# Day Break

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## Pakistan Federal Budget

# Federal Budget FY26: Fiscal Prudence amidst IMF Oversight

- Minister of Finance presented budget for fiscal year 2025-26 on 10th of June, 2025 provided some insights into state of economic affairs.
- The budget for the fiscal year has a total outlay of PKR 17.57tn. The revenue target is set at PKR 14.13tn (+19%y/y), whereas non-tax revenues collection is budgeted at PKR 5.15tn (+5%y/y).
- Budget 2025-26 is likely to be positive for stock market with no major change in corporate tax rate, CGT rates and tax on dividend. Increase in tax rates on income from debt mutual funds may encourage more flows in equity market. Reduction in super tax for corporates earning between PKR 200-500mn may also positively impact mid-sized companies. Thus, we expect budget 2025-26 to be market positive. Pharmaceuticals, steel and cement sector are likely to have a positive impact while automobile assemblers are likely to witness a negative impact.

## Federal Budget 2025-26

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## Key budget numbers at a glance

The budget for the fiscal year has a total outlay of PKR 17.57tn. The revenue target is set at PKR 14.13tn (+19%y/y), whereas non-tax revenues collection is budgeted at PKR 5.15tn (+5%y/y).

On expenditure side, interest payments of PKR 8.21tn (down by 8%y/y) will take roughly 47% of the total budget outlay or ~58% of the tax revenues. In terms of development expenditure, the government has allocated PKR 1.29tn, with the federal PSDP (Public Sector Development Program) set at PKR 1.0tn.

Moreover, budget deficit for 2025 has been revised down to PKR 7.44tn against an initial estimate of PKR 8.50tn; reflecting a 12% variation.

For 2026, government projects a budget deficit of PKR 6.5tn or 5.0% of the GDP a decline of 13%y/y from previous year revised deficit.

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| Exhibit: Snapshot of Budget 2025-26 | | | |
|---|---|---|---|
| **in PKRbn** | FY25B | FY25R | FY26B |
| Tax Revenues | 12,970 | 11,900 | 14,131 |
| Direct tax | 5,512 | 5,826 | 6,902 |
| Indirect tax | 7,458 | 6,074 | 7,229 |
| Sales Tax | 4,919 | 3,984 | 4,753 |
| Custom Duties | 5,454 | 5,749 | 6,811 |
| Non-Tax Revenues | 1,591 | 1,316 | 1,588 |
| Petroleum levy | 4,845 | 4,902 | 5,147 |
| Gross Revenue | 1,281 | 1,161 | 1,468 |
| Provincial Share | 17,815 | 16,802 | 19,278 |
| **Net Revenue Receipts** | -7,438 | -6,997 | -8,206 |
| | | | |
| Current Expenditure | 17,203 | 16,390 | 16,286 |
| Interest Payments | 9,775 | 8,945 | 8,207 |
| Defense | 2,122 | 2,181 | 2,550 |
| Subsidies | 1,363 | 1,378 | 1,186 |
| Others | 3,943 | 3,885 | 4,343 |
| Development & Net Lending | 1,674 | 859 | 1,287 |
| | | | |
| **Total Expenditure** | **18,877** | **17,249** | **17,573** |
| | | | |
| Federal Budget Bal. | -8,500 | -7,444 | -6,501 |
| Provincial Surplus | 1,217 | 1,009 | 1,464 |
| **Overall Budget Bal.** | **-7,283** | **-6,435** | **-5,037** |
| ***%age of GDP*** | ***-5.87%*** | ***-5.61%*** | ***-3.89%*** |
| Primary Budget Bal. | 2,492 | 2,510 | 3,170 |
| *%age of GDP* | *2.01%* | *2.19%* | *2.45%* |

Source: Ministry of Finance, IGI Research

## Economic Outlook: GDP expected to grow by 4.2% in 2026

On the economic side of things, government projecting a GDP growth rate of 4.2% in 2026 from 2.68% achieved in 2025 (Pakistan Economic Survey 2025). The government is placing emphasis on the robust performance of the agriculture and industrial sector, targeting a growth rate of 4.5% and 4.3% respectively compared to the previous year's of 1.2% each. Services sector growth is expected at 4.5% in 2026. However, the government projects average inflation rate of 7.5% in 2026, up from 4.7% estimated in 2025.

On external front, imports are expected to reach US$ 65bn, representing a 11.5% increase from the estimated import bill of US$ 58.3bn in FY25 (based on 10MFY25 rolling estimates). Likewise, exports are estimated to grow at a pace of 6.8%, reaching US$ 35.0bn.

| Exhibit: Snapshot of Macroeconomic Projection | | |
|---|---|---|
| % | 2025R | 2026B |
| GDP Size (PKRtn) | 115 | 130 |
| GDP Growth | 2.68% | 4.20% |
| - Agriculture | 0.56% | 4.50% |
| - Industrial | 4.77% | 4.30% |
| - Services | 2.91% | 4.00% |
| Inflation | 4.7% | 7.5% |
| Exports (US$ bn)* | 27.3 | 35.0 |
| Imports (US$ bn)* | 48.6 | 65.0 |
| Trade balance (US$ bn)* | -21.3 | -30.0 |
| FBR Tax (% of GDP) | 10.38% | 10.91% |
| Overall Deficit (% of GDP) | -5.61% | -3.89% |
| Primary Deficit (% of GDP) | 2.19% | 2.45% |

Source: Ministry of Finance, PBS, IGI Research, *(July-to-April for FY25)

### Revenue: Tax Revenues to increase by 19%

The government aims to increase tax revenue by 19%y/y to PKR 14.13tn. With tax revenue target of PKR 14.13tn, tax-to-GDP target would increase by 0.5 percentage points to 10.9%, compared to the average of around 9.75% over the past five years.

Major contribution in tax revenues is expected to come from income tax, amounting to PKR 6.81tn (+18% y/y). Sales tax is projected to contribute PKR 4.75tn (+19% y/y), followed by custom duties of PKR 1.59tn (+21% y/y).

Non-tax revenue's contribution to gross revenue will drop by 2 percentage points to 27% from the previous year to PKR 5.15tn (+5%y/y), mainly due to a +26%/y increase in Petroleum Levy, amounting to PKR 1.47tn. It is worth noting that the collection of petroleum levy in 2024 amounted to PKR 1.16tn, declining by 9% against budgeted amount of PKR 1.28tn.

### Expenditure: Decline in Mark-up Payments and Subsidies to Restrict Overall Growth

The government has set a target for current expenditures at PKR 16.29tn, representing a slight decline of 1%y/y. A major portion of this expenditure, approximately 50%, will be allocated to servicing debt, which is expected to drop by 8%y/y to reach PKR 8.21tn. More importantly, debt servicing is estimated to decline to 50% of tax revenues, compared to 75% in 2025.

Under other expenditure categories, the defense budget is expected to increase by 17% y/y to PKR 2.55tn, while subsidies are projected to decline to PKR 1.19tn, down by 14%y/y, primarily due to lower subsidies for power sector and industries. Under grants and transfer, Benazir Income Support Program (BISP) has been increased to PKR 716bn compared to PKR 592bn in 2025.

In terms of development, the government has reduced the quantum of the Federal Public Sector Development Program (PSDP) to PKR 1.0tn, compared to last year's allocation of PKR 1.4tn. In terms of GDP, the proportion of PSDP is expected to dropped to 0.8%, down from 1.1% compared to previous year budgeted, well below historic average of ~1.9% during the period of 2020-2024.

## Another year of primary surplus

The Government is targeting yet another primary surplus of 2.4% of GDP, which is in line with IMF conditions and well above IMF projection of 1.6% of GDP. Higher primary surplus may be attributable PKR 5.15tn in non-tax revenues for FY26. Increased non-tax revenue is primarily driven by higher PDL target.

## A balanced Budget

Budget 2025-26 continues to reflect fiscal consolidation with restricted spending. Subsidies are projected to decline with limited growth in development spending. Budget also focuses on enhancing tax revenues through sales tax rationalization while keep relief measures under check. This should ensure higher tax-GDP ratio in FY26 and support in achieving 13% tax-GDP target in the medium term. However, some relief has been provided to low income segment while higher allocation has been budgeted under BISP. Overall decline in mark-up payments is likely to further contract fiscal deficit in FY26. Thus, it seems budget remain in line with IMF and should pave way for economic stability.

**Exhibit: Overall Budget Deficit to contract by 22% in 2026**

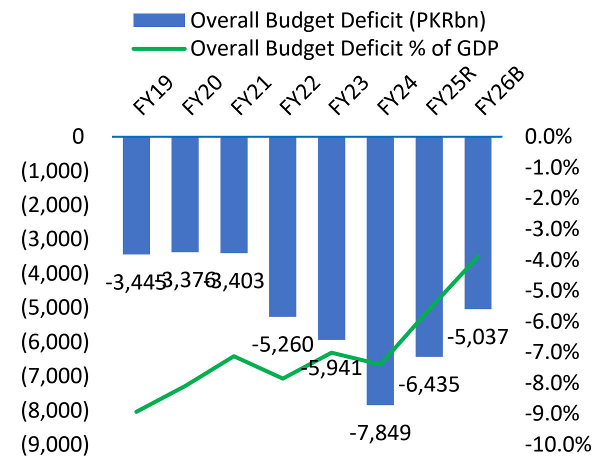



**Exhibit: FBR Revenues to grow by 19% in 2026**

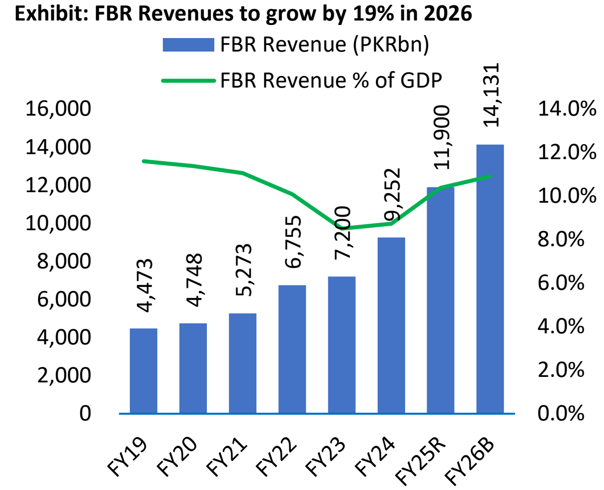



**Exhibit: Markup payments to contract by 8% in 2026**

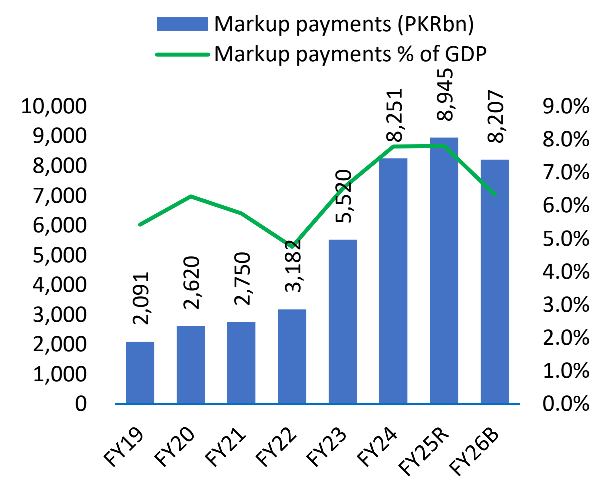



**Exhibit: Total Expenditure to inch up by 2% in 2026**

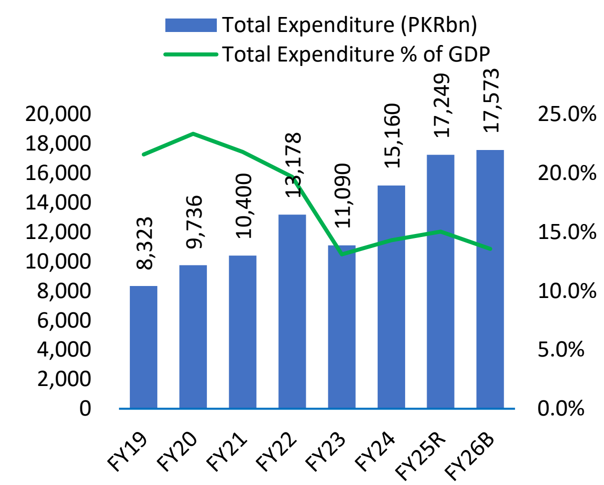



**Exhibit: Petroleum levy to increase to PKR 1.47tn in 2026**

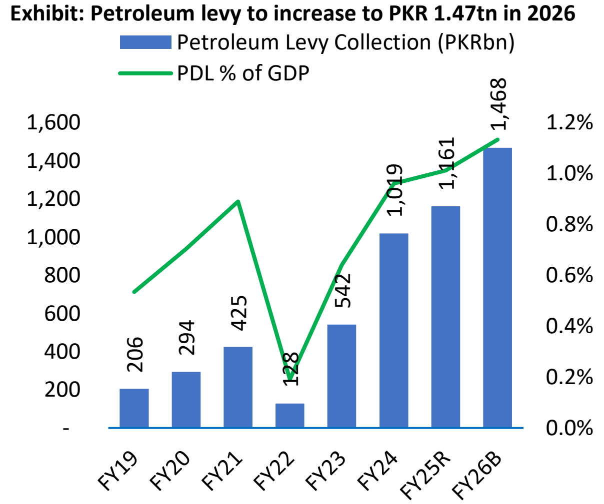
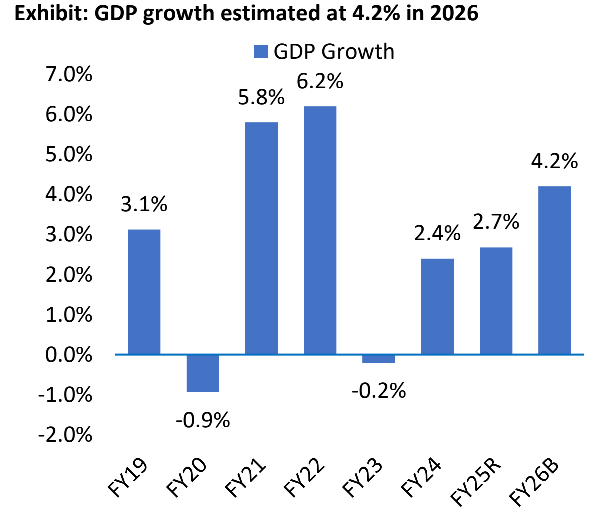



**Exhibit: GDP growth estimated at 4.2% in 2026**




Source: Ministry of Finance, PBS, IGI Research

| Exhibit: Pakistan Fiscal balance | | | | | | | |
|---|---|---|---|---|---|---|---|
| **in PKR bn** | 2020 | 2021 | 2022 | 2023 | 2024 | 2025R | 2026B |
| Total Revenue | 6,272 | 6,903 | 8,035 | 8,818 | 12,199 | 16,802 | 19,278 |
| Tax Revenues | 4,748 | 5,273 | 6,755 | 7,200 | 9,252 | 11,900 | 14,131 |
| Non-Tax Revenues | 1,524 | 1,631 | 1,280 | 1,618 | 2,947 | 4,902 | 5,147 |
| Current Expenditure | 8,532 | 9,084 | 11,521 | 10,528 | 14,232 | 16,390 | 16,286 |
| Interest Payments | 2,620 | 2,750 | 3,182 | 5,520 | 8,251 | 8,945 | 8,207 |
| Defense | 1,213 | 1,316 | 1,412 | 1,587 | 1,854 | 2,181 | 2,550 |
| Development Expenditure | 1,204 | 1,316 | 1,657 | 562 | 928 | 859 | 1,287 |
| Primary Deficit | -757 | -654 | -2,077 | (421) | 402 | 2,510 | 3,170 |
| Budget Deficit | -3,376 | -3,403 | -5,260 | -5,941 | -7,849 | -6,435 | -5,037 |
| **%age of gdp** | | | | | | | |
| Total Revenue | 15.03% | 14.47% | 12.00% | 10.42% | 11.50% | 14.65% | 14.88% |
| Tax Revenues | 11.38% | 11.05% | 10.09% | 8.50% | 8.72% | 10.38% | 10.91% |
| Non-Tax Revenues | 3.65% | 3.42% | 1.91% | 1.91% | 2.78% | 4.27% | 3.97% |
| Current Expenditure | 20.45% | 19.04% | 17.21% | 12.44% | 13.42% | 14.29% | 12.57% |
| Interest Payments | 6.28% | 5.76% | 4.75% | 6.52% | 7.78% | 7.80% | 6.33% |
| Defense | 2.91% | 2.76% | 2.11% | 1.87% | 1.75% | 1.90% | 1.97% |
| Development Expenditure | 2.89% | 2.76% | 2.47% | 0.66% | 0.88% | 0.75% | 0.99% |
| Primary Deficit | -1.81% | -1.37% | -3.10% | -0.50% | 0.38% | 2.19% | 2.45% |
| Budget Deficit | -8.09% | -7.13% | -7.86% | -7.02% | -7.40% | -5.61% | -3.89% |

Source: Ministry of Finance, IGI Research

# Key Features of Federal Budget 2026

## Income Tax Measures

**Revenue measures**

- Pension income received by an individual below the age of 70 years and over and above of PKR 10mn has been charged to tax at the flat rate of 5%. There will be 0% tax rate on pension income below PKR 10mn.
- Adjustable withholding tax rate on cash withdrawal on non-filers proposed to be increased from 0.6% to 0.8%.
- Tax rate on profit on debt has been proposed to be increased from 15% to 20%.
- The dividend tax rate has been enhanced to 25% & 15% on dividend from mutual funds.
- Cap of PKR 5mn under final tax has been proposed to be removed for Individuals and AoPs while for companies it will remain adjustable.

**Relief measures**

- Super tax rates reduced by 0.5% under each slab for income between PKR 200mn to PKR 500mn (which is progressive between the range of 2%-8%). Tax rate for income between PKR 150-200mn remains unchanged at 1% while rate for income exceeding PKR 500mn also remains unchanged at 10%.

**Exhibit: Super Tax rates on high earning individuals**

| S.No | Income | TY 2022 | TY 23, 24 & 25 | TY 26 and onwards |
|---|---|---|---|---|
| 1 | Upto PKR 150mn | 0% | 0% | 0% |
| 2 | PKR 150mn to PKR 200mn | 1% | 1% | 1% |
| 3 | PKR 200mn to PKR 250mn | 2% | 2% | 1.5% |
| 4 | PKR 250mn to PKR 300mn | 3% | 3% | 2.50% |
| 5 | PKR 300mn to PKR 350mn | 4% | 4% | 3.50% |
| 6 | PKR 350mn to PKR 400mn | 4% | 6% | 5.50% |
| 7 | PKR 400mn to PKR 500mn | 4% | 8% | 7.50% |
| 8 | Greater than PKR 500mn | 4% | 10% | 10% |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- Tax rates for salaried individuals earning up to PKR 3.2mn annually has been reduced. For Individuals earnings above PKR 3.2mn tax rates remain unchanged while fixed tax amount has been reduced. Surcharge rate of 10% has been reduced to 9% for salaried individuals only.

**Exhibit: Income tax rates for Salaried Individuals**

| Current Tax Slabs for Salaried Individuals | |
|---|---|
| Up to PKR 0.6mn | 0% |
| PKR 0.6mn to PKR 1.2mn | 5% above PKR 0.6mn |
| PKR 1.2mn to PKR 2.2mn | PKR 0.03mn + 15% above PKR 1.2mn |
| PKR 2.2mn to PKR 3.2mn | PKR 0.18mn + 25% above PKR 2.2mn |
| PKR 3.2mn to PKR 4.1mn | PKR 0.43mn + 30% above PKR 3.2mn |
| Greater than PKR 4.1mn | PKR 0.7mn + 35% above PKR 4.1mn |

**Revised - Tax Slabs for Income Individuals - As per finance bill 2025**

| Tax Slabs for Salaried Individuals | |
|---|---|
| Up to PKR 0.6mn | 0% |
| PKR 0.6mn to PKR 1.2mn | 1% above PKR 0.6mn |
| PKR 1.2mn to PKR 2.2mn | PKR 0.006mn + 11% above PKR 1.2mn |
| PKR 2.2mn to PKR 3.2mn | PKR 0.116mn + 23% above PKR 2.2mn |
| PKR 3.2mn to PKR 4.1mn | PKR 0.346mn + 30% above PKR 3.2mn |
| Greater than PKR 4.1mn | PKR 0.616mn + 35% above PKR 4.1mn |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- Income tax exemption for FATA/PATA region along with WHT exemption has been extended by 1 year to Jun-2026.

**Streamlining Measures**

- Purchases from unregistered persons will make the buyer liable, and 10% of the related expenditure will be disallowed as a deduction.
- If a vendor receives cash payment over PKR 200,000 for a single sale, 50% of the related purchase expenditure will be disallowed.
- Tax exemption on industries operating in Special Economic Zones and Special Technology Zones has been restricted to TY 2035 or expiry of 10 year exemption period, whichever is earlier.
- The carry-forward period for adjusting the minimum tax on turnover has been shortened from three years to two years.

**Procedural Measures:**

- All online marketplaces, payment intermediaries, and courier services must submit a statement to the Commissioner. This statement should include data about sellers who provide goods ordered online and services delivered digitally.
- Online marketplaces are required to register all sellers using their platform for e-commerce.

## Sales Tax Measures

**Revenue Measures:**

- Sales tax exemption on supplies, imports and imports of plant and machinery by industrial units in FATA/PATA region has been withdrawn. Sales tax exemption will be withdrawn gradually with 10% sales tax applicable in FY26, 12% in FY27, 14% in FY28 and 16% in FY29.
- Sales tax collection expanded to digital payments & COD; withholding rate raised from 1% to 2%.
- Third Schedule expansion: Retail-level taxation introduced on imported chocolates, coffee, pet food, cereal bars.
- 18% GST to be applicable on Imported Solar panels.
- Reduced rates (12.5%) on small cars (upto 850cc) and 10% on certain food items (vermicillies, sheer mall) is withdrawn.
- GST on hybrid vehicles increased from 8.5% to 18%.

**Relief Measures**

- FATA/PATA consumers granted 1 more year of electricity tax exemption till 30-Jun-2026

- Exemption proposed for bun and rusk as relief for lower-income groups, which was currently being charged 10% GST.
- "Personal use only" restriction removed for importing medicines like *Cystagon, Cysta Drops, Trientine*—aimed at easing access for patients

**Streamlining Measures:**

- Cargo tracking system Introduced for real-time monitoring of goods; supports e-bilty enforcement
- Anti-tax fraud measures include clear legal definition of "abettor"; harsher penalties; separation of civil vs. criminal liability.
- Legal provisions for freezing bank accounts, seizing property, sealing business premises for unregistered persons
- FBR to limit input tax adjustments to control fraud, with an appeal mechanism.
- FBR empowered to hire up to 2000 auditors and experts for tax compliance functions
- Appeals before CIR (Appeals) no longer limited to cases below Rs. 10 million; all major sections now appealable. Option to directly approach ATIR also introduced.
- Time limit for condonation now capped at 2 years; can be extended further only in high-revenue-loss cases via committee.

## Custom Duty measures

**National Tariff Policy 2025-30**

- Abolishment of Additional Customs Duty over 4 years.
- Abolishment of Regulatory Duties over 4 years.
- 5th schedule of Customs Act 1969 to be abolished in 5 years.
- Customs duty slabs reduced to 0%, 5%, 10% and 15%.

**Relief Measures**

- Existing tariff slabs of 3%, 11% and 16% have been abolished which has been replaced by the introduction of new slabs of 5%, 10% and 15%.
- 0% customs duty applicable on a total of 381 Active Pharmaceutical Ingredients (APIs).
- 0% tariff slab extended to further PCT 916 PCT codes from previously applicable on 2,201 tariff lines.
- CD reduced on goods falling under 2,624 PCT codes.
- Reduction in ACD from 2% to 0% on 4,383 tariff lines falling under tariff slabs of 0%, 5% and 10%, except 95 tariff lines still chargeable to ACD at 2%.

- Reduction in ACD from 4% to 2% on 518 tariff lines under 15% tariff slab.
- Reduction in ACD from 6% to 4% on 2,166 tariff lines under 20% tariff slab.
- Reduction in ACD from 7% to 6% on 468 tariff lines under 20% or above tariff slab.
- Regulatory duty (RD) on goods falling under 554 PCT codes removed.
- Rate of RD reduced on goods falling under 595 PCT Codes.
- Maximum rate of RD reduced from 90% to 50%.

## FED Measures

**Key Relief Measures:**

- Federal Excise duty on the allotment and transfer of residential and commercial plots in proposed to be withdrawn.

## Other Measures

**Restriction on economic transaction for certain persons:**

- Ineligible persons are restricted from purchasing or registering motor vehicles, transferring high-value immovable property, investing in securities, or operating certain bank accounts.
- Banks cannot open or maintain current, savings, or investor accounts for ineligible persons (except Asaan or Pensioner Accounts), and may limit their cash withdrawals.
- Exceptions apply for:
  - Purchase of rickshaws, motorcycles, and tractors
  - Pick-up vehicles with engine capacity up to 800cc
  - Trucks, buses, and other vehicles as notified
  - Investments in securities within notified limits
- Eligible persons include those who have filed income tax returns for the previous year and have declared sufficient resources for the transaction.
- Immediate family members (parents, spouse, and dependent children) of eligible individuals are also considered eligible.
- Sufficient resources refer to assets amounting to at least 130% of the transaction value, as declared in tax or financial statements.
- A sources of investment and expenditure statement must be submitted online to declare the origin of funds for the transaction.

**Income tax measures for e-commerce vendors**

- A tax shall be imposed on any person receiving payment for the supply of digitally ordered goods or services delivered within Pakistan through locally operated online platforms, including marketplaces or websites.
- Digital payment processors must collect tax when processing payments for sellers of online goods or services through local e-commerce platforms.
- Courier companies collecting cash on delivery for online orders must also collect tax on behalf of the seller.
- The tax is collected on the total amount payable (including any sales tax) and must be deposited with the government as per below tables:

**Exhibit: Tax rates on supply of goods via digital means**

| S. No. | Description | Tax Rates |
|---|---|---|
| 1 | Amount > PKR 10,000/- | 1% of the gross amount paid |
| 2 | PKR 10,000/- < Amount < PKR 20,000/- | 2% of the gross amount paid |
| 3 | Amount > PKR 20,000/- | 0.25% of the gross amount paid |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

**Exhibit: Tax rates on Cash on Delivery by Courier Services**

| S. No. | Description | Tax Rates |
|---|---|---|
| 1 | On supply of electronic and electrical goods | 0.25% of the gross amount paid |
| 2 | On supply of clothing articles, apparels, garments, and etc. | 2% of the gross amount paid |
| 3 | On supply of goods other than mentioned in (1) and (2) | 1% of the gross amount paid |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- Payment intermediaries and courier services that deduct tax on digital sales must submit quarterly reports to the tax authorities.
- These reports must include the seller's name, ID (NTN/CNIC), address, transaction details, total value, and the tax deducted.
- Online marketplaces must file monthly statements showing each vendor's details, sales tax and income tax registration numbers, total sales for the month, and the amount paid to their bank accounts.
- Online marketplaces must ensure that any unregistered vendor, local or foreign, gets registered for tax purposes before using the platform to sell goods or services.

- In case of non-compliance following penalties would be applicable:

| Exhibit: Penalty on non-compliance of E-commerce taxation | | |
|---|---|---|
| S. No. | Non-Compliance | Penalty |
| 1 | Online marketplaces must allow only tax-registered vendors to sell through their platforms. | PKR 500,000 for first default; PKR 1,000,000 for each repeat offense. |
| 2 | If a bank, payment gateway, or courier fails to deduct or pay tax on digital sales, penalties apply. | Penalty equals 100% of the tax amount involved. |
| 3 | Seller required to register for sales and income tax but fails to do so. | PKR 500,000 for first default; PKR 1,000,000 for each repeat offense. |
| Source: Income Tax Ordinance, Finance Bill 2025, IGI Research | | |

**Changes in advance tax rate on immoveable properties:**

- Advance tax on sale or transfer of immovable property for filers has also been revised as per the following table:

| | Exhibit: Advance tax on sale or transfer of immovable property - Filers | | |
|---|---|---|---|
| S. No | Gross amount of consideration | Proposed Rate | Current Rate |
| 1 | Less than PKR 50 Million | 4.5% | 3.0% |
| 2 | Greater than PKR 50 Million and Less than 100 Million | 5.0% | 3.5% |
| 3 | Greater than PKR 100 Million | 5.5% | 4.0% |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- Advance tax on purchase of immovable property has also been revised as per the following table:

| | Exhibit: Advance tax on purchase of immovable property | | |
|---|---|---|---|
| S. No | FMV of Immovable Property | Proposed Rate | Current Rate |
| 1 | FMV < PKR 50 Million | 1.5% | 3.0% |
| 2 | PKR 50 Million<FMV<PKR 100 Million | 2.0% | 3.5% |
| 3 | FMV>PKR 100 Million | 3.0% | 4.0% |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- Advance tax rates on purchase of immovable property for non-filers has been revised as per the following table:

| | Exhibit: Advance tax on purchase of immovable property - Non-Filers | | |
|---|---|---|---|
| S. No. | FMV of Immovable Property | Proposed Rates | Current Rate |
| 1 | FMV< 50 Million | 10.5% | 12% |
| 2 | PKR 50 Million<FMV<PKR 100 Million | 14.5% | 16% |
| 3 | FMV>PKR 100 Million | 18.5% | 20% |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- The property tax rate for non-filers on the sale or transfer of immovable property has increased to 11.5%, up from the previous 10%.
- Advance tax rates on sale or transfer of immovable property for late filers has also been revised as per the following table:

| | Exhibit: Rate of advance tax on the sale or transfer of immovable property - Late filers | | |
|---|---|---|---|
| S. No | Gross amount of consideration | Proposed Rate | Current Rate |
| 1 | Less than PKR 50 Million | 7.5% | 6% |
| 2 | Greater than PKR 50 Million and Less than 100 Million | 8.5% | 7% |
| 3 | Greater than PKR 100 Million | 9.5% | 8% |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- The advance tax rates on purchase of immovable property by late filers have also been revised as per the following table:

| | Exhibit: Rate of advance tax on purchase of immovable property - Late filers | | |
|---|---|---|---|
| S. No. | FMV | Proposed Rate | Current Rate |
| 1 | FMV < PKR 50 Million | 4.5% | 6% |
| 2 | PKR 50 Million<FMV<PKR 100 Million | 5.5% | 7% |
| 3 | FMV>PKR 100 Million | 6.5% | 8% |

Source: Income Tax Ordinance, Finance Bill 2025, IGI Research

- Banks and custodians maintaining Investors Portfolio Securities (IPS) account must deduct tax on capital gains arising disposal of debt securities (including debt securities) and deposit with the Government.
- Carbon levy of PKR 2.5/ltr has been proposed on Motor Spirit, High Speed Diesel and Furnace Oil for FY26 which will be enhanced to PKR 5/ltr for FY27 while Petroleum Levy will now be charged on Furnace Oil on rates determined by the Federal Government.
- 7% excise duty on Commercial construction has been removed.
- It has been proposed to reduce Stamp duty from 4% to 1% for Federal.
- Tax credit to be available under Mortgage Financing Policy with tax credits for houses up to 250sq yds and flats up to 2,000sq. ft.
- Rental income from commercial property to be taxed at flat 4% of the fair market value.
- Salaries of Government employees to be increased 10%.
- Increase of 10% in pension of government employees.

## Budget likely to be positive for Market

Budget 2025-26 is likely to be positive for stock market with no major change in corporate tax rate, CGT rates and tax on dividend. Increase in tax rates on income from debt mutual funds may encourage more flows in equity market. Reduction in super tax for corporates earning between PKR 200-500mn may also positively impact mid-sized companies. However, restriction on ineligible person may restrict market activity as we await final approval of this clause and further details on implementation. Nevertheless, proposed budget continues to reflect fiscal discipline under IMF program with restricted spending, lower subsidies while providing relief to low income segment. Thus, we expect budget 2025-26 to be market positive. Pharmaceuticals, steel and cement sector are likely to have a positive impact while automobile assemblers are likely to witness a negative impact.

| **Market and Corporate Earnings** | | **Positive** |
|---|---|---|
| **Budgetary Measures** | **Comments** | **Impact** |
| No change in tax rates on capital gains and dividends | There has been no change in capital gains tax and tax on dividend income, which is likely to be positive for the market. | Neutral |
| Increase in tax on debt mutual funds | Tax on income from debt mutual funds has been increased from 15% to 25% while equity funds remain unchanged at 15%. This should encourage flows towards equity market. | Positive |
| Reduction in super tax on income below PKR 500mn | Super tax rates have been reduced by 0.5% for each slab for companies earning between PKR 200-500mn. For above PKR 500mn rate remains unchanged at 10%. This is likely to bode well for mid-sized companies. | Positive |
| Restriction on ineligible person | Ineligible person may not be able to sell or buy securities over and above his declared assets in preceding years wealth statement. This may limit market activity, however, we await further clarity on this clause and its implementation. | Neutral-Negative |

Below is a summary of budgetary impacts of sectors listed on stock market.

| **Sectors** | **Budget Impact** |
|---|---|
| Pharmaceuticals | Positive |
| Steel | Positive |
| Cements | Positive |
| IT & Communication | Neutral |
| Power | Neutral |
| E&P and O&GMCs | Neutral |
| Chemicals | Neutral |
| Fertilizer | Neutral |
| Textile | Neutral |
| Banks | Neutral-Negative |
| Autos | Negative |

| Fertilizer | | Neutral |
| --- | --- | --- |
| **Budgetary Measures** | **Comments** | **Impact** |
| No change in FED on fertilizer and pesticides | There has been no change proposed in FED on fertilizer or pesticides. | Neutral |
| 1% reduction in sales tax on imported tractors | This will likely provide access to better quality machinery for farmers. | Neutral |

| Automobile Assemblers | | Negative |
| --- | --- | --- |
| **Budgetary Measures** | **Comments** | **Impact** |
| NEV adoption levy | The Government has proposed to impose a new Energy Vehicle Adoption Levy in the range of 1-3%, 1% for motor vehicles manufactured or imported below 1300cc, 2% for motor vehicles manufactured or imported between 1300cc-1800cc and 3% on motor vehicles manufactured or imported above 1800cc. Moreover, buses and trucks manufactured or imported will be subject to 1% rate of levy. This is likely to raise prices of cars and negatively impact demand. | Negative |
| Standard 18% GST on Hybrid and cars below 850cc | 18% standard GST rate will be applicable of on cars 850cc and hybrid vehicles, which were currently being taxed at 12.5% and 8.5%. This will most likely lead to increase in prices and negatively impact demand. | Negative |
| Restriction on purchase of vehicle above 850cc | Restriction on non filers and ineligible person on purchase of motor vehicles above 850cc would negatively impact demand. | Negative |

| Cements | | Positive |
| --- | --- | --- |
| **Budgetary Measures** | **Comments** | **Impact** |
| PKR 10bn subsidy for housing | The Government has proposed PKR 5bn mark-up subsidy for low cost housing and PKR 5bn for housing subsidy, which is likely to benefit boost demand for cement sector. | Positive |
| Tax Credit for low cost housing | Proposed tax credit for on loan obtained for construction and purchase of house up to 250sq yds and flat up to 2,000sq ft, which is likely to boost construction activity and demand for cement. | Positive |
| Higher development expenditure to drive cement demand | Allocation kept at Rs 4.2tr, 3.2% of GDP hence higher PSDP allocation and disbursement will be positive for cement demand in FY26 | Positive |
| Carbon levy and PDL on Furnace oil | Imposition of carbon levy of PKR 2.5/ltr and Petroleum levy on Furnace oil may likely impact margins of cement companies. | Neutral-Negative |

| Steel | | Positive |
| --- | --- | --- |
| **Budgetary Measures** | **Comments** | **Impact** |
| Sales tax exemption for FATA/PATA withdrawn | FATA/PATA region will be removed in a phased manner. Government has proposed a phase wise application of 10%, 12%, 14%, and 16% for FY26/27/28/29 Respectively. The FATA/PATA region, with an estimated capacity of around 1 million tons, contributes roughly 20% to the steel demand in the North. Eliminating tax exemptions in this region would significantly benefit all listed steel companies | Positive |
| PSDP allocation for Water and Power projects | A total of Rs133 billion from the PSDP has been earmarked for water-related projects, with allocations of Rs32.7 billion for Diamer Bhasha Dam, Rs35.7 billion for Mohmand Dam, and Rs3.2 billion for the Karachi Bulk Water Supply (K-IV) project. Increased investment in dam construction is expected to boost demand for long steel, | Positive |

| Oil & Gas (OMCs & E&Ps) | | Neutral |
|---|---|---|
| **Budgetary Measures** | **Comments** | **Impact** |
| Carbon Levy of PKR 2.5/ltr on MS, HSD and FO | The Government has proposed to charge PKR 2.5/ltr carbon levy on MS, HSD and FO for FY26 which will further increase to PKR 5/ltr in FY27. Petroleum levy will be applicable separately at rates determined by Federal Government. This will likely be neutral for OMCs as increase in prices would be marginal. | Neutral |

| Power | | Neutral |
|---|---|---|
| **Budgetary Measures** | **Comments** | **Impact** |
| DSS surcharge ceiling removed | The Government has proposed removing 10% DSS ceiling in electricity bills to tackle circular debt. This is will imposed to recover the amount to interest payment and principal debt. | Neutral - Positive |
| Power subsidy to drop to PKR 1.04tn | The Govt. has proposed to reduce the power subsidies from PKR 1.19tn to PKR 1.04tn. | Neutral |
| Amount for circular debt | The Government has allocated PKR 95bn for payments to IPPs in FY26 Budget to address pending circular debt. This should improve cash position within the sector. | Positive |

| Technology & Communication | | Neutral |
|---|---|---|
| **Budgetary Measures** | **Comments** | **Impact** |
| Higher taxation on Online/E-Commerce and Digital Presence Proceeds Tax Act 2025 | The Digital Presence Proceeds Tax Act 2025 introduces a 5% tax on digital sales by foreign entities. Withholding tax on local e-commerce has doubled to 2%, and 18% GST is now applicable. This should boost government revenue but has a neutral impact on listed IT firms. | Neutral |
| 5% tax on services including social media advertisement | A 5% tax is proposed on services, including social media ads by foreign entities. This may raise costs for local IT firms handling such payments | Neutral - Negative |
| Rebate/Subsidy on Exports of Mobile Phones | No rebates or subsidies have been announced for mobile phone exports, which, though expected, remains a neutral-to-negative signal for the sector. | Neutral - Negative |

| Textile | | Neutral |
|---|---|---|
| **Budgetary Measures** | **Comments** | **Impact** |
| The import of textile machinery and equipment is taxed at 0%. | This measure will eliminate duties, creating efficient import of machinery for the textile players | Positive |
| "National Tariff Policy 2025-30: A Five-Year Roadmap to Slash Import Duties and Boost Exports" | This will reduce pressure on raw material costs, leading to improved profit margins | Positive |

| Banking | | Neutral - Negative |
|---|---|---|
| **Budgetary Measures** | **Comments** | **Impact** |
| Tax rate on profit from debt increased to 20% from 15% | Increase in tax rate from 15% to 20% on profit from debt (excluding small investor) is likely to impact deposit, leading to shift towards National Savings. | Neutral – Negative |
| WHT on cash withdrawals exceeding PKR 50,000 | WHT tax rate on cash withdrawals exceeding PKR 50,000 to be increased to 0.8% from 0.6%. This will lead to increase in currency in circulation and decline in banking transactions. | Neutral - Negative |
| 5% tax on digital payments | Banks and financial institutions to deduct 5% tax on digital payments to foreign suppliers for goods/services consumed in Pakistan. | Neutral |

| Pharmaceuticals | | Positive |
|---|---|---|
| **Budgetary Measures** | **Comments** | **Impact** |
| Custom duty on 381 items abolished | Custom duty on Active Pharmaceutical Ingredients (API) on 381 items has been abolished which is likely to improve margins for Pharma sector. | Positive |

| Other Sector | | |
|---|---|---|
| **Sector** | **Comments** | **Impact** |
| Real Estate | FED on allotment or transfer of commercial or residential plots is proposed to be abolished. | Positive |
| | Rental income from commercial property to be taxed at flat 4% of fair market value unless actual rent is justified through evidence. | Negative |
| | Restriction on ineligible person on registering, transfer or recording of immoveable property above a certain aggregated amount notified by Federal Government. | Negative |
| Tobacco | FED maintained on tobacco. | Neutral |
| | Improved implementation of track and trace system to protect local formal tobacco industry is likely to benefit local companies. | Neutral - Positive |
| Food | Sales tax exemption on buns and rusk from current 10% would benefit BNL. | Positive |
| Others | It is proposed to grant exemption of sales tax for payments on import or lease of aircrafts in order to facilitate privatization of Pakistan International Airlines. | Positive |

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