

# Catalyzing Exports: Designing Effective Tax Policies for Pakistan's Exporting Units



## Acknowledgement and Disclaimer

This research study, Catalyzing Exports: Designing Effective Tax Policies for Pakistan's Exporting Units, has been prepared by the Policy Research and Advisory Council (PRAC) in collaboration with the Memon Professional Forum (MPF). The report aims to provide research-based insights into Pakistan's tax structure and its implications for exporting units.

The study incorporates stakeholder feedback and insights gathered, which helped ground the analysis in the practical challenges faced by exporters under the existing tax regime. Consultations with tax experts further enriched the study by strengthening the understanding of the prevailing tax framework and informing the reform proposals presented in this report. PRAC gratefully acknowledges the support and contributions of the Memon Professional Forum, participating stakeholders, and tax experts. The authors extend special thanks to Mr. Abdul Qadir Memon for his professional insights and valuable contributions to this study.

The authors also acknowledge the use of official data and publications from the Pakistan Bureau of Statistics (PBS), State Bank of Pakistan (SBP), Pakistan Economic Survey (PES), Federal Board of Revenue (FBR), Board of Investment (BoI), Export Processing Zones Authority (EPZA), and Trade Development Authority of Pakistan (TDAP). Comparative references have also been drawn from reports of the United Nations Conference on Trade and Development (UNCTAD) and the World Bank.

All data and statistics cited in this report are drawn from the latest available official sources and may be subject to revision. The analysis, interpretations, and conclusions presented in this report are solely those of the authors and do not necessarily reflect the views of the institutions, organizations, or data sources referenced.

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## Acronyms

<b>CIT</b>	Corporate Income Tax
<b>EDB</b>	Engineering Development Board
<b>EDI</b>	Export Diversification Index
<b>EDS</b>	Export Development Surcharge
<b>EFS</b>	Export Facilitation Scheme
<b>EOU</b>	Export-Oriented Units
<b>EPZA</b>	Export Processing Zones Authority
<b>EPZs</b>	Export Processing Zones
<b>FTR</b>	Final Tax Regime
<b>IOCO</b>	Input Output Coefficient Organization
<b>LPI</b>	Logistic Performance Index
<b>MoF</b>	Ministry of Finance
<b>NTR</b>	Normal Tax Regime
<b>PSEB</b>	Pakistan Software Export Board
<b>PSW</b>	Pakistan Single Window
<b>PwC</b>	Pricewaterhouse Coopers
<b>RMG</b>	Ready-made Garment
<b>RoDTEP</b>	Remission of Duties and Taxes on Exported Products
<b>SBP</b>	State Bank of Pakistan
<b>SEZs</b>	Special Economic Zones
<b>TY</b>	Tax Year
<b>WeBOC</b>	Web-Based One Customs
<b>WHT</b>	Withholding Tax
<b>WTO</b>	World Trade Organization

### Executive Summary

Pakistan's export sector remains structurally weak and underperforming, reflected in a persistently low export-to-GDP ratio of approximately 8.0% and a marginal global export share of around 0.12%. In contrast to peer economies such as Vietnam, India, and Bangladesh, which have leveraged export-led growth strategies to drive industrialization and foreign investment, Pakistan continues to face systemic constraints that limit its export competitiveness. This report examines the role of taxation as a critical determinant of export performance and identifies key structural, administrative, and regulatory inefficiencies that undermine the effectiveness of Pakistan's export ecosystem.

A central finding of the analysis is the shift in tax policy from facilitation to revenue extraction, particularly following the transition from the Final Tax Regime (FTR) to the Normal/Minimum Tax Regime (NTR/MTR) under the Finance Act 2024. Under the previous FTR, exporters benefited from a simplified and predictable tax structure, where a 1% withholding tax on export proceeds constituted full and final tax liability. The new framework, however, requires exporters to compute taxable income under the normal tax regime (Corporate income up to 29% or 1% Minimum Tax on Turnover; whichever is higher), in addition to advance tax and potential exposure to super tax. This shift has significantly increased the effective tax burden, potentially reaching 58% (for corporates) depending on profitability, while also intensifying compliance requirements, audit exposure, and administrative costs.

The report further highlights critical liquidity constraints arising from delayed tax refunds, which often extend from several months to over two years. Despite the introduction of automated systems such as FASTER, refund delays continue to strain working capital, disrupt production cycles, and reduce firms' capacity to meet export demand. While export facilitation schemes such as EFS 2021 represent an effort to modernize and consolidate earlier frameworks, their effectiveness remains constrained by policy instability, compliance burdens, restrictive operational conditions, and administrative bottlenecks. These issues are compounded by the withdrawal of zero-rating on local inputs under the Export Facilitation Scheme (EFS) 2021, which has reintroduced refund dependency and increased cash flow pressures, particularly for small and medium enterprises (SMEs). Collectively, these measures have embedded an anti-export bias within the tax system by increasing the cost of exporting, constraining exporter liquidity, and weakening Pakistan's competitiveness in international markets.

Pakistan's export taxation framework is also characterized by the multiplicity of taxes. This layered structure increases the cost of doing business and creates distortions that discourage export-oriented production. In contrast, peer economies offer streamlined tax systems, preferential corporate tax rates, and efficient refund mechanisms, enabling stronger integration into global value chains and sustained export growth. These policies have supported rapid export expansion, diversification, and FDI inflows. Pakistan's limited export-specific incentives, combined with the rollback of key tax advantages, have reduced the competitiveness of its exporters relative to regional peers. Similarly, institutions such as the Export Development Fund (EDF) suffer from underutilization,

delayed disbursements, and weak governance, limiting their ability to support export promotion effectively.

In conclusion, the report underscores the need for a fundamental reorientation of Pakistan's tax policy toward an export-led growth framework. This requires simplifying the tax regime, restoring predictability, ensuring timely refunds, rationalizing levies, strengthening institutional coordination, and reversing the withdrawal of key export-related tax advantages that have weakened exporters' competitiveness. Without such reforms, the current tax structure risks continuing to act as an implicit tax on exports, constraining Pakistan's ability to expand its export base, attract investment, and achieve sustainable economic growth.

### 1. Introduction

In the intricate era of competitiveness and globalization, the survival of economies is hinged on intensive and integrated supply chains and international trade. Within this phenomenon, exports are universally acknowledged as a critical engine of growth, a conduit for foreign exchange earnings, revenues, an exploring tool for market diversification, a primary vector for integration into global value chains while promoting production efficiencies, transfer of technology, and specialization leading to export competitiveness. However, the trajectory of export competitiveness is not shaped in a vacuum but is contingent on the structural and policy frameworks employed by exporting countries. It is profoundly influenced by the domestic policy ecosystem. The ease of doing business and volatile trade policies, economic and political stability have a dwindling effect on exports by exacerbating potential risks, which is equally critical for resilient long-term export planning and foreign investment.

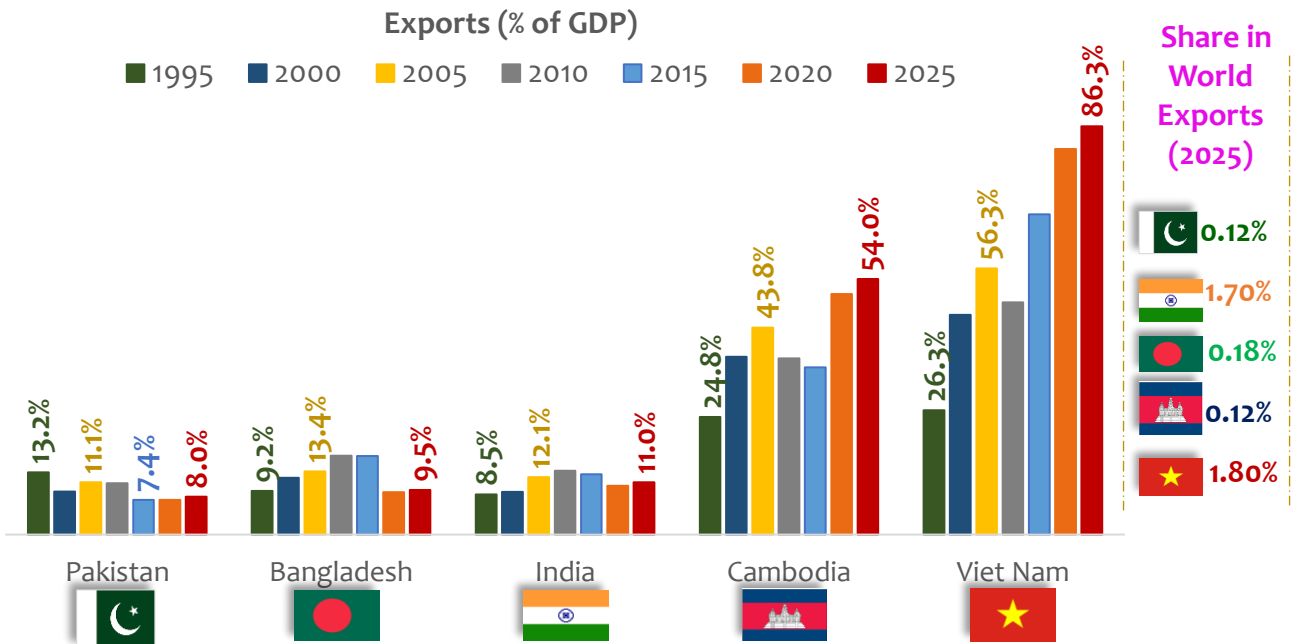
Among other determinants of export competitiveness, taxation remains one of the most critical. Fiscal policy has a direct influence on the cost structure, profitability, and investment incentives of export-oriented firms. While taxation is necessary to mobilize revenue for public goods and infrastructure, its design can either support or suppress export activity. A well-structured tax system can encourage production, formalization, and investment. By contrast, inefficient and unpredictable tax regimes, marked by multiple levies, cascading effects, and heavy compliance burdens, act as an implicit tax on exports. Such distortions erode profit margins, weaken price competitiveness, and undermine the broader objective of external sector stability. In this sense, domestic tax policy can inadvertently work against national export ambitions and the goal of achieving the external sector's stability.

This issue is particularly relevant in the context of developing economies, where revenue mobilization remains a central policy concern (ADB, 2024). Across Asia and the Pacific, many countries continue to focus on strengthening tax collection, yet fiscal frameworks are often criticized for contributing to uncertainty and volatility rather than supporting export-oriented growth (World Bank, 2025). In contrast, the experience of many Asian economies demonstrates that sustained growth has been closely linked to export competitiveness, innovation, and integration into world markets. Pakistan, however, has not been able to follow a similar trajectory. Its export-to-GDP ratio has fallen from over 13.2% in the 1990s to around 8% in 2025. This decline reflects not only weak export performance but also the inability of the export sector to emerge as a dynamic driver of growth. For a country that regularly faces balance-of-payments pressures and requires foreign exchange to finance imports and service external debt, this represents a major structural weakness.

Comparative evidence further highlights the magnitude of the challenge. Pakistan's export-to-GDP ratio of 13.2% remains far below its competitors: Bangladesh (9.5%), Cambodia (54%), and Vietnam (86.3%), and even lower than the average of lower-middle-

income countries (27.2%). Likewise, its share in global exports remains marginal, at roughly 0.1% in 2025, compared with about 1.7% for India, 1.8% for Vietnam, and 0.2% for Bangladesh.<sup>1</sup>

**Figure 1: Exports of Goods (as % of GDP)–A Comparative Analysis**



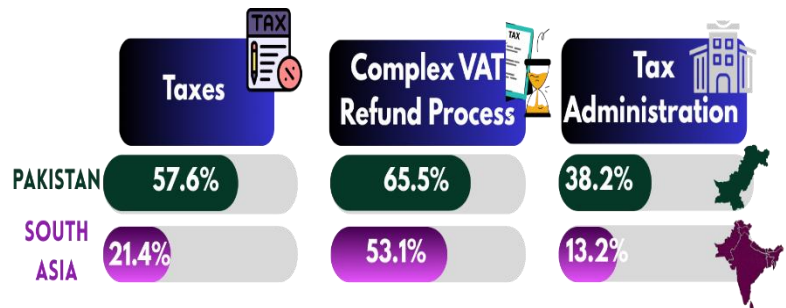
Source: WDI, Trading Economics, UNCTAD

Export growth in other economies has also attracted substantial foreign direct investment, enabling capital inflows, technological upgrading, and stronger industrial capabilities, benefits that Pakistan has captured only to a limited extent. The World Bank has also estimated that Pakistan has nearly USD 60 billion in untapped export potential, underscoring the scale of the missed opportunity.<sup>2</sup>

This gap suggests that Pakistan is struggling to face challenges in creating a conducive environment that can expand export capacity at a pace needed to strengthen its relevance in global markets. Despite repeated policy commitments to create an export-supportive environment, exporting firms continue to face a dense tax burden and significant compliance frictions.

**Figure 2: Taxation as Business Constraint: Pak vs. South Asia**

Percentage of Exporting Firms Identifying Tax as a Burden



Source: World Bank Enterprise Survey 2022

According to the World Bank Enterprise Survey (2022), 57.6% of exporting firms in Pakistan identified tax rates as a major or very severe constraint, compared with only 21.4% across South Asia. Similarly, 38.2% of

<sup>1</sup> World Bank’s Pakistan October Update 2025. Available at: [Pakistan-Development-Update-Staying-the-Course-for-Growth-and-Jobs-October-2025.pdf](#)

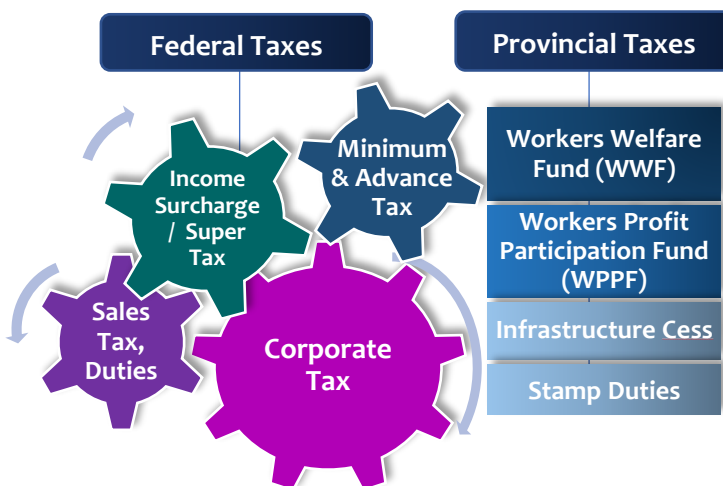
<sup>2</sup> www.globaleconomy.com

exporters cited tax administration as a major obstacle to doing business in Pakistan. These findings suggest that the challenge lies not only in the level of taxation, but also in the structure, administration, and predictability of the tax regime itself.

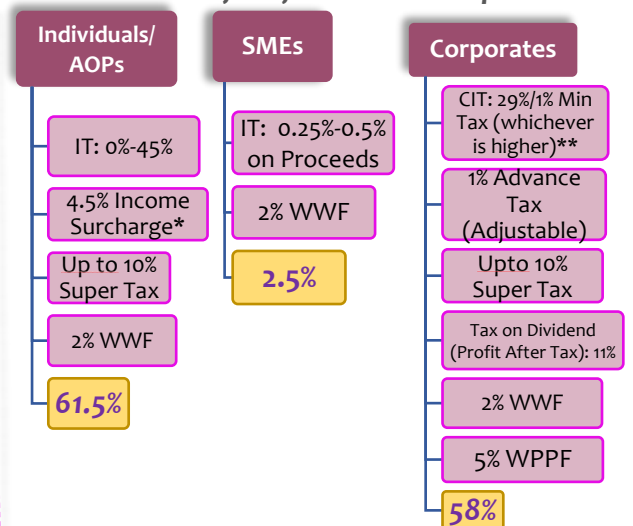
## 2. Federal Tax Framework for Pakistan's Export Sector

Pakistan's taxation framework for exporters is highly complex and marked by multiple layers of taxation (Figure 4). Exporters face overlapping federal and provincial taxes, imposed under numerous legal instruments and administered by different authorities. Exporters of goods and services with offices across multiple provinces are now required to file more than 60 separate returns annually with different tax authorities, making the compliance framework excessively complex, costly, and impractical.<sup>3</sup> This layered structure significantly increases the cost of doing business and is one of the key factors contributing to industrial underperformance and, in some cases, deindustrialization. In addition to the multiplicity of taxes, frequent changes in tax policy over the past few years have further constrained businesses and pushed them backward, as discussed in the

**Figure 4: Multiple Layers of Taxation**  
Multiple Layers of Taxation



**Figure 4: Tax Burden across Exporting Units in Pakistan**  
Breakdown of Major Taxes on Exporters



**Source:** ITO (2001), Companies Profits (Workers Participation) Act 1968, Workers Welfare Fund Ordinance 1971, PwC

**Note:** For the effective tax burden, the maximum slab of each tax has been used. Effective Tax Rates are approximate and may vary by taxpayer category and applicable provisions. \*\* The 1% rate refers to the minimum tax on export proceeds. \*Effective income surcharge rates and effective tax on dividends have been used.

IT = Income Tax, CIT = Corporate Income Tax, WWF = Workers Welfare Fund, WPPF = Workers Profit Participation

later section.

Distortionary taxation and high compliance costs raise input prices and weaken competitiveness. Firms in Pakistan face a disproportionate tax burden, while multiple layers of taxation on exports reinforce inefficiency, rent-seeking, and resource misallocation. As Piermartini (2004) notes,<sup>4</sup> export taxes can undermine export performance by discouraging efficient domestic producers. At a time when Pakistan

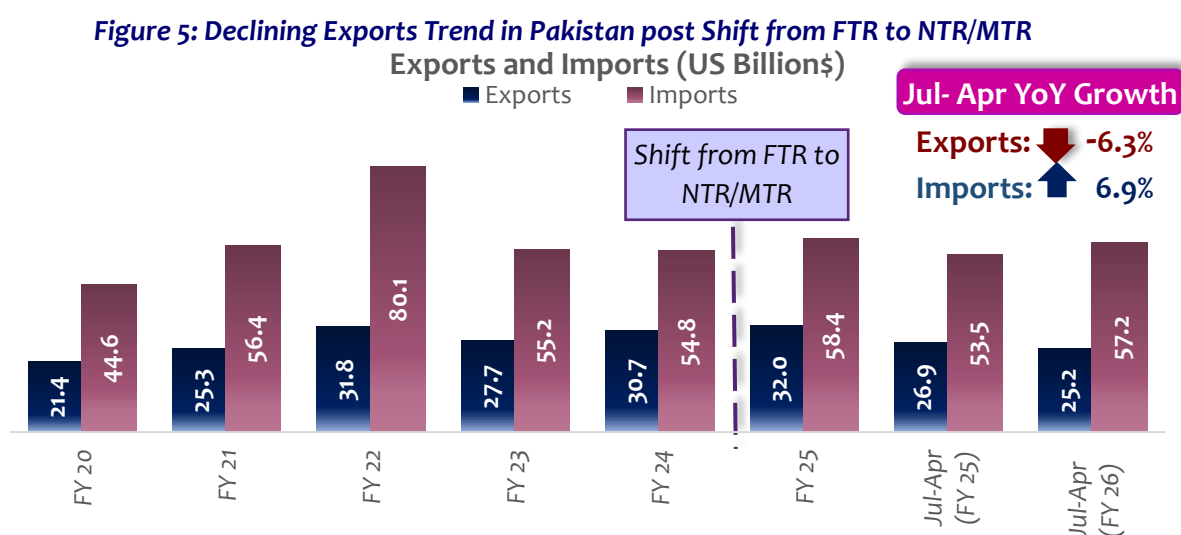
<sup>3</sup> <https://tribune.com.pk/story/2570858/expanding-tax-base-myths-realities>

<sup>4</sup> Piermartini, R. (2004). The role of export taxes in the field of primary commodities. Geneva, Switzerland: ERSD, WTO. September 8.

requires a strong growth impulse to support macroeconomic stabilization, the current tax regime appears to be reinforcing contraction by extracting additional revenue from an already stagnant export base. In effect, exports, which should serve as an engine of growth, are increasingly being treated as a source of revenue mobilization. At present, however, Pakistan's tax policy appears to reflect a trade-off between short-term revenue collection and long-term sectoral and economic growth.

## 2.1. Transition from the FTR to NTR/MTR and its Implications

Pakistan's tax treatment of exporters has undergone a significant structural change. Since the 1990s, export proceeds of goods falling under section 154 of the Income Tax Ordinance (ITO) 2001, along with Export Processing Zone (EPZ) entities, and indirect exporters, have been subject to the final tax regime. Under the final tax regime, the 1% withholding tax deducted at source was considered as full and final liability and thus final tax. In policy terms, this meant that for many exporters, especially goods exporters, the tax deducted at the time of realization of export proceeds effectively discharged the income tax liability on that stream of income, irrespective of the taxpayer's actual profitability, cost structure, or loss position.



Source: Pakistan Bureau of Statistics (PBS)

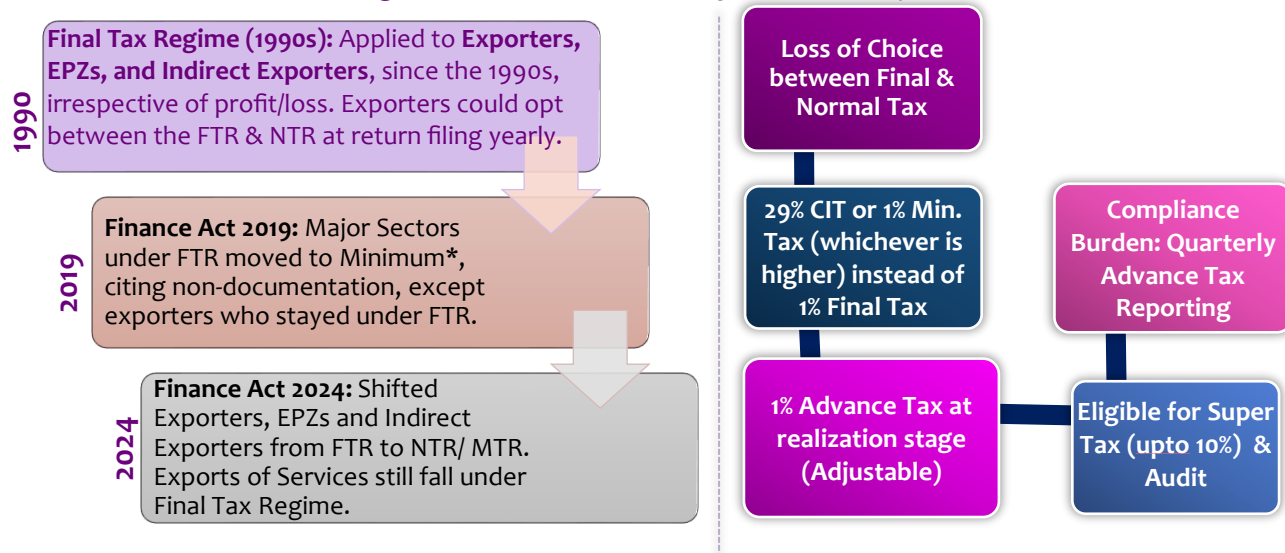
### Role of the Final Tax Regime in Facilitating Exports

The Final Tax Regime (FTR) was considered a simple and exporter-friendly tax system because it treated tax withheld on export proceeds as the full discharge of tax liability. This reduced extensive documentation, random audit exposure, and compliance costs<sup>5</sup>, while improving cash flow predictability and ease of doing business, thereby supporting export-led economic activity. Section 154(5) also gave exporters flexibility by allowing them to opt out of FTR each year, in which case the tax already deducted was treated as minimum tax (ITO, 2001).

<sup>5</sup> Bukhari. H., & Haq. I. (2025). Export suppressing taxation. The News. Available at: <https://www.thenews.pk/tns/detail/1401943-export-suppressing-taxation>

However, the Finance Act 2024 has shifted goods exporters, Export Processing Zone (EPZ) entities, and indirect exporters from the Final Tax Regime (FTR) to the Minimum Tax Regime, with the following implications:

**Figure 6: FTR to NTR/MTR—Implications & Key Issues**



Source: PwC, FBR, ITO 2001, Business Recorder (2024)

\*Commercial importers, Commercial suppliers of goods, Contractors, Brokers/commission agents, & CNG station income earners. CIT = Corporate Income Tax

- ❏ The option to choose between the Final Tax Regime (FTR) and the Normal Tax Regime (NTR) has been withdrawn<sup>6</sup>,
- ❏ The 1% withholding tax under Section 154 on export proceeds is now treated as a minimum tax, while exporters are being charged with 29% CIT or 1% Minimum tax, whichever is higher.
- ❏ Exporters are now required to compute their total taxable income (including exports) or loss under the normal tax framework (subject to 29% Corporate Income Tax) and pay any differential amount through the annual return where tax on actual income exceeds the tax already paid.
- ❏ In addition to the existing 1% minimum tax, an additional 1% advance tax (adjustable) has been imposed on export proceeds under Section 147 (6C) of the ITO.
- ❏ Exporters may also become liable to super tax where their income exceeds the prescribed threshold under section 4C,
- ❏ Exporters are liable to file their income returns annually, quarterly for advance tax payments, and wait for refunds, and may be subject to audit as well.

The effective tax burden on exports has risen manifold. Whereas exporters previously faced a relatively limited tax incidence of 1%, the post-shift framework may increase total tax exposure to above 58%, depending on the level of earnings and exporting unit. This represents a substantial escalation and undermines not only the viability and competitiveness of export-oriented industries but also their capacity for expansion and new investment.

<sup>6</sup> <https://assets.kpmg.com/content/dam/kpmg/pk/pdf/2024/7/a-brief-on-finance-act-2024.pdf>

### Inefficiencies in the Refund Mechanism

A key concern arising from the abolition of the Final Tax Regime (FTR) is that exporters have been shifted to a refund-based system for adjustable advance tax. This burden is further compounded by sales tax refunds following amendments to the Export Facilitation Scheme (EFS), discussed later in the report. As a result, exporters now face greater liquidity pressures. Given the existing inefficiencies in the refund mechanism, this transition has led to delays in refund processing. These delays constrain working capital, disrupt production cycles, weaken cash flow planning, and ultimately affect business expansion and export competitiveness.

### The Elimination of FTR & Human Intervention

The shift from FTR to the Normal Tax Regime (NTR) has moved exporters to a more assessment-based and human-dependent tax regime. This transition may increase exposure to audits, discretionary interpretation, and administrative intervention by tax authorities. Consequently, taxpayers may face greater uncertainty, higher compliance costs, and an increased risk of inconsistent enforcement practices, including concerns related to human interaction and arbitrary treatment.

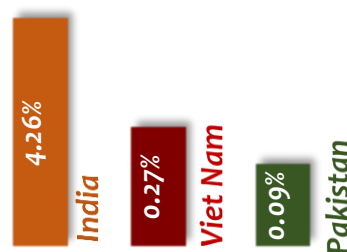
### The Abolition of FTR & Increasing Compliance Burden & Costs

Under the new regime, compliance burdens and administrative costs have increased significantly, particularly for small exporters operating on narrow margins. Exporters must now obtain sales tax and customs registrations, file returns, and maintain extensive audit documentation and business transaction records for the FBR, further increasing the cost of doing business and creating compliance uncertainty across industries. Unlike the facilitative Final Tax Regime, the new framework imposes a far heavier burden.<sup>7</sup> Pakistan's exporters are already facing tax costs significantly higher than those of regional competitors, more than double those of Vietnam and three times those of Bangladesh (Dawn, 2024)<sup>8</sup>. Alongside oil volatility, energy shortages, and exchange rate instability, this shift is more likely to deepen export stagnation than support growth.

## 2.2. Tax Treatment of Services Exports

Pakistan's services exports increased from USD 5.4 billion in 2020 to USD 8.1 billion in 2024, indicating notable growth potential. However, this expansion has not translated into a meaningful improvement in Pakistan's global market position. Its share in world services exports remained negligible and declined slightly from 0.10% to 0.09% over the same period. In contrast, India increased its global share from 3.79% to 4.26%, while Vietnam, despite some fluctuations, continued to maintain a higher share than Pakistan.

Figure 7: Market Share in Export of Services 2024



Source: ITC Trade Map

This suggests that Pakistan's services export growth remains insufficient relative to global market expansion and continues to lag behind peer economies.

<sup>7</sup> <https://www.nation.com.pk/17-Jun-2024/fpcci-condemns-proposed-tax-changes-warns-of-export-industry-collapse>

<sup>8</sup> <https://www.dawn.com/news/1857853>

Exports of services, which were earlier exempt from taxation, were brought into the tax net through the Finance Act 2021. Under this regime, export proceeds from services became subject to a 1% withholding tax. Alongside this, a 100% tax credit was made available for income derived from exports of computer software, IT services, and IT-enabled services up to 30 June 2025, provided that at least 80% of the export proceeds were remitted to Pakistan through formal banking channels.<sup>9</sup> This framework was later revised, and for tax years 2024 to 2026, a concessional withholding tax rate of 0.25% (replacing tax credit) was introduced for exporters of software, IT services, and IT-enabled services registered with the Pakistan Software Export Board (PSEB).<sup>10</sup>

It is important to note that the shift from the Final Tax Regime to the Normal Regime/ MTR, introduced for exporters through the Finance Act, 2024, is limited to goods exporters only. Exporters of services have not been brought under the Minimum Tax Regime and continue to be subject to the Final Tax Regime under section 154A, subject to the applicable statutory conditions.

### Discrepancies and Challenges in Sales Tax for the Services Sector

Sales tax on services falls under provincial jurisdiction, allowing provinces to prescribe different tax rates or grant exemptions for specific services. This has resulted in the absence of a harmonized national framework, creating inconsistencies, uncertainty, and variations in applicable rates across provinces, such as the standard sales tax rate of 15% in Sindh, Khyber Pakhtunkhwa, and Balochistan, and 16% in Punjab. In addition, inter-provincial disputes over the basis of taxation, whether services should be taxed at the point of origin or place of provision/destination, along with reverse charge mechanisms, can lead to double taxation. Definitional ambiguities further complicate compliance and increase the administrative burden.

### 2.3. Comparative Assessment of Export Tax Treatment: Pakistan vs Peers

To elaborate on how taxation impacts export incentives across the region, this section analyzes Pakistan's tax regime relative to Bangladesh, Cambodia, India, and Viet Nam. Asian economies use competitive taxes and incentives to drive exports, while Pakistan offers no general tax holidays. Corporate tax rates in Pakistan (TY 2025) are 29% for public/other companies, 39% for banks, and 20% for small companies; only software, IT, and IT-enabled exporters receive a 100% tax credit and 0.25% WHT on export proceeds (2024–26) for PSEB-registered firms.

The comparative table shows that Pakistan imposes a more burdensome tax structure on exporters than its regional peers. Pakistan's framework reflects a clear anti-export bias, as exporters are taxed more heavily and offered fewer meaningful relief measures than regional competitors. Unlike Cambodia and Bangladesh, which offer exporters corporate tax rates below their standard rates, Pakistan imposes a comparatively higher tax burden on its exporters. As a result, peer economies provide a more facilitative and investment-

<sup>9</sup> Finance Act 2021. Available at: <https://download1.fbr.gov.pk/Docs/2021751375221891FinanceAct2021.pdf>

friendly environment for export growth, whereas Pakistan's framework remains relatively restrictive and compliance-intensive. A similar pattern is evident in refund processing: Pakistan's FASTER system takes longer to process refunds than the systems in several comparator countries. In contrast, several other countries provide faster refunds to exporters and compliant taxpayers, whereas no comparable initiative appears to exist in Pakistan.

**Table 1: Taxation Structure: Pakistan vs. Peer Countries**

Indicators	Pakistan	Bangladesh	Viet Nam	Indonesia	Cambodia	India
Standard Corporate Tax	Standard: 29% Small: 20%	Standard: 22.5% – 27.5% <sup>c</sup> Green Certified: 12%, 10%	Standard: 20% SMEs: 15-17%. Preferential CIT: 10, 15 & 17% <sup>d</sup>	Standard: 22% Public Companies: 19% Small Companies: 11%,	Small: 0-20% Medium & Large: 20% <sup>a</sup>	Standard: 25–30% Companies in SEZ: 22% Startups & Power Generation: 15% <sup>b</sup>
Tax on Exports (Goods)	CIT: 29% Minimum: 1% Advance Tax: 1%	CIT:12% (10% for LEED Certified) <sup>f</sup> WHT: 1% on Proceeds	CIT: 20%	CIT: 22%	CIT: 10-12%	CIT: 25-30%
Incentives for Exporters	-	Cash Subsidy for 43 Sectors: <sup>e</sup> 0.3%-10% on Export Value, Higher Subsidy Non-Traditional Markets	-	-	-	RoDTEP Scheme (refunding hidden costs through customs duty credit scrips)
Export Refund Mechanisms	Fully Automated FASTER for Sales Tax (Months to 1-2 Years)	Online & Automated VAT & Duty Drawbacks (6-12 Months) Exporters: 6 Months	Electronically Submission - Within 6-40 days	-Online Monthly VAT Return - Golden Tax Payers: Tax Compliant receives accelerated refunds (within one month) <sup>11</sup>	Online. Not fully automated. 15-40 Working Days Fast Returns for Gold Status Taxpayers	Exporters can reclaim IGST. Automatic GST input-credit refund Income: 4-5 weeks GST: 7-60 days for compliant exporters

**Note:** a = Oil, Gas, Mineral Exploration: 30%, b = reduced rates (22% and 15%) applicable on certain conditions, c = lower rates applicable in case of all receipts and income transferred through formal channels, d = SME rates and Preferential rates are only applicable if certain conditions are met, Oil & Gas: 25%-50%, Mineral Exploration/Exploitation: 40%-50%, e = [Export Policy 2024 – 27](#). f = Any industry subject to a lower CIT than 12% will continue to enjoy that lower rate on exports. \*Export-Oriented Garment Industries

**Source:** ITO 2001, FBR, PwC, Vietnam Briefing, KPMG, LegalSeba, [Dhaka Tribune](#) (2026), KPMG Bangladesh Investment Profile 2024.

**Bangladesh's Direct Cash Subsidy:** Bangladesh has historically relied on direct cash incentives ranging from 0.3% to 10% of export value as a key export promotion tool;

<sup>11</sup> <https://www.aseanbriefing.com/doing-business-guide/indonesia/taxation-and-accounting/vat-refunds-indonesia>

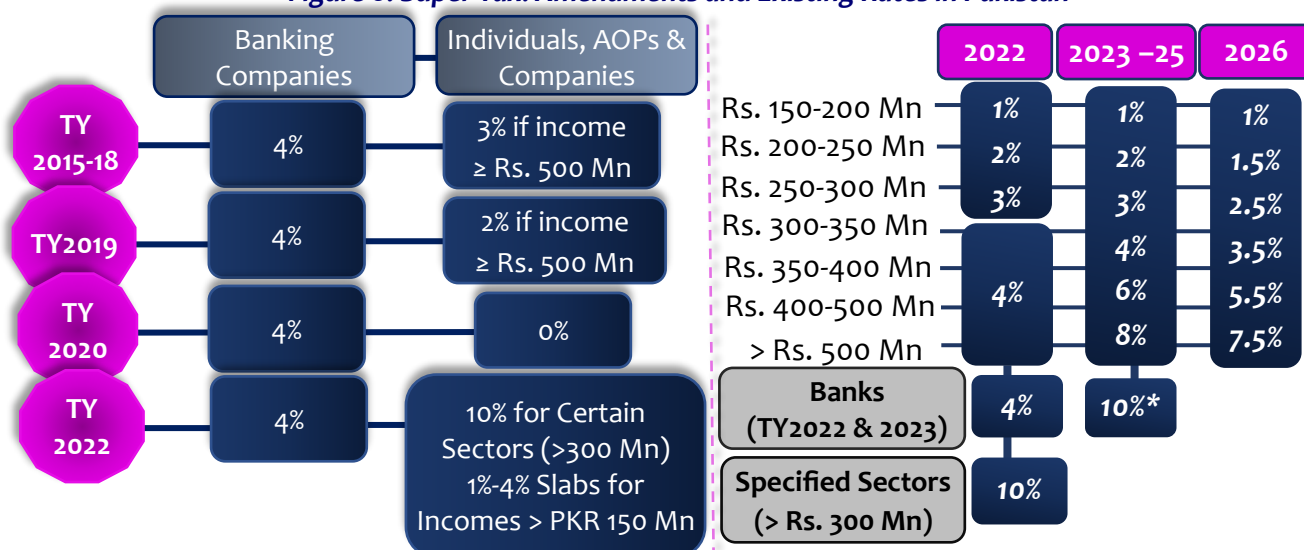
however, these subsidies are being gradually reduced in anticipation of WTO obligations following LDC graduation, as such export-linked payments are not permissible for developing countries.<sup>12</sup>

## 2.4. Super Tax Liability and Export Competitiveness

As discussed earlier, the super tax may also become applicable to exporters where their taxable income crosses the prescribed threshold. Super tax was first introduced through the Finance Act 2015 as a one-time levy under section 4B to support the rehabilitation of temporarily displaced persons for the tax year 2015.<sup>13</sup> It was imposed at 4% on banking companies, regardless of income, and at 3% on individuals, AoPs, and Companies with income of Rs. 500 million or more. Although originally introduced as a one-year measure, the super tax was later extended up to Tax Year 2019. For the following two years, it did not apply to persons/entities other than banking companies.

In 2022, to support fiscal consolidation and meet IMF-linked revenue targets, a new retrospective super tax regime was introduced through section 4C. This regime applied to high-earning persons on a graduated basis, with rates ranging from 1% to 4% on income exceeding Rs. 150 million. In addition, certain specified sectors<sup>14</sup> were subject to a higher

**Figure 8: Super Tax: Amendments and Existing Rates in Pakistan**



Source: Income Tax Ordinance 2001

rate of 10% where income exceeded Rs. 300 Mn. While the taxation of high-income persons may be justified on equity grounds, over time, the super tax has increasingly become a revenue-raising instrument for the government, adding to the fiscal and compliance burden already faced by businesses.

<sup>12</sup> Kabir. M. (2025). Bangladesh after LDC Graduation: Preparedness and Policy Options. BIIS. Available at: <https://www.biiss.org/article/bangladesh-after-ldc-graduation-preparedness-policy-options>

<sup>13</sup> FBR's Circular No.02 of 2015. Available at:

<https://download1.fbr.gov.pk/Docs/2015727872122869CircularNo.02of2015.pdf>

\* [Year-Book-2023-24.pdf](#)

<sup>14</sup> Sectors to be Charged 10% Super Tax: Airlines, Automobiles, Beverages, Cement, Chemicals, Cigarette & Tobacco, Fertilizer, Iron & Steel, LNG terminal, Oil marketing, Oil refining, Petroleum & Gas exploration & production, Pharmaceuticals, Sugar & Textiles.

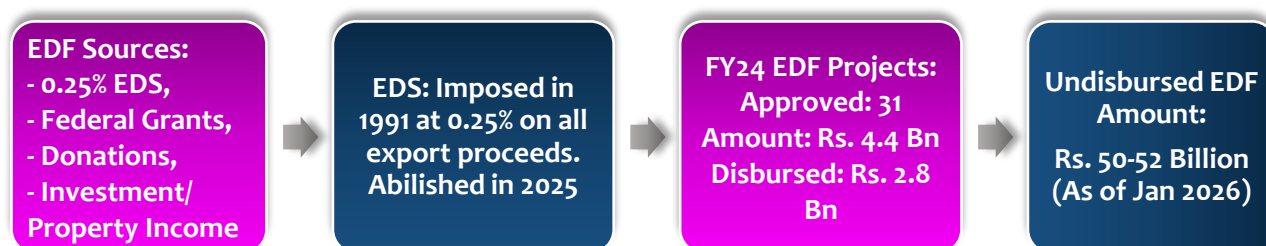
Under the earlier Final Tax Regime, export income taxed under Section 154 was generally excluded from the computation of total normal income under Section 169, and therefore was not part of the super tax base. However, following the shift to the Minimum Tax/Normal Tax Regime, export income is now included in taxable income and may consequently be subject to super tax where applicable. This shift fundamentally altered the taxation landscape for exporters. Textile exporters, in particular, contend that the move erodes the sector's competitiveness by raising production costs, discouraging investment, and constraining foreign exchange inflows, thereby heightening risks of job losses and an expanded trade deficit.<sup>15</sup>

**Tax on High Earners in Other Countries:** Compared with regional peers, countries such as Bangladesh, Vietnam, and Cambodia apply corporate income tax rates that may vary across sectors or product categories, but they do not impose an additional levy such as a super tax on exporters. Among comparable regional economies, India is the main exception.

## 2.5. The Export Development Fund (EDF): Financing and Challenges

The Export Development Fund (EDF) was established in September 1992 through a government resolution and later institutionalized under the Export Development Fund Act, 1999. To finance the fund, a 0.25% surcharge on total export value, known as the Export Development Surcharge (EDS), was introduced in 1991 to strengthen infrastructure and support export-led growth. EDF resources are allocated to initiatives such as developing training institutions, supporting exporters' associations and Pakistan trade offices abroad, organizing trade missions and foreign exhibitions, market research, product development, and engaging consultants.

**Figure 9: Sources of EDF & Current Status**



**Source:** Export Development Fund and Ministry of Commerce\*

While the recent abolition of the Export Development Surcharge has eased a small burden on exporters, it also risks constraining EDF resources and, in turn, limiting activities that are important for export growth, such as participation in trade fairs, support for industry associations, product branding, testing laboratories, and efforts to improve market access and compliance. During FY2023–24, the EDF approved Rs. 4.4 billion for 31 projects, yet actual disbursements for both new and ongoing projects amounted to only Rs. 2.8 billion.<sup>16</sup> Since EDS was deducted automatically by banks on realized FOB export proceeds, its collection mechanism was generally viewed as uniform and non-discriminatory across

<sup>15</sup> <https://textileinsights.in/pakistan-textile-exporters-oppose-tax-regime-shift-cite-export-disruption/>

<sup>16</sup> <https://www.commerce.gov.pk/wp-content/uploads/2025/01/Year-Book-2023-24.pdf>

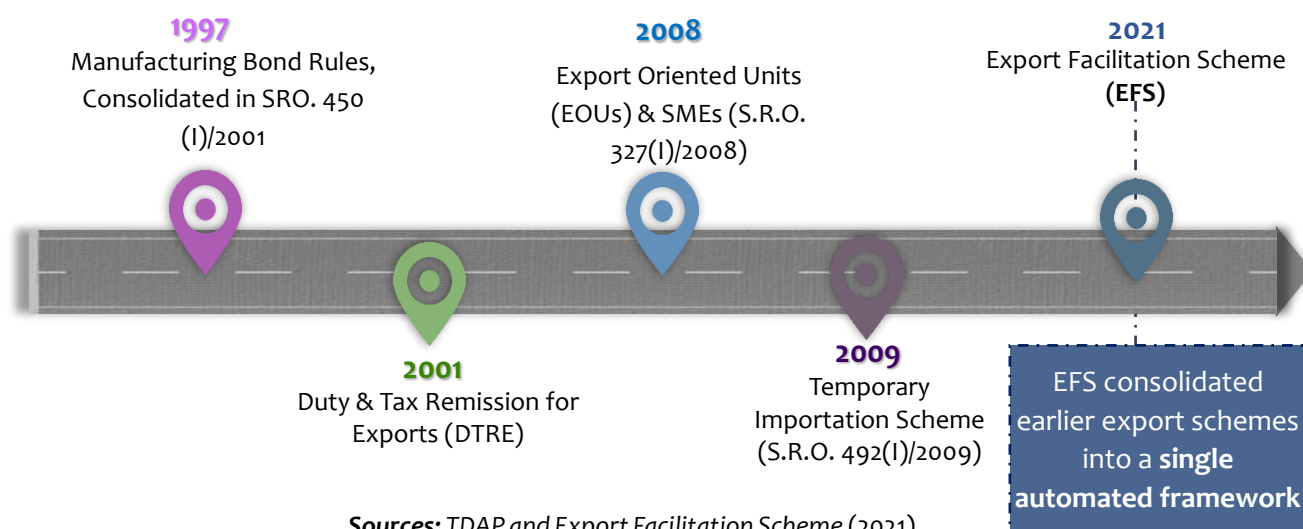
exporters and sectors. If deployed effectively, such resources can meaningfully support the growth of Pakistan's goods and services exports. However, beyond low utilization, the EDF also faces concerns regarding the irrelevant use of funds and delays in releasing approved amounts, both of which undermine business confidence and reduce the Fund's effectiveness.

### 3. Export Facilitation Schemes in Pakistan: Evolution and Recent Developments

Export facilitation schemes are instrumental in enhancing the global competitiveness of domestic goods and services by reducing production costs through measures such as tax exemptions, rebates, and duty drawbacks. They also support investment, aligning trade policies with global practices, contributing to a stronger external sector and sustained economic growth. In Pakistan, these schemes are administered by Pakistan Customs under the Federal Board of Revenue (FBR).

Pakistan has also introduced several such schemes, each with distinct objectives, eligibility criteria, and features, as summarized below. Pakistan's export facilitation schemes have

**Figure 10: Timeline of Export Facilitation Schemes**



Sources: TDAP and Export Facilitation Scheme (2021)

evolved from narrow, control-oriented mechanisms to a broader facilitation framework. The Manufacturing Bond scheme was designed to help manufacturer-cum-exporters by allowing duty-free import of inputs for export production. DTRE aimed to lower export costs by remitting duties and taxes on inputs used in exports and to avoid the need for drawback claims. The scheme is provided either on the basis of export performance or based on past or existing contract orders. The approval in the base year is granted on the anticipated value of exports as mentioned by the exporter in the application. While in the second year, the permit is granted subject to an increase in exports compared to the first year.

Export Oriented Units (EOUs) were introduced to promote dedicated export-based industrial production, especially for firms focused primarily on external markets. The Temporary Importation Scheme was meant to facilitate the temporary import of inputs for processing and re-export within a limited time frame and in specified sectors.

Pakistan introduced multiple Export Facilitation Schemes because earlier schemes had shortcomings, bonded warehouses were too rigid, DTRE was paperwork-heavy, EOUs had a limited scope, and the Temporary Importation Scheme was strict on re-exports. Over time, changes in trade practices, WTO commitments, and rising risks of misuse made older schemes less effective. To simplify and modernize, the government replaced them with EFS-2021, a unified, automated, and risk-based framework that consolidated earlier fragmented schemes.

**Table 2: Export Facilitation Scheme (Past and Present Schemes)**

Scheme/ Features	Manufacturing Bond* (1997) <sup>17 18</sup>	DTRE (2001) <sup>19</sup>	Export Oriented Units 2008	Temporary Importation Scheme 2009	Export Facilitation Scheme (EFS) 2021
<b>Beneficiary (ies)</b>	Manufacturer-cum-exporters	Manufacturers, Indirect Exporters, Commercial Exporters, Contracted Vendors	Manufacturer-cum-exporter	Manufacturer-cum-exporter	Manufacturers cum exporters (Min. 10% Value Addition), Indirect and Commercial exporters, vendors, international toll manufacturers, and common export houses
<b>Duty Treatment</b>	Duties/tax exemptions on <b>import</b> of inputs	Duty/tax-free ( <b>import + Zero-rated</b> local inputs) from a registered supplier (incl. inputs for electricity generation)	Duty Exempt on <b>import</b> of all inputs, including capital goods	Sales Tax & Customs Duty Suspended /Exempt (re-export basis)	Duty- and tax-free on imported goods
<b>License Validity (Extension)</b>	3 Years	1 Year (1 Year)	2 Years	2 Years (6 Months)	3 Years
<b>Utilization Period for Inputs</b>	Perishable: 3 Months Non-Perishable: 6 Months.	24 Months	Raw Materials: 24 Months Machinery: 5 Years	18 months (+ 6 months via 1% Surcharge per month)	18 Months
<b>Carry Forward of Inputs</b>	Yes (with approval)	No	Yes (After Monitoring)	No	Flexible (Carry forward/ Transfer to another)
<b>Local Sale (Inputs)</b>	Allowed (Conditional)	Allowed (Duties/Taxed to be paid)	Transfer within EOUs	Allowed (Duties/Taxed to be paid)	Allowed (Paid Duties/Taxed + surcharge of KIBOR plus 3%)
<b>Export Targets (% of Total Production)</b>	60%	100% (Min. 15% Value Addition)	80%*	100% (Min. 20% Value addition)	No fixed target (Based on compliance & monitoring)

<sup>17</sup> <https://download1.fbr.gov.pk/sros/CustomsSROs/1997sro1140cu.htm>

<sup>18</sup> 2019124171277534SRO450(I)2001ManufacturingBond(Uptodate(1)-converted.pdf

<sup>19</sup> 201912416125613694DTRERules-updatedversion-upto12.09.2019-converted.pdf

Scheme/ Features	Manufacturing Bond* (1997) <small>17 18</small>	DTRE (2001) <sup>19</sup>	Export Oriented Units 2008	Temporary Importation Scheme 2009	Export Facilitation Scheme (EFS) 2021
Domestic Sales of Output	Up to 40% (Duties/ Taxes to be paid)	Not Allowed	Up to 20% (Duties/ Taxes to be paid)	Not allowed (Inputs to be re-exported)	Up to 20% (Duties/ Taxes to be paid). Above 20%: Plus surcharge
Audits	Annual Audit	Post-expiry of DTRE Approval (Within 3 Months)	Annual Audit	Record/ Export Bills Based	Category Based (A-C2): 3-5 Years
Requirement	Manufacturing Bond, Analysis Certificate	Export Order, Analysis Certificate	License & Analysis Certificate	Application	Application (PSW) or (WEBOC). After approvals and required documentations
Security other than post-dated cheques	Indemnity Bond	Indemnity Bond Bank/ Corporate Guarantees for Commercial/ Bank Corporate Exporters	Indemnity Bond	Bank Guarantee/ PO/ Indemnity Bond	Category Based: Revolving Bank Guarantee, Indemnity Bond

Sources: TDAP (2020 & 2021)<sup>20</sup>, Export Facilitation Scheme and SDPI (2023), SRO 492 (2009)<sup>21 22</sup>

\*For Engineering unit: 50% in the first 3 Yrs, 80% afterwards)

**The Export Facilitation Scheme (EFS 2021):** Launched by the FBR in August 2021, operated along with other facilitation schemes. In order to bring uniformity and simplicity, EFS 2021 consolidated earlier export schemes into a single automated framework by 2023 through WeBOC and PSW, simplifying procedures, reducing compliance hurdles, and improving export competitiveness across a wider range of exporters. While the scheme enhances competitiveness and supports industrial growth by easing working capital pressures, its effectiveness is constrained by policy instability, dependence on refund mechanisms, technical glitches, compliance burdens, weak integration among authorities, and audit-related challenges, particularly for SMEs.

- ✎ EFS significantly broadened the scope of eligible participants, including new exporters. This marked a shift from earlier schemes that were largely limited to manufacturers.
- ✎ Free Imported Inputs include: Raw materials, Components, Machinery, and capital goods.
- ✎ No customs duty, no sales tax, no federal excise duty, no withholding tax on inputs
- ✎ Authorization is based on: Past export performance and Firm export contracts, establishing a performance-linked entry system.<sup>23</sup>

<sup>20</sup> <https://tdap.gov.pk/wp-content/uploads/2022/04/Export-Facilitation-Scheme-Manual-2.pdf>

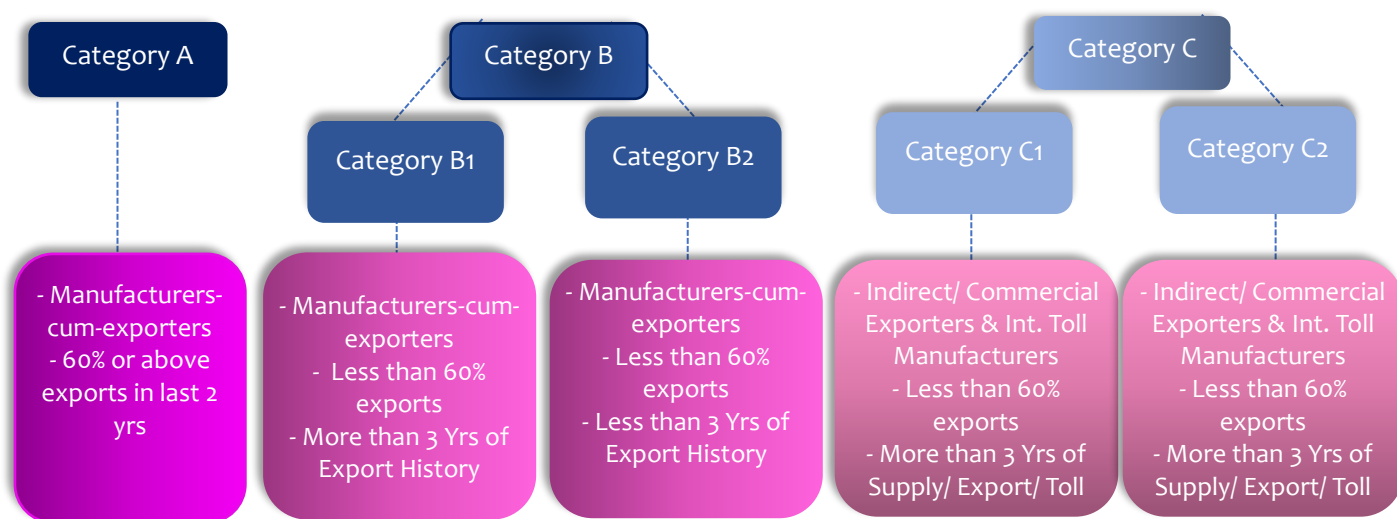
<sup>21</sup> <https://download1.fbr.gov.pk/SROS/2009SRO492.pdf>

<sup>22</sup> [https://download1.fbr.gov.pk/SROS/20147161471154626SRO327\(1\)2008EOU\(Uptodate\).pdf](https://download1.fbr.gov.pk/SROS/20147161471154626SRO327(1)2008EOU(Uptodate).pdf)

<sup>23</sup> <https://invest.gov.pk/node/1644>

Fully integrated with WeBOC (customs system) and Pakistan Single Window (PSW), and allows Digital tracking and documentation

Figure 11: Categories and Criteria under Export Facilitation Scheme 2021



**Recent Amendment in EFS 2021:** The withdrawal of zero-rating on local supplies under the Export Facilitation Scheme (EFS) 2021 through the Federal Budget FY2025 marked a significant shift in Pakistan's export policy. Initially, EFS allowed exporters to procure inputs locally on a zero-rated basis, along with the imported goods, eliminating upfront sales tax and easing liquidity constraints. However, this facility was withdrawn through subsequent fiscal measures as part of broader tax reforms aimed at reducing exemptions and meeting IMF-backed fiscal consolidation targets. As a result, exporters are now required to pay sales tax on local inputs and claim refunds later, increasing working capital requirements and creating liquidity pressures, particularly for SMEs.

Additionally, sales tax registration and invoicing requirements pose challenges for small exporters and SMEs. This policy has also led to a distortion in input sourcing, as exporters increasingly prefer duty-free imported inputs over locally taxed supplies, thereby weakening domestic supply chains and putting local industries at a disadvantage. While the withdrawal aligns with efforts to broaden the tax base and eliminate preferential treatments, it has introduced operational inefficiencies and cost pressures that may undermine export competitiveness in the short to medium term. In addition, to prevent misuse of the Export Facilitation Scheme (EFS) and strengthen monitoring controls, authorities have introduced several amendments over time. However, these measures have also increased the compliance burden on genuine EFS users.

**Other Notable Amendments in EFS 2021:**

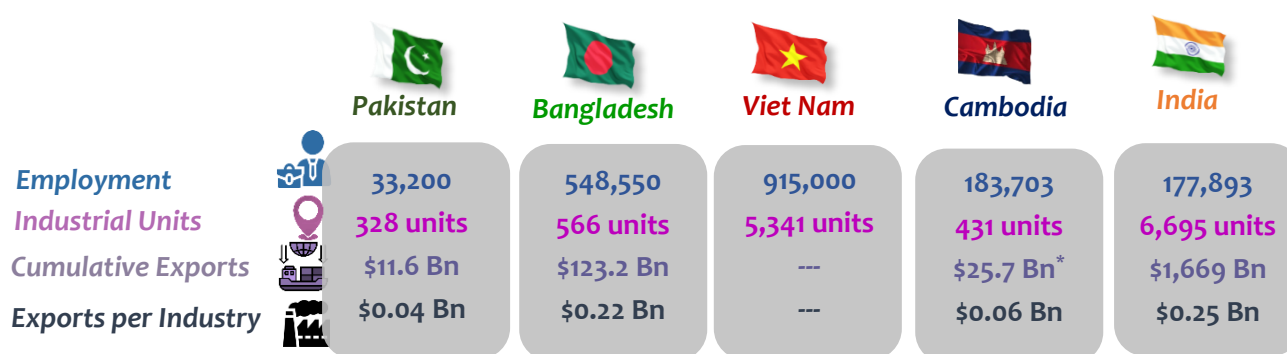
- **Revision in Input Retention Period:** The retention period for inputs, previously ranging from 24 to 60 months under the category-based system, was reduced to 9 months in 2024 and has now been revised upward to 18 months in March 2026, which remains significantly lower than the earlier range.

- **Standardization of Licensing Period:** The licensing period, which previously ranged from 2 to 5 years depending on production capacity, has now been standardized at 3 years across the board.

#### 4. Export Processing Zones in Pakistan: Tax Treatment and Key Challenges

Export Processing Zones (EPZs) are designated industrial areas aimed at boosting exports through manufacturing, processing, and assembly for international markets. Globally, firms in EPZs receive preferential infrastructure, simplified regulations, and exemptions or rebates on duties, taxes, and import/export, along with streamlined customs procedures. Globally, EPZs grew rapidly from about 500 in 73 countries in 1995 to nearly 3,500 in 130 countries by 2006 (ILO).<sup>24</sup> Like many Asian economies, Pakistan shifted from Import Substitution Industrialization to export-led growth in the 1980s, introducing EPZs to enhance competitiveness.

**Figure 12: Snapshot of Pakistan's EPZ & Their Contribution vs Peer Countries**



**Sources:** Official EPZ websites of respective countries & various news sources

**Note:** Exports are cumulative from the time the respective EPZs became operational. Cambodia's figures cover 2011–2023, while India's figures are reported for 2005–2025. The data on cumulative exports for Viet Nam was not available. Whereas its cumulative exports from EPZs were US\$ 4.5 Bn (Jan-Jul 2024).

Despite offering generous incentives, including a 10-year tax holiday till 2035, along with exemptions from customs duties and sales tax, Export Processing Zones (EPZs) in Pakistan continue to underperform. They have generated only 33,200 jobs across 328 industrial units, whereas Bangladesh employs 548,550 workers in 566 units, India 177,893 in 6,695 units, Cambodia 183,703 in 431 units, and Vietnam 915,000 in 5,341 units.

The Export Processing Zones Authority (EPZA), established in 1980, oversees the development and management of these zones. It provides infrastructure and a comprehensive package of fiscal and regulatory incentives, including tax holidays, exemption from customs duties, Sales tax exemptions on imported inputs, and repatriation of capital and profits, and provides streamlined Single Window Clearance to attract investment and support export-oriented industrial activity. Under IMF conditions, no new fiscal incentives will be offered to upcoming EPZs or SEZs, and incentives for existing zones will end after their contractual period expires in 2035. The tax package is attractive on paper, but export performance has remained negligible. This points to a structural design flaw: Pakistan's EPZ model has focused more on granting tax and duty relief than on enforcing these facilities.

<sup>24</sup> [https://webapps.ilo.org/public/libdoc/ilo/2008/108B09\\_25\\_engl.pdf](https://webapps.ilo.org/public/libdoc/ilo/2008/108B09_25_engl.pdf)

**Table 3: Export Processing Zones in Pakistan vs. Peer Countries**

Countries/ Features	Pakistan	China	India	Bangladesh	Cambodia	Viet Nam
<b>No. of Operating EPZs</b>	06 with 01 dormant	53 <sup>25</sup>	08 <sup>26</sup>	08 <sup>27</sup>	03 <sup>28</sup> (It has EPZs as a component of its 29 SEZs) <sup>29</sup>	05 <sup>30</sup>
<b>CIT</b>	Standard CIT: 29%, 1% Advance & 1% Minimum Tax	CIT: 25%	Reduced MAT of 15% is applicable	CIT: 27.5%	CIT: 20%	CIT: 20%
<b>Custom duties</b>	Exempt <sup>31</sup>	Exempt	Exempt	Exempt	Exempt	Exempt <sup>32</sup> .
<b>VAT Exemption on Inputs</b>	Exempt	Exempt	Exempt	15% VAT is charged	Exempt	VAT exemptions.
<b>Sales Tax on Electricity/gas bills</b>	Exempt	Exempt	N/A	N/A	N/A	N/A
<b>Tax Holidays</b>	10 years or till 2035 (whichever is higher)	Only available for 2 Zones: First 5 Years (100%); 50% Reduced Rate for Next 5 <sup>33</sup>	First 5 Years (100%), 50% Reduced Rate for Next 5	First 2 Yrs (100%), 50% Reduced Rate for Next 2, 25% Reduced Rate for Next 1, (For certain EPZs: Till 7 yrs)	3-9 Yrs (100%) Based on Tech levels, Reduced Rates (25%-75% rate) in Next 6 Years <sup>34</sup>	100% for first 4 years, 50% for subsequent 9 years <sup>35</sup> . <sup>***</sup>
<b>Single Window Clearance</b>	Available	Streamlined administrative services available	Available	Streamlined administrative procedures	Available	Streamlined administrative processes

**Notes:** \*China: Most incentives have shifted away from a zone-based approach toward industry-specific support, particularly for sectors such as integrated circuit manufacturing and energy, rather than for exports specifically.

\*\*Cambodia: The exemption rates are applicable to both SEZs and QIPs and are not export-specific. \*\*\*Vietnam: Law 67/2025/QH15 (effective 1 October 2025) eliminates location-based incentives for special industrial zones (SEZs).

Projects approved before 1 October 2025 may enjoy existing incentives. Projects approved before that date may continue to receive existing incentives, while projects approved afterward will be eligible only for the newly introduced sector-based incentives (high-tech, green technology, and digital transformation), rather than the earlier location-based benefits.

**Source:** EPZs' Websites of respective countries & Multiple Sources.

<sup>25</sup> [http://en.whkfq.gov.cn/2024-03/06/c\\_108387.htm](http://en.whkfq.gov.cn/2024-03/06/c_108387.htm)

<sup>26</sup> [English Releases](#).

<sup>27</sup> [https://en.banglapedia.org/index.php/Export\\_Processing\\_Zone](https://en.banglapedia.org/index.php/Export_Processing_Zone)

<sup>28</sup> <https://econpapers.repec.org/RePEc:ilo:ilowps:993989593402676>

<sup>29</sup> <https://b2b-cambodia.com/news/cambodia-sezs-role-in-exports-and-investment-2025/>

<sup>30</sup> [Export Processing Enterprises in Vietnam: Policy Updates in 2025](#)

<sup>31</sup> <https://invest.gov.pk/node/1254>

<sup>32</sup> <https://blog.investvietnam.co/vietnam-tax-incentives-a-comprehensive-guide-in-2024/>

<sup>33</sup> <https://taxsummaries.pwc.com/peoples-republic-of-china/corporate/tax-credits-and-incentives>

<sup>34</sup> <https://cambodiamarketentry.com/corporate-tax-holidays-in-cambodia-how-to-qualify-and-apply-in-2025/>

<sup>35</sup> <https://www.cbgaindia.org/wp-content/uploads/2020/01/Tax-Incentives-in-Vietnam.pdf>

Pakistan's EPZs remain relevant as a policy instrument because they offer a relatively attractive export-oriented incentive regime. Yet their actual contribution has been constrained by weak enforcement, infrastructure shortfalls, governance fragmentation, policy inconsistency, and a broader competitiveness problem in Pakistan's export sector, as discussed below:

### Challenges faced by EPZs in Pakistan



- *Inadequate utility infrastructure and unreliable supply across the zones*
- *Lack of standardized and modern warehousing facilities*
- *Insufficient waste management and treatment infrastructure*
- *Safety & security concerns arising from the remote locations of the zones*



- *Absence of integrated logistics systems*
- *Weak infrastructure and limited connectivity*
- *Restricted access to banking and commercial services*
- *Land constraints limiting expansion of industrial zones*



- *Inadequate residential arrangements for employees*
- *Low investment in research and development activities*
- *Shortage of training centers & limited transport services*

- **Inadequate Utilities within Zones:** In Pakistan, export processing zones and investment locations continue to suffer from unreliable and inefficient utility provision, particularly in electricity, water supply, and gas. The World Bank further notes that many zones still lack essential infrastructure, including water and sewerage systems as well as dedicated electricity and gas connections.
- **Infrastructure Deficiencies:** Pakistan's EPZs remain uncompetitive due to weak transport and logistics infrastructure, including poor-quality rail networks, inadequate airport connectivity, and limited paved-road density. For export-oriented firms, these shortcomings heighten production risks, delay shipments, raise compliance and logistics costs, and undermine integration into time-sensitive global value chains. In addition, many zones lack adequate warehouses and wastewater treatment plants.
- **Land Constraints and Limited Expansion Capacity:** Land availability has emerged as a significant constraint in Pakistan's EPZs. Key zones are already fully allotted. According to the Export Processing Zones Authority, Karachi EPZ Phases I and II have been fully colonized, yet continue to receive new investment proposals due to their strategic proximity to the port. This indicates sustained investor demand, but also highlights the severe shortage of expansion space within major zones.
- **Weak Planning and Site Selection:** The World Bank also highlights deficiencies in upstream planning and site selection. It identifies the absence of adequate technical studies during site selection and project planning as a major challenge, and recommends that Pakistan adopt and publish clear criteria for zone selection, including the availability of infrastructure, electricity and water supply, road connectivity, and proximity to urban centers, ports, and airports.
- **Skills and Technology Gaps:** The performance of Pakistan's zones is further constrained by a weak industrial capability base. The World Bank points to limited

availability of skilled labor, inadequate industry-specific training, low technological capability, and insufficient investment in research and development. Moreover, supporting infrastructure for labor facilitation, such as worker housing, transport, and skill development facilities, remains underdeveloped.

### 5. Key Insights from Stakeholder Consultations

This section presents insights gathered from key stakeholders, including manufacturers, exporters, associations, and chambers, regarding the current tax challenges faced by them while exporting. The current export ecosystem is constrained not by lack of incentives but by inefficiencies in taxation, compliance, and institutional coordination that increase costs and reduce predictability for exporters.

#### Tax Regime Shift & Rising Cost of Doing Business Concerns

- The transition from the Final Tax Regime (FTR) to the Normal Tax/ Minimum Tax Regime (NTR) has significantly increased the tax burden and operational complexity for exporters. Stakeholders report higher effective tax rates, inclusion of export income in taxable income, and additional exposure to super tax. Along with this shift, additional levies such as provincial taxes and cesses put an increasing burden on businesses' profitability. This has reduced price competitiveness and, in some cases, forced firms to absorb costs or halt expansion plans. Frequent changes in tax policy have also increased uncertainty and raised the cost of doing business.

#### Refund Delays and Liquidity Constraints

- A major concern among stakeholders is the significant delay in tax refunds (sales and income tax), ranging from 6 months to over 2 years. These delays severely impact working capital, disrupt production cycles, and hinder exporters' growth. While the FASTER automated (Sales Tax) e-refund system is a positive step, processing times remain excessively long, often taking 1–2 months instead of the promised 72 hours. Many legitimate claims are still stuck in 'deferred' status, undermining the system's intended benefits and affecting liquidity and operations.

#### Audit Risks and Tax Notices

- Under the Normal Tax Regime (NTR), exporters are subject to random audits and assessments by the FBR, exposing them to potential human intervention and lengthy legal disputes. Most exporters are facing an unjustified burden of advance tax notices by the FBR. In contrast, the Final Tax Regime (FTR) offered a more transparent and hassle-free tax system, ensuring predictability and reducing compliance risks for exporters.

### Constraints in Export Facilitation Schemes

- The Export Facilitation Scheme (EFS) is a streamlined initiative; however, its effectiveness is constrained by bank guarantee requirements, short utilization period (18 months), and rigid subcontracting timelines (90 days), and a difficult extension approval process, which could enhance its impact for exporters.

### Disruptions Caused by Ad Hoc Stock Takings

- Random stock takings and unstructured inspections without prior notice by authorities disrupt production processes and delay shipments. FBR should adopt a risk-based audit system that targets non-compliant taxpayers and high-risk exporters, which would reduce unnecessary scrutiny of compliant businesses.

### Unlocking Export Potential of Economic Processing Zones

- Economic Processing Zones (EPZs) were established to promote exports; however, inadequate infrastructure, a rigid regulatory framework, lengthy procedures, and challenges in connectivity and logistics have undermined their effectiveness. Meaningful consultation with the business community is essential when designing incentives and operational procedures to realize the potential of these zones fully.

### Inefficiencies in Export Development Fund (EDF)

- Stakeholders highlight low and delayed disbursement of EDF funds, a mismatch between contributions and utilization, and a lack of transparency. This reduces the effectiveness of EDF as a tool for export promotion. Stakeholders recommended aligning EDF allocation with sectoral contribution.

### Customs and Operational Bottlenecks

- Exporters report delays in customs clearance, disputes over valuation and HS classification, and inefficient system functioning (WeBOC limitations). These issues increase transaction costs and disrupt supply chains.

### Exports Facilitation Initiatives regarding Taxation

- The Universal Self-Assessment Scheme marks a significant advancement for businesses, allowing taxpayers to self-declare their taxes and alleviating the burden of audit notices and commissioner assessments. However, they may still be subject to risk-based audits. To further support exporters, this initiative should be enhanced by exempting them from audits based on specific criteria, such as a minimum percentage increase in tax payments, thereby reducing compliance burdens for those demonstrating strong export performance.

## 6. Policy Recommendations

To enhance Pakistan's export performance, it is crucial to adopt a tax structure that supports competitiveness, encourages new entrants, and enables small and medium enterprises (SMEs) to grow. A clear, predictable, and business-friendly tax environment can reduce costs, simplify compliance, and help exporters expand into global markets. The following recommendations outline key policy measures that can strengthen the export ecosystem and create sustainable growth opportunities for both established and emerging exporters.

**Consistent Tax Policies for Exporters:** Develop a long-term, export-oriented tax policy to support sustainable export growth. Frequent changes in tax regimes increase business costs, distort investment decisions, and discourage foreign direct investment. A simplified, predictable, and stable tax framework, complemented by targeted fiscal incentives and export-linked benefits for high-potential sectors, is essential to enhance and sustain global competitiveness.

### Restore FTR for Exporters with Adjustments:

- Restore the option for exporters to choose between the Final Tax Regime (FTR) and the Normal Tax Regime (NTR), as was the practice before the Finance Act 2024, ensuring the adoption of the regime that best benefits them. This flexibility will reduce tax burden and help avoid administrative bottlenecks for exporters.
- Additionally, the 1% FTR rate could be adjusted upwards to offset any potential revenue shortfall that could arise under the NTR.
- Merge other charges such as provincial taxes, EOBI, WWF, and similar levies into the Final Tax Rate. This would simplify tax payments and ease cash-flow pressure on exporters.

### Streamline Fully Automated, Time-Bound Refund System:

- Expedite automated refund mechanism for both sales tax and income tax refunds of all exporters, with strict timelines (e.g., 72 hours for sales tax refunds).
- Any other tax obligations, including recent Super Tax payments, should be allowed to be adjusted against refund payments to ensure smoother cash flow and reduce liquidity constraints for exporters. Allowing adjustments between tax obligations and refund payments will help exporters maintain steady cash flow, reduce financial strain, and reinvest in their operations without delay.
- Expand faceless audits and automated assessments to reduce the scope for misuse of authority, minimize human intervention, and improve transparency in tax administration. A digitally driven system would lower compliance uncertainty and ensure more consistent enforcement for taxpayers.

**Enhancing Inter-Agency Coordination to Reduce Administrative Costs for Exporters:** To ease the compliance burden on small exporters and SMEs, federal and provincial tax procedures should be simplified. This should include streamlined

documentation, integrated data sharing, and better coordination between revenue authorities to reduce multiple filings, lengthy registrations, and procedural duplication.

### **🔗 Reinstating Zero-Rating on Local Inputs, including Utilities under EFS:**

- To encourage the use of local materials and reduce exporters' burden, the zero-rating of locally produced inputs under EFS should be reinstated as it was prior to Finance Act 2024. This will alleviate the liquidity crunch faced by exporters due to delayed refunds and reduce pressure on foreign exchange reserves by lowering reliance on imported inputs that are locally available. Additionally, it will promote the domestic manufacturing sector, fostering a more integrated economy.
- The Export Facilitation Scheme (EFS) should be expanded to include utilities as part of local inputs, instead of relying on post-export rebates. This expansion would streamline the process for exporters and reduce delays in accessing refunds.

### **🔗 Enhance the Export Facilitation Scheme:**

- Introduce a digitally driven, risk-based system with real-time validations and minimal human intervention to reduce discretion, prevent leakages, and curb misuse of the scheme.
- Allow Post-Dated Cheques or low-cost guarantees instead of bank guarantees under EFS, reducing financial pressure on exporters while still protecting government revenue in case of non-compliance. This would make EFS more accessible, improve liquidity, and support timely export fulfillment without weakening safeguards. Additionally, extend input utilization periods to 2-3 years, and allow reasonable timelines for subcontracting to enhance the scheme's effectiveness and adoption.
- The EFS registration and approval process should be simplified and linked to time-bound responses to improve efficiency and reduce procedural delays.

### **🔗 Streamline Customs Stocktaking Procedures & Valuation Ruling:**

Random customs stocktaking for reconciling physical and digital inventories should be limited and structured on an annual or biannual basis. This will minimize disruptions to production and shipments. Enforce the 90-day customs valuation updating law to reflect revised international price movements, reduce disputes, and increase predictability for importers and exporters.

**🔗 Modernize and Expand Export Processing Zones (EPZs):** Develop new Export Processing Zones in Pakistan to address the land shortages and expansion constraints in existing EPZs. Address adequate warehousing and cold storage needs to meet international quality standards. Strengthen connectivity, logistics, and regulatory frameworks by effectively implementing the National Logistics Policy.

**🔗 Allocate EDF Amount Based on Export Performance:** To enable the EDF to effectively support export-oriented growth in Pakistan, it is recommended to ensure consistent EDF funding post-EDS abolition through federal grants. This would ensure that

collected funds translate into tangible export growth. Allocations should be directly linked to export performance and contribution, prioritizing sectors with high export potential and value-added contributions, with transparent reporting.

**🔗 Optimize Utilization of Infrastructure Cess for Exports' Growth:** It is recommended that the Federal and Provincial Governments establish a dedicated committee to allocate the Infrastructure Cess exclusively to the development of roads, transport infrastructure, container-freight facilities, and integrated logistics to reduce costs and delivery delays for exporters and businesses. Pakistan's ranking of 122nd out of 160 countries in the World Bank Logistics Performance Index (2018)<sup>36</sup> highlights these significant inefficiencies.

**🔗 Audit Exemption for Exporters under Universal Self-Assessment Scheme:** An exclusive initiative should be introduced within the Universal Self-Assessment Scheme, whereby exporters whose reported or paid tax liability increases by a specified percentage compared to the previous year will be exempt from audit, thereby reducing the compliance burden.

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<sup>36</sup> <https://lpi.worldbank.org/2018>

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## Annexures I – Key Definitions<sup>37</sup>

- ❧ **Direct Exporter:** A manufacturer cum exporter who is exporting the goods under the name of his firm or company.
- ❧ **Manufacturer-cum-exporter:** A person who owns or has his own manufacturing facility to manufacture or produce the goods exported or to be exported.<sup>38</sup>
- ❧ **Indirect Exporter:** A manufacturer or supplier of goods or articles, with a Firm Contract or Export Purchase Order for goods which are to be used as input for export by the direct exporter or commercial exporter.
- ❧ **Commercial exporter:** Exporters engaged in the purchase and export of goods in the same state, either after packing or otherwise.
- ❧ **International Toll Manufacturer:** An arrangement wherein a foreign principal provides input goods to an exporter to produce finished goods for subsequent export.<sup>39</sup>
- ❧ **Common Export House:** A warehouse authorized by the Collector under this chapter, for import, warehouse, and supply of input goods without payment of customs duty, sales tax, federal excise duty, and withholding tax, to the small and medium export enterprises, direct or indirect exporters, or commercial exporters.
- ❧ **Common Bonded Warehouse:** A warehouse licensed by the Collector of Customs for warehousing of goods meant for export purposes.
- ❧ **Small and Medium Export Enterprise:** An export unit having an export quantum of up to five million US dollars per annum.
- ❧ **Manufacturing Bond:** Premises having a proper boundary wall, with clearly defined areas of bonded warehouse for storing input goods, manufacturing facility, and other stores. Goods imported under this scheme are delivered directly to the manufacturing bond, escorted by a customs inspector.
- ❧ **Export Oriented Units (EOU):** EOU includes small and medium enterprises and means a manufacturer having an in-house manufacturing facility and licensed by the Regulatory Authority. An export unit having an export quantum of up to two and a half million US dollars per annum.
- ❧ **Duty Drawback of Duty Paid Input Goods:** A user shall be entitled to claim duty drawback on the acquisition of duty paid input goods subject to the applicable duty 14 drawback notification only after full discharge of the liabilities and obligations and that the f.o.b value for claiming such drawback, shall be the value excluding the duty-free value of input goods imported or acquired under these rules: Provided that where a person is already in possession of stocks of duty-paid input goods, he may declare at the time of seeking approval and use such stocks for the purpose of this rule, any such declaration may be verified by the Regulatory Collector or Director IOCO at the time of processing the application.
- ❧ **Refund of Sales Tax:** The user shall be entitled to a refund of sales tax on the acquisitions of tax-paid input goods, including a refund of Sales tax on electricity or gas or services utilized as input goods for the manufacture of output goods to be exported under these rules, as admissible under the Sales Tax Act, 1990.
- ❧ **Input/Output Co-Efficient Organisation (IOCO):** Determination/Fixation/Rationalization of duty drawback rates, wastages, and finalization of application under DTRE Scheme, proper scrutiny of the documents, examination or audit of commercial record by the Sector Specialist/Director IOCO.

<sup>37</sup> <https://tdap.gov.pk/wp-content/uploads/2022/03/Export-Facilitation-Scheme-EFS-2021-final.pdf>

<sup>38</sup> <https://download1.fbr.gov.pk/Docs/202586148252375SalesTaxActupdatedupto2025-26.pdf>

<sup>39</sup> <https://download1.fbr.gov.pk/SROs/202493159129309SRO957%28I%292021dated30.07.2021.pdf?>

✎ **Eligibility for Duty and Tax Remission for Exporters (DTRE) Scheme:**<sup>40</sup> The scheme is provided either on the basis of export performance or on the basis of past or existing contract orders. The approval in the base year is granted on the anticipated value of exports as mentioned by the exporter in the application. While in the second year, the permit is granted subject to an increase in exports compared to the first year.

**Sources:** TDAP, [FBR](#), and [Invest.gov.pk](#)

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<sup>40</sup> <https://tdap.gov.pk/wp-content/uploads/2022/04/Export-Facilitation-Scheme-Manual-2.pdf>

**Annexure II - List of Stakeholders & Tax Experts**

S. No.		Stakeholders
<b>Business Community</b>		
1.		Millat Tractors Limited
2.		Retex Global (Used Textiles)
3.		M/s. Zona Pakistan Karachi (Textile & Apparel)
4.		All Pakistan Fruit & Vegetable Exporters, Importers & Merchants Association
5.		Exporter of Agricultural Products (F.A. International)
6.		Sialkot Chamber of Commerce & Industry (SCCI)
7.		FAST Cables Ltd. – Engineering Goods (Power Cables)
8.		M/s. Haji Khushi Muhammad & Co (Rice Trading)
9.		Umar Rice Traders (Importer & Exporter)
10.		Manufacturer & Exporter of Confectionery Products
11.		Vehari Chamber of Commerce & Industry (VCCI)
12.		Confectionery/ Food (Pearl Confectionery Private Ltd.)
13.		Solargy Zone Private Limited
14.		Contour Software (Pvt) Limited
15.		Shakir & Sons Cosmetics
		<b>Tax Experts</b>
		<b>Representative (s)</b>
1.	A. Qadir & Company–Tax Law	Abdul Qadir Memon Jamshaid Hassan FCMA
2.	External Audit and Tax Advisory Services (PwC's Karachi Tax Office)	Ahmad Hussain (CA)
3.	AccuVerse Consulting LLC, USA / Hemani Basrawala & Co.	Muzammil Hemani (ACA, LLB, ADIT–UK)
4.	Har Aik Global Associates LLP	Hina Shahrukh (FCA)
5.	Agile Business Solutions LLP	Shahrukh Malik (CA)