

# **Budget Proposal**

# **Financial Year**

# **2026-2027**



**15<sup>th</sup> May, 2025**

**Korangi Association of Trade & Industry**

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## Foreword by the President, KATI

The Korangi Association of Trade & Industry (KATI) represents one of Pakistan's most important industrial clusters and continues to serve as a constructive bridge between the private sector and the policy-making institutions of the Federation. The Federal Budget 2026-2027 arrives at a sensitive stage: macroeconomic stability has improved, but industry continues to face high input costs, liquidity stress, compliance burden, refund delays, uncertainty in taxation, and weak export competitiveness.

This document places before the Federal Government a set of practical, evidence-led and legally implementable proposals. The objective is not to seek concessions without responsibility. The objective is to support a fiscal framework that broadens the tax base, protects documented taxpayers, improves revenue collection through fairness and technology, strengthens exports, promotes investment and reduces the cost of doing business.

KATI acknowledges the Government's efforts in fiscal consolidation, IMF programme continuity, external account management, tax administration reforms and governance reforms. At the same time, industrial recovery cannot be sustained by enforcement alone. A growth budget must be designed around productive capacity, export orientation, predictable regulation, fair taxation and faster dispute resolution.

I appreciate the work of the Standing Committee on Policy, Research & Advisory on Budget & Taxation for compiling these proposals with professional diligence. It is submitted that the Ministry of Finance, Federal Board of Revenue and all relevant authorities may consider these recommendations during the preparation of the Federal Budget 2026-2027.

**Mr. Muhammad Ikram Rajput**

**President**

*Korangi Association of Trade & Industry*



## **Message by the Chairman, Standing Committee**

The Federal Budget 2026-2027 should not be treated merely as an annual revenue exercise. It must be a policy instrument for industrial revival, export growth, documentation, administrative fairness and investor confidence. The documents reviewed for this submission show a clear policy direction: fiscal consolidation, a primary surplus, expanded digitization, improved tax administration, governance reform, energy sector adjustment and IMF-linked structural benchmarks. The concern of industry is that this direction must be implemented without suffocating compliant taxpayers and exporters.

The proposals in this document are prepared on three working assumptions. First, Pakistan requires revenue and cannot afford fiscal indiscipline. Second, documented industry cannot remain the easiest target for repeated taxation while informal sectors remain under-taxed. Third, policy credibility is now as important as tax rates; investors need stability, time-bound refunds, predictable audit selection, enforceable rulings and clear implementation rules.

The recommendations therefore balance revenue protection with industrial facilitation. They propose reform of the Final Tax Regime for exporters, rationalization of corporate and super tax burden, a predictable GST roadmap, e-invoicing transition safeguards, customs facilitation, protection of Export Processing Zone viability, faster refunds, digital dispute resolution, and a formalization package for the wholesale and retail sectors. The aim is to place KATI's independent and professional position before policymakers, supported by the data and policy materials reviewed.

It is submitted that a sustainable tax system must be fair, broad-based, digital, predictable and facilitative. The Federal Budget 2026-2027 may kindly be framed in that spirit.

### **Razi Ahsan**

Chairman

*Standing Committee on Policy, Research & Advisory on Budget & Taxation*

*Korangi Association of Trade & Industry*

## Executive Summary

Pakistan enters the Federal Budget 2026-2027 with visible improvement in stability indicators but with continuing risks to industrial competitiveness. The Government and SBP documents reviewed for this submission show that fiscal consolidation has improved, the external account has benefited from remittances and IT exports, Large-Scale Manufacturing has recovered, and foreign-exchange buffers have strengthened. However, the same material also records rising inflation risk, elevated energy and freight costs, geopolitical uncertainty, high compliance burden and the need for structural reforms.

### Macroeconomic Snapshot

The Ministry of Finance's April 2026 Monthly Economic Update reports that Large-Scale Manufacturing grew by 5.9 percent during July-February FY2026 against a contraction of 1.8 percent last year. The same update records a current account surplus of US\$ 1.1 billion in March 2026, an aggregate surplus of US\$ 8 million during July-March FY2026, workers' remittances of US\$ 30.3 billion, goods and services exports of US\$ 30.6 billion against imports of US\$ 56.3 billion, and total foreign-exchange reserves of US\$ 20.6 billion as of 17 April 2026.

The State Bank's Monetary Policy Statement dated 27 April 2026 raised the policy rate by 100 basis points to 11.50 percent with effect from 28 April 2026, citing intensified risks from the Middle East conflict, higher global energy prices, freight charges, insurance premiums, supply-chain disruption and likely inflationary pressure. The same statement recorded CPI inflation at 7.3 percent in March 2026, core inflation at 7.8 percent, real GDP growth of 3.8 percent in H1-FY26 and SBP reserves of approximately US\$ 15.8 billion as of 24 April 2026.

The Budget Strategy Paper FY2025-26 to FY2027-28 frames the fiscal path around consolidation, tax policy reforms, digitisation, broader base, privatisation, export reorientation, correction of energy-sector imbalances and targeted welfare. It projects FBR revenue to rise from Rs. 14,131 billion in FY2025-26 to Rs. 16,078 billion in FY2026-27 and Rs. 17,974 billion by FY2027-28. The overall fiscal deficit is projected to narrow from 3.9 percent of GDP in FY2025-26 to 3.5 percent in FY2026-27 and 2.9 percent in FY2027-28.

### Federal Tax Revenue Trajectory - FBR Collections & MTBSP Projections

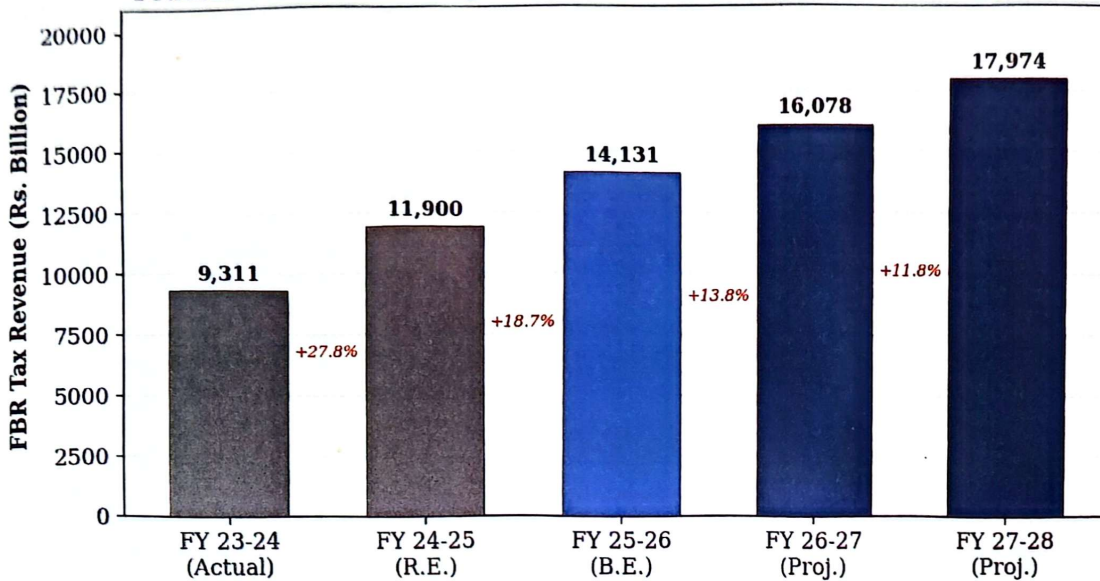


Figure 1: FBR Tax Revenue Trajectory – Actual collections and MTBSP projections (Rs. Billion)

### KATI's Six-Pillar Framework

KATI therefore submits that the Federal Budget 2026-2027 should not increase revenue merely by adding burden on the already documented sector. The budget should create a credible transition from enforcement-led revenue to growth-led revenue. For this purpose, the proposals are structured around six pillars: tax simplification, export competitiveness, refund liquidity, customs and import facilitation, energy cost rationalisation, and governance reforms based on transparency and accountability.

#### KATI Six-Pillar Framework for Federal Budget 2026-2027

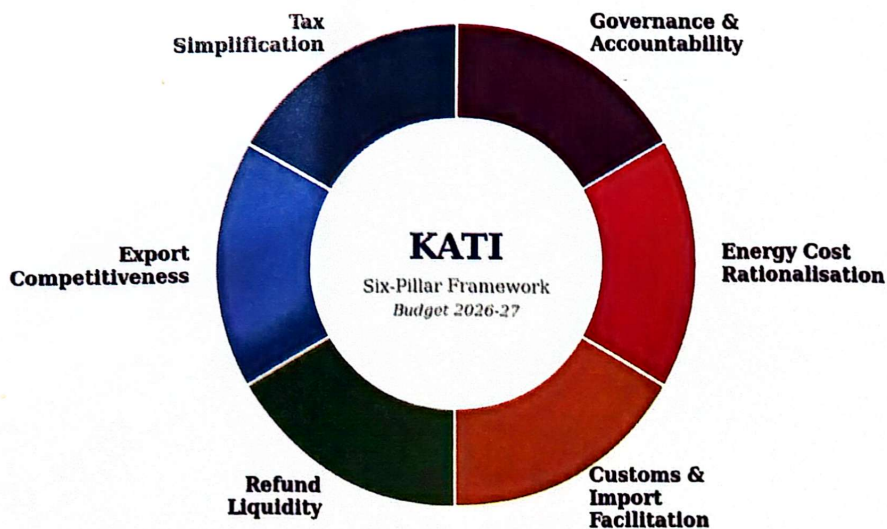


Figure 2: KATI Six-Pillar Framework for Federal Budget 2026-2027

Table 1: Summary of KATI's Core Recommendations

Area	Core KATI Proposal	Expected Policy Result
Income Tax	Reduce corporate tax burden over a phased roadmap; rationalise super tax; protect exporters through a clear final/optional regime.	Investment, liquidity and predictable compliance.
Sales Tax	Publish a GST roadmap from 18 percent toward 15 percent; remove distortions; ensure fast refunds and proper e-invoicing safeguards.	Lower cost of documentation and improved neutrality of VAT.
Customs / Imports	Rationalise duties on industrial raw materials, spare parts, energy-efficiency machinery and export inputs.	Lower production cost and stronger export competitiveness.
Exports	Restore predictability for goods exporters, ensure time-bound refunds, improve Export Facilitation Scheme and preserve EPZ viability.	Foreign-exchange growth, employment and investor confidence.
Administration	Move to risk-based audits, published audit policy, automated ADR, taxpayer charter and accountability of refund delays.	Higher trust and better revenue compliance.
Documentation	Bring wholesale/retail and cash economy into simplified formalisation without penalising documented industry.	Broader tax base and fair competition.

# **SECTION - A**

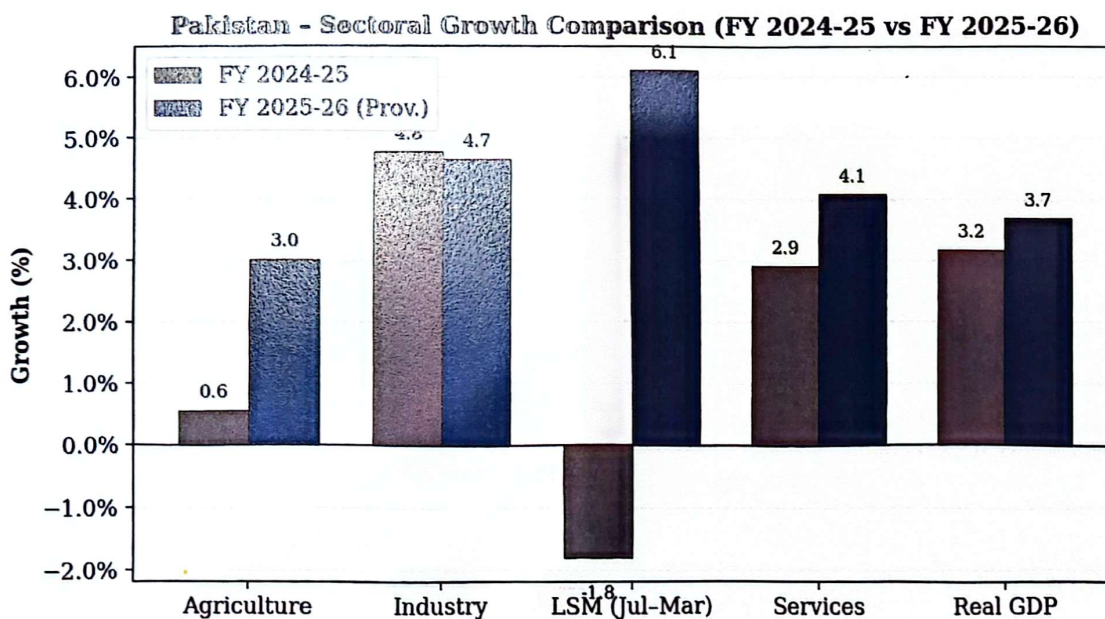
## **Economic Context & Budget Setting for FY 2026-27**

## A.1 Macroeconomic Position

The economic setting for the Federal Budget 2026-2027 is materially different from the environment in which the previous two budgets were prepared. Stabilisation indicators have improved, but the recovery remains cost-sensitive. Industrial policy must therefore avoid measures that increase working-capital blockage, uncertainty or cost of compliance for productive units.

KATI's position is that fiscal consolidation and industrial revival must proceed together. A budget that satisfies headline targets but weakens factories, exporters, SMEs and documented employers will not produce durable revenue. Conversely, a budget that facilitates production, exports and documentation will expand the tax base and reduce dependence on ad hoc measures.

Pakistan's economy enters the closing quarter of FY 2025-26 on a materially stronger footing than at the corresponding point of FY 2024-25, but the recovery remains uneven and exposed to external shocks. Macroeconomic stability has been re-established across four critical axes: (i) fiscal — a primary surplus of 3.3 percent of GDP and a near-balanced overall position; (ii) external — three consecutive monthly current-account surpluses and reserves of USD 20.6 billion; (iii) monetary — inflation at 7.3 percent YoY (March 2026) within the annual target; and (iv) real sector — Large-Scale Manufacturing growth of 5.9 percent in July-February FY 2026, reversing last year's 1.8 percent contraction.



*Figure 3: Pakistan – Sectoral Growth Comparison (FY 2024-25 vs FY 2025-26)*

Concurrently, three downside vectors demand explicit policy attention in Budget 2026-27: (a) the goods trade deficit has widened to USD 25.7 billion as imports rebound faster than exports; (b) the policy rate at 11.50 percent (effective 28 April 2026) keeps the cost of working capital and CAPEX elevated for industry; and (c) the Middle East conflict is feeding cost-push inflationary pressure, with the Finance Division itself projecting headline CPI to climb into the 8.0 – 9.0 percent range in April 2026. Against this backdrop, the budget must safeguard the hard-won stability without choking the manufacturing momentum that is finally taking hold.

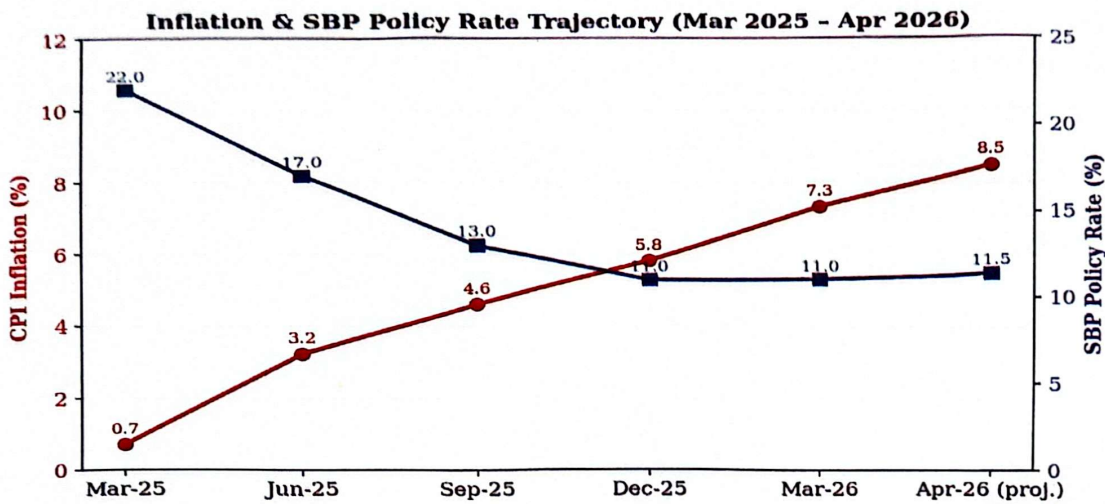


Figure 4: Inflation and SBP Policy Rate Trajectory (March 2025 – April 2026)

## A.2 Key Indicators from Reviewed Official Documents

Table 2: Key Macroeconomic Indicators and their Implications for Budget 2026-27

Indicator	Latest Position (Reviewed Documents)	Policy Meaning for Budget 2026-2027
Policy rate	11.50 percent with effect from 28 April 2026 after 100 bps increase by SBP.	Budget measures must not further increase financing cost or working-capital lock-up.
Inflation	CPI inflation 7.3 percent in March 2026; core inflation 7.8 percent; April 2026 outlook 8.0–9.0 percent.	Avoid fresh cost-push taxation on energy, freight, raw materials and industrial inputs.
GDP / industrial activity	Real GDP growth 3.8 percent in H1-FY26; LSM growth 5.9 percent during Jul-Feb FY2026.	Industrial recovery exists but remains vulnerable to energy and import-cost shocks.
External account	Current account surplus of US\$ 1.1 billion in March 2026; Jul-Mar FY2026 aggregate surplus of US\$ 8 million.	Exports and remittances are supporting stability; export incentives should be protected.
Trade	Goods and services exports US\$ 30.6 billion; imports US\$ 56.3 billion; trade deficit US\$ 25.7 billion during Jul-Mar FY2026.	Import rationalisation should distinguish productive imports from non-essential consumption.
Remittances	Workers' remittances US\$ 30.3 billion during Jul-Mar FY2026, up 8.2 percent year-on-year.	Formal channels matter; similar formalisation should be designed for trade and retail.
FBR collection	FBR tax collection Rs. 9,305.9 billion during Jul-Mar FY2026, up 10.1 percent.	Revenue improvement should shift from rate increases to base expansion and compliance.
Foreign-exchange reserves	Total reserves US\$ 20.6 billion as of 17 April 2026; SBP reserves around US\$ 15.1 billion.	Improved reserves provide space for export-oriented facilitation and predictable imports.
MTFF projection	FBR revenue projected at Rs. 16,078 billion for FY2026-27 and Rs. 17,974 billion for FY2027-28.	Ambitious revenue targets require broadening the base, not repeated taxation of compliant taxpayers.

Sources: Ministry of Finance, *Monthly Economic Update & Outlook*, April 2026; State Bank of Pakistan, *Monetary Policy Statement*, 27 April 2026; Ministry of Finance, *Medium-Term Budget Strategy Paper FY2025-26 to FY2027-28*.

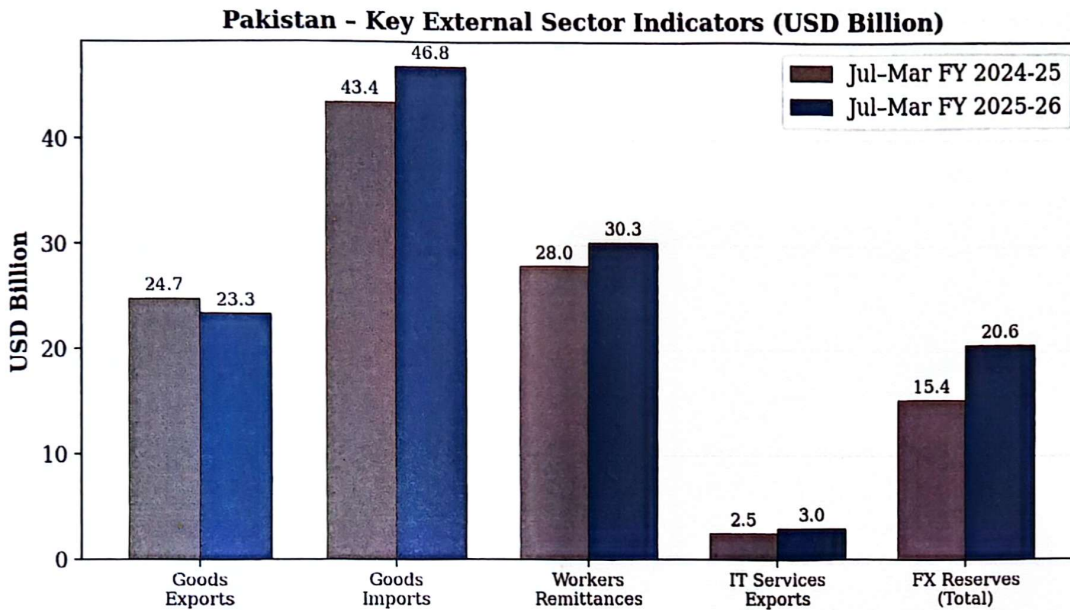


Figure 5: Pakistan – Key External Sector Indicators (USD Billion, Jul-Mar Comparison)

### A.3 Fiscal Consolidation and the Need for a Growth-Compatible Budget

The Medium-Term Budget Strategy Paper is anchored in fiscal discipline, right-sizing, privatisation, export reorientation, optimal revenue mobilisation, correction of energy-sector imbalances and targeted welfare. KATI supports the principle of fiscal responsibility. However, the business community submits that consolidation must be growth-compatible. Where tax policy is built around excessive withholding, minimum taxes, blocked input tax and repeated surcharges, it discourages documentation and investment.

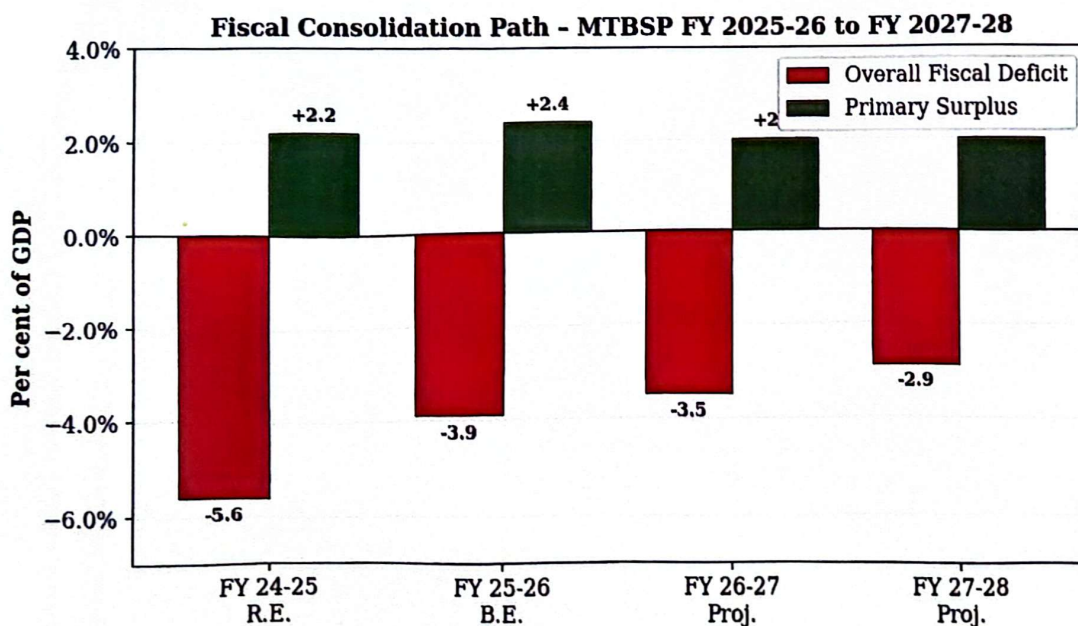


Figure 6: Fiscal Consolidation Path – MTBSP FY 2025-26 to FY 2027-28 (% of GDP)

KATI therefore proposes that Budget 2026-2027 should publish a three-year tax and tariff roadmap covering corporate income tax, super tax, sales tax rate, refund timelines, audit policy and customs rationalisation. Such a roadmap will reduce uncertainty and allow businesses to plan investment, employment, exports and compliance.

#### A.4 Federal Fiscal Framework — Key Numbers

*Table 3: Federal Fiscal Indicators (Rs. Billion / Per cent of GDP)*

Indicator	FY 24-25 R.E.	FY 25-26 B.E.	FY 26-27 Proj.	FY 27-28 Proj.
Total Federal Revenue	16,802	19,278	20,807	23,092
FBR Tax Revenue	11,900	14,131	16,078	17,974
Non-Tax Revenue	4,902	5,147	4,729	5,118
Federal Expenditure	17,249	17,573	18,171	19,176
Federal Fiscal Deficit	-7,444 (-6.5%)	-6,501 (-5.0%)	-6,476 (-4.5%)	-6,288 (-3.9%)
Overall Fiscal Deficit (% of GDP)	-5.6%	-3.9%	-3.5%	-2.9%
Primary Surplus (% of GDP)	2.2%	2.4%	2.0%	2.0%
GDP (Rs. trillion)	114.7	129.6	144.9	162.5

*Source: Medium-Term Budget Strategy Paper FY 2025-26 to FY 2027-28, Government of Pakistan, Finance Division.*

# **SECTION-B**

## **Korangi Industrial Area & The Stakeholder Perspective**

## B.1 Korangi Industrial Area: A National Strategic Asset

Korangi Industrial Area (KIA) is one of Pakistan's largest and most diversified industrial clusters. It hosts exporters, manufacturers, SMEs, service providers, pharmaceutical units, food processors, engineering concerns, textile and garment units, leather and tanning industries, chemical businesses, logistics operators and energy-intensive manufacturing operations. KATI's earlier budget submissions have consistently highlighted that Korangi's contribution is not limited to revenue collection; it includes employment, exports, import substitution, supply chains, skills development and urban industrial stability.

The Korangi cluster comprises over 5,000 industrial, commercial and service enterprises providing approximately 1.5 million direct jobs. It hosts 372 textile mills, contributes nearly 40 percent of Pakistan's leather exports, hosts approximately 78 percent of national crude-oil refining capacity, and includes a 250-acre Special Economic Zone. The estimated annual export run-rate of the Korangi cluster is in the range of USD 6.5 – 7.0 billion. Every percentage point gained in KIA productivity translates directly into national GDP, exports, employment and tax revenue.

## B.2 Korangi's Contribution to National Exports

*Table 4: Sector Export Performance and KIA's Estimated Share (FY 2025-26)*

Sector	FY 24-25 Exports	FY 25-26 (\$M/9M)	Growth YoY	KIA Share (Estimate)
Textiles (Total)	\$17.88 bn	\$13.34 bn (9MFY26)	+2.28%	~15-20%
Knitwear	—	\$1.42 bn (Q1)	+12.21%	Significant
Bedwear	—	\$852.9 mn (Q1)	+7.28%	Significant
Readymade Garments	—	\$1,057 mn (Q1)	+6.07%	Significant
Leather Manufactures	~\$650 mn	+8.24% (Mar)	+8.24%	≈40%
Sports Goods	~\$310 mn	+13.26% cumul.	+17.85%	~25-30%
Pharmaceuticals	~\$340 mn	\$270-300 mn (8M)	Stable	Material cluster
IT & ITeS (services)	\$3.812 bn	\$2.975 bn (8M)	+19.7%	Karachi-anchored
KATI estimated total	—	\$6.5–7.0 bn run-rate	—	Korangi cluster

*Sources: Pakistan Bureau of Statistics monthly trade releases; State Bank of Pakistan; MoITT IT export data; KATI Standing Committee estimates.*

### B.3 Cluster-Wide Challenges Cutting Across All KIA Sectors

For KATI members, the principal issues remain high cost of doing business, sales tax and income tax complexity, refund delays, multiplicity of withholding obligations, sudden changes in rates and procedures, high energy tariffs, documentation pressure on compliant persons, misuse of audit and recovery powers, customs clearance delays, and weak coordination among federal and provincial tax authorities. The principal cluster-wide challenges include:

- **Energy cost and reliability:** industrial electricity and RLNG remain materially above regional comparators. The Middle East energy shock of February-April 2026 has worsened the gap.
- **Working-capital squeeze:** SBP policy rate at 11.50 percent (28 April 2026) plus the 20 percent WHT on bank interest under Section 151 compresses cash flows. DLTL and sales-tax refund backlogs further extend the working-capital cycle.
- **E-invoicing compliance cost:** the universalisation of e-invoicing through SROs 69/2025, 709/2025, 1413/2025 and 1852/2025 imposes Rs. 250,000–500,000 first-year integration cost per SME outlet, with no offsetting credit or support.
- **EPZ / EFS regime stability:** the Korangi EPZ / Korangi Creek Industrial Park 80/20 facility, the EFS zero-rating regime, and the SEZ income-tax holiday all require Finance Bill 2026 reaffirmation to anchor multi-year investment decisions.
- **Environmental compliance and CBAM readiness:** leather, textile finishing, chemical and food-processing units face simultaneous Sindh EPA tightening and EU CBAM phase-in (active reporting 2026, financial obligation 2027).
- **Documentation imbalance:** the 5,000 KIA enterprises operate inside the documented economy and bear the full statutory load while the parallel informal sector that supplies and competes with them remains substantially undocumented.

The policy objective should be to transform compliant industry from a revenue target into a partner for national growth. This requires a budget that rewards documentation, simplifies return filing, minimises interface with officers, improves refund credibility, expands the base beyond formal industry, and addresses the cost differential with regional competitors.

# **SECTION-C**

## **Core Principles for Budget 2026-2027**

Before proceeding to specific proposals, KATI submits six guiding principles that should inform every element of the Federal Budget 2026-2027. These principles are intended to operate as the policy lens through which each subsequent recommendation in this document should be read.

### **Principle 1 — Revenue through Growth, Not Repeated Burden on Documented Taxpayers**

The documented sector already carries the bulk of compliance and withholding responsibility. Additional revenue should be mobilised through base broadening, digital documentation, simplified formalisation and reduction of leakages rather than through repeated escalation of rates and minimum taxes on existing compliant taxpayers.

### **Principle 2 — Predictability as a Tax Incentive**

A stable tax regime is itself an incentive. Sudden changes in the Final Tax Regime, export taxation, GST rules, e-invoicing, valuation and audit selection create uncertainty that is, in many cases, more damaging to investment than the underlying rate itself.

### **Principle 3 — Refunds Are Not Concessions**

Sales tax and income tax refunds represent taxpayers' own money. Delays in their payment operate as forced borrowing by the State and reduce export competitiveness. Time-bound refunds, automatic compensation for departmental delay and the ability to adjust verified refunds against other federal tax liabilities should be treated as legal entitlements rather than as discretionary concessions.

### **Principle 4 — Audit Reform Must Include Taxpayer Safeguards**

Centralised and risk-based audit selection should be welcomed only if accompanied by published reasons for selection, defined timelines, officer accountability for frivolous additions deleted in appeal, prohibition on repeated audit of the same tax year without approval, and a meaningful right of response.

### **Principle 5 — Productive Imports Should Be Facilitated**

Budget policy should differentiate between non-essential consumption imports on the one hand and industrial raw materials, capital goods, spare parts, energy-efficiency machinery and export inputs on the other. Tariff policy that fails to make this distinction increases production cost and discourages local value addition.

### **Principle 6 — Enforcement Must Be Matched with Facilitation**

Digital surveillance, e-invoicing and data integration should be matched with operational help desks, technical APIs, error-correction windows, provisional invoice tolerances, Alternative Dispute Resolution and reasonable implementation grace periods. Enforcement without facilitation produces disputes; facilitation without enforcement produces leakage. Budget 2026-27 must do both, together.

# **SECTION-D**

## **Consolidated Budget Proposals**

The following proposals are framed as legally implementable recommendations for the consideration of the Ministry of Finance, the Federal Board of Revenue and other relevant federal authorities. Each proposal sets out the underlying issue, the suggested measure, and the policy basis for that measure. The proposals are organised under the heads of Income Tax, Sales Tax & Federal Excise Duty, Customs, Administration & Governance, and Sector-Wide Reforms.

## **D.1 Proposals on Income Tax**

### **1. Exporters of Goods — Optional Final Tax Regime**

**Issue:** Withdrawal or uncertainty of final taxation for goods exporters has increased compliance cost, documentation burden, audit exposure and liquidity pressure. Exporters require certainty in order to price international contracts.

**Recommendation:** Restore an optional Final Tax Regime for goods exporters at a clearly notified rate, preferably 1 percent of FOB value as full and final tax, with an annual election option to remain under the Normal Tax Regime. The option should be exercised with the annual return and should not be changed retrospectively.

**Basis:** This proposal protects revenue through a transparent final collection while reducing audit disputes and supporting export pricing. It should be kept separate from IT/ITeS taxation because the policy logic and the underlying business model are different.

### **2. IT and IT-Enabled Services — Stability of 0.25 Percent Export Rate**

**Issue:** IT exports require long-term policy certainty. Annual renewal of concessional taxation creates uncertainty for contracts, investors, freelancers and export platforms.

**Recommendation:** Maintain the 0.25 percent tax rate for IT and IT-enabled export proceeds through a binding legal instrument up to 30 June 2035, subject to realisation of export proceeds through banking channels and registration with the relevant authorities.

**Basis:** The objective is to provide predictability for a sector that can scale exports with low import intensity and high employment potential, particularly for young professionals and women.

### **3. Corporate Income Tax Roadmap for Manufacturers**

**Issue:** The effective burden on manufacturers remains high when corporate tax is combined with super tax, Workers' Welfare Fund, Workers' Profit Participation Fund, advance tax and compliance cost.

**Recommendation:** Announce a three-year roadmap reducing the corporate tax rate for manufacturing companies from 29 percent toward 25 percent, linked with documentation, employment and investment in plant, machinery and exports.

**Basis:** A phased roadmap is fiscally more responsible than a sudden cut and can be aligned with the Government's medium-term revenue framework.

### **4. Super Tax under Section 4C — Rationalizations and Installments**

**Issue:** Super tax has become a recurring liquidity burden. Following judicial validation, field formations are also pursuing surcharge and recovery disputes, increasing uncertainty for compliant businesses.

**Recommendation:** Reduce the super tax burden through revised slabs and provide a statutory installment facility for outstanding super-tax demands without default surcharge where the taxpayer pays under an approved schedule. No coercive recovery should be made during pendency of stay, appeal or installment compliance.

**Basis:** The measure balances revenue collection with continuity of business operations and prevents avoidable litigation.

## 5. Default Surcharge — Relief for Bona Fide Disputes

**Issue:** Default surcharge under Section 205 can become punitive where the underlying liability arose from interpretational disputes, retrospective changes or judicial developments.

**Recommendation:** Introduce an enabling provision for waiver or reduction of default surcharge where the taxpayer demonstrates a bona fide dispute, has paid under an installment plan, or the delay was caused by portal or refund-adjustment issues.

**Basis:** Revenue should not be collected by creating insolvency risk for operational industrial units.

## 6. SME Threshold and Indexed Definition

**Issue:** The SME threshold has lost relevance due to inflation, currency movement and scale changes in manufacturing and exports. Inconsistent thresholds across proposals and laws create confusion.

**Recommendation:** Adopt a unified SME turnover threshold of at least Rs. 800 million, indexed to CPI every three years, with a simplified return, reduced audit exposure and lower advance-tax compliance for compliant SMEs.

**Basis:** Indexation prevents recurring lobbying and maintains legal certainty.

## 7. Minimum Tax under Section 113 Relief for Low-Margin Industry

**Issue:** Minimum tax on turnover penalizes low-margin, high-volume and loss-making industrial concerns, especially during periods of energy and financing cost shocks.

**Recommendation:** Introduce sector-sensitive reduced minimum-tax rates for exporters, manufacturers with gross margins below a notified threshold, and companies investing in modernization. Allow carry-forward adjustment of minimum tax for at least five years.

**Basis:** This preserves revenue while preventing minimum tax from operating as a tax on loss.

## 8. Withholding Tax Simplification

**Issue:** Multiple withholding provisions create reconciliation disputes and convert businesses into unpaid tax collection agents.

**Recommendation:** Consolidate withholding obligations under a simplified schedule. Reduce withholding rates on registered manufacturers and exporters with a good compliance history. Create a real-time withholding ledger in IRIS showing deduction, CPR, challan and credit status.

**Basis:** Simplification will improve compliance quality and reduce disputes under Sections 161 and 205.

## 9. Restoration of Section 65B Investment Tax Credit & Plant & Machinery

**Issue:** Section 65B — originally a 10 percent tax credit on the cost of new plant and machinery installed by manufacturers — was effectively wound down through the Finance Acts of 2019 and 2020. The withdrawal removed what was, in KATI's analysis, Pakistan's most effective CAPEX-trigger instrument and is a principal reason that the manufacturing investment-to-GDP ratio remains stuck at 4 to 5 percent against 8 to 12 percent in regional peers.

**Recommendation:** Restore Section 65B at 20 percent of the cost of new plant and machinery, available on plant installed between 1 July 2026 and 30 June 2031 — a five-year sunset window. The credit should be restricted to manufacturing taxpayers, with unutilized credit available against income-tax liability for five succeeding years.

**Basis:** The 20 percent rate has been calibrated to bring the effective tax treatment of new Pakistani manufacturing investment broadly into line with India's 15 percent concessional rate under Section 115BAB. The fiscal cost is estimated at Rs. 35 – 45 billion in Year 1 and is recoverable through induced CAPEX-driven LSM growth within 24 months.

## 10. Withdrawal of Capital Value Tax on Foreign Assets

**Issue:** Section 8 of the Finance Act 2022 imposes a 1 percent Capital Value Tax on foreign assets exceeding Rs. 100 million held by a Pakistan-resident person. In substance, the levy operates as a wealth tax framed as CVT — and it rests on the same constitutional architecture (taxation of ownership rather than of income or transaction) that the Federal Constitutional Court found impermissible in its 7 May 2026 ruling on Section 7E. Continued enforcement therefore creates significant litigation exposure for the FBR and a measurable capital-flight risk for the State Bank's reserves position.

**Recommendation:** Withdraw the Capital Value Tax on foreign assets through the repeal of Section 8 of the Finance Act 2022 in the Finance Act 2026. The foreign-asset declaration and disclosure obligations under Section 116A of the Income Tax Ordinance should, however, be retained in full — they serve the separate purposes of transparency, CRS/AEOI alignment and anti-money-laundering compliance, and are not in any way affected by the withdrawal of the wealth tax. A refund mechanism should be notified for CVT already paid in tax years 2023, 2024 and 2025.

**Basis:** The proposal aligns the statute with the constitutional reasoning of the FCC, removes a capital-flight risk, and preserves the disclosure regime that supports international compliance.

## D.2 Proposals on Sales Tax and Federal Excise Duty

### 11. Sales Tax Rate Roadmap — 18% Toward 15%

**Issue:** The standard 18 percent sales tax rate increases the documentation tax wedge, especially where informal competitors operate outside the net.

**Recommendation:** Publish a three-year roadmap to reduce the standard sales tax rate on goods from 18 percent to 17 percent in FY2026-27, 16 percent in FY2027-28 and 15 percent in FY2028-29, subject to base-broadening and retail formalization milestones.

**Basis:** A lower rate with a broader base is more sustainable than a high rate imposed on a narrow documented base.

## 12. Refunds — Time-Bound Payment and Automatic Compensation

**Issue:** Refund delays block working capital and reduce export competitiveness. Exporters cannot finance government cash-flow through delayed refunds.

**Recommendation:** Legislate that verified sales-tax and income-tax refunds of exporters and manufacturers be paid within 30 days. Where refunds are not paid within the statutory period due to departmental delay, automatic compensation/markup should be credited, or the refund should be adjustable against other federal tax liabilities.

**Basis:** Refunds are not subsidies; they are taxpayer funds. Timely refunds strengthen exports and compliance trust.

## 13. E-Invoicing and Digital Reporting — Transition Safeguards

**Issue:** E-invoicing without operational flexibility can create disputes where dispatch weight, received weight, returns, discounts or customer acknowledgements differ after delivery.

**Recommendation:** Allow e-invoices to remain editable for up to 10 days after issuance for commercial adjustments acknowledged by the buyer, with a tolerance band for weight/quantity variation in sectors where handling losses or third-party weighing differences are normal.

**Basis:** Digitalization should reflect commercial reality and reduce disputes rather than multiply penalties.

## 14. POS and Card Payment Trigger

**Issue:** Treating card payment acceptance as a trigger for Tier-1 retailer status discourages digital payments and supports the cash economy.

**Recommendation:** Remove the debit/credit card POS trigger from the definition of Tier-1 retailer and instead use turnover, covered area, chain operation, brand integration and data-based criteria.

**Basis:** This will support cashless payments without unnecessarily penalizing merchants for using formal banking channels.

## 15. Withdrawing Further Tax under Section 3(1A) of the Sales Tax Act

**Issue:** The 4 percent further tax under Section 3(1A) was originally introduced as an enforcement instrument against unregistered B2B buyers. In practice, the burden of compliance has fallen squarely on documented sellers — who are required to charge further tax up-front and recover it through pricing, with no input-adjustment relief if and when the buyer subsequently registers. Annual collection is estimated at Rs. 80–100 billion, the bulk raised from documented manufacturers acting as enforcement agents against undocumented buyers.

**Recommendation:** Withdraw further tax under Section 3(1A) from 1 July 2026. The revenue gap is closable through two compensating measures: (a) tightening the Section 8B input-adjustment cap from 90 to 95 percent for compliant filers, and (b) accelerating the registration of B2B-only wholesalers through the Tier-2 expansion of e-invoicing under SRO 1413(I)/2025. Any further tax already paid on in-flight transactions should be available as credit against output tax.

**Basis:** The change shifts enforcement focus from documented sellers to the undocumented B2B population the section was originally designed to capture.

## 16. Phased Relaxation of the Section 8B Input-Tax Adjustment Cap

**Issue:** Section 8B limits the input-tax adjustment available to a registered person to 90 percent of output tax in any tax period, irrespective of how well-documented the underlying input invoices are. The provision was a useful safeguard in an earlier era when input-invoice verification was largely manual. Today, with universal e-invoicing under SROs 350(I)/2024 and 69(I)/2025 providing invoice-level real-time validation, the 90 percent cap operates as a working-capital tax on compliant filers rather than as an enforcement safeguard.

**Recommendation:** A phased relaxation: raise the cap to 95 percent for FY 2026-27; to 98 percent for FY 2027-28; and remove the cap entirely from FY 2028-29, conditional on FBR Member (IT) certifying that SRO 350 e-invoicing is operational across all Tier-1 and Tier-2 supply chains.

**Basis:** Phased relaxation preserves the FBR safeguard while progressively rewarding documentation as the underlying digital infrastructure matures.

## 17. Procedural Safeguards on Sections 11E and 37A

**Issue:** Sections 11E (recovery of inadmissible refund or input adjustment) and 37A (offence of tax fraud) confer significant enforcement powers on the FBR. In current practice, these powers can be exercised before any appellate forum has tested the underlying demand. The principal harassment that members report is the arrest pending bail — absence ofailable-offence classification means release from custody can take 7 to 30 days, even in cases where the underlying tax demand is subsequently vacated on the merits.

**Recommendation:** Three safeguards: (i) no FIR under Section 37A unless the demand has been established under Section 11E AND confirmed by at least one appellate authority; (ii) all offences under Section 37A madeailable, with bail granted by the trial court within 24 hours of arrest as a matter of right where the underlying demand is below Rs. 50 million; (iii) express incorporation of the principles laid down by the Supreme Court of Pakistan in M/s Taj International Ltd. v. FBR.

**Basis:** Enforcement must be proportionate and procedurally fair. The proposal preserves prosecutorial authority while preventing pre-judicial detention.

## 18. Retail and Wholesale Formalization Package

**Issue:** Documented industry faces unfair competition from informal wholesale and retail sectors. Fear of past-period scrutiny prevents voluntary entry into the tax net.

**Recommendation:** Introduce a one-time Retail and Wholesale Formalization Window for FY 2026-27 with simplified registration, simplified past-period record certainty, turnover-based payment, digital invoices and automatic graduation into the regular regime after defined thresholds. Run alongside the **Tajir Dost Scheme** and POS-integrated retail GST framework.

**Basis:** Base broadening should be practical and should not reward perpetual informality. A formal window with finite terms generates lasting documentation.

## D.3 Proposals on Customs and International Trade

### 19. Customs Tariff Rationalizations for Industrial Inputs

**Issue:** Duties and additional customs duties on raw materials, intermediate goods, spare parts and machinery increase production cost and encourage under-invoicing disputes.

**Recommendation:** Rationalize customs duty, additional customs duty and regulatory duty on industrial raw materials and capital goods not locally manufactured. Provide zero or reduced duty for energy-efficiency machinery and export-oriented inputs.

**Basis:** Tariff policy should encourage manufacturing rather than revenue extraction at import Stage

### 20. Export Facilitation Scheme (EFS) — Practical Amendments

**Issue:** Certain value-adding export activities do not qualify because "manufacture" is interpreted too narrowly, and exit provisions for cancelled orders or surplus inputs are inadequate.

**Recommendation:** Amend EFS rules to include sorting, grading, washing, reconditioning, packing and other value-adding operations for export where foreign exchange is realized. Provide a clear exit mechanism on payment of duties/taxes for cancelled export orders or unusable inputs.

**Basis:** This will support employment, recycling, re-export, used-goods value addition and export diversification.

### 21. Export Processing Zones — Protection of 80/20 Facility

**Issue:** Removal or restriction of the 80/20 facility may undermine the commercial basis of EPZ investment, especially for by-products, off-grade material and items not commercially exportable.

**Recommendation:** Preserve the existing 80/20 facility allowing EPZ units to export 80 percent and sell up to 20 percent into the local tariff area, subject to applicable duties, taxes and regulatory requirements. Any change should apply prospectively after stakeholder consultation.

**Basis:** EPZs generate exports, employment, foreign exchange, duties and tax revenue. Policy reversal will affect investor confidence.

### 22. Customs Reclassification for Registered Polymer-Scrap Recyclers

**Issue:** A significant portion of Pakistan's polymer-recycling capacity is located within Korangi. The sector operates on imported homogeneous polymer scrap, currently subject to restrictive customs classifications that generate cost and delay out of line with regional peers (Vietnam, Malaysia, Türkiye). The restriction also fails to distinguish between Basel-compliant homogeneous polymer scrap and prohibited mixed municipal waste — the conflation damages legitimate recyclers without effectively excluding illegitimate inflows.

**Recommendation:** Reclassify imported homogeneous polymer scrap as an "industrial raw material" for registered recyclers, subject to three safeguards: (a) eligibility limited to recyclers licensed by the relevant Provincial Environmental Protection Agency; (b) restriction to homogeneous polymer scrap under HS 3915.10 to 3915.90 compliant with Basel Annex IX; (c) mandatory pre-shipment inspection by an SGS-accredited agency at the port of loading. Mixed or contaminated municipal plastic waste remains prohibited as before.

**Basis:** The reclassification supports a documented, environmentally regulated recycling industry while excluding non-compliant inflows through clear safeguards.

## **D.4 Proposals on Administration, Governance and Energy**

### **23. Audit Policy and Taxpayer Safeguards**

**Issue:** Risk-based audits are necessary, but taxpayers require protection from repeated, arbitrary or fishing inquiries.

**Recommendation:** Publish the annual audit policy, centralize risk-based selection, provide reasons for selection, prohibit repeated audit of the same tax year without approval, prescribe timelines for completion, and introduce officer accountability for frivolous additions deleted in appeal.

**Basis:** This is aligned with governance reform and will reduce harassment while protecting revenue.

### **24. Alternative Dispute Resolution (ADR)**

**Issue:** Tax litigation remains slow and expensive. ADR often lacks enforceability and time discipline.

**Recommendation:** Make ADR decisions time-bound and binding once accepted by the taxpayer and FBR. Permit matters involving factual reconciliation, refunds, withholding mismatches and valuation disputes to be resolved through specialized ADR panels.

**Basis:** A functioning ADR mechanism will reduce litigation inventory and improve revenue certainty.

### **25. Taxpayer Charter and Recovery Discipline**

**Issue:** Bank attachment and coercive recovery without meaningful opportunity of reconciliation damages trust and business continuity.

**Recommendation:** Update the Taxpayer Charter to include no bank attachment without prior reconciliation notice, no recovery during statutory appeal period where a stay application is pending, and immediate de-attachment after payment, stay or appellate relief.

**Basis:** Recovery must be lawful, proportionate and commercially responsible.

### **26. Input Tax and Provincial-Federal Coordination**

**Issue:** Businesses face input-tax mismatch and non-adjustability issues due to fragmented federal and provincial sales tax systems.

**Recommendation:** Create an integrated federal-provincial input-tax verification mechanism and a common taxpayer ledger. Provincial sales tax paid on services used by registered manufacturers and exporters should be verifiable and adjustable under agreed rules.

**Basis:** Inter-government coordination will reduce cascading and improve compliance.

### **27. Energy Cost and Industrial Competitiveness**

**Issue:** High electricity, gas and captive energy costs reduce competitiveness and discourage capacity utilization.

**Recommendation:** Introduce an Export and Manufacturing Energy Competitiveness Package linked to consumption efficiency, load factor, timely bill payment and investment in energy-

efficient machinery. Sales tax and customs duty on energy-efficiency machinery should be reduced or zero-rated.

**Basis:** Energy reform must reduce circular debt without making Pakistani industry regionally uncompetitive.

## **28. New Income Tax Return 2026 — Implementation Window**

**Issue:** FBR's new return structure for Tax Year 2026 (SRO 835(I)/2026, 7 May 2026) moves toward profile-based forms and pre-filled data, but taxpayers need a right to correct inaccurate data. The seven-day objection window prescribed by Section 237(3) is materially shorter than the historic 30-to-40 day window and is the root cause of recurring drafting infirmities.

**Recommendation:** Extend the objection window to 30 days under Section 237(3); provide a minimum 90-day implementation window for the new return, explanatory notes and sector-wise help desks; provide a transitional/grandfather mechanism for filers who began Tax Year 2026 under the existing IRIS schema; publish the data-import/pre-population specification; and grant immunity from penalty for bona fide first-year classification or system errors.

**Basis:** Technology reform must be implemented with procedural fairness and adequate transition.

# **SECTION-E**

## **Sector-Specific Proposals for Export, Import, Customs and EPZ**

This Section consolidates the sector-specific proposals that flow from Section D. It is intended for the use of the Customs Wing, EPZA, the Ministry of Commerce and the FBR Customs Policy Wing during the drafting of the relevant tariff schedules, SROs and EFS amendments.

### **E.1 Export Competitiveness Package**

- **Green channel for refunds:** All export-related refunds should be processed through a separate green channel for compliant exporters, with automated verification and post-refund audit only on risk parameters.
- **Automated proceeds matching:** Export proceeds realized through banking channels should be matched automatically with customs GD, PRC/e-PRC and tax-return data to reduce manual verification.
- **Annual FTR election:** Exporters should be allowed to choose between final tax and normal tax regime on an annual basis, with no retrospective change by the department.
- **Input-tax preservation:** Input tax blocked due to supplier non-compliance should not be denied to a purchaser who has paid through banking channel and possesses valid invoice and GD/receipt evidence.

### **E.2 Import and Customs Facilitation**

- **Lowest slab for non-local raw materials:** Raw materials and intermediate goods not manufactured locally should be placed at the lowest customs slab and protected from unnecessary regulatory duty.
- **Capital-goods duty rationalization:** Plant, machinery, spare parts, pollution-control equipment, solar/energy-efficiency equipment and testing equipment for exporters should receive duty rationalization.
- **Transparent valuation rulings:** Valuation rulings should be reviewed through mandatory stakeholder consultation and published reasons. Sudden valuation changes should not apply to goods already shipped before the ruling date.
- **Single integrated dashboard:** Customs, PSW and WeBOC should provide a single dashboard for GD status, query reasons, lab reports, valuation disputes and release timeline.

### **E.3 Export Processing Zones**

KATI supports continuation of the 80/20 EPZ facility because it is a commercial-viability mechanism, not a departure from export orientation. Local tariff-area sale remains subject to applicable duties, taxes and regulatory requirements. The Federal Government should not alter the facility without a prospective framework and meaningful consultation with EPZ investors.

#### E.4 Sectors Needing Immediate Budget Focus

*Table 5: Sector-Wise Issues and Proposed Budget Measures*

Sector	Immediate Issue	Budget Proposal
Textile and garments	Energy cost, refunds, import input cost, export pricing pressure.	Export energy package, faster refunds, optional FTR, reduced duties on inputs.
Leather and tanning	Environmental compliance cost and export market standards.	Tax credit/duty relief on effluent treatment, testing and certification equipment.
Pharmaceuticals	Input cost, DRAP-linked compliance, machinery and testing equipment.	Rationalized duties/taxes on quality-control and production equipment.
Food processing	High packaging cost and uneven tax treatment.	Lower duties on packaging inputs and formal processing equipment.
Engineering and auto parts	Third Schedule/MRP anomalies and raw-material cost.	Remove unsuitable items from Third Schedule and tax on actual value chain.
Digital and IT-enabled exporters	Policy uncertainty and payment-channel issues.	0.25 percent rate to 2035; international payment gateways; data protection and export support.
EPZ units	Threat to 80/20 facility and investor confidence.	Retain facility; prospective consultation-based amendments only.
Polymer recycling	Restrictive customs classification on Basel-compliant scrap.	Reclassify under industrial raw materials with EPA-licensed eligibility and Basel safeguards.

# SECTION-F

## Implementation Matrix

The proposals contained in Sections D and E are mapped below against the responsible authority, the suggested legal or administrative route, and a priority rating for the Finance Bill 2026 drafting process. This matrix is offered for the convenience of the Ministry of Finance, the FBR Inland Revenue and Customs Policy Wings, and the Ministry of Commerce.

**Table 6: KATI Implementation Matrix for Federal Budget 2026-2027**

#	Proposal	Responsible Authority	Suggested Legal / Administrative Route	Priority
1	Optional FTR for goods exporters	FBR / Ministry of Finance	Finance Bill amendment to Income Tax Ordinance, 2001	High
2	IT/ITeS 0.25% rate to 2035	FBR / MoITT / Ministry of Finance	Finance Bill or binding notification with sunset date	High
3	Corporate tax roadmap to 25%	Ministry of Finance / FBR	Budget policy statement and phased Finance Act amendments	High
4	Super tax installments and surcharge relief	FBR	Statutory installment mechanism / circular / Finance Bill	High
5	GST roadmap 18% → 15%	Ministry of Finance / FBR	Budget policy statement and annual Finance Act reduction	High
6	Refunds within 30 days with compensation	FBR / PRAL	Sales Tax Act and Income Tax Ordinance amendments; IRIS automation	Very High
7	E-invoicing correction window	FBR	Rules / SRO amendment and technical implementation note	High
8	Retail / wholesale formalization window	FBR / Provincial authorities	Special procedure, simplified return and data integration	High
9	Customs duty rationalization for inputs	FBR Customs / National Tariff Commission	Tariff schedule changes and SRO rationalization	High
10	EFS practical amendments	FBR Customs	Amendment in EFS Rules	High
11	EPZ 80/20 facility protection	Ministry of Commerce / EPZA / FBR	Policy clarification and prospective consultation rule	Very High
12	Audit policy with taxpayer safeguards	FBR / Tax Policy Office	Annual audit policy, audit manual and legal safeguards	High
13	ADR strengthening	FBR / Ministry of Law	ADR rule amendments and enforceability mechanism	Medium

#	Proposal	Responsible Authority	Suggested Legal / Administrative Route	Priority
14	Energy-efficiency machinery relief	Ministry of Finance / FBR / Power Division	Customs and sales tax exemption/reduction schedule	High
15	New return 2026 transition safeguards	FBR	Implementation circular, help desks and penalty waiver	High
16	Restoration of Section 65B (20% credit)	FBR / Ministry of Finance	Substituted Section 65B in Finance Act 2026	Very High
17	Withdrawal of CVT on foreign assets	FBR / Ministry of Finance	Repeal Section 8 of Finance Act 2022	Very High
18	Section 11E / 37A safeguards	FBR / Ministry of Law	Amendment of Sales Tax Act in Finance Act 2026	High

### Suggested Sequencing for the Finance Bill Drafting

For the convenience of the Finance Division and the FBR Policy Wing, the proposals may be ordered in four tiers of priority for inclusion in the Finance Bill 2026:

#### Tier 1 — Constitutional and Time-Critical (Essential)

- **Withdrawal of CVT on foreign assets** — same constitutional vulnerability as Section 7E identified by the FCC.
- **Restoration of optional FTR for goods exporters** — anchors export pricing certainty.
- **Refunds time-bound payment with automatic compensation** — core working-capital reform.
- **EPZ 80/20 facility protection** — investor-confidence preservation.

#### Tier 2 — Structural Reforms with High Economic Impact

- Phased withdrawal of Section 4C Super Tax.
- Restoration of Section 65B 20% investment credit.
- Repeal of further tax under Section 3(1A) and tightening of Section 8B input cap.
- Energy-efficiency machinery relief and export energy competitiveness package.

#### Tier 3 — Rate and Threshold Rationalizations

- Unified SME definition at Rs. 800 million with CPI indexation.
- Sales-tax rate roadmap (18% → 15% over three years).
- Corporate-tax roadmap (29% → 25% over three years).
- Customs tariff rationalization for industrial inputs and capital goods.

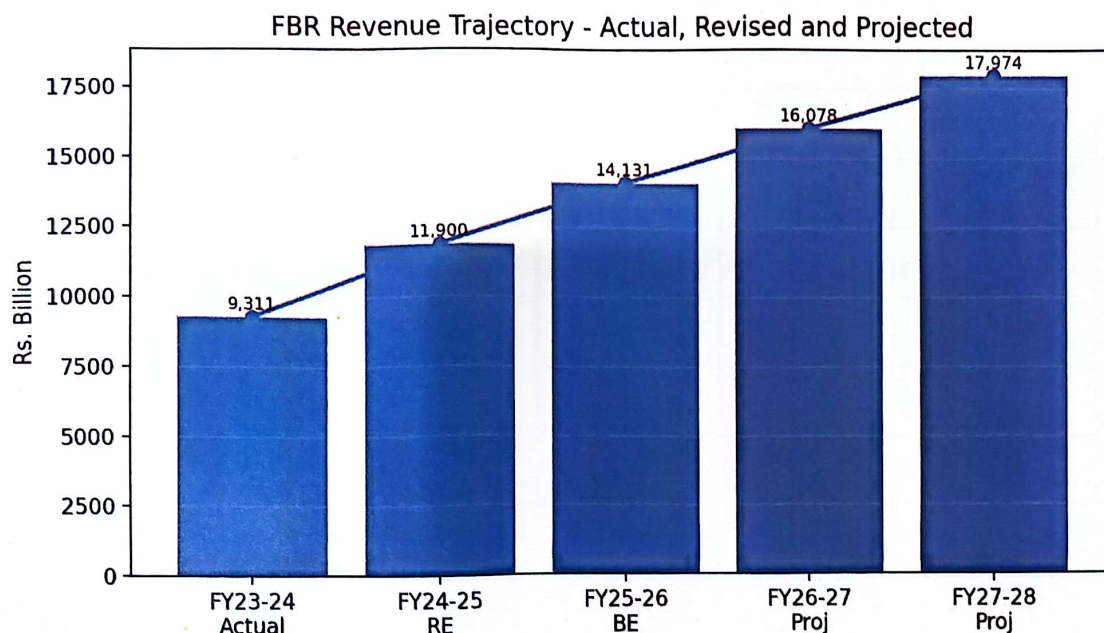
#### Tier 4 — Procedural and Structural Refinements

- E-invoicing correction window and tolerance bands.
- Audit policy with published reasons, timelines and officer accountability.
- ADR strengthening with binding, time-bound outcomes.

# **SECTION-G**

## **Global & Regional Taxation Benchmarks**

Comparative benchmarking is relevant because Pakistan cannot improve industrial competitiveness merely by increasing enforcement against existing filers. The budget must compare Pakistan with peer economies on tax-to-GDP, headline corporate tax, indirect tax design, refund neutrality, SME compliance architecture, export facilitation and industrial energy cost. KATI submits that the central problem is not only the rate structure, but the cost, unpredictability and time consumed in complying with the system.



*Figure G-1: FBR Revenue Trajectory based on MTBSP actual, revised and projected values.*

Benchmark Area	Pakistan Position / Concern	Policy Direction Proposed by KATI
Tax-to-GDP ratio	Low tax base creates pressure to tax documented sectors repeatedly.	Expand wholesale, retail, real estate and high-cash sectors through simple presumptive and POS-linked regimes.
Corporate taxation	Manufacturers face corporate tax, super tax, minimum tax, WHT and indirect tax cash-flow blockage.	Adopt a phased roadmap reducing aggregate incidence and capping distortive overlapping levies.
GST / VAT neutrality	Input adjustment restrictions and delayed refunds convert VAT from a pass-through tax into a working-capital cost.	Time-bound refunds, automatic compensation, relaxation of Section 8B cap and digital reconciliation.
Ease of compliance	Frequent forms, SROs and portal changes increase compliance risk for documented taxpayers.	Statutory consultation floor, implementation window and no adverse enforcement during system transition.
SME formalization	Small manufacturers and traders avoid documentation due to complex filing and multiple taxes.	Single indexed SME definition and simplified quarterly return for eligible SMEs.
Export competitiveness	Refund delays, input cost and tariff anomalies reduce pricing power.	Restore exporter predictability, strengthen EFS, and protect EPZ viability.
Industrial energy	Energy cost remains a decisive competitiveness constraint.	Regionally competitive industrial tariff, wheeling/captive rationality and targeted energy-efficiency incentives.

**“ The comparative lesson is that a competitive tax system is not the one with the highest number of withholding points; it is the one that collects fairly from a broad base, refunds promptly, keeps audit selection risk-based, and lowers the cost of formalization. Pakistan should move from enforcement-heavy revenue to trust-based compliance supported by data integration. ”**

# **SECTION-H**

## **SRO Regime, Digital Enforcement and Taxpayer Safeguards**

The recent policy direction shows increasing reliance on mandatory electronic invoicing, SWAPS-based withholding architecture, real-time monitoring, property documentation, digital reporting and enhanced coercive powers. KATI supports documentation and technology-led compliance, but such reforms must be accompanied by adequate testing, transition protection, appeal safeguards and accountability of system-generated errors.

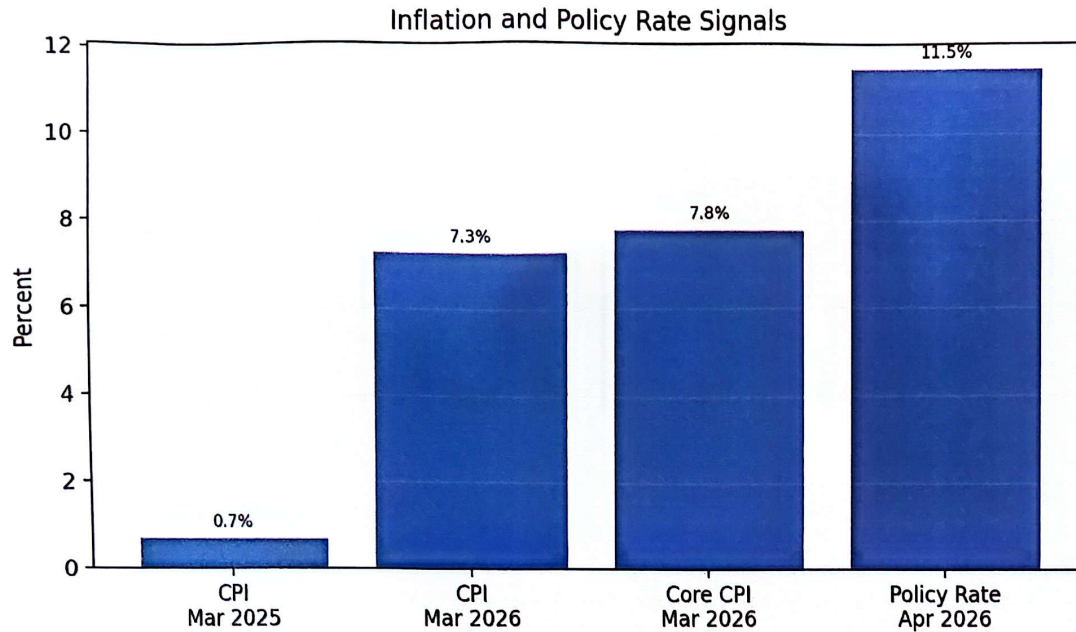


Figure H-1: Inflation and policy rate signals relevant for cost-sensitive budget measures.

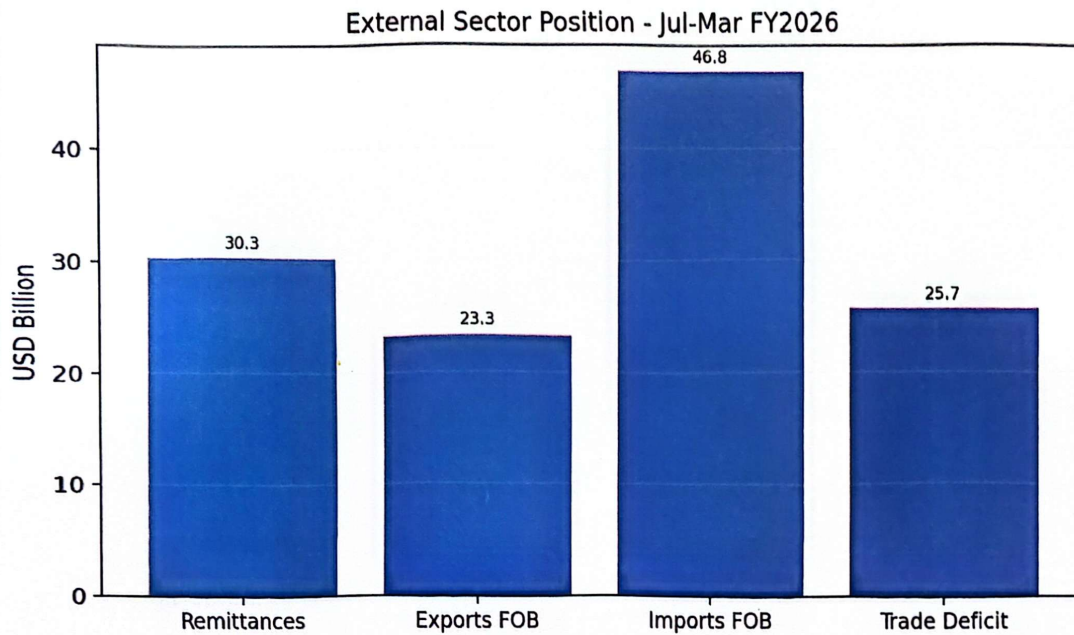
SRO / Reform Theme	Industry Concern	KATI Safeguard Requested
Mandatory e-invoicing	Immediate universal enforcement may penalize smaller documented businesses with limited ERP capacity.	Phased onboarding, sandbox testing, helpdesk, and six-month non-penal transition for first-time users.
SWAPS and bank-based withholding	Bank-triggered withholding may create mismatches and duplicate deductions.	Real-time credit posting in IRIS and automatic adjustment against assessed liability.
Coercive recovery powers	Recovery before final adjudication can freeze working capital and disrupt payroll.	Recovery discipline, speaking orders, and protection where appeal/stay application is pending.
Real-time monitoring	System downtime and third-party data errors may create false non-compliance.	Error-correction module, audit trail, taxpayer notice before adverse action.
Property and marketplace documentation	Digital data must not become a substitute for statutory assessment.	Opportunity of hearing and evidence-based reconciliation before demand creation.

Accordingly, every digital enforcement measure in the Finance Bill 2026 should carry a corresponding taxpayer safeguard. Digitalization without fairness will deepen distrust; digitalization with transparency will increase voluntary compliance.

# SECTION-I

## **Priority Recommendations For Immediate Budget Consideration**

For ease of consideration by the Ministry of Finance, FBR and relevant authorities, KATI identifies the following priority recommendations. These are structured as practical Finance Bill items capable of implementation within the FY 2026-2027 budget cycle.



*Figure I-1: External sector position showing the importance of export competitiveness and remittance-supported stability.*

No.	Priority Recommendation	Budget / Legal Action Requested	Expected Result
1	Restore predictability for exporters of goods through an optional final tax regime.	Amend exporter taxation provisions to allow a clear, optional final or normal regime with no retrospective ambiguity.	Export pricing certainty, liquidity and documentation.
2	Rationalize super tax under Section 4C.	Provide phased reduction, instalment facility and no surcharge where liability is under bona fide dispute.	Reduced litigation and lower pressure on reinvestment.
3	Reduce minimum tax burden for low-margin manufacturers.	Amend Section 113 to provide sector-sensitive lower rate and carry-forward relief.	Protection of high-turnover, low-margin industry.
4	Restore investment tax credit on plant and machinery.	Reintroduce Section 65B-style credit for five years with targeted eligibility.	CAPEX revival and LSM broadening.
5	Publish GST roadmap from 18 percent toward 15 percent.	Announce phased roadmap with base-	Reduced incentive for informality.

No.	Priority Recommendation	Budget / Legal Action Requested	Expected Result
		broadening measures and refund discipline.	
6	Make refunds time-bound and compensable.	Automatic payment/adjustment after prescribed period with compensation for delay.	Improved working capital and exporter confidence.
7	Withdraw or rationalize further tax on sales to unregistered persons.	Phase out Section 3(1A) burden while formalizing buyers through simplified registration.	Lower invoicing distortion and improved supply-chain documentation.
8	Protect Export Processing Zone viability including 80/20 facility.	Retain EPZ facilities and avoid sudden withdrawal of existing investment assumptions.	Investor confidence and export retention.
9	Introduce a retail and wholesale formalization package.	POS-integrated simplified turnover tax with lower compliance cost and strong digital trail.	Base broadening without penalizing existing filers.
10	Create a taxpayer charter with recovery discipline and ADR automation.	Statutory timeline for ADR, audit notices, refund processing and recovery safeguards.	Higher trust and fewer disputes.

These proposals are not framed as concessions. They are presented as revenue-compatible reforms. By lowering compliance friction, protecting working capital and broadening the base, the Federal Government can improve collection while preserving the industrial capacity required for employment, exports and long-term fiscal sustainability.

# **ANNEXURE-B**

## **Selected Economic Tables For Policy Reference**

Indicator	FY2025 / Comparable Period	FY2026 / Latest Position	Policy Implication
LSM Growth	-1.8% Jul-Feb FY2025	+5.9% Jul-Feb FY2026	Recovery is real but should not be burdened by new taxes on working capital.
CPI Inflation	0.7% Mar 2025	7.3% Mar 2026	Fresh cost-push taxation should be avoided.
Goods Exports FOB	US\$24.7 bn Jul-Mar FY2025	US\$23.3 bn Jul-Mar FY2026	Export facilitation is urgent because exports are under pressure.
Goods Imports FOB	US\$43.4 bn Jul-Mar FY2025	US\$46.8 bn Jul-Mar FY2026	Productive imports must be distinguished from non-essential imports.
Remittances	US\$28.0 bn Jul-Mar FY2025	US\$30.3 bn Jul-Mar FY2026	Formal channels can work when incentive and trust are aligned.
FBR Tax Collection	Rs. 8,453.1 bn Jul-Mar FY2025	Rs. 9,305.9 bn Jul-Mar FY2026	Revenue growth should be matched with taxpayer facilitation.
Foreign Exchange Reserves	US\$15.4 bn Apr 2025	US\$20.6 bn Apr 2026	Improved reserves allow predictable import and export policies.

KATI Six-Pillar Framework for Budget 2026-2027

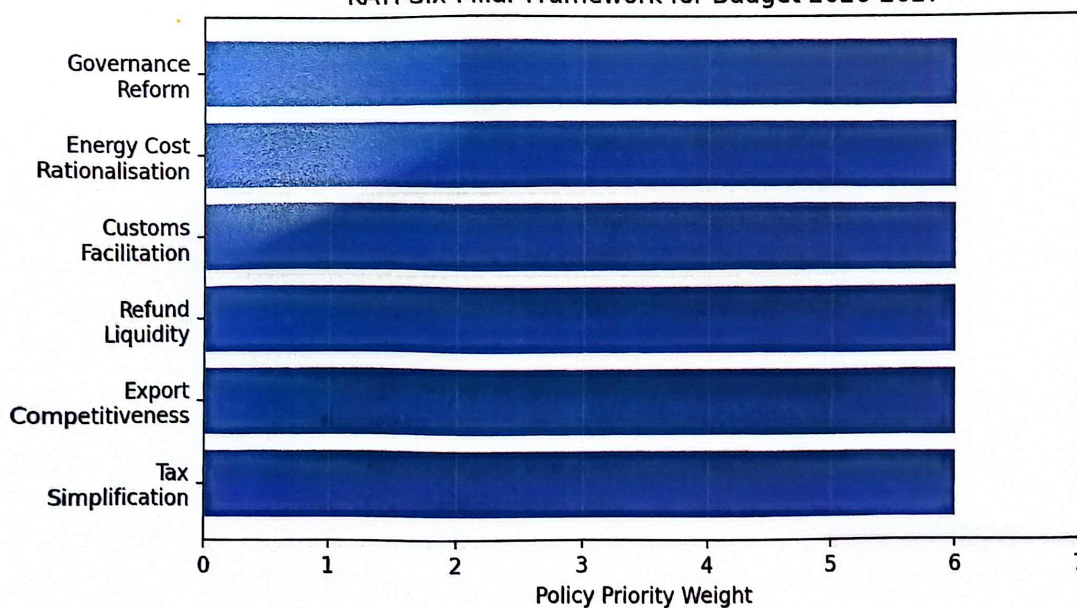


Figure B-1: Six mutually reinforcing pillars proposed by KATI for a growth-compatible budget.

These reference indicators should be read together with the core recommendations. The budget should not treat macroeconomic stability and industry facilitation as competing goals. Properly designed, the two are mutually reinforcing.

## Conclusion

FY 2025-26 has, on the macroeconomic numbers, been a year in which the Government's stabilization programme has delivered visible results. Real GDP growth has come in ahead of every major multilateral forecast. The fiscal deficit over July-February has narrowed to a remarkable 0.1 percent of GDP. The primary surplus has widened to 3.3 percent of GDP. Foreign-exchange reserves have been rebuilt to USD 20.6 billion. The IMF Extended Fund Facility is on track. Fitch has maintained the sovereign rating at B- / Stable. Large-Scale Manufacturing has returned to a healthy 5.9 percent growth, led by the automotive surge. These are not minor achievements, and they have been delivered, in significant measure, by the documented manufacturing engine of which KATI's membership forms a meaningful share.

Budget 2026-2027 will, however, be framed in a global environment that is materially more hostile than the one in which the MTBSP for FY 2025-26 was drafted. The IMF's April 2026 World Economic Outlook projects global growth at 3.1 percent in the shadow of the Middle East conflict. Oil is assumed at USD 82.22 per barrel for 2026. The World Bank has cut its MENAAP forecast by 240 basis points. In this setting, the consolidation gains of FY 2025-26 cannot — in KATI's respectful view — be entrusted to further extraction from the same documented base that produced them. They must, instead, be entrusted to a documented base that is wider.

KATI submits that the Federal Budget 2026-2027 should therefore be designed as a production, export and documentation budget. The central policy message of this proposal is that compliance should be made easier, refunds should be paid faster, audits should be risk-based and accountable, customs should facilitate productive imports, export taxation should be predictable, and the tax base should be broadened through practical formalization rather than repeated burden on existing taxpayers.

It is submitted that the Ministry of Finance, the Federal Board of Revenue and relevant federal authorities may kindly consider these proposals for inclusion in the Finance Bill 2026 and the accompanying policy measures. KATI stands ready to engage further with the Honorable Federal Minister for Finance, the Chairman of the Federal Board of Revenue, the Member (IR-Policy) and their teams at any stage of the Finance Bill 2026 drafting cycle. We thank the Government in advance for its careful consideration of these proposals and record our continuing commitment to the constructive partnership between the State and the documented industrial base of Pakistan.

# **ANNEXURE**

## **Source Documents Reviewed**

This submission has been compiled with reference to the following primary source documents. Where data has been cited in tables and figures in the foregoing sections, the originating document is the authority for that data.

### **Government of Pakistan – Federal**

- Ministry of Finance, Government of Pakistan — Monthly Economic Update & Outlook, April 2026 (Economic Adviser's Wing, Finance Division).
- Ministry of Finance, Government of Pakistan — Medium-Term Budget Strategy Paper FY 2025-26 to FY 2027-28.
- Federal Board of Revenue — Statutory Regulatory Orders (SROs) issued during FY 2024-25 and FY 2025-26, including SRO 69(I)/2025, SRO 350(I)/2024, SRO 709(I)/2025, SRO 1413(I)/2025, SRO 1634(I)/2025, SRO 1852(I)/2025 and SRO 835(I)/2026.
- Federal Board of Revenue — Monthly Revenue Updates (October 2025 to April 2026).
- Federal Constitutional Court — Order dated 7 May 2026 on Section 7E of the Income Tax Ordinance, 2001.

### **State Bank of Pakistan**

- State Bank of Pakistan — Monetary Policy Statement, 27 April 2026.
- State Bank of Pakistan — External-sector and Balance-of-Payments Statistics, Quarterly Reports FY 2025-26.
- State Bank of Pakistan — Remittance Data and Projections, February and April 2026 releases.

### **Statistical and Multilateral Sources**

- Pakistan Bureau of Statistics — National Accounts Committee 117th Meeting, 13 May 2026 (provisional FY 2025-26 GDP estimates).
- Pakistan Bureau of Statistics — Monthly Trade Statistics (Goods Exports / Imports, March–April 2026).
- International Monetary Fund — World Economic Outlook, April 2026 ("Global Economy in the Shadow of War").
- World Bank — MENAAP Economic Update, April 2026.
- Asian Development Bank — Asian Development Outlook, April 2026.
- Fitch Ratings — Sovereign Credit Rating Action on Pakistan, FY 2026.

### **KATI Internal Sources**

- KATI Standing Committee on Policy, Research & Advisory on Budget & Taxation — Members' Consultation Note, April 2026.
- KATI Sector Group Reports for Textile, Leather, Pharmaceuticals, Engineering, Food Processing and Polymer Recycling, FY 2025-26.
- KATI Trade Delegations Committee — Bilateral engagement notes with Turkey, Sri Lanka, Azerbaijan and Uzbekistan, FY 2025-26.

# **ANNEXURE-B**

## **Supplementary Economic, Fiscal and Policy Tables from KATI Budget Base File**

The following tables have been incorporated from the KATI Budget Base file to strengthen the evidentiary value and professional presentation of this proposal. They are retained as reference material for policymakers, committee members and institutional review, while the main recommendations remain consolidated in Sections D to I.

**Supplementary Table 3**

Indicator	Latest Value	Period / As of	Trend & Commentary
Large-Scale Manufacturing (LSM)	+5.9 %	Jul-Feb FY 2026	Sharp turnaround from -1.8 % in the comparable period of FY 2025. Growth led by automobiles, wearing apparel, food and coke & petroleum products. 15 of 22 LSM sub-sectors recorded positive growth.
LSM (Y-o-Y, Feb 2026)	+6.5 %	February 2026 (YoY)	Month-on-month LSM declined 9.0 %, mainly due to iron & steel, leather and pharmaceuticals. Automobile production rose strongly: trucks & buses +78.3 %, cars +51.3 %, jeeps & pick-ups +24.0 %, 2/3-wheelers +31.4 % (Jul-Mar).
CPI Inflation (Headline)	7.3 % (YoY)	March 2026	Up from 7.0 % in Feb 2026 and 0.7 % in Mar 2025. Jul-Mar FY 2026 average 5.7 % vs 5.3 % last year. Within annual target. Major contributors: transport (12.5 %), housing/utilities (11.5 %), education (9.0 %).
CPI – Outlook (Apr 2026)	8.0 – 9.0 % (projected)	April 2026	Finance Division projection. Inflation translating into cost-push pressure as international oil prices feed through the system; supply-chain frictions from Middle East conflict remain a risk.
Policy Rate (SBP)	11.50 %	28 April 2026	Raised by 50 bps from 11.0 %. Monetary stance remains restrictive amid cost-push inflation and external risks.
Goods Exports (FOB)	USD 23.3 bn	Jul-Mar FY 2026	Down 5.8 % YoY from USD 24.7 bn. March single-month exports USD 2.5 bn (-8.4 % YoY). Gains in garments (+3.8 %) and bedwear (+0.3 %) failed to offset broader weakness.
Goods Imports (FOB)	USD 46.8 bn	Jul-Mar FY 2026	Up 7.9 % YoY from USD 43.4 bn. Driven by petroleum crude (+11.3 %) and palm oil (+17.5 %); petroleum products eased (-7.5 %). Growth-related import demand rebuilding.
Trade Deficit (G & S)	USD 25.7 bn	Jul-Mar FY 2026	Widened from USD 21.0 bn last year. Goods & services exports USD 30.6 bn vs imports USD 56.3 bn. IT services exports notably strong at USD 3.4 bn (+19.8 %).

Indicator	Latest Value	Period / As of	Trend & Commentary
Current Account Balance	Surplus USD 8 mn	Jul-Mar FY 2026	March alone posted a surplus of USD 1.1 bn — three consecutive monthly surpluses. Cumulative surplus thinning vs USD 1.67 bn last year because of wider trade gap; remittances remain the buffer.
Workers' Remittances	USD 30.3 bn	Jul-Mar FY 2026	Up 8.2 % YoY from USD 28.0 bn. Saudi Arabia (23.4 % share) and UAE (20.7 %) led inflows. Pivotal in keeping the external account in surplus territory.
Net FDI	USD 1.4 bn	Jul-Mar FY 2026	Top source-countries China (USD 678.6 mn) and Hong Kong (USD 253.7 mn). Sectoral concentration in power (USD 714.2 mn) and financial business (USD 588.7 mn). Down 27 % from USD 1,856.7 mn last year on certain measures.
Portfolio Investment (net)	Outflow USD 944 mn	Jul-Mar FY 2026	Private FPI outflow USD 550.3 mn + public FPI outflow USD 393.5 mn. Risk-off positioning amid regional geopolitical uncertainty.
Foreign Exchange Reserves	USD 20.6 bn (Total)	17 April 2026	SBP USD 15.1 bn + Banks USD 5.5 bn. Materially higher than USD 15.4 bn a year ago. Eurobond repayment completed on schedule; IMF SLA secured.
Exchange Rate	PKR 278.8 / USD	29 April 2026	Slightly firmer than PKR 281.0 last year. Stability supported by current-account improvement and reserves accumulation.
FBR Tax Collection	Rs 9,305.9 bn	Jul-Mar FY 2026	Up 10.1 % YoY from Rs 8,453.1 bn. Direct taxes +12.4 %, indirect taxes +7.9 %. Within indirect: sales tax +8.5 %, customs +3.0 %, FED +13.3 %. March collection Rs 1,183.7 bn (+6.7 %).
Federal Non-Tax Revenue	Rs 4,225.2 bn	Jul-Feb FY 2026	Up 7.7 % YoY. Combined with tax revenue, net federal revenue reached Rs 7,463.1 bn (+10.1 %).
Fiscal Balance	Deficit Rs 161.2 bn (0.1 % of GDP)	Jul-Feb FY 2026	Dramatic improvement from -2.2 % of GDP (Rs 2,524.5 bn) last year. Federal expenditure fell 10.9 % to Rs 9,232.3 bn — current expenditure cut 11.4 %, markup down 25.0 %. PSDP up 4 %.
Primary Surplus	Rs 4,319.0 bn (3.3 % of GDP)	Jul-Feb FY 2026	Up from 3.0 % of GDP (Rs 3,452.1 bn) last year. Anchored by sharp fall in interest expenditure on the back of policy-rate easing relative to peaks.
Money Supply (M2) Growth	+5.6 %	1 Jul – 3 Apr FY 2026	Rs 2,247.0 bn expansion vs Rs 1,359.8 bn last year. Net Foreign Assets +Rs 839.8 bn; Net Domestic Assets +Rs 1,407.2 bn. Government budgetary

Indicator	Latest Value	Period / As of	Trend & Commentary
			borrowing eased to Rs 824.2 bn from Rs 1,507.1 bn last year.
Private Sector Credit	Rs 864.1 bn	1 Jul – 3 Apr FY 2026	Up from Rs 665.0 bn last year. Fixed-investment loans within business credit reached Rs 387.7 bn vs Rs 259.2 bn — a positive signal for industrial CAPEX revival.
Agriculture Credit (target)	Rs 3,062 bn	FY 2026 (full year)	Up 19 % vs FY 2025. Disbursed Rs 1,892.6 bn in Jul-Feb (+14.4 % YoY). Supports targeted Kharif 2026 output: cotton 9.64 mn bales, rice 9.17 mn tonnes, maize 9.77 mn tonnes, sugarcane 80.3 mn tonnes.
PSX – KSE-100 Index	165,823	29 April 2026	Up 44.3 % vs 114,872 a year ago. March 2026 saw a correction (lost 19,319 points to 148,743) on Middle East tensions, but recovered through April.
Market Capitalisation	Rs 18.34 tm / USD 65.76 bn	29 April 2026	Up 35.8 % in PKR (36.9 % in USD) versus last year. Companies incorporated Jul-Mar: 31,995 (+22.7 %).
Sovereign Rating (Fitch)	B – / Stable	FY 2026	Stable outlook affirmed. Backed by completed Eurobond repayment, successful IMF Staff-Level Agreement, three consecutive monthly current-account surpluses.

### External Sector

Indicator	FY2025	FY2025 (Jul-Mar)	FY2026 (Jul-Mar)	% Change	FY2025 (Mar)	FY2026 (Mar)	% Change
Remittances (\$ billion)	38.3	28.0	30.3	↑8.2	4.1	3.8	↓5.5
Exports FOB (\$ billion)	32.3	24.7	23.3	↓5.8	2.8	2.5	↓8.4
Imports FOB (\$ billion)	59.1	43.4	46.8	↑7.9	4.94	4.90	↓0.7
Current Account Balance (\$ million)	1,838	1674	8	↓	1,275	1,070	↓

Indicator	FY2025	FY2025 (Jul-Mar)	FY2026 (Jul-Mar)	% Change	FY2025 (Mar)	FY 2026 (Mar)	% Change
FDI (\$ million)	2477.3	1,856.7	1,354.5	↓27.0	63.7	167.6	↑
Portfolio Investment (\$ million)	-730.8	-342.1	-943.8	↓	-131.4	-453	↓
Total Foreign Investment (\$ million)	1,746.5	1,514.5	410.7	↓	-67.7	-285.4	↓
Forex Reserves (\$ billion)	19.3 (SBP: 14.5; Banks: 4.8) (End June)	—	20.6 (SBP: 15.1; Banks: 5.5) (On 17th Apr 2026)	—	15.4 (SBP: 10.2; Banks: 5.2) (On 18th Apr 2025)	—	—
Exchange rate (PKR/US\$)	283.8 (End June)	—	278.8 (On 29th Apr 2026)	—	281.0 (On 29th Apr 2025)	—	—

### Fiscal (Rs. Billion)

Indicator	FY2025	FY2025 (Jul-Feb)	FY2026 (Jul-Feb)	% Change	FY2025 (Mar)	FY2026 (Mar)	% Change
FBR Tax Revenue (Jul-Mar)	11,744.3	8,453.1	9,305.9	↑10.1	1,109.1	1,183.7	↑6.7
Federal Non-Tax revenue	5,056.4	3,921.6	4,225.2	↑7.7	—	—	—
Fiscal Balance	-6,168.0	-2,524.5	-161.2	↑	—	—	—
Primary Balance	2,719.4	3,542.1	4,319.0	↑	—	—	—

### Monetary Sector

Indicator	FY2025	FY2025	FY2026	% Change
Agriculture Credit (Jul-Feb)	2,577.3	1,654.8	1,892.6	↑14.4
Credit to private sector (Flows)	1,081.6	664.9 (1st Jul to 04th Apr)	864.1 (1st Jul to 03rd Apr)	↑

Indicator	FY2025	FY2025	FY2026	% Change
Growth in M2 (percent)	13.7	3.79 (1st Jul to 04th Apr)	5.55 (1st Jul to 03rd Apr)	—
Policy Rate (percent)	11.0 (End June)	11.0 (06-May-2025)	11.5 (28-Apr-2026)	—

### Real Sector

Indicator	FY2025	FY2025	FY2026
CPI (National) (percent)	4.5	0.7 (Mar) / 5.3 (Jul-Mar)	7.3 (Mar) / 5.7 (Jul-Mar)
Large Scale Manufacturing (LSM) (percent)	-0.73	-1.8 (Jul-Feb)	5.9 (Jul-Feb)

### Financial Sector

Indicator	FY2025	FY2025	FY2026	% Change
PSX Index*	125,627 (On 30th June 2025)	114,872 (On 29th Apr 2025)	165,823 (On 29th Apr 2026)	↑44.3
Market Capitalization (Rs. trillion)	15.24 (On 30th June 2025)	13.49 (On 29th Apr 2025)	18.34 (On 29th Apr 2026)	↑35.8
Market Capitalization (\$ billion)	53.69 (On 30th June 2025)	48.03 (On 29th Apr 2025)	65.76 (On 29th Apr 2026)	↑36.9
Incorporation of Companies (Jul-Mar)	35,210	26,075	31,995	↑22.7

*Table 1 — Medium-Term Macroeconomic Framework (verbatim from MTBSP)*

Indicator	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
Real GDP Growth (%)	-0.2	2.5	2.7	4.2	5.1
Inflation Avg. (%)	29.2	23.4	5.0	7.5	6.8
Nominal GDP (Rs bn)	83,651	105,143	114,692	129,567	144,913
Current A/C (\$ mn)	-3,275	-2,072	1,525	-2,116	-2,420

Indicator	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
Exports — Goods (\$ mn)	27,876	30,980	32,851	35,282	38,634
Imports — Goods (\$ mn)	52,695	53,157	58,303	65,211	71,207
Remittances (\$ mn)	27,333	30,251	37,452	39,437	41,974

*Table 2 — MTFF Summary (Rs Billion, verbatim from MTBSP)*

	FY 24-25 B.E.	FY 24-25 R.E.	FY 25-26 B.E.	FY 26-27
Total Federal Revenues	17,815	16,802	19,278	20,807
FBR	12,970	11,900	14,131	16,078
NTR	4,845	4,902	5,147	4,729
Provincial Transfers	7,438	6,997	8,206	9,112
Net Federal Revenue	10,377	9,805	11,072	11,695
Total Federal Expenditure	18,877	17,249	17,573	18,171
Federal Fiscal Deficit	-8,500	-7,444	-6,501	-6,476
% of GDP	-6.8 %	-6.5 %	-5.0 %	-4.5 %
Overall Fiscal Deficit	-7,283	-6,435	-5,037	-5,027
% of GDP	-5.9 %	-5.6 %	-3.9 %	-3.5 %
Primary Surplus	2,492	2,510	3,170	2,856
% of GDP	2.0 %	2.2 %	2.4 %	2.0 %
GDP	124,150	114,692	129,567	144,913

**Table 3 — FBR Tax Collections (Rs Billion, verbatim from MTBSP)**

Tax Head	FY 23-24 Actual	FY 24-25 B.E.	FY 25-26 Proj.	FY 26-27 Proj.
Direct Taxes	4,530.7	5,512.0	6,902.0	7,897.9
Sales Tax	3,098.8	4,919.0	4,753.0	5,395.4
Customs Duty	1,104.1	1,591.0	1,588.0	1,750.4
Federal Excise Duty	577.5	948.0	888.0	1,034.1
<b>Total FBR</b>	<b>9,311.0</b>	<b>12,970.0</b>	<b>14,131.0</b>	<b>16,077.8</b>

**Table 4 — Indicative Spending & Debt (Rs Billion, verbatim from MTBSP)**

Head	FY 25-26	FY 26-27	FY 27-28
Mark-up Payments	8,207	7,883	7,903
Defence	2,550	2,690	3,018
Grants	1,928	2,092	2,270
Subsidies	1,186	1,205	1,227
Pension	1,055	1,159	1,299
Running of Civil Govt.	971	1,086	1,218
PSDP	1,000	1,300	1,400
<b>Total Expenditure</b>	<b>17,573</b>	<b>18,171</b>	<b>19,176</b>
External Debt Stock	—	—	25,300 (FY 25-26)
Domestic Debt Stock	—	—	60,200 (FY 25-26)
<b>Total Public Debt</b>	<b>—</b>	<b>—</b>	<b>85,500 (FY 25-26)</b>

**Table 5 — KATI Risk Matrix (FY 2026-27 horizon)**

Risk	MTBSP Quantification (% of GDP)	Probability	KATI Tier & Mitigation
Geopolitical (NEW)	Not in MTBSP	Active	Tier 1 — Rs 250 bn Contingency Buffer; oil-import hedging
Natural Disaster	Up to 1.03 % (un-insured)	Medium-High	Tier 1 — Catastrophe Reserve Fund; parametric cover
Revenue Shortfall	0.4 % (half buoyancy)	High	Tier 1 — No-mini-budget rule via FRDLA amendment
Interest-Rate Shock	0.42 % (2 ppt domestic)	Medium-High	Tier 1 — Extend domestic maturity to 5+ yrs
Oil-Price Shock	0.37 % per \$20/bbl	High (active)	Tier 1 — Forward hedge 50 % of crude imports
SOE Contingent Liab.	0.40 % support called	Medium	Tier 2 — Accelerated privatisation (PIA, HBFC, RLNG)
Tax-Expenditure Growth	0.16 % per 10 %	Medium	Tier 2 — Annual sunset clause on every exemption
Climate Adaptation	0.28 % (RCP2.6)	Medium	Tier 2 — Green Sukuk Rs 100-150 bn

**Table 6 — KATI Top-10 Recommendations**

#	Recommendation	Issue Addressed	Tier / Type
1	Repeal Section 7E of ITO 2001 (per FCC ruling 7 May 2026); enact refund procedure.	Revenue / litigation risk	Tier 1 — Statutory
2	Withdraw SRO 835(I)/2026 (147-page TY 2026 return form); re-issue after 60-day consultation per Section 237.	Compliance friction	Tier 1 — Procedural
3	Insert new Section 4D of ITO capping aggregated tax incidence on documented manufacturers at 40 % of accounting profit.	Tax compression; de-documentation	Tier 1 — Policy
4	Restore Section 65B tax credit at 10 % of plant & machinery cost, with 5-year sunset.	CAPEX revival; LSM broadening	Tier 1 — Policy
5	POS-integrated 1.25 % final tax on retail/wholesale turnover; deadline 30 June 2027.	Base widening (est. Rs 280-350 bn Y1)	Tier 1 — Policy
6	Reduce Section 151 WHT on corporate bank interest from 20 % back to 15 %.	Banking-system documentation	Tier 2 — Policy

#	Recommendation	Issue Addressed	Tier / Type
7	Differential Petroleum Levy: HSD for agri/industrial captive Rs 30/litre below retail.	Inflation-tax incidence; competitiveness	Tier 2 — Policy
8	Allocate Rs 250 bn Geopolitical Contingency Buffer within the Emergency category.	Middle East / energy shock	Tier 1 — Budget framing
9	Expand SBP LTFF/EFS by Rs 300 bn for FY 2026-27 — Industrial Refinance Window.	Industrial credit shortage	Tier 1 — SBP coordination
10	Amend FRDLA: bind no-mini-budget rule — revenue shortfall >Rs 300 bn triggers expenditure adjustment, not new taxation.	MTBSP credibility; investor confidence	Tier 1 — Legislative

*Table B.1 — Global Growth & Inflation Snapshot (IMF WEO, April 2026)*

Economy	2024 (Actual)	2025 (Est.)	2026 (Proj.)	2027 (Proj.)	Notes
World GDP Growth (%)	3.3	3.4	3.1	3.2	Below 3.7 % historic avg.
Advanced Economies (%)	1.8	1.7	1.4	1.6	Moderate slowdown
Emerging & Developing (%)	4.3	4.4	3.9	4.0	Sharper hit; commodity importers stressed
United States (%)	2.8	2.7	1.8	2.0	Tariff drag + tighter financial conditions
China (%)	5.0	4.8	4.4	4.0	Lower US tariffs; policy support
India (%)	8.2	6.5	6.6	6.5	Highest among large economies
Euro Area (%)	0.8	0.9	1.0	1.4	Gas-price exposure heightens
Saudi Arabia (%)	1.3	3.0	1.6	3.7	Largest cut: Hormuz transit risk
UAE (%)	3.8	4.0	3.5	5.0	Diversification cushioning

Economy	2024 (Actual)	2025 (Prov.)	2026 (Proj.)	2027 (Proj.)	Notes
MENAAP excl. Iran (%)	—	4.0	1.8	—	WB cut 240 bps from Jan 2026 forecast
Global Headline CPI (%)	5.8	4.5	4.4	3.7	Re-acceleration in 2026
Brent / WTI / Dubai avg. (\$/bbl)	—	67.74	82.22	75.97	IMF futures-based assumption

Table B.2 — Pakistan Key Indicators (FY 2025-26 vs FY 2024-25)

Indicator	FY 2024-25	FY 2025-26	Change	Source
Real GDP Growth (%)	3.18	3.70 (Prov.)	+52 bps	PBS / NAC May 2026
Nominal GDP (Rs Trillion)	114.0	126.9	+11.3 %	PBS
GDP in USD (Billion)	408.2	452.1	+10.8 %	PBS
Per Capita Income (USD)	1,824	1,901	+4.2 %	PBS
Agriculture Growth (%)	0.56	3.01	+245 bps	NAC
Industry Growth (%)	4.77	4.65	-12 bps	NAC
LSM Growth Jul-Mar (%)	-1.8	+6.11	+791 bps	PBS QIM
Services Growth (%)	2.91	4.09	+118 bps	NAC
CPI Inflation (Mar, YoY %)	0.7	7.3	+660 bps	Finance Div.
CPI (Jul-Mar avg., %)	5.3	5.7	+40 bps	Finance Div.
SBP Policy Rate (%)	11.00	11.50	+50 bps (28 Apr 26)	SBP
FX Reserves Total (USD bn)	15.4 (Apr-25)	20.6 (Apr-26)	+33.8 %	SBP
PKR / USD	281.0	278.8	Rs +2.2 firmer	SBP
Remittances (Jul-Mar, USD bn)	28.0	30.3	+8.2 %	SBP
IT Exports (Jul-Feb 8M, USD bn)	2.49	2.98	+19.7 %	SBP / MoITT

Indicator	FY 2024-25	FY 2025-26	Change	Source
FBR Tax (Jul-Mar, Rs bn)	8,453	9,306	+10.1 %	FBR
Fiscal Deficit (Jul-Feb, % GDP)	-2.2	-0.1	Sharp consolidation	Finance Div.
Primary Surplus (Jul-Feb, % GDP)	3.0	3.3	+30 bps	Finance Div.
KSE-100 Index (29 Apr)	114,872	165,823	+44.3 %	PSX

*Table B.3 — Pakistan's Five Geopolitical Exposures*

Vector	Transmission	Fiscal Impact	KATI Mitigation
Middle East war / energy	Every USD 10/bbl sustained oil rise → Rs 220-260 bn import bill + Rs 80-100 bn subsidy adjustment.	Up to 0.4 % of GDP / year	Differential petroleum levy; hedge 50 % of 6-month crude imports
GCC remittance corridor	57 % of remittances from GCC; 10 % corridor disruption removes USD 2.3-2.5 bn from external account.	PKR depreciation pressure	Bilateral labour agreements; RDA diversification
Strait of Hormuz / shipping	Red Sea + Gulf risk premium adds 1.5-2.5 % to landed import cost of industrial inputs.	Cost-push on LSM	Strategic petroleum reserve; alternate routing
US-China trade & tariffs	Pakistan exports concentrated in textiles (~60 % to US/EU); tariff policy resets affect competitiveness.	Margin compression	FTA acceleration with ASEAN, CARs, Africa
Afghanistan border & migration	Refugee returns + cross-border trade frictions; 11 % Afghan population rise in FY25 from net migration.	Provincial fiscal stress	Targeted border infrastructure spend

Table 1 — Verified Inventory of Key SROs Issued FY 2024-25 / FY 2025-26

SRO No.	Date	Subject	Policy Signal & KATI Commentary
SRO 1064(I)/2024	22 Jul 2024	Amendments to Tajir Dost Procedure — fixed-tax scheme for retailers in notified cities	Trader documentation expansion; relief provisions remain limited and uptake has lagged FBR targets.
SRO 1321(I)/2024	28 Aug 2024	Income Tax Return for traders for TY 2024 onwards who did not file TY 2023	Belated-filer specific form; aimed at lapsed traders re-entering the net.
SRO 1377(I)/2024	6 Sep 2024	Amendments to ADR Rules — Sales Tax & FED	Promotes alternative dispute resolution but effectiveness depends on Committee composition and FBR's willingness to honour ADR awards.
SRO 1449(I)/2024	19 Sep 2024	Condonation of time limit by Commissioner-IR under Section 43, Federal Excise Act 2005	Procedural relief enabling Commissioners to extend statutory time-limits.
SRO 1513(I)/2024	26 Sep 2024	Amendment to POS Prize Scheme procedure	Refines the consumer-facing incentive layer of the POS regime.
SRO 1724(I)/2024	Late 2024	Valuation Tables of Immovable Property (multiple cities)	Master valuation revision; serves as base for property-related WHT and CGT computations.
SRO 2041(I)/2024	10 Dec 2024	34 commercial banks designated as withholding agents under SWAPS	Banking-channel WHT consolidation; demands robust API integration on both sides.
SRO 2082(I)/2024	31 Dec 2024	"Digital Eye" real-time monitoring for sugar sector	Surveillance-based compliance for metered sectors; precedent for cement/beverages.
SRO 55(I)/2025	24 Jan 2025	Amendment to Rule 14 of Sales Tax Rules, 2006	Procedural rule refinement following e-invoicing rollout.
SRO 69(I)/2025	29 Jan 2025	Replaced Chapter XIV of Sales Tax Rules, 2006 — Licensing, e-	Foundational e-invoicing framework; merged Chapter XIV-AA and XIV-BB into one regime.

SRO No.	Date	Subject	Policy Signal & KATI Commentary
		invoice issuance & integration	
SRO 144(I)/2025	11 Feb 2025	Amendment to SRO 1724(I)/2024 — Immovable property valuation tables (Karachi)	Material increase in reference values; flows into 236C/K and capital-gains base.
SRO 164(I)/2025	17 Feb 2025	Sealing & de-sealing of business premises — Tier-1 retailers and notified persons	Coercive enforcement layer over e-invoicing. Operational risk for SMEs facing connectivity downtime.
SRO 577(I)/2025	8 Apr 2025	Minimum ex-mill value of sugar fixed for sales tax purposes	Administered-price model — first formal use of reference pricing for ST base.
SRO 578(I)/2025	8 Apr 2025	Mandatory annexures to sales tax invoices (STR)	Transaction traceability enhanced; compliance cost rises sharply for SMEs.
SRO 709(I)/2025	22 Apr 2025	All ST-registered persons to integrate hardware/software with FBR system	Universalization of e-invoicing (subsequently superseded by SRO 1413/2025 for phasing).
SRO 1212(I)/2025	7 Jul 2025	Draft Electronic Income Tax Return Forms for TY 2025 (Companies, Salaried, AOP, Individual)	Standard return-form set issued for TY 2025.
SRO 1213(I)/2025	7 Jul 2025	Draft Simplified Electronic Income Tax Return — Individuals — TY 2025	Eight-window guided form for small filers; 7-day objection window invited criticism.
SRO 1413(I)/2025	1 Aug 2025	Phased e-invoicing integration timetable (supersedes SRO 709/2025)	Phased rollout: Nov 1 — large taxpayers/importers; Dec 31 — final cut-off.
SRO 1561(I)/2025	Aug 2025	Simplified e-Return form for individuals — final notification (TY 2025)	Live deployment of the eight-window simplified return.

SRO No.	Date	Subject	Policy Signal & KATI Commentary
SRO 1562(I)/2025	Aug 2025	Simplified e-Return forms for Salaried Persons, Companies, AOPs and Professionals	Complementary forms covering remaining filer categories.
SRO 1634(I)/2025	27 Aug 2025	Draft — Online Marketplaces to file statements under Rule 38A of Income Tax Rules 2002	First formal documentation push on digital-economy sellers.
SRO 1852(I)/2025	Oct 2025	Extended phased integration deadlines for public-sector / large taxpayers	Re-phasing to 1 Nov 2025 (large) → 31 Dec 2025 (residual).

*Table 1 — KATI Statistical Profile (Source: kati.pk)*

Parameter	Verified Figure
Year established	1970
Area covered	Over 10,000 acres ( $\approx$ 8,500–10,000 acres in different references)
Industrial, commercial & service enterprises	Over 5,000
Direct employment generated	Approximately 1.5 million workers
Operative textile mills in KIA	372
Share of Pakistan's leather exports handled by KIA tanneries	Approximately 40 %
Share of Pakistan's crude-oil refining within KIA	Approximately 78 % (National Refinery + Pakistan Refinery)
Operational bank branches within KIA	20+ (major and minor banks)
Special Economic Zone within KIA	Korangi Creek Industrial Park (KCIP) — 250-acre SEZ since 2015 (PIDC managed)

*Table 2 — Sector Export Performance & KIA's Share*

Sector	FY 24-25 Exports	FY 25-26 (8M/9M)	Growth YoY	KIA Share (KATI estimate)
Textiles (Total)	\$17.88 bn	\$13.34 bn (9MFY26)	+2.28 %	~15-20 %
Knitwear	—	\$1.42 bn (Q1)	+12.21 %	Significant

Sector	FY 24-25 Exports	FY 25-26 (8M/9M)	Growth YoY	KIA Share (KATI estimate)
Bedwear	—	\$852.9 mn (Q1)	+7.28 %	Significant
Readymade Garments	—	\$1,057 mn (Q1)	+6.07 %	Significant
Leather Manufactures	~\$650 mn	\$59.4 mn (Mar alone)	+8.24 %	≈40 %
Sports Goods (incl. footballs)	~\$310 mn	+13.26 % cumul.	+17.85 % YoY (Mar)	Tanning & inputs ~25-30 %
Pharmaceuticals	~\$340 mn	\$270-300 mn (8M)	Stable	Material cluster
Surgical & Medical Inst.	—	\$45.9 mn (Mar)	-2.85 %	Sialkot-dominant
Chemical & Pharma Products	—	\$120.8 mn (Mar)	-3.55 %	Significant
Food (incl. agri value-added)	\$7.11 bn	Softening	-3.4 % FY25 final	Modest
IT & ITeS (services)	\$3.812 bn	\$2.975 bn (8M)	+19.7 %	Karachi-anchored
Combined KATI estimated exports	—	~\$6.5-7.0 bn annual run-rate	—	Korangi cluster

Table 1 — Pakistan Statistical Snapshot (May 2026)

Parameter	Verified Figure
Total population (mid-2026 projection)	259.30 million (UN WPP 2024; PBS census-anchored)
Global population rank	5 <sup>th</sup>
Annual population growth	≈ 1.59 %; ~5.2 million net addition / year
Median age	20.8 years (males 21.5; females 22.0)
Total area	881,913 km <sup>2</sup> (33rd largest country)
Land area	770,880 km <sup>2</sup>
Population density	≈ 336 / km <sup>2</sup> (2026)
Urban share	≈ 38-40 % (≈ 103 million urban; ≈ 156 million rural)
Number of households	≈ 42.7 million (Statista 2025); ~46 mn projected by 2030
Average household size	5.4-6.8 persons (PBS / world-bank range)

Parameter	Verified Figure
Housing shortage (estimated)	~12 million units
Life expectancy at birth	68.1 years (males 64.2; females 67.9)
Literacy rate (15+ years)	≈ 59 % (PBS / UNESCO)
Labour-force size	≈ 85 million (2025 forecast, Statista)
Unemployment rate (Statista 2025 fc.)	≈ 8.0 % (PBS LFS 2020-21 baseline 6.3 %)
Youth-NEET rate (15-24)	≈ 32.5 % (PBS LFS 2020-21)
Per-capita income (PBS, FY 2025-26 prov.)	USD 1,901 (Rs 533,629)
GDP at market prices (FY 2025-26 prov.)	Rs 126.9 trillion / USD 452.1 billion
Real GDP growth (FY 2025-26 prov.)	3.70 % (PBS / NAC 13 May 2026)
Water availability per capita	~1,017 m <sup>3</sup> /year — below 1,700 m <sup>3</sup> "water-stress" line
River-flow storage capacity	~10 % of average annual flow (global avg. ~40 %)

*Table 2 — Monetary Policy Indicators (latest available, May 2026)*

Indicator	Latest Value / Period
SBP target policy rate	11.50 % (effective 28 April 2026; raised 50 bps from 11.00 %)
Policy-rate path FY 2024-25 → FY 2025-26	22 % (mid-2024) → 11.00 % → 11.50 % (Apr 2026)
CPI inflation (March 2026, YoY)	7.3 %
CPI inflation Jul-Mar FY 2025-26 (average)	5.7 % (vs target band 5-7 %)
CPI projection (April 2026, Finance Division)	8.0 – 9.0 % (cost-push from energy shock)
Money supply (M2) growth, Jul 1 – Apr 3 FY 2025-26	+5.6 % (+Rs 2,247 bn)
Private-sector credit (Jul-Apr 2026)	Rs 864.1 bn (vs Rs 665.0 bn last year)
Fixed-investment loans (Jul-Mar 2026)	Rs 387.7 bn (vs Rs 259.2 bn last year)
Forex reserves (total, 17 Apr 2026)	USD 20.6 bn (SBP USD 15.1 bn + Banks USD 5.5 bn)
Exchange rate (29 Apr 2026)	PKR 278.8 / USD (vs PKR 281.0 a year earlier)
Sovereign credit rating (Fitch, FY 2026)	B – / Stable

**Table 3 — Fiscal Indicators (Rs Billion / % of GDP)**

Indicator	FY 24-25 R.E.	FY 25-26 B.E.	FY 26-27	FY 27-28
Total Federal Revenue	16,802	19,278	20,807	23,092
FBR Tax Revenue	11,900	14,131	16,078	17,974
Non-Tax Revenue	4,902	5,147	4,729	5,118
Federal Expenditure	17,249	17,573	18,171	19,176
Federal Fiscal Deficit	-7,444 (-6.5 %)	-6,501 (-5.0 %)	-6,476 (-4.5 %)	-6,288 (-3.9 %)
Overall Fiscal Deficit (% of GDP)	-5.6 %	-3.9 %	-3.5 %	-2.9 %
Primary Surplus (% of GDP)	2.2 %	2.4 %	2.0 %	2.0 %
GDP (Rs trillion)	114.7	129.6	144.9	162.5

**Table G.1 — Regional Tax Architecture Comparison (Current Rates, May 2026)**

Parameter	Pakistan	India	Baughladesh	Vietnam	Indonesia	OECD avg.
Tax-to-GDP ratio (latest)	~10-11 %	~17-18 %	~7-8 %	~18 %	~12 %	~34 %
Standard Corporate Tax	29 %	22 %* / 25 %	27.5 %	20 %	22 %	~23.5 %
Mfg. CIT — new units	29 %	15 %*	12 % (EPZ)	0-5 % (4-9 yrs)	12.5-22 %	—
Banking CIT	39 % + super tax	22-25 %	37.5-40 %	20 %	22 %	—
Super Tax (Sec. 4C, Pak)	Up to 10 %	Surcharge 7-12 %	—	—	—	—
Standard VAT/GST	18 %	18 % (std slab)	15 %	10 %	12 %	~19 %
VAT refund standard time	60-180 days (in practice)	30-60 days	Bonded-warehouse model	≤ 40 days	30 days	30 days (UK 1-3 mo)
Active corporate filers	~250,000	1.3 million+	~190,000	~900,000	~3.5 million	—

Parameter	Pakistan	India	Bangladesh	Vietnam	Indonesia	OECD avg.
Personal income tax — top rate	35 % + 10 % surcharge	30 % + cess	30 %	35 %	35 %	~40 %

Table G.2 — KATI's Priority Gap Analysis

Gap	Pakistan	Regional Best	Closing Action
Tax-to-GDP	~10-11 %	Vietnam ~18 %	POS-integrated retail GST; online-marketplace WHT
Effective CIT for new mfg.	29 % + super tax	India 15 % (Sec. 115BAB)	Restore Section 65B; tiered new-investment rate
VAT refund cycle	60-180 days	EU/UK 30-90 days	Automated risk-rated refund within 45 days
Compliance hours / year	~283	UAE 12; China 138	Single-window WHT; e-invoicing stability
DLTL / refund backlog	~Rs 90-110 bn	Largely cleared in peers	Quarterly settlement with TFC bond carry
Active corporate filer base	~250,000	India 1.3 mn+	Mandatory sectoral coverage (retail, real estate, services)
SME presumptive coverage	<100,000	India millions	1.25 % final turnover tax up to Rs 50 mn
Industrial RLNG cost	>USD 11-13/MMBtu	Bangladesh ~USD 6	Captive-power facilitation; gas-allocation priority

Supplementary Table 26

Indicator	Latest available position from reviewed documents	Policy meaning for Budget 2026-2027
Policy rate	11.50 percent with effect from 28 April 2026 after 100 bps increase by SBP.	Budget measures must not further increase financing cost or working-capital lock-up.
Inflation	CPI inflation 7.3 percent in March 2026; core inflation 7.8 percent; April 2026 outlook 8.0-9.0 percent.	Avoid fresh cost-push taxation on energy, freight, raw materials and industrial inputs.
GDP / industrial activity	Real GDP growth 3.8 percent in H1-FY26; LSM growth 5.9 percent during Jul-Feb FY2026.	Industrial recovery exists but remains vulnerable to energy and import-cost shocks.
External account	Current account surplus of US\$1.1 billion in March 2026; Jul-Mar FY2026 aggregate surplus of US\$8 million.	Exports and remittances are supporting stability; export incentives should be protected.

Indicator	Latest available position from reviewed documents	Policy meaning for Budget 2026-2027
Trade	Goods and services exports US\$30.6 billion; imports US\$56.3 billion; trade deficit US\$25.7 billion during Jul-Mar FY2026.	Import rationalization should distinguish productive imports from non-essential consumption.
Remittances	Workers' remittances US\$30.3 billion during Jul-Mar FY2026, up 8.2 percent.	Formal channels matter; similar formalization should be designed for trade and retail.
FBR collection	FBR tax collection Rs. 9,305.9 billion during Jul-Mar FY2026, up 10.1 percent.	Revenue improvement should shift from rate increases to base expansion and compliance.
Foreign exchange reserves	Total reserves US\$20.6 billion as of 17 April 2026; SBP reserves around US\$15.1 billion in April update and US\$15.8 billion in SBP statement dated 24 April 2026.	Improved reserves provide space for export-oriented facilitation and predictable imports.
MTFF projection	FBR revenue projected at Rs. 16,078 billion for FY2026-27 and Rs. 17,974 billion for FY2027-28.	Ambitious revenue targets require broadening the base, not repeated taxation of compliant taxpayers.

*Supplementary Table 27*

Sector	Immediate issue	Budget proposal
Textile and garments	Energy cost, refunds, import input cost, export pricing pressure.	Export energy package, faster refunds, optional FTR, reduced duties on inputs.
Leather and tanning	Environmental compliance cost and export market standards.	Tax credit/duty relief on effluent treatment, testing and certification equipment.
Pharmaceuticals	Input cost, DRAP-linked compliance, machinery and testing equipment.	Rationalised duties/taxes on quality-control and production equipment.
Food processing	High packaging cost and uneven tax treatment.	Lower duties on packaging inputs and formal processing equipment.
Engineering and auto parts	Third Schedule/MRP anomalies and raw material cost.	Remove unsuitable items from Third Schedule and tax on actual value chain.
Digital and IT-enabled exporters	Policy uncertainty and payment channel issues.	0.25 percent rate to 2035; international payment gateways; data protection and export support.
EPZ units	Threat to 80/20 facility and investor confidence.	Retain facility; prospective consultation-based amendments only.

**Supplementary Table C.14 — Implementation Matrix from Base File**

S. No.	Proposal	Responsible authority	Suggested legal / administrative route	Priority
1	Optional FTR for goods exporters	FBR / Ministry of Finance	Finance Bill amendment to Income Tax Ordinance, 2001	High
2	IT/ITeS 0.25% rate to 2035	FBR / MoITT / Ministry of Finance	Finance Bill or binding notification with sunset date	High
3	Corporate tax roadmap to 25%	Ministry of Finance / FBR	Budget policy statement and phased Finance Act amendments	High
4	Super tax installments and surcharge relief	FBR	Statutory installment mechanism / circular / Finance Bill	High
5	GST roadmap 18% to 15%	Ministry of Finance / FBR	Budget policy statement and annual Finance Act reduction	High
6	Refunds within 30 days with compensation/adjustment	FBR / PRAL	Sales Tax Act and Income Tax Ordinance amendments; IRIS automation	Very High
7	E-invoicing correction window	FBR	Rules/SRO amendment and technical implementation note	High
8	Retail/wholesale formalisation window	FBR / Provincial authorities	Special procedure, simplified return and data integration	High
9	Customs duty rationalisation for inputs	FBR Customs / National Tariff Commission	Tariff schedule changes and SRO rationalisation	High
10	EFS practical amendments	FBR Customs	Amendment in EFS Rules	High
11	EPZ 80/20 facility protection	Ministry of Commerce / EPZA / FBR	Policy clarification and prospective consultation rule	Very High
12	Audit policy with taxpayer safeguards	FBR / Tax Policy Office	Annual audit policy, audit manual and legal safeguards	High

S. No.	Proposal	Responsible authority	Suggested legal / administrative route	Priority
13	ADR strengthening	FBR / Ministry of Law	ADR rule amendments and enforceability mechanism	Medium
14	Energy efficiency machinery relief	Ministry of Finance / FBR / Power Division	Customs and sales tax exemption/reduction schedule	High
15	New return 2026 transition safeguards	FBR	Implementation circular, help desks and penalty waiver for system errors	High