technical glitches in the FASTER and ERS systems have caused delays and complications in the processing of Sales Tax refunds, significantly disrupting cash flow for manufacturers and exporters who are already facing rising utility costs and reduced demand. These delays force taxpayers to resort to manual verification due to the lack of clear guidelines from the Federal Board of Revenue (FBR), further straining their financial and operational efficiency. Addressing these issues by enhancing system reliability, offering clear procedural guidelines, and revising refund policies is vital to strengthen the export sector's competitiveness, ensure transparency in tax administration, and support economic growth amidst challenging circumstance. |

| S.No. | Issue  | Recommendation   | Rationale or Benefit   |
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| 26.   | <p><b>Further Tax on persons not liable to seek Sales Tax registration</b></p> <p>(i) Section 3(1) of the Sales Tax Act, 1990 [ST Act] provides the levy of Further tax @ 4% on taxable supplies made to taxpayers who have not obtained a sales tax registration number. The expression “person who has not obtained a registration number” does not reflect the true intent of the law, as it covers all taxpayers, including those not required to register.</p> <p>(ii) Extra tax under section 3(5) was imposed on supplies of electricity and natural gas to persons having industrial or commercial connections, but who have not obtained sales tax registration. Currently, the service providers, not-for-profit organizations, etc. having commercial connections but who are not required to be registered under the Act, are also bearing the burden of extra tax, despite not being liable for registration.</p> | <p>i. It is proposed that the expression “a person who has not obtained a sales tax registration number” be replaced with “the person who is required to be registered but is not registered under the Act.” in sub-section (1) of section 3. Alternatively, an explanation may be inserted to amend SRO 648(I)/2013, stating that taxpayers not subject to tax under the Act dealing in non-taxable or exempt goods exempt goods, registered as a services provider and Not-for-Profit Organizations are excluded from further tax. Federal Government, Provincial Government and autonomous bodies are already excluded from this levy vide SRO 648(I)/2013.</p> <p>ii. Extra tax under Section 3(5) of the ST Act read with SRO 1222(I)/2021 dated 15 September 2021, shall not be made applicable on supply of electricity to Federal and Provincial Government, Semi-Government, Local Government, Service providers registered under the Provincial Authorities and Not-for-Profit Organizations which are not engaged in sale of goods.</p> <p>iii. The Commissioner Inland Revenue shall be empowered to exclude any person from the levy of further tax and extra tax, through issuance of exemption certificate.</p> | <p>This creates an undue tax burden on service providers and other persons who are otherwise exempt or not required to seek registration under the ST Act.</p> |
| 27.   | <p><b>Waiver of default surcharge &amp; penalties for payments due to SRO 350</b></p> <p>FBR introduced SRO 350 (I)/2024 and changed the mechanism of filing of sales tax return through the Sales Tax Rules, 2006, which have resulted in significant challenges for taxpayers. The automatic deletion of purchase invoices and input tax when suppliers fail to file returns by the month end creates additional liability for compliant taxpayers. Consequently, they are forced into a payable position due to their suppliers' non-compliance.</p>  | <p>A proviso under both sections 33 and 34 of the Act, should be inserted that default surcharge and penalties on late payments or filing are not applicable if resulting due to application of SRO 350(I)/2024. Alternatively, a notification under section 34A should be issued, exempting said default surcharge and penalties.</p>   | <p>This change will ensure that compliant taxpayers are not unfairly penalized for their suppliers' non-compliance.</p>  |

| S.No. | Issue   | Recommendation   | Rationale or Benefit   |
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|       | Since, in this case, the additional tax is deposited after due date and return is also submitted after due date, hence as per current provisions, and reading plain language, the additional payment and filing of return after due date will attract levy of default surcharge and penalty under Section 33 and 34 of the ST Act.  |  |  |
| 28.   | <p><b>The in-admissibility of input sales tax on civil works, vehicles, equipment &amp; materials and reduced rate services under clauses (h), (i) and (j) of section 8(1) not only increases the cost of production for documented sector but also encourages the practice the of purchasing goods from undocumented sector.</b></p> <p>PRAL's system disallows the input of sales tax paid on reverse charge services, in the return whilst said input tax is legally admissible.</p> | <p>i. Clauses (h) and (i) of section 8(1) of STA 1990 should be omitted to allow for adjustment of input tax on building material, office equipment, furniture &amp; fixtures, vehicles &amp; their parts which ultimately becomes the part of cost for all documented sectors and encourages procurement from un-registered sector whereby 18% sales tax cost is mitigated with only 5% sales tax withholding made from unregistered supplier.</p> <p>ii. Clause (j) of section 8(1) of the STA 1990 should be omitted to allow input tax on reduced rate services (as applicable under provincial laws) used for the furtherance of business.</p> <p>iii. As per the Sindh Sales Tax on Services Act, 2011, taxpayers are allowed to claim input tax on services subject to reverse charge (invoices issued by non-resident persons). However, the PRAL system has recently started disallowing this adjustment in the federal sales tax return. It is suggested that modification be introduced in the PRAL system to enable input tax adjustment in the federal return to give effect to this legal entitlement.</p> | Allowing input tax on the said goods and services will reduce the cost of doing business for the documented sector and will also contribute to the expansion of the documented economy                                   |
| 29.   | <p><b>Adjustable Input Tax to be abolished for registered taxpayers [section 8B]</b></p> <p>The provision of Section 8B restricts the input tax adjustments, exceeding 90% of output tax in a tax period, and thus requires taxpayers to carry forward excess input tax and make the payment of 10% output tax, resulting in blocking the working capital of taxpayers and increasing cost of doing business.</p>   | Considering the intent of introduction of section 8B and the subsequent restriction of the input tax adjustment to the extent of output tax declared by suppliers, it is proposed to omit the Section 8B from the ST Act.  | By removal of Section 8B, the taxpayers will not suffer an unreasonable increase in working capital requirement and could claim 100% input tax adjustment in the relevant tax period against their taxable procurements. |

| S.No. | Issue  | Recommendation   | Rationale or Benefit  |
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|       | Section 8B was introduced under the ST Act to ensure declaration of sales and purchases by taxpayers, so it could be substantiated and assured that taxpayers do not claim input tax adjustments of more than output sales tax liabilities. However, since the implementation of the STRIVE System, which effectively only allows the claim of input tax against those invoices which is declared by active suppliers and against which sales tax is actually paid, hence making the principle/intent of this provision redundant.   |  |   |
| 30.   | <b>Sales Tax on Advances – Section 2(44)</b><br><br>Previously, the time of supply for the purpose of charging sales tax on supply of goods, other than goods supplied under Hire Purchase Agreement, was the time when the goods were delivered or made available to the recipient of supply. Through Finance Act, 2024, the Act has amended to charge sales tax at the time of advance payment received by the supplier in respect of supply of goods by treating the time of supply as earlier of the events when the goods are delivered/made available or when payment is received. As a result of this amendment, the compliance burden has increased for the honest taxpayers without yielding any additional revenue for the Government.   | <b>The said insertion made through Finance Act, 2024 in clause (a) of section 2(44), should be deleted.</b>  | This is a time-consuming activity and on the other hand this change is not generating any additional revenue for the Government.  |
| 31.   | <b>Restoration of zero rate of sales tax on Local Supplies under Export Facilitation Scheme</b><br><br>The Finance Act 2024 has omitted the following serial number 21 from the Fifth Schedule of the Sales Tax Act 1990 to remove zero rating of sales tax on local supplies under EFS:<br><br><i>“Local supplies of commodities, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein. “</i><br><br>The above supplies are now chargeable to sales tax at standard rate of 18%.<br><br>However, corresponding entry in Sixth Schedule of the Sales Tax Act 1990, for exemption from Sales Tax on import stage is retained. | <b>It is strongly recommended to restore the zero rating of sales tax on local supplies under EFS to promote local manufacturers and help reduce import bills and import dependency.</b> | The withdrawal of sales tax zero-rating under the Export Facilitation Scheme on the supply of local inputs to exporters is highly regressive. Removal of zero rating sales tax has a disadvantage to domestic manufacturers of intermediate inputs, as exporters who can import free of duty and sales tax would prefer to import instead of waiting for sales tax refunds on local supplies. |



# **Broadening of Tax Base**

## Equitable and Fair Distribution



## Broadening of Tax Base - Equitable and Fair Distribution

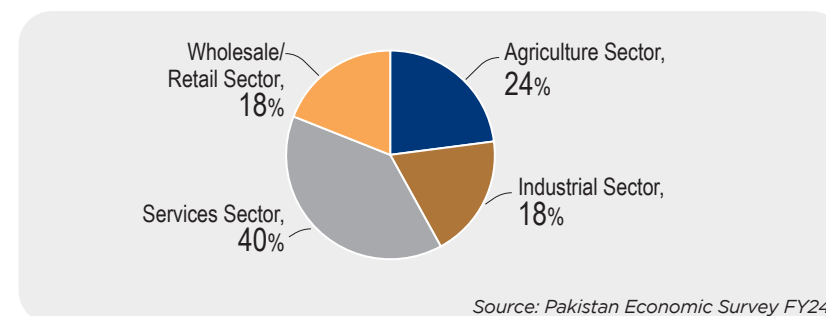
To increase the tax-to-GDP ratio to at least 15%, a major portion of FBR resources - including IT, Manpower, Intelligence, data collection to be allocated to broadening the tax base.

| S.No. | Issue  | Recommendation  | Rationale or Benefit   |
|-------|--|---|--|
| 32.   | <p><b>Implement road map to bring unregistered persons into tax net</b></p> <p>FBR receives lot of specific information from multiple sources regarding businesses and individuals who are not registered with FBR and deals in high value transactions. These sources include information from banks, utility companies, financial institutions, withholding agents, sales tax returns, data on frequent travellers, debit and credit transactions and from MoUs with agencies like NADRA, FIA, PITB, and SCBA for data sharing. Instead of increasing the tax burden on existing taxpayers, FBR must consistently work on getting such individuals/businesses into tax net and increase the tax base by using information from above sources. Recently FBR introduced Tajir Dost Scheme to bring business individuals into tax net, however, due to lack of consistency, inefficient stakeholder management, untrained FBR officials, and due to lack of accountability, FBR was not able to enforce it effectively.</p> | <ul style="list-style-type: none"> <li>● Therefore, it is recommended that FBR must devise a consistent road map with short- and long-term targets to bring the identified unregistered persons into the tax nets through following steps:</li> <li>● Create a task force with target to bring identified unregistered individuals/business into tax net through registration and compliances.</li> <li>● Conduct targeted outreach campaigns, identify specific unregistered individuals and educate them about their tax obligations and the benefits of registration.</li> <li>● Implement streamlined and user-friendly registration processes with tax clinics in rural &amp; remote areas (where required).</li> <li>● Offer incentives such as reduced penalties or initial tax holidays for individuals and businesses that voluntarily register and comply with tax laws.</li> </ul> | <p>A wider tax base would ensure higher revenue collections without increasing the tax rates or imposing burden on existing taxpayers. It will promote equity among businesses and provide a healthy competitive environment. This also helps reducing the black economy, increasing the size of documented economy, leading to a more stabilized economy.</p> |
| 33.   | <p><b>Re-enforce already introduced program with dedicated targets</b></p> <p>Likewise, above, there are many other programs already initiated by FBR, however, due to lack of consistent approach and ineffective management, such programs have been ineffective.</p>  | <ul style="list-style-type: none"> <li>● Instead of introducing new programs for increase in tax base and documentation, it is recommended to devise road map/targeted strategy to identify &amp; implement already introduced programs which also includes registration and POS implementation across TEIR-1 retailers, revival of POS Prize Scheme, implementation of Track and Trace System in all key sectors and E-Invoicing/real time reporting of sales and purchase in entire supply chain of all major sectors.</li> </ul>   | <p>To bring untaxed sectors into the tax net.</p>  |



## Proportionate Contribution of All Sectors in Tax Net

All sectors should contribute to the national exchequer in proportion to their contribution to GDP, including agriculture, real estate and wholesale/retail trade. The below table shows the sectoral contributions in GDP:



| S.No. | Issue   | Recommendation  | Rationale or Benefit   |
|-------|---|---|--|
| 34.   | <b>Tax on Wholesale/Retail Trade</b><br>Wholesale and retail sector share around 18% of the Country's GDP, however the tax collection from this sector remain staggering low at around 4%. The Government has been trying since many years to broaden tax collection from this sector. The Tajir Dost Scheme launched in 2024 but only a few thousand of retailer have enrolled in this scheme result in low tax collection. The enrollment and registration of Tier-1 retailers is still a challenge which could only be implemented through effective monitoring and registration of retailers and wholesalers and ensuring that due taxes are paid by them. Bringing these wholesaler and retailer into the tax net is also one of the demands of IMF. | <ul style="list-style-type: none"> <li>At present retailers and wholesaler are subject to tax withholding of not more than 0.5%. The above tax withholding should be supplemented by reporting of sales by manufacturer/ importers, with complete details of unregistered buyers.</li> <li>Special wing with reinforcement of manpower at FBR be made for registration, monitoring and payment of tax by wholesaler and retailers. The manufacturers, wholesalers and distributor should be required to provide information (Name, CNIC, NTN, Address) of their customers in their sales tax returns and withholding statements.</li> <li>For Tier-1 retailers, including jewelers, property dealers, etc., FBR to ensure implementation of 100% POS integration, which is mandatory by law for Sales tax by applying strict enforcement measures.</li> <li>Provincial sales tax data can also be for identifying the non- complaint/non-filers for imposing Income tax on Tier-1 retailers.</li> </ul> | <p>Retail sector contributes significantly to GDP, but its share in tax collection is disproportionately low. Bringing retailers into the tax net provides significant economic benefits for a country like Pakistan, where the retail sector is largely undocumented, yet constitutes a major part of the economy.</p> <p>Formalized retail transactions generate valuable data on consumption trends, regional spending patterns, and business growth. This enables better-informed economic and fiscal policy decisions, including targeted subsidies and support programs.</p> |



| S.No. | Issue                    | Recommendation   | Rationale or Benefit  |
|-------|--------------------------|--|---|
| 35.   | Immovable property       | <ul style="list-style-type: none"> <li>There are broadly two types of immovable properties; (a) agriculture property; and (b) non-agriculture property. In first place, details of agriculture and non-agriculture property should be obtained by the FBR and mapped with the wealth statements of taxpayers to identify the undeclared properties and status of owners of such properties;</li> <li>Withholding tax on immovable property (including agriculture land) to be collected along with property tax by provinces @0.5% of FBR value every year. The tax so collected would be adjustable against tax liability of the owner (credit for income tax collected on agriculture land can be given against agriculture income tax collected by provinces). Small properties may be excluded. This would result not only in documentation but identification of undeclared property.</li> <li>CGT exemption on sale of immovable property (after 4-6 years of holding) should be available to those only who have declared the property upon acquisition and such exemption should be available for one property in 3 years.</li> <li>The value determined by FBR should be aligned with the fair market value (FMV), or be reasonably close to it.</li> </ul> | <p>Real estate is often used to park black money due to its traditionally undocumented nature. The proposed measures create a digital trail of:</p> <ul style="list-style-type: none"> <li>The buyer and seller,</li> <li>The declared value of the property,</li> <li>The date and location of the transaction.</li> </ul> <p>This aids the FBR in maintaining a real estate transaction database and property ownership registry.</p> |
| 36.   | Tax on Service Providers | <ul style="list-style-type: none"> <li>Bring all service providers and professionals (including doctors, private hospitals, lawyers, painters, fashion designers, property dealers, interior designers, educational institutes including private teachers, coaching center, salons etc.) into the tax net by implementing mandatory POS integration and also promote awareness for POS invoicing upon payment.</li> </ul>  | <p>Sectors like healthcare, education, salons, legal services, and coaching centers often operate in the informal economy. Mandatory Point of Sale (POS) integration ensures that all business transactions are recorded, and previously untaxed service providers start contributing to national revenue. This reduces over-reliance on salaried and already compliant taxpayers.</p>  |

| S.No. | Issue                                      | Recommendation  | Rationale or Benefit   |
|-------|--|---|--|
|       |  | <ul style="list-style-type: none"> <li>FBR to issue directives for Tax return filings to be made compulsory for annual license renewals in the service sector. For example, doctors should submit tax declarations to the Pakistan Medical Association (PMA), and tax consultants/accountants to comply with Institute of Chartered Accountants of Pakistan (ICAP) regulations, lawyers at Bar Council etc. Hospitals should also prohibit non-filer doctors from engaging in consultancy practices.</li> <li>Provide digital IDs to small service providers such as plumbers, carpenters, electricians etc.</li> </ul>   | <p>POS integration facilitates real-time reporting of sales and services to the tax authority. This contributes to the documentation of the economy, which enhances transparency, enables effective policymaking, and supports financial and investment planning at the national level.</p>                                  |
| 37.   | General Revenue and Documentation Measures | <p>i. There are frequent foreign travelers who travels through business and economy classes. Income tax should be collected from non- filers on purchase of air tickets issued for foreign travel by introduction of provision similar to Section 236L. The measures include (i) implementation of Point-of-Sale (POS) with airlines and travel agencies which will be integrated with tax authorities on real time basis; (ii) Implementation of Section 114B(2)(d) in true spirit to enforce filing of tax returns.</p> <p>ii. Recommend making NTN (National Tax Number) mandatory for opening / maintaining a bank account and issuing compulsory NTNs to non-filers for specific transactions like vehicle and high- value property sales, foreign travel, and club memberships etc. Additionally, significant banking transactions of non-filers should be monitored to uncover the asset/income beyond means. Cash withdrawals/deposits by non-filers should be monitored by a separate wing of FBR, which should work in liaison with FMU of SBP.</p> | <p>These measures will:</p> <ul style="list-style-type: none"> <li>Promote tax compliance and transparency,</li> <li>Reduce evasion and ensure fair tax contribution,</li> <li>Document high-cash sectors, and</li> <li>Ultimately result in higher revenue collection, economic fairness, and better governance.</li> </ul> |

| S.No. | Issue   | Recommendation   | Rationale or Benefit  |
|-------|---|--|---|
| 38.   | Effective Utilization of Available Data/Information | <p>i. Tax authorities should use technology, data analytics including Artificial Intelligence tools and make better/effective utilization of 'NADRA' and 'FBR Malomooat Portal' database and other documented sources to ensure that all income earners should pay due taxes.</p> <p>ii. Various data/ transactions reported through withholding statements, data submitted by withholding agents including banks and utility companies, property registrar, excise, sales tax returns, etc should be used by FBR to broaden the tax base without giving burden to the existing compliant taxpayers.</p> <p>i. The banks provide customer wise details of tax deducted on profit payment (profit on debt; Section 151), payments of good and services (Section 153), Exports (Section 154), Export of Services (Section 154A), payments made abroad through debit/credit cards (Section 236Y) and cash withdrawals (Section 231AB) etc.</p> <p>iii. Leverage data mining techniques and advanced data analytics tools to identify patterns, trends, and anomalies that indicate potential tax opportunities or unreported income.</p> <p>iv. Tax exemptions/concessions given to certain sectors or regions (for eg FATA) should be time-limited and subject to periodic review.</p> <p>v. Initiate thorough investigations into all 'Nil' tax returns.</p> <p>vi. Eliminate the culture of Amnesty Schemes as it discourages honest taxpayers.</p> <p>vii. Based on the information exchanged through OECD Global Forum on Transparency and Exchange of Information, an appropriate action should be taken to bring undisclosed income/ assets in the tax net.</p> <p>viii. Establish protocols for data confidentiality and security to ensure compliance with privacy regulations and protect sensitive taxpayer information.</p> | <p>Real-time and historical data helps:</p> <ul style="list-style-type: none"> <li>● Assess the economic contribution of different sectors,</li> <li>● Design targeted incentives, and</li> <li>● Monitor the effectiveness of tax policies.</li> </ul> <p>Enables evidence-based decisions for tax reforms and resource allocation. Data analytics supports the digitization and simplification of tax processes. Reduces human intervention, thereby minimizing corruption and increasing transparency. Sharing and analysis of data between tax authorities, NADRA, SECP, SBP, customs, and provincial bodies supports:</p> <ul style="list-style-type: none"> <li>● A unified approach to compliance,</li> <li>● Better coordination, and</li> <li>● Holistic profiling of individuals and businesses.</li> </ul> |

| S.No. | Issue  | Recommendation  | Rationale or Benefit  |
|-------|--|---|---|
|       |  | <ul style="list-style-type: none"> <li>ix. Develop standardized reporting templates to facilitate regular monitoring and reporting of tax base expansion efforts based on data analysis.</li> <li>x. Automation in IRIS to facilitation to taxpayers: all tax payments on which taxes deducted/ collected should be auto reflected in the FBR portal with reference to Computerized Receipt Payment Challans to avoid any discrepancy at time of refund verification. This would benefit both companies and FBR in terms of cost of compliance and reduce monitoring assessments.</li> </ul>  |   |
| 39.   | <b>Digitization of economy/ Demonetization</b><br>To achieve the vision of Digitalization interventions from both public and private sectors would be required. The existing IT infrastructure is unable to support even penetration of the banking sector within rural locations, hence movement of payment systems on digital platforms across the country will not be possible. | <ul style="list-style-type: none"> <li>i. Eliminate/ discourage the circulation of cash in economy for documentation. The SBP has taken very positive steps in introducing/promoting RAAST digital payment, similar methods are required to be implemented to avoid circulation of cash in the economy.</li> <li>ii. Digital invoicing to be mandatory for all sectors, which is currently mandatory for FMCG sector only.</li> <li>iii. Government should promote the platform/infrastructure for digitization of payments through fintech, POS invoices, e-Invoices, mobile wallets etc. This will also help the government to bring retailers and service providers etc into the tax net.</li> <li>iv. Tax incentives and concessions should be provided to FinTechs and merchants in order to promote financial inclusion and move towards a cash-less economy.</li> <li>v. Rs 5000 notes should be demonetized to discourage cash dealings.</li> </ul> | The trend for movement to digital payment modes is now very common across other economies, hence government may need to onboard international e-commerce companies and Fintech for making these interventions successful.   |
| 40.   | <b>Track and Trace System (TTS)</b>  | Implement a comprehensive track and trace system with effective stakeholder management across all key sectors. This system is currently operational in the tobacco and fertilizer industries and partially functional in the sugar sector, with ongoing technical improvements. The cement sector is still facing significant technical challenges.   | TTS implementation has already led to increased tax revenue collection and better documentation in these sectors. Effective stakeholder management and resolution of their key concerns will further facilitate implementation in these sectors and create a success story for adoption in other sectors. |

| S.No. | Issue   | Recommendation  | Rationale or Benefit  |
|-------|---|---|---|
| 41.   | <b>Stringent Controls to Curb Illegal Trade</b><br>Despite various actions by FBR to curb smuggling & under invoicing, illicit trade of various goods has led to substantial revenue losses for the tax exchequer and increasing the shadow economy, particularly in sectors like tobacco, electronics, and textiles. | It is proposed to curb illegal trade across all sectors (rather than at few historical sectors) through strengthening border controls, improvement in customs assessments procedures, leveraging advanced technologies, and ensuring accountability for customs officials.  | Illegal trade creates unfair competition, distorts market prices, reduces profit margins for compliant businesses, and can damage the reputation of an entire industry.   |
| 42.   | <b>Incentivization of the Taxpayers</b>   | <ol style="list-style-type: none"> <li>Offer tax credits or deductions for businesses/ taxpayers incentivizing compliance rather than over-burdening.</li> <li>Establish recognition programs or awards for taxpayers with a history of consistent compliance, fostering a culture of tax responsibility.</li> <li>Offer tax incentives for businesses that invest in sustainable practices or contribute to community development projects, linking tax compliance with corporate social responsibility.</li> <li>Implement a system of tax credits or rebates for small businesses that invest in employee training or job creation, encouraging economic growth while promoting tax compliance.</li> <li>Provide preferential treatment in government services for active taxpayers for e.g. separate counters at NADRA/passport offices etc.</li> </ol> | <p>Offering tax credits or reduced tax rates for timely and honest tax filings encourages a culture of compliance.</p> <p>Tax incentives for investments in renewable energy, green buildings, waste management, and carbon-reducing technologies encourage businesses to adopt eco-friendly models. Aligns fiscal policy with climate and environmental goals, helping Pakistan and similar economies meet international sustainability commitments.</p> <p>Tax credits for businesses that hire new employees, especially youth, women, or persons with disabilities, promote inclusive employment. Incentives for setting up training programs or apprenticeships help in human capital development.</p> |

| S.No. | Issue  | Recommendation  | Rationale or Benefit  |
|-------|--|---|---|
| 43.   | Public Awareness for promotion of Tax Culture in the country | <ul style="list-style-type: none"> <li>i. Tax culture should be promoted through various communication channels e.g. IVR (Interactive Voice Response) scripts during phone calls, social/electronic/print media, radio channels, morning shows, campaigns/roadshows etc.</li> <li>ii. Taxes/levies knowledge should also be included in the curriculum at Higher school education.</li> <li>iii. Provide educational resources and workshops for taxpayers to better understand their tax obligations and available incentives for compliance.</li> </ul> | <p>Emphasizing that tax payment is a civic duty and a form of participation in nation-building can create a shift in mindset.</p> <p>Open communication and transparency through public messaging can improve trust in tax institutions. Showcasing where taxpayer money goes builds confidence that taxes are used for public benefit, not waste or misuse.</p> <p>Well-informed taxpayers are more likely to comply voluntarily, reducing the need for enforcement and penalties. Highlights the benefits of compliance, such as access to credit, legal protections, and eligibility for government incentives.</p> <p>Increased participation leads to broadening the tax base and enhancing sustainable revenue generation</p> |



# Personal Taxation





| S.No.                            | Issue  | Recommendation   | Rationale or Benefit  |           |           |                                  |     |     |     |   |   |
|----------------------------------|--|--|---|-----------|-----------|----------------------------------|-----|-----|-----|---|---|
| 44.                              | <p><b>Tax on Salary Income – [Section 149]</b><br/>Through 3 consecutive tax years, it has been seen that taxes on salaried class have been increasing year on year basis, as under, and resultantly this class has become one of the major tax contributors for the economy.</p> <table border="1"> <tr> <td></td><td>2022-2023</td><td>2023-2024</td><td>2024-2025</td></tr> <tr> <td>Tax Contribution (Rs in billion)</td><td>264</td><td>368</td><td>570</td></tr> </table> <p>Furthermore, the tax credits available to salaried class in form of investment in mutual funds, house finance loans and insurance premium was also abolished which further increases the tax liability of salaried individuals.</p> <p>Salaried class are the most compliant taxpayers because their tax is deducted at source. Despite this, putting the burden of all other sectors on this small sector is sheer injustice.</p> <ul style="list-style-type: none"> <li>Salary is taxed at gross income and no expense is allowed in computation of taxable income. Hence by this means, the salaried class are paying a substantially higher proportion of their income compared to corporates.</li> <li>Salaried individuals are the think tank of this country and pressurizing them to this extent has forced them to leave the country and very good resources are leaving Pakistan at the pace of around 800,000 persons per year.</li> </ul> <p>If these rates are compared with other neighboring developing countries, it will be seen that Pakistan has the highest tax rates on salaried individuals without any deductions allowed and rebates. Those countries having high tax salary tax rates allows rebates and deductible allowances to the taxpayers, which currently are not being provided as per Income Tax Ordinance, 2001.</p> |  | 2022-2023   | 2023-2024 | 2024-2025 | Tax Contribution (Rs in billion) | 264 | 368 | 570 | <p><b>The salary tax rates need to be seriously considered for reduction, currently salaried classes are paying more tax than exporters and retailers combined which is beyond their capacity to pay</b></p> <ul style="list-style-type: none"> <li>Taxable Income limit should be increased to Rs. 1.2 million to give effect to annual inflation adjustment.</li> <li>Abolish 10 percent surcharge being ‘tax on tax’ which acts more like a penalty on compliant taxpayer.</li> <li>Tax credit on Investment on mutual funds, house loan should be allowed for tax credit.</li> <li>Deductible allowance for house loan be restored.</li> <li>Allowability of education and medical expenses adjustment to complaint taxpayers.</li> </ul> | <p>Through these amendments the rate of income tax on class has increased substantially, with over 40% increase every year, which is over burdening the salaried taxpayers and affecting their disposable income which in return is hampering their ability to spend on their household, savings and investment potential.</p> <p>Through the last Finance Act the government did not only increase the tax rates but also decreased the slabs to further increase the burden disproportionately which is against the principle of progressive taxation.</p> <p>Furthermore, an additional tax in terms of penalty was introduced as ‘Surcharge of 10%’ on the taxpayers who are earning more than Rs. 10 million in the tax year. Overall, increasing the effective tax rate of 38.5% for an individual and that too without deduction of any expense or rebates as compared to other corporate and non-corporate taxpayers.</p> |
|                                  | 2022-2023  | 2023-2024  | 2024-2025   |           |           |                                  |     |     |     |   |   |
| Tax Contribution (Rs in billion) | 264  | 368  | 570   |           |           |                                  |     |     |     |   |   |
| 45.                              | <p><b>Taxable value for Car Allowance</b><br/>Currently, as per Rule 4 of Income Tax Rules, 2006, car benefit comprises 5% if it is provided for both personal and business use, however, if employer provides car allowance to employees, the whole allowance is added in the taxable salary of employees.</p>  | <p><b>Proviso should be inserted in Rule 4 (Income Tax Rules 2002), to tax only 50% of car allowances, recognizing that these allowances cover both business and private use, ensuring fairer tax treatment for employees and addressing this anomaly in the tax laws.</b></p> | <p>This is inconsistent with Rule 4 of the Income Tax Rules, which specifies that car benefits are taxed based on business use.</p> |           |           |                                  |     |     |     |   |   |

| S.No. | Issue   | Recommendation  | Rationale or Benefit   |
|-------|---|---|--|
| 46.   | <p><b>Amendment in Sixth Schedule to the Ordinance</b></p> <p>In terms of Part I of the Sixth Schedule to the Ordinance, the employer's contribution more than 1/10th of salary and a maximum of up to Rs. 150,000 is taxable as income of the employee for the year. This maximum ceiling of Rs. 150,000 creates a distortion as it limits the exemption that should be allowed in a complete manner. Furthermore, the accumulated balance of the provident fund (including the employer's contribution) due and becoming payable to an employee is exempt from tax under Clause (23), Part I, Second Schedule. The limit of Rs. 150,000 contradicts the exemption provisions and places an undue tax burden on employees.</p>   | <p><b>Taxability of company contribution in Provident Fund (PF) should be restricted to 10% only, eliminating the cap of Rs. 150,000.</b></p>   | <p>This will align with the exemption allowed for the accumulated balance of the provident fund under Clause (23), Part I, Second Schedule.</p>  |
| 47.   | <p><b>Capital Value Tax (CVT)</b></p> <p>Through Finance Act 2022, a clause added whereby, Capital Value Tax (CVT) at 1% has been imposed on offshore moveable/immovable assets of a resident individual, if the value of such assets exceeds Rs. 100 million.</p> <p>Pakistanis who have spent a significant time outside Pakistan and earned foreign assets in the course of their economic journey outside Pakistan, if decided to serve the country and returned back, should not be burdened with additional CVT to their foreign assets. As they bring talent, expertise and skills to contribute into the economic activities in Pakistan. They usually contribute handsome tax to exchequer.</p> <p>Moreover, CVT should be applied on net assets instead of gross assets outside Pakistan.</p> | <p><b>Specific exemption of CVT @1% on foreign assets to be introduced in respect of expatriate Pakistanis returning to Pakistan to serve the country, and foreign nationals who become resident by virtue of their employment or assignment in Pakistan.</b></p> <p><b>Amendment to be introduced levying CVT on net assets of a resident person as against the gross assets as is currently applicable.</b></p> <p><b>It needs to be appreciated that in a large number of instances, the immoveable property is acquired overseas through financing arrangement whereby a large portion of the purchase price is paid through the financing arranged by such individual.</b></p> | <p>They can also contribute to economy with the portion of wealth brought back to Pakistan to generate further economic activities. Further, in the age, where Pakistan is facing brain drain situation, discouraging expats to return to their country, will further deplete the talent pool in the country.</p> <p>Moreover, foreign nationals who become resident due to their employment or any assignment in Pakistan, are short term resident. The scheme of the ordinance suggest that foreign source income a of non-resident is not taxable in Pakistan.</p> <p>Moreover, levying CVT on gross assets creates undue hardship for the individual especially when the individual has loan payable against such asset.</p> |



# **Simplification and Ease of Doing Business**



## Simplification & Ease of Doing Business

To attract sizeable Foreign Direct Investment (FDI) into the country and make it easy for doing business in Pakistan both for local and foreign investors, it is proposed to:

| S.No. | Issue   | Recommendation   | Rationale or Benefit  |
|-------|---|--|---|
| 48.   | Single Sales Tax Return   | <ul style="list-style-type: none"> <li>Single Sales Tax return to be implemented for all sectors [as done for telecom sector, E&amp;P (Oil &amp; Gas) Companies and Microfinance Banks].</li> </ul>  | It will be a positive step and will promote ease of doing business for other sectors also.                          |
| 49.   | Single Taxation Platform  | <ul style="list-style-type: none"> <li>Establishment of a “Federal Revenue Authority (FRA)”- a unified, single taxation platform that provides one-window solution for tax collection and administration.</li> <li>Accordingly, Sales Tax laws and rules for goods and services should be harmonized to accommodate single sales tax return filing.</li> <li>The scope of revenue collection, the level of compliance and authority of enforcement, needs to be settled between the different revenue jurisdictions, and should not result in complexity for the taxpayer.</li> </ul>  | This will provide a single window solution to all businesses and will have a high impact on ease of doing business. |
| 50.   | Coordination between Federal and Provincial Legislations  | <ul style="list-style-type: none"> <li>WPPF/WWF for Trans provincial Entities: Trans-provincial entities should be allowed by FBR to claim WWF/WPPF paid liability as allowable expense in their returns, irrespective of the fact that whether they had discharged these liabilities to Federal or Provincial Tax Authorities. (Section 6A and 60B)</li> <li>Tax Policies between Federal and Provincial legislations should be clear and explicit in writing. For instance, recently FBR has disallowed claim of input taxes by taxpayers for the payments made under reverse charge mechanism, without any intimation or change of law. These kind of issues should be resolved at tax authorities’ level.</li> </ul> | To ease the tax compliance burden and related cost to the businesses and avoid unnecessary litigation.              |
| 51.   | <b>Exemption u/s 152 should be granted on an agreement basis</b><br>Currently, exemption for foreign payments u/s 152(5) of the income tax ordinance 2001 is applied for every invoice separately despite having the exemption certificate from tax authorities for similar kind of transactions previously. This is a time-consuming and cumbersome exercise for taxpayers and tax authorities both. | Instead of applying for exemption certificates for each invoice separately, it is suggested that the approval should be agreement specific and not invoice wise. Approval of amount should be restricted to amount specified in the agreement. This should be applicable only for agreements duly approved by central/intermediary banks.  | This would streamline the process and reduce the number of applications received and processed by tax authorities.  |

| S.No. | Issue   | Recommendation  | Rationale or Benefit   |
|-------|---|---|--|
| 52.   | Tax Audits & Appellate System   | <ul style="list-style-type: none"> <li>i. Audit criteria u/s 177 should be risk based, sample driven and cost-efficient, instead of calling 100% information involving voluminous transactional data.</li> <li>ii. FBR letter on withdrawal of earlier directives related to attachment of bank accounts dated October 11, 2021 should be withdrawn and it should be provided in the law that recovery proceedings shall not be initiated until tax assessments have passed at least one independent appellate forum.</li> <li>iii. To reduce the litigation disposal time and avoid unnecessary litigations. <ul style="list-style-type: none"> <li>a. Proviso should be added to section 124 that in case Commissioner fails to issue appeal effect order within stipulated time period, taxpayers' position should be deemed in effect.</li> <li>b. Deletion of section 126A wherein the jurisdiction of first appeal has been restricted to one appellate forum based on the value of assessment of tax before approaching the High Court.</li> </ul> </li> </ul> | To ease the tax compliance burden and related cost to the businesses and avoid unnecessary litigation.   |
| 53.   | <b>Alternate Dispute Resolution Committee (“ADRC”)</b><br>The introduction of the Alternate Dispute Resolution Committee (ADRC) was initially a positive step by the Government to provide an alternative mechanism for resolving tax disputes. However, the amendments introduced by the Finance Act, 2024, have made the ADRC process less attractive and, in some cases, unfeasible for taxpayers. Specifically, the amendment made in section 134A of the Income Tax Ordinance (ITO) 2001 wherein recommendation of ADRC are binding on both the tax authorities and the taxpayer, meaning that the order passed by the ADRC is now final and cannot be appealed by either party. | Keeping in view the amendments made pertaining to ADRC in perspective, it appears that the very concept of “Alternate” has dissipated since the outcome is now binding on the taxpayer. Furthermore, the amended provisions do not appear to achieve the objectives with which the concept of ADRC was introduced. Therefore, to encourage more taxpayers to adopt the route of Alternate Dispute Resolution, the position prior to the amendments made through Finance Act, 2024 may be restored.  | In light of these amendments, the very essence of “Alternate” Dispute Resolution appears to have been undermined, as the taxpayer is now compelled to accept the ADRC’s outcome without the ability to appeal. This change may discourage taxpayers from using the ADRC, as it removes a critical safeguard that previously allowed them to seek further recourse if they were dissatisfied with the resolution. |

| S.No.             | Issue  | Recommendation  | Rationale or Benefit  |                        |  |                        |                |         |     |                                   |        |    |         |  |     |                           |           |   |             |     |                                  |        |   |         |  |     |                           |        |   |         |  |   |
|-------------------|--|---|---|------------------------|--|------------------------|----------------|---------|-----|-----------------------------------|--------|----|---------|--|-----|---------------------------|-----------|---|-------------|-----|----------------------------------|--------|---|---------|--|-----|---------------------------|--------|---|---------|--|---|
| 54.               | Secrecy of Taxpayers Information on Tax Payments CPR [Rule 42 - Income Tax Rules 2002]   | <p>i. The right to print Computerized Printing Receipts (CPR) for tax payments should be restricted to withholding agents only, to maintain the confidentiality of taxpayers. Currently, any person who know the CPR number, can print the whole CPR through IRIS.</p> <p>ii. Pushing for automatic approval mechanisms on the IRIS portal to streamline processes and reduce costs for taxpayers. (for eg. revision of income tax returns, withholding statements, Correction of CPRs etc. require the approvals of tax office, which will be done through automated mechanisms without human intervention).</p>   | To ensure privacy and confidentiality of tax payers data/information. |                        |  |                        |                |         |     |                                   |        |    |         |  |     |                           |           |   |             |     |                                  |        |   |         |  |     |                           |        |   |         |  |   |
| 55.               | <p><b>Reduce the number of Tax Return filing frequencies</b></p> <p>The large number of filing of various returns is a cause of great hardship to compliant taxpayers and perhaps one of the major reasons for tax evasion/non-registration as taxpayer. Frequency of return filings should be reduced as per the given recommendations:</p> | <table><tr><th>Name of authority</th><th>Name/Nature of Payment</th><th>Frequency of Reporting/ Payment</th><th>Total Annual Frequency</th><th>Recommendation</th><th>Remarks</th></tr><tr><td>FBR</td><td>Income Tax - withholding payments</td><td>Weekly</td><td>52</td><td>Monthly</td><td rowspan="2">It will reduce unwarranted operational burden on withholding agent</td></tr><tr><td>FBR</td><td>Withholding tax statement</td><td>Quarterly</td><td>4</td><td>Half Yearly</td></tr><tr><td>FBR</td><td>Annual Withholding tax statement</td><td>Yearly</td><td>1</td><td>Deleted</td><td>Duplicate data reporting, as same data is already reported in quarterly statement.</td></tr><tr><td>FBR</td><td>Annual Employer Statement</td><td>Yearly</td><td>1</td><td>Deleted</td><td>Duplicate data reporting, as same data is already reported in quarterly statement.</td></tr></table> | Name of authority   | Name/Nature of Payment | Frequency of Reporting/ Payment  | Total Annual Frequency | Recommendation | Remarks | FBR | Income Tax - withholding payments | Weekly | 52 | Monthly | It will reduce unwarranted operational burden on withholding agent | FBR | Withholding tax statement | Quarterly | 4 | Half Yearly | FBR | Annual Withholding tax statement | Yearly | 1 | Deleted | Duplicate data reporting, as same data is already reported in quarterly statement. | FBR | Annual Employer Statement | Yearly | 1 | Deleted | Duplicate data reporting, as same data is already reported in quarterly statement. | To ease unnecessary burden on withholding agents who are providing free of cost service to FBR. |
| Name of authority | Name/Nature of Payment   | Frequency of Reporting/ Payment   | Total Annual Frequency  | Recommendation         | Remarks  |                        |                |         |     |                                   |        |    |         |  |     |                           |           |   |             |     |                                  |        |   |         |  |     |                           |        |   |         |  |   |
| FBR               | Income Tax - withholding payments  | Weekly  | 52  | Monthly                | It will reduce unwarranted operational burden on withholding agent                 |                        |                |         |     |                                   |        |    |         |  |     |                           |           |   |             |     |                                  |        |   |         |  |     |                           |        |   |         |  |   |
| FBR               | Withholding tax statement  | Quarterly   | 4   | Half Yearly            |  |                        |                |         |     |                                   |        |    |         |  |     |                           |           |   |             |     |                                  |        |   |         |  |     |                           |        |   |         |  |   |
| FBR               | Annual Withholding tax statement   | Yearly  | 1   | Deleted                | Duplicate data reporting, as same data is already reported in quarterly statement. |                        |                |         |     |                                   |        |    |         |  |     |                           |           |   |             |     |                                  |        |   |         |  |     |                           |        |   |         |  |   |
| FBR               | Annual Employer Statement  | Yearly  | 1   | Deleted                | Duplicate data reporting, as same data is already reported in quarterly statement. |                        |                |         |     |                                   |        |    |         |  |     |                           |           |   |             |     |                                  |        |   |         |  |     |                           |        |   |         |  |   |





# Custom Duty





| S.No. | Issue   | Recommendation   | Rationale or Benefit   |
|-------|---|--|--|
| 56.   | Structural Reforms in Customs to bring Illicit Trade into tax ambit | <p>i. <b>The data of import and export should be public property (restrictively) to ensure transparency, which will also help in taking over of goods under section 25A of the Custom Act, 1969.</b></p> <p>ii. <b>Information Exchange:</b> Enter into exchange of information agreements for customs duty purposes with other countries to reconcile import/export values. Currently, MoUs exist with China and Iran for export data exchange; no online portals with other major exporting countries to Pakistan exist. Recently, Customs Mutual Assistance Agreement has been signed between Pakistan Customs and Afghan Customs to curb illegal trade.</p> <p>iii. <b>Stringent Controls for Illicit Trade:</b></p> <p>a) <b>Tighter Penalties:</b> Introduce tougher penalties, including criminal liability, for illicit trade across the entire value chain—retailers, distributors, and manufacturers.</p> <p>b) <b>Special Division/Task Force:</b> Create a special division or task force to raid retailers and manufacturers to confiscate and destroy illicit stocks.</p> <p>iv. <b>Modern Custom Valuation:</b></p> <p>a) <b>Advanced Methods:</b> Use the latest valuation methods, such as online searches, matching international and regional pricing, and including local legal brand owners in the process.</p> <p>v. <b>Counterfeit Products:</b></p> <p>a) <b>Effective Checks:</b> Effectively check unauthorized imports of counterfeit products through brand registration with customs authorities in coordination with original brand owners registered in Pakistan.</p> | <p>Reforms like real-time data exchange with foreign customs enable authorities to verify declared values and quantities with actual exports from the origin country. This ensures early detection of discrepancies and prevents trade-based tax evasion.</p> <p>Use of electronic data exchange, big data analytics, and third-country invoice matching allows for risk profiling of importers/exporters. Enables Customs to focus on high-risk consignments, reducing unnecessary checks for low-risk trade and facilitating legitimate trade.</p> |

| S.No. | Issue  | Recommendation   | Rationale or Benefit   |
|-------|--|--|--|
|       |  | <p><b>vi. Control Afghan Transit Trade:</b></p> <p><b>a) Revising ATTA:</b> Revise the ATTA to reflect current realities, protecting Pakistan's revenue base without compromising the agreement's spirit. Involve key stakeholders from OICCI and the Pakistani business community.</p> <p><b>b) Harmonize Duty/Tax Rates:</b> Align duty and tax rates to eliminate evasion incentives.</p> <p><b>c) Quantitative Limits:</b> Set quantitative import limits based on genuine Afghan needs and population size.</p> <p><b>vii. Regulation of Cross-Border Trade</b></p> <p><b>a)</b> Highlighting the need for regulated cross-border trade to prevent foreign exchange leakage and strengthen the economy. The cross-border trade with Iran, India, and Afghanistan is not under proper documentation. This leads to leakage of foreign exchange as well as weakening of the economy.</p>  |  |
| 57.   | <p><b>Custom Act (Export Facilitation Scheme)</b></p> <p>The proposed amendments in Rule 871(g) recommends including all the stakeholders who are already part of the overall supply chain of the export-oriented industries like distributors/local traders, who also locally purchase such Raw Materials, which are required to manufacture export products.</p> | <p><b>Rule 871 (g) “Common Export House”</b> means a warehouse authorized by the Collector under this chapter, for import or procured locally, warehouse and supply of input goods without payment of customs duty, sales tax, federal excise duty and withholding tax, to the small and medium export enterprises, direct or indirect exporters or commercial exporters;</p> <p><b>Consequently, amendments are also required to be made in the definition of Exports and Indirect Exporter in rule 871 (k) and (l) as follows:</b></p> <p><b>“export” includes supply of goods, -</b></p> <p><b>(a) by an indirect exporter to a direct exporter or Commercial Exporter or Common Export House;</b></p> <p><b>“Indirect exporter” means a person who has a firm contract or export purchase order from a direct exporter or commercial exporter or Common Export House for the manufacture and supply of goods to such exporter and includes another indirect exporter in the supply chain for exports authorized under these rules;</b></p> | <p>In addition, the following benefits shall also accrue from the proposed amendments:</p> <ul style="list-style-type: none"> <li>• Support in reduction of Commercial Imports and saving of precious foreign exchange of the country.</li> <li>• Complete and cover the whole supply chain and distribution cycle of the Country's Exports.</li> <li>• Provide level playing field for not only growth in the local manufacturing but also facilitate import substitution.</li> </ul> |

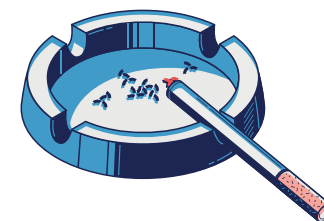
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# Industry-Specific Taxation Proposals





# Tobacco



## Tobacco

### Overview

Pakistan's cigarette market sells around 78 billion sticks annually with an estimated value in excess of Rs. 700 bn. The industry consists of two multinational companies, Pakistan Tobacco Company (PTC) and Phillip Morris International (PMI), and over 26 local manufacturers. However, the sector faces a critical challenge from illicit trade, which currently accounts for 54% of the total market. The tax evaded trade in cigarettes is causing an estimated annual tax revenue loss of over Rs. 300 billion.

### Total Cigarette Market Size & Market Share

- Total Cigarette Market Size: 81 billion sticks annually.
- Market Share Breakdown:
  - Duty-paid brands: 47%
    - PTC: 37%
    - PMI: 9%
    - Others: 1%
- Illicit trade: 53%, of which the majority is attributable to tax evaded local manufacturers.
- Of the total market, 40% is attributable to tax evaded local players and 13% to smuggled brands.

### Revenue Contribution

- The two multinational firms, PTC and PMI, with 46% market share contribute 98% of excise and sales tax revenue to the cigarette industry.
- Local manufacturers, primarily consisting of domestic duty not paid brands, contribute only 2% of the tax revenues despite holding over 40% market share. The illicit sector is responsible for substantial revenue loss and public health risks, while driving down prices below the minimum legal level.

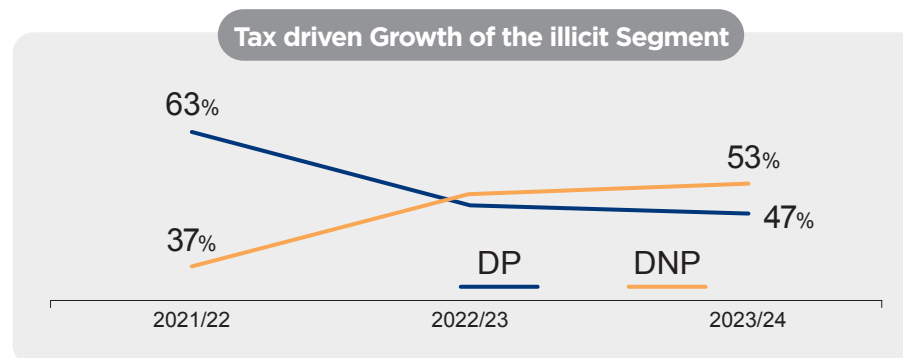
### Minimum Legal Price & Track and Trace (T&T)

- **Minimum Legal Price (MLP):** Rs. 162.25 (for a pack of 20 Cigarettes). A variety of Illicit cigarettes brands are sold below this level, sometimes as low as Rs. 50 (per pack of 20 Cigarettes), driving consumer preference for cheaper, tax evaded alternatives.

- **Track and Trace System (T&T):** Though implemented, weak enforcement and the availability of counterfeit stamps at the retail level has made the system ineffective. Another major contributor to the ineffectiveness is the lack of T&T implementation in AJK.

### Illicit Sector Growth (2022-2024)

Between May 2022 and February 2023, federal excise duty increased more than 200%. This resulted in a significant excise driven price increase across the tax compliant cigarette brands, causing a widening of the price gap between tax paid and tax evaded Cigarettes. This led to a shift of the consumers, who were incentivised by this price gap to move to the cheaper tax evaded brands of the illicit segment. Resultantly the illicit segment grew its market share from 37% to 53%. This signifies a shift of 17bn sticks from the tax paid industry to the illicit segment as the illicit, for the first time in the country's history, became bigger than the tax paid tobacco sector.



### Excise Contribution and Future Outlook

The legal cigarette industry, despite the surge in illicit trade, contributed Rs. 277 billion to the national exchequer in 2023/24, up from Rs. 176 billion in 2022/23. However, this has come at a steep cost of significant consumer loss from the tax paid to tax evaded cigarette brands. The alarming growth of illicit driven by the 200% excise increase between May 2022 and Feb 2023, not only poses a threat to the viability of the tax paid tobacco sector, but also threatens the sustainability of critical tobacco tax revenues for the Government of Pakistan.

| S.No. | Issue   | Recommendation  | Rationale   |
|-------|---|---|---|
| 1.    | <b>Excise Rate Rationalization:</b>   | Rationalization of excise rates to enable duty paid segment to reduce price indexation to illicit brands.   |   |
| 2.    | <b>Strengthen Enforcement:</b>  | Owing to a lack of retail level enforcement, there is still availability of cigarette packs without Track and Trace stamps. Additionally, there are commonly reported instances of counterfeit stamps as well.  | This underscores the incomplete implementation and ineffectiveness of the Track & Trace system. It is pertinent to note here, that the Track & Trace system alone is not a silver bullet, and must be followed through with enhanced coordination among tax enforcement and smuggling control agencies. |
| 3.    | <b>Enforcement of Penalties on Illicit Trade:</b>   | Implement stricter penalties for those involved in the production and sale of illicit cigarettes to deter illegal operations.   | Although multiple penalties can be levied on illicit trade of tobacco, to date we have yet to come across evidence that these penalties have been duly implemented.   |
| 4.    | <b>FED on Acetate Tow:</b> Imposition of the adjustable advance FED on acetate tow is a step in the right direction. However, the amount of this tax is exorbitant (At Rs 44,000 per KG these rates are 18 times the price of Tow itself). This results in a significant working capital load on the the compliant industry | The rates applicable be rationalized to Rs. 4000/kg vs current applicable rates of Rs. 44,000/kg.   | Ensure enforcement of advance Federal Excise Duty (FED) on acetate tow, to avoid smuggling of the material through Afghan Transit Trade.  |
| 5.    | <b>FED Rates on Premium Cigarettes:</b>   | While maintaining the FED rates for the premium cigarettes, consider a downwards revision of the value tier rates by 25% thus reducing the rates from PKR 5,050/1,000 cigarettes to PKR 3,800/1,000 cigarettes. | This will effectively result in reduction in the price per pack of cigarettes.  |

| S.No. | Issue                                     | Recommendation  | Rationale  |
|-------|---|---|--|
| 6.    | Regulate Green Leaf Threshing Units (GLT) | Full reconciliation of the advance tax collected from GLT units.  | This refundable/adjustable tax will notify authorities about quantities processed by manufacturers without adding undue burden on legitimate businesses. |
| 7.    | Implement SRO 96(I)/2021:                 | Expedite enforcement to limit the movement of taxable goods from non-tariff areas, such as AJK, into taxable regions.   | This would help curtail tax leakages.  |
| 8.    | Enforce STGO 07/2021                      | Ensure that illicit cigarette brands (over 200 in number) are registered with the FBR.  | This licensing regime would help bring untaxed brands under formal taxation.   |
| 9.    | Enforce Graphical Health Warning          | Enforcement of SRO 127 (KE) 2017, to ensure compliance with printing of Health Warning Ordinance whereby GHW to appear on 60% of all cigarette packs.                     |  |
| 10.   | Public Awareness Campaigns                | Launch initiatives to educate the public on the heightened health risks of illicit cigarettes and promote support for legitimate companies.                               | This would help curb demand for illicit brands.  |
| 11.   | KPK Provincial Excise Duty (PED)          | The Provincial Excise Duty in Khyber Pakhtunkhwa creates a double tax burden on the legitimate sector and is ultra vires to the Constitution, which is a Federal subject. | Immediate timely actions must be taken to remove this anomaly by removing KPK PED.   |

By implementing these measures, the government can reduce illicit trade, protect revenue, and safeguard public health.





# Diary

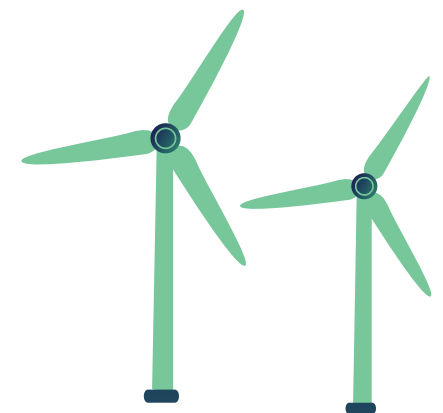


## Dairy Sector

| S.No. | Issue  | Recommendation  | Rationale   |
|-------|--|---|---|
| 12.   | <b>Unjustified high rate of Sales Tax on Milk</b><br>Through the Finance Act, 2024, packaged liquid milk under brand name was subjected to 18% Sales Tax.  | It is proposed to reduce the rate of Sales Tax on packaged milk under brand name to around 5% by inserting an entry in the Eight Schedule of the Sales Tax Act, 1990.                     | <p>Such high rate of value added tax is detrimental to both industry and society.</p> <p>Imposition of 18% sales tax on packaged milk has made it unaffordable for the consumer to buy safe and hygienic milk as compared to loose milk, which is not subject to any sort of taxation or regulation.</p> <p>The increase in price has resulted in significant volume drop which has badly impacted the industry, resulted in shut down of many milk collection centers across Pakistan and has also adversely affected the livelihood of farmers.</p> |
| 13.   | <b>Zero-Rating of Sales Tax on Infant &amp; Young Children Nutrition Products</b><br>Zero-rating of GST should be reinstated on Infant & Young Children Nutrition products. In the Sales Tax Act, 1990, in the Fifth Schedule, in column (1), clause (xvii) of serial number 12 and entries relating thereto in column (2) omitted through Finance Act, 2024.  | The levy of Sales tax on infant & young children nutrition products should be withdrawn by restoring the clause (xvii) in Serial No. 12 of the Fifth Schedule of the Sales Tax Act, 1990. | The levy of sales tax on infant & young children nutrition products, through Finance Act, 2024, has made such products unaffordable for the masses which is further worsening the malnutrition situation in Pakistan.   |
| 14.   | <b>Elimination/Reduction in Import Duties on Imported Milk Powders and Ingredients Used in Manufacturing of Infant Nutrition Products</b><br>Elimination of applicable import duties (%) on key ingredients of Infant Nutrition products being imported from following countries: <ul style="list-style-type: none"> <li>Lactose: 13% (Germany &amp; USA)</li> <li>Milk Skimmed Powder: 51% (New Zealand &amp; Ireland)</li> <li>Whey powder: 51% (Germany)</li> <li>Oil Mix: [CD 10,800/MT + ACD, RD 17%] (Malaysia)</li> </ul> | Elimination/reduction in import duties on key raw materials/ingredients of Infant Nutrition products.   | <p>High customs duties and other taxes at the import stage on key raw materials of Infant Nutrition products makes the products costlier and impacting affordability of the masses.</p> <p>It must be appreciated that these are not luxury items rather items that are used by masses.</p>   |



# Energy



## Energy Sector

| S.No. | Issue  | Recommendation   | Rationale   |
|-------|--|--|---|
| 15.   | <p><b>Sales tax exempt for POL Products HSD, MS, Kero &amp; LDO</b></p> <p>Up to June 30, 2024, Mogas, Diesel, Kerosene and LDO were taxable supplies under the Sales Tax Act, 1990. However, through Finance Act, 2024, the government changed the status of these petroleum products from taxable to exempt supplies.</p> <p>This amendment in the Sales Tax Act, 1990 has significantly increased the operational cost as well as CAPEX of upgrade projects of refineries due to following implications:</p> <ul style="list-style-type: none"> <li>Any direct input sales tax related to the production of exempt products will be charged to cost.</li> </ul> <p>Up to 80% of the remaining input sales tax will be charged to cost (only input sales tax proportionate or directly attributable to sale of taxable supplies is claimable).</p> | <p>The taxable status of Petroleum Products Mogas, Diesel, Kerosene and LDO should be restored. These products may also be zero-rated through inclusion in the Fifth Schedule of the Sales Tax Act, 1990, in order to claim the refunds of unadjusted input taxes.</p>   | <p>Refining sector is regulated, refineries are unable to recover these amounts through ex-refinery pricing.</p>  |
| 16.   | <p><b>Review Minimum Turnover Tax [u/s 113, ITO 2001]</b></p> <p>Energy companies (for e.g. OMCs, electricity distributors and refineries etc.) operate on high turnover and low margin, and are duly regulated. Further, due to the recent Pak Rupee devaluation, turnover of the industry has increased with minimal or no impact on profitability. Therefore, minimum tax substantially increases the effective tax rate of this sector.</p>  | <p>ii. The rate of Minimum Turnover Tax u/s 113 of ITO 2001 be reduced to 0.25% for energy sector.</p> <p>iii. Alternatively, the existing rate be applicable on “gross profits” instead of “turnover”.</p> <p>iv. Adjustment /carry forward of minimum tax credit be allowed for at least 5 tax years as was the case prior to amendment made vide Finance Act, 2022.</p> | <p>Minimum tax u/s 113 causes a significant increase in the effective tax rate of this sector, well above the standard tax rate of 29% corporate tax rate, which causes dent to already thin margins of a sector which is highly regulated by the Government so much so that even the sale price is fixed by the regulatory bodies.</p> |

## A. Oil Exploration and Production Companies

| S.No. | Issue  | Recommendation   | Rationale   |
|-------|--|--|---|
| 17.   | <p><b>Sales tax on Condensate Vs Petroleum Crude Oil</b><br/>In terms of entry no. 20 of the Fifth schedule of the Sales Tax Act, 1990, Petroleum Crude Oil (PCT heading 2709.0000) is subject to sales tax @0%. The term “Crude Oil” includes condensate in terms of OGRA Ordinance, 2002 and Petroleum Rules, which are promulgated by the Federal Government.</p> <p>These definitions are almost similar and are as follows:</p> <p><b>OGRA Ordinance, 2002:</b></p> <p><i>“Crude oil” means all petroleum other than refined oil products and natural gas, and which at standard atmospheric condition of pressure and temperature is in a fluid phase, including condensate.</i></p> <p>Pakistan Petroleum (Exploration and Production) Rules, 1986 and Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013:</p> <p><i>“Crude oil” means all petroleum other than natural gas, and which at standard atmospheric conditions of pressure and temperature is in a fluid phase, including condensates and distilleries.</i></p> | <p>Following explanation should be added in entry no. 20 of the Fifth schedule of the Sales Tax Act, 1990:</p> <p><b><i>“The term Petroleum Crude Oil shall have meaning as assigned to it under the Oil and Gas Regulatory Authority Ordinance, 2002 and relevant petroleum rules.”</i></b></p> | <p>The proposed explanation would eliminate any ambiguity regarding the zero-rating of sales tax on condensate.</p> |
| 18.   | <p><b>Extension / Renewal of Tax Credits &amp; Clarification for E&amp;P Companies for Past Years</b></p> <p>10% Tax credit u/s 65B on Investments made by Industrial Undertakings in Plant &amp; Machinery for extension, expansion, Balancing, modernization, and replacement.</p> <p>This incentive was introduced through Finance Act 2010 and was available until June 30, 2019.</p>  | <p>This incentive to be revived in the next budget and clarification to be made in the definition of industrial undertaking to include E&amp;P Companies assessed under 5th Schedule of ITO 2001.</p>  | <p>To incentivize investment in plant and machinery for expansion, balancing, modernization and replacement.</p>    |

| S.No. | Issue  | Recommendation  | Rationale  |
|-------|--|---|--|
| 19.   | <b>Ring Fencing on Exploration Expenditure</b><br>In the presence of higher appellate forum orders as well as unequivocal clarification in the petroleum policies that there will be no ring fencing in Pakistan for claiming exploration expenditure, the tax authorities continue to deny said claims creating frivolous tax demands, followed by forced tax recoveries. In line with the fiscal structure presented to the investors, necessary amendments ought to be made clarifying that once commercial discovery is made, exploration and development expenditure are admissible in terms of Fifth Schedule to the Income Tax Ordinance. | A clarification needs to be issued that there will be no ring fencing for the purpose of claim of exploration and development expenditure after commencement of commercial production by E&P Companies under sub-Rule(5) of Rule 2 of the Fifth Schedule to the Income Tax Ordinance. | To avoid unnecessary litigation as the matter has already been decided by the appellate forums.  |
| 20.   | <b>Restriction on deduction of Profit on Debts payable to associated undertakings u/s 106A.</b><br>Introduced vide Finance Act 2020 - Capping of Interest Expense on 15% of EBITDA.  | Clarification is to be issued to exempt Permanent Establishment of Foreign Companies who are assessed under Fifth Schedule of ITO.  |  |
| 21.   | <b>Charge Of Additional Custom Duties In Breach Of Sro 678 (I) 2004/ Duty Structure Under Pcas.</b><br>In addition to the import duty structure defined under SRO 678 (I)/2004 dated August 07, 2004 additional custom duties are being imposed on imports of E&P Companies in violation of Petroleum Concession Agreements. Through SRO 1178(I)/2015 dated Nov 30, 2015 Additional duty 1% was imposed, later vide SRO 630(I)/2018 dated May 24, 2018 this was increased to 2%. Vide recent SRO 670(I)/2019 dated June 28, 2019 additional custom duties ranging from 2% to 7% have been imposed on imports of E&P Companies.                   | It is proposed that imports of E&P Companies and their contractors/subcontractors should be cleared strictly under SRO-678(I)/2004 without any charges of additional custom duties.   | Deviation from a guaranteed regime under Petroleum Concession Agreements gives a negative signal and is counterproductive for FDI, if concessions granted are subsequently not adhered to. |

| S.No. | Issue   | Recommendation  | Rationale   |
|-------|---|---|---|
| 22.   | <p><b>Not Allowing Exports of Imported Items in Breach of Concession Provided under the PCAs</b></p> <p>Petroleum Concession Agreements granted by Government of Pakistan unequivocally provide that the Operator (E&amp;P Company), its contractors, and sub-contractors shall be entitled to export such of their items as have been imported into Pakistan and are not required for the Operations without restriction and without the payment of any fee, tax or export duty.</p> <p>Contrary to this guaranteed concession, the Custom Authorities did not allow export of items abroad causing tremendous hardship to this privileged sector hindering the business operations and depriving the government from inflow of foreign exchange on export of goods.</p> | <p>Through issuance of a circular or general order, Custom Authorities should be advised to allow E&amp;P Companies, their contractors and subcontractors to export the imported items that are no longer in use or are otherwise surplus and need to be disposed of.</p> | <p>Effective enforcement of this legal entitlement will not only alleviate the hardship of E&amp;P sector but shall also restore confidence of new investors on stability of concessions already in place.</p>  |
| 23.   | <p><b>Tax Depreciation - Below Ground Installations (100% allowed previously)</b></p> <p>Through the Tax Laws (Second Amendment) Ordinance, 2021, an amendment is introduced in the Third Schedule of the Income Tax Ordinance, 2001 whereby entry related to 100% tax depreciation in respect of “Below Ground Installations” has been omitted.</p>  | <p>Changes introduced through the Tax Laws (Second Amendment) Ordinance, 2021 in the Third Schedule of the Income Tax Ordinance, 2001 should be reversed and previous position of allowing 100% tax depreciation in the year of incurrence should be restored.</p>        | <p>E&amp;P industry is capital intensive and high-risk industry, as such 100% tax depreciation was allowed in respect of Below Ground Installations (entry in third schedule specific to E&amp;P companies since 1979 in line with International best practices).</p> |



## B. Coal Mining and Exploration

| S.No. | Issue  | Recommendation  | Rationale  |
|-------|--|---|--|
| 24.   | <p><b>Broadening scope of corporate tax exemption available to coal mining projects in Sindh</b></p> <p>Tax credit equal to 100% has been provided to coal mining projects in Sindh, supplying coal <b>exclusively</b> to power generation projects via section 65F(1)(a) of the ITO, 2001.</p> <p>At present the inclusion of the word “exclusively” (as highlighted above) discourages the extension of the aforementioned tax credit to supply of coal by coal-mining projects in Sindh to non-power generation projects.</p> | <p>100% tax credit should be made available to all coal mining projects in Sindh supplying coal to both power generation and non-power generation projects.</p> <p>Following phrase should be deleted from section 65F(1)(a) of the ITO, 2001 to achieve this objective:</p> <p><i>“(a) persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects”</i></p>   | <p>Coal mining projects require large upfront investments in exploration, extraction infrastructure, machinery, and transportation. Income tax exemptions enhance project viability and investor return, especially during the early years when capital recovery is critical. This encourages private sector participation in what might otherwise be considered a high-risk sector. This can have a multiplier effect on economic growth, employment, and export potential.</p> |
| 25.   | <p><b>Enhancing the scope of exemption from custom duty and additional custom duty on import of coal mining projects operating in Sindh</b></p>  | <p>The Following amendment be made by inserting the following in the Fifth Schedule to the Customs Act, 1969, by inserting the following new entry:</p> <p><i>“Coal mining machinery, equipment, spares, including vehicles for site use, i.e. single or double cabin pickups, dump trucks and other related vehicles used for mining / ancillary activities, mining equipment including but not limited to dewatering equipment and its spares, power generation equipment and its spares and all other equipment and spares whether directly or indirectly related to the Thar coal mining project and ancillary activities meant for mine construction phase or extraction phase and imported for Thar Coal Field”</i></p> | <p>The proposed exemption will reduce the project and operating costs of coal mining projects in Sindh, thereby encouraging investment in indigenous energy resources, and supporting the development of the Thar Coal Field.</p>  |

| S.No. | Issue  | Recommendation  | Rationale  |
|-------|--|---|--|
| 26.   | Enhancing scope of sales tax exemption for import of machinery, equipment, vehicle and spares for coal mining projects operating in Sindh      | <p>The following amendment be made by inserting the following in entry 4 (Table-3) to Sixth Schedule of the Sales Tax Act, 1990:</p> <p><i>“Coal mining machinery, equipment, spares, including vehicles for site use, i.e. single or double cabin pick-ups and dump trucks and other related vehicles used for mining/ ancillary activities, mining equipment including but not limited to dewatering equipment and its spares, power generation equipment and its spares and all other equipment and spares whether directly or indirectly related to the Thar coal mining project and ancillary activities meant for mine construction phase and/ or extraction phase and imported for Thar Coal Field”.</i></p> | The proposed sales tax exemption will reduce the project and operating costs of coal mining projects in Sindh, thereby encouraging investment in indigenous energy resources, and supporting the development of the Thar Coal Field. |
| 27.   | Concessions allowed to E&P Companies and their contractors under SRO 678(I)/2004 on custom duty on import of spares, chemicals and consumables | E&P Companies are exempt from payment of additional customs duty (ADC) on imports for their off-shore projects. FSRU is an offshore installation and therefore imports for FSRU should be allowed the same concession as the E&P companies are allowed in condition (vii).  |  |

## Independent Power Producers (IPPs)

| S.No. | Issue   | Recommendation   | Rationale   |
|-------|---|--|---|
| 28.   | <p><b>Tax on dividend by IPPs – Section 5, Section 150, Division III of Part I of the First Schedule &amp; Division I Part III of the First Schedule</b></p> <p>Since 1994 dividend paid by Independent Power Producers (IPPs) was subject to tax @7.5% under the repealed Income Tax Ordinance, 1979 (ITO, 79) this was also in line with the power policies announced by the government. This 7.5% was also the full and final tax in the hands of recipients and IPPs' shareholders did not have to pay any additional tax when filing their tax returns. Changes have been introduced vide Finance Act 2019 whereby a discrimination has been created between the IPPs as follows:</p> <ul style="list-style-type: none"> <li>i. Tax rate of 7.5% on dividend paid by power generation industry has been restricted to power producers who do have mechanism of reimbursement of dividend (tax on dividend) as a pass-through item by Central Power Purchasing Agency (CPPA-G) under an Implementation Agreement or Power Purchase Agreement or Energy Purchase Agreement.</li> <li>ii. Higher rate of tax of 15%/25% for those IPPs who do not meet the above criteria. Hence, in case of power producers (having non-pass-through agreements with CPPA) and companies, supplying coal exclusively to power generation projects, that previously enjoyed reduced rate under clause (a), the tax rate has been drastically increased from 7.5% to 15% due to exclusion from revised clause (a).</li> <li>iii. Interestingly while discriminatory rates of 7.7% vs 15%/25% for IPP were introduced such a preferential rate of 7.5% for bagasse and biomass based co-generation power project was introduced vide clause 18C.</li> </ul> | <ul style="list-style-type: none"> <li>i. <b>Clause (a) of Division III of Part I of First Schedule as applicable before Finance Act 2019, should be reinstated, to include power producer companies (having non-pass-through agreements) and coal suppliers.</b></li> <li>ii. <b>Similarly, amendment be made for the withholding tax rates specified in clause (a) of Division I of Part III of the First Schedule, by reinstating the position prior to Finance Act 2019.</b></li> <li>iii. <b>The new clause (d) of Division III of Part I of First Schedule be removed being against the fundamental principles of taxation.</b></li> </ul> | <p>To provide level playing field to all the players in the market.</p> |

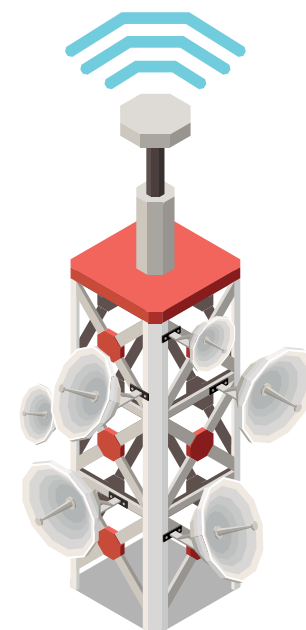
| S.No. | Issue                                     | Recommendation  | Rationale   |
|-------|---|---|---|
| 29.   | Exemptions and Reliefs to Water Projects: | <p>Proposed income tax exemptions to be provided to water projects, similar to those available to IPPs and green projects:</p> <ul style="list-style-type: none"> <li>i. <u>Part I &amp; Part IV of the 2nd Schedule to the Income Tax Ordinance New Clause 126P Part I of the 2nd Schedule:</u> “Profits and gains of a company from a water processing projects/ water supply projects/ Waste to water/ desalination projects based on sea water/ untreated water or similar source of water.”</li> <li>ii. <u>New clause 146 Part I of the 2nd Schedule:</u> “Dividend received from a project which is entitled for exemption under Clause 126P Part I of the 2nd Schedule.”</li> <li>iii. <u>New Sub clause xxxv of clause 11A Part IV 2nd Schedule:</u> “Projects qualifying for exemption under clause (126P) of Part I of the Second Schedule.”</li> <li>iv. <u>New Sub clause 11F Part IV 2nd Schedule:</u> “The provisions of section 150 shall not apply in respect of dividend paid a project which is entitled for exemption under Clause 126P Part I of the 2nd Schedule.”</li> </ul> <p>GST exemptions for water projects to be included in Serial 154 of the Sixth Schedule to the Sales Tax Act, 1990:</p> <ul style="list-style-type: none"> <li>i. Machinery, equipment, and spares meant for initial installation, balancing, modernization, replacement, or expansion of a water processing projects/water supply projects/Waste to water/desalination projects based on sea water/untreated water or similar source of water.</li> <li>ii. Construction machinery, equipment, and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.</li> </ul> | To ensure sustainability of this sector and to encourage more investment. |

## Oil Refineries and Marketing Companies

| S.No. | Issue   | Recommendation  | Rationale  |
|-------|---|---|--|
|       |   | iii. This concession shall also be available to primary contractors of the project.                           |  |
| 30.   | <b>Sales Tax &amp; WWF/WPPF</b><br>Four major petroleum products i.e. PMG, HSD, LDO & Kerosene have been notified as Exempt Supplies via Finance Act 2024. Accordingly, all input sales tax on related imports (plant and machinery, equipment, additives etc) has been disallowed. Since pricing of petroleum products is regulated, therefore, input sales tax disallowed cannot be passed on to customers. It has increased operational cost of refineries. It has also made refineries' upgradation projects as unviable. | <b>All major Petroleum products should be declared as Taxable Supplies at the appropriate Sales Tax rate.</b> | To provide for allowability of input tax thus reducing the tax cost to the businesses. |



# Telecommunication



## Telecommunication

| S.No. | Issue   | Recommendation   | Rationale  |
|-------|---|--|--|
| 31.   | <p><b>Exemption from tax withholding on payments to telecom sector</b></p> <p>As large utility providers, Cellular Mobile Operators' (CMO) are subject to deduction/collection of income tax on large number of transactions e.g. imports, electricity bills of cell sites, which are thousands in number.</p> <p>This increases the cost and complexity of tax compliance and place additional administrative burden for the telecom sector.</p> | <p>All types of payments to the telecom sector should be exempt from tax withholding provisions under the Ordinance.</p>   | <p>Similar exemptions have already been granted to banking sector to curtail the administrative cost.</p> <p>There will be no loss of revenue to the exchequer as the tax collection / payment mechanism will be simplified in terms of payment of advance tax Under Section 147 on quarterly basis.</p>   |
| 32.   | <p><b>Minimum tax regime for telecommunication infrastructure (tower) services</b></p> <p>Currently, under section 153(1)(b) of the ITO, 2001, telecommunication services are subject to taxation at 4% and this withholding tax is minimum tax.</p>  | <p>Withholding tax under section 153(1)(b) for "telecom services" should be made adjustable.</p>   | <p>Telecom industry is a highly capital-intensive business with high operational costs and hence the margins in this business are very low. Resultantly the withholding tax deducted ultimately becomes a final tax liability.</p>   |
| 33.   | <p><b>Rationalization of Withholding Tax on Telecom Services</b></p> <p>Advance tax on telecom services was reduced via Finance Act, 2021 from 12.5% to 10% for FY 2021 and to 8% for future years. However, through the Finance (supplementary) Act, 2021 the rate of withholding tax increased from 10% to 15%.</p>   | <p>Rate of withholding tax on subscribers should be abolished completely as the majority of the subscriber's base falls below the taxable limit.</p> <p>Alternatively, reduction in withholding tax rate made through the Finance Act, 2021 should be reinstated i.e. 8% effective Fiscal Year 2025.</p> | <p>In addition to that Pakistan has the widest gender gap in mobile ownership (34%) and mobile internet use (43%) as compared to its regional peers. Sector-specific taxes have increased the cost of mobile services which significantly impacts the affordability of these services for the poorest consumers.</p> <p>Since more than 70% population lives below the poverty line and the percentage of return filers is also nominal so the implementation of withholding tax to entire subscriber's base is not logical. Further, the reduction in withholding tax will also promote the affordability of internet and data services to the low-income group people.</p> |



| S.No. | Issue   | Recommendation   | Rationale   |
|-------|---|--|---|
| 34.   | <p><b>Harmonization of Federal/Provincial Sales Tax Laws</b></p> <p>All four Provinces and Federal have introduced distinct sales/service tax laws in their respective jurisdictions, with some of the clauses in clear conflict with each other resulting in undue hardships coupled with harassment by the Federal and Provincial revenue collectors demanding tax on the same transactions tantamount to double taxation.</p>  | <p><b>There should be single sales tax rate across all jurisdictions to remove the anomalies and undue hardships being faced by telecom sector in terms of compliances in different jurisdictions, thus, to provide ease of doing business.</b></p> <p><b>Further, in line with International and Regional practices a uniform service tax law may be drafted and agreed upon by the federal and provincial tax authorities.</b></p> | <p>There should be a single sales tax rate across all jurisdictions to remove the anomalies and undue hardships being faced by telecom sector in terms of compliances in different jurisdictions, thus, to provide ease of doing business.</p> <p>Telecom services are being discriminated by subjecting to higher sales tax rate. Sales tax rates should be in line with other tax table services.</p> <p>This discord in federal and provincial creates complexities for taxpayers, leading to unnecessary litigations.</p> |
| 35.   | <p><b>Advance tax on Auction/Renewal of licenses</b></p> <p>This tax is liable to be collected on “Sale by Auction” of property. Grant of spectrum is not a sale of property. Firstly, spectrum is not a property, it does not have any physical form as it cannot be seen or is not capable of being in physical possession. Secondly spectrum is not “sold” only a right to use spectrum for a specified term is granted to telecom operators and licenses are granted for a specific term only.</p> <p>Therefore, spectrum is never sold to telecom operators, they are only granted licenses for a specified term. While the term “sale” means that absolute ownership is transferred permanently to the buyer with a right to transfer ownership to another person, which is not the case while granting the spectrum.</p> | <p><b>Specific exclusion should be introduced in section 236A for spectrum licensing to address this issue.</b></p>  | <p>To incentivize the availability of latest technology in this sector, encouraging increase in economic activity and availability of the best and affordable technology to the masses.</p>   |

| S.No. | Issue   | Recommendation   | Rationale   |
|-------|---|--|---|
| 36.   | <b>Duties on import of batteries</b><br>With the upcoming 5G rollout, telecom networks will heavily depend on power, particularly batteries. Currently, telecom operators face high costs due to 100% import reliance on lithium-ion batteries and other power equipment, which incur hefty customs duties, taxes, and a 5% regulatory duty.  | <b>Removal of the 5% regulatory duty (RD) on telecom power equipment, including batteries used in networks. Exclusion of telecom power equipment from retail valuation by FBR, as it is imported for in-house use, not resale.</b> | Reduction in duties will further encourage alternate energy resources for the Telecom sector e.g. Solar etc.                    |
| 37.   | <b>Duties and taxes on infrastructure required for 5G Deployment</b> <ul style="list-style-type: none"> <li>Excessive Tax &amp; Duty Burden – High duties and taxes on optic fiber imports and deployment significantly increase network expansion costs for telecom operators.</li> <li>Barrier to 5G Infrastructure Development – Costly infrastructure discourages rapid deployment of fiber-optic networks, essential for high-speed 5G connectivity.</li> <li>Financial Strain on Telecom Operators – The capital-intensive nature of 5G requires massive investments, and additional tax burdens reduce financial viability.</li> <li>Slower Digital Transformation – Limited fiber deployment delays nationwide 5G adoption, restricting economic and technological growth.</li> </ul> | <b>To support 5G deployment, exemptions on duties and taxes for optic fiber deployment should be granted as an incentive for telecom operators acquiring 5G licenses.</b>  | To support 5G deployment in Pakistan thus providing fast and affordable internet connectivity to the people and the businesses. |

| S.No. | Issue  | Recommendation   | Rationale   |
|-------|--|--|---|
| 38.   | <p><b>Withholding tax of foreign suppliers against import of telecom equipment</b></p> <p>The Finance Act, 2018 inserted a new clause in sub-section (3) of section 101 of the ITO'2001, under which Pakistan source income from business derived by a non-resident person, would include income on account of import of goods, whether or not the title to the goods passes outside Pakistan. If the import is part of an overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the associates of the person supplying the goods or its permanent establishment, whether or not the goods are imported in the name of the person, associate of the person or any other person.</p> <p>Keeping in view the amendment in section 101(3), corresponding amendments have also been made in sub-section (7) of section 152, whereby a taxpayer would invariably now be required to obtain an order of the Commissioner Inland Revenue u/s 152(5A) of the ITO'2001 for making payment on account of such transaction, without deduction of tax or at lower rate.</p> <p>Further, as per section 152(4A), the Commissioner may, in case of payment that constitutes part of an overall arrangement of a cohesive business operation as referred to in paragraph (ii) of sub-clause (g) of clause (41) of section 2, on application made by</p> <p>The person making payment and after making such inquiry, as the Commissioner thinks fit, allow by order in writing, the person to make payment after deduction of tax equal to 20% of the tax chargeable at 7% on such payment under subsection (1A) i.e. effectively at 2.1%.</p> | <p>The provisions of section 152(4A) for withholding of tax at 2.1% be omitted.</p>  | <p>Since the title of goods passes outside Pakistan, hence tax deduction of withholding tax at much higher rate i.e. 20% will increase the cost of the equipment as the supplier will jack up the prices by including the withholding tax factor, resultantly, telecom operators will have to bear the extra cost which will halt the expansion of the telecom services, especially in far flung areas where the cost of doing business is already on much higher side.</p> |
| 39.   | <p><b>Classification of telecom equipment under Part I of Twelfth Schedule of ITO, 2001</b></p> <p>The telecom equipment constitutes depreciable assets under the ITO, 2001 which are used by the telecom operators for provision of telecom services which are taxed as an income from business under the national tax regime.</p>  | <p>Telecom equipment should be classified under Part I of Twelfth Schedule of ITO, 2001 to equate the telecom sector with other industries as the telecom equipment is not imported for resale purposes.</p> | <p>Currently, the telecom equipment is not properly classified in Twelfth schedule which is a cause of discrimination between telecom sector and others.</p>  |



# Banking, Leasing and Insurance



## Banking, Leasing, and Insurance

| S.No. | Issue   | Recommendation  | Rationale  |
|-------|---|---|--|
| 40.   | Higher Effective Tax of Banking Sector  | <ul style="list-style-type: none"> <li>Corporate tax rates for the banking sector should be aligned with the other sectors @29%.</li> <li>A unified corporate tax rate should be implemented, and supplementary taxes like supertax should be abolished.</li> </ul>   | <p>While corporate tax rates were reduced to 29%, the banking sector's tax rate increased to 44% for FY2024, with slight reductions in FY2025 and FY2026. Including a 10% Super Tax, the effective tax rate for banks in Pakistan reaches 54%, the highest worldwide, and should be adjusted to address economic challenges and attract new banks.</p> <p>A uniform corporate tax rate that includes banks promotes fairness, efficiency, and neutrality in the tax system</p> |
| 41.   | <p><b>Restoration of the Original Provision related to Bad Debts:</b> Effective January 1, 2024, SBP has mandated the implementation of IFRS 9. Following amendments were made via Finance Act 2024 to maintain the status quo of deductions as under:</p> <ol style="list-style-type: none"> <li>Currently, “bad debts” which are classified as ‘sub-standard’ and ‘doubtful’ under the Prudential Regulations of SBP are not allowed until the same are reclassified as ‘loss’. The Finance Act disallowed any provision for advances, off-balance sheet items or any other financial asset classified in Stage I, II or III of the Expected Credit Loss (ECL) model under IFRS 9 or any other provision against performing, under-performing or non-performing assets recorded under any accounting standard.</li> <li>Provisions or Expected Credit Losses for advances, off-balance sheet items, or any financial assets under IFRS 9, whether before or after January 1, 2024, shall not be deductible as expenses.</li> <li>Bad debts classified as “loss” under the SBP's Prudential Regulations for non-performing assets will be allowed as a deduction.</li> </ol> | <p>The amendments should be reassessed in the context of the <b>Schedular taxation regime for banking companies, which is primarily based on the accounting profit reported in the audited financial statements prepared according to SBP guidelines.</b></p> <p><b>Additionally, since IFRS 9 is applicable to banks starting January 1, 2024, it is proposed that loan losses recognized in the Profit &amp; Loss or through the Equity account be allowed as admissible expenses for tax purposes.</b></p> | <p>This approach will help reduce administrative and regulatory challenges, as the issue has been frequently disputed in courts.</p>   |

| S.No. | Issue  | Recommendation   | Rationale   |
|-------|--|--|---|
| 42.   | <b>Islamic modes of financing – Rule 3 of the Seventh Schedule – Treatment for Shariah compliant banking.</b><br>Seventh Schedule to the Ordinance, currently does not allow for any special treatment for “Shariah Compliant Banking” that may provide for abny addition or reduction in taxable income and tax liability.  | Rule 3 (1) & (2) of Seventh Schedule of ITO, 2001 should be replaced with the following text under Rule 3(1):<br><br><i>“The audited financial statements of Islamic Banks and Disclosure related to Islamic window operations of the conventional banks as contained in the audited financial statements submitted to the State Bank of Pakistan shall form the basis for the calculation of income tax liability as provided in this Schedule.”</i>  | To promote Islamic banking.   |
| 43.   | <b>Withholding Tax on All Modes of Islamic Financing</b>   | Following clarification be inserted after clause 153(7)(iii):<br><br><i>“For the removal of doubt, it is clarified that any goods delivered under an Islamic mode of financing by a bank or financial institution approved by the State Bank of Pakistan or the Securities Exchange Commission of Pakistan, shall not be considered as sale of goods for the purpose of this section.”</i>   | To provide tax neutrality for assets financed by Islamic banks and Islamic windows of conventional bank vis- a vis conventional bank.   |
| 44.   | <b>Information and Recovery Notices issued to banks u/s 176 &amp; 140 of ITO, 2001</b><br>The banks are facing the following challenges related to information and recovery notices:<br>i. Single notice requires information tasks for multiple taxpayers.<br>ii. No intimation is made to the customer regarding the recovery notice as required under Rule 210C of the Income Tax Rules, 2002.<br>iii. Notices are issued by officers other than Commissioner in non-compliance of Rule 201B of Rules 2002.<br>iv. Notice doesn't specifically mention that all requirements given in the law are already complied with by the relevant officer, thus causing dispute amongst banks, regulators and customers.<br>v. The tax period is not mentioned in the recovery notices that cause hardship for the bank to reconcile the period with the stay orders provided by the customers. | <b>The following amendments shall be made in recovery rules:</b><br>i. Standard Information & Recovery notice shall be drafted in consultation with Pakistan Banking Association/ SBP and made part of Rules to avoid non-compliance/operational risk for the financial institution.<br>ii. Customer shall be copied in all correspondence executed with Financial Institution.<br>iii. Appropriate Departmental Operation Instructions shall be issued to field officers.<br>iv. Standard format of recovery notice shall be drafted by the FBR to ensure that all requirements of the law are adequately addressed in the letter.<br>v. The tax period shall be mentioned in the recovery notice to ensure that the information is aligned with the stay order provided by the client.<br>vi. A centralized recovery unit should be formed within FBR to ensure operational and regulatory efficiency in the process, including better coordination between regulators and financial institutions, in consultation of the banking industry/ PBA. | To streamline the process of recovery of tax demand from the bank's customers / taxpayers thus avoiding unnecessary disputes between banks and the FBR ensure banks are provided. |



# Pharmaceutical





## Pharmaceutical

| S.No. | Issue  | Recommendation   | Rationale  |
|-------|--|--|--|
| 45.   | <p><b>Restoration of zero-rated regime for pharmaceutical DRAP registered products falling under schedule 8, serial 81 &amp; 82.</b></p> <p>Pharma products are subject to 1% sales tax without allowing input tax adjustment (i.e. final liability for entire supply chain). Since, distributor is unable to claim Input tax of 1%, ultimate burden is passed on to Manufacturer in form of enhanced distributor margin, resulting in 2% hit to Manufacturer.</p> <p>Additionally, Packing materials for pharmaceutical products as well as Diagnostic kits/ reagents are currently subject to sales tax at the rate of 18% as these are not covered under Serial No 82 of the Eighth Schedule.</p> | <p>Currently Pharma Industry (including diagnostics) is under non-adjustable reduced rate regime which should be brought back to zero-rated regime by restoring the position prior to Finance Act, 2022.</p> | <p>These additional indirect taxes have not only adversely impacted the limited margins and commercial viability of the sector but also undermine the industry players' capacity to support national healthcare delivery.</p>  |
| 46.   | <p><b>Pending sales tax refunds under FASTER Pharma System</b></p> <p>On 15th January 2022, the Federal Government, through Finance (Supplementary) Act, 2022, introduced zero-rated regime for pharma sector which was earlier exempt from sales tax. This entitled the pharma industry to claim refunds of input tax paid on purchase of pharma and medicaments related goods and services.</p> <p>Refunds are stuck up till now despite the regime change to 1% final sales tax liability. These refunds were supposed to be processed in 72 hours as per Rule 391 of Chapter V-B of Sales Tax Rules, 2006</p>  | <p>These refunds should be immediately processed and issued in order to resolve working capital issues of the industry.</p>  | <p>These pending refunds have heavily impacted working capital requirement of the industry.</p>  |
| 47.   | <p><b>Abolished the Value added tax on import of finished pharma products [under Twelfth Schedule of the Sales Tax Act, 1990]</b></p> <p>Currently value added tax @3% is levied on import of finished products (Drugs &amp; Diagnostic) through Twelfth Schedule for Pharmaceutical entities.</p>   | <p>Eliminate the 3% VAT on all pharmaceutical and diagnostic finished products imports by inserting new clause in Procedure and conditions (2) of the Twelfth Schedule.</p>                                  | <p>This 3% tax becomes part of cost for an industry where prices for essential medicines are still regulated. Moreover, 8th Schedule (as mentioned in point above) specifies that 1% sales tax is final tax liability for Pharma, but with this 3% value added tax, total sales tax liability increases to 4%.</p> |
| 48.   | <p><b>Entry no. 166 of the Sixth Schedule</b></p>  | <p>In addition to charitable hospitals, the scope of the exemption provided under Sixth schedule Serial no 166 should also be extended to Government Institutions, Departments, and Hospitals.</p>           |  |



# Beverage



## Beverage Sector

| S.No. | Issue   | Recommendation  | Rationale   |
|-------|---|---|---|
| 49.   | <p><b>Rationalization of FED on Aerated Waters [Serial No. 4, 5 &amp; 6 of First Schedule of Federal Excise Act, 2005]</b></p> <p>The Federal Excise Duty (FED) on aerated waters was increased from 13% to 20% through Finance (Supplementary) Act, 2023, representing a more than 50% increase. This excessive taxation has severely impacted industry growth, causing a 30% decline in volumes in 2023 and an additional 12% drop in 2024, effectively erasing six years of progress and returning the sector to 2018 levels.</p> <p>Historically, industrial growth has been a key driver of government revenue. However, sustained high tax rates have had the opposite effect, leading to stagnation rather than growth. Since 2020, the industry has struggled through the pandemic, import restrictions, and high inflation, yet continued investment has helped maintain consistent government revenue. The abrupt tax increase threatens to reverse this trend.</p>   | <p><b>Reduce the FED on Aerated Waters from 20% to 18% (Serial No. 4, 5 &amp; 6 of First Schedule of Federal Excise Act, 2005), to sustain the government revenue in longer term.</b></p> | <p>This reduction will prevent further market shrinkage and stabilize industry volumes, ensuring the sector remains viable in the face of economic uncertainty.</p> <p>It will also help sustain government revenue without overburdening consumers, while allowing businesses to reinvest, expand production, and drive long-term economic recovery.</p>   |
| 50.   | <p><b>Rationalization of FED on Juices [Serial No. 59 of First Schedule of Federal Excise Act, 2005]</b></p> <p>The FED on juices increased from 0% to 10% in early 2023, then doubled to 20%, creating unprecedented financial strain on the industry. This has resulted in a -40% reduction in juice volumes, 50% purchase of fruit pulp since then, disproportionately impacting local farmers who supply fruit for juice production.</p> <p>The documented sector, which operates under strict compliance with tax laws, is facing higher costs and declining competitiveness, while the undocumented sector continues to thrive due to weak enforcement of taxation policies. The burden of excessive FED has discouraged new investment, limiting the sector's ability to grow and contribute effectively to the economy.</p> <p>Currently, the formal juice industry exports products worth USD 15 million annually. Reducing FED will enable further expansion in international markets, boosting Pakistan's non-traditional exports and strengthening foreign exchange earnings.</p> | <p><b>Reduce the FED on juices from 20% to 15% (Serial No. 59 of First Schedule of Federal Excise Act, 2005).</b></p>   | <p>This adjustment would not only alleviate inflationary pressures on the industry, safeguard jobs, and support the agricultural community but would also encourage to reinvest further into the market and bounce back with healthy volume growth, maintaining the momentum of growth in government revenues.</p> <p>By adopting this approach, the government can enable the juice industry to regain its footing, contribute to economic resilience, and deliver mutual benefits for all stakeholders.</p> |



# **Chemical/ Terminals/ Pesticides/ Fertilizers/ Paints**



## Chemical/ Terminals/ Pesticides/ Fertilizers/ Paints

| S.No. | Issue   | Recommendation  | Rationale  |
|-------|---|---|--|
| 51.   | Minimum Tax at Import Stage for Fertilizer manufacturers  | Clause b of Section 148(7) of ITO 2001 as deleted by the Finance Act, 2017 should be restated, which read as follows: “148(7)(b) fertilizer by manufacturer of fertilizer” to allow adjustment of tax deducted at import stage for fertilizer imported by a fertilizer manufacturer so as not to make it a Final Tax.   |  |
| 52.   | <p>Scope of Clause (42) of Part IV of Second Schedule, providing for non-withholding of tax u/s 153 on payment received, to be extended to include all Terminal Operators.</p> <p>Existing clause (42):</p> <p><i>The provisions of sub-section (3 of section 153 shall not apply in respect of payments received by a resident person for providing services by way of operation of container or chemical or oil terminal at a sea-port in Pakistan or of an infrastructure project covered by the Government’s Investment Policy, 1997.</i></p> | <p>Non-applicability of tax withholding under section 153(3) of the ITO, 2001, as provided under Clause (42), be available to all terminals without discrimination.</p> <p>The said clause be re-worded as follows:</p> <p><i>“(42) The provisions of sub-section 3 of section 153 shall not apply in respect of payments received by a resident person for providing services by way of operation of terminal(s) at a sea-port in Pakistan or of an infrastructure project covered by the Government’s Investment Policy, 1997.”</i></p> | To provide a level playing field to all terminal operators thus incentivizing investment in this sector. |

| S.No. | Issue  | Recommendation   | Rationale   |
|-------|--|--|---|
| 53.   | <p>Application of reduced rate of tax withholding u/s 153 on payments received by Terminal operators on account of terminal services.</p>  | <p>Terminal operators be also included in the list of service providers, as provided under clause (2)(i) of Division III of Part III of the First Schedule, that are liable to reduced rate of tax withholding u/s 153 at 4%.</p>  | <p>Terminal business, having thin margins but burdened with high effective tax rate, is of the same model as other service providers that are currently liable to reduced rate of tax withholding.</p> <p>The reduction in tax withholding rate would provide breathing space to this sector enabling more investment in this sector thereby contributing to an increase in economic activity in the country.</p> |
| 54.   | <p><b>Dual taxation on dealers of chemical sector under sections 233 and 236G.</b></p> <p>Dealers of chemicals are currently liable to tax collection under section 236G and section 233, thus unnecessarily creating tax refunds and thus causing cash flow issues for this sector.</p> | <p>Dealers of Chemical sectors be removed from the scope of Section 236G as they are already subject to withholding tax at 12% on their commission income under Section 233 of the Ordinance, which is treated as minimum tax.</p> | <p>Dual tax withholding provisions on the same payment neither would have been the intention of the legislature, nor this would achieve any purpose other than blocking the cash in refunds with the FBR.</p>   |





# Automobile





## Automobiles

| S.No. | Issue   | Recommendation   | Rationale   |
|-------|---|--|---|
| 55.   | Taxes and duties on the entire supply chain involved in the exports of motor vehicles (vendor, dealer, OEM, direct and indirect exporter) disincentivise the exports. | To incentivize the entire supply chain (vendor, dealer, OEM, direct and indirect exporter) involved in the exports of motor vehicles, there should be zero duties and taxes. | <p>This would encourage the increase in export of motor vehicles, parts and oil thus facilitating this sector to earn foreign exchange and this contributes to the economy of the country.</p> <p>Needless to mention that due to inconsistent government policies, unfavorable economic conditions, and less purchasing power of the consumers, this sector is seeing a significant decline in local sales for the last few years.</p> |
| 56.   | High rate of depreciation allowed on imported used cars   | To reduce the depreciation rate from 1% to 0.5%.   | <p>A lower rate of duties and taxes on imported used vehicles encourages their imports. This eventually negatively impacts the local industry, hence impacting higher balance of payments and loss of government revenue. Reduction in depreciation rate for imported used cars is likely to help in providing a level playing field for the locally manufactured vehicles vis a vis imported vehicles.</p>                             |

| S.No. | Issue  | Recommendation   | Rationale   |
|-------|--|--|---|
| 57.   | FED on locally manufactured vehicles<br>Abolish/Reduce Federal Excise Duty (FED) on Locally Manufactured Vehicles. | <p>Abolish/Reduce Federal Excise Duty (FED) on Locally Manufactured Vehicles.</p> <p>Levy of FED on locally manufactured vehicles be abolished/reduced in consultation with auto industry representatives by amending Serial No. 55B and 55D of Table I of First Schedule of the Federal Excise Act, 2005.</p> | <p>Levy of Federal Excise duty on locally manufactured vehicles drives up their costs, making locally assembled vehicles unaffordable and expensive for the local buyers in comparison to used imported cars. This negatively impacts the local industry and discourages the investment in local auto set-ups.</p> <p>This would help in restoring the sales revenue of the local auto sector, thereby increasing the economic activity in the country and thus increasing in government revenue.</p> |
| 58.   | High rate of sales tax on locally manufactured vehicles.   | Currently locally manufactured vehicles are liable to sales tax at a high rate of 25%. Standard sales tax rate of 18% is restored on locally manufactured vehicle by deleting Table II of SRO 297(I)/2023.   | The auto industry is already operating at 40-50% levels and is subject to high taxes and duties. The high rate of sales tax has further deteriorated the demand and production. Ultimately this would bring the volumes below break-even levels, thereby putting the industry in losses and frequent shutdowns. Restoring the standard rate of sales tax for locally manufactured vehicles will help the auto sector to survive and operate at around 50% capacity levels.                            |

| S.No. | Issue  | Recommendation   | Rationale   |
|-------|--|--|---|
| 59.   | Reduction in Minimum tax u/s 113 for Authorized Dealers of vehicle manufacturers a | <ul style="list-style-type: none"> <li>Reduce the rate of minimum tax u/s 113 on the turnover of the authorized dealers of vehicle manufacturers from 1.25% to 0.25%, as being allowed to motorcycle dealers, FMCG distributors, Pharmaceutical, Fertilizers, etc.;</li> </ul> | <p>To promote wholesale-retail mechanism, as applicable internationally, which will improve volumes on account of stock availability and would also promote healthy competition. Increased sales volume would promote economic activity thereby increasing in Government revenue.</p> |
| 60.   | Withholding tax u/s 231B on sales to dealers by the manufacturers                  | <ul style="list-style-type: none"> <li>Withholding income tax u/s 231B should not be applicable on sale of vehicles by manufacturers to their authorized dealers to effectively implement wholesale-retail mechanism.</li> </ul>   | <p>This would help in promoting documentation of income of such authorized dealers as they would be subject to normal taxation.</p>   |



*Published in April, 2025*

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