TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

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BUDGET 2025-26
A RARE CATALYST FOR COURSE CORRECTION

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PREAMBLE

Dear All,

Asalam-o-alaikum. We hope this publication finds you in the best of health and spirits. Pakistan's economy, after navigating through a highly precarious phase in the outgoing Fiscal Year, has shown signs of modest recovery in Fiscal Year 2024-25 ("FY25"). The FY25 has experienced relatively improved macroeconomic conditions, though significant structural challenges persist.

This document has been developed with the objective of proposing a forward-looking budget model, offering comprehensive budgetary suggestions, and compiling policy recommendations that can pave the way for sustainable tax reforms. Rather than offering temporary fixes for immediate concerns, our focus remains on long-term and impactful solutions aimed at strengthening Pakistan's economic foundation.

Kind Regards,

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EXECUTIVE SUMMARY:

The upcoming budget 2025-2026 serves as a great opportunity for course correction. It is a rare catalyst to realign the direction of our Economy. The term "**Course Correction**" signifies that whilst we have achieved a degree of stability, Pakistan must now progress through Robust Growth, driven by Exports rather than Import-oriented strategies. The basic ingredients for this transition must be clearly defined. Therefore, the Budget theme should focus on creating a balance between Stability and Economic Growth. It must address the consequences of import-oriented growth while highlighting the benefits of Export- and Services-led growth. Therefore, Economic and Fiscal reforms should be framed in a manner that puts the economy on a path of steady growth.

Fixing the economy through the upcoming budget requires a recipe that may contain several ingredients in Order to achieve sustainable economic growth. First and foremost, the Economic growth should be Export-led, unlike the recent past, i.e. Fiscal Year 2021-22 ("FY22") when the economic Growth was Import-oriented. As a consequence of the import led growth in FY 22, Pakistan spiraled into external and fiscal imbalances. Therefore, Pakistan had the highest inflation and an economic nosedive in FY23. These decisions made the cost of living miserable due to elevated inflation. To ensure Sustainable Growth, it is imperative to pursue export-led growth, which has three vectors; (i) the **Agricultural sector**; (ii) the **Manufacturing sector;** and (iii) the **IT industry**. Along with this, **Public Financial Management ("PFM")** has an important role to play. It involves expenditure control and revenue enhancement. Fiscal management has a big role in this course correction. Thereby, the theme of the Budget is designed in a way that leads toward Growth with stability.

The FY26 budget should discourage currency devaluation by curbing non-essential imports, boosting local manufacturing and energy independence, promoting domestic value addition, and generating employment. Stability means that the currency should remain stable, inflation should stay within the targeted range, and the currency must not be devalued. Furthermore, based on our estimates for FY26, if the current account deficit ("CAD") stands at 0.5% of the GDP, the exchange rate should ideally stabilize around PKR 276/USD. However, given that the average exchange rate (FY25) has remained in the PKR 280s/USD range, it may be that a potential depreciation of 10 to 15 rupees may occur during FY26, bringing the exchange rate to approximately PKR 290–295/USD. This devaluation is expected to increase the inflation by an estimated 3 percentage.

Agriculture, which employs over a third of the population, remains underperforming and requires urgent reform. The FY26 budget must prioritize a modern "**Green Pakistan Initiative".** A total of 9.1 million hectares of land should be utilized with a focus on productivity enhancement, sustainable practices, and rural development. Key policy areas should include targeted Agri-subsidies for seeds, fertilizers, and machinery; promotion of climate-smart and precision agriculture; and mechanization of farming practices.

The FY26 budget must emphasize export-led growth for the **industries** by implementing key policies such as interest rate rationalization for industries, a balanced tariff policy for raw materials, and the development of export-oriented clusters. Promoting import substitution and introducing result-based industrial subsidies, particularly in textile, pharmaceutical, and engineering goods, is crucial for long-term sustainability.

Additionally, focusing on **IT services** is essential. Moreover, it is important to address the issue of IT businesses operating through digital banks using foreign identities through legal mutual agreements to avoid foreign exchange loss for Pakistan. Policies should be designed to bring these businesses into the tax net by tracking their foreign IDs and ensuring they comply with the country's tax regulations. These measures will help strengthen Pakistan's industrial sector and improve tax compliance.

The IMF has imposed 11 new conditions on Pakistan, including approval of a PKR 17.6 trillion budget, raising electricity debt surcharges, removing import restrictions on used cars that are over three years old, and implementing Agricultural income tax by provinces. Other conditions include inflation-adjusted cash transfers, power and gas tariff hikes, ending incentives for tech zones by 2035, and reforms in Governance and the financial sector to ensure Fiscal discipline and structural reforms.

In this budget, the theme of fiscal measures should focus on PFM to ensure prudent and transparent handling of public resources. On the revenue side, it aims to increase tax revenue through new measures, including broadening the tax base, simplification of law, and rationalizing the authority of the Federal Board of Revenue ("FBR"). It also focuses on increasing non-tax revenue through the efficient management of State-Owned Enterprises ("SOEs"). These fiscal measures aim to improve compliance, reduce evasion, promote transparency, and support economic growth. Key areas include reforming tax policy, modernizing enforcement mechanisms, leveraging technology, and fostering a more business-friendly and equitable tax environment. On the expenditure side, this budget aims to; reduce debt servicing by rationalizing policy and rupee parity rates; ascertain defense needs and increase the defense budget; and validate the social safety net by increasing direct subsidies to the underprivileged. A focus must be on strategic defense allocations, centered on modernization, border security, and intelligence.

Under the IMF program, the FBR has been assigned a tax collection target of PKR 14.3 trillion for FY26, reflecting a 16% increase from the revised FY25 target of PKR 12.3 trillion. However, official data reveals that by April FY25, FBR has only collected PKR 9.3 trillion, leaving a challenging PKR 3 trillion gap to bridge in the remaining two months. Based on current trends, FBR may realistically collect PKR 11.9 trillion in FY25. If the outcome of the Super Tax is implemented (Section 4B and 4C of the Income Tax Ordinance), the FBR may achieve Tax Revenue of PKR 12.1tr. Moreover, in the upcoming FY26, with a projected inflation of 10% and Real GDP growth of 3% in FY26, Tola Associates has estimated that the tax revenue collection might reach PKR 13.5 trillion, which is short of the IMF target. However, if the Government implements the proposed Tax Reforms and IT Reforms, the FBR could potentially exceed PKR 14.5 trillion tax revenue collection in FY26.

The FY26 Budget must serve as a turning point, setting a clear path towards self-reliance, inclusive Growth, and economic resilience.

A comprehensive set of fiscal measures have been proposed to strengthen Pakistan's tax system. Revenue-focused initiatives include introducing a Minimum Asset Tax ("MAT"), tightening controls on undeclared assets, reforming the minimum tax regime, and improving compliance among both individuals and corporations. To widen the tax net, the proposals call for mandatory digital payments, integration of utility and travel data with tax records, regulation of digital assets / cryptocurrency holdings, and stronger enforcement of commercial documentation.

Legal simplification measures suggest clearer timelines for assessments and appeals, an improved appellate system, streamlined group taxation rules, and rationalized withholding and minimum tax structures. Administrative and enforcement reforms emphasize the use of digital tools (AI based) for e-assessments, audits, and customs procedures, while promoting federal-provincial coordination and unified valuation methods. Together, these recommendations aim to increase transparency, reduce litigation, boost voluntary compliance, and foster a more sustainable and efficient tax system in Pakistan.

BUDGET AT A GLANCE: TOLA ASSOCIATES ESTIMATES FOR THE FY25 & FY26

PKR Billion	Note	Govt. Budget 2024-25	TA Est. Budget 2024-25	TA Est. Budget 2025-26
FBR Tax Revenue	1	**12,330**	**11,900***	**13,447**
Non-Tax Revenue	2	4,845	**5,467**	4,000
Gross Revenue Receipts		17,175	17,367	17,447
Less: Transfer to Provinces		7,071	6,824	7,712
Net Revenue Receipts - Federal Share		10,104	**10,542**	9,735
Total Expenditure		**18,877**	**17,697**	**17,233**
Current Expenditure		**17,203**	**16,457**	**15,921**
Markup Payments		9,775	9,520	7,521
Domestic Debt	3	8,736	8,510	6,234
Foreign Debt	4	1,039	1,010	1,287
Pension	5	1,014	900	1,020
Defence Affairs & Services	6	2,122	2,400	2,800
Grants & transfers to provinces and others	7	1,777	1,477	1,955
Subsidies	8	1,363	1,060	1,350
Running civil Govt	9	839	900	920
Provision for Emergency and others	10	313		355
Statistical Discrepancy		0	200	
Development & Net Lending		1674	1,240	1,312
Federal PSDP	11	1400	920	950
Other Development & Net lending	12	274	320	362
Federal Balance	13	(8,773)	(7,155)	(7,498)
Primary Balance	14	1,002	2,365	23
Projected GDP		124,150	124,150	140,290
Federal PSDP		(7.1)	(5.8)	(5.3)
Federal PSDP		0.8	0.8	0.0

*** If the cases related to Super Tax are decided in favor of the FBR (Section 4B and 4C of Income Tax Ordinance), the FBR may achieve Tax Revenue of PKR 12.1tr**

Note: The above estimates do not include provincial surplus

NOTE 1 (FBR'S DIRECT REVENUE):

- In May 2025, the IMF and Pakistan completed the second review under the stand-by arrangement.The IMF plan envisages FBR's tax collection target of PKR 14.3tr for FY26 which would be 16.0% higher than the revised tax revenue target for FY25 of PKR 12.3tr.
- Official figures show that from July to April of FY25, FBR's tax revenue stood at PKR 9.3tr. The FBR still needs PKR 3tr more in the remaining two months to reach the revised tax revenue target. Reaching the revised revenue target seems very tough in the remaining period of FY25.
- As per our estimates, if the FBR collects around 11.9tr in FY25, given our inflation estimates at 10.0% and estimated GDP growth at 3.0% in the upcoming FY26, then the FBR might collect only PKR 13.5tr worth of tax revenue.
- However, if the Government agrees to implement the proposed tax reform policies, it may comfortably surpass the PKR 14.5 trillion revenue collection target in the next Fiscal Year.

NOTE 2 (NON-TAX REVENUE):

- The Federal Government's Non-Tax revenue ("NTR") includes surplus profit from the SBP, Gas Infrastruc ture Development Cess, and Natural gas development surcharge and petroleum levy. These were budgeted for FY25 at PKR 4,845 billion, whereas the Government collected PKR 4,100 billion from Jul-March FY25.
- As per our estimates for the FY25, the Government may collect PKR 5.5tr worth of NTR, amidst the increase in the Petroleum levy by the Government.
- With the decline in the interest rates during FY25, the Central Bank's profit has also cut down to half. Therefore, in light of the decrease in interest rates, we anticipate that Government will be able to collect NTR to the tune of PKR 4,000 billion in FY26, given that the petroleum levy has increased to PKR 70/litre.

NOTE 3 (DOMESTIC DEBT):

- As per the economic data published by the SBP, the country's outstanding central Government domestic debt was PKR 51,518 billion as of March 2025. As the average rise in domestic debt during the last quarter of the previous three fiscal years is 10%, we assume a 10% hike in domestic debt for Q4FY25. Ultimately, our estimated domestic debt by the end of June 2025 would be PKR 56,670 billion.
- Further, due to the policy rate retainment, we suggest allocating PKR 6,234 billion worth of mark-up payments for FY26 on account of outstanding domestic debt, which is calculated on the basis of the policy rates and estimated outstanding domestic debt till June 2025.

NOTE 4 (FOREIGN DEBT):

- According to SBP's report, the external debt of the Federal Government stood at PKR 22,014 billion as of February 2025. The same has increased from start of FY25 to March 2025 by PKR 416 billion.
- The IMF projects Pakistan's annual markup foreign payment to be at PKR 1,287 billion for FY26 on external debt as against PKR 1,039 billion budgeted for FY25.

NOTE 5 (PENSION):

- The budget earmarked for pension was PKR 1,014 billion in FY25 and the expenditure till the period of Jul-March of the outgoing FY was PKR 673 billion. In our estimates pension will have a nominal increase in the last Q4 of FY25, and spending thereon may reach PKR 900 billion by the end of June 2025.
- It is assumed that the budget for pensions will increase by 13.0% (i.e. nominal GDP growth) to PKR 1,020 billion in the next fiscal year.

NOTE 6 (DEFENSE AFFAIRS AND SERVICES):

- The budgeted defense expenditure stood at PKR 2,122 billion for FY25 while the actual expenditure till March 2025 was PKR 1,424 billion.
- Due to the ongoing war situation with the neighboring country, defense spending may increase by up to 50% in the Q4FY25. Historically in the previous 3 years, defense expenditure in the last quarter accounted for 36% of the annual total defense expenditure made throughout the fiscal year. Given the current regional tensions and the need to ensure the Pakistan's defense preparedness, we estimate total defense spending to reach PKR 2.4 trillion by June 2025.
- It is proposed to enhance the defense budget to PKR 2.8 trillion in FY26, reflecting a 32% increase when compared with the outgoing FY's budget, due to the war situation with the neighboring country and the new recruitment of army personnel.

NOTE 7 (GRANTS AND TRANSFERS TO PROVINCES):

- Grants and transfers to provinces are budgeted at PKR 1,950 billion for FY26 i.e., 10% higher than the budget for FY25.
- At the end of the initial nine months of the current fiscal year, grants and transfers to provinces stood at PKR 1,108 billion. We estimate that there might be only a nominal rise in the last quarter of FY25, bringing the total to PKR 1.47 trillion by June 2025, given the slow pace of economic growth and low inflation.
- Nonetheless, in light of the Government's objective to provide relief to the masses and ensure stability along-side robust growth, a 10% increase over the FY25 budget allocation may be required. This would ultimately be 32% higher than our estimates of spending by the end of June 2025.

NOTE 8 (SUBSIDIES):

- The budget for subsidies in FY25 was set at PKR 1,363 billion, but it is expected to decrease by a mere 1%, or PKR 13 billion, to PKR 1,350 billion in FY26.
- This reduction is due to the low spending on subsidies of PKR 466 billion from Jul-March of FY25. However, as per the data of the previous 3 years, it has been observed that 56% spending of the total expenditure done on subsidies is made in the last Quarter thereby, it is safe to say that spending on subsidies in FY 25 may easily cross the PKR 1tr mark.
- In our view, to stimulate the Large-Scale Manufacturing sector, boost IT exports, and revitalize the agriculture sector, it is essential to allocate resources effectively to the sectors that can drive export-led growth.

NOTE 9 (RUNNING CIVIL GOVERNMENT):

- The civilian Government's expenditure budgeted for FY25 stood at PKR 839 billion while the actual expenditure for the first three quarters of FY26 was PKR 559 billion.
- Even so, last quarter spending in the previous three fiscal years has been reported at over 37.8% of the expenditure for running civil government; therefore, we estimate that the spending thereon may rise to PKR 900 billion by the end of this outgoing FY25.
- With the assumption of a fast-paced spending pattern and an estimated real growth of 3.0% in FY26, civilian government expenditure is projected to increase by 10%, reaching PKR 920 billion for the next fiscal year.

NOTE 10 (PROVISION FOR EMERGENCY AND OTHERS):

- Provisions for contingencies are projected to be raised by 13% to PKR 355 billion for FY26 as against current year's budget of PKR 313 billion, given the regional war uncertainty.

NOTE 11 (FEDERAL PSDP):

- Against the current year's budget of PKR 1,400 billion for PSDP, the Federal Government consumed only PKR 413 billion in the first nine months of the ongoing FY.
- Considering the high spending in the last quarter of outgoing FY (i.e. 56% PSDP spending came in Q4 in past two FYs), it may be assumed that Federal PSDP expense will be PKR 920 billion during whole FY25.
- In our estimates, we have allocated PKR 950 billion worth of PSDP, given the GDP target of 3.0%.

NOTE 12 (OTHER DEVELOPMENT AND NET LENDING):

- The quantum of budget allocated to other development and net lending was PKR 274 billion in FY25, whereas the actual spending in three-quarters of ongoing FY25 stood at almost PKR 240 billion.
- In view of the ongoing pace, other developments and net lending are projected to be PKR 320 billion be the end of FY25.
- A 13% rise is projected for FY26, based on the estimated figures for the July–June period of FY25

NOTE 13 (FEDERAL BALANCE):

- The Federal Government has estimated an annual federal budget deficit of PKR 8,773 billion for the FY25 which is 7.07% of the revised GDP. However, the during the Jul-March period of FY25, the deficit was equal to almost 46% of the annual target.
- In FY25, the federal budget deficit is estimated at PKR 7,155 billion, primarily due to lower spending on domestic debt driven by a reduction in interest rates, as well as reduced expenditure on PSDP, subsidies, and grants during the Jul-March period. Based on our estimates and past evidence from the April–June period, spending under these heads is not expected to exceed the targeted values budgeted last year by the end of June 2025
- In FY26, the budget deficit is expected to rise slightly to PKR 7,498 trillion compared to the estimated figures for FY25. However, considering the projected nominal GDP growth of 13.0% for FY26, the deficit as a percentage of GDP is expected to decline to 5.3%, down from the estimated 5.8% of GDP in FY25.

NOTE 14 (PRIMARY BALANCE):

- The primary balance, after excluding interest payments, is estimated to be at a surplus of PKR 23 billion in FY26.
- However, when we include the Provincial surplus, the primary surplus will increase.

ECONOMIC MEASURES - SECTORAL POLICIES REFLECTING THE THEME OF THE BUDGET:

1. Reviving the Agriculture: Transforming this sector for a Sustainable Future

The FY26 budget must prioritize a modern "Green Pakistan Initiative." A total of 9.1 million hectares of land should be utilized with a focus on productivity enhancement, sustainable practices, and rural development.

1.1 Crop Sector

1.1.1. Agri-Tech Transfer through Bilateral Partnerships

- Engage friendly nations in transferring cutting-edge agricultural technologies. Intellectual property should remain with Pakistan's Ministry of National Food Security to empower domestic manufacturing and innovation.

1.1.2. Promotion of Efficient Irrigation Systems

- Encourage farmers to adopt water-saving methods such as drip and sprinkler irrigation. Invest in building small dams and set clear guidelines for responsible groundwater usage to ensure long-term water security.

1.1.3. Revitalizing Cooperative Farming Models

- Restore and reform agricultural cooperative societies and farm supply stores to enable farmers to pool resources, access credit, and invest collectively in new technologies. Modern regulatory support can help rebuild trust and functionality in these institutions.

1.1.4. Educational Uplift for Farmers

- Promote specialized agricultural training through vocational programs and digital learning platforms in collaboration with private and public stakeholders. Equip farmers with the knowledge and tools to adopt smart and climate-resilient practices.

1.1.5. Direct Market Linkages for Farmers

- Strengthen the Kissan Card framework to bypass middlemen and ensure transparent pricing. Create and foster co-operation between farmer throughout the country, and deploy a digital trading platform to enhance access to broader markets.

1.1.6. Climate Resilience in Agriculture

- Develop and promote the cultivation of crops that withstand extreme weather, pests, and water stress. Construct small-scale reservoirs and solar-powered tube wells to adapt to climate change and safeguard agricultural output.

1.1.7. Agro-Urban Development

- Engage friendly nations in transferring cutting-edge agricultural technologies. Intellectual property should remain with Pakistan's Ministry of National Food Security to empower domestic manufacturing and innovation.

1.2 Livestock Development

1.2.1. Strengthening Milk Production

- Curb 20% milk wastage via improved storage and transport.
- Import advanced machinery and quality breeding material.
- Convert milk into exportable powdered form and invest in R&D for disease control.

1.2.2. Strengthening Meat Production

- Explore halal certification for global markets.
- Prevent livestock smuggling and enhance veterinary education and research.

1.3 Forestry and Wildlife

1.3.1. Forest Protection & Biodiversity Conservation

- Enforce stricter laws to curb illegal logging and poaching.
- Promote eco-tourism and sustainable development through biodiversity preservation.

1.4 Fisheries

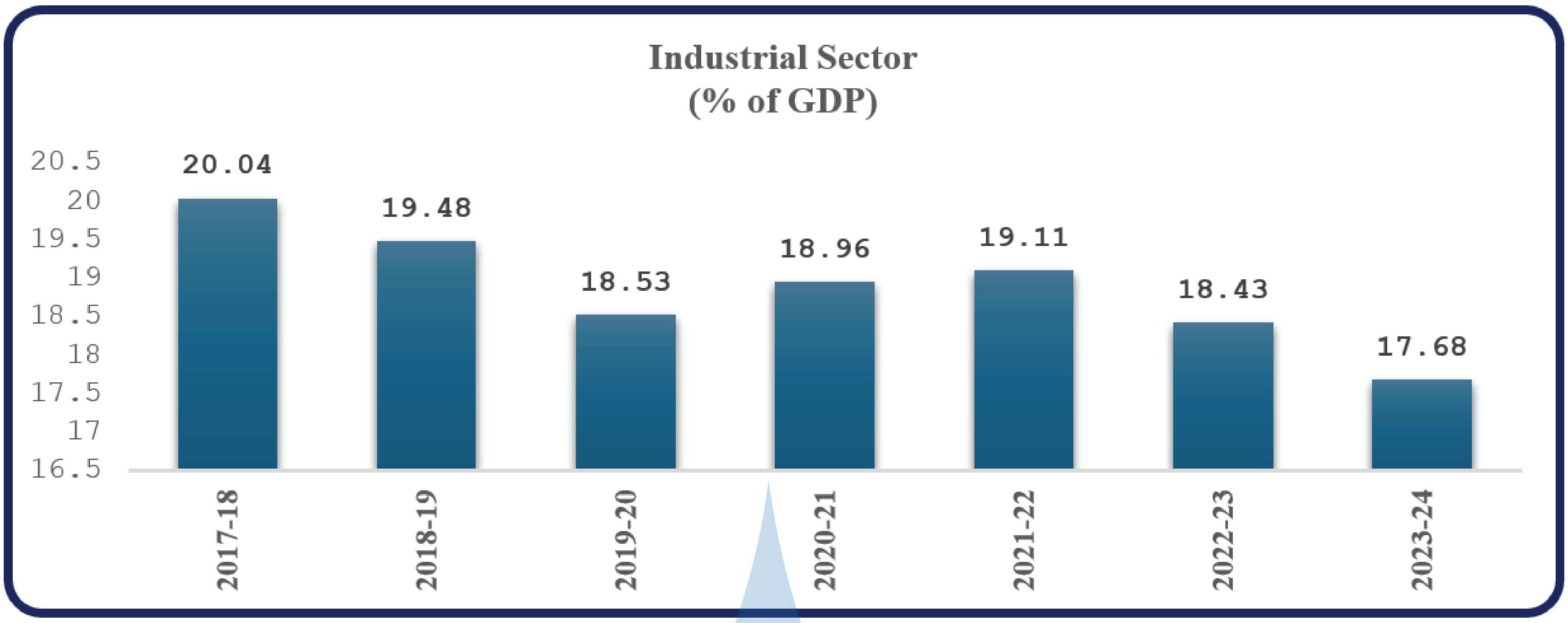
1.3.1. Forest Protection & Biodiversity Conservation

- Invest in processing infrastructure and export chains.
- Increase fishermen's income through value-added products and direct market access.

2. Industrial Revival: Challenges Today, Solutions for Tomorrow:

2.1. Revitalizing Industrial Backbone

Industrial Sector – Policy suggestions to bring the sector out from Decline to Dynamism:



Since FY18, Pakistan has witnessed sharp deindustrialization driven by macroeconomic instability, high energy costs, and ad-hoc policymaking. Reviving the sector is essential for sustainable growth and economic diversification

2.1.1. Interest Rate Rationalization for Industry

- The current policy rate of 11% remains a major deterrent to industrial borrowing and investment.
- The Government must accelerate monetary easing by reducing the real interest rate further from 11% to lower single digit in order to stimulate industrial expansion, especially for capital-intensive manufacturing units.

2.1.2. Provision of Zero-Markup Industrial Loans

- To revive idle capacity and catalyze new industrial investments, the Government should launch a zero-markup loan scheme for priority manufacturing sectors.
- These concessional loans can lower financial barriers and promote import substitution, job creation, and export competitiveness.

2.1.3. Balanced Tariff Policy for Raw Materials

- High tariffs on raw material imports hinder local production. A rationalized tariff structure; low duties on raw materials and high duties on finished goods will reduce production costs and stimulate industrial activity.

2.1.4. Tech-Enabled Workforce Development

- Pakistan produces over a million graduates annually, but lacks industry-ready human capital.
- There's an urgent need to align technical training with Industry 4.0 requirements, especially through public-private partnerships in emerging fields like automation, electronics, and AI.

2.1.5. Developing Export-Oriented Clusters

- Over-reliance on textiles and food exports, limits growth. New sectors such as pharmaceuticals, sports equipment, IT, and auto parts should be promoted through targeted incentives, SEZs, and better logistical support.

2.1.6. Reinvigorating LSM

- LSM has been impacted by inflation, energy bottlenecks, and weak demand. Policy interventions such as subsidized industrial electricity, performance-linked tax breaks, and export rebates can help restart growth in textiles, chemicals, engineering, and food processing.

2.1.7. Promoting Import Substitution

- Pakistan must reduce its reliance on imported machinery and components by building a domestic engineering base. Supporting local manufacturers of industrial equipment can enhance self-sufficiency and create jobs.

2.1.8. Results-Based Industrial Subsidies

- Government subsidies for exports and industrial growth should be tied to quantifiable performance metrics. Regular third-party audits can ensure efficient allocation and discourage misuse.

3. The Service Surge: Driving the Future of Pakistan's Economy

3.1. Wholesale and Retail Trade ("WRT")

- Lack of proper documentation allows room for profiteering and tax evasion.
- The government must prioritize implementation of an efficient, transparent, and user-friendly goods tracking system.
- A robust documentation drive is essential to formalize the informal economy, boost transparency, and strengthen economic governance.

3.2. Transport, Storage, and Communication

- Expansion of Modern Transit Systems to Underserved Areas: The success of projects like the Karachi Green Line, Lahore Orange Line, and Peshawar BRT should be replicated across all underdeveloped rural regions and unrecognized urban areas in Karachi.
- A fast-tracked development of similar mass transit systems is essential to ensure inclusive mobility and reduce urban congestion.
- Unlocking Tourism Potential
    - Northern Pakistan and coastal Balochistan have untapped potential to become global tourist destinations.
    - Developmvvent of safe, modern, and reliable transport infrastructure is critical to fostering tourism as a multi-billion-dollar industry.

3.3. Information and Communication Technology ("ICT")

3.3.1. Promoting Growth and Ensuring Compliance

- To unlock the full potential of Pakistan's digital economy, the budget must prioritize the development of the IT services sector. This includes introducing supportive measures to foster innovation, boost exports, and create high-value employment opportunities.
- It is crucial to address the challenge of IT businesses operating through digital banks using foreign identities to evade taxation. Targeted policy interventions should be introduced to identify and bring such entities into the formal tax net by tracking foreign IDs and enforcing tax compliance.
- These reforms will not only expand the tax base but also ensure a level playing field, contributing to industrial development and fiscal sustainability in line with the broader theme of the budget.

3.3.2. Strengthening Data Privacy and Cybersecurity

3.3.2.1. Regulatory Frameworks

- Fast-track the implementation of data protection laws to ensure secure handling of personal and corporate data.
- Strike a balance between data privacy and enabling cross-border data flows to support innovation and trade.

3.3.2.2. Cybersecurity as a Priority

- Develop national cybersecurity protocols and encourage adoption of best practices across private and public sectors.
- Invest in building cyber-resilience through education, legislation, and advanced technologies.

FISCAL MEASURES

In light of the Budget 2025-2026, we have compiled a list of Fiscal Measures that are imperative to be included in the budget to strengthen the four parameters of tax reforms: Revenue Measures, broadening the Tax Base, Simplification of Laws, and Rationalization of FBR's Authority. It is important to note that these recommendations have been sourced from The Reforms & Revenue Mobilization Commission ("RRMC") Interim Report, submitted by Ashfaq Tola, Former Minister of State & Chairman RRMC, to Senator Mohammad Ishaq Dar, the then Federal Minister for Finance & Revenue, on 17 April 2023, and they align with the same suggestions made in that report.

4. Revenue Measures – Income Tax

4.1 Introduce a Minimum Asset Tax (MAT) by extending CVT to domestic assets of resident individuals exceeding Rs. 100 million. Tax will be applied on the fair market value and is adjustable against the income tax liability. The tax rate shall be 1% of the amount exceeding Rs. 100 million.

Example:

Total Domestic Assets: Rs. 1,000 million
Exempt Threshold: Rs. 100 million
Taxable Amount: Rs. 900 million
MAT (1% of 900 million): Rs. 9 million

Scenario	Income Tax (IT) Liability	MAT (calculated)	Final MAT Payable
Scenario A: Lower IT	Rs. 8 million	Rs. 9 million	Rs. 1 **million**
Scenario B: Higher IT	Rs. 10 million	Rs. 9 million	Rs. **0**

4.2 Impose an advance tax on the undistributed reserves of companies where these companies have not given dividends for the last three years—7.5% for unlisted and 5% for listed companies. This tax shall be adjusted against future dividend tax.

4.3 Amend Section 111 to allow taxation of undeclared benami (hidden) assets in the year they are discovered, not in the year they were acquired. Further, the limitation period should start from the year of discovery, not acquisition.

Example:

- **Mr. A** bought an **undeclared benami property in 2012.** This property was **discovered by tax authorities in 2025.** Under **current law**, the tax officer may **not be able to tax it,** due to the **limitation period** expiring. Under the **proposed amendment,** the asset would be **taxed in 2025** (year of discovery), and **the limitation clock would start in 2025,** not 2012.

4.4 Abolish Tajir Dost Scheme. Tax rate should be 1% across the board up to PKR 30 million. Minimum tax should be applicable on the over and above to be charged on the Reverse Charge Mechanism under Section 236G and 236H.

4.5 Rationalize minimum tax regime for commercial importers by increasing rates from 5.5% to 7%, and from 3.5% to 5.0% for other commercial importers. However, taxpayers should be allowed to adjust any excess minimum tax paid under this section and the carry forward of excess minimum tax shall be for the next five years.

4.6 If MAT is not enacted, withdraw Section 7E, and levy a nominal WHT of 0.5% of FBR value to be imposed by provinces. New 0.5% WHT may be adjusted (not refundable) for the taxpayer. This will increase the reach to non-filers. If 7E is not withdrawn, then a tax credit of 7E may be allowed against CGT arising from the disposal of the immovable property.

4.7 Mandate advance tax payments under Sections 7E and CVT in two instalments based on the prior year's tax liability, with an option to submit a justified estimate if the current year's liability is lower, ensuring at least 90% of the actual tax is paid in advance.

4.8 Increase the advance tax on prize bond winnings from 15% to 20%.

4.9 Introduce a limit for claiming interest expenses on foreign debt extended to other expenses by amending Section 106A to prescribe a limit for claiming interest expenses on foreign debt. It is recommended to include other expenses claimed by multinationals being remitted to their affiliates, except for reimbursements of actual costs incurred by those affiliates to third parties. This will discourage the remittance of exorbitant expenses by multinational companies outside Pakistan.

4.10 In Pakistan, the definition of a "resident individual" for tax purposes is outlined under Section 82 of the Income Tax Ordinance, 2001. An individual is considered a resident for a particular tax year if they are present in Pakistan for 183 days or more during that year. However, this definition is outdated and lacks alignment with more nuanced residency rules in other jurisdictions.

Pakistan is recommended to modernize its residency criteria to reflect actual economic presence and intent. A more appropriate definition would treat an individual as a Resident if they stay in Pakistan for 182 days or more in a financial year. For those who have stayed between 120 and 181 days, the status depends on their citizenship and income. For instance, a Pakistani citizen as defined under the Pakistan Citizenship Act, 1951 or a person possessing a Pakistan Origin Card (POC) with income exceeding a prescribed threshold (excluding foreign-sourced income) and has no tax liability in any other country should be treated as a Resident but Not Ordinarily Resident (RNOR). Those who do not meet these conditions should be classified as Non-Residents. Individuals who spend less than 120 days in Pakistan during the financial year should be treated as Non-Residents, regardless of income or nationality.

4.11 It is proposed that tax reforms be introduced for salaried individuals such that, for those earning up to PKR 2,400,000 annually (i.e., PKR 200,000 per month), a nominal tax of PKR 100 per month (PKR 1,200 per annum) be levied. For income above this threshold, the salaried income tax slab should be capped at a maximum of 30%.

4.12 It is proposed that the threshold for employer contributions to a recognized provident fund, as specified under Part I of the Sixth Schedule, be revised. Currently, employer contributions exceeding one-tenth of the employee's salary or Rs. 150,000—whichever is lower—are treated as income received by the employee. It is recommended that this threshold be enhanced from Rs. 150,000 to Rs. 1,500,000, while retaining the existing limit of 10% of salary. The last revision to this contribution limit was made through the Finance Act, 2016, and it has remained unchanged since then. An upward revision is therefore necessary to align with current economic conditions and to encourage long-term retirement savings.

5. Revenue Measures – Sales Tax

5.1 Allow Federation to levy and collect FED on digital services under Reverse Charge Mechanism (RCM) to resolve jurisdictional disputes with provinces.

6. Broadening of Tax Base / Documentation

6.1 Require detailed trade data publication (prices, values, volumes) for import/export to enhance transparency.

6.2 Mandate every shipment to carry certificate of port of origin and original invoices to reduce misdeclaration and under-invoicing.

6.3 Install GPS tracking on high-value cargo from dry ports to curb pilferage and under-reporting.

6.4 Income tax should be introduced on frequent foreign travelers instead of FED, whereby income tax be collected on all foreign air tickets at 5% for ATL individuals and 20% for non-ATL, including economy class, and that hotel and other travel expenses be subject to similar withholding through travel agents, operators, or card payments. An exemption may apply for Hajj once every five years.

6.5 Unique Taxpayer Identification for Utility Connections: It is recommended to link all commercial and industrial utility connections to taxpayers via CNIC/NTN, enforce higher advance tax rates for non-filers under Section 235.

6.6 Non-filers with high commercial, industrial, or residential utility usage are not reporting income. It is recommended to collect and analyze utility and tax data to identify non-compliant users, cross-match it with tax records, and there shall be no time limit to raise tax demands on such individuals.

6.7 Make NTN and filing of return mandatory for opening bank accounts, and buying/selling vehicles and property, foreign travel, and obtaining club memberships.

6.8 Cashless transactions on petrol stations. To curb tax evasion and undocumented sales, it is proposed that petrol stations in Pakistan stop accepting cash payments and shift entirely to digital transactions.

6.9 To enhance transparency and curb tax evasion, it is proposed to restrict cash transactions beyond PKR 5,000–10,000 at retail and food outlets, mandating the use of electronic payment methods.

6.10 Virtual Digital Assets ("VDA") are not formally recognized under Pakistani income tax law. It is suggested that Pakistan consider entering into Mutual Exchange of Information (MEI) agreements with countries that have established regulatory frameworks for digital assets, such as Switzerland, Singapore, and the UAE. These jurisdictions host major regulated crypto exchanges and digital banks, which are increasingly used by Pakistani nationals to hold wealth or send remittances home through digital channels. In particular, Pakistan should explore signing MEI agreements with institutions like Sygnum Bank, a prominent digital asset bank reportedly holding a significant number of Pakistani-owned accounts. By establishing these information-sharing arrangements, Pakistan can enhance financial transparency, track undeclared offshore digital holdings, and strengthen tax compliance. Pakistan may also consider bringing in virtual digital assets / cryptocurrency held by Pakistani tax Residents by allowing them to declare already held / owned VDAs / cryptocurrency without any civil or criminal liability unless they have been purchased from or are themselves proceeds of crime.

7. Legal Reforms / Simplification

7.1 Amendment of assessment including further amendment of assessment, monitoring and Audit proceedings shall be completed within three years (excluding Section 122(5)), on the basis of return of income from the end of the financial year in which the Commissioner has issued or is treated as having issued original assessment order to the taxpayer.

7.2 It is recommended to enforce strict timelines for issuing appeal and rectification orders, allow taxpayers to file appeal effect positions on IRIS that become final after 60 days, and provide compensation from the date of payment on deleted demands.

7.3 Deemed disposal of assets for capital gains tax when individuals change tax residency status.

7.4 Reform the appellate systems. Improve assessment quality, reduce aggressive orders, and enhance transparency to prevent undue recovery actions and litigation.

7.5 Revamp CIR(A) Appeal Process:

- Simplify Section 127(1) for appeals against any order passed by a Commissioner or Officer of Inland Revenue.
- Remove Section 127(2), which requires payment of tax before filing an appeal.
- Introduce "Electronic Hearings" for appeals via platforms like Zoom and MS Teams.
- Create a digital or web-based appeal form with basic case and representative information.
- Serve notices via email and mobile, and provide an electronic cause list on the FBR website.
- Allow CIR(A) to admit evidence that was not presented before the Commissioner due to sufficient cause.
- Introduce a tab in IRIS for submitting written arguments in appeals.
- Allow attachments in various formats (Word, Excel) with increased file size limits up to 25MB.

7.6 Strengthen ATIR Appeal Framework :

- Update the ATIR website with details of pending appeals (appeal numbers, filing dates, revenue, (etc.).
- Bifurcate pending appeals based on tax office jurisdiction (e.g., CTO, LTO).
- Form larger benches to handle appeals involving similar issues across industries or legal provisions.
- Allocate specific benches for cases based on tax office jurisdiction.
- Ensure stays continue until the final decision unless the taxpayer seeks repeated adjournments.
- Publish all Tribunal judgments with detailed information on the ATIR website.
- Revise Sub-section (2) of Section 132 to allow dismissal in default only after ensuring taxpayer is heard.
- Add a Case Management System on the ATIR website to streamline the appeal process.
- Replace the exercise of stay extension with an ad interim stay until the next date of hearing or a stay until the decision of the appeal. This will reduce the unnecessary burden of filing stay extension application.

7.7 It is proposed that if a refund order under Section 170(4) is not issued within 90 days, it should be deemed approved, allowing taxpayers to claim or adjust the refund. To streamline the process, taxpayers may upload a draft refund order on IRIS, which should auto-finalize if not acted upon within 60 days.

7.8 Extend tax exemption for transfer of assets to REITs till June 2026; include Special Purpose Vehicles (SPVs) and replace "immovable property" with "real estate".

7.9 Remove mandatory appeal withdrawal for ADRC access under Section 134A; let taxpayers retain appeal rights if ADRC decision is not accepted. For State Owned Enterprises ("SOE"), it should be optional to pursue ADRC, as they have minority shareholders from the general public.

7.10 The current Minimum Tax Regime (MTR) under various sections complicates tax compliance and results in unfair tax burdens on certain taxpayers, especially service providers and contractors. It is proposed to gradually rationalize MTR by introducing a uniform 6% withholding tax rate, allowing carry-forward of excess tax, and promoting digital integration and audits for transparency.

7.11 Extend carryforward period for excess minimum tax from 3 to 5 years to support startups and loss-making companies.

7.12 It is recommended to allow exemption certificates under Section 148 for importers who discharge their advance tax liability through self-estimation under Section 147. This will prevent unnecessary tax deductions at import stage, reduce refund claims, and ease cash flow burdens on manufacturers.

7.13 The requirement of filing a Group's consolidated tax return under Section 59AA creates procedural complications without any revenue benefit. It is recommended to remove this condition for claiming inter-corporate dividend exemption between wholly owned subsidiaries.

7.14 It is proposed to waive the wealth statement filing requirement for new taxpayers during their first two years and to simplify the existing format for current filers. This would ease compliance and encourage broader tax return filing.

7.15 FBR should prescribe a proper format for withholding reconciliation under section 165(8) to streamline compliance and monitoring.

7.16 Section 161 is being misused through generic notices; detailed notices and procedural safeguards should be introduced.

7.17 IRIS system must auto-issue exemption / reduced rate certificates under section 153 if not processed within 15 days, as per law.

7.18 Filing of quarterly withholding statements should be abolished to eliminate duplication, as data is already provided via PSIDs.

7.19 Condonation powers under section 214A should be limited to the Board/Chief Commissioner and automated on IRIS.

7.20 Penalties for non-filing or late filing of withholding statements should be rationalized and capped to reduce taxpayer hardship.

7.21 Section 156 should be amended to tax only prizes offered to end consumers, excluding dealers and distributors.

7.22 Remove redundant Clause 47A of Second Schedule since Section 153(5)(a) already covers same-condition imports exemption.

7.23 Pakistan has numerous fragmented sections for different types of Tax Deducted at Source (TDS) /Tax Collected at Source (TCS), with overlapping and complex applicability. It is suggested that Pakistan may streamline the TDS and TCS provisions by consolidating them under a single, unified section of the Income Tax Ordinance. This consolidation would help simplify compliance procedures, eliminate duplication, and promote clarity in the application of withholding and collection rules across different transactions and sectors.

7.24 A recurring issue in tax litigation is the repetition of appeals across multiple tax years on the same question of law. Often, a legal question that arises in a current assessment year ("relevant case") is identical to one already under consideration in an earlier year ("other case"), which is pending before the High Court or Supreme Court. This results in duplicative litigation, administrative burden, and unnecessary delays in final tax resolution. To address this, Pakistan should formally adopt a mechanism whereby the assessee may submit a declaration requesting that the outcome of the pending legal issue in the 'other case' be applied to the current year's assessment. In return, the assessee commits not to pursue further appeals on that same question of law.

8. Investment Incentives

8.1 Zero-rate export of services across all provinces; require provincial registration, return filing, and foreign exchange realization via authorized dealers.

8.2 Harmonize sales tax withholding provisions across federal/provincial laws; remove withholding on transactions between active taxpayers.

8.3 Standardize input tax admissibility rules across all jurisdictions; allow staggered input tax adjustment on capital goods (e.g., 5–10 years).

8.4 Synchronize disallowance provisions across income and sales tax laws for transactions with unregistered/non-active persons; incentivize banking channel use.

8.5 Taxpayers should be given the option to elect the standard rate instead of the reduced rate on specified services at the start of the year, with input tax adjustment allowed accordingly. This would reduce VAT-related distortions.

8.6 Exempt provincial service providers from “Further Tax” under STA if registered with provincial authorities; integrate FBR and provincial systems.

8.7 Introduce simplified sales tax return forms tailored for manufacturers, importers, and retailers; auto-enable relevant fields based on taxpayer profile.

8.8 Repeal Section 8B if STA (90% input tax restriction) or restore exemption for listed companies to ease working capital strain amid rising input costs.

8.9 Clarify input tax treatment on immovable property used for manufacturing; allow adjustment where construction directly supports taxable production.

9. Administrative / Enforcement Reforms– Income Tax

9.1 Implement faceless, paperless e-assessment system using AI for income tax and customs; include remote hearings and automated scrutiny.

9.2 Investigate returns with nil tax liability; increase reporting on income and property; mandate bank transaction reporting over a threshold; strengthen audits and data analytics to identify underreporting.

10. Administrative / Enforcement Measures – Sales Tax

10.1 Enforce sales tax collection via electricity bills for non-Tier-1 retailers; link billing with actual tenants using DISCO customer numbers to improve collection accuracy.

10.2 Mandate written reasons for record requisition under Section 25; ensure proper audit process before assessments under Sections 11 and 38; restrict Section 11(3) to cases with definite information.

11. Administrative / Enforcement Measures – Customs

11.1 Require Certificate of Origin and port documents with every shipment; explore bilateral portal integration and use of platforms like TradeLens.

11.2 Ban Switch Bill of Lading; validate loading port with Certificate of Origin; consult Customs and shipping agencies on enforcement.

11.3 Mandate freight charges in Bill of Lading for CFR/CNF invoices to avoid undervaluation; initiate consultation with Customs and shipping agencies.

11.4 Improve valuation of machinery and parts; consult Valuation Department and study international practices to address misclassification and underpricing.

11.5 Address cases where finished goods are valued below raw material costs; introduce value addition benchmarks (e.g., 30%) for high-duty items.

11.6 Establish online system for verifying declared values; expand export data exchange MoUs beyond China and Iran to curb misdeclaration.

11.7 Introduce remote clearance tech at dry ports; pilot remote processing for high-risk items like garments, plastics, appliances, and steel scrap.

11.8 Extend product history review period from 90 to 180 days for better valuation accuracy; use more comprehensive trade data analytics.

11.9 Review the role of Principal Appraiser; consider abolishing the post to reduce delays and streamline customs processing.

11.10 Develop mechanism for timely disposal and utilization of confiscated goods, including fuel, by enforcement agencies.

11.11 Establish high-tech scanning and RFID-based tracking at Chaman border; create faceless customs operations with randomized clearance through urban command centers.

11.12 Implement nationwide fuel marking system to curb smuggling and undocumented fuel trade.

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