

BIPOLAR PAKISTAN'S ECONOMY: BOOMS AND BUSTS

FEDERAL MODEL BUDGET 2026-27



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EXECUTIVE SUMMARY – TA ESTIMATED MODEL BUDGET FISCAL YEAR 2026-27

Pakistan’s economic landscape entering FY2026–27, with the Federal Budget scheduled to be announced next month, reflects the characteristics of a bipolar economy, oscillating between phases of potential expansion under domestically driven growth-oriented policies and periods of economic compression resulting from stringent IMF-led stabilization measures.

The Government remains committed to fiscal consolidation and the achievement of primary surplus targets under the ongoing programme with the IMF, the persistence of aggressive taxation measures, contractionary monetary policies, and externally imposed fiscal adjustments may undermine long-term economic sustainability, suppress growth potential, and intensify pressures on the broader economy. The Government has further assured the IMF that Parliament will approve the FY2026–27 Budget in full conformity with programme benchmarks and conditionalities, similar to the precedent established during the previous Fiscal Year.

This document is an extension of our earlier publication, “*Pakistan’s Economy: Forged in Fire*,” and presents a comprehensive fiscal assessment of Pakistan’s Federal Budget for FY2026–27 under multiple scenarios. The analysis incorporates four distinct fiscal frameworks: (i) a non-IMF domestic policy framework – scenario 1; (ii) a non-IMF scenario adjusted for Defence expenditure allocation prior to provincial transfers – scenario 2; (iii) an IMF budget estimates; and (iv) a budget estimates with IMF-policies. Through this approach, the study seeks to evaluate the divergent economic outcomes arising from externally driven stabilization policies versus domestically oriented growth-support strategies.

Our economic recipe:

- ☞ In this manner, we can potentially arrive at the mobilization of up to USD 25 billion.
- ☞ Increasing the declaration threshold under Section 111 of the Income Tax Ordinance, 2001 to USD 100,000 may encourage repatriation of FATF-compliant overseas assets, potentially mobilizing up to USD 20 billion in inflows.
- ☞ While IMF frameworks support greater currency liberalization, Pakistan already allows outward remittances of up to USD 100,000 per person annually; rationalizing this limit could conserve USD 1–2 billion in foreign exchange outflows.
- ☞ To curb informal channels such as hawala and hundi, a tax-free bonus of PKR 10 per USD remitted through banking channels could increase formal remittances by an estimated USD 4–5 billion annually.
- ☞ Moreover, w/o the IMF, our domestic economic recipe is anchored in strengthening the exchange rate from PKR 279/USD to PKR 250/USD, as every PKR 10 appreciation is estimated to reduce inflation by around 2%, implying a 6% decline in inflation and creating space for a policy rate reduction.
- ☞ A 1% cut in the policy rate generates fiscal space of approximately PKR 625 billion in debt servicing costs, resulting in total relief of nearly PKR 3,435 billion at a 6% adjustment.

The Federal Board of Revenue (“FBR”) originally set a tax collection target of PKR 14.13 trillion for FY2025–26. However, due to persistent revenue underperformance and weakening macroeconomic conditions, the target was subsequently revised downward to PKR 13.98 trillion during the third IMF review, with further downward adjustments now anticipated to approximately PKR 13.43 trillion. This continued revisionary trend reflects deep-rooted structural inefficiencies within Pakistan’s taxation system and highlights the growing disconnect between ambitious revenue targets and prevailing economic realities.

In May 2026, the Executive Board of the IMF approved the disbursement of USD 1.1 billion following the successful completion of the third review under Pakistan’s Extended Fund Facility (“EFF”), along with the second review of the Resilience and Sustainability Facility (“RSF”). Under the IMF framework, the FBR has been assigned a tax revenue target of PKR 15.26 trillion for FY2026–27, implying an increase of approximately 13.6% over the revised FY2025–26 target. The IMF projections are based on nominal GDP growth assumptions of 12.5% and additional taxation measures amounting to PKR 430 billion.

However, TA estimates suggest that if the FBR succeeds in collecting approximately PKR 13.4 trillion during FY2025–26, then under an IMF-aligned policy framework, tax revenues could naturally rise to nearly PKR 15.57 trillion in FY2026–27, even without imposing additional taxation measures, assuming inflation of 12.0% and real GDP growth of 4.0%. While such an approach may satisfy short-term stabilization objectives, it risks further compressing domestic demand, investment, and industrial expansion.

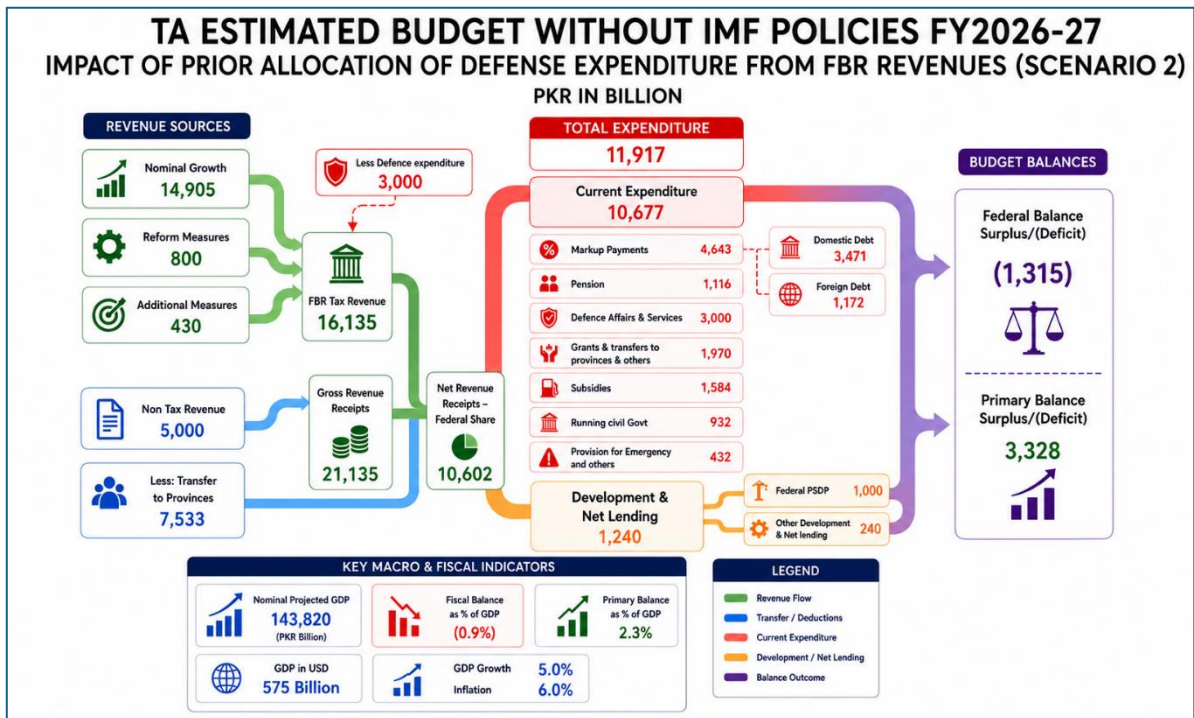
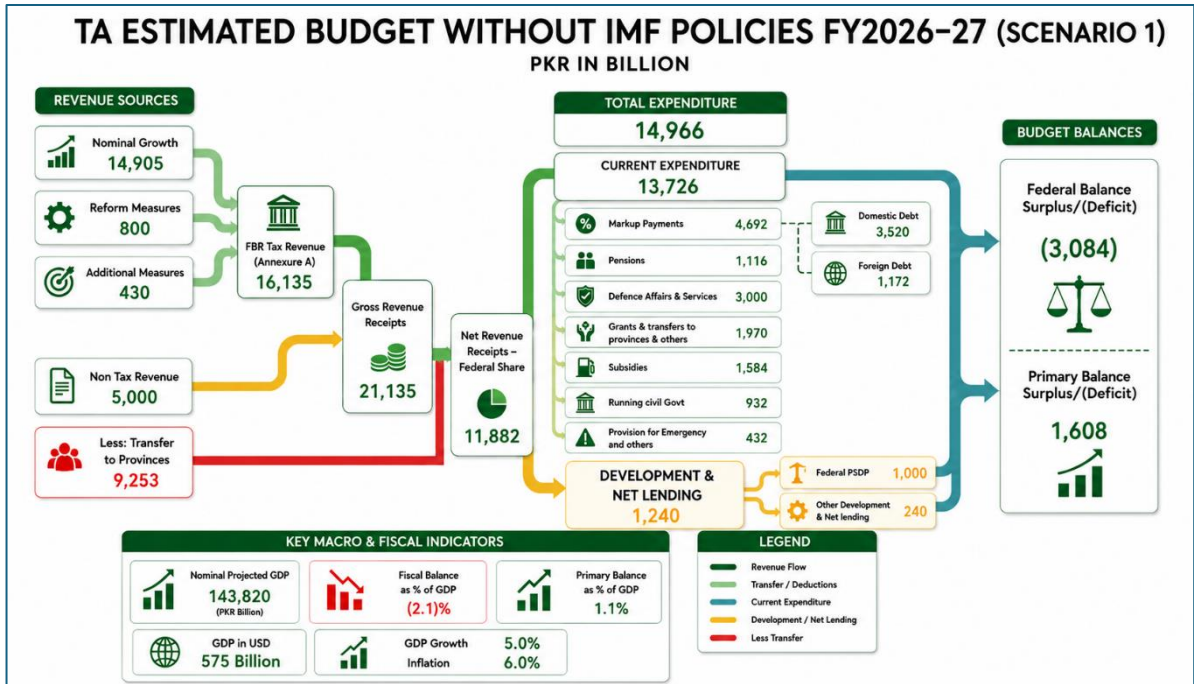
This report argues that the continuation of excessively contractionary IMF-led policies may prove detrimental to Pakistan’s medium-term economic trajectory. The estimated equilibrium value of the Pakistani rupee is assessed at approximately PKR 250/USD, compared to the prevailing exchange rate of nearly PKR 279/USD maintained under the current policy regime. A calibrated realignment of the exchange rate towards its intrinsic value, combined with targeted incentives for exporters and remittance inflows, could potentially stimulate economic growth beyond 5% and generate an estimated USD 15–20 billion expansion in economic activity.

Under the non-IMF scenario developed in this report, the foremost requirement is the realignment of the exchange rate to its estimated real value of PKR 250/USD. Under such a framework, inflation is projected to moderate to approximately 6.0%, while real GDP growth is expected to accelerate to 5.0% in FY2026–27. On this basis, the FBR is projected to mobilize nearly PKR 16.1 trillion in tax revenues, inclusive of reform-based measures amounting to PKR 800 billion. These measures include the introduction of a Minimum Tax on Assets (PKR 350 billion) and a comprehensive Taxation Regime for Wholesalers, Dealers, Distributors, and Retailers (PKR 450 billion), as recommended in the 2023 report of the Reforms and Revenue Mobilization Commission (“RRMC”) and further elaborated in our latest publication *Pakistan’s Economy: Forged in Fire*. A detailed overview of the proposed tax reform measures has been provided in Annexure E.

The report further highlights the macroeconomic consequences of continued currency depreciation under IMF-supported policies. Empirical estimates suggest that every 10% depreciation in the exchange rate may increase inflation by nearly 6%, thereby necessitating a corresponding increase in policy interest rates to contain price instability. Such a policy response could impose an additional domestic debt servicing burden of approximately PKR 3.4 trillion (net of State Bank of Pakistan profits), while simultaneously suppressing economic growth, widening the fiscal deficit, and exacerbating inflationary pressures. Under the IMF-led framework, inflation is projected at nearly 12%, with real GDP growth constrained to approximately 4%.

Moreover, the report concludes that a domestically driven economic framework, centered on tax reforms, exchange rate rationalization, and sustainable revenue mobilization, could substantially improve Pakistan's fiscal position. Under the non-IMF scenario, the fiscal deficit for FY2026–27 is projected to decline significantly to approximately PKR 3,084 billion, equivalent to nearly 2.1% of GDP. In contrast, under the IMF-supported framework, the fiscal deficit is estimated at approximately PKR 6,303 billion, or 4.4% of GDP. While IMF-backed stabilization measures may temporarily improve headline fiscal indicators, the report argues that long-term economic resilience and sustainable growth can only be achieved through domestically anchored economic reforms tailored to Pakistan's structural realities and developmental priorities.

SENSITIVITY ANALYSIS: TA ESTIMATED MODEL BUDGET (WITHOUT IMF POLICIES)



TA Estimated Scenarios (Without IMF)			
PKR Billion	Note	TA Est. Budget 2026-27 (W/O IMF) ¹	
		Scenario 1	Scenario 2
FBR Tax Revenue² (Annexure A)	1	16,135	16,135
Non Tax Revenue (Annexure B)	2	5,000	5,000
Gross Revenue Receipts (A+B)		21,135	21,135
Less: Transfer to Provinces		9,253	7,533 ³
Net Revenue Receipts - Federal Share		11,882	10,602
Total Expenditure		14,966	11,917
Current Expenditure		13,726	10,677⁴
Markup Payments		4,692	4,643
Domestic Debt (Annexure C)	3	3,520 ⁵	3,471 ⁶
Foreign Debt	4	1,172	1,172
Pension	5	1,116	1,116
Defence Affairs & Services	6	3,000	3,000
Grants & transfers to provinces & others	7	1,970	1,970
Subsidies (Annexure D)	8	1,584	1,584
Running civil Govt	9	932	932
Provision for Emergency and others	10	432	432
Development & Net Lending		1,240	1,240
Federal PSDP	11	1,000	1,000
Other Development & Net lending	12	240	240
Federal Balance	13	(3,084)	(1,315)
Primary Balance	14	1,608	3,328
Projected GDP		143,820	143,820
Fiscal Balance as % of GDP		(2.1)	(0.9)
Primary Balance as % of GDP		1.1	2.3
GDP in USD Billion⁷		\$575	\$575

Scenario 1: TA Budget estimates without the IMF

With reference to Note 1, the adoption of a diversified economic strategy without recourse to further IMF assistance would provide Pakistan with significantly greater policy autonomy, thereby reducing dependence on externally driven stabilization frameworks. Under such a scenario (Annexure A), the exchange rate may be allowed to reflect its intrinsic market equilibrium, estimated at approximately

¹ W/O IMF policies: Based on Currency real valuation at PKR 250/USD.

² FBR target based on previous FYs collection and nominal growth of 11% (i.e. GDP 5% and Inflation 6%) and PKR 800 Billion worth of Reform Measures of RRMCA and PKR 430 billion additional measures by FBR.

³ The provincial share is calculated after deducting Defence expenditure of PKR 3 trillion from FBR revenues.

⁴ PKR 3 trillion on account of Defence expenditure excluded.

⁵ 5.5% Markup on estimated outstanding debt PKR 62,459 billion that is PKR 3,435 and incremental deficit of PKR 85 billion.

⁶ Scenario 2 has low incremental of PKR 36 billion due to low Federal Budget deficit.

⁷ GDP in USD based on real value Exchange rate of PKR 250/USD.

PKR 250/USD, alongside targeted subsidy support for exporters and remittance inflows (Annexure D). This policy stance could potentially accelerate economic growth beyond 5%, generating an estimated USD 15–20 billion expansion in economic activity (Point 2, Annexure A).

TA estimates an inflation rate of 6.0% and real GDP growth of 5.0% for FY2026–27 under a non-IMF scenario. Accordingly, the FBR is projected to generate approximately PKR 16.1 trillion in tax revenues, inclusive of reform measures amounting to PKR 800 billion, comprising Minimum Tax on Assets (PKR 350 billion) and the proposed Taxation Regime for Wholesalers, Dealers, Distributors, and Retailers (PKR 450 billion), as reported in the 2023 report of the Reforms and Revenue Mobilization Commission (“RRMC”). Moreover, the FBR is expected to mobilize an additional PKR 430 billion through further revenue measures. Furthermore, with the implementation of comprehensive tax reform initiatives, revenue performance could potentially surpass the projected target without the need for mid-year revisions or the stringent conditionalities typically associated with IMF-supported programmes.

Moreover, we have formally submitted a comprehensive set of Economic Measures and Tax Policy proposals to the Ministry of Finance, encompassing a wide-ranging reform agenda designed to strengthen revenue mobilization, and support sustainable growth. For a detailed overview, please click [here](#).

On the Non-tax revenue front, under a non-IMF policy regime, it is estimated that the Government could mobilize approximately PKR 5 trillion, supported by a stable PL and a decline in interest rates of around 6.0%, consistent with lower inflation expectations (Annexure B).

With respect to domestic debt servicing (Note 4), TA estimates suggest that under a no-IMF scenario, mark-up expenditures would be contained at approximately PKR 3,520 billion (comprising PKR 3,435 billion on existing domestic debt plus incremental financing costs for FY2026–27, which is PKR 85 billion), reflecting a reduced policy rate environment of around 5.5% (Annexure C). External debt servicing is assumed to remain broadly consistent with IMF-based projections.

Pension expenditure is projected to rise by approximately 11%, in line with nominal GDP growth, reaching PKR 1,116 billion in FY2026–27. Grants and transfers to provinces are estimated at PKR 1,970 billion under the non-IMF framework for FY2026–27, reflecting an 11% increase over estimated FY2025–26 outturns.

In the case of subsidies, estimated real currency parity adjustment to PKR 250/USD and the continuation of targeted support to exporters and remittance channels (Annexure D), total subsidy allocations are projected at PKR 1,584 billion. This comprises a baseline nominal increase of 11% over the FY2025–26 budget, along with an additional PKR 268 billion in targeted relief measures for exporters and remittance inflows.

Under the assumption of a non-IMF framework, expenditure momentum is expected to accelerate in line with a 5.0% real GDP growth trajectory. Accordingly, Civilian Government expenditure is projected to increase by 11%, reaching approximately PKR 932 billion in FY2026–27.

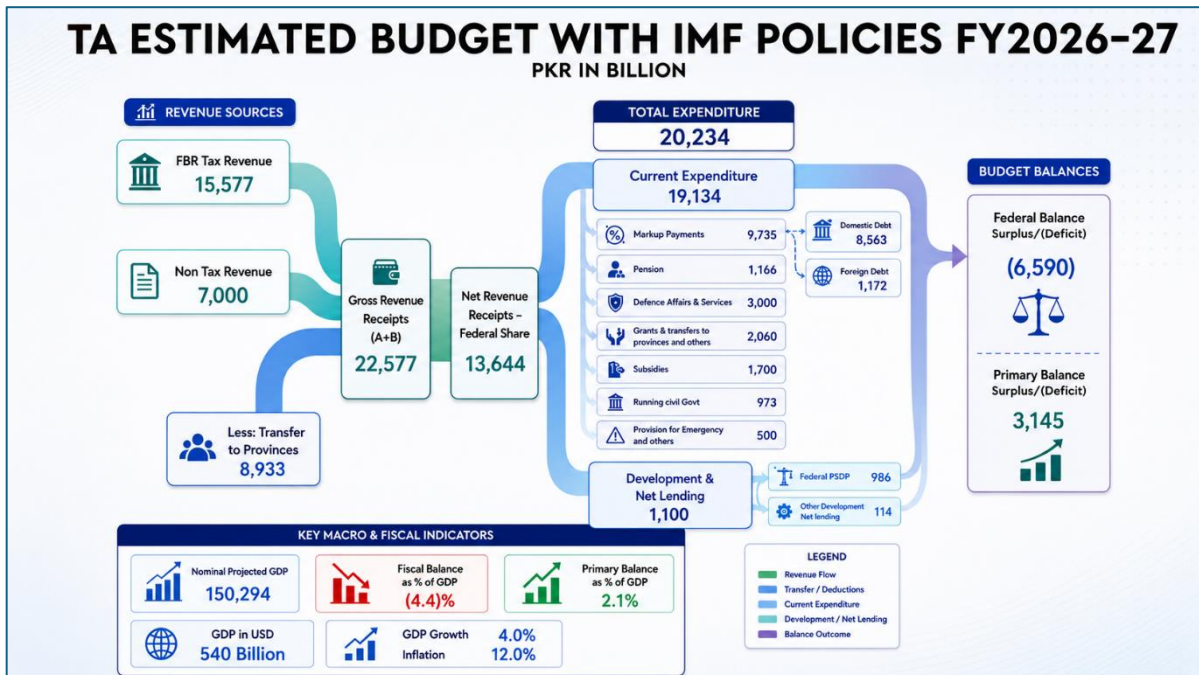
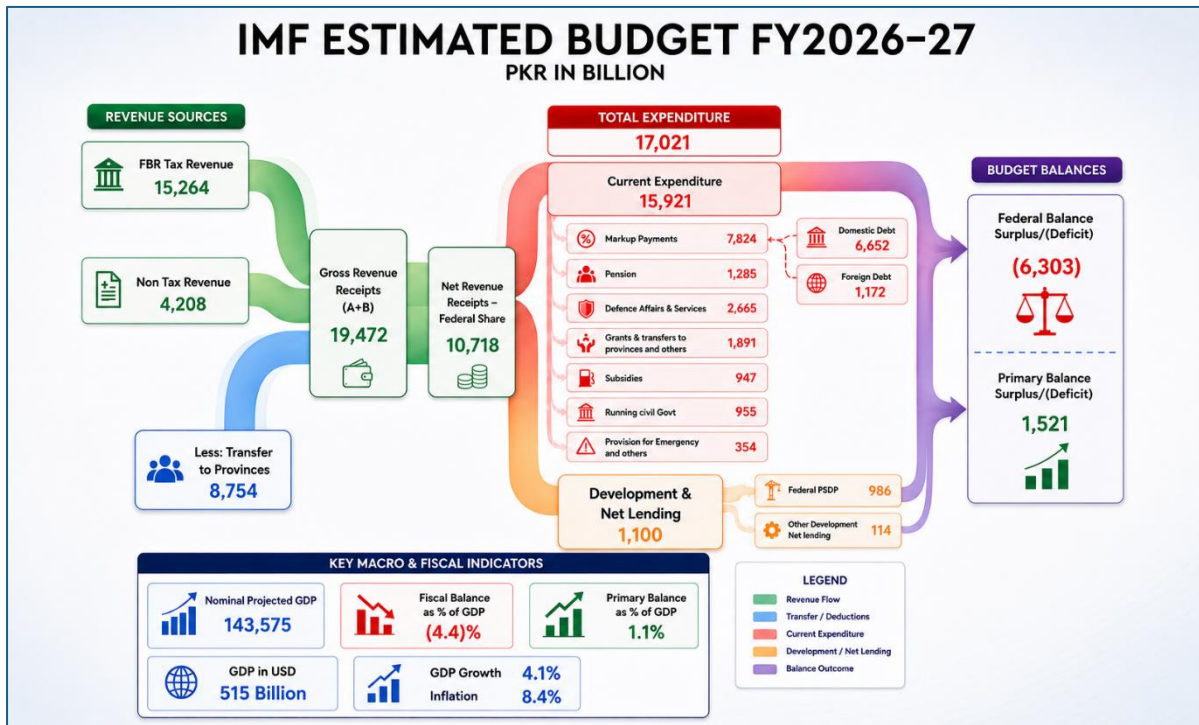
For the PSDP (Note 11), an allocation of PKR 1,000 billion is estimated, consistent with the 5.0% growth outlook for FY2026–27. Similarly, under Note 12, other development expenditure and net lending are projected at PKR 240 billion, based on estimated FY2025–26 utilization trends.

Lastly, under a non-IMF policy framework grounded in domestic economic prioritization, the fiscal deficit is projected to decline significantly to PKR 3,084 billion in FY2026–27, compared to IMF-based estimates of approximately PKR 6,303 billion. In terms of macroeconomic positioning, this translates into a deficit of around 2.1% of GDP under the non-IMF scenario, versus 4.4% of GDP under the IMF-supported framework.

Scenario 2: Impact of Prior Allocation of Defence Expenditure

If defense expenditure is allocated prior to the transfer of revenues to the provinces in the upcoming Pakistan Budget FY2026–27, the overall fiscal position of the federal government would improve significantly. Under this approach, the fiscal deficit is projected to decline from approximately PKR 3,084 billion in scenario 1 to PKR 1,315 billion in scenario 2. Consequently, the fiscal deficit as a percentage of GDP would also decrease substantially, falling from around 2.1% to 0.9%. This adjustment would ease pressure on federal finances, strengthen fiscal sustainability, and provide greater room for development and economic growth-oriented expenditures.

TA MODEL BUDGET ESTIMATES FOR THE FY2026-27 (UNDER IMF DRIVEN POLICIES)



Tola Associates Model Budget					
PKR in Billion	Note	FY2025-26		FY2026-27	
		Govt. Budget 2025-26 (P)	TA Est. Budget 2025-26	IMF Est. Budget 2026-27 ⁸	TA Est. Budget 2026-27 (With IMF) ⁹
FBR Tax Revenue	1	14,131	13,447	15,264 ¹⁰	15,577 ¹¹
Non-Tax Revenue	2	5,147	4,000	4,208	7,000 ¹²
Gross Revenue Receipts (A+B)		19,278	17,447	19,472	22,577
Less: Transfer to Provinces		8,206	7,712	8,754	8,933
Net Revenue Receipts - Federal Share		11,072	9,735	10,718	13,644
Total Expenditure		17,573	17,233	17,021	20,234
Current Expenditure		16,286	15,921	15,921	19,134
Markup Payments		8,207	7,521	7,824	9,735
Domestic Debt	3	7,198	6,234	6,652	8,563 ¹³
Foreign Debt	4	1,009	1,287	1,172	1,172
Pension	5	1,055	1,020	1,285	1,166
Defence Affairs & Services	6	2,550	2,800	2,665	3,000
Grants & transfers to provinces & others	7	1,928	1,955	1,891	2,060
Subsidies	8	1,186	1,350	947	1,700
Running civil Govt	9	971	920	955	973
Provision for Emergency and others	10	389	355	354	500
Development & Net Lending		1287	1,312	1,100	1,100
Federal PSDP	11	1000	950	986	986
Other Development & Net lending	12	287	362	114	114
Federal Balance	13	(6,501)	(7,498)	(6,303)	(6,590)
Primary Balance	14	1,706	23	1,521	3,145
Projected Nominal GDP		129,567	129,567	143,575	150,294
Fiscal Balance as % of GDP		(5.0)	(5.8)	(4.4)	(4.4)
Primary Balance as % of GDP		1.3	0.0	1.1	2.1
GDP in USD Billion¹⁴		\$464	\$464	\$515	\$540

⁸ IMF estimated figures are sourced from the IMF Pakistan Third Review documentation (2026).

⁹ TA estimates are based on IMF-aligned policy assumptions.

¹⁰ IMF-led target assumes 12.5% nominal growth over estimated FY2025–26 collections of PKR 13,428 billion, incorporating inflation of 8.4%, real GDP growth of 4.1%, and additional revenue measures worth PKR 430 billion.

¹¹ TA estimates under IMF policy assumptions project FBR revenues based on 16% nominal growth, reflecting 12% inflation and 4% real GDP growth applied to the base FY2025–26 estimated collection of PKR 13,428 billion.

¹² Given the likelihood of elevated interest rates amid higher inflation expectations in Pakistan, non-tax revenues are projected to reach approximately PKR 7,000 billion in FY2026–27.

¹³ 13.0% Markup on estimated outstanding debt PKR 62,459 billion that is PKR 8,120 and incremental deficit of PKR 425-445 billion.

¹⁴ GDP in USD terms is calculated using PKR 279/USD.

NOTE 1 (FBR'S DIRECT REVENUE)

- ☞ In May 2026, the Executive Board of the International Monetary Fund approved a loan disbursement of USD 1.1 billion following the successful completion of the third review of Pakistan's economic reform programme under the Extended Fund Facility ("EFF"), along with the second review of Pakistan's Resilience and Sustainability Facility ("RSF") arrangement. Under the IMF programme, the Federal Board of Revenue ("FBR") has been assigned a tax collection target of PKR 15.26 trillion for FY2026–27, representing an increase of approximately 13.6% over the revised FY2025–26 target of PKR 13.42 trillion. This projection is based on an estimated nominal GDP growth of 12.5%, supplemented by additional revenue measures amounting to nearly PKR 430 billion.
- ☞ According to TA estimates, if the FBR succeeds in mobilizing approximately PKR 13.4 trillion in tax revenues during FY2025–26, then, assuming an inflation rate of 12.0% and real GDP growth of 4.0% in FY2026–27, the FBR's tax collection is projected to reach nearly PKR 15,577 billion even in the absence of any additional revenue-enhancing measures.

NOTE 2 (NON-TAX REVENUE)

- ☞ The Federal Government's non-tax revenue ("NTR") primarily comprises surplus profits transferred by the State Bank of Pakistan ("SBP"), proceeds from the Gas Infrastructure Development Cess ("GIDC"), the Natural Gas Development Surcharge ("GDS"), and the Petroleum Levy ("PL"). For FY2025–26, these receipts were budgeted at PKR 5,147 billion, while actual collections during the July–March period of FY2025–26 amounted to PKR 4,427 billion.
- ☞ In view of the likelihood of a relatively elevated interest rate environment amid persistent inflationary expectations in Pakistan, we project that the Federal Government's NTR could increase to approximately PKR 7,000 billion in FY2026–27. This projection is primarily contingent upon a substantial rise in surplus profits of the SBP, together with the continuation of the PL at an elevated level of nearly PKR 117 per litre.

NOTE 3 (DOMESTIC DEBT)

- ☞ According to economic data released by the SBP, the outstanding stock of the Federal Government's domestic debt stood at PKR 57,566 billion as of March 2026. Given that domestic debt expanded by an average of approximately 8.5% during the final quarter of the preceding three Fiscal Years, we have incorporated a similar increase of 8.5% for Q4FY2025–26 in our projections. Consequently, the estimated outstanding domestic debt by end-June 2026 is projected to reach nearly PKR 62,459 billion.
- ☞ In light of the anticipated increase in the policy rate and the prevailing uncertainty surrounding the inflation outlook, we estimate that Pakistan may need to allocate approximately PKR 8,563 billion toward mark-up payments in FY2026–27 on account of domestic debt servicing obligations. This estimate comprises PKR 8,120 billion relating to existing domestic debt, together with additional

financing costs worth PKR 425-445 billion (depends on Fiscal deficit in FY2026-27) arising from the projected fiscal deficit for FY2026–27. The domestic markup projection has been derived on the basis of policy rate of 13% and the estimated stock of outstanding domestic debt as of June 2026.

NOTE 4 (FOREIGN DEBT)

- ☞ According to the report of the SBP, the Federal Government’s external debt stood at PKR 23,203 billion as of February 2026. This reflects a marginal decline of PKR 47.4 billion compared to the level recorded at the beginning of FY2025–26. The IMF projects Pakistan’s annual interest payments on external debt to reach approximately PKR 1,172 billion in FY2026–27, compared to the budgeted estimate of PKR 1,009 billion for FY2025–26.
- ☞ With regard to external debt obligations, TA estimates are assumed to remain broadly aligned with the IMF’s projections for FY2026–27.

NOTE 5 (PENSION)

- ☞ The budgetary allocation for pensions was set at PKR 1,055 billion for FY2025–26, while actual expenditure during the Jul-March period of the outgoing Fiscal Year amounted to PKR 754 billion. Based on TA estimates, pension expenditure is expected to register a modest increase in the final quarter (Q4) of FY2025–26, potentially reaching approximately PKR 1,005 billion by end-June 2026.
- ☞ TA estimate under IMF-led policy assumptions, pension expenditure is projected to increase by around 16%, reaching nearly PKR 1,166 billion in FY2026–27, reflecting a nominal upward adjustment in line with prevailing fiscal and macroeconomic conditions.

NOTE 6 (DEFENSE AFFAIRS AND SERVICES)

- ☞ The budgeted Defence expenditure stood at PKR 2,550 billion for FY2025–26, while actual expenditure up to March of FY2025–26 amounted to PKR 1,690 billion. In view of the prevailing heightened regional security environment, Defence spending is expected to increase in Q4FY2025–26.
- ☞ Historically, over the past three Fiscal Years, Defence expenditure in the final quarter has accounted for approximately 36% of total annual outlays. Given the current security dynamics and the requirement to sustain operational readiness, it is proposed that the Defence budget be enhanced to PKR 3.0 trillion in FY2026–27, representing an increase of around 18% over the outgoing Fiscal Year’s budget. This upward adjustment reflects both strengthened Defence preparedness requirements and additional allocations associated with recruitment and force expansion.

NOTE 7 (GRANTS AND TRANSFERS TO PROVINCES)

- ☞ TA estimates for grants and transfers to provinces are projected at PKR 2,060 billion under the IMF framework for FY2026–27, representing an increase of approximately 16% over the estimated

actual expenditure for FY2025–26. During the first nine months of the current fiscal year, total grants and transfers to provinces stood at PKR 1,331 billion.

- ☞ We anticipate only a modest increase in the final quarter of FY2025–26, bringing the annual total to approximately PKR 1,775 billion by June 2026, in view of subdued economic growth and persistently high inflationary pressures.

NOTE 8 (SUBSIDIES)

- ☞ The budgetary allocation for subsidies in FY2025–26 was set at PKR 1,186 billion, while actual expenditure during the Jul-March period of FY2025–26 stood at PKR 632 billion. However, subsidy outlays are expected to rise significantly in the final quarter of FY2025–26. Historical trends indicate that, over the past three fiscal years, Q4 subsidy expenditure has averaged approximately 1.34 times the first three quarters actual spending. On this basis, total subsidy expenditure is projected to reach around PKR 1,478 billion by the end of FY2025–26.
- ☞ Accordingly, under IMF impose conditions, TA projected subsidy requirements to increase further to approximately PKR 1,700 billion in FY2026–27, representing a nominal rise of around 16% over the estimated FY2025–26 outturn as of June 2026.

NOTE 9 (RUNNING CIVIL GOVERNMENT)

- ☞ The civilian Government’s expenditure was budgeted at PKR 971 billion for FY2025–26, while actual spending during the first three quarters of FY2025–26 stood at PKR 629 billion. Historical patterns indicate that, over the past three fiscal years, Q4 expenditure has accounted for more than 37.6% of total annual spending on the running of civil government. On this basis, TA estimate that total expenditure under this head may increase to the range of PKR 840–850 billion by the end of FY2025–26.
- ☞ For FY2026-27, under IMF-driven policy assumptions, expenditure on civilian government operations is projected to increase modestly to approximately PKR 973 billion, reflecting a nominal adjustment in line with prevailing fiscal and macroeconomic trends.

NOTE 10 (PROVISION FOR EMERGENCY AND OTHERS)

- ☞ Provisions for contingencies are projected to be at PKR 500 billion for FY27 given unfortunate inflation expectation and war uncertainty with IMF condition.

NOTE 11 (FEDERAL PSDP)

- ☞ Against the current fiscal year’s budgetary allocation of PKR 1,000 billion for the Public Sector Development Programme (“PSDP”), the Federal Government utilised only PKR 429 billion during the first nine months of FY2025–26. Historical spending patterns indicate that, on average, approximately 58% of total PSDP expenditure is incurred in the final quarter over the past three fiscal years. In light of this trend, total PSDP spending for FY2025–26 is projected to reach around PKR 900 billion.

- Accordingly, TA estimates for PSDP under an IMF-aligned framework suggest an allocation of approximately PKR 986 billion for FY2026–27, same as IMF estimates.

NOTE 12 (OTHER DEVELOPMENT AND NET LENDING)

- The budgetary allocation for other development expenditure and net lending stood at PKR 287 billion in FY2025–26, while actual spending during the first three quarters of the Fiscal Year amounted to approximately PKR 122 billion. Given the prevailing expenditure trajectory, and considering that Q4 spending has historically increased by around 75% over the average of earlier quarters in the last three fiscal years, total expenditure under this head is projected to reach approximately PKR 214 billion by the end of FY2025–26.
- Under IMF-supported policy assumptions: expenditure on other development activities and net lending is expected to witness a decline by 61%, reaching around PKR 114 billion in FY2026–27.

NOTE 13 (FEDERAL BALANCE)

- The Federal Government has projected an annual fiscal deficit of PKR 6,501 billion for FY2025–26, equivalent to 5.0% of revised GDP. However, during the Jul–March period of FY2025–26, the deficit had already reached approximately 38% of the annual target, indicating a relatively front-loaded fiscal imbalance.
- For FY2026-27, the fiscal deficit is expected to edge up to around PKR 6,590 billion compared to the Government’s initial estimate. Nevertheless, under an IMF-aligned scenario and assuming a projected nominal GDP growth of 16.0% in FY2026–27, the fiscal deficit is expected to moderate in relative terms, declining from 5.0% of GDP in FY2025–26 to approximately 4.4% of GDP in FY2026–27.

NOTE 14 (PRIMARY BALANCE)

- The primary balance, after excluding interest payments, is estimated to be at a surplus of PKR 3,145 billion in FY2026-27.

Annexure A

Indicator	Non-IMF Scenario (Estimated)	IMF-Based Scenario
Real GDP Growth	5% growth target	4.1%
Inflation Rate	6.0%	8.4%*
Exchange Rate	PKR 250/USD	PKR 279/USD
Impact of Exchange Rate on Inflation	Nearly 6% decline	Double digit
Nominal GDP Growth	11%	12.5%
Policy Rate	6%	11.5%
*Inflation turns into double digit if IMF stringent policies were accepted.		

- 1) *The estimates suggest that pursuing a non-IMF economic strategy could enable Pakistan to achieve a **5% GDP growth** target while reducing **inflation to around 6%**, compared to an estimated 8.4% inflation under the IMF-backed framework. This improvement is primarily linked to the strengthening of the exchange rate from **PKR 279/USD to PKR 250/USD**, as every Rs10 appreciation in the rupee is estimated to reduce inflation by nearly 2%. The resulting decline of almost 6% in inflation would also create room for a reduction in the policy rate, encouraging investment and economic activity. Consequently, nominal GDP is projected to increase by approximately 11% under the proposed non-IMF policy framework.*
- 2) *Moreover, Pakistan can strengthen its external financing position by reforming foreign exchange and remittance policies. While the IMF supports greater currency liberalization and easier outward remittances, Pakistan currently allows outward transfers of up to USD 100,000 per person annually, which is comparatively high relative to many countries. Rationalizing these limits could help save an estimated USD 1–2 billion annually in foreign exchange outflows. At the same time, increasing the declaration limit under Section 111 of the Income Tax Ordinance, 2001, to USD 100,000 could encourage the repatriation of FATF-compliant overseas funds held by Pakistanis abroad, potentially mobilizing up to USD 20 billion in additional inflows.*

Annexure B

NTR primarily consists of Petroleum Levy (“PL”) and SBP profits. Due to the fact that the PL will remain at Rs117 for the rest of the year, it is expected to automatically generate more than PKR 1.7 trillion (see table below), because of the rise in fuel demand. On the other hand, SBP profits are projected to decline by PKR 155 billion due to a 5.5% reduction in the policy rate, based on total domestic debt relative to FY2025-26 SBP profits, Thereby SBP profit will be PKR 2,273 billion. While, approx. PKR 1 billion associated with other subheads of NTR.

	Consumption FY26 (MMT)	Projected Consumption FY27 (MMT) ¹⁵¹⁶	Million Liters	Surcharge Levy/liter ¹⁷	Expected revenue (PKR Billion)
Petrol	7.99	8.47*	11,646	117	1,367
Diesel	7.28	7.72*	9,079	43	387
Petroleum Levy Collection					1,754
<i>*Projection based on last two years mean growth and expected to grow at 6% for FY2026-27</i>					

¹⁵ Petroleum demand seen rising to 20.9m tonnes by FY30, The NEWS, retrieved from <https://www.thenews.pk/print/1415869-petroleum-demand-seen-rising-to-20-9m-tonnes-by-fy30>

¹⁶ Petroleum product sales rise 7% in FY25, The NEWS (2025), retrieved from <https://www.thenews.com.pk/print/1360844-petroleum-product-sales-rise-7pc-in-fy25>

¹⁷ DAWN News (2026), retrieved from <https://www.dawn.com/news/2001228/fcc-ji-petrol>

Annexure C

Indicator	Amount
Estimated Domestic Debt (End-June 2026)	PKR 62,459 billion
Decline in Policy Rate	6%
Impact of 1% Rate Decline	PKR 625 billion
Total Savings from 6% Decline	PKR 3,748 billion
Domestic Debt est. since 11.5 – 6 → 5.5% (At 5.5% of PKR 62,459 Billion)	PKR 3,435 Billion

Annexure D

Export & Remittance Adjustment under PKR Appreciation Scenario

Component	Base Value	Adjustment per USD	Calculation	Estimated Impact (PKR Billion)
Exports	\$32.5 billion	Rs 6 per USD (20% of Rs 29 appreciation)	32.5×6	195
Remittances	\$34 billion	Rs 10 per USD adjustment	34×10	340
Total Subsidy Requirement	\$66.5 billion combined	Weighted adjustment	$195 + 340$	535

Under a scenario where the PKR appreciates by Rs29 against the USD, a partial pass-through mechanism is assumed where exporters are compensated by Rs6 per dollar and remittance inflows are supported by Rs10 per dollar. This results in an estimated subsidy burden of PKR 195 billion for exports and PKR 340 billion for remittances, bringing the total fiscal cost to approximately PKR 535 billion. The adjustment is based on a policy design that distributes the average exchange rate gain of Rs29 (with a mid-level adjustment of Rs14.5 considered implicitly in the subsidy structure).

Annexure E

TAX REFORMS MEASURES

A. Fiscal Measures (Pending reform from last year)

In light of the Budget 2026-2027, 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.

1. Revenue Measures – Income Tax

- 1.1** Introduce a Minimum Asset Tax (MAT) by extending CVT to domestic and worldwide assets of resident individuals exceeding Rs. 50 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. 50 million.

Example:

Total Domestic Assets: Rs. 1,000 million

Exempt Threshold: Rs. 50 million

Taxable Amount: Rs. 950 million

MAT (1% of 950 million): Rs. 9.5 million

Scenario	Income Tax (IT) Liability	MAT (calculated)	Final MAT Payable
Scenario A: Lower IT	Rs. 8 million	Rs. 9.5 million	Rs. 1.5 million
Scenario B: Higher IT	Rs. 10 million	Rs. 9.5 million	Rs. 0

- 1.2** 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 assets would be taxed in 2025 (year of discovery), and the limitation clock would start in 2025, not 2012.**
- 1.3 Abolish Tajir Dost Scheme. Tax rate should be 1% across the board up to Rs.30 million. Minimum tax should be applicable on the amount over and above to be charged on the Reverse Charge Mechanism under Section 236G and 236H.
 - 1.4 Rationalize minimum tax regime for commercial importers by increasing rates from 5.5% to 7%, and from 3.5% to 5.0% for other 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.
 - 1.5 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.
 - 1.6 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.
 - 1.7 Increase the advance tax on prize bond winnings from 15% to 20%.
 - 1.8 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.
 - 1.9 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 will 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.

- 1.10 It is proposed that tax reforms be introduced for salaried individuals such that, for those earning up to Rs.2,400,000 annually (i.e., Rs.200,000 per month), a nominal tax of Rs.100 per month (Rs.1,200 per annum) be levied. For income above this threshold, the tax slab should be capped at a maximum of 30%.
- 1.11 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% 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.

2. Revenue Measures – Sales Tax

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

3. Broadening of Tax Base / Documentation

- 3.1 Require detailed trade data publication (prices, values, volumes) for import/export to enhance transparency.
- 3.2 Mandate every shipment to carry certificate of port of origin and original invoices to reduce misdeclaration and under-invoicing.
- 3.3 Install GPS tracking on high-value cargo from dry ports to curb pilferage and under-reporting.

- 3.4** 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.
- 3.5** Under the existing regime of the Federal Excise Act, 2005, Federal Excise Duty (“FED”) on first, business, and club class international air travel has reached significantly high fixed levels, particularly on long-haul routes. It is proposed that the FED on such premium classes be rationalized downward or restructured into a more moderate or percentage-based framework. The present high rates tend to suppress demand, resulting in underutilized premium cabins and, in many cases, flights operating with empty seats, ultimately leading to inefficient revenue outcomes for both airlines and the exchequer.
- 3.6** 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.
- 3.7** 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, crossmatch it with tax records, and there shall be no time limit to raise tax demands on such individuals.
- 3.8** Make NTN and filing of return mandatory for opening bank accounts, buying/selling vehicles and property, foreign travel, and obtaining club memberships.
- 3.9** 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.
- 3.10** To enhance transparency and curb tax evasion, it is proposed to restrict cash transactions beyond Rs.5,000–10,000 at retail and food outlets, mandating the use of electronic payment methods.
- 3.11** 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 cryptocurrency held by Pakistani tax Residents by allowing them to declare already held / owned cryptocurrency without any civil or criminal liability unless they have not been purchased from or are not themselves proceeds of crime.

4. Legal Reforms / Simplification

- 4.1** 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.
- 4.2** 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.
- 4.3** Deemed disposal of assets for capital gains tax when individuals change tax residency status.
- 4.4** Reform the appellate systems. Improve assessment quality, reduce aggressive orders, and enhance transparency to prevent undue recovery actions and litigation.
- 4.5** 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.
- 4.6** 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.
- 4.7** 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.
- 4.8** Extend tax exemption for transfer of assets to REITs till June 2027; include Special Purpose Vehicles (SPVs) and replace "immovable property" with "real estate".
- 4.9** 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.
- 4.10** 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.
- 4.11** Extend carryforward period for excess minimum tax from 3 to 5 years to support startups and loss-making companies.
- 4.12** 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.

- 4.13 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.
- 4.14 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.
- 4.15 FBR should prescribe a proper format for withholding reconciliation under section 165(8) to streamline compliance and monitoring.
- 4.16 Section 161 is being misused through generic notices; detailed notices and procedural safeguards should be introduced.
- 4.17 IRIS system must auto-issue exemption / reduced rate certificates under section 153 if not processed within 15 days, as per law.
- 4.18 Filing of quarterly withholding statements should be abolished to eliminate duplication, as data is already provided via PSIDs.
- 4.19 Condonation powers under section 214A should be limited to the Board/Chief Commissioner and automated on IRIS.
- 4.20 Penalties for non-filing or late filing of withholding statements should be rationalized and capped to reduce taxpayer hardship.
- 4.21 Section 156 should be amended to tax only prizes offered to end consumers, excluding dealers and distributors.
- 4.22 Remove redundant Clause 47A of Second Schedule since Section 153(5)(a) already covers same-condition imports exemption.
- 4.23 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.
- 4.24 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.

5. Investment Incentives

- 5.1 Zero-rate export of services across all provinces subject to provincial registration, return filing, and foreign exchange realization via authorized dealers.
- 5.2 Harmonize sales tax withholding provisions across federal/provincial laws; remove withholding on transactions between active taxpayers.
- 5.3 Standardize input tax admissibility rules across all jurisdictions; allow staggered input tax adjustment on capital goods (e.g., 5–10 years).
- 5.4 Synchronize disallowance provisions across income and sales tax laws for transactions with unregistered/non-active persons; incentivize banking channel use.
- 5.5 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.
- 5.6 Exempt provincial service providers from “Further Tax” under STA if registered with provincial authorities; integrate FBR and provincial systems.
- 5.7 Introduce simplified sales tax return forms tailored for manufacturers, importers, and retailers; auto-enable relevant fields based on taxpayer profile.
- 5.8 Repeal Section 8B of STA (90% input tax restriction) or restore exemption for listed companies to ease working capital strain amid rising input costs.
- 5.9 Clarify input tax treatment on immovable property used for manufacturing; allow adjustment where construction directly supports taxable production.

6. Administrative / Enforcement Reforms– Income Tax

- 6.1 Implement faceless, paperless e-assessment system using AI for income tax and customs, including remote hearings and automated scrutiny.
- 6.2 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.

7. Administrative / Enforcement Measures – Sales Tax

- 7.1 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.

- 7.2 Mandate written reasons to require records under Section 25; ensure proper audit process before assessments under Sections 11 and 38; restrict Section 11(3) to cases with definite information.

8. Administrative / Enforcement Measures – Customs

- 8.1 Require Certificate of Origin and port documents with every shipment; explore bilateral portal integration and use of platforms like TradeLens.
- 8.2 Ban Switch Bill of Lading; validate loading port with Certificate of Origin; consult Customs and shipping agencies on enforcement.
- 8.3 Mandate freight charges in Bill of Lading for CFR/CNF invoices to avoid undervaluation; initiate consultation with Customs and shipping agencies.
- 8.4 Improve valuation of machinery and parts; consult Valuation Department and study international practices to address misclassification and underpricing.
- 8.5 Address cases where finished goods are valued below raw material costs; introduce value addition benchmarks (e.g., 30%) for high-duty items.
- 8.6 Establish online system for verifying declared values; expand export data exchange MoUs beyond China and Iran to curb misdeclaration.
- 8.7 Introduce remote clearance tech at dry ports and pilot remote processing for high-risk items like garments, plastics, appliances, and steel scrap.
- 8.8 Extend product history review period from 90 to 180 days for better valuation accuracy; use more comprehensive trade data analytics.
- 8.9 Review the role of Principal Appraiser; consider abolishing the post to reduce delays and streamline customs processing.
- 8.10 Develop mechanisms for timely disposal and utilization of confiscated goods, including fuel, by enforcement agencies.
- 8.11 Establish high-tech scanning and RFID-based tracking at Chaman border; create faceless customs operations with randomized clearance through urban command centers.
- 8.12 Implement nationwide fuel marking system to curb smuggling and undocumented fuel trade.

B. New Tax Reforms

A. Reforms Pakistan Needs That India's Budget Does Not Address

Not everything Pakistan needs can be borrowed from Delhi. There are several structural gaps in Pakistan's fiscal framework that India either does not share, has already resolved years ago, or has chosen not to address in this cycle. These require Pakistan to lead its own reform effort.

S. No.	Issue / Pain Point	Suggested Reform
1.	<p>Property Valuation A Three-Tier Misalignment That Fuels the Undocumented Economy.</p> <p>The fundamental misalignment between DC rates, FBR notified values, and actual transaction prices in real estate is not merely an administrative anomaly. It is the primary channel through which undeclared wealth circulates through the formal economy, and it renders the entire immovable property tax regime structurally unreliable.</p>	<p>Eliminate DC rates entirely and move to a single FBR-notified benchmark, updated semi-annually using real transaction data from property registrars. Mandate independent registered valuers for transactions above a prescribed threshold. Introduce a right of first refusal allowing FBR to acquire property at the declared value plus a reasonable premium, acting as a powerful deterrent against undervaluation without requiring mass enforcement. Amendments required in Sections 68, 75, and 111 of the ITO, along with consequential changes to the</p>

		Stamp Act to align registration values with FBR benchmarks.
2.	<p>Agricultural Income</p> <p>Agricultural income remains constitutionally exempt from federal income tax, and provincial agricultural income taxes are, in practice, almost entirely unenforced. Pakistan cannot credibly ask salaried workers and small businesses to bear the full weight of direct taxation while the country's largest landholdings escape entirely.</p>	<p>A minimum turnover-based levy on commercial farming operations above a meaningful annual threshold, structured as a federal-provincial revenue sharing arrangement to incentivize provincial enforcement. Corporate farming income should be brought explicitly within the standard corporate tax framework without constitutional impediment, as the constitutional restriction applies to agricultural income of individuals, not companies. No amendment to the ITO is required for the corporate farming element as Section 4 read with Section 2(29) already captures corporate income, but a clarificatory provision and FBR circular would be necessary to end the ambiguity that currently allows corporate farming entities to claim agricultural income exemption.</p>
3.	<p>Advance Rulings Certainty Is Available Only to Non-Residents.</p> <p>Pakistan's existing advance ruling mechanism under Section 206A of the ITO is confined to applications from non-resident persons. Resident taxpayers, including large domestic corporates and investors in SEZ and CPEC-linked projects, have no equivalent mechanism to</p>	<p>Expand Section 206A to cover resident taxpayers or insert a new Section 206B providing a separate advance ruling mechanism for residents. The ruling should be binding on FBR, issued within a defined statutory time limit, and published in anonymized form to build a body of publicly accessible FBR</p>

	<p>obtain a binding FBR view before committing to a transaction. The ADR framework under Section 134A addresses existing disputes, not prospective certainty, and is therefore no substitute.</p>	<p>positions. This would be transformative for investment decisions where the tax treatment of a complex structure is often the critical variable, particularly for CPEC-related arrangements, SEZ investors, and inbound FDI where treaty benefit eligibility is disputed.</p>
<p>4.</p>	<p>Tax Expenditure Decades of Concessions with No Accountability.</p> <p>Pakistan's Second Schedule to the ITO and Sixth Schedule to the STA are repositories of exemptions and concessions, many of which have outlived their original purpose and exist primarily because no administration has found it politically convenient to remove them. The aggregate revenue cost is enormous and almost entirely invisible to parliament and the public.</p>	<p>Introduce a statutory requirement that every new exemption inserted in the Second Schedule carries an automatic expiry date of no more than five years, requiring affirmative renewal after independent review. Mandate a periodic Tax Expenditure Report, tabled in parliament, quantifying the revenue cost of each concession with an evidence-based assessment of its continued justification. Establish an independent Tax Policy Unit, separate from FBR, to conduct these evaluations without the institutional conflict of interest that FBR faces when asked to assess its own administrative priorities.</p>
<p>5.</p>	<p>Taxpayer Rights</p> <p>The relationship between the Pakistani taxpayer and FBR is frequently adversarial and structurally unequal. Taxpayers are subject to detailed procedural obligations enforced with penalties and prosecution, while the reciprocal obligations of FBR to respond</p>	<p>Publish and encode a statutory Taxpayer Rights Charter, either as a standalone instrument or through insertion of a new section in the ITO, perhaps after Section 227, setting out enforceable procedural rights: the right to be heard before any adverse order, the right to a decision</p>

	<p>within defined timeframes, to issue notices only through authorized channels, and to limit audit frequency for compliant filers exist nowhere in enforceable statutory form.</p>	<p>within a defined period with deemed acceptance on lapse, the right to access one's own tax record digitally at any time, and a restriction on audit selection for taxpayers with a clean compliance history in the preceding three years. The Charter should be enforceable before the Federal Tax Ombudsman, giving it practical teeth rather than leaving it as a statement of aspiration.</p>
<p>6.</p>	<p>Outsourced HR Monitoring of FBR Officials.</p> <p>Many of the reforms in this note will deliver nothing if the officials responsible for implementing them are not present, not punctual, and not moving cases forward. FBR demands rigorous documentation, timeliness, and accountability from every taxpayer it regulates, yet applies no equivalent standard to its own workforce in any independently verified way. Internal HR functions within FBR are subject to the same political pressures and institutional inertia that they are nominally supposed to discipline.</p>	<p>Engage an independent, outsourced HR monitoring firm, appointed through transparent public procurement, to maintain biometric-linked attendance records, conduct unannounced presence checks at field formations and regional tax offices, and track all pending cases against the statutory time limits prescribed across the ITO, including the 60-day assessment period under Section 122, the 120-day appeal disposal period under Section 129, and applicable refund timelines. Where deadlines are breached, the system should generate automatic escalation flags up the chain of command. Commissioner-level performance reviews should cover assessment completion times, rates of orders set aside on appeal, and refund processing timelines, all reported quarterly to the Federal Tax Ombudsman and a relevant parliamentary committee</p>

		<p>in a format accessible to the public. The monitoring firm's reporting lines must run to the Ministry of Finance and the Federal Tax Ombudsman simultaneously, not through FBR's own administration, and consequences for persistent non-compliance must be defined in advance. The argument for retaining purely internal accountability in a department whose internal accountability has demonstrably failed is not principled, it is self-interested.</p>
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C. Ease of Doing Business Related Measures (Indian Budget)

What India's Budget Tells Pakistan About Its Own Tax Reform Agenda

A comparative policy note drawing on the Finance Bill 2026-27 (India)

India's Union Budget 2026-27 is not just a statement of fiscal intent for a neighboring economy; it is a mirror. Many of the reforms tabled in the Finance Bill are responses to problems that Pakistan's tax system either shares or has left unaddressed for longer. Reading it carefully, two things become apparent: some of India's new measures would transplant to Pakistan's legal framework with relatively modest drafting effort, and others point toward structural reforms that Pakistan needs to originate on its own terms.

Reforms from India's Budget with Direct Applicability to Pakistan

The reforms below are either entirely absent from Pakistan's Income Tax Ordinance, 2001 and Sales Tax Act, 1990, or exist in a form too weak to be meaningful. In each case, what India has introduced offers a workable model that Pakistan's policymakers could adapt without reinventing the wheel.

S. No.	India What the Finance Bill 2026-27 Introduces	Pakistan What Needs to Change

<p>1.</p>	<p>Return Updating mechanism</p> <p>India has formalized the concept of a taxpayer voluntarily correcting their returns long after the original filing, now up to 48 months, in exchange for a self-assessed additional tax. The logic is straightforward: it is better for the state to receive most of what it is owed, without litigation, than to chase 100% of it through enforcement machinery that is already overstretched.</p>	<p>Pakistan's ITO permits revised returns under Section 114(6), but the process requires prior Commissioner approval, which in practice becomes a source of delay and discretion. What Pakistan needs is an automatic, rules-based updated return mechanism, one where a taxpayer pays a graduated surcharge, like additional tax of 25% of the incremental tax within two years, rising to 50% beyond that, filed electronically without seeking anyone's permission. This single change, properly administered, could unlock significant dormant compliance from taxpayers who made errors or underreported but are deterred by the uncertainty of approaching the tax authority voluntarily. A new subsection may be inserted in Section 114 to give this statutory footing.</p>
<p>2.</p>	<p>Proportionate Prosecution</p> <p>India has moved away from blunt mandatory imprisonment provisions and toward a tiered system where the severity of prosecution is calibrated to the actual amount of tax evaded. Below a certain threshold, the matter is resolved with a fine. Above it, simple imprisonment applies, and only at the highest levels does the full weight of the criminal law come into play.</p>	<p>Pakistan's prosecution provisions under Sections 192 to 196 of the ITO are comparatively harsh and poorly calibrated. The problem this creates is counterintuitive but real: when the potential criminal consequence of being caught is disproportionate, it actually discourages settlement and voluntary disclosure. Taxpayers who might otherwise regularize their affairs calculate that approaching the authority is riskier than staying quiet. Introducing quantum-</p>

		<p>based prosecution thresholds, with a clear safe harbour for taxpayers who pay up before prosecution is launched, would make Pakistan's enforcement framework both fairer and more effective. Section 192 in particular warrants amendment to introduce evasion-linked sentencing bands.</p>
<p>3.</p>	<p>Centralized Withholding Exemption Declarations</p> <p>India now allows investors to file a single declaration of non-taxability through a depository, which then distributes it to all relevant payers, rather than the investor having to submit the same declaration to every bank, company, or mutual fund separately.</p>	<p>In Pakistan, every withholding agent processes exemption claims independently under the withholding provisions of Division III of Part V of the First Schedule and Section 159 of the ITO. For an investor holding securities across multiple banks or asset management companies, this is a genuine administrative burden that discourages formal investment. A centralized mechanism, perhaps operated through the NCCPL or integrated into IRIS, would not only reduce friction for investors but also create a single, auditable record for FBR. The mechanism may further allow any withholding agent to search for the taxpayer's exemption status on IRIS in real time, removing any need for paper declarations altogether. Section 159 may be amended to enable centralized electronic filing of exemption declarations.</p>

<p>4.</p>	<p>Electronic Lower Withholding Certificates</p> <p>In India, taxpayers seeking lower or nil withholding can now apply electronically to a prescribed authority, which issues the certificate based on defined criteria rather than individual officer discretion.</p>	<p>Pakistan's equivalent process under Section 159 of the ITO, requiring a specific Commissioner's approval, remains largely manual and is frequently used as a pressure point. Automating this through IRIS, with eligibility determined by prior-year compliance history, approved refund orders, advance taxes already paid, and declared income levels, would remove a layer of unnecessary friction for compliant businesses while reducing the scope for informal negotiations. The amendment would require FBR to prescribe objective eligibility criteria by rule, stripping out the element of individual discretion that currently makes the process unpredictable.</p>
<p>5.</p>	<p>Reducing the Tax Rate on Unexplained Income</p> <p>India has reduced the tax rate on unexplained credits, investments, and expenditures from 60% to 30%, acknowledging that the punitive rate was producing the opposite of its intended effect. When total effective tax liability can exceed 90% of the amount in question, the rational response for many taxpayers is concealment rather than disclosure.</p>	<p>Pakistan's treatment of unexplained income under Section 111 of the ITO similarly carries a punitive loading. A flatter, more predictable rate, with a clear immunity pathway for voluntary disclosure, would likely generate more revenue than the current approach, as it removes the calculus that makes hiding preferable to coming clean. The amendment to Section 111 should reduce the applicable rate and simultaneously introduce a structured immunity window, perhaps timed to coincide with a broader</p>

		<p>asset declaration scheme, to encourage one-time regularization of accumulated undisclosed wealth.</p>
<p>6.</p>	<p>Mandatory Digital Identifiers for All Tax Notices and Orders</p> <p>India has codified that every assessment order must carry a computer-generated Document Identification Number, and that minor procedural errors in that identifier do not invalidate an otherwise lawful order.</p>	<p>Pakistan's FBR nominally assigns reference numbers through IRIS, but enforcement of digital-first assessment is inconsistent. Providing that any notice issued outside the designated digital system is void, perhaps going further by mandating QR codes on all notices to allow instant authenticity verification and replacing the current barcode system, would simultaneously protect taxpayers from informal or fabricated demands and create a complete audit trail within the assessment machinery. A new provision may be inserted in Section 176 of the ITO requiring all notices and orders to carry a system-generated identifier as a condition of validity.</p>
<p>7.</p>	<p>Post-Supply Discounts and the Sales Tax Credit Note Regime</p> <p>India has removed the requirement that post-supply trade discounts must be pre-agreed in writing and linked to specific invoices in order to be excluded from GST value. The new position is cleaner: issue a credit note, ensure the recipient reverses the corresponding input tax credit, and the value reduction is recognized.</p>	<p>Pakistan's Sales Tax Act has credit note provisions, but the audit scrutiny applied to year-end volume rebates, particularly in FMCG and pharmaceutical distribution, generates significant disputes. FBR has frequently recharacterized legitimate trade discounts as cash discounts, denying the value adjustment entirely. Aligning with the Indian simplification; credit note issued, input tax reversed by recipient, and</p>

		<p>value reduction allowed, would reduce litigation in sectors where post-supply discount arrangements are commercially standard and economically legitimate. The amendment is required in section 2(46)(b) and section 9 of the Sales Tax Act, 1990.</p>
<p>8.</p>	<p>Provisional Sales Tax Refund for Inverted Duty Structures</p> <p>India has extended the 90% provisional refund entitlement to accumulated input tax credit arising from inverted duty structures, situations where a manufacturer pays a higher rate of tax on inputs than the rate that applies to their finished goods.</p>	<p>Pakistan's sales tax refund system is already under strain, and there is no provisional refund mechanism for this type of accumulation. Introducing a time-bound provisional release of 80–90% of the claimed refund amount in line with zero rated sector, subject to post-audit verification, would provide meaningful liquidity relief for manufacturers and reduce the incentive to seek informal resolutions. This reform would require amendment in section 10 or a new section 10A of the Sales Tax Act, 1990, but the indirect benefit i.e., reduced pressure on FBR from manufacturers seeking urgent relief, would also ease the administrative burden on field formations.</p>
<p>9.</p>	<p>NPO and Charitable Trust Registration</p> <p>India has exempted Government-funded educational and medical institutions, and small charitable organizations below a receipts threshold, from the full registration requirement for income tax exemption.</p>	<p>Pakistan's approval and renewal process for non-profits under Sections 2(36), 100C, and the Second Schedule to the ITO is increasingly burdensome, and small community organizations operating transparently find themselves trapped in administrative cycles designed for larger entities. Automatic approval for the Government-affiliated institutions and a</p>

		<p>simplified, lighter-touch registration for organizations below a meaningful annual receipts threshold would free up both FBR's administrative capacity and the goodwill of Pakistan's civil society sector, which plays a significant role in service delivery that the state itself is unable to provide.</p>
<p>10.</p>	<p>Transfer Pricing Modified Returns for AEs Linked to APAs</p> <p>India has extended the right to file a modified return to associated enterprises (AEs) whose income is correspondingly adjusted as a result of an Advance Pricing Agreement (APA) entered into by a related party, even if the AE was not directly a party to that APA.</p>	<p>As Pakistan deepens its transfer pricing enforcement under Section 108 of the ITO and the Transfer Pricing Rules, 2006, the absence of a formal APA mechanism and a corresponding modified return right will create increasing uncertainty for multinational groups. Developing a bilateral APA programme with Pakistan's key treaty partners like, the UAE, China, the Netherlands, the UK, and coupling it with a modified return right for affected group entities, would support investment certainty and reduce post-assessment disputes that currently consume significant resources on both sides. A new sub-section should be inserted in Section 108 to provide this right expressly along with a corresponding amendment in section 114.</p>

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