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The **First Port of Call** for Foreign Investment in Pakistan

Overseas Investors Chamber of Commerce & Industry

Taxation Proposals

2026-2027

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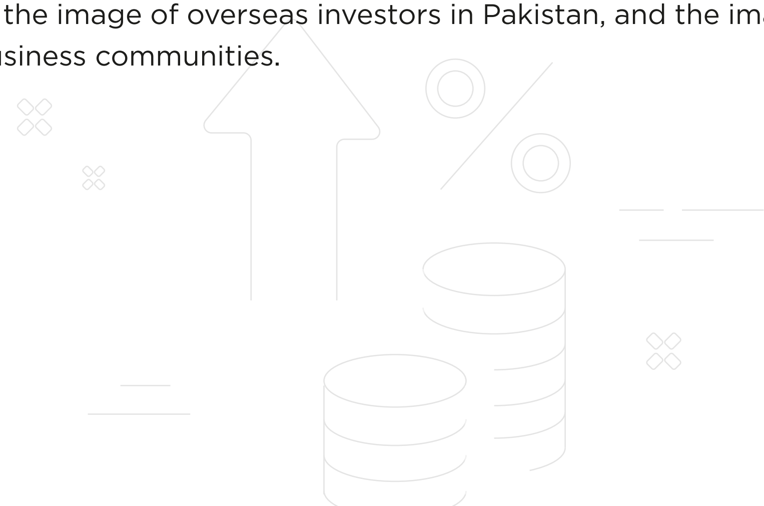
Vision

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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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 190 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.

196+ Member Companies

In **13** Key Sectors

30+ Countries Represented

OICCI Members' Contributions

Total Assets
USD 209 Billion
(As of 2024 reported by 140 member companies)

USD 23 Billion
invested in last decade

Average Member Capital Re-Investment
USD 2.3 Billion
per annum

Equivalent to 1/3rd
(USD 9.8 Billion)
country's tax and levies paid

Corporate Social Responsibility

CSR contribution 2025
PKR 15.3 Billion

Total Work hours
13,072,441

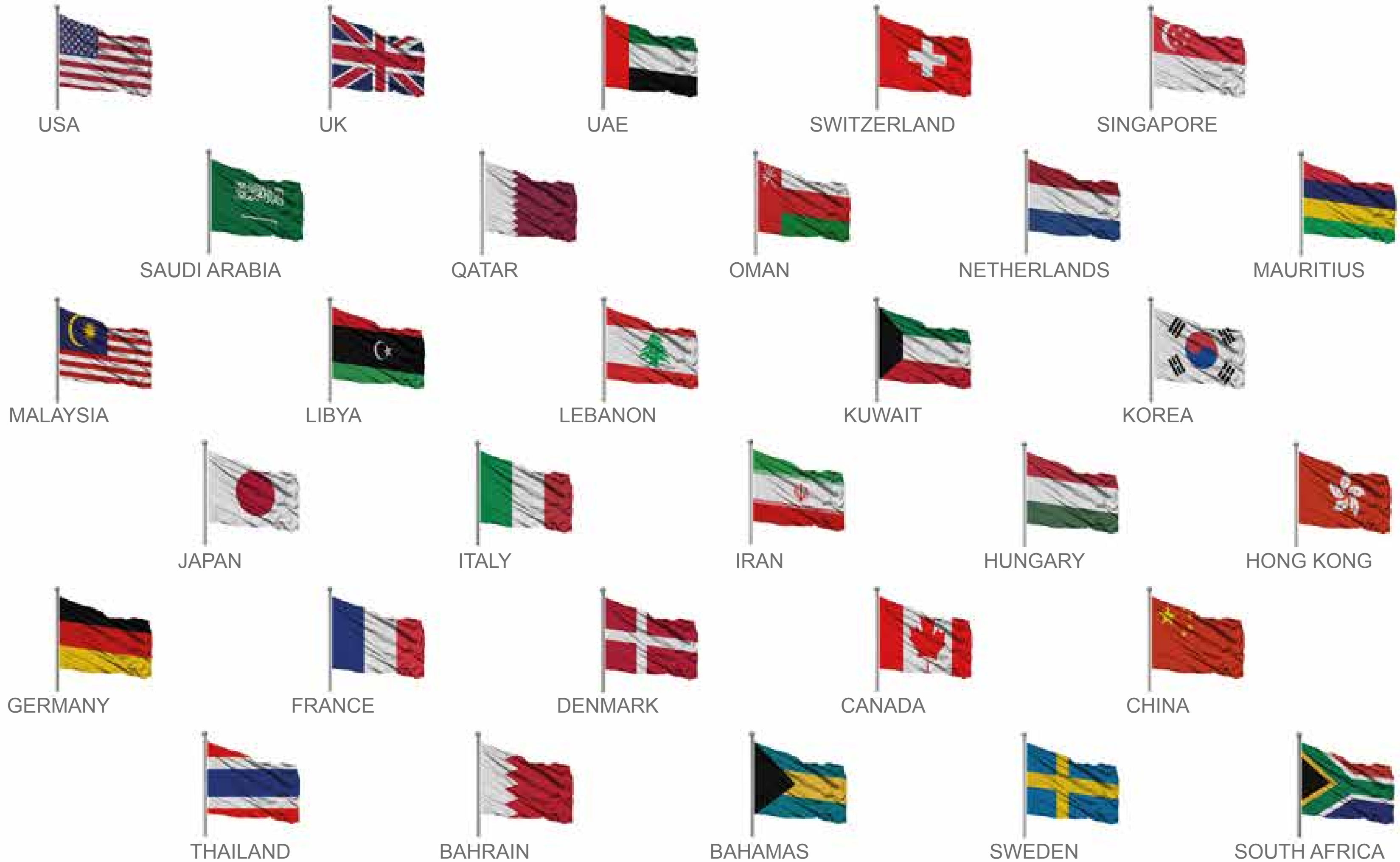
Total Direct Beneficiaries
44 Million+

270+
Social Sector Partners

Sectorial Representation of OICCI Members

Banking / Insurance / Finance & Leasing	34
Oil / Gas / Energy	32
Pharmaceutical & Healthcare	24
Chemicals / Pesticides / Fertilizers / Paints / Cement	23
Food / Consumer Products	22
Engineering / Industrial Products	13
Trading & Other Services	19
Shipping & Airlines	9
IT & Communication	9
Automobile	3
Printing & Publishing	3
Tobacco	2
Telecommunications	3

A Tapestry of 30 Nations



OICCI Members

Foreword

The Overseas Investors Chamber of Commerce and Industry (OICCI), representing leading foreign investors in Pakistan, remains committed to supporting the Government in shaping a modern, equitable, and growth-oriented tax system. As Pakistan navigates a critical phase of economic stabilization and reform, it is imperative that taxation policy evolves from a short-term revenue focus to a strategic enabler of sustainable economic growth.

At the outset, OICCI appreciates the Government's decision to separate tax policy from administration and to transition the Tax Policy Office (TPO) to the Ministry of Finance, an important reform long advocated by OICCI. However, the effectiveness of this step will depend on its full and consistent implementation. It is essential that the TPO is adequately staffed, empowered and operationalized to ensure tax policy is aligned with long-term economic objectives and implemented with clarity and consistency.

At the core of OICCI's Taxation Proposals 2026–2027 is a comprehensive, phased roadmap for tax reforms, designed to strengthen fiscal stability while enabling investment, documentation, and economic expansion. This roadmap emphasizes a clear and disciplined sequencing of reforms, beginning with institutional and policy reset, followed by simplification, base expansion, structural rebalancing, and ultimately, enhanced enforcement and competitiveness.

A central element of this roadmap is the shift from enforcement-led taxation to documentation-driven economic participation. Enhancing transaction visibility through digitization, integrating national databases, and leveraging technology for risk-based compliance can significantly broaden the tax base without imposing undue burden on compliant taxpayers. Equally important is the need to eliminate discretionary practices and foster a transparent, rules-based system that promotes trust between taxpayers and authorities.

These proposals are anchored in fairness, simplicity, transparency, and predictability. OICCI strongly advocates that all sectors of the economy contribute proportionately to the national exchequer, and emphasises FBR to start tracking sector-wise tax to GDP ratios and diverting its compliance, enforcement and recovery efforts towards sectors with low tax to GDP ratios, ensuring an equitable distribution of the tax burden. At the same time, policy consistency and protection against abrupt or retrospective changes are essential to building investor confidence and sustaining long-term economic momentum.

OICCI firmly believes that simplification is the cornerstone of compliance. A streamlined tax system, with fewer rates, minimal exemptions, reduced reliance on withholding taxes, and simplified filing processes, will not only lower the cost of doing business but also encourage wider participation in the formal economy.

In this context, OICCI proposes a phased and predictable rationalization of key tax rates, including the abolition of Super Tax, reduction of the corporate tax rate with a clear five-year roadmap to bring it down to 25% through annual 1% reductions, and similarly, a gradual reduction in sales tax on goods, with a annual phased decline to 15% in line with regional benchmarks. In parallel, OICCI recommends relief measures in personal taxation to reduce the burden on salaried and compliant taxpayers, thereby promoting fairness, improving disposable incomes, and strengthening overall tax morale.

These proposals are categorized into two broad sections based on the nature of the recommendations: Policy and Operational. The policy proposals have been presented in the prescribed TPO format, in alignment with the priorities outlined under Uraan Pakistan.

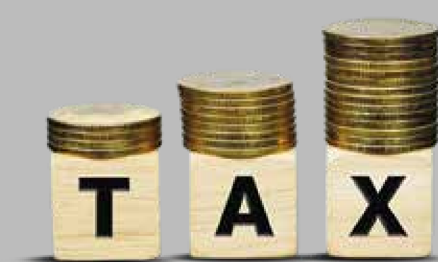
As one of the largest contributors to Pakistan's tax revenues, OICCI members remain steadfast in their commitment to partner with the Government of Pakistan, Ministry of Finance, and Federal Board of Revenue in implementing these reforms. Our collective objective is to develop a tax system that is fair, efficient, transparent, and globally competitive—one that supports investment, drives documentation, and unlocks Pakistan's true economic potential.

We are confident that, through sustained collaboration and a shared commitment to reform, Pakistan can transition towards a modern tax regime that promotes inclusive growth, enhances compliance, and strengthens investor confidence.

Yousaf Hussain
President, OICCI

M. Abdul Aleem
CE/Secretary General, OICCI

Proposed Roadmap for OICCI Tax Reforms



PHASE ZERO

Political and Institutional Reset

YEAR 2026-2027

- Immediately operationalize the Tax Policy Office (TPO) as a gatekeeper for all tax changes and effective separation of tax policy from FBR administration.
- Freeze all preferential treatments including new exemptions/zero-rating/special regimes via SRO or law unless routed through TPO with published rationale.
- Remove arbitrary form of taxation to minimise incidence of refunds. Act on refunds clearance plan starting with refund heavy sectors.
- Consultative approach for levying and reviewing taxation regimes will ensure the true potential of the economic activities, its direct tax potential and effective value addition.
- Super tax should be eliminated (4B &4C).
- Corporate tax should be reduced to 28% in FY 2026–27, with a phased roadmap to bring it down to 25%, by 2030.
- Review of Minimum Tax on Turnover under Section 113 and Alternate Minimum Tax under section 153 of the Income Tax Ordinance 2001 (ITO).
- Withholding tax rates should be reduced by 25% for goods and services across all sectors to ease the financial burden on businesses and improve liquidity.
- Maximum slab of salary taxation should be 25%. For low-income groups, the taxable income threshold should be raised to Rs. 1.2 million, while mandatory return filing should continue from Rs. 0.6 million.
- Reduction in the Sales tax rate on goods from 18% to 17%, with a gradual annual reduction of 1% to reach 15%, aligning with the regional average.

PHASE ONE

Simplification and Base Expansion

YEAR 2027-2028

Design and announce a 2–5-year tax simplification strategy with fewer rate schedules, minimal special regimes, reduced excessive withholding/advance taxes, exemption rationalization, etc.

Also shift away from WHT focused regime to return-based taxation gradually especially where it functions as transaction taxes while retaining core WHT such as on salaries, interest/dividends.

Strengthen FBR's capacity through centralized, data-driven, and risk-based enforcement to target major tax evasion and standardise core processes. Shift focus from deepening to broadening enforcement and monitoring from current major taxpayers to major tax evading sectors.

Rapidly broaden the tax base by ensuring VAT/GST registration for large retailers, wholesalers, and importers, expanding digital invoicing and track-and-trace systems, and linking compliance to audits and refunds with strong enforcement.

Strengthen federal–provincial coordination by enforcing data sharing, taxing services by default with minimal exemptions, and implementing agreed harmonisation measures to reduce duplication and gaps in taxation.

PHASE TWO

Structural Rebalancing of Tax Mix

YEAR 2028-2029

Implement single sales tax return across sectors and a unified GST administration.

Increase provincial revenues by focusing beyond Karachi, Lahore and Islamabad, linking land records to tax IDs, harmonising property valuations, and raising effective property tax levels.

Broaden agricultural taxation by introducing advance taxation on agriculture output, adjustable against agriculture income, lowering exemptions, improving land classification, and using FBR data to enforce compliance and raise meaningful revenue.

After achieving tax-to-GDP ration of 20%, reduce distortionary tax rates and phase out inefficient taxes to support investment and formalisation such a lower corporate tax and removal of some distortionary taxes (turnover/presumptive).

PHASE THREE

Enforcement and Competitiveness

YEAR 2029-2030

Remove the filer–non-filer distinction by introducing universal filing obligations, whereby the tax return filed on the basis of withholding tax (WHT) also serves as the tax registration form; taxpayers may amend the return within 45 days, after which it shall be deemed correct.

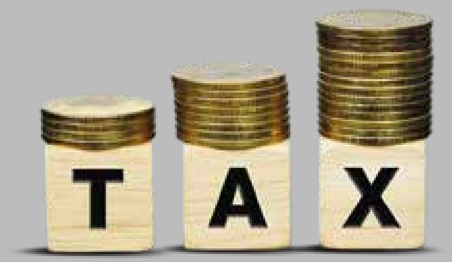
A clear definition of "non-filer" should be provided, limiting it to persons above 60 years of age whose only income is subject to full and final taxation through deduction of WHT or advance tax.

Reform tax dispute resolution by strengthening dispute resolution and litigation processes to reduce uncertainty and improve tax collection. Re-introduce ADRC (Alternate Dispute Resolution Committee) aligned with regional best practices

Shift customs from revenue extraction at the border to data-driven compliance and trade competitiveness by gradually reducing distortive import taxes including Regulatory Duty (RD), Additional Customs Duty (ACD), and Federal Excise Duty (FED), etc.

SECTION 1
OICCI TAX POLICY PROPOSALS

Disclaimer: The policy proposals are presented in the prescribed format of Tax Policy Office, and are also aligned with the priorities outlined under Uraan Pakistan.



Key Tax Policy Proposals

S.No.	Tax Policy Proposals	Page Reference
1.	Gradual phase-out: Abolish Super Tax over a period of three years (FY 2026–27, 2027–28, and 2028–29).	19
2.	Reduce the corporate tax rate to 28% in FY 2026–27 and implement a 5-year roadmap to gradually bring it down to 25% through annual 1% reduction.	21
3.	**Review of Minimum Tax on Turnover under Section 113 and Alternate Minimum Tax under section 153 of the Income Tax Ordinance, 2001 (the Ordinance).** Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.	24
4.	**Revamping Pakistan's Withholding Tax Regime** Restructuring Withholding Tax Rates under Section 153: General Reduction of 25% Across All Sectors and Targeted Relief for Capital-Intensive Service Entities by decreasing their rate to 6%.	30
5.	Relief from double taxation on intercorporate dividends under Clause (103C) of the Income Tax Ordinance should be reinstated.	36
6.	Reduce Sales tax rate on goods from 18% to 17%, with a gradual annual reduction of 1% to reach 15%, aligning with the regional average.	38
7.	Input tax adjustment should be allowed 100% by omitting Section 8B of the Sales Tax Act.	39
8.	Withdrawal of Tax on Bonus shares - Section 236Z of the Income Tax Ordinance, 2001.	41
9.	Broadening the Tax Base through a structured roadmap to bring unregistered persons into the tax net and ensure equitable tax burden, within 2 years. OICCI/PBC & FPCCI, to be part of the review Board with TPO/ FBR/MoF.	42
10.	**Personal Taxation** The Highest slab for salary income should be restricted to 25%, and 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 0.6 million and above. Additionally, the 10% surcharge on individuals earning Rs. 10 million or more should be abolished, as it unfairly penalizes compliant taxpayers.	45

S.No.	Proposal	Page Reference
	Other Key Proposals	
11.	The powers of the Commissioners to issue an exemption certificate should be restored under section 159 of the Ordinance, to all corporate taxpayers who discharge their annual tax liability in advance.	47
12.	Zero rating on local procurements under the Export Facilitation Scheme (EFS) to eliminate the disparity between local and imported supplies and ensure a level playing field.	49
13.	Reduction in import tariffs for local manufacturers, particularly in the engineering, chemical, and downstream sectors, face high input costs due to customs duties, regulatory duties, and anti-dumping duties on raw materials, machinery, and specialized inputs that are not manufactured locally.	50
14.	**Pending Refunds:** Establish a clear statutory timeframe and automated process for issuing refunds arising from favorable appellate decisions to improve liquidity. a. Pending tax refunds to be adjustable against current tax liability, unless settled within 18 months from filing of tax return. As of April 2026, OICCI members pending tax refunds exceed Rs. 100 billion. b. Adjustment be allowed of Income tax liability against pending Sales Tax demand and vice versa.	52
	Simplification & Ease of Doing Business	54
15.	Establish a Federal Revenue Authority (FRA) and align Sales Tax rules across FBR, SRB, PRA, BRA, and KPRA to enable a single return for all sectors, simplifying compliance, reducing duplication, and ensuring consistency for taxpayers.	54
16.	Allow trans-provincial entities to claim WWF/WPPF contributions made to provincial authorities as deductible expenses and establish coordination between federal and provincial authorities to prevent duplicate demands.	56
17.	**Customs Duty** – Structural Reforms to Integrate Illicit Trade into the Formal Economy.	57
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19.	**Dairy Sector:** Reduction in Sales Tax rate on Packaged Milk	61
20.	**Energy Sector:** Restoration of Sales tax status on Motor Spirit (PMG), High-Speed Diesel (HSD), kerosene, and Light Diesel Oil (LDO).	62
21.	**Telecom Sector** – Rationalization of Duties and Withholding Taxes to Promote Telecom Sector Competitiveness and Digital Infrastructure.	63
22.	**Pharmaceutical sector** – Abolition of 3% Sales tax on Imported Finished Pharmaceutical Products (only for those having DRAP licenses).	66
23.	**Beverage Sector** – Remove Federal Excise Duty (FED) On Fruit Juices and Nectar Drinks (Based on Sugar Content)	67
24.	**Automobile Sector** – Simplifying the complexe tax structure including varying rates of sales tax and Federal Excise Duty (FED), which can differ based on engine size or vehicle type.	68

Tax Proposals No 1.	Gradual phase-out: Abolish Super Tax over a period of three years (FY 2026–27, 2027–28, and 2028–29).
Identify the Proposal	✓ Enlarging Manufacturing Base ✓ Equity, Ethics and Empowerment
Background	The effective tax burden on the corporate sector has increased materially in recent years, with combined taxation (including Super Tax under Section 4C) reaching levels of approximately 39% at the entity level, and significantly higher when shareholder-level taxation is considered. Super Tax was introduced through the Finance Act, 2022, as a temporary revenue measure. However, the absence of a defined sunset clause has resulted in its continued application, contrary to earlier precedents (e.g., Super Tax introduced in Tax Year 2015 and subsequently withdrawn by Tax Year 2020). The cumulative tax burden on corporate profits, particularly for resident shareholders can reach approximately 64%, which is significantly above regional and global benchmarks. Investor perspective: The cumulative tax burden is significantly high: **(a) Resident shareholders:** ■ Dividend tax: 15% ■ Super Tax: up to 10% (indirect impact) ■ Combined burden: ~64% **(b) Non-resident shareholders:** ❍ **With treaty protection:** ■ Dividend tax capped at 15%); Super Tax not applicable due to treaty override ■ Combined burden: 44% ❍ **Without treaty protection:** ■ Domestic taxation applies (including Super Tax implications) ■ Combined burden: up to 64%
Qualitative Reasoning	● The continued levy of Super Tax disproportionately burdens compliant, documented taxpayers, while the informal sector remains largely untaxed. ● Persistent reliance on such measures discourages investment, undermines tax base broadening, and creates structural dependence on temporary levies. ● Elevated tax and cost structures have contributed to MNCs scaling down or exiting, reducing competition and adversely impacting consumer welfare. ● Declining MNC presence limits knowledge transfer, weakens competitive discipline, and constrains innovation and long-term industrial growth.
Quantitative analysis regarding impact on revenue and other economic indicators	Globally, corporate tax rates have declined over time to enhance investment attractiveness and competitiveness. The worldwide average statutory corporate tax rate is approximately 23.6%, while the OECD average stands at around 24.2%. A comparison with selected jurisdictions highlights the disparity:

Tax Proposals No 1.	Gradual phase-out: Abolish Super Tax over a period of three years (FY 2026–27, 2027–28, and 2028–29).

Pakistan's standard corporate tax rate of 29% already exceeds global benchmarks. When Super Tax (up to 10%), Workers' Welfare Fund (2%), and Workers' Profit Participation Fund (5%) are considered, the effective tax burden on large corporates may reach approximately 45–46%, significantly reducing competitiveness.

From a macroeconomic perspective, Pakistan's GDP growth is projected to remain modest, increasing from approximately 2.7% in FY2025 to around 3.1% in FY2026 (as per World Bank/IMF estimates).

Fiscal Year	Super Tax Collection (RS. billion)
2022	80
2023	120
2024	150
2025–26	300–380

Country	Corporate Tax Rate
UAE 9%	
Ireland	12.50%
Singapore	17%
United Kingdom	25%
China	25%
United States (Federal)	21%
OECD Average	24%
Pakistan (base rate)	29%
Pakistan (with super tax, WWF, WPPF)	46%

In such a low-growth environment, increasing revenue targets through higher taxation of the existing base may not be sustainable unless supported by expansion in the tax base.

A phased rationalization of Super Tax would increase retained earnings and support private investment, leading to higher economic activity and, over time, broader tax collections. Any short-term revenue impact may be offset through:

- Reduction in losses of State-Owned Enterprises (SOEs)
- Rationalization of untargeted subsidies
- Improved efficiency in public sector expenditure
- Better control of leakages and non-productive spending
- Accordingly, fiscal sustainability may be better achieved through expenditure-side reforms and tax base expansion, instead than continued reliance on additional taxation of the documented sector, particularly in a low-growth environment.

Tax Proposals No 1.	Gradual phase-out: Abolish Super Tax over a period of three years (FY 2026–27, 2027–28, and 2028–29).
	Threshold rationalization: The minimum applicability threshold should be enhanced to RS. 300 million, thereby aligning the levy with its original intent of targeting only high-income entities. **Alternative approach:** Reinstatement of the original rate structure was introduced in 2022, with a maximum rate of 4% on income exceeding Rs. 300 million, may be considered as an interim measure. **Determination of Computation of income for Super Tax Purpose:** Super Tax should be levied only where net taxable income, after adjustment of current-year losses under all heads of income, exceeds the prescribed threshold. Accordingly, inter-head loss set-offs (including business and capital losses against other income such as dividends and commission) should be permitted for determining threshold applicability.
Economic Impact (if any) with reference to fiscal incidence etc	• The fiscal incidence of Super Tax under Section 4C falls primarily on large, compliant and documented taxpayers, increasing inequity in the tax system. • It places a disproportionate burden on the formal sector, while significant portions of the informal economyremain outside the tax net. • The higher effective tax burden increases the cost of capital and reduces funds available for reinvestment and business expansion. • Phasing out Super Tax would help restore investor confidence and improve Pakistan's competitiveness relative to regional jurisdictions. • It would support reinvestment-led growth, enhance economic activity, and contribute to a more sustainable tax base over the medium to long term

Tax Proposals No 2.	Reduce the corporate tax rate to 28% in FY 2026–27 and implement a 5-year roadmap to gradually bring it down to 25% through annual 1% reductions, in line with earlier policy direction.
Identify the Proposal	✓ Enlarging Manufacturing Base
Background	Pakistan currently maintains a relatively high corporate income tax rate of 29%. When combined with additional levies, the effective tax burden in Pakistan becomes significantly higher, adversely impacting investment attractiveness and business expansion.

<table>
<tr><th>Tax Proposals No 2.</th><th>Reduce the corporate tax rate to 28% in FY 2026–27 and implement a 5-year roadmap to gradually bring it down to 25% through annual 1% reductions, in line with earlier policy direction.</th></tr>
<tr><td></td><td>It is pertinent to note that through the Finance Act, 2015, a roadmap was introduced to gradually reduce the corporate tax rate to 25%. However, this trajectory was reversed through the Finance Act, 2019, whereby the corporate tax rate was restored to 29%, thereby increasing the tax burden on the formal sector.

In view of the above, the Government should consider announcing a clear and time-bound policy for gradual reduction of the corporate tax rate, in parallel with the phased withdrawal of Super Tax, to provide a strong signal of policy consistency and commitment towards a competitive and investment-friendly tax regime.

A gradual reduction of the corporate tax rate to 25% would restore competitiveness and support sustainable economic growth. A comparison with regional peers highlights the disparity:

● India: 25% – 30%
● Bangladesh: 25%
● Sri Lanka: 30%
● Pakistan: 29% (excluding additional levies)</td></tr>
<tr><td>Qualitative Reasoning</td><td>● A lower corporate tax rate would improve Pakistan's attractiveness as an investment destination by reducing the overall cost of doing business.
● It would encourage voluntary compliance and reduce incentives for tax avoidance.
● A clearly articulated roadmap for rate reduction would provide policy certainty and support long-term business planning and investment decisions.
● It would reinforce the Government's commitment to private-sector-led growth.</td></tr>
<tr><td>Quantitative analysis regarding impact on revenue and other economic indicators</td><td>The corporate sector in Pakistan, while contributing a relatively modest share to overall GDP, remains the primary contributor to direct tax revenues, indicating a disproportionate reliance on a narrow and compliant segment of the economy.

This concentration of tax burden, coupled with additional levies, has increased the effective tax rate on corporates and adversely impacted investment, expansion, and long-term planning.

<table><tr><th>Particulars</th><th>Indicative Position</th></tr><tr><td>Contribution to GDP</td><td>~6%</td></tr><tr><td>Share in Direct Tax Revenues</td><td>~60–70%</td></tr><tr><td>Nature of Sector</td><td>Highly documented and compliant</td></tr><tr><td>Contribution to Employment</td><td>Significant (formal sector)</td></tr></table></td></tr>
</table>

Tax Proposals No 2.	Reduce the corporate tax rate to 28% in FY 2026–27 and implement a 5-year roadmap to gradually bring it down to 25% through annual 1% reductions, in line with earlier policy direction.
	This disparity highlights that a small but compliant corporate base is bearing a disproportionately high tax burden, raising concerns around sustainability and equity.

Proposed Roadmap

Year	Corporate Tax Rate	Policy Objective
Year 1	29% → 28%	Initial signal of reform
Year 2	28% → 27%	Gradual reduction
Year 3	27% → 26%	Continued easing
Year 4	26% → 25%	Achieving competitive steady rate

Expected Outcomes

A phased reduction in the corporate tax rate to 25% over four years, alongside rationalization of additional levies, would:

- Improve after-tax profitability and reinvestment capacity.
- Enhance project viability (NPV/IRR) and attract investment.
- Increased foreign and domestic investment.
- Expansion of formal sector employment.
- Increase dividend distributions, boosting withholding tax collections.
- Broaden of the tax base through improved compliance.

While there may be a short-term revenue impact, the medium- to long-term outcome is expected to be positive, with stronger economic activity resulting in more stable and sustainable tax revenues.

Economic Impact (if any) with reference to fiscal incidence etc	The proposed corporate tax reduction is expected to primarily benefit productive and compliant enterprises by lowering the effective tax burden and improving after-tax cash flows. This would enhance reinvestment, leading to increased economic activity, employment generation, and broader tax base expansion over time.

Review of Minimum Tax on Turnover under Section 113 and Alternate Minimum Tax under section 153 of the Income Tax Ordinance, 2001 (the Ordinance)

Tax Proposals No 3	**Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.**
Identify the Proposal	✓ Export-led growth, ✓ Expansion of manufacturing base, ✓ Promotion of ICT and industrial development, ✓ Energy and Environmental Sustainability, & ✓ Equity, ethics, and formalization
Background	Section 113 of the Income Tax Ordinance, 2001, imposes a minimum tax on turnover, currently applicable at a general rate of 1.25% and a specific rate of 0.5% for Oil Marketing Companies (OMCs). This tax is levied on gross receipts, irrespective of whether the entity has generated a net profit or is in a loss position. The current framework creates a fundamental distortion in the principle of income-based taxation. This is particularly inequitable for two distinct categories of taxpayers: 1. **Regulated, Low-Margin Sectors (Energy/OMCs):** Entities operating under OGRA-determined pricing regimes face a disproportionate burden. In these sectors, turnover is driven by volatile international oil prices and exchange rates, while margins are administratively capped by the regulator at structurally low levels (typically below 2-3%). The minimum tax on turnover therefore taxes the top-line inflationary impact rather than the bottom-line earnings of the company, consuming a significant portion of the sector's regulated earnings. 2. **Businesses Subject to Multiple Minimum Tax Regimes:** Many corporate entities are already subject to minimum tax under the withholding provisions of Section 153 (at rates ranging from 4% to 15% on gross receipts). The application of Section 113 on top of Section 153 creates a redundant and confusing layer of minimum taxation. Where the Section 153 rate exceeds the Section 113 rate, the imposition of Section 113 adds no additional revenue value but creates unnecessary compliance burdens, computational complexity, and grounds for litigation.

Tax Proposals No 3	Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.
	3. Inequitable Expiry of Turnover Tax Adjustment Credits: Under the existing framework, where a taxpayer pays minimum tax on turnover under Section 113 in a loss-making year, the excess of such minimum tax over the normal tax liability may be carried forward for adjustment against future tax liabilities for a period of only two (2) years. This narrow window fails to account for the long gestation periods, cyclical downturns, and extended recovery timelines inherent in capital-intensive industries such as energy, refining, and heavy manufacturing. As a result, legitimate tax credits paid during periods of loss or low profitability are permanently forfeited, effectively converting an adjustable minimum tax into a final, non-refundable levy that penalizes long-term investment.
Qualitative Reasoning	The existing minimum tax regime under Section 113 suffers from three core structural inefficiencies: **1. Mismatch with Economic Reality in Regulated Sectors:** • **Inelastic Margins:** For OMCs and refineries, revenues fluctuate significantly based on global crude prices and foreign exchange movements, while per-unit margins are fixed in nominal rupee terms by OGRA. • **Disproportionate Burden:** The tax effectively applies to gross sales value rather than actual earnings. As demonstrated in the quantitative analysis, the current 0.5% rate on turnover can consume over 20% of the sector's actual regulated margin, severely impairing retained earnings required for infrastructure maintenance, safety compliance, and storage capacity expansion. **2. Redundancy and Confusion with Section 153:** • **Double Layering:** Taxpayers are frequently subjected to minimum tax via withholding on gross receipts (Section 153) and again

Tax Proposals No 3	Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.
	via return filing (Section 113). This duplication creates ambiguity in tax computation and increases the risk of litigation without generating material additional revenue. • **Administrative Inefficiency:** The requirement to compute and reconcile multiple minimum tax thresholds imposes an undue compliance burden on both taxpayers and the Federal Board of Revenue (FBR). **3. Inadequate Adjustment Period (2-Year Limitation):** • **Penalization of Cyclicality:** Industries such as refining, fertilizer, and heavy manufacturing operate on multi-year business cycles. A loss-making or low-margin period, during which minimum tax on turnover is paid, is often followed by a gradual recovery extending beyond two years. The current two-year limitation forces the expiry of legitimate tax credits before the business has an opportunity to return to sustained profitability. • **Barrier to Capital Investment:** The risk of permanent credit forfeiture discourages long-term capital expenditure and expansion, as the tax system effectively penalizes the investment phase by failing to provide adequate time for tax cost recovery. • **Principle of Equity:** The extension of the adjustment period from two to five years aligns the tax code with the economic reality of long-term project cycles, ensuring that the minimum tax functions as a true advance tax rather than a final punitive levy.

Tax Proposals No 3	Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.
Quantitative analysis regarding impact on revenue and other economic indicators	**Part A: Impact of Reducing OMC Rate from 0.5% to 0.25%**

Illustrative Example: OMC with Regulated Margin of 2%

Metric	Current Regime (0.5%)	Proposed Regime (0.25%)
Annual Turnover	1,000,000	1,000,000
Regulated Profit Margin (2%)	20,000	20,000
Minimum Tax u/s 113	5,000	2,500
Tax as % of gross profit (without depreciation and other expenses)	25%	12.5%
Impact on Liquidity	High Strain	Sustainable

- **Liquidity Release:** Industry estimates suggest that reducing the rate to 0.25% for OMCs and refineries would release approximately Rs. 3–5 billion annually in working capital. These funds are critical for mandated investments in storage infrastructure, safety upgrades, and logistics fleet modernization.

Part B: Impact of Extending Turnover Tax Adjustment Carry-Forward from 2 to 5 Years

Economic Impact (if any) with reference to fiscal incidence etc

Illustrative Example: Capital-Intensive Manufacturing Expansion

Year	Taxable Profit/(Loss)	Minimum Tax u/s 113 Paid	Normal Tax Liability	Credit Available for Carry-Forward
Year 1 (Expansion/CAPEX)	Loss (0)	100	0	100

Tax Proposals No 3	**Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.**			
	Year 2 (Ramp-Up)	Loss (0)	100	0	200
	Year 3 (Break-Even)	Marginal Profit (50)	0	15	Current Rule: 100 Expires Proposed Rule: 285
	Year 4 (Profit)	150	0	45	Offset Available
	Year 5 (Profit)	200	0	60	Offset Available

- Current Rule Outcome: Rs. 100 of legitimate minimum tax paid in Year 1 is permanently lost because the business returned to profitability in Year 3, just outside the narrow 2-year adjustment window.
- Proposed 5-Year Window Outcome: The company retains and utilizes the credit against future tax liabilities. This prevents double taxation and aligns tax policy with the long-term nature of industrial investment cycles.

Part C: Medium to Long-Term Revenue Impact

- Short-Term (Fiscal Impact): A modest reduction in current-year minimum tax collections from OMCs (due to the 0.25% rate reduction) and a deferral of tax receipts due to the extended 5-year adjustment period. It is critical to note that this represents a re-timing of tax receipts, not a permanent loss of revenue, as the underlying corporate tax liability on profitable entities remains fully intact.

- **Medium to Long-Term (Structural Gains):**
  - OMC Sector: Improved financial health reduces the risk of supply chain disruption and enhances capacity for import handling and strategic storage, contributing to national energy security.
  - General Corporate Sector: The extension of the adjustment period to five years encourages higher capital expenditure (CAPEX), business expansion, and formal reporting of turnover. Companies are assured that tax paid during investment or downturn phases will be available to offset tax due during subsequent profitable periods.

Tax Proposals No 3	Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.
	o Reduced Litigation: Clarifying the interplay between Section 113 and Section 153 reduces the administrative burden on FBR and taxpayers, decreasing the volume of disputes and appeals regarding minimum tax applicability.
Economic Impact (if any) with reference to fiscal incidence etc	• Energy Security & Infrastructure: The reduction for OMCs directly translates into enhanced capacity for maintaining strategic petroleum reserves and upgrading retail outlet safety and environmental standards. This mitigates the fiscal incidence of potential supply shocks and emergency imports on the national exchequer. • Restoration of Ability-to-Pay Principle: The proposal restores equity by ensuring that the minimum tax burden does not permanently exceed the long-term profitability of a regulated entity or a cyclical business. The extended adjustment period ensures that tax paid on turnover is creditable against tax due on actual income over a commercially reasonable timeframe. • Investment Promotion: By removing the 2-year credit expiry cliff, the proposal eliminates a significant deterrent to long-term capital investment in the energy, refining, and manufacturing sectors. It signals that the tax system recognizes and accommodates the extended payback periods inherent in major infrastructure and industrial projects. • Formalization and Documentation: A more equitable minimum tax framework reduces the incentive for businesses to under-report turnover or seek informal arrangements to manage cash flow. This supports the broader policy objective of economic formalization and documentation.
Sectors and Business activities to be influenced by the proposal	1. Direct Rate Reduction (0.5% to 0.25%): • Oil Marketing Companies (OMCs): Significant liquidity improvement for entities operating under the OGRA regulatory framework. • Refineries & Petrochemicals: Enhanced capacity to absorb cyclical downturns in refining margins and invest in plant upgrades. • Other Regulated Energy Entities: Entities with high turnover and administratively determined low margins.

Tax Proposals No 3	**Rationalization of Minimum Tax on Turnover under Section 113: General Rate Reduction, Specific Relief for Oil Marketing Companies (OMCs) to 0.25%, and Extension of Turnover Tax Adjustment Carry-Forward Period from Two (2) Years to Five (5) Years.**
	2. Extension of Adjustment Period (2 Years to 5 Years): • Capital-Intensive Manufacturing: Steel, Cement, Fertilizer, and Textile composite units undertaking expansion, BMR (Balancing, Modernization, Replacement), or operating in cyclical demand environments. • Energy & Power Sector: Independent Power Producers (IPPs), transmission companies, and exploration and production (E&P) companies in loss-making or low-return tariff periods. • Infrastructure & Construction: Large-scale project contractors and developers with extended project completion and payment cycles. • Cyclical and Seasonal Industries: Automotive, Pharmaceuticals, and Agro-based industries where sales volumes and profits fluctuate sharply based on economic policy, crop cycles, or regulatory approvals.

Revamping Pakistan's Withholding Tax Regime

Tax Proposals No 4	**Restructuring Withholding Tax Rates under Section 153: General Reduction of 25% Across All Sectors and Targeted Relief for Capital-Intensive Service Entities by decreasing their rate to 6%.**
Identify the Proposal	✓ Export-led growth, ✓ Expansion of manufacturing base, ✓ Promotion of ICT and industrial development, ✓ Energy and Environmental Sustainability, & ✓ Equity, ethics, and formalization ✓ Policy
Background	Section 153 of the Income Tax Ordinance, 2001, was originally conceived as a withholding mechanism designed to broaden the tax base, enhance economic documentation, and facilitate efficient collection of advance tax. However, the regime has materially deviated from its intended purpose. It has evolved from an adjustable advance tax mechanism into a primary, and often final, revenue collection tool that operates independently of actual income or profitability. The current withholding tax framework is characterized by excessive complexity and fragmentation, comprising multiple categories, disparate rates, and frequent legislative amendments. This has culminated in a system that:

Tax Proposals No 4	Restructuring Withholding Tax Rates under Section 153: General Reduction of 25% Across All Sectors and Targeted Relief for Capital-Intensive Service Entities by decreasing their rate to 6%.
	• Imposes a disproportionate compliance burden due to classification ambiguity. • Treats withholding tax as a minimum tax, regardless of whether the business is in a loss position. • Applies elevated rates that can reach up to 15% on services. • Lacks an effective exemption or reduction certificate mechanism post-Finance Act 2019. • Strains liquidity through upfront advance taxes on capital expenditures (e.g., 10% on telecom license auctions). Furthermore, the application of a uniform Minimum Tax Regime (MTR) yardstick under Section 153 fails to distinguish between low-margin, high-volume professional services and Capital-Intensive Service Entities. Industries operating on fixed-fee contracts with high upfront Capital Expenditure (CAPEX), such as terminal operators, infrastructure developers, and tower companies, face effective tax rates that grossly exceed the statutory corporate tax rate, thereby threatening long-term business viability and investment in critical national infrastructure.
Qualitative Reasoning	The existing framework suffers from two fundamental structural inefficiencies: General Over-Deduction and Discrimination Against Capital Investment. **1. General Over-Deduction & Liquidity Distortion (Applicable to All Sectors):** • **Fragmentation:** Excessive withholding categories lead to conservative over-deduction by withholding agents seeking to avoid penal consequences. • **Minimum Tax Distortion:** Tax liability becomes disconnected from actual income. For low-margin businesses (e.g., distribution, contracting), the effective tax rate (ETR) can exceed 100% of actual profits due to the tax being levied on gross receipts.

Tax Proposals No 4	Restructuring Withholding Tax Rates under Section 153: General Reduction of 25% Across All Sectors and Targeted Relief for Capital-Intensive Service Entities by decreasing their rate to 6%.
	• **Liquidity Constraints:** High withholding rates lock crucial working capital, particularly in sectors with extended cash conversion cycles. • Absence of Relief: The removal of the exemption certificate mechanism for commercial importers and service providers has resulted in systemic over-deduction and a backlog of refund claims, locking crucial working capital. **2. Disproportionate Impact on Capital-Intensive Sectors:** • **Incompatibility with Business Model:** For entities with high depreciation, interest costs, and long gestation periods (e.g., LNG Terminals, Port Operators, Tower Infrastructure), a turnover-based tax under Section 153 bears no relation to their ability to pay. • **Barrier to Investment:** The current MTR creates a tax penalty on investment. As illustrated in the quantitative analysis, a capital-intensive service entity under the new 15% MTR can face an effective tax rate exceeding 80%, making investment in large-scale infrastructure economically unviable unless tax is grossed up into the consumer tariff. • **Misalignment with Corporate Tax:** The MTR effectively overrides the normal tax regime of 29% (+ Super Tax), creating a parallel, harsher tax system for sectors vital to economic growth.
Quantitative analysis regarding impact on revenue and other economic indicators	**Part A: Impact of General 25% Rate Reduction (All Sectors)** ***Example – Service Invoice and Withholding Tax Impact*** Assume a service provider raises an invoice of Rs. 1,000.

Tax Proposals No 4	Restructuring Withholding Tax Rates under Section 153: General Reduction of 25% Across All Sectors and Targeted Relief for Capital-Intensive Service Entities by decreasing their rate to 6%.

- Sales Tax @ 15% = Rs. 150. Gross Invoice = Rs. 1,150.
- Current Regime: Withholding Tax u/s 153 @ 15% on Gross = Rs. 172.5.
- Net Cash Received = Rs. 977.5.
- Requirement to Absorb Credit: To fully utilize the Rs. 172.5 credit against Corporate Tax (29%), the company must generate taxable income of Rs. 594.83. This implies a required Profit Margin of 59.5% merely to avoid a refund claim.
- Proposed 25% Reduction: If the rate is reduced by 25% (e.g., 15% 11.25%), the WHT deduction falls to Rs. 129.38.
- Impact: Required profit margin to absorb credit drops to approximately 44.6%.
- Liquidity Impact: An immediate 25% improvement in working capital retention post-invoice for all businesses, with a corresponding reduction in refund pendency at the FBR.

Part B: Impact of Specific 6% Rate for Capital-Intensive Entities

Illustrative Example: Terminal Operator (LNG/Coal/Bulk)

Description	Pre-Finance Act 2025 (MTR 9%)	Current Regime (MTR 15%)	Proposed Relief (MTR 6%)
Revenue	100	100	100
Cost (incl. high depreciation/finance)	(82)	(82)	(82)
Profit Before Tax	18	18	18
Minimum Tax (on Turnover)	(9)	(15)	(6)
Profit After Tax	9	3	12
Effective Tax Rate (ETR)	50%	83%	33%
Alignment with Corporate Tax (29%+)	Disconnected	Severely Disconnected	Aligned

<table>
<tr><th>Tax Proposals No 4</th><th>Restructuring Withholding Tax Rates under Section 153: General Reduction of 25% Across All Sectors and Targeted Relief for Capital-Intensive Service Entities by decreasing their rate to 6%.</th></tr>
<tr><td></td><td>Part C: Medium to Long-Term Revenue Impact

• Short-Term (Fiscal Impact):
A marginal, manageable reduction in advance tax collection from the 25% general rate cut (estimated impact from telecom reduction: ~Rs. 2.5 billion) and the specific reduction for capital-intensive MTR. This is a re-balancing of collection timing, not a loss of revenue, as tax will be collected at the return filing stage under NTR.

• Medium-Term (Compliance & Growth):
o Reduced Disputes: Lower rates reduce the incentive for misclassification and litigation, reducing administrative burden on FBR.
o Expansion of Tax Base: Improved liquidity enables capital-intensive projects and businesses across all sectors to survive and formalize, widening the pool of filers.
o Investment Multiplier: Enhanced post-tax returns in telecom, energy, and logistics will spur new CAPEX (e.g., 4G/5G rollout, port expansion), generating higher future income tax and GST revenues.</td></tr>
<tr><td>Economic Impact (if any) with reference to fiscal incidence etc</td><td>• Restoration of Ability-to-Pay Principle:
The proposal shifts the fiscal incidence from gross receipts back to actual income, aligning with international best practices and constitutional equity.
• Liquidity Enhancement:
Reduces the lock-up of working capital estimated to be in the hundreds of billions of rupees across the corporate sector. This capital can be redeployed for inventory, payroll, and expansion rather than funding FBR refunds.
• Infrastructure & Energy Security:
Specifically reduces the cost of capital for critical infrastructure projects (LNG terminals, ports, transmission</td></tr>
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<tr><td></td><td>lines). By lowering the MTR to 6%, the proposal ensures that tax policy is not the primary driver of high consumer tariffs in the energy and logistics sectors.

• Formalization Incentive:

A general reduction in withholding tax rates improves the cash flow of compliant businesses, reducing the operational incentive to remain outside the documented economy.

• Fiscal Incidence:

Currently, high WHT is often "grossed up" in contracts. This means the Government of Pakistan and State-Owned Enterprises (SOEs) are indirectly paying the cost of their own high withholding taxes through inflated project bids. Reducing the rate will lower procurement costs for the public sector.</td></tr>
<tr><td>Sectors and Business activities to be influenced by the proposal</td><td>1. General 25% Rate Reduction (All Sectors):

• Manufacturing: Improved supply chain liquidity for vendors and distributors.
• Trading: Reduction in cash flow strain for wholesale and retail operations.
• Services (General): IT, consulting, advertising, security, and janitorial services.
• SMEs: Vendors, contractors, and service providers to large enterprises.

2. Specific 6% Rate for Capital-Intensive Service Entities (Criteria: Audited Financials + CAPEX Threshold + 3-Year Filers):

• Telecommunications Infrastructure: Tower companies, fiber optic network providers.
• Ports & Terminals: LNG, Coal, Bulk, and Container Terminal Operators.
• Logistics Infrastructure: Cold storage chains, freight terminals.
• Power & Utility Services: Operations & Maintenance (O&M) contractors for power plants and transmission lines.
• Engineering & EPC Contracting: Large-scale, long-gestation infrastructure projects.</td></tr>
</table>

Tax Proposals No 5.	**Relief from double taxation on intercorporate dividends under Clause (103C) of the Income Tax Ordinance should be reinstated.**
Identify the Proposal	✓ Enlarging Manufacturing Base
Background	The Group Company regime introduced in Pakistan in 2007 aimed to encourage the formation of corporate groups and holding structures, including relief from multiple taxation on inter-corporate dividends within eligible group companies. Under this framework, dividends received within a qualifying group were exempt from tax, thereby preventing economic double taxation. However, subsequent amendments, particularly through the Finance Acts of 2016 and 2021,have restricted this relief, resulting in multiple layers of taxation on the same profits as they flow within a group. Globally, many jurisdictions adopt similar mechanisms to eliminate such distortions. OECD countries commonly provide participation exemptions, under which dividends received from qualifying subsidiaries are wholly or substantially exempt, subject to conditions such as minimum shareholding and holding period (OECD). Reinstating such relief in Pakistan would align the domestic tax framework with international practice and support efficient capital allocation within corporate groups. Reinstating relief for inter corporate dividends within eligible groups in Pakistan would align domestic law more closely with this common OECD practice of reducing or eliminating double taxation of intra group profits. This promotes corporatization, consolidation of business operations, efficient allocation of capital within corporate groups, and stronger governance, all of which support a more competitive manufacturing base and deeper formal sector participation.
Qualitative Reasoning	Taxation of dividends at multiple levels within a corporate group leads to economic double (or multiple) taxation, which: • Discourages formation of formal group structures; • Distorts capital allocation decisions; and • Reduces efficiency in intra-group investment and restructuring Reinstating relief for inter-corporate dividends within eligible groups would: • Align with global best practices; • Promote corporatization and consolidation; • Enable efficient deployment of capital within business groups; and • Strengthen governance and operational scale.
	The current regime results in multiple taxation of the same underlying profits, first at the corporate level and again upon distribution within the group.

Tax Proposals No 5.	**Relief from double taxation on intercorporate dividends under Clause (103C) of the Income Tax Ordinance should be reinstated.**
Quantitative analysis regarding impact on revenue and other economic indicators	Reinstating exemption for inter-corporate dividends would not result in a permanent loss of revenue, as: • The underlying profits are already taxed at the operating company level; and • Taxation is effectively deferred until profits are distributed to final shareholders or realized. Accordingly, the measure represents a timing difference rather than a reduction in the tax base. From a broader perspective, removal of intra-group dividend taxation is expected to: • Improve capital allocation efficiency within groups; • Encourage investment in manufacturing and expansion; • Promote formalization and consolidation of businesses. Over time, these effects can lead to higher taxable profits, increased economic activity, and expansion of the tax base, offsetting any short-term revenue impact.
Economic Impact (if any) with reference to fiscal incidence etc	This measure promotes a more efficient allocation of capital within corporate groups, removing tax distortions from business restructuring decisions. It supports the growth of large, formal, and well-governed business entities that can compete more effectively.
Sectors and Business activities to be influenced by the proposal	Holding companies and their subsidiaries, corporate groups, and large businesses seeking to restructure for growth.

Tax Proposals No 6.	**Reduce Sales tax rate on goods from 18% to 17%, with a gradual annual reduction of 1% to reach 15%, aligning with the regional average.**
Identify the Proposal	✓ Enlarging Manufacturing Base ✓ Equity, Ethics and Empowerment
Background	The standard sales tax rate in Pakistan is currently 18%, which is among the highest in the region. This elevated rate contributes to inflationary pressures and incentivizes informality within the economy.
Qualitative Reasoning	Sales tax/VAT is an indirect tax, meaning the burden ultimately falls on consumers at the point of purchase. Economists and global studies consistently find that such taxes are regressive, as lower-income households spend a larger share of their income on consumption than wealthier households.

Tax Proposals No 6.	**Reduce Sales tax rate on goods from 18% to 17%, with a gradual annual reduction of 1% to reach 15%, aligning with the regional average.**
	For example, World Bank analysis has shown that GST in Pakistan contributes significantly to the poverty headcount and increases household pre-tax expenditure by over 7%, disproportionately affecting poorer and vulnerable families (World Bank flags Pakistan, n.d.). A high standard sales tax rate: ● Increases the cost of goods and services, contributing to inflation; ● Disproportionately affects low-income households; ● Reduces overall purchasing power. Additionally, high sales tax discourages voluntary compliance in an economy where informality remains pervasive. A large informal economy, estimated at around 60% of GDP, operates outside the tax system, and elevated VAT rates incentivize businesses to remain undocumented or under-report transactions. This results in: ● Reduced tax base; ● Increased cash-based transactions; and ● Competitive disadvantage for compliant businesses. A gradual reduction in the standard rate would: ● Improve affordability and consumption; and ● Enhance equity.
Quantitative analysis regarding impact on revenue and other economic indicators	Pakistan's standard sales tax (commonly referred to as VAT on goods) is 18%, which is higher than many of its regional peers In comparison, many regional economies maintain lower consumption tax rates, such as (Act n.d.): ● Bangladesh: 15% VAT ● Nepal: around 13–15% VAT ● Indonesia: 11% VAT ● Japan: 10% consumption tax ● Singapore: 9% GST ● Thailand: 7% VAT

Tax Proposals No 6.	Reduce Sales tax rate on goods from 18% to 17%, with a gradual annual reduction of 1% to reach 15%, aligning with the regional average.
	Evidence from regional revenue performance suggests that higher rates alone do not guarantee higher consumption tax revenue. For instance, Sri Lanka raised its VAT from 15% to 18%, but even with the increase, its VAT revenue remains low relative to GDP compared with neighbours like Nepal and Bangladesh at similar or lower rates. A phased reduction from 18% to 15% is expected to: ● Stimulate consumption; ● Reduce price pressures; ● Improve compliance and documentation; and ● Expand the tax base.
Economic Impact (if any) with reference to fiscal incidence etc	Over time, improved compliance and a broader base can offset short-term revenue losses while reducing inflationary impact. Sales tax is inherently regressive; a gradual rate reduction would improve equity by lowering the burden on consumers, particularly lower-income households, while enhancing efficiency through improved compliance and broader tax base coverage.

Tax Proposals No 7.	Removal of Input Tax Adjustment Restriction under Section 8B
Identify the Proposal	✓ Enlarging Manufacturing Base ✓ Equity, Ethics and Empowerment
Background	Section 8B of the Sales Tax Act, 1990 restricts input tax adjustment to 90% of output tax for a tax period. This results in the accumulation of unadjusted input tax, effectively blocking working capital for compliant businesses.
Qualitative Reasoning	Under Section 8B, registered taxpayers are allowed to adjust only up to 90% of their output tax liability against input tax, with the remaining balance carried forward. While the provision was originally introduced to curb fraud and misuse of flying invoices, it disproportionately impacts compliant and documented businesses, including manufacturers and Tier-1 retailers (FBR, 2021). For Tier-1 retailers—such as large retail chains and integrated outlets—the impact is further compounded by POS integration requirements. In cases of non-integration, input tax adjustment may be restricted by up to 60%, significantly constraining liquidity. Even for compliant, integrated Tier-1 retailers, the practical adjustment cap of 95% still falls short of full tax neutrality.

Tax Proposals No 7.	Removal of Input Tax Adjustment Restriction under Section 8B
	As a result: ● Legitimate input tax credits remain unutilized; ● Significant working capital is blocked; and ● Cash flows are adversely affected across supply chains. This undermines the fundamental principle of VAT—full input tax neutrality, and shifts the burden from final consumption to compliant businesses.
Quantitative analysis regarding impact on revenue and other economic indicators	Under the current provision, a taxpayer with 100 units of input tax can only adjust up to 90 units against output tax, leading to 10 units of input tax locked for future periods and effectively increasing the cost of capital tied up in inventory and supply chain operations. Assume a compliant, documented business (e.g., a large manufacturer or Tier-1 retailer) reports monthly output tax liability of RS. 10 million. Under the current system: ● Allowable input tax adjustment: 90% of output tax → RS. 9 million ● Blocked working capital tied up in unadjusted input tax: RS.1 million each month If the restriction is removed and 100% input tax adjustment is permitted, the full RS. 10 million becomes usable working capital immediately (instead of RS. 9 million). Working Capital Release and Economic Multipliers: 1. Monthly working capital release: RS. 1 million 2. Annual working capital release (12 months): RS. 12 million This release of RS. 12 million annually, now available within the business rather than blocked, can be reinvested in productive activities such as inventory purchase, marketing, capacity expansion, labour hiring, and supply chain improvement, stimulating sales growth.
Economic Impact (if any) with reference to fiscal incidence etc	The fiscal incidence of section 8B currently falls on compliant businesses. Its removal would restore neutrality in the tax system, reduce price distortions, and improve competitiveness by ensuring the burden of indirect taxes is passed on to final consumers, not absorbed by documented enterprises.
Sectors and Business activities to be influenced by the proposal	All manufacturing and trading entities subject to sales tax, particularly listed companies and Tier-1 retailers integrated with FBR.

Tax Proposals No 8.	Withdrawal of Tax on Bonus shares - Section 236Z of the Income Tax Ordinance, 2001
Identify the Proposal	✓ Enlarging Manufacturing Base ✓ Equity, Ethics and Empowerment
Background	Section 236Z of the Income Tax Ordinance, 2001 imposes a tax on the issuance of bonus shares. Bonus shares are issued to existing shareholders by capitalizing company reserves, and this transaction does not involve any inflow of cash to the shareholder.
Qualitative Reasoning	Bonus shares represent a reallocation of equity within a company, without generating any real income or cash flow for shareholders. Taxing such non-cash transactions contradicts the fundamental principle of taxation based on realized economic benefit. The current treatment: ● Imposes tax liability without cash realization ● Creates liquidity constraints for shareholders ● Distorts corporate decisions regarding profit distribution and reinvestment As a result, companies may avoid issuing bonus shares and instead opt for cash dividends or other structures, even where capitalization of reserves would be more efficient. This adversely affects: ● Retention of earnings for reinvestment; ● Equity strengthening and balance sheet management; and ● Long-term capital formation and growth planning. Removal of this tax would eliminate an anomalous levy and allow companies to retain and reinvest profits more efficiently, supporting expansion and strengthening the formal corporate sector.
Quantitative analysis regarding impact on revenue and other economic indicators	Section 236Z requires withholding tax of 10% on the market value of bonus shares, treated as final tax on deemed income. Since no cash is received by shareholders, the tax must be paid from external funds or by disposal of shares, resulting in liquidity constraints. In practice, companies have resorted to selling withheld bonus shares to recover tax liabilities. While the measure generates limited revenue, historical evidence indicates that similar taxation on bonus shares led to a significant decline in such issuances, thereby reducing its effectiveness as a revenue tool.

Tax Proposals No 8.	**Withdrawal of Tax on Bonus shares - Section 236Z of the Income Tax Ordinance, 2001**
	Importantly, this tax on bonus shares does not represent taxation of real income but rather imposes a charge on notional gains, creating economic distortions without meaningful revenue contribution.
Economic Impact (if any) with reference to fiscal incidence etc	The tax on bonus shares is an impediment to corporate growth. Its removal would encourage reinvestment of profits, strengthen corporate balance sheets, and support a more favorable environment for business expansion without creating an undue burden on shareholders.
Sectors and Business activities to be influenced by the proposal	All corporate entities and their shareholders.

Tax Proposals No 9.	**Broadening the Tax Base:** **A Roadmap to Include Unregistered Persons and Ensure Equitable Tax Burden.**
Identify the Proposal	✓ Export-Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics, and Empowerment
Background	Currently, Pakistan is facing challenge of a narrow tax base, with a small proportion of taxpayers financing the national exchequer. Based on the FBR data indicates that out of a population exceeding 240 million, only approximately 5.2 million individuals and entities filed annual return of income for Tax Year 2023, representing less than 2.2% of the population. Which would result in the following: • Salaried individuals and documented businesses bear a disproportionate share of the tax burden to the economy. • Tax-to-GDP ratio remains stagnant at 9–10%, well below emerging market averages of 15–20%. • Undocumented sectors contribute minimally despite significant economic activity. • Estimated at 30–40% of GDP, it remains outside the tax net. According to FBR, it has access to substantial data regarding unregistered persons and high-value transactions from banks, utility companies, property, financial institutions, withholding agents, sales tax returns, NADRA, FIA, SCBA, provincial revenue authorities, and capital markets. However, this data remains under-utilized for the purpose of enforcement and documentation. Unfortunately, past initiatives like Tajir Dost Scheme, POS Integration for Tier-1 retailers, Track and Trace System, Tax Amnesty Schemes, and Active Taxpayer List have shown limited success due to inconsistent implementation, inadequate stakeholder engagement, enforcement gaps, and lack of accountability.

<table>
<tr><th>Tax Proposals
No 9.</th><th>Broadening the Tax Base:
A Roadmap to Include Unregistered Persons and Ensure Equitable Tax Burden.</th></tr>
<tr><td></td><td>• Despite contributing 18% of GDP, tax collection remains ~4%, with challenges in registration, reporting, and withholding enforcement.
• Professionals such as doctors, lawyers, engineers, and accountants remain largely undocumented.
• Agriculture income remains untaxed despite constitutional provisions, with no province implementing an effective regime.
• Economy heavy reliance on cash undermines documentation and compliance.</td></tr>
<tr><td>Qualitative Reasoning</td><td>Broadening the tax base addresses structural weaknesses and promotes fiscal sustainability, equity, and economic stability. Key considerations include:

Fiscal Sustainability: Reduces reliance on debt and external financing.
Equity and Fairness: Ensures all sectors contributing to GDP pay their proportionate share.
Economic Stability: Documented economy improves data for policy-making.
Competitive Neutrality: Reduces unfair advantages for undocumented sectors.
Learning from Past Initiatives: Consistent targets, accountability mechanisms, trained officials, and stakeholder engagement are essential.

The authorities should initiate proposed measures:

• Supply chain reporting by manufacturers and importers, enhanced withholding, specialized FBR wing, mandatory POS integration for Tier-1 retailers, cross-utilization of provincial data.
• Mandatory POS-based invoicing, professional tax linkage, targeted outreach campaigns, extended withholding.
• Agriculture Income: Progressive taxation using land-based indicators, provincial coordination, integrated with income tax liability.
• Dedicated monitoring wing liaising with SBP/FMU to identify high-risk cases.
• Technology Utilization: AI-driven analytics, data integration, predictive modeling, automated risk assessment.
• Digital Payments and e-Invoicing: POS mandate, RAAST integration, mobile wallet promotion, real-time reporting.
• Full implementation to prevent counterfeiting and monitor supply chains.
• Enhanced border controls and inter-agency coordination.
• Tax credits for sustained compliance, recognition programs, preferential services.
• Sustained campaigns to promote voluntary compliance and tax culture.</td></tr>
</table>

Tax Proposals No 9.	**Broadening the Tax Base:** **A Roadmap to Include Unregistered Persons and Ensure Equitable Tax Burden.**
Quantitative analysis regarding impact on revenue and other economic indicators	**Short-Term Analysis (1–2 Years):** • New taxpayers registered (assumed 500,000 to 1,000,000 annually) • Additional revenue from wholesale/retail (assumed Rs. 50 billion to Rs. 80 billion) • Additional revenue from services (assumed Rs. 20 billion to Rs. 30 billion) • Additional revenue from property transactions (assumed Rs. 15 billion to Rs. 25 billion) • Implementation costs (assumed Rs. 2 billion to Rs. 3 billion) **Medium-Term Analysis (3–5 Years):** • Tax-to-GDP ratio: assumed increase to 12–14% • Number of registered taxpayers (assumed increase to Rs. 8 million to Rs. 10 million) • Documented economy share (assumed 75–85%) • Additional annual revenue (assumed Rs. 300 billion to Rs. 500 billion) **Long-Term Analysis (5–10 Years):** • Tax-to-GDP ratio (assumed 15 to 20%) • Broad-based tax structure reduces reliance on indirect taxes • Fiscal sustainability improves, reducing debt reliance and enhancing credit ratings
Economic Impact (if any) with reference to fiscal incidence etc	• Reduces burden on salaried individuals and documented businesses while ensuring all sectors contribute proportionately. • Economy: Documentation brings untaxed economic activity into the formal sector. • More stable revenue streams and reduced reliance on indirect taxes. • Reduces unfair advantages and encourages investment in documented sectors. • Formalization and Growth: Supports access to credit, contract enforcement, and modernization.
Sectors and Business activities to be influenced by the proposal	• Wholesale and Retail Trade (multi-province operations) • Services Sector: medical, legal, engineering, consultancy, accounting • Agriculture (progressive, threshold-based taxation) • Manufacturing • Any trans-provincial enterprise • High-value property transactions • Digital payment and fintech adoption

Tax Proposals No 10.	**Personal Taxation: 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.**
Identify the Proposal	✓ Broadening of Tax Base ✓ Equity, Ethics and Empowerment ✓ Documentation of Economy
Background	It is imperative to note that Pakistan's personal income tax system imposes a relatively low threshold, whereby individuals earning more than Rs. 600,000 per annum become liable to tax. "Although the tax rate for income between Rs. 600,000 and Rs. 1,200,000 per annum is only 1%, tax rates in comparable income brackets in other Asian countries after adjusting for exchange rate differences with PKR are generally lower. Furthermore, the highest tax slab for salaried individuals in countries such as India and Bangladesh is 30%, whereas in Pakistan it effectively reaches 38.15%, including the 9% surcharge applicable to individuals with annual taxable income exceeding Rs. 10 million.. This structure has several unintended consequences: • Over-taxation of lower and lower-middle income earners whose real incomes have been eroded by inflation, reducing disposable income and consumption. • High compliance burden on documented taxpayers, especially salaried professionals who contribute a disproportionate share of documented revenue yet face higher withholding rates with limited tax planning capacity. • Disincentives for documentation and compliance, as many informal or semi-formal earners remain outside the system. • Distortion of labor incentives, where high marginal tax burdens on skilled professionals reduce take-home pay and contribute to brain drain encouraging skilled workers to seek employment in jurisdictions with more balanced taxation. Currently Pakistan's have low tax-to-GDP ratio and narrow pool of tax filers, there is a clear need to rationalize personal taxation toward greater fairness, broader coverage, and sustainable compliance.
Qualitative Reasoning	The proposed reason for raising the tax-free threshold protects lower income households and adjusts taxation for inflation, increasing disposable income and stimulating consumption. Whereas the mandatory filing captures economic activity, gradually integrating informal earners without immediate revenue pressure. Further, we would inform you that the removing of the surcharge reduces corrective taxation, and would encourages compliance, and limits incentives for capital flight. Therefore, it is suggested to moves from a "high-rate, low-base" system to a "moderate-rate, broad-base"

<table>
<tr><td>Tax Proposals No 10.</td><td colspan="2">Personal Taxation: 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.</td></tr>
<tr><td>Quantitative analysis regarding impact on revenue and other economic indicators</td><td colspan="2">Based on historical trends and amendments in Pakistan’s tax laws, salaried individuals and compliant taxpayers have often been treated as an easy source for increasing tax revenue. The following outlines the potential impact of the proposed measures:

Increasing the taxable threshold from Rs. 600,000 to Rs. 1.2 million may result in a short-term reduction in revenue. However, it is expected to boost consumption by approximately 0.5% to 1% of GDP. The resulting increase in disposable income would support higher economic activity and partially offset revenue losses through indirect taxation.

Similarly, the removal of the surcharge is expected to result in an immediate revenue loss of approximately Rs. 40 to Rs. 60 billion, while also contributing to improved consumption patterns.

Overall, the net impact is expected to be a short-term revenue shortfall of around Rs. 50 to Rs. 100 billion. However, in the medium term, it is expected to generate additional revenue through both indirect taxes (supported by increased consumption) and direct taxes, while also contributing to a long-term structural improvement in the tax-to-GDP ratio.</td></tr>
<tr><td>Economic Impact (if any) with reference to fiscal incidence etc</td><td colspan="2">It is submitted that it would redistributes fiscal burden from salaried and high-income taxpayers toward previously undocumented segments, improving vertical and horizontal equity. Based on the proposed amendment, increased disposable income stimulates consumption, supports SMEs, retail, and financial sectors, and strengthens domestic capital. Reduced marginal tax rates discourage avoidance and informalization while retaining skilled workers.</td></tr>
<tr><td rowspan="7">Sectors and Business activities to be influenced by the proposal</td><td colspan="2">The section and business activities would have a primary and secondary on the following</td></tr>
<tr><td>Primary</td><td>Secondary</td></tr>
<tr><td>Salaried individuals</td><td>Retail</td></tr>
<tr><td>Professionals</td><td>Consumption-driven sectors</td></tr>
<tr><td>Freelancers</td><td>Financial Sector</td></tr>
<tr><td>Small business owners</td><td>Real Estate</td></tr>
<tr><td></td><td>Investment activities</td></tr>
</table>

<table>
<tr><th>Tax Proposals No 11.</th><th colspan="2">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.</th></tr>
<tr><td>Identify the Proposal</td><td colspan="2">✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors
✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics and Empowerment</td></tr>
<tr><td>Background</td><td colspan="2">Section 159 empowers the Commissioner Inland Revenue to issue exemption certificates, allowing withholding agents to adjust or forgo tax deduction where a taxpayer’s anticipated liability is lower than prescribed withholding rates. Originally intended to broaden the tax base by aligning withholding with actual income, the provision has increasingly functioned as a revenue collection tool, limiting its intended utility.

Recent developments have constrained access to exemption certificates due to:

• Removal of advance minimum tax option under Finance Act 2019.
• Narrow interpretation restricting certificates only to statutory exemptions.
• Administrative hurdles, including arbitrary cancellations and procedural delays.
• Complex verification requirements causing uncertainty for compliant taxpayers.

These limitations result in over-withholding, liquidity pressures, delayed refunds, and reduced incentives for corporate investment.</td></tr>
<tr><td rowspan="7">Qualitative Reasoning</td><td>Aspect</td><td>Details / Rationale</td></tr>
<tr><td>Function of Section 159</td><td>Ensures withholding aligns with anticipated tax liability, preventing undue cash flow constraints.</td></tr>
<tr><td>Exemption vs. Tax Credit</td><td>Judicial rulings confirm both reduce tax liability and qualify for Section 159 relief.</td></tr>
<tr><td>Impact on Corporate Taxpayers</td><td>Excessive withholding locks working capital, inflates effective tax rates in low-margin sectors, and causes refund delays.</td></tr>
<tr><td>Global Comparison</td><td>In comparable jurisdictions, exemption certificates are routinely issued to compliant taxpayers, preserving liquidity and promoting formalization.</td></tr>
<tr><td>Judicial Support</td><td>Courts recognize Section 159 rights as substantive, requiring procedural safeguards before any cancellation.</td></tr>
<tr><td>Proposed Measures</td><td>• Clarify that Section 159 applies to taxpayers whose estimated liability is lower than withholding amounts.
• Extend eligibility to corporate taxpayers meeting advance tax obligations.</td></tr>
</table>

Tax Proposals No 11.	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.	
		• Standardize application process with prescribed timelines and deemed approval. • Provide extended certificate validity and ensure cancellation only after due inquiry. • Restore authority to issue 100% exemption certificates under Section 153(4) for qualifying taxpayers.
Quantitative analysis regarding impact on revenue and other economic indicators	**Area**	**Key Impact**
	Short-Term	Minimal revenue impact (taxes remain payable through advance/final tax); improved liquidity; reduced refund claims due to lower over-deduction.
	Medium to Long-Term	Higher voluntary compliance; increased investment from released working capital; expansion of formal tax base (ATL participation); reduced disputes and administrative costs.
Economic Impact (if any) with reference to fiscal incidence etc	**Area**	**Key Impact**
	Timing of Tax Collection	Aligns tax collection with actual income rather than transactional withholding.
	Refund Burden	Decreases refund backlog and administrative pressure on FBR.
	Compliance Cost	Simplifies procedures for taxpayers and withholding agents.
	Equity	Ensure taxation reflects ability to pay rather than gross transactions.
Sectors and Business activities to be influenced by the proposal		**Key Activities**
	Telecommunications	Network rollout, equipment procurement, services
	Contracting & EPC	Energy, infrastructure, government projects
	Manufacturing	Raw materials, machinery, expansion projects
	Services	IT, consulting, outsourcing, security, engineering
	Banking & Finance	Debt income, securities, mutual funds
	Non-Resident Pakistanis	Bank profits, property transactions

Tax Proposals No 12.	**Zero rating on local procurements under the Export Facilitation Scheme (EFS) to eliminate the disparity between local and imported supplies and ensure a level playing field.**
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base
Background	Under the Export Facilitation Scheme (EFS), zero-rating sales tax is available on specified export-related imports. However, pursuant to the Finance Act, 2024, the benefit of zero-rating on domestic procurement by EFS-authorized persons has been withdrawn. As a result, locally procured inputs are now subject to 18% sales tax, whereas imported inputs continue to remain tax-free, creating an imbalance in the tax treatment of domestic versus imported supplies.
Qualitative Reasoning	The current framework creates a structural distortion by disincentivizing local procurement and incentivizing imports, thereby undermining domestic industry. This differential treatment: ● Places local manufacturers at a competitive disadvantage; ● Encourages increased reliance on imports, adding pressure on foreign exchange reserves; and ● Disrupts development of local value chains Restoring zero-rating on domestic supplies to exporters would: ● Ensure tax neutrality between imported and locally sourced inputs; ● Support domestic manufacturing and upstream industries; ● Align with international principles of export taxation, whereby exports remain free of indirect taxes.
Quantitative analysis regarding impact on revenue and other economic indicators	The proposed measure is expected to be largely revenue-neutral. Sales tax collected on domestic supplies to exporters typically results in refund claims, which: ● Create administrative burden for tax authorities; ● Lead to delays in refunds, impacting exporters' liquidity; and ● Do not contribute to sustainable net revenue. Restoration of zero-rating would: ● Eliminate the need for refunds in such cases; ● Improve cash flow and working capital efficiency for exporters; and ● Encourage import substitution, reducing pressure on foreign exchange.

Tax Proposals No 12.	**Zero rating on local procurements under the Export Facilitation Scheme (EFS) to eliminate the disparity between local and imported supplies and ensure a level playing field.**
Economic Impact (if any) with reference to fiscal incidence etc	The proposal ensures a fairer fiscal incidence by eliminating embedded taxes in export goods, thereby improving price competitiveness in international markets. It supports local manufacturing, employment generation, and strengthens the external account by promoting domestic sourcing over imports.
Sectors and Business activities to be influenced by the proposal	Export-oriented manufacturers (textiles, leather, sports goods, engineering), and upstream industries (chemicals, packaging) that supply them.

Tax Proposals No 13.	**Reduction in import tariffs for local manufacturers, particularly in the engineering, chemical, and downstream sectors, face high input costs due to customs duties, regulatory duties, and anti-dumping duties on raw materials, machinery, and specialized inputs that are not manufactured locally.**
Identify the Proposal	✓ Export-led growth, ✓ Expansion of manufacturing base, ✓ Promotion of ICT and industrial development, ✓ Energy and Environmental Sustainability, & ✓ Equity and fair taxation
Background	Pakistan's tariff regime imposes Customs Duty (CD), Additional Customs Duty (ACD), Regulatory Duty (RD), and Anti-Dumping Duty (AD) on essential industrial inputs, including those not manufactured locally. ● **PVC Sector:** PVC Resin (HS 3904.1090): 10% CD + up to 40.13% AD Chlorinated Paraffin Wax (HS 3824.9980): 22.57% – 43.10% AD (effective August 2024) ● **Packaging & Inputs:** Wooden Drums (HS 4415.1000): 20% CD + 4% ACD PP Tape (HS 3921.1900): 15% CD + 2% ACD (no local manufacturer) Carbon Fiber Core (HS 8545.9090): 5% CD (no local manufacturer) ● **Power Transmission:** Aluminum Alloy Conductor (HS 7326.9090): 20% CD + 4% ACD + 2.5% RD (26.5%) These cumulative duties significantly increase input costs and reduce industrial competitiveness.

Tax Proposals No 13.	**Reduction in import tariffs for local manufacturers, particularly in the engineering, chemical, and downstream sectors, face high input costs due to customs duties, regulatory duties, and anti-dumping duties on raw materials, machinery, and specialized inputs that are not manufactured locally.**
Qualitative Reasoning	The existing structure effectively taxes production by increasing input costs. High duties on key materials in the PVC, packaging, and power transmission sectors restrict sourcing flexibility, create market distortions, and inflate infrastructure costs. Rationalization is required to align tariffs with economic efficiency and remove unnecessary cost burdens.

Quantitative analysis regarding impact on revenue and other economic indicators

Revenue & Economic Indicators

Short-Term:

- Reduction in customs revenue due to lower duty rates

Medium to Long-Term:

- Increased industrial output and production volumes.
- Higher income tax and sales tax collection.
- Growth in exports and foreign exchange inflows.
- Reduction in under-invoicing and informal trade.
- Increased import volumes through formal channels.

Following are the breakup of current duty and proposed duty;

Sector	HS Code	Description	Current Duty	Proposed Duty
PVC	3904.109	PVC Resin	10% CD + up to 40.13% AD	0% AD; rationalized CD
PVC	3824.998	CPW	22.57%–43.10% AD	0% AD; rationalized CD
Packaging	4415.1	Wooden Drums	20% CD + 4% ACD	10% CD
Packaging	3921.19	PP Tape	15% CD + 2% ACD	5% CD
Packaging	8545.909	Carbon Fiber Core	5% CD	0% CD
Power	7326.909	Aluminum Conductor	26.5% total	10% CD; review ACD/RD

Economic Impact (if any) with reference to fiscal incidence etc

The proposal shifts fiscal incidence from taxation of raw materials to taxation of value-added output and income generation.

PVC & Cable Sector:

- Lower input costs   improved export competitiveness and capacity expansion

Tax Proposals No 13.	**Reduction in import tariffs for local manufacturers, particularly in the engineering, chemical, and downstream sectors, face high input costs due to customs duties, regulatory duties, and anti-dumping duties on raw materials, machinery, and specialized inputs that are not manufactured locally.**
	Packaging Sector: o Reduced cost pressures and improved environmental sustainability (less timber reliance) **Power Sector**: o Lower capital expenditure increased transmission projects and grid efficiency **Overall Economy:** o Enhanced industrial competitiveness o Employment generation o Expansion of tax base through higher economic activity
Sectors and Business activities to be influenced by the proposal	The proposed tariff rationalization removes distortions caused by excessive duties (up to 43.10% AD and 26.5% cumulative tariffs) on essential inputs. It facilitates cost-efficient production, export growth, and industrial expansion, with any short-term revenue loss expected to be offset by sustainable long-term fiscal gains through increased economic activity and tax collection.

Tax Proposals No 14.	**Fast-Track Processing and Settlement of Outstanding Tax Refunds (Sales Tax & Income Tax)**
Identify the Proposal	✓ Export Led Growth ✓ Equity, Ethics and Empowerment ✓ Ease of Doing Business ✓ Documentation of Economy
Background	It is imperative to note that a substantial amount of tax refunds remains outstanding under the Sales Tax and Income Tax regimes. It has been observed that members of the Overseas Investors Chamber of Commerce and Industry (OICCI) are currently awaiting refunds exceeding RS. 100–103 billion, comprising approximately RS. 65 billion in income tax and RS. 37 billion in sales tax. It has further been observed that such delays primarily arise due to technical limitations in the FASTER and ERS systems, absence of defined timelines, and reliance on manual verification processes. As a result, refund processing remains uncertain and prolonged, particularly for manufacturers and exporters operating under tight liquidity conditions.

Tax Proposals No 14.	Fast-Track Processing and Settlement of Outstanding Tax Refunds (Sales Tax & Income Tax)
Qualitative Reasoning	It is submitted that delayed refunds effectively convert excess tax collections into an interest-free financing mechanism for the Government. This places an undue burden on compliant taxpayers and undermines the neutrality of the tax system. It is further submitted that the current framework discourages formal economic activity, as documented businesses face liquidity constraints while undocumented sectors remain unaffected, thereby creating an uneven playing field. It is also pertinent to highlight that uncertainty in refund processing adversely affects investor confidence and increases the cost of doing business. In capital-sensitive sectors, delayed refunds directly impact production, pricing, and competitiveness. Accordingly, it is submitted that a transparent and time-bound refund mechanism is essential to restore confidence, improve liquidity, and support economic growth. In addition, it is recommended that a refund adjustment mechanism be introduced, whereby: • Sales tax refunds may be adjusted against income tax liabilities, and • Income tax refunds may similarly be adjusted against sales tax liabilities, thereby enabling efficient inter-tax settlement, reducing cash flow blockage, and eliminating unnecessary fiscal circularity.
Quantitative analysis regarding impact on revenue and other economic indicators	Following are the facts as follows: • **Outstanding refunds: RS. 100–103 billion** o Income Tax Rs. 65 billion o Sales Tax: Rs. 37 billion • **Financing Cost Impact:** It is imperative to note that at an assumed cost of capital of KIBOR + 3% (i.e. 14%), the annual financing cost on blocked funds is approximately i.e. Rs. 14 billion per annum • **Liquidity Impact:** Release of over Rs. 100 billion into the formal economy • **Revenue Impact:** It is submitted that short-term impact revenue would be remain neutral, as refunds represent taxes already collected, however, it has following Medium-term impact includes: • Higher corporate profitability, Increased income tax collection, and Growth in indirect tax revenues. It would result in estimated additional revenue of Rs. 20 to Rs.40 billion annually. (Expected)

Tax Proposals No 14.	Fast-Track Processing and Settlement of Outstanding Tax Refunds (Sales Tax & Income Tax)
Economic Impact (if any) with reference to fiscal incidence etc	It is submitted that the current regime imposes an implicit financial burden on compliant taxpayers by delaying legitimate refunds, thereby shifting fiscal incidence from the Government to the formal private sector. This disproportionately affects exporters and manufacturers. It is further submitted that timely settlement of refunds would improve working capital availability, reduce reliance on external financing, and enhance operational efficiency. It is imperative to note that once such funds are reinjected into the economy, they contribute to increased business activity, higher taxable income, and ultimately generate additional income tax and indirect tax revenues for the exchequer.
Sectors and Business activities to be influenced by the proposal	• Manufacturing sector • Export-oriented industries • Multinational companies and large corporates • SMEs linked to supply chains • Logistics and trade-related services

Simplification & Ease of Doing Business

Tax Proposals No 15.	Establish a Federal Revenue Authority (FRA) and align Sales Tax rules across FBR, SRB, PRA, BRA, and KPRA to enable a single return for all sectors, simplifying compliance, reducing duplication, and ensuring consistency for taxpayers.
Identify the Proposal	✓ Create a Federal Revenue Authority (FRA) to unify tax administration. ✓ Introduce a single Sales Tax return for all sectors. ✓ Standardize rules across FBR, SRB, PRA, KPRA, BRA. ✓ Simplify compliance and reduce duplication. ✓ Prevent double taxation and disputes.
Background	Pakistan's tax system is currently fragmented: FBR administers sales tax on goods, while provincial revenue authorities levy sales tax on services under separate statutes. Businesses operating nationally face multiple registrations, audits, and return filings, creating duplication, inefficiency, and litigation risks.

Simplification & Ease of Doing Business

<table>
<tr><th>Tax Proposals No 15.</th><th>Establish a Federal Revenue Authority (FRA) and align Sales Tax rules across FBR, SRB, PRA, BRA, and KPRA to enable a single return for all sectors, simplifying compliance, reducing duplication, and ensuring consistency for taxpayers.</th></tr>
<tr><td></td><td>Successful pilots for telecom, E&P companies, and microfinance banks under the PRR project have demonstrated that a single return system with automated allocation is feasible. Recent developments, including the Place of Provision of Services Rules (2023) and digital integration through the FBR IRIS system, provide a foundation for extending this model nationwide.</td></tr>
<tr><td>Qualitative Reasoning</td><td>
<table>
<tr><th>Aspect</th><th>Details</th></tr>
<tr><td>Unified Administration</td><td>Single registration, audit, and return filing reduces overall compliance burden.</td></tr>
<tr><td>Standardized Rules</td><td>Uniform definitions, tax rates, and procedures eliminate disputes and double taxation.</td></tr>
<tr><td>Automated Allocation</td><td>Tax revenues are apportioned across federal and provincial authorities based on place of supply.</td></tr>
<tr><td>Ease of Doing Business</td><td>Simplified compliance framework encourages investment and business formalization.</td></tr>
<tr><td>Proven Model</td><td>Existing success in telecom, E&P, and microfinance sectors demonstrates feasibility.</td></tr>
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</td></tr>
<tr><td>Quantitative analysis regarding impact on revenue and other economic indicators</td><td>
<table>
<tr><th>Aspect</th><th>Details</th></tr>
<tr><td>Compliance Cost Reduction (Assumed/Projected)</td><td>Estimated 20–40% reduction for multi-province operators based on pilot sector efficiencies.</td></tr>
<tr><td>Potential Revenue Gain (Assumed/Projected)</td><td>Estimated RS. 400–800 billion annually, assuming improved compliance and reduced under-reporting.</td></tr>
<tr><td>Additional Benefits</td><td>Reduction in litigation, simplified input tax adjustments, and lower administrative burden.</td></tr>
</table>
</td></tr>
<tr><td>Economic Impact (if any) with reference to fiscal incidence etc</td><td>
<table>
<tr><th>Aspect</th><th>Details</th></tr>
<tr><td>Fair Tax Burden</td><td>Reduces undue pressure on compliant taxpayers and limits advantages for informal sector.</td></tr>
<tr><td>Efficiency Gains</td><td>Eliminates cascading taxes, double taxation, and compliance inefficiencies.</td></tr>
<tr><td>Investment & Growth</td><td>Enhances investor confidence and facilitates expansion of formal economic activity.</td></tr>
<tr><td>Sectoral Impact</td><td>Positive impact on telecom, manufacturing, distribution, IT, banking, and inter-provincial services.</td></tr>
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Tax Proposals No 15.	**Establish a Federal Revenue Authority (FRA) and align Sales Tax rules across FBR, SRB, PRA, BRA, and KPRA to enable a single return for all sectors, simplifying compliance, reducing duplication, and ensuring consistency for taxpayers.**	
Sectors and Business activities to be influenced by the proposal	**Sector**	**Activities**
	Telecommunications	Mobile, fixed-line, broadband, and value-added services
	Oil & Gas	Exploration, production, refining, and distribution
	Microfinance & Banking	Nationwide financial operations
	Manufacturing & Distribution	Production, logistics, and toll manufacturing
	Professional & IT Services	Consulting, software development, BPO, legal, architectural
	Other Services	Advertising, media, insurance, real estate, agriculture, inter-provincial services

Tax Proposals No 16.	**Allow trans-provincial entities to claim WWF/WPPF contributions made to provincial authorities as deductible expenses and establish coordination between federal and provincial authorities to prevent duplicate demands.**
Identify the Proposal	✓ Create a Federal Revenue Authority (FRA) to unify tax administration, ✓ Introduce a single Sales Tax return for all sectors, ✓ Standardize rules across FBR, SRB, PRA, KPRA, BRA, ✓ Simplify compliance and reduce duplication, & ✓ Prevent double taxation and disputes.
Background	This is to inform you that the Workers' Welfare Fund (WWF) and Workers' Profit Participation Fund (WPPF) are statutory mechanisms to provide welfare benefits to industrial workers through employer profit-linked contributions. However, following to the 18th Constitutional Amendment, social welfare was devolved to provinces, which have enacted their own WWF & WPPF laws. Payments by single-province entities are generally deductible under Sections 60A and 60B of the Ordinance. For trans-provincial entities, the proviso in these sections disallows deduction of WWF/WPPF contributions made to provincial authorities. This results in double taxation, overlapping jurisdiction, increased compliance burden, litigation, and working capital constraints. Reformation is required to ensure fairness, reduce disputes, and align tax treatment with constitutional and fiscal principles.
Qualitative Reasoning	The trans-provincial companies are currently facing conflicting while discharging the WWF/WPPF obligations, as payments to one province are not recognized by others and expense is disallowed by . Correcting this would clarify deductibility, prevent overlapping claims, and simplify compliance for multi-province businesses.

Tax Proposals No 16.	**Allow trans-provincial entities to claim WWF/WPPF contributions made to provincial authorities as deductible expenses and establish coordination between federal and provincial authorities to prevent duplicate demands.**
Quantitative analysis regarding impact on revenue and other economic indicators	Also, allowing deductions for provincial WWF/WPPF payments would eliminate effective double taxation, improve cash flow, and free working capital. Short-term federal revenue impact is minimal, while long-term benefits include reduced compliance costs, fewer disputes, and a more favorable investment environment for multi-province entities and would also create employment opportunities for the citizens of Pakistan.
Economic Impact (if any) with reference to fiscal incidence etc	Recognizing these contributions lowers the effective tax burden on trans-provincial businesses, particularly large manufacturers and service providers, while preserving the integrity and purpose of WWF/WPPF as worker welfare mechanisms.
Sectors and Business activities to be influenced by the proposal	The proposed suggestion would primarily affect trans-provincial entities, including large-scale manufacturers, engineering and technical services, IT and IT-enabled services, outsourcing and shared service providers, consulting and professional firms, and power/energy contractors. Any business operating across multiple provinces would benefit from simplified compliance and recognition of WWF/WPPF contributions.

Tax Proposals No 17.	**Custom Duty -** **Structural Reforms to Integrate Illicit Trade into the Formal Economy**
Identify the Proposal	✓ Enlarging Manufacturing Base, & ✓ Equity, Ethics, and Empowerment
Background	At the outset, it is imperative to note that the Pakistan's customs revenue base suffers significant erosion due to illicit trade, smuggling, and under-invoicing, eroding the customs duty base and distorting market competitiveness. It is assumed that the total illicit trade is estimated at USD 68 billion (i.e. 20% of the formal economy), resulting in annual revenue losses ranging from Rs. 750 billion (conservative) to Rs. 3,400 billion (expanded estimate).

Sector	Estimate / Loss
Tobacco	Approximately 56% illicit market share
Petroleum	Approximately Rs. 270 billion annual losses
Pharmaceuticals, Tyres, Electronics, Consumer Goods	–

Approximately 30% of illicit trade arises from misuse of the Afghan Transit Trade (ATT) facility.

<table>
<tr><td>Tax Proposals No 17.</td><td>Custom Duty -
Structural Reforms to Integrate Illicit Trade into the Formal Economy</td></tr>
<tr><td></td><td>Due to existing customs system, marked by uneven tariffs, cascading duties, weak enforcement, limited digitization, and fragmented border coordination, coupled with excessively high import duties, encourages smuggling, under-invoicing, and informal trade. These structural flaws erode revenue and distort market competition.</td></tr>
<tr><td>Qualitative Reasoning</td><td>It is proposed to transform Pakistan's customs framework from a "high-tariff to low-compliance system" to a "moderate-tariff, high-compliance regime". Due to the said initiative the enforceability on the duties, full documentation, and economic neutrality, reducing incentives for smuggling and under-invoicing. The following are the key measures that should be taken by the relevant authorities.

• Excessive duties create opportunities for tax erosion. Lower but enforceable tariffs reduce smuggling while maintaining revenue.
• Integrating customs data with POS systems and FBR databases ensures imported goods are traceable throughout the supply chain.
• AI-driven profiling targets high-risk shipments, allowing compliant traders faster clearance and improving detection of illicit trade.
• Rationalized duties and strengthened enforcement encourage informal operators to enter the formal economy.
• Automation, audit trails, and strict controls minimize discretionary loopholes and reduce corruption risks.</td></tr>
<tr><td>Quantitative analysis regarding impact on revenue and other economic indicators</td><td>Following are the illustrative on the Quantitative analysis on the impact on revenue and the others economic indications;

Illustrative:1 Revenue Recovery Scenarios

<table>
<tr><th>Scenario</th><th>Formalization</th><th>Additional Revenue (Rs.)</th></tr>
<tr><td>Conservative</td><td>20%</td><td>Rs. 150 billion to Rs. 700 billion</td></tr>
<tr><td>Moderate</td><td>35%</td><td>Rs. 260 billion to Rs. 1,200 billion</td></tr>
<tr><td>Aggressive</td><td>50%</td><td>Rs. 375 billion to Rs. 1,700 billion</td></tr>
</table>

Illustrative: 2 Custom Duty-Specific Losses

<table>
<tr><th>Sector</th><th>Revenue Loss (Rs.)</th></tr>
<tr><td>Petroleum</td><td>Rs. 270 billion</td></tr>
<tr><td>Tobacco</td><td>Rs. 300 Billion</td></tr>
<tr><td>Top 5 sectors combined</td><td>Greater than Rs. 1 trillion</td></tr>
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Tax Proposals No 17.	**Custom Duty -** **Structural Reforms to Integrate Illicit Trade into the Formal Economy**
Economic Impact (if any) with reference to fiscal incidence etc	The above measures are expected to impact both the formal documentation of Pakistan's economy and the country's fiscal policy. Benefits are provided below. **Impact on Documentation and Economy:** • Expansion of documented imports • Increased GST/VAT collection at import stage • Enhanced income tax reporting along supply chains • Lower tariffs with enforcement may increase declared imports by 15–25% and reduce illegal price differentials by 20–30% **Economic Impact & Fiscal Incidence:** • Shifts tax burden from compliant importers to previously untaxed illicit operators. • Rationalized duties reduce resource misallocation and black-market premiums. • Improved current accounts, stronger rupee, and enhanced industrial output. • Level playing field for formal businesses, reducing incentives for illicit activity.
Sectors and Business activities to be influenced by the proposal	Tobacco, FMCGs, Petroleum, Pharmaceuticals, Tyres, Electronics. However, it would also trigger the Business Activities of importers, distributors, retail and wholesale traders, logistics operators, and the manufacturing sector.

Tax Proposals No 18.	**Tobacco Sector:** Reduction in Excise Tax on Tobacco while Focusing on Enforcement
Identify the Proposal	✓ Equity, Ethics and Empowerment
Background	It is imperative to note that Pakistan's tobacco market has shifted significantly toward illicit, untaxed products, with the illicit share now have estimated at approximately 50%. It has been observed that the sharp increase in excise duties during 2022–23 created significant price gap between duty-paid and non-compliant products. Despite of being reduction in overall consumption, consumers are now down trading; therefore, the formal sector has contracted, whereas the tax leakage and non-compliance have expanded.

<table>
<tr><td>Tax Proposals No 18.</td><td colspan="3">Tobacco Sector:
Reduction in Excise Tax on Tobacco while Focusing on Enforcement</td></tr>
<tr><td>Qualitative Reasoning</td><td colspan="3">Currently rates and the system is self-defeating, due to the higher excise duties have made illicit trade more profitable and more attractive to consumers. The tax differential now drives behavior in the wrong direction.

A moderate reduction in excise, paired with credible enforcement, would narrow the price differential, might would shift demand back toward the formal sector. It is suggested that the full deployment of Track & Trace, strict enforcement of Visual health warning requirements, and visible penalties across production and retail channels.

The issue is about the excise rate itself, but how well it's enforced has been in place. If enforcement is weak, increasing rates could just push more business into the illegal market and obviously reduce the government's tax revenue.</td></tr>
<tr><td rowspan="6">Quantitative analysis regarding impact on revenue and other economic indicators</td><td colspan="3">It has been observed that the revenue leakage from illicit cigarettes is assumed between Rs. 240 billion to Rs. 325 billion annually. There has been sharp decline in volume from 67 billion sticks to 34 billion sticks, which reflects that the differential has shifted outside the scope of tax system

It is suggested that the enforcement should focus on recapturing the lost volumes, rather than just increasing the rates. Illustration is provided for better understanding of the facts.</td></tr>
<tr><td>Scenario</td><td>Formalization</td><td>Additional Revenue (Rs.)</td></tr>
<tr><td>Conservative</td><td>20%</td><td>50 – 70 billion</td></tr>
<tr><td>Moderate</td><td>30%</td><td>70 – 100 billion</td></tr>
<tr><td>Aggressive</td><td>40%+</td><td>100+ billion</td></tr>
<tr><td colspan="3">Based on the numbers provided above, it seems that it has increased tax evasion and has also increased the revenue at risk. Even though its partial formalization would also provide substantial gains, without increasing the tax burden.</td></tr>
<tr><td>Economic Impact (if any) with reference to fiscal incidence etc</td><td colspan="3">The current structure creates a clear imbalance in fiscal incidence. Formal producers and compliant consumers bear the full weight of excise taxation, while illicit operators effectively remain outside the tax net, enjoying a significant price advantage. This asymmetry is inherently inequitable and undermines both market integrity and revenue objectives.

Shifting the focus to enforcement would correct this imbalance by bringing untaxed activity into the system instead of placing further burden on compliant taxpayers. This would improve revenue collection, support legitimate businesses, and create a fairer market where all participants are subject to the same rules.</td></tr>
</table>

Tax Proposals No 18.	**Tobacco Sector:** Reduction in Excise Tax on Tobacco while Focusing on Enforcement
Sectors and Business activities to be influenced by the proposal	The immediate impact is on the formal tobacco industry, manufacturers, distributors, and retailers as well as enforcement agencies responsible for excise and customs. Secondary effects extend across supply chains through improved documentation and compliance discipline.

Tax Proposals No 19.	**Dairy Sector:** Reduction in Sales Tax Rate on Packaged Milk
Identify the Proposal	✓ Equity, Ethics and Empowerment ✓ Enlarging Manufacturing Base
Background	Through the Finance Act 2024, packaged milk shifted from zero-rating to 18% sales tax. The resulting price increase has reduced affordability and accelerated a shift toward loose, unregulated milk. This has weakened the formal dairy sector, disrupted supply chains, and raised public health concerns linked to quality and safety standards.
Qualitative Reasoning	Milk is a basic nutritional necessity, not a luxury, having been taxed at the standard rate, which makes the consumption less affordable and pushes households away from the formal market. The current high rate has created the price gap between packaged and loose milk, encouraging consumers to rely on the informal sector where quality and safety are not ensured. Reducing the tax to a moderate level would make milk more affordable, bring consumption back into the formal economy, and support processors and farmers. It would also work for the public interest by protecting public health, stabilize the formal dairy industry, and safeguard farmer livelihoods.
Quantitative analysis regarding impact on revenue and other economic indicators	Following are the Quantitative Analysis with respect to the revenue and economic indicators: • **Sales Impact:** Following the 18% sales tax imposition, packaged milk volumes have declined by approximately 20%. Over 500 milk collection centers have ceased operations, and processing capacity utilization has fallen below 50%, highlighting significant contraction in the formal dairy value chain. • **Employment:** The formal sector workforce has contracted by roughly 20%, putting downstream jobs and allied services at risk. • **Farmers:** Formal procurement has dropped by 20–35%, disproportionately affecting smallholder farmers and weakening incentives linked to quality-based pricing.

Tax Proposals No 19.	Reduction in Sales tax rate on Packaged Milk
	• **Revenue Projection at Reduced Tax (5%):** Lowering the sales tax to around 5% could expand packaged milk volumes by an estimated 20%, reduce retail prices by roughly Rs 50 per litre, and enhance annual government revenue by 20–22% over time through increased formal market participation.
Economic Impact (if any) with reference to fiscal incidence etc	Reducing the sales tax would create multiple benefits for the stakeholders: • Consumers: Improved affordability and access to safe, taxed milk. • Formal Sector: Stabilizes processors, protects employment, and strengthens farmer livelihoods. • Government Revenue: Expands the tax base sustainably through higher documented transactions. • Equity: Prevents unfair burden on formal market participants, who currently bear the cost while informal suppliers operate tax-free.
Sectors and Business activities to be influenced by the proposal	Following are the sectors or business influenced by the Proposal; • Formal dairy processors • Milk collection and distribution networks • Smallholder farmers • Consumers

Tax Proposals No 20.	**Energy Sector:** Restoration of Sales tax status on Motor Spirit (PMG), High-Speed Diesel (HSD), kerosene, and Light Diesel Oil (LDO).
Identify the Proposal	✓ Energy & ✓ Enlarging Manufacturing Base
Background	Through Finance Act 2024 the status of PMG, HSD, kerosene, and LDO had changed from zero-rated to sales tax exempt. Refineries and Oil Marketing Companies (OMCs) can no longer claim input tax credits on imports, plant & machinery, additives, and operational expenses. Based on the prices regulation provided by OGRA, the costs cannot be passed to consumers, creating an annual financial strain estimated at Rs 33–35 billion (assumed). This is to inform you that the previously zero-rated regime allows refineries to claim input tax credits against their output sales tax, keeping operating costs predictable and projects financially viable. Withdrawn of the exemption now prevents this adjustment, effectively increasing costs for refineries and OMCs. This disruption threatens ongoing and planned refinery upgrade projects valued at approximately USD 5.5–6 billion under the Brownfield Refining Upgradation Policy. It would deviate the Pakistan's progress toward energy security, impaired the investor confidence, discourages sector modernization, and, expanding domestic refining capacity, and increase the dependency on imported petroleum products.

Tax Proposals No 20.	**Energy Sector:** Restoration of Sales tax status on Motor Spirit (PMG), High-Speed Diesel (HSD), kerosene, and Light Diesel Oil (LDO).
Qualitative Reasoning	Exempting these products turns refundable input taxes into permanent costs, reducing refinery profitability and threatening planned investments. Since fuel prices are regulated, these costs cannot be passed on to consumers. Restoring zero-rating would allow input tax recovery, stabilize margins, and support timely completion of refinery upgrades.
Quantitative analysis regarding impact on revenue and other economic indicators	**Financial Strain:** Rs 33–35 billion per year due to disallowed input tax credits. **Investment Impact:** Planned refinery upgrades valued at ~USD 5.5–6 billion face delays or reduced viability. **Sector Confidence:** Distorted tax treatment undermines investor trust, limiting long-term capital inflows. **Profitability Constraint:** Regulated prices prevent cost recovery, affecting ROI, corporate taxes, and shareholder returns.
Economic Impact (if any) with reference to fiscal incidence etc	Reinstating zero-rating allows full input tax recovery, ensuring: • Enhanced energy security via strengthened domestic refining capacity. • Attraction of foreign investment and continued modernization. • Foreign exchange savings by reducing imports of finished petroleum products. • Sustainable revenue growth through improved corporate profitability and documented sales. Currently, formal producers bear the entire tax burden while informal players gain an unintended advantage, creating inequity and market distortion.
Sectors and Business activities to be influenced by the proposal	• Oil refineries • Oil Marketing Companies (OMCs) • Broader petroleum and energy sector

Tax Proposals No 21.	**Telecom Sector:** Rationalization of Duties and Withholding Taxes to Promote Competitiveness and Digital Infrastructure
Identify the Proposal	✓ Export-Led Growth, Enlarging Manufacturing Base, Promoting ICT at all levels and for all sectors ✓ Equity, Ethics, and Empowerment
Background	Pakistan's telecom sector faces high-cost pressures due to a fragmented withholding tax (WHT) regime and unoptimized customs/regulatory duties on critical imported telecom equipment. Key challenges include:

Tax Proposals No 21.	**Telecom Sector:** Rationalization of Duties and Withholding Taxes to Promote Competitiveness and Digital Infrastructure
	• **Customs & Regulatory Duties** Lithium-ion batteries, RAN, core, and transmission equipment face high regulatory duties: 15% on HS 8523.5210, 10% on 4911.9900, and 9% on 8517.6290. These duties inflate capital expenditure, delay 4G/5G network rollouts, and discourage investment in digital infrastructure. **Withholding Tax Regime** • Telecom services WHT increased to 6% (from 4%) and treated as minimum tax. • Advance tax of 10% on license auctions locks up capital. • Non-ATL taxpayers face 30% WHT, creating gross-up arrangements and discouraging formalization. • Multiple rates, frequent amendments, and abolished exemption mechanisms have increased compliance costs and cash-flow strain.
Qualitative Reasoning	**Customs & Regulatory Duties:** High duties on non-locally manufactured equipment unnecessarily increase costs. Removing these duties accelerates 4G/5G deployment, aligns valuations with actual transaction costs, and supports Pakistan's digital nation objectives. **Withholding Tax:** Excessive WHT categories and minimum tax treatment distort taxation, tie up working capital, and penalize compliant telecom operators. A simplified, adjustable 4% WHT with removal of advanced tax on license auctions restores fairness, improves liquidity, and encourages investment. **Formalization Incentives:** Reduced WHT rates for ATL-compliant taxpayers and graduated penalties for non-ATL encourage formalization, avoiding gross-up arrangements. **Administrative Efficiency:** Fewer categories and uniform rates reduce disputes, refunds backlog, and compliance burden for both FBR and businesses.

Tax Proposals No 21.	**Telecom Sector:** Rationalization of Duties and Withholding Taxes to Promote Competitiveness and Digital Infrastructure			
	Area	**Current Regime**	**Proposed Regime**	**Rationale**
	Telecom Equipment Duties	15% RD (HS 8523.5210), 10% RD (HS 4911.9900), 9% RD (HS 8517.6290)	0% RD	Not locally manufactured; essential for digital infrastructure
Quantitative analysis regarding impact on revenue and other economic indicators	WHT on Telecom Services	6% minimum tax	4% adjustable	Aligning with IT sector; restore fairness
	License Auctions	10% advance tax	0%	Free capital for network expansion; attract investment
	Non-ATL Penalty	30% WHT	Graduated rates; incentives for ATL	Promote formalization; reduce gross-up
	Service Sector	15% other services; 6% selected	Uniform 6%	Reduce ambiguity; simplify compliance
	Exemption Mechanism	Abolished (Finance Act 2019)	Reinstate for certified taxpayers	Avoid over-deduction; improve efficiency

Short-Term Impact

- WHT reduction from 6% → 4%: Estimated RS. 2.5 billion revenue foregone.
- Removal of advance tax on license auctions: No net impact; taxes collected via quarterly filings.
- RD removal on telecom equipment: Enables RS. ~10 billion capital investment.

Medium- to Long-Term Impact

- Improved liquidity and cash flow for telecom operators.
- Faster 4G/5G network rollouts and rural connectivity expansion.
- Increased investment and reinvestment in digital infrastructure.
- Reduced administrative and compliance burden for businesses and FBR.
- Expansion of the documented economy and formalization of SMEs.

Tax Proposals No 21.	**Telecom Sector:** Rationalization of Duties and Withholding Taxes to Promote Competitiveness and Digital Infrastructure
Economic Impact (if any) with reference to fiscal incidence etc	**Sectoral Benefits:** • **Telecom operators:** Lower deployment costs, accelerated network expansion. • **SMEs & service providers:** Reduced WHT and gross-up costs, improving cash flow. • **IT & IT-enabled services:** Uniform rates simplify compliance and reduce disputes. • **Fiscal Neutrality:** Short-term revenue foregone is offset by higher long-term economic activity, formalization, and documented tax base expansion. **Investment & Competitiveness:** Removal of duties and adjustable WHT improves Pakistan's international competitiveness, enabling infrastructure growth without penalizing formal operators. **Equity:** Taxation aligns with actual profitability; low-margin or loss-making projects are not disproportionately taxed.
Sectors and Business activities to be influenced by the proposal	**Sector** — **Specific Activities** Telecommunications — Telecom operators; license auctions; 4G/5G network deployment; rural expansion IT & IT-Enabled Services — Digital infrastructure, broadband, internet services SMEs & Services — Vendors, contractors, service providers Manufacturing & Trading — Input procurement, supply chain transactions

Tax Proposals No 22.	**Pharmaceutical Sector:** Abolition of 3% VAT on Imported Finished Pharmaceutical Products
Identify the Proposal	✓ Enlarging Manufacturing Base & Equity, Ethics and Empowerment
Background	Under the Twelfth Schedule to the Sales Tax Act, 1990, imported finished pharmaceutical products are subject to 3% minimum value addition tax at the import stage. Simultaneously, under the Eighth Schedule, these products are subject to 1% sales tax at the supply stage. Accordingly, imported finished pharmaceutical products effectively bear a combined 4% tax burden, despite the policy intent of taxing such essential goods at a reduced rate of 1%.
Qualitative Reasoning	The purpose of the 3% minimum value addition mechanism is to ensure that imported goods reflect a minimum margins. In most sectors, businesses can adjust this minimum value addition tax against output tax liability and, where necessary, increase margins to absorb or neutralize its impact. However, in the pharmaceutical sector, input tax is inadmissible.

Tax Proposals No 22.	**Pharmaceutical Sector:** Abolition of 3% VAT on Imported Finished Pharmaceutical Products
	As a result, the 3% minimum value addition tax cannot be effectively adjusted or absorbed. Instead, it becomes an additional embedded cost, over and above the 1% output tax, thereby increasing the effective tax burden. This undermines the intended concessional treatment for essential healthcare products.
Quantitative analysis regarding impact on revenue and other economic indicators	Under the current regime, the price of medicines directly increases by 1%, being the sales tax now chargeable on the final supply price. In addition, manufacturers pay sales tax at an average rate of 18% on taxable inputs (including packing material) and 3% minimum value added tax on import of finished goods, which is now inadmissible and becomes part of production cost. Since this tax is no longer refundable, it is embedded into the cost structure and ultimately passed on in pricing. Accordingly, the overall increase in medicine prices is expected to exceed the nominal 1% output tax due to cascading cost effects.
Economic Impact (if any) with reference to fiscal incidence etc	The change is expected to: Lower the cost of doing business, improving sector wide profitability; Enhance investor confidence and attract further investment, given improved margins and reduced tax induced distortions; Support expansion and modernization in the pharmaceutical industry through freed up capital; and Strengthen supply chain stability, potentially ensuring better availability of essential medicines in the domestic market

Tax Proposals No 23.	**Beverage Sector:** Remove Federal Excise Duty (FED) On Fruit Juices and Nectar Drinks (Based on Sugar Content)
Identify the Proposal	✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change, ✓ Energy, ✓ Equity, Ethics and Empowerment
Background	The imposition of 20% Federal Excise Duty (FED) in addition to 18% GST, resulting in an effective tax incidence of approximately 41%, has led to a significant year on year decline in volumes due to reduced affordability. The elevated tax burden has adversely impacted supply chain documentation and rural economic activity, with documented pulp procurement declining by approximately 35% in 2023 and a further 31% in 2024. The excessive tax differential has simultaneously incentivized a shift toward undocumented and informal production, undermining revenue objectives and formalization efforts.
Qualitative Reasoning	• Declining volumes have reduced tax revenues by shrinking the effective tax base • Sustained demand contraction has caused productivity losses and underutilized industrial capacity • Formal sector competitiveness has weakened due to prolonged volume erosion

Tax Proposals No 23.	**Beverage Sector:** Remove Federal Excise Duty (FED) On Fruit Juices and Nectar Drinks (Based on Sugar Content)
	• Adverse operating conditions have discouraged investment and caused job losses across farms and manufacturing • This is in line with tax treatment for juices in other countries like UAE, Saudi Arabia, whereas in India the tax rate is 5%
Quantitative analysis regarding impact on revenue and other economic indicators	• Revenue loss from lower FED rates can be offset through higher volumes generating more taxes • Improved documentation within the formal sector supports revenue neutrality
Economic Impact (if any) with reference to fiscal incidence etc	• Reduced FED incidence improves affordability and restores demand • Lower price distortions discourage informal production and under-reporting • Volume shift to the documented sector broadens the tax base • FED and sales tax collections improve through higher compliance • Higher demand and capacity utilization support productivity, employment, and reinvestment

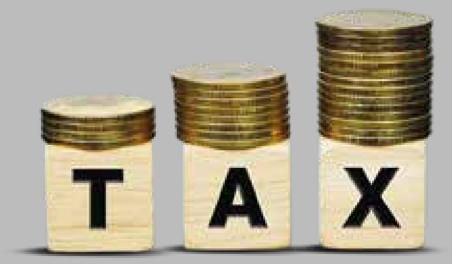
Tax Proposals No 24.	**Automobile Sector:** Simplifying the complexed tax structure including varying rates of sales tax and Federal Excise Duty (FED), which can differ based on engine size or vehicle type.
Identify the Proposal	✓ Enlarging Manufacturing Base, & ✓ Energy
Background	The automobile sector in Pakistan is subject to a complex tax structure, including varying rates of sales tax and Federal Excise Duty (FED), which can differ based on engine size or vehicle type. This complexity and high tax incidence contribute to demand suppression and can discourage investment in local manufacturing and assembly.
Qualitative Reasoning	A simplified, uniform tax structure would provide certainty for both manufacturers and consumers. Applying a standard 18% sales tax to all vehicles and eliminating FED would make the tax system more transparent, reduce the cost of vehicles, and stimulate demand. This would support the local auto industry, improve capacity utilization, and create economies of scale.
Quantitative analysis regarding impact on revenue and other economic indicators	While a reduction in per-unit tax collection may occur, the resulting boost in demand and production volumes is expected to offset this. Higher production would lead to increased collection of income tax from manufacturers, higher sales tax from a larger number of units sold, and growth in employment and economic activity across the extensive auto vendor chain.

Tax Proposals No 24.	**Automobile Sector:** Simplifying the complexed tax structure including varying rates of sales tax and Federal Excise Duty (FED), which can differ based on engine size or vehicle type.
Economic Impact (if any) with reference to fiscal incidence etc	A uniform and simplified tax regime would boost demand for vehicles, supporting the local manufacturing industry and its vast network of parts suppliers. This would create jobs, increase industrial output, and make vehicle ownership more affordable for consumers, generating positive economic multiplier effects.
Sectors and Business activities to be influenced by the proposal	Automobile manufacturers, auto parts vendors, and consumers.

OICCI
Taxation Proposals
2026-2027

Comprehensive Tax Policy Proposals

Disclaimer: The policy proposals are presented in the prescribed format of Tax Policy Office, and are also aligned with the priorities outlined under Uraan Pakistan.



Comprehensive Tax Policy Proposals

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Tax Proposals No 25.	**Reintroduction of tax credit on investment and restoration under section 65B, including incentive for stock exchange listing**
Identify the Proposal	✓ Export Led Growth & ✓ Enlarging Manufacturing Base
Background	Tax credits for investment, such as the credit for Balancing, Modernization and Replacement (BMR) under section 65B, and credits for new investments and enlisting on the stock exchange, have been withdrawn or curtailed over time. These incentives played a key role in encouraging industrial growth and corporatization.
Qualitative Reasoning	Tax credits for investment, particularly under Section 65B (Balancing, Modernization and Replacement – BMR) and related provisions, have historically played a critical role in stimulating industrial growth, modernization of plant and machinery, and corporatization of businesses. These incentives directly reduced the cost of capital investment and encouraged businesses to upgrade technology, expand capacity, and enter the formal corporate sector. Over time, the withdrawal or curtailment of such tax credits has weakened incentives for capital formation and industrial expansion, particularly in manufacturing and export-oriented sectors. Industry stakeholders have noted that the removal of these incentives has contributed to a decline in industrial investment and slowed economic momentum. Reinstating targeted tax credits, such as 10% credit for newly listed companies and 5% credit for exporters on incremental exports, would encourage documentation, corporatization, and export competitiveness. These measures would also promote transparency, improve access to capital markets, and align Pakistan's tax policy with export-led growth strategies adopted by competing economies.
Quantitative analysis regarding impact on revenue and other economic indicators	Historically, Section 65B provided a tax credit of up to 10% of investment in plant and machinery, directly reducing tax payable and incentivizing capital expenditure in industrial undertakings. According to the Federal Board of Revenue's Tax Expenditure Report 2025, total tax credits across sectors resulted in a revenue cost of approximately RS. 78.6 billion in FY2023-24. However, this represents foregone revenue in the short term, not a permanent loss, as such incentives are designed to expand future taxable capacity.
Economic Impact (if any) with reference to fiscal incidence etc	These measures are expected to support industrial investment, generate employment, and contribute to government revenues through increased economic activity, including customs duties, income tax, and sales tax from expanded operations. They also promote financial market deepening by encouraging companies to list.
Sectors and Business activities to be influenced by the proposal	Manufacturing and industrial sector, investment-intensive businesses, export-oriented industries, and companies seeking to enlist on the stock exchange.

Tax Proposals No 26.	Rationalization of Customs Duties, Regulatory Duties, and Anti-Dumping Duties to Support Industrial Competitiveness and Digital Infrastructure Development
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment
Background	Pakistan's tariff regime on industrial inputs, machinery, and intermediate goods has evolved into a layered structure comprising customs duties, additional customs duties, regulatory duties, and anti-dumping duties. While originally designed to protect domestic industry and manage imports, the regime now imposes a significant cost burden on sectors where no meaningful local manufacturing exists. Across multiple industrial segments including chemicals, engineering goods, energy inputs, and digital infrastructure imported raw materials and capital goods are subject to cumulative duties often ranging between 5% to 21% customs duty, supplemented by 5% to 15% regulatory duties, and additional advance taxes. In practice, these duties are applied not only to finished goods but also to essential inputs and capital equipment, thereby increasing the cost of production, discouraging investment, and eroding export competitiveness. The absence of consistent tariff differentiation between raw materials, intermediate goods, and finished products has further amplified these distortions.
Qualitative Reasoning	The current tariff structure reflects a misalignment between policy intent and economic outcomes. Duties imposed on non-locally manufactured inputs function not as protective instruments but as implicit taxes on production. This raises input costs across industries, compresses margins, and weakens the ability of domestic firms to compete both locally and internationally. From a structural perspective, such distortions cascade through the value chain. Higher input costs translate into higher final prices, reduced demand, and diminished industrial output. In export-oriented sectors, this directly undermines price competitiveness in global markets, where margins are already tight and highly sensitive to cost variations. The imposition of regulatory and anti-dumping duties on essential inputs further exacerbates inefficiencies. These measures, while justified in cases of unfair trade practices, are often applied broadly without sufficient calibration, thereby penalizing downstream industries that rely on competitively priced inputs. Moreover, the cumulative tax burden on capital goods discourages investment in modernization and technology adoption. Industrial upgrading, particularly in energy, manufacturing, and digital infrastructure—requires predictable and rational tax treatment. Where such certainty is absent, investment decisions are deferred or redirected to more favorable jurisdictions.

Tax Proposals No 26	Rationalization of Customs Duties, Regulatory Duties, and Anti-Dumping Duties to Support Industrial Competitiveness and Digital Infrastructure Development
	A rationalized tariff framework distinguishing clearly between raw materials, intermediate goods, and finished products, and eliminating duties where no domestic substitute exists—would restore economic neutrality. It would reduce production costs, improve competitiveness, and align fiscal policy with long-term industrial growth objectives.
Quantitative analysis regarding impact on revenue and other economic indicators	**Cost Structure Impact** • Current cumulative duties: o Customs duty: up to 21% o Regulatory duty: 5%–15% o Additional taxes and valuation adjustments further increase effective burden • Estimated reduction in input costs post rationalization: 10%–20% **Industrial Competitiveness** • Reduction in production costs expected to improve export competitiveness by 5%–10% • Enhanced capacity utilization across manufacturing sectors **Investment Impact** • Improved viability of capital-intensive projects (energy, chemicals, manufacturing) • Increase in industrial investment and capacity expansion **Revenue Impact** • Short-term: modest decline in customs and regulatory duty collections • Medium to long-term: o Higher corporate tax collections from increased profitability o Expansion of sales tax base due to higher production volumes o Increased export earnings and foreign exchange inflows **Economic Activity** • Multiplier effect across supply chains • Increased formalization and documentation of industrial activity
Economic Impact (if any) with reference to fiscal incidence etc	The present regime places a disproportionate burden on the formal industrial sector by taxing inputs rather than final consumption. This results in inefficient fiscal incidence, where productive activity bears a higher tax burden than non-documented or low-value-added segments of the economy.

Tax Proposals No 26	Rationalization of Customs Duties, Regulatory Duties, and Anti-Dumping Duties to Support Industrial Competitiveness and Digital Infrastructure Development
	Rationalization would rebalance this incidence by reducing the tax burden on production and shifting it toward broader economic activity. Lower input costs would enhance industrial output, improve price competitiveness, and stimulate demand across sectors. In practical terms, reducing duties on industrial inputs is not a revenue concession but a structural correction. It enables firms to invest, expand, and compete—thereby generating sustainable tax revenues through growth rather than extraction.
Sectors and Business activities to be influenced by the proposal	**Sector** – **Impact** Manufacturing – Lower input costs; improved competitiveness; higher capacity utilisation Energy – Reduced cost of equipment and inputs; improved project viability Chemicals & Petrochemicals – Lower raw material costs; enhanced downstream production Engineering & Industrial Goods – Improved access to machinery and technology Export-Oriented Industries – Enhanced price competitiveness in global markets Digital & ICT Infrastructure – Reduced cost of equipment supporting digitalisation

Sector	Impact
Manufacturing	Lower input costs; improved competitiveness; higher capacity utilisation
Energy	Reduced cost of equipment and inputs; improved project viability
Chemicals & Petrochemicals	Lower raw material costs; enhanced downstream production
Engineering & Industrial Goods	Improved access to machinery and technology
Export-Oriented Industries	Enhanced price competitiveness in global markets
Digital & ICT Infrastructure	Reduced cost of equipment supporting digitalisation

Tax Proposals No 27	Withdrawal of Commissioner's Power to Reject Advance Tax Estimates under Section 147(6B) of the Income Tax Ordinance, 2001
Identify the Proposal	✓ Enlarging Manufacturing Base ✓ Equity, Ethics and Empowerment
Background	Section 147 of the Income Tax Ordinance, 2001 allows taxpayers to determine advance tax liability based on their own estimate of current-year income under the self-assessment regime. However, sub-section 147(6B), introduced through the Finance Act, 2024, empowers the Commissioner to reject such estimates and require advance tax payments based on the tax-to-turnover ratio of the last assessed year, thereby disregarding current business realities.
Qualitative Reasoning	The advance tax mechanism is fundamentally based on the principle of self-assessment, enabling taxpayers to align tax payments with actual economic performance during the year. The introduction of section 147(6B) undermines this principle by granting discretionary authority to override taxpayer estimates, creating uncertainty and inconsistency in tax administration.

Tax Proposals No 27	Withdrawal of Commissioner's Power to Reject Advance Tax Estimates under Section 147(6B) of the Income Tax Ordinance, 2001
	In a volatile economic environment characterized by fluctuating demand, exchange rate movements, inflationary pressures, and regulatory changes businesses may experience significant variations in profitability compared to prior years. In such cases, enforcing advance tax based on historical turnover ratios: • Disregards current economic realities; • Imposes undue strain on working capital; and • Distorts business cash flow planning. Additionally, the provision increases administrative disputes and litigation, raising compliance costs and weakening investor confidence in the predictability of the tax system.
Quantitative analysis regarding impact on revenue and other economic indicators	Section 147(6B) primarily results in front-loading of tax collections, as taxpayers are required to pay advance tax based on historical benchmarks rather than actual current-year income. While this may temporarily increase quarterly revenue collections, it does not result in additional long-term revenue, as advance tax remains adjustable against final tax liability at the time of return filing. Furthermore: • In cases of shortfall, section 205 (default surcharge) already provides adequate protection to the revenue. • Whereas excess payments result in refunds or carry-forwards, creating inefficiencies in the system. Accordingly, removal or rationalization of this provision would: • Improve business liquidity; • Reduce unnecessary tax disputes; and • Allow efficient allocation of working capital toward production, employment, and investment.
Economic Impact (if any) with reference to fiscal incidence etc	The proposed change would reduce excessive upfront tax burdens on businesses by aligning advance tax payments with actual performance. This would improve cash flow management, reduce administrative friction, and foster a more predictable and business-friendly tax environment, supporting investment and economic activity.
Sectors and Business activities to be influenced by the proposal	All corporate taxpayers, especially those with seasonal or fluctuating income, large taxpayers, and multinational companies.

Personal Taxation

Tax Proposals No 28	Rationalization of Personal Taxation through restoration of tax credits for insurance and mutual funds, rationalization of car allowance taxation, revision of provident fund limits and removal of CVT on foreign assets.
Identify the Proposal	✓ Broadening of Tax Base ✓ Equity, Ethics and Empowerment ✓ Promotion of Savings & Investment ✓ Harmonization of Tax Treatment ✓ Promotion of Foreign Investment & Human Capital ✓ Promotion of Savings & Investment
Background	Over the past few years, Pakistan's personal tax regime has undergone significant changes that have adversely affected the salaried class, particularly in terms of reduced take-home income. In addition to an increase in applicable tax rates, key tax credits previously available to salaried individuals have been withdrawn, thereby increasing their effective tax burden. Through the Finance Act, 2022, the following tax credits were abolished: • Tax credit on investment in Initial Public Offerings (IPOs) and mutual funds • Tax credit on life insurance premiums • Tax credit on health insurance premiums The withdrawal of these incentives has reduced the attractiveness of formal investment channels, discouraged documented savings, and adversely impacted capital market participation and insurance penetration. Further, inconsistencies exist in the taxation of employee benefits. In the case of provident funds, payments received from a recognized provident fund are exempt as retirement benefits under Clause 23, Part I of the Second Schedule to the Income Tax Ordinance, 2001. However, employer contributions exceeding Rs. 150,000 are included in taxable salary. This results in premature taxation of retirement savings and effectively defeats the purpose of the exemption provided under the said clause. The prescribed threshold, originally introduced at Rs. 100,000 in 2002 and later increased to Rs. 150,000 through Finance Act, 2016, has not been revised in line with inflation and current salary levels, rendering it outdated and inconsistent with its underlying policy objective. A similar inconsistency exists in the taxation of transportation-related benefits. Under Rule 4 of the Income Tax Rules, 2002, a company-provided motor vehicle is taxed at 5% of the cost of the vehicle where it is used for both official and personal purposes, and at 10% where it is used solely for personal use. In contrast, a car allowance provided in lieu of such benefit is fully taxable, despite both generally serving a mix of official and personal use. This results in unequal tax treatment and imposes a higher effective tax burden on cash-based compensation structures. Moreover, Capital Value Tax (CVT) on foreign assets was introduced in 2022. The tax applies on the value of assets held abroad, irrespective of whether any income is derived from such assets. This results in an additional tax burden on individuals without corresponding cash flows and may discourage overseas Pakistanis and foreign nationals from becoming or remaining tax resident in Pakistan.

Tax Proposals No 28	Rationalization of Personal Taxation through restoration of tax credits for insurance and mutual funds, rationalization of car allowance taxation, revision of provident fund limits and removal of CVT on foreign assets.
	Collectively, these measures have increased the tax burden on the salaried and documented segment of the economy, reduced disposable income, and weakened incentives for savings, investment, and retention of skilled human capital.
Qualitative Reasoning	The following suggested changes aim to address the identified issues, improve fairness in the tax system, and encourage savings and investment through formal financial channels, thereby supporting sustainable economic growth in Pakistan: • **Restoration of tax credits:** Tax credits on investments in insurance, shares, mutual funds, and health insurance withdrawn through the Finance Act, 2022 should be reinstated. These incentives play a critical role in channeling household savings into documented and regulated sectors, enhancing financial inclusion and supporting capital market development. Their withdrawal has reduced the attractiveness of formal investment avenues without yielding commensurate gains in tax revenue, while adversely affecting long-term savings behavior and financial security. • **Rationalization of employee benefit taxation:** The current tax treatment of employee benefits lacks consistency. A car allowance is fully taxable, whereas a company-provided vehicle is taxed on a concessional basis under Rule 4 of the Income Tax Rules, 2002. Since both benefits typically serve a mix of official and personal use, this differential treatment results in inequity. Aligning their tax treatment, such as taxing a reasonable portion of the allowance would ensure fairness and neutrality in compensation structures. • **Revision of provident fund limits:** The existing cap of Rs. 150,000 per annum on employer contributions to recognized provident funds is outdated and does not reflect current economic realities, including inflation and rising salary levels. This results in premature taxation of retirement savings, despite such amounts being intended for long-term financial security. Revising the limit to a more realistic threshold or linking it to a percentage of salary (e.g., 10%), would better align with the objective of promoting retirement savings and reduce distortions in tax treatment. • **Review of Capital Value Tax (CVT) on foreign assets:** The imposition of Capital Value Tax on foreign assets of overseas Pakistanis and foreign nationals discourages the repatriation of capital and relocation of skilled individuals to Pakistan. Taxing previously accumulated offshore wealth is not a common international practice and may act as a disincentive for inward investment and knowledge transfer. A more facilitative approach would support capital inflows and strengthen the domestic economy. Overall, the current framework places a disproportionate burden on the salaried and documented segment of the economy, while weakening incentives for savings, investment, and retention of skilled human capital. Addressing these issues would enhance equity, improve compliance, and support long-term economic stability
Quantitative analysis regarding impact on revenue and other economic indicators	The proposed restoration of tax credits and rationalization of employee benefit taxation is not expected to materially reduce government revenue. The relief available to salaried individuals is inherently limited due to caps and eligibility conditions, and even for taxpayers in the highest tax slab, the maximum reduction in tax liability would generally be

Tax Proposals No 28	Rationalization of Personal Taxation through restoration of tax credits for insurance and mutual funds, rationalization of car allowance taxation, revision of provident fund limits and removal of CVT on foreign assets.	
	around 20%. Due to the absence of reliable and disaggregated data, it is not possible to quantify the exact revenue impact with precision. However, any short-term impact is expected to be marginal. Moreover, such measures are likely to yield positive medium-term effects by promoting documented savings, investment in formal financial channels, and broader economic activity. Importantly, these changes would also signal the government's intent to provide equitable relief to the salaried class and strengthen confidence in the tax system. • Limited revenue impact: Even for individuals in the highest tax slab, the maximum reduction in tax liability is estimated to be around 20% and would apply only where full eligible investments are made. • Data limitations: Lack of reliable data prevents precise estimation of revenue impact; however, the overall impact is expected to be limited. • Medium-term offset: Increased investment in capital markets, mutual funds, and insurance sectors is expected to generate taxable income streams, partially offsetting any short-term revenue reduction. • Positive policy signal: These measures would demonstrate the government's commitment to fairness and relief for the salaried class, potentially improving compliance and strengthening the documented economy.	
Economic Impact (if any) with reference to fiscal incidence etc	The proposed measures would improve equity in the tax system by addressing the disproportionate fiscal incidence currently borne by the salaried and fully documented segment. Given the limited flexibility available to such taxpayers, the existing framework results in a higher effective tax burden compared to other segments of the economy. Targeted relief through restoration of tax credits and rationalization of benefit taxation would help rebalance this disparity without materially undermining revenue collection. From an economic standpoint, the measures are expected to strengthen formal savings and investment behavior by channeling funds into regulated sectors such as capital markets and insurance. This would support capital formation and financial sector development. Although precise quantification is not feasible due to data constraints, the short-term revenue impact is expected to be minimal, while medium- to long-term gains may arise through increased economic activity, improved documentation, and expansion of taxable income streams.	
Sectors and Business activities to be influenced by the proposal	**Primary Sectors:** • Capital markets (PSX, asset management companies) • Insurance sector • Housing and construction • Banking and mortgage financing • Expatriates and multinational workforce	**Secondary Sectors:** • Cement, steel, and allied industries • Financial services and fintech • Real estate and investment markets • Technology and professional services

Pharma Sector

Tax Proposals No 29	Pharma Sector - Shift Pharma Back to Exempt Regime
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	The pharmaceutical sector is currently taxed under the Eighth Schedule of the Sales Tax Act, where it is subject to a reduced sales tax rate of 1% without any input tax credit (ITC) entitlement. This tax structure results in a cascading impact, as manufacturers are unable to claim adjustments for the sales tax paid on raw materials, packaging components, utilities, and other inputs. Given that pharmaceutical pricing is heavily regulated, the inability to offset input tax directly compresses manufacturers' margins and effectively increases the real tax burden on the industry.
Qualitative Reasoning	The pharmaceutical industry operates under strict regulatory oversight with limited flexibility in pricing decisions. Manufacturers rarely receive price adjustments despite sustained inflationary pressures and rising production costs. Distributors are unable to claim input tax on the 1% sales tax charged by manufacturers, the tax cost is ultimately shifted back to the manufacturer. Distributors recover this non adjustable tax through higher commissions, margins, or compensation demands. As a result, the manufacturer effectively absorbs a double impact—approximately 2% in the form of increased distributor payouts and embedded tax costs. This structure unfairly burdens manufacturers, reduces margins in an already regulated sector, and distorts supply chain economics without generating any additional fiscal benefit The current regime not only undermines the commercial viability of existing manufacturers but also discourages new investment in a highly regulated and capital intensive sector. Reclassifying pharmaceutical products under the exempt-regime would reduce the overall cost of production, and support healthier margins. This, in turn, would enhance the sector's sustainability while also increasing taxable profits under the income tax framework.
Quantitative analysis regarding impact on revenue and other economic indicators	Transitioning pharmaceutical products to an exempt regime is expected to generate clear quantitative benefits by lowering production costs through the elimination of embedded taxes, which increases per unit margins, enables more competitive pricing, improves liquidity, and supports expanded local production. This increases overall profitability by approximately 2% to 3%, ultimately increasing corporate income tax contributions to the government; together, these improvements create a more attractive investment environment, encouraging both capacity expansion and long term sector growth.

Tax Proposals No 29	Pharma Sector - Shift Pharma Back to Exempt Regime
Economic Impact (if any) with reference to fiscal incidence etc	From a fiscal incidence standpoint, the proposal shifts the tax burden away from essential, price regulated goods and towards income based taxation—improving equity and economic efficiency.

Tax Proposals No 30.	Pharma Sector - Incentivizing exports will be great for the economy as it will generate valuable
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Pharmaceutical industry in 2025 witnessed a significant positive shift, primarily driven by the deregulation of non-essential medicine pricing in February 2024. Pakistan's pharma sector primarily focuses on generics and formulation innovation rather than breakthrough novel drugs.
Proposal	Tax credit for pharmaceutical export units that demonstrate year-on-year growth. This would ease the financial strain on exporters and enable reinvestment into product development, regulatory compliance, and market expansion. Alternatively, a tiered tax credit mechanism could also be introduced, tied to incremental export growth, it would reward performance and instill a sense of predictability and purpose in business planning. Exporters achieving 5–10% growth should receive a 5% tax reduction, 11–15% growth would merit 10%, 16–20% would be eligible for 15%, and growth above 20% should attract a 20% tax relief. Fiscal space created through tax reforms shall enable companies to enhance investments in export infrastructure and upgrading manufacturing facilities in line with global standards.
Qualitative Reasoning	Pharmaceutical exports have registered a record 34 percent year-on-year increase, the highest on record, reflecting the resilience, capacity, and innovation of the local industry despite economic headwinds. Global pharmaceutical growth is averaging around 5 percent, Pakistan's domestic growth stands at 18 percent.
Quantitative analysis regarding impact on revenue and other economic indicators	34 percent year-on-year increase in exports.
Economic Impact (if any) with reference to fiscal incidence etc	Vision for USD 10 Billion Exports in next five years.

Tax Proposals No 31.	**Pharma Sector - Further tax should not be applicable.**
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Under the Sales Tax framework, a 4% further tax is applicable on supplies made to unregistered persons. However, pharmaceutical products covered under the Eighth Schedule are subject to 1% sales tax as a final discharge of tax liability at the initial stage (manufacturer/importer level). Since the 1% levy constitutes final taxation and subsequent supply chain members are not required to charge or adjust sales tax, the continued application of 4% further tax creates an unintended and excessive burden within the pharmaceutical sector.
Qualitative Reasoning	The objective of further tax is generally to encourage documentation and registration within the supply chain by penalizing transactions with unregistered persons. In ordinary taxable sectors, this mechanism promotes compliance because downstream businesses are required to charge and adjust sales tax. However, in the pharmaceutical sector: i. The 1% tax at the initial stage is final. ii. Wholesalers, distributors, retailers, and pharmacies are not required to charge output sales tax. Therefore, imposing a 4% further tax does not serve its intended documentation objective. Instead, it becomes an additional cost, as unregistered persons have no mechanism to adjust or recover this tax. Given the 1% final tax and inadmissibility of input tax, this burden ultimately translates into higher consumer prices.
Quantitative analysis regarding impact on revenue and other economic indicators	Under the current regime, the price of medicines directly increases by 1%, being the sales tax now chargeable on the final supply price. In addition, manufacturers pay sales tax at an average rate of 18% on taxable inputs (including packing material) and 3% minimum value added tax on import of finished goods, which is now inadmissible and becomes part of production cost. Since this tax is no longer refundable, it is embedded into the cost structure and ultimately passed on in pricing. Above that, many of the unregistered vendors (who are not even liable to be registered) have to bear additional 4% sales tax which further adds up to the price. Accordingly, the overall increase in medicine prices is expected to exceed the nominal 1% output tax due to cascading cost effects.

Tax Proposals No 32.	Pharma Sector - Aligning sales tax implication of packing materials with implication of pharmaceutical products
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Pharmaceutical products registered with the Drug Regulatory Authority of Pakistan (DRAP) were previously subject to zero-rated sales tax. This mechanism ensured that consumers were not burdened with sales tax on medicines, while manufacturers were not exposed to increased production costs. Subsequently, through the Finance Act, 2023, the regime was revised, and DRAP-registered products are now subject to sales tax at the rate of 1%, with the related input tax rendered inadmissible. In this context, while the ingredients of pharmaceutical products are subject to sales tax at 1%, a significant portion of the overall cost relates to packing materials, which continue to be taxed at 18%. Since the associated input tax is inadmissible, this results in an increase in the overall cost of production.
Qualitative Reasoning	The pharmaceutical sector primarily deals in essential products. Medicines are not discretionary consumer goods; they are necessity goods with inelastic demand. Any increase in cost directly affects patients, healthcare institutions, and public health programs. The present regime creates two layers of cost escalation: i. Imposition of 1% sales tax increases the retail price of medicines. ii. Disallowance of input tax converts previously refundable tax into a cost component, increasing the base cost of production and thus, further increasing the price. **This results in:** i. Increased financial burden on patients, particularly low- and middle-income households in form of higher end-user prices for essential medicines. ii. Cash flow strain on pharmaceutical manufacturers. iii. Distortion in tax neutrality principles, as taxes paid at earlier stages are embedded in cost. If the current policy is to continue, it is proposed that the packing material of pharmaceutical products be brought under the same tax regime as the finished products, as it constitutes an essential component and represents a significant cost after active ingredients. This alignment would not only help reduce the prices of medicines but also enable manufacturers to better manage costs, scale up production to achieve economies of scale, and potentially support export-led growth.

Tax Proposals No 32.	Pharma Sector - Aligning sales tax implication of packing materials with implication of pharmaceutical products
Quantitative analysis regarding impact on revenue and other economic indicators	Under the current regime, the price of medicines directly increases by 1%, being the sales tax now chargeable on the final supply price. In addition, manufacturers pay sales tax at an average rate of 18% on taxable inputs (including packing material) and 3% minimum value added tax on import of finished goods, which is now inadmissible and becomes part of production cost. Since this tax is no longer refundable, it is embedded into the cost structure and ultimately passed on in pricing. Accordingly, the overall increase in medicine prices is expected to exceed the nominal 1% output tax due to cascading cost effects.

Tax Proposals No 33.	Pharma Sector - Extend Sixth Schedule Entry 166 to Govt Institutions/Tenders/Hospitals
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Under the current sales tax regime, an exemption is available for "goods, excluding electricity and natural gas, supplied to hospitals run by charitable institutions having fifty beds or more." However, suppliers continue to face practical difficulties in recovering the 1% sales tax on supplies made to government departments and public hospitals, largely due to cumbersome payment processes, delayed reconciliations, and administrative constraints. This results in working capital strain for suppliers dealing with public sector entities.
Qualitative Reasoning	Extending or clarifying the exemption mechanism will facilitate smoother business interactions with public sector hospitals and government departments. Eliminating the requirement to charge and subsequently recover the 1% sales tax will reduce administrative disputes, improve cash flow predictability, and encourage wider participation of suppliers in public health procurement activities.
Quantitative analysis regarding impact on revenue and other economic indicators	The proposal is expected to have minimal impact on revenue, as most government and charitable hospitals operate within low margin, essential goods supply chains where suppliers often absorb unrecovered sales tax. Removing or exempting the 1% charge would: • Reduce working capital blockage for suppliers. • Lower administrative and reconciliation costs. • Enhance supplier participation in tendering, which may increase competitive pricing. Overall fiscal impact remains marginal, while operational efficiency improves significantly.

Tax Proposals No 33.	Pharma Sector - Extend Sixth Schedule Entry 166 to Govt Institutions/Tenders/Hospitals
Economic Impact (if any) with reference to fiscal incidence etc	The measure aligns with equitable fiscal incidence by minimizing tax related bottlenecks in critical Healthcare supply chains.

Chemical Sector

Tax Proposals No 34.	Trade Ban from India, COO issues, under invoicing, and misdeclaration
Identify the Proposal	✓ Export Led Growth, & ✓ Enlarging Manufacturing Base ✓ Policy
Background	Although Pakistan maintains a trade ban on India (with a few exceptions), a large volume of Indian-origin goods—particularly dyes, pigments, chemicals, and auxiliaries used by the textile and leather industries—continue to enter Pakistan via third countries. Many of these countries do not have the capacity to manufacture such goods, but they re-export, repack, or relabel them and issue local Certificates of Origin (COO). Due to inadequate verification mechanisms at customs, these COOs often go unchecked, leading to a flood of low-cost Indian-origin goods in the Pakistani market. This has severely impacted domestic manufacturers who are unable to compete with these artificially cheap imports and are forced to operate below capacity. A parallel issue is long-standing under-invoicing and misdeclaration of imported dyes, pigments, and chemical intermediates—mainly sourced from China. Some importers declare values far below international prices or declare incorrect HS codes, evading duties and taxes. Law-abiding local manufacturers are placed at a significant cost disadvantage, affecting their competitiveness both domestically and in export supply chains.
Qualitative Reasoning	*Unfair Competition:* The inflow of Indian-origin goods through third countries—without proper COO verification—disrupts market competition and forces compliant manufacturers to operate at uneconomic scales. ***Erosion of Domestic Industrial Base:*** Local chemical and dye manufacturers lose market share to underpriced imports, delaying investment, expansion, and technological upgrading. Loss of Fiscal Revenues: Under-invoicing, misdeclarations, and fraudulent COOs reduce customs duties, sales tax, and income tax collections.

Tax Proposals No 34.	Trade Ban from India, COO issues, under invoicing, and misdeclaration
	Dependence on Informal Trade Channels: Weak controls incentivize importers to bypass regulations, undermining policy credibility. ***Need for Policy Rationalization:*** If the ban on Indian goods is practically circumvented, policymakers must either enforce the ban effectively or allow specific raw materials to be imported transparently to support export-oriented sectors. It is treated as a neutral remission of taxes that should not burden exported products. Therefore, the policy remains WTO-compliant and legally sustainable. Consistency Within EFS Framework Duty-free domestic supply to EFS-authorized persons remains allowed. If duty relief on local supplies is acceptable under EFS, then sales tax zero-rating is the natural and logical companion element. The current regime discourages domestic value chains, undermining the very purpose of EFS.
Quantitative analysis regarding impact on revenue and other economic indicators	**Impact of COO Fraud** Estimated 20–30% of imported dyes and pigments may be Indian-origin routed through intermediaries. Price difference between Indian-origin vs. non-Indian alternatives: 8–18%. Potential annual revenue leakage through COO fraud: RS. 10–15 billion (customs duties, sales tax, income tax). **Impact of Under-Invoicing & Misdeclaration** Typical under-invoicing margin: 25–40% below Chinese export prices. **Estimated revenue loss:** Customs duty loss: RS. 8–12 billion **Sales tax loss:** RS. 12–18 billion Income tax loss (minimum tax on imports): RS. 2–4 billion Total potential revenue leakage: RS. 30–45 billion annually. **Impact on Domestic Industry** Capacity utilization in local dyes and chemical manufacturing: 40–55%, primarily due to price pressure from under-invoiced/Indian goods.

Tax Proposals No 34.	Trade Ban from India, COO issues, under invoicing, and misdeclaration
	Lost industrial output: RS. 25–35 billion annually. Employment impact: 5,000–7,000 industrial jobs at risk over medium term.
Economic Impact (if any) with reference to fiscal incidence etc	Positive fiscal impact: Stronger COO verification and import valuation checks can recover RS. 30–45 billion in annual revenue. **Industrial revival:** Domestic manufacturers gain fair pricing conditions, improving capacity utilization to 70–80%. **Export competitiveness:** Ensures that export-oriented sectors (textile, leather) source raw materials at fair, transparent prices. Reduction in trade-based money laundering through misdeclaration. **Better rule of law:** Closing loopholes strengthens integrity of customs systems and discourages informal trade.
Sectors and Business activities to be influenced by the proposal	Sectors and Business activities to be influenced by the proposal • Dyes & Pigments Manufacturing • Chemical and Auxiliaries Manufacturers • Textile Processing Sector • Leather Tanning & Finishing Industries • Importers of Industrial Chemicals • Testing and Verification Agencies

Dairy Sector

Tax Proposals No 35.	Expand the Third Schedule to include all dairy and nutrition products to simplify tax collection and reduce evasion
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	In recent years, the government has introduced additional taxes on unregistered/non-filer retailers aiming retailers to register with FBR and start filing income tax returns. However, it has instead resulted in big difference between

Tax Proposals No 35.	Expand the Third Schedule to include all dairy and nutrition products to simplify tax collection and reduce evasion
	margins of registered vs. registered retailers, increased complexity and extra cost pressures on organized trade and industry. A move to the Third Schedule for Dairy and Nutrition portfolio will help address some of the issues currently plaguing the taxation process and government revenues.
Qualitative Reasoning	1. The current multi tier sales tax regime is administratively complex and prone to leakage due to fragmented tax incidence across manufacturers, distributors, and retailers. A shift to Third Schedule will make the tax collection process much simpler and easier for the government because the entirety of the sales tax will be paid upfront at the first instance. 2. Placement of dairy & nutrition products (like most of the other FMCG products) under the Third Schedule will improve transparency and significantly reduce opportunities for evasion by establishing a clear, observable tax base through printed retail prices. 3. The proposal also enhances consumer protection by ensuring shelf level price transparency and preventing arbitrary overpricing. From an economic perspective, removal of further tax burdens will allow manufacturers to rationalize pricing, improve affordability, support volume recovery, and enhance capacity utilization, with positive downstream and upstream effects.
Quantitative analysis regarding impact on revenue and other economic indicators	No major adverse impact on Sales tax revenue; the apparent 4% loss of further tax should be compensated through upfront collection, avoiding leakages/complexities and incremental business growth driven through simplicity and harmonization
Economic Impact (if any) with reference to fiscal incidence etc	Overall, the proposal aligns with the objectives of ease of doing business, improved compliance, predictable revenue collection, and market transparency, while supporting sustainable industrial growth and documented economic activity and attracting much needed FDI

Tax Proposals No 35.	Expand the Third Schedule to include all dairy and nutrition products to simplify tax collection and reduce evasion
Sectors and Business activities to be influenced by the proposal	**Dairy Industry** • Milk processing companies • UHT milk, powdered milk, tea whiteners • Yogurt, cheese, butter, and value-added dairy products **Nutrition & FMCG Sector** • Health and fortified food products • Packaged nutritional supplements

Tax Proposals No 36.	Reduced Rate (10%) of Sales Tax on Infant & Young Children Nutrition Products.
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	The levy of sales tax on infant & young children nutrition products, through Finance Act, 2024, has made such products unaffordable for the masses, further exacerbating the malnutrition situation in Pakistan
Qualitative Reasoning	The proposed amendment will help make infant and young children nutrition products more affordable for the public (in legitimate need cases) and help in combating the malnutrition of infants. It will also lead to the following benefits: • Reducing malnutrition • Protection of formal economy • Uplift of rural economy • Ease of doing business • Jobs creation • Strengthening local value chain
Quantitative analysis regarding impact on revenue and other economic indicators	Expected output uplift: ~40 million incremental nutrition servings for legitimate need cases. Supply-side linkage: ~7 million liters incremental milk collection (+1 bio contribution to rural economy). Market normalization: ~5-10% volume for business resulting into additional tax revenue.
Economic Impact (if any) with reference to fiscal incidence etc	Fiscal implication: the tax relief expected to be partly offset by higher documented volumes and tax-base expansion across the value chain.

Tax Proposals No 36.	Reduced Rate (10%) of Sales Tax on Infant & Young Children Nutrition Products.
Sectors and Business activities to be influenced by the proposal	Food sector - Dairy and Nutrition

Tax Proposals No 37.	PROMOTING DAIRY EXPORTS THROUGH EXPORT INCENTIVE ~15% relief on gross export for manufacturers.
Identify the Proposal	✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Pakistan is the fourth largest milk producer globally, with the dairy sector contributing approximately 11% to national GDP; however, its share in national exports remains below 0.5%, indicating significant untapped potential. Despite large production volumes, local dairy sourcing remains cost disadvantaged due to low farm productivity and supply chain inefficiencies, making exports uncompetitive. These cost pressures, coupled with administrative complexities under existing export facilitation schemes, discourage exporter participation and limit value added dairy exports.
Qualitative Reasoning	• Structural inefficiencies, high input costs, and fragmented farming practices have created cost disadvantages for locally sourced dairy inputs, rendering dairy exports uncompetitive in international markets. • Administrative complexities under existing export facilitation schemes have discouraged exporter participation. • Targeted incentives are required to improve competitiveness and encourage formal sector participation. • Incentives can help unlock export led growth across the dairy value chain.
Quantitative analysis regarding impact on revenue and other economic indicators	• Approximately USD 25-50 million in incremental export potential can be unlocked • Export growth will be supported by improved cost competitiveness and higher utilization of domestic dairy inputs • The estimated USD 4-8 million incentive outlay represents limited fiscal exposure relative to expected export gains • Increased exports and formal procurement will stimulate documented activity across farming, processing, and logistics.
Economic Impact (if any) with reference to fiscal incidence etc	• Despite a modest fiscal cost, overall fiscal incidence is expected to be positive • Export led volume expansion and enhanced documentation will broaden the tax base • Higher formal sector activity will support increased collections from indirect and downstream taxes • Improved export performance will contribute to foreign exchange inflows

Tax Proposals No 37.	PROMOTING DAIRY EXPORTS THROUGH EXPORT INCENTIVE ~15% relief on gross export for manufacturers.
	• Incentivizing formal local dairy farming will support rural incomes, employment stability, and sustainable industrial growth
Sectors and Business activities to be influenced by the proposal	Food sector - Dairy and Nutrition

Tax Proposals No 38.	Promoting Efficient Dairy Farming Via High Yield Cattle ~Tax credit of 15% to 20% on purchase of high yield imported animals invested by any corporate dairy entity, for dairy farming
Identify the Proposal	✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics and Empowerment
Background	Pakistan's dairy sector is constrained by low farm productivity because most farming relies on low yield local cattle (5–8 liters/day) versus high yield imported breeds (25–35 liters/day). This keeps the cost per liter high, reduces competitiveness, and contributes to a largely undocumented market structure, limiting quality consistency, tax documentation, and value-chain formalization. At the same time, inefficiencies in local milk production contribute to import dependence of powdered milk, causing avoidable foreign exchange
Qualitative Reasoning	• Tax credit on high yield imported cattle directly addresses productivity constraints at the farm level • Higher yields improve farm efficiency and reduce per unit production costs • Improved herd quality accelerates the shift from informal to organized, documented dairy farming • Productivity led intensification supports climate objectives by lowering methane emissions per liter of milk. Higher yield per animal contributes to GHG reduction and broader sustainability goals
Quantitative analysis regarding impact on revenue and other economic indicators	• Proposed tax credit of 15%–20% with an estimated incentive envelope of RS. 1.5 billion • Measure supports the import and induction of approximately 10,000 high yield animals into formal dairy operations • Shift toward documented activity expected to generate around RS. 650 million annually in additional tax revenue

Tax Proposals No 38.	Promoting Efficient Dairy Farming Via High Yield Cattle ~Tax credit of 15% to 20% on purchase of high yield imported animals invested by any corporate dairy entity, for dairy farming
	• Enhanced local productivity expected to reduce import dependence • Import substitution could avoid approximately USD 50 million per annum in foreign exchange outflows
Economic Impact (if any) with reference to fiscal incidence etc	• Upfront fiscal cost through tax credit is expected to be offset over time • Expansion of the documented tax base improves effective fiscal incidence • Higher recurring revenues generated from formal sector growth • Reduced leakage due to lower informality in dairy production • Positive macroeconomic impact through import substitution and foreign exchange savings • Strengthened rural incomes and industrial value chain activity • Lower GHG emission intensity per unit of output supports climate and sustainability objectives
Sectors and Business activities to be influenced by the proposal	Dairy farming sector

Tax Proposals No 39.	Elimination Of ACD & RD on Critical Dairy & Nutrition Imported Raw Materials
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Several critical dairy and nutrition ingredients—such as whey powder, lactose, oil mixes, and skimmed milk powder—are not manufactured locally in Pakistan, making imports the only viable sourcing option. However, high duties significantly increase the cost of these essential inputs. This discourages local manufacturing, restricts scale, and raises consumer prices for nutrition and dairy products. Elevated prices have adverse implications for affordability and child nutrition, particularly among vulnerable households.
Qualitative Reasoning	• The current tariff structure creates a cost disadvantage for compliant manufacturers by inflating prices of raw materials that are not locally available. • High duties reduce affordability of packaged, nutritionally safe products. • Elevated costs incentivize reliance on informal or unhygienic substitutes, undermining public health outcomes. • Elimination of Additional Customs Duty (ACD) and Regulatory Duty (RD) aligns with the Prime Minister's vision of tariff rationalization.

Tax Proposals No 39.	Elimination Of ACD & RD on Critical Dairy & Nutrition Imported Raw Materials
Quantitative analysis regarding impact on revenue and other economic indicators	• Lower production costs enabling manufacturers to recover lost volumes and support expansion of output • Improved affordability is expected to increase consumption of packaged nutrition products and drive higher throughput and better utilization of manufacturing capacity While import-stage duty collections may decline, this is expected to be offset by: • Volume-led growth in the documented sector • Higher downstream tax collections (sales tax and income tax) • Expansion of documented economic activity
Economic Impact (if any) with reference to fiscal incidence etc	Although the proposal reduces import-stage levies, the overall fiscal impact is expected to be neutral to positive due to: • Volume recovery • Improved documentation • Reduced leakage into the informal economy Broader economic and social benefits include: • Strengthened local manufacturing base • Improved affordability of nutrition products • Positive employment spillovers • Better public health outcomes, particularly for child nutrition
Sectors and Business activities to be influenced by the proposal	Food sector – Dairy and Nutrition

Other Tax Proposal

Tax Proposals No 40.	Elimination Of ACD & RD on Critical Dairy & Nutrition Imported Raw Materials
Identify the Proposal	✓ Enlarging Manufacturing Base ✓ Export Led Growth ✓ Policy
Background	Currently, tax depreciation rates for machinery do not differentiate between imported and locally manufactured assets. This offers no specific incentive for companies to choose locally produced machinery over imports, missing an opportunity to support the domestic engineering sector and reduce the import bill.

Tax Proposals No 40.	Elimination Of ACD & RD on Critical Dairy & Nutrition Imported Raw Materials
Qualitative Reasoning	Current tax depreciation rules treat imported and locally manufactured machinery identically, which means businesses receive no fiscal benefit for choosing domestic suppliers over imported alternatives. This misses an opportunity to strengthen the domestic engineering supply chain, improve local capacity utilization, and deepen industrial linkages. Increasing the depreciation rate for locally manufactured machinery would create a clear fiscal incentive for companies to purchase domestic assets by accelerating cost recovery and reducing after tax cost of capital. This would enhance the competitiveness of local manufacturers, stimulate import substitution, and help conserve foreign exchange reserves by reducing reliance on imported capital goods — particularly important in Pakistan's context of chronic trade deficits. The policy also aligns with broader goals of industrial self reliance, value addition, and export led growth by promoting infrastructure and technology upgrading within the domestic economy.
Quantitative analysis regarding impact on revenue and other economic indicators	The proposed enhancement in depreciation rates for locally manufactured machinery would primarily result in a timing difference in tax collection, rather than any permanent loss of revenue. Accelerated depreciation allows businesses to claim higher deductions in earlier years, thereby deferring tax liability, while total depreciation over the useful life of the asset remains unchanged. Accordingly, the measure does not erode the tax base, as the deferred tax is ultimately recovered in subsequent years. Instead, it improves cash flow and investment viability in the initial years, encouraging capital formation. From a broader economic perspective, incentivizing locally manufactured machinery is expected to promote import substitution, domestic industrial growth, and foreign exchange savings.
Economic Impact (if any) with reference to fiscal incidence etc	Increased investment in local manufacturing would also generate higher taxable profits, employment, and indirect tax revenues, thereby offsetting any short-term deferral impact and supporting overall revenue sustainability. The proposal would reduce import dependency, strengthen the local engineering and manufacturing base, and create a multiplier effect in the domestic economy. It supports job creation and enhances the technological capabilities of local industry.
Sectors and Business activities to be influenced by the proposal	Domestic machinery manufacturers, engineering sector, and all industrial users of plant and machinery.

Tax Proposals No 41.	Abolishment of advance tax on mobile recharge for non-filers.
Identify the Proposal	✓ Promoting ICT at all levels and for all sectors ✓ Equity, Ethics and Empowerment ✓ Policy
Background	The Finance Act 2024 imposed a 75% advance tax on mobile recharge for non-filers. Additionally, directives were issued to block SIMs of non-compliant individuals. This places a heavy administrative and financial burden on telecom operators.
Qualitative Reasoning	Through the Finance Act, 2024, a proviso has been inserted whereby, in cases of persons specified through an Income Tax General Order issued under Section 114B, the rate of advance tax on mobile services has been increased from 15% to 75% of the bill or recharge amount. This measure is excessively punitive in nature and departs from the principle of equitable taxation. Telecom services are no longer a luxury but an essential utility, enabling access to digital payments, banking, education, and communication. Imposing such a high tax rate effectively restricts access to these services for a large segment of the population, particularly low-income users. From an operational perspective, the requirement to identify persons covered under Section 114B (via Income Tax General Orders) places a significant compliance burden on telecom operators, who must integrate tax status verification systems for millions of subscribers. Regulatory directives to block SIMs of non-compliant individuals further extend beyond the traditional role of telecom operators and risk disrupting access to essential services. Moreover, since the tax is adjustable against final tax liability, it does not represent a final levy but merely a forced advance collection, resulting in cash-flow constraints for consumers and administrative complexity for operators without generating sustainable incremental revenue for the government.
Quantitative analysis regarding impact on revenue and other economic indicators	Under the amended provision, a non-filer identified under Section 114B is subject to 75% advance tax on mobile recharge or prepaid services. **Illustration:** • Recharge amount: RS. 1,000 • Advance tax (75%): RS. 750 • Usable balance: RS. 250

Tax Proposals No 41.	Abolishment of advance tax on mobile recharge for non-filers.
	This effectively reduces usable telecom value by 75%, significantly discouraging consumption of mobile and internet services. Pakistan has over 180 million mobile subscribers, and even if a portion of users falls within the non-filer category, the impact on usage is substantial. Industry concerns highlight that affordability is already a major barrier, with around 20% of the population lacking connectivity and nearly half lacking mobile broadband access. ***Economic Impact*** **Assume:** • Monthly recharge by affected users: RS. 10 billion • Effective reduction in consumption due to 75% tax: even a 30–40% decline in usage **This could result in:** • RS. 3–4 billion reduction in telecom consumption monthly • Lower GST/sales tax collection on telecom services • Reduced revenues for telecom operators, impacting sectoral investment ***Cost vs Revenue Trade-off*** Telecom operators are required to implement complex system changes to differentiate filers vs non-filers and comply with withholding and SIM-blocking directives. Industry feedback suggests these compliance costs may run into hundreds of millions of rupees, potentially exceeding the incremental short-term tax collection benefit.
Economic Impact (if any) with reference to fiscal incidence etc	Abolishing this tax would reduce the operational burden on telecom operators, prevent the disconnection of essential services for citizens, and promote greater financial and digital inclusion, which is a cornerstone for modern economic growth.
Sectors and Business activities to be influenced by the proposal	Telecom sector and all mobile phone users.

Tax Proposals No 42.	Reduction of Regulatory Duty Rate on The Import of Coffee In Bulk & Retail Packs
Identify the Proposal	✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors, ✓ Environment and Climate Change, ✓ Energy & ✓ Equity, Ethics and Empowerment ✓ Policy
Background	The coffee sector in Pakistan has significant growth potential, with substantial investments planned over the next five years. However, high Regulatory Duty (RD) rates on the import of coffee in bulk and retail packs have increased input costs, making compliant operations less competitive. Elevated duties have also encouraged grey channel imports, adversely impacting compliant businesses, suppressing volumes, and resulting in lower government revenues.
Qualitative Reasoning	• High Regulatory Duty (RD) inflates costs for compliant importers and manufacturers, constraining investment and market expansion while incentivizing informal channels. • Elevated RD weakens the competitiveness of documented businesses and diverts volumes toward grey markets. • Reducing RD will lower input costs, improve competitiveness of formal sector players, and shift volumes from informal to documented channels. • The proposed reduction will support scale, brand development, and sustained investment across manufacturing and commercial operations.
Quantitative analysis regarding impact on revenue and other economic indicators	• The proposed RD reduction is expected to catalyze manufacturing investment of at least RS. 1 billion over the medium term. • Commercial investments of at least RS. 13 billion are projected due to improved market viability and expansion opportunities. • Improved competitiveness and volume recovery in the documented sector are expected to generate additional sales tax revenue of at least RS. 12 billion. • Revenue gains will be driven by higher compliant sales and reduced leakage through informal imports
Economic Impact (if any) with reference to fiscal incidence etc	• While RD reduction will lower import stage collections, the effective fiscal impact is expected to be neutral to positive due to volume led growth and formalization. • Higher downstream tax collections will offset reductions at the import stage. • Broader benefits include increased investment, job creation, strengthened local manufacturing, and sustainable revenue gains through expansion of the documented coffee market.
Sectors and Business activities to be influenced by the proposal	Food sector

Beverage Sector

<table>
<tr><th>Tax Proposals No 43</th><th colspan="5">FED on aerated waters be reduced from 20% to 15% and FED on Juices be reduced from 20% to 10%, to support industry sustainability.</th></tr>
<tr><td>Identify the Proposal</td><td colspan="5">✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors
✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics and Empowerment
✓ Policy ■ Operational</td></tr>
<tr><td>Background</td><td colspan="5">The Federal Excise Duty (FED) on the beverage sector has been significantly increased in recent years as part of revenue mobilization measures. Currently:

• Aerated waters (carbonated beverages) are subject to 20% FED
• Fruit juices and related beverages are also taxed at 20% FED

Notably:

• FED on aerated waters was increased from 13% to 20% in 2023, representing a 50%+ increase
• The high tax burden (FED + GST ~38%) has led to:
o Decline in industry volumes (up to 30%)
o Reduction in tax collection from juices by ~15.7%

Industry stakeholders have repeatedly highlighted that excessive taxation has pushed the sector beyond the revenue-maximizing point (Laffer Curve), resulting in declining sales and reduced overall tax collection</td></tr>
<tr><td></td><td colspan="5">The proposal seeks to rationalize FED rates as follows:

• Aerated waters: 20% → 15%
• Juices: 20% → 10%</td></tr>
<tr><td>Qualitative Reasoning</td><td>A. Addressing the Laffer Curve Effect
• Current high FED rates have:
o Suppressed demand
o Reduced production volumes</td><td>B. Supporting Formal Industry vs. Informal Sector
• High taxes create:
o Price disparity between formal and undocumented products</td><td>C. Encouraging Agro-Based Value Chains
• Juice industry is directly linked with:
o Fruit farmers
o Pulp processors</td><td>D. Health & Policy Alignment
• Juices are:
o Nutritional products
o Allowed in schools unlike carbonated drinks</td><td>E. Investment & Industry Sustainability
• Beverage sector has faced:
o Inflation
o Import restrictions
o Currency depreciation</td></tr>
</table>

<table>
<tr><td>Tax Proposals No 43.</td><td colspan="5">FED on aerated waters be reduced from 20% to 15% and FED on Juices be reduced from 20% to 10%, to support industry sustainability.</td></tr>
<tr><td></td>
<td>• Evidence shows declining tax collection despite higher rates

Lower rates will:
• Increase volumes
• Improve overall tax collection</td>
<td>• Consumers shift to:
o Cheaper, untaxed alternatives

Rationalization will:
• Strengthen documented sector
• Reduce illicit and informal trade</td>
<td>Decline in juice demand has:
• Reduced fruit procurement volumes significantly

Lower FED will:
• Boost agricultural demand
• Support rural economy</td>
<td>Lower taxation aligns with:
• Public health objectives
• Encouragement of healthier alternatives</td>
<td>Rational FED ensures:
• Business continuity
• Retention of local and foreign investment</td></tr>
<tr><td>Quantitative analysis regarding impact on revenue and other economic indicators</td>
<td colspan="5">
Current Trends
<table>
<tr><th>Indicator</th><th>Observation</th></tr>
<tr><td>FED collection (juices)</td><td>↓ 15.7% YoY</td></tr>
<tr><td>FED collection (aerated drinks)</td><td>↓ 10.6% YoY</td></tr>
<tr><td>Industry volumes</td><td>↓ up to 30%</td></tr>
</table>
Projected Impact of Rate Reduction
<table>
<tr><th>Measure</th><th>Expected Impact</th></tr>
<tr><td>Reduction to 15% (aerated)</td><td>Volume increase: 8–12%</td></tr>
<tr><td>Reduction to 10% (juices)</td><td>Volume increase: 15–25%</td></tr>
<tr><td>Revenue impact</td><td>Neutral to positive</td></tr>
</table>
Revenue Recovery Mechanism
• Increased sales volumes
• Improved compliance
• Reduced leakage to informal sector

Expected outcome:
• Recovery of RS. 10–30 billion annually
</td></tr>
<tr><td>Economic Impact (if any) with reference to fiscal incidence etc</td>
<td colspan="2">Fiscal Incidence
Current regime:
• High burden on:
o Formal manufacturers
o Compliant taxpayers

Proposed reform:
• Redistributes burden by:
o Expanding consumption base
o Capturing informal sector</td>
<td colspan="2">Deadweight Loss Reduction
• High FED leads to:
o Reduced consumption
o Market inefficiency

Lower FED:
• Improves allocative efficiency
• Enhances consumer welfare</td>
<td>Macroeconomic Impact
• Boost to:
o Manufacturing output
o Agricultural supply chains
• Increased employment across:
o FMCG and farming sectors</td></tr>
<tr><td>Sectors and Business activities to be influenced by the proposal</td><td colspan="5">Food sector – Beverages</td></tr>
</table>

Tobacco Sector

Tax Proposals No 44.	Introduce a temporary lower excise tier to broaden the tax base and encourage formalization of low-price segment.
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change ✓ Energy ✓ Equity, Ethics and Empowerment ✓ Policy
Background	A sizeable portion of cigarette consumption is concentrated in the low-price band where the compliant sector has limited presence and illicit products dominate. Historical experience in Pakistan suggests that a lower tier can help legal products re-enter this segment and recapture volumes from illicit trade.
Qualitative Reasoning	A time-bound lower tier can create a legal entry point for products currently sold outside the tax net, expanding documentation and revenues. The measure should be accompanied by safeguards; such as prohibiting re-positioning of existing Tier 1/2 brands & not allowing brand extensions and variants of existing legal equities. This will minimize downtrading risk, and by strong enforcement will ensure only compliant products benefit.
Quantitative analysis regarding impact on revenue and other economic indicators	**Key indicative figures:** • Over 20 billion sticks continue to be sold in the RS. 130–170 per pack segment, where legitimate industry presence remains very limited. • RS. 150 per pack has emerged as the consumer preferred price point within this illicit segment. • The proposal sets the new tier range at RS. 139–163 per pack, making RS. 139 the new minimum legal price (inclusive of Sales Tax). This aligns with an excise rate of RS. 2,525 per 1,000 sticks (RS. 51 per pack), resulting in a 51% tax incidence at the RS. 150 per pack consumer sweet spot. • The proposed band is intentionally positioned below the current minimum legal price to prevent any downward repositioning of existing Tier 2 brands, thereby protecting government revenues. • Over the next two years, we estimate a migration of 7 billion sticks from the illicit to the legal market, generating approximately RS. 43 billion in incremental government revenue by FY 2027–28 versus FY 2024–25.
Economic Impact (if any) with reference to fiscal incidence etc	By broadening the base, fiscal incidence shifts from a narrow set of compliant taxpayers to a wider set of market participants, improving equity and sustainability of revenues. Implemented with enforcement, it can grow revenues without repeated shocks.
Sectors and Business activities to be influenced by the proposal	Cigarette market low-price segment; compliance and licensing; retail market; enforcement agencies.

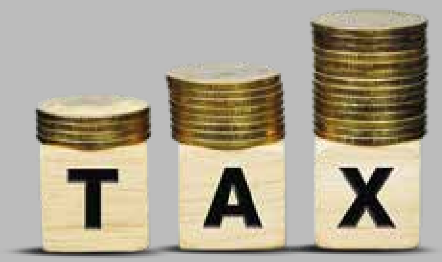
Tax Proposals No 45.	Reform tobacco leaf pricing rules to enable market-based pricing and protect export competitiveness.
Identify the Proposal	✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Tobacco leaf regulation impacts the competitiveness of Pakistan's tobacco exports. Current pricing rules limit the ability to reduce weighted average prices below previous year's levels, which can disconnect local prices from global market conditions and put exports at risk.
Qualitative Reasoning	Allowing open-market pricing will help sustain exports and provide a stable long-term pathway for farmer income by maintaining demand for Pakistani tobacco in international markets. This is especially important when global prices soften or when domestic crop dynamics cause temporary price spikes.
Quantitative analysis regarding impact on revenue and other economic indicators	**Key indicative figures:** • Tobacco exports flagged as down ~75% in H1 FY2025–26 (Source: PTB), with ~USD 191m exports at risk. • Pakistan tobacco priced ~USD 1/kg higher than key comparator origins under current rules.
Economic Impact (if any) with reference to fiscal incidence etc	Improved export competitiveness supports FX inflows, rural incomes, and agriculture-linked employment. It also reduces the risk of farmers being exposed to boom-bust cycles created by rigid pricing mechanisms.
Sectors and Business activities to be influenced by the proposal	Tobacco farming, leaf procurement, green leaf threshing (GLT), exports and associated logistics.

Tax Proposals No 46.	Rationalize advance adjustable FED on acetate to restore documentation and reduce smuggling incentives.
Identify the Proposal	✓ Export Led Growth ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics and Empowerment ✓ Policy
Background	The advance adjustable Federal Excise Duty (FED) on acetate tow is currently maintained at RS. 44,000 per kilogram. This measure was introduced in FY 2024–25 and continued in Finance Bill 2025–26, despite the industry's long-standing recommendation to reduce it to RS. 4,000 per kilogram. The intent of the measure: improved documentation of the upstream supply chain has not been achieved because the prevailing rate has increased the profitability of smuggling and tax evasion.
Qualitative Reasoning	The excessively high advance FED has made illicit trade more lucrative and has created an uneven playing field between compliant manufacturers and non-compliant operators. It also imposes a disproportionate upfront cash-flow burden on compliant companies, as a very large portion of their FED liability is paid in advance on a key input. A rationalized rate would improve the competitiveness of legal imports, strengthen FBR's ability to reconcile imports with production and tax payments, and reduce incentives for illicit sourcing through other channels.
Quantitative analysis regarding impact on revenue and other economic indicators	**Key indicative figures (from referenced materials):** • Current rate: RS. 44,000/kg vs industry-recommended RS. 4,000/kg. • Illicit acetate tow seizures reported at 481 metric tonnes in 2025. • Consumption remains sizeable at ~80 bn sticks annually; illicit share is ~50% and duty-paid industry contributes ~95% of sector revenue collected by Government
Economic Impact (if any) with reference to fiscal incidence etc	This change is not a "tax concession"; it is a re-calibration to achieve the original policy objective of documentation and enforceability. By reducing leakage in the upstream value chain, the proposal supports sustainable revenue collection, strengthens compliance culture, and reduces the fiscal incidence of illicit trade which currently shifts the burden onto compliant taxpayers.
Sectors and Business activities to be influenced by the proposal	Tobacco manufacturing, raw material imports, customs controls, upstream input supply chain documentation.

Tax Proposals No 47.	Mandatory destruction of confiscated raw materials and finished goods to prevent re-entry into the market
Identify the Proposal	✓ Export Led Growth, ✓ Enlarging Manufacturing Base, ✓ Promoting ICT at all levels and for all sectors ✓ Environment and Climate Change, ✓ Energy, & ✓ Equity, Ethics and Empowerment ✓ Policy
Background	Confiscation is effective only if seized goods are reliably destroyed and do not re-enter the market through leakages. Ensuring destruction supports deterrence and improves enforcement credibility.
Qualitative Reasoning	A clear protocol for timely destruction of confiscated cigarettes and raw materials will strengthen deterrence and reduce incentives for smuggling and illicit production. This should be paired with transparent documentation of destruction events and chain-of-custody procedures. This will also act as a deterrent against illicit, as significant losses will cause the cost of doing illicit business increase.
Quantitative analysis regarding impact on revenue and other economic indicators	Large-scale seizures have been reported in recent periods; ensuring destruction of these goods prevents them from returning to the market and undermining enforcement outcomes. Enforcement efforts in 2025 resulted in: 1,000+ raids nationwide 2.5+ billion smuggled sticks confiscated/destroyed 2+ billion duty-not-paid sticks seized 10 undeclared manufacturing units sealed 418 Metric Tones of acetate tow confiscated 3+ Mn KG of undeclared raw tobacco confiscated
Economic Impact (if any) with reference to fiscal incidence etc	This measure supports sustainable revenue collection by preventing recirculation of untaxed goods. It enhances the integrity of enforcement and improves fairness for compliant taxpayers.
Sectors and Business activities to be influenced by the proposal	Enforcement agencies; storage facilities; judiciary/oversight; compliant manufacturers and lawful retailers.

SECTION 2

OPERATIONAL TAXATION PROPOSALS



Tax Proposal No.	Proposals	Page Reference
	Income/ Corporate Tax	
1	Amend Section 37 to base withholding tax on actual capital gains, not the inflated fair market value of unlisted shares, and clarify that non-resident acquirers are not required to withhold tax.	109
2	Restore the Final Tax Regime (FTR) for exporters to reduce litigation and compliance costs, or at least remove the 1% advance tax component on export proceeds.	110
3	Exempt raw material imports from withholding tax (Sec 148) if the taxpayer has already discharged advance tax liability (Sec 147) and extend this adjustability to the service sector.	110
4	Remove the mandatory 30% tax deposit for grant of stay by the High Court (Sec 133(10)), reverting to the pre-Finance Act 2024 position.	111
5	Delineate jurisdiction to prevent overlapping transfer pricing audits by both the Directorate of International Taxation and the Commissioner.	111
6	Establish a clear statutory timeframe and automated process for issuing refunds arising from favorable appellate decisions to improve liquidity.	111
7	Allow surrender of full amount of losses for group relief based on majority shareholding, removing the percentage-of-shareholding restriction.	112
8	Define the term "Prize" in Section 156 to explicitly exclude routine commercial discounts, rebates, and trade incentives.	112
9	Remove the requirement to file reconciliation of expenses with audited accounts under Section 165(8).	112
10	Introduce longer-term tax policy horizons and reduce frequent changes in tax laws to improve predictability.	112
	Revamping Pakistan's Withholding Tax Regime	
11	Automatically exempt compliant taxpayers with pending verifiable refunds from withholding tax to unlock working capital.	113
12	Introduce centralized and risk-based monitoring to avoid repetitive or duplicative withholding tax notices for compliant taxpayers.	113
13	Reduce WHT on telephone and internet usage (Sec 236) to promote digital inclusion and affordability.	113
14	Convert WHT on contracts (Sec 153(1)(c) for unlisted companies from minimum to adjustable tax, especially for low-margin EPC contractors.	113
15	Reduce withholding tax rates from 15%/20% to 10% on all prizes and winnings under Section 156.	114
16	Harmonize the rates of advance tax under Sections 236G and 236H to ensure uniformity in tax collection on sales.	114

Tax Proposal No.	Proposals	Page Reference
	Promotion of Corporatization and Exports	
17	Introduce a 5% tax credit on export income or a 10% credit on incremental exports to enhance competitiveness.	114
18	Provide tax incentives for use of locally sourced raw and packaging materials to replace imports.	115
	Sales Tax	
19	Omit Section 8(1)(j) to allow input tax adjustment on services subject to reduced rates under provincial sales tax laws.	115
20	Extend the period for input tax adjustment from 180 to 365 days where payment to the supplier is delayed.	115
21	Amend Sections 3(1) and 3(5) to ensure "further tax" and "extra tax" apply only to persons required to be registered, not those legally exempt.	115
22	Allow input tax adjustment for sales tax paid under the Reverse Charge Mechanism (RCM) under provincial rules.	116
23	Remove the provision treating receipt of advance payment as the time of supply (Section 2(44)(a)).	116
24	Insert a provision similar to Section 161(1B) of the ITO in the Sales Tax Act to prevent double recovery from withholding agents.	117
25	Omit Section 8B (4) to remove discretionary powers that allow restriction of legitimate input tax adjustments.	117
26	Amend Section 8(1)(h) to allow input tax adjustment on goods used in immovable property for taxable business activities.	118
27	Issue a notification to waive default surcharge and penalties if late payments or filings result from the application of SRO 350(I)/2024.	118
28	Omit the word "otherwise" from Section 34 of the Sales Tax Act to prevent penalization for non-willful errors.	118
	Broadening Of Tax Base - Equitable And Fair Distribution	
29	Implement a consistent roadmap with targets to bring unregistered persons (wholesalers, retailers, professionals) into the tax net using data from banks, utilities, and other sources.	119
30	Enforce 100% POS integration for all Tier-1 retailers and mandate reporting of customer details by manufacturers and distributors.	119
31	Bring all service providers and professionals into the documented economy through mandatory POS-based invoicing at the point of payment.	120

Tax Proposal No.	Proposals	Page Reference
32	Introduce effective and enforceable mechanisms to tax agriculture income in a progressive and equitable manner.	120
33	Introduce positive incentives for compliant taxpayers, including tax credits for sustained compliance and recognition programs.	121
34	**Simplification & Ease of Doing Business** Withdraw the coercive powers introduced through amendments to Sections 138, 140, and 175C (immediate recovery despite appeals, posting officers on premises).	121
35	Simplify and automate the process for updating registered business activities (e.g., principal activity, members) on the IRIS portal.	121
36	Establish a dedicated wing within FBR to monitor large cash withdrawals and deposits by non-filers in liaison with the State Bank's FMU; and discourage cash circulation through the active promotion of digital payment systems like RAAST, fintech solutions, and e-invoicing.	122
37	**Custom Duties** Amend Clause 2(a) of SRO 678(I)/2004 to extend duty and tax exemptions to spares, chemicals, and consumables for LNG terminal operators.	122
38	Amend Rule 871 of the Customs Rules to include distributors/local traders in the supply chain under the Export Facilitation Scheme.	122
39	Publish detailed import data regularly to enable stakeholders to identify under-invoicing and misdeclaration.	123
40	Undertake a review and reasonable adjustment of tariff rates where necessary to support and protect the domestic industry.	123
41	Reduce the depreciation rate on imported used cars from 1% to 0.5% to ensure fair competition with locally manufactured vehicles.	124

Income / Corporate Tax

S.No.	Issue	Recommendation	Rationale
1.	**Removal of anomaly in calculation of withholding tax on disposal of shares [Section 37]** 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. 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.	**(i) Withholding tax should be based on actual liability of capital gains u/s 37. Law should be amended to require acquirer to withhold tax on capital gain amount, not gross payment. Alternatively, calculate based on net assets.** **(ii) Under the existing provision of law, the term “acquirer” has been used for the purpose of withholding tax on payments made against the acquisition of shares. This implies that even non-resident acquirers, not having any physical or legal presence in Pakistan, are required to withhold tax, which has given rise to disputes with the tax authorities, as it is practically not possible for such non-residents to deposit the amount of tax withheld with the tax authorities in Pakistan. An explanation should be inserted to clarify that such requirement applies only where the acquirer is a resident under the provisions of the Ordinance, as it is practically difficult and administratively burdensome for non-residents to withhold and deposit such tax.** **(iii) Further, an option should also be introduced whereby the seller may apply to the Commissioner for a certificate for no deduction or deduction of tax at a reduced rate. Currently, such option is available only to the acquirer. In cases where the acquirer is a non-resident, it becomes difficult to file such an application and pursue the matter before the Commissioner.**	The prescribed calculation of FMV results in exorbitant amount of withholding tax, which is always higher than the actual liability of capital gain tax, resulting creation of 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.

S.No.	Issue	Recommendation	Rationale
2.	**Advance Tax rate on export proceeds [Section 147/154]** 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. Restoring the final tax regime for exports will reduce the cost to exporters in relation to unnecessary tax audits and litigations. This will also help in promoting competitiveness of the exports as compared to our neighboring countries.
3.	**Exemption from tax withholding u/s 148 on import of goods**	**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 available in the case of section 153.** **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 funds in refunds and also the administrative burden in claiming and following up on refund application. This reduces the cost of capital associated with delayed refunds.

S.No.	Issue	Recommendation	Rationale
4.	**Removal of 30% stay deposit requirement [Section 133(10)]** Mandatory 30% tax deposit for grant of stay by High Court creates severe cash-flow issues in disputed cases.	Remove the 30% tax deposit requirement for grant of stay by the High Court under Section 133(10) (pre-Finance Act 2024 position).	Protects right to fair trial, prevents irreparable financial hardship, and reduces coercive recovery.
5.	**Overlapping transfer pricing audits** Transfer pricing matters are audited both by the Directorate of International Taxation and the Commissioner, leading to duplication and uncertainty.	Clearly delineate jurisdiction under Section 230E so that once a transfer pricing audit is completed by the Directorate of International Taxation, the same matter is not re-audited by the Commissioner.	Eliminates duplication, reduces compliance burden for MNCs, and improves certainty and efficiency in tax administration.
6.	**Ensuring Timely Refunds on Favorable Appellate Decisions** Subsection 170(4) of the Income Tax Ordinance lacks a statutory timeframe for issuing refunds following favorable appellate decisions. This absence causes delays, creating cash-flow constraints for taxpayers, administrative inefficiencies, uncertainty, repetitive filings, and challenges in managing working capital, while potentially undermining confidence and compliance in the tax system.	Establish a clear timeframe for processing and issuing refunds arising from favorable appellate orders to ensure timely disbursement, streamline administration, reduce repeated filings, and enhance predictability for taxpayers.	Improved liquidity, reduced financing costs, better cash-flow management, and increased confidence in the tax system, promoting responsible compliance. Accelerated refund release supports operational efficiency, reinvestment, profitability, and overall economic activity. Simplified processes reduce administrative burden, litigation, and disputes while maintaining revenue neutrality, fostering a transparent and effective fiscal environment.

S.No.	Issue	Recommendation	Rationale
7.	**Adjustment of tax losses for group relief should be provided in full, instead of restricting the same to percentage shareholding** 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.	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.	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.
8.	**Undefined term "Prize" under Section 156** Lack of definition of the term "Prize" under Section 156 allows tax authorities to treat routine commercial discounts and trade incentives as prizes.	Define the term "Prize" in Section 156 to explicitly exclude routine commercial discounts, rebates, and trade incentives.	Prevents unwarranted tax demands, litigation, and excessive compliance costs arising from expansive interpretation.
9.	**Reconciliation under Section 165(8)** Mandatory reconciliation between withholding statements and audited accounts is duplicative and burdensome.	Remove the requirement to file reconciliation of expenses with audited accounts as required under section 165(8).	It reduces the compliance burden for taxpayers and the administrative workload without any loss of revenue.
10.	**Longer-term tax policy horizons be introduced and frequent changes in tax laws be reduced to improve predictability.**	A mandatory minimum three year lock in period be introduced for all major tax provisions (corporate tax rates, withholding tax rates, depreciation schedules, and minimum tax thresholds) under the Income Tax Ordinance, 2001. Any amendment to these provisions shall take effect prospectively and shall not be revised more than once every three fiscal years, unless a national economic emergency is declared by Parliament with a two-third majority.	To provide certainty to taxpayers for long-term financial planning, attract foreign direct investment (FDI), reduce compliance costs associated with frequent system changes, and minimize litigation arising from annual ad-hoc amendments. A predictable tax environment will also broaden the tax base by encouraging voluntary compliance.

Revamping Pakistan's Withholding Tax Regime

S.No.	Issue	Recommendation	Rationale
11.	**Automatically allow non-application of WHT on payments received from customers where substantial income tax refunds are pending.** Compliant taxpayers often experience delays in the issuance or processing of exemption certificates from withholding of tax on their receipts. Despite having substantial and verifiable income tax refunds pending, they continue to be subjected to withholding tax on payments received from customers, resulting in cash-flow constraints and further accumulation of refunds.	Automatically exempt withholding tax on payments made to compliant taxpayers where material income tax refunds are pending with the FBR and are verifiable through the system.	Prevents economic double taxation, unlocks working capital, reduces refund backlog, and lowers administrative burden for both taxpayers and FBR without any revenue loss.
12.	**Excessive issuance of withholding tax notices** Compliant large taxpayers receive repetitive, system-generated or duplicative withholding tax notices, causing unnecessary compliance burden.	Introduce centralized and risk-based monitoring of issuance of withholding tax notices to avoid repetitive or duplicative notices for compliant taxpayers.	Frees up taxpayer and FBR resources, reduces compliance fatigue, and allows FBR to focus on high-risk cases.
13.	**Reduction of WHT on telephone/internet usage [Section 236]** Withholding tax on telecom usage is effectively a final tax for over 95% of users who are below taxable threshold.	Reduce WHT / advance income tax rate under Section 236 on telephone and internet usage	Reduce WHT / advance income tax rate under Section 236 on telephone and internet usage
14.	**Convert Minimum tax deducted under section 153(1)(c) to adjustable tax rather than Minimum**	Convert withholding tax on contracts under Section 153(1)(c) at 7.5% from minimum tax to adjustable/collectable tax for unlisted companies and rationalize the applicable rates.	This is critical for low-margin EPC contractors, as taxation on gross turnover irrespective of profitability results in an unsustainable tax burden (with 85–104% effective tax rate scenarios) and discourages investment in infrastructure and energy projects.

S.No.	Issue	Recommendation	Rationale
15.	**High withholding tax rates on prizes under Section 156**	Reduce withholding tax rates from 15%/20% to 10% on all prizes and winnings	Encourages participation in prize schemes, supports marketing and promotional activities, and reduces compliance burden on smaller prizes.
16.	**There is a disparity in the rates of collection under Sections 236G and 236H of the Income Tax Ordinance, 2001.**	Harmonize the rates of advance tax under Sections 236G and 236H to ensure uniformity in tax collection, possibly by aligning the 236H rate with the weighted or applicable 236G rates, or by prescribing clear categories and thresholds for both sections.	Alignment of rates would remove ambiguity, prevent disputes between taxpayers and tax authorities, and ensure equitable treatment across similar sales transactions, improving compliance and administrative efficiency.

Promotion of Corporation and Exports

S.No.	Issue	Recommendation	Rationale
17.	**Tax credit of 10% to be given to exporters for at least 5 years.** 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. Alternatively, a tax credit of 10% on incremental exports be introduced against related tax liability which will be computed based on following formula: (A/B) x C, Where: • A is tax liability determined on export income in the current tax year • B is export revenue for the current tax year • C is increase in export revenue compared to the previous tax year.	This will enhance the competitiveness of exports and thus act as a catalyst in increasing the foreign exchange reserves and provide space for exports..

S.No.	Issue	Recommendation	Rationale
18.	**Reliance on imported raw and packaging materials** Heavy reliance on imported raw and packaging materials increases forex outflows.	Provide tax incentives for use of locally sourced raw and packaging materials replacing imports.	Saves foreign exchange, strengthens local supply chains, and supports domestic industry.

Sales Tax

S.No.	Issue	Recommendation	Rationale or Benefit
19.	**Inadmissibility of input sales tax on reduced-rate services [Section 8(1)(j)]** Disallowance of input tax paid against outputs that are subject to provincial sales tax on services, where input tax adjustment is barred under the respective provincial sales tax laws.	Omit Section 8(1)(j) to allow input tax adjustment on services subject to reduced sales tax rates under the provincial sales tax authorities. The disallowance of input tax on such services, particularly those governed under provincial sales tax laws, contradicts the fundamental VAT principle of input tax adjustment.	Allowing input tax will reduce cost of doing business for documented sector and contribute to expansion of documented economy.
20.	**180-day restriction on input tax adjustment** Input tax adjustment is restricted if payment to supplier is not made within 180 days.	Extend the allowable period for input tax adjustment from 180 days to 365 days where payment is delayed.	Aligns tax law with commercial practices and eases cash-flow pressures.
21.	**Further Tax on persons not liable to seek Sales Tax registration** (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.	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.	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.

S.No.	Issue	Recommendation	Rationale or Benefit
21.	(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. who have 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.	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. 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.	
22.	**Input sales tax adjustment under Reverse Charge Mechanism (RCM)** Under Rule 6 of the Punjab Revenue Authority Rules, 2012, certain services are subject to sales tax under the Reverse Charge Mechanism (RCM), whereby the recipient of services is required to pay sales tax directly to PRA. Currently, PRA does not allow adjustment of input sales tax paid under RCM, as the tax is not supported through a valid tax invoice.	It is proposed that input sales tax paid should be allowed as an adjustment under Reverse Charge Mechanism (RCM) under PRA Rules.	RCM input tax not being adjustable creates blocked working capital. Allowing adjustment would neutralize tax liability, improve liquidity, and promote documentation without revenue loss. It will improve liquidity, reduce operational costs, and promote documentation of service providers. It will also reduce disputes and enhance voluntary compliance at the provincial level.
23.	**Sales tax on advances – Section 2(44)** 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	The said insertion made through Finance Act, 2024 in clause (a) of section 2(44), should be removed.	This is a time-consuming activity and on the other hand this change is not generating any additional revenue for the Government.

S.No.	Issue	Recommendation	Rationale or Benefit
	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.		
24.	**The Sales Tax Act, 1990 does not contain a provision similar to Section 161(1B) of the Income Tax Ordinance, 2001, whereby no recovery is made from the withholding/collecting agent where the underlying tax has already been paid by the recipient/supplier.**	Insert a provision in the Sales Tax Act, 1990 similar to Section 161(1B) of the Income Tax Ordinance, 2001, providing that where the sales tax has already been paid by the supplier or service provider, recovery shall not be made from the withholding/collecting agent, subject to payment of applicable default surcharge.	This amendment would prevent double recovery of the same tax and ensure equitable treatment of withholding agents while safeguarding government revenue through the levy of default surcharge.
25.	**Section 8B(4) of the Sales Tax Act, 1990** Empowers the Federal Board of Revenue to prescribe any other limit of input tax adjustment for any person or class of persons and to restrict or defer input tax through an automated risk management system.	Omit Section 8B(4) from the Sales Tax Act, 1990	Removing this provision will reduce discretionary powers that allow the restriction of legitimate input tax adjustments without adequate transparency or due process. It will improve certainty in the tax system, facilitate smoother cash flow for businesses, and align the sales tax regime more closely with the fundamental principle of value-added taxation, which allows full adjustment of input tax against output tax. This change would also enhance taxpayer confidence and reduce unnecessary litigation arising from arbitrary input tax restrictions.

S.No.	Issue	Recommendation	Rationale or Benefit
26.	**Section 8(1)(h) of the Sales Tax Act, 1990 disallows input tax adjustment on goods used in or permanently attached to immovable property, such as building and construction materials.**	Amend Section 8(1)(h) to allow input tax adjustment on goods used in the construction or development of immovable property used for taxable business activities.	Disallowance of input tax on such goods increases the cost of doing business and leads to cascading of taxes. Allowing input tax adjustment would align the sales tax system with the value-added tax principle and promote investment and business development.
27.	**Waiver of default surcharge & penalties for payments due to SRO 350** 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.	A provision 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.	This change will ensure that compliant taxpayers are not unfairly penalized for their suppliers' non-compliance.
28.	**Penalization for non-willful errors** Wording "whether willfully or otherwise" allows penalties for genuine, non-willful mistakes.	Omit the word "otherwise" from Section 34 of the Sales Tax Act, 1990 and Section 44 of Sindh Sales Tax on Services Act, 2011.	Aligns law with principles of natural justice and international best practices.

Broadening of Tax Base Equitable And Fair Distribution

S.No.	Issue	Recommendation	Rationale or Benefit
29.	**Implement road map to bring unregistered persons into tax net** FBR receives a 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 in tax net, however, due to lack of consistency, inefficient stakeholder management, untrained FBR officials, and lack of accountability, FBR was not able to enforce it effectively.	• 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: • Create a task force with target to bring identified unregistered individuals/business into tax net through registration and compliances. • Conduct targeted outreach campaigns, identify specific unregistered individuals and educate them about their tax obligations and the benefits of registration. • Implement streamlined and user-friendly registration processes with tax clinics in rural & remote areas (where required). • Offer incentives such as reduced penalties or initial tax holidays for individuals and businesses that voluntarily register and comply with tax laws.	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.
30.	**Tax on Wholesale/Retail Trade** Wholesale and retail sector share around 18% of the Country's GDP, however the tax collection from this sector remains staggeringly 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 retailers have enrolled in this scheme, resulting in low tax collection. The enrollment and registration of Tier-1 retailers is still a challenge which could only be implemented through effective	• At present retailers and wholesalers are subject to tax withholding of not more than 0.5%. This tax withholding should be supplemented by reporting of sales by manufacturer/ importers, with complete details of unregistered buyers. • Special wing with reinforcement of manpower at FBR be made for registration, monitoring and payment of tax by wholesalers 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.	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.

S.No.	Issue	Recommendation	Rationale or Benefit
	monitoring and registration of retailers and wholesalers and ensuring that due taxes are paid by them. Bringing these wholesalers and retailers into the tax net is also one of the demands of IMF.	• 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. Provincial sales tax data can also be used for identifying the non-complaint/non-filers for imposing Income tax on Tier-1 retailers.	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.
31.	**Large segment of the services sector, including professionals (doctors, lawyers, consultants, etc.), remains undocumented and outside the tax net.**	Bring all service providers and professionals into the documented economy through mandatory POS-based invoicing at the point of payment, regardless of payment mode (cash, bank transfer, digital or card)	Expands the tax base without increasing tax rates; improves documentation and transparency of the services sector; reduces reliance on cash transactions; ensures fairer distribution of tax burden; enhances revenue collection through compliance rather than enforcement.
32.	**Effective Taxation of Agriculture Income** Agriculture income remains largely untaxed despite clear constitutional provisions allowing taxation by provincial governments. This has resulted in a narrow tax base and disproportionate tax burden on documented sectors.	It is proposed that effective and enforceable mechanisms be introduced to tax agriculture income in a progressive and equitable manner, with appropriate thresholds to protect small farmers.	Bringing agriculture income into the tax net would significantly broaden the tax base and reduce undue pressure on salaried and corporate taxpayers. Properly designed taxation, supported by reliable land and income records, would enhance equity in the tax system while ensuring that implementation challenges are addressed sensitively.

S.No.	Issue	Recommendation	Rationale or Benefit
33.	**Positive Incentives for Compliant Taxpayers** The existing tax framework focuses primarily on penalties and enforcement actions, with limited incentives for voluntary compliance.	It is proposed to introduce positive incentives for compliant taxpayers, including tax credits for sustained compliance, recognition programs, preferential access to government services, and linkage of tax compliance with corporate social responsibility (CSR) recognition.	Positive reinforcement encourages voluntary compliance and helps build a culture of tax responsibility. Incentivizing compliant behavior would improve trust between taxpayers and authorities while enhancing long-term revenue collection.

Simplification & Ease of Doing Business

S.No.	Issue	Recommendation	Rationale or Benefit
34.	**Excessive coercive powers under ITO** Powers to seal property, freeze bank accounts, and station officers without judicial oversight create fear and uncertainty.	Withdraw coercive powers introduced through amendments to Sections 138 and 140 of ITO 2001.	Restores investor confidence, protects fundamental rights, and promotes voluntary compliance.
35.	**Modification of registration through Form 181 on the IRIS portal** It has become increasingly challenging. Taxpayers are unable to update certain key particulars, such as principal business activity, addition of members/partners, or removal of members, through the online system. Similarly, modification of Sales Tax registration details also involves procedural and technical difficulties, often requiring manual intervention or prolonged correspondence with the tax authorities.	The IRIS portal and related registration procedures should be streamlined to allow taxpayers to easily modify critical registration details, including principal activity and changes in members/partners. A simplified and automated mechanism should also be introduced for sales tax registration modifications, with clear guidance and minimal manual approvals.	Facilitating timely and efficient modification of registration particulars will improve accuracy of taxpayer records, reduce administrative bottlenecks, and enhance compliance. Streamlining these processes will also reduce unnecessary interaction with tax authorities and ensure that taxpayer profiles accurately reflect current business structures and activities.

S.No.	Issue	Recommendation	Rationale or Benefit
36.	**Discouraging Cash Circulation through Digital Payments** Heavy reliance on cash transactions continues to undermine documentation efforts and facilitates tax evasion across the economy.	Establish a dedicated wing within the Federal Board of Revenue (FBR) to monitor large cash withdrawals and deposits by non-filers in liaison with the State Bank's Financial Monitoring Unit (FMU). Additionally, promote digital payment systems including RAAST, fintech solutions, POS-based payments, e-invoicing, and mobile wallets.	Cash-based transactions are a major barrier to documentation. A dedicated monitoring wing will create a deterrent effect against large undisclosed cash movements by non-filers. In parallel, promoting digital payments will naturally expand the documented economy, improve transaction traceability, and broaden the tax base over time without imposing new taxes.

Customs Duties

S.No.	Issue	Recommendation	Rationale or Benefit
37.	**Limited scope of exemption under SRO 678(I)/2004 Clause 2(a) for LNG Developers / Terminal Operators** As the exemption from customs duty above 5% and whole of sales tax does not clearly cover spares, chemicals and consumables required for operations and maintenance of LNG terminals.	Amend Clause 2(a) of SRO 678(I)/2004 to extend exemption from customs duty in excess of 5% and the whole of sales tax to the import of spares, chemicals and consumables by LNG Developers / Terminal Operators / Owners.	E&P companies and LNG Developers have been equated in duty concessions for energy sector investments; therefore, similar facilitation should be extended to operational imports to ensure policy consistency, reduce operational costs of LNG infrastructure, and support reliable energy supply in Pakistan.
38.	**Custom Act (Export Facilitation Scheme)** The proposed amendments in Rule 871(g) recommend 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.	Rule 871 (g) "Common Export House" 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;	In addition, the following benefits shall also accrue from the proposed amendments: • Support in reduction of Commercial Imports and saving of precious foreign exchange of the country.

S.No.	Issue	Recommendation	Rationale or Benefit
		Consequently, amendments are also required to be made in the definition of Exports and Indirect Exporter in rule 871 (k) and (l) as follows: "export" includes supply of goods, - *(a) by an indirect exporter to a direct exporter or Commercial Exporter or Common Export House;* *"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;*	• Complete and cover the whole supply chain and distribution cycle of the Country's Exports • Provide level playing field for not only growth in the local manufacturing but also facilitate import substitution.
39.	**Lack of publicly available import data limits the ability of stakeholders to identify under-invoicing and misdeclaration in imports.**	Customs authorities should publish detailed import data on a regular basis, including description of goods, quantity, declared value, and country of origin, while ensuring confidentiality where required.	Public availability of import data would improve transparency and accountability, enable industry and regulators to detect under-invoicing and misdeclaration, and support more effective enforcement. This aligns with industry proposals aimed at strengthening compliance and protecting legitimate businesses.
40.	**In certain sectors, existing tariff structures do not adequately protect domestic manufacturers from unfair competition arising from low-priced imports.**	Undertake a review and reasonable adjustment of tariff rates where necessary to support and protect the domestic industry.	A balanced tariff policy would support local manufacturing, safeguard employment, and encourage investment, while also ensuring consumer interests and compliance with international trade commitments.

S.No.	Issue	Recommendation	Rationale or Benefit
41.	**High rate of depreciation allowed on imported used cars**	To reduce the depreciation rate from 1% to 0.5%.	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.

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