Federal Budget Commentary FY2025-26

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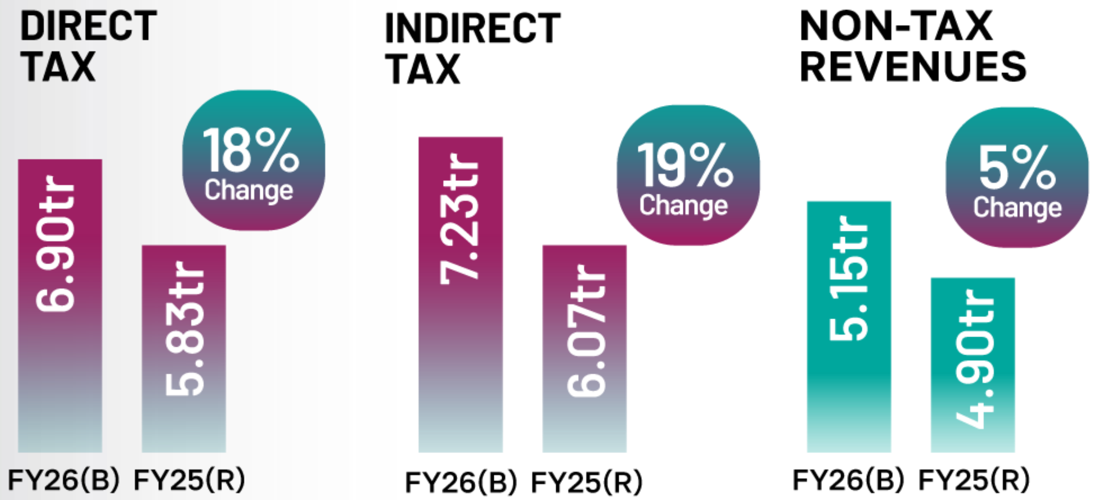
I. BUDGET AT GLANCE

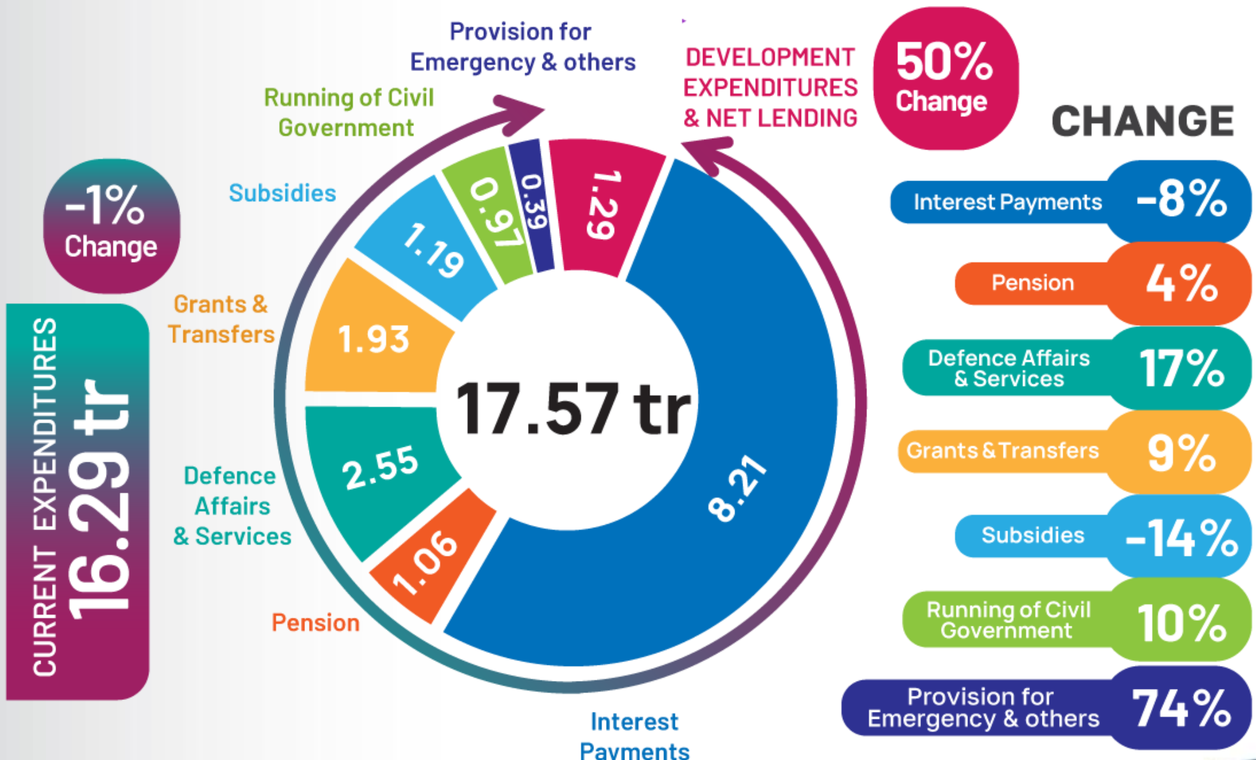
TOTAL REVENUES, (PKR) **19.28 TRILLION**

TAX REVENUES: 14.13 tr



INCOME TAX: 6.81tr | SALES TAX: 4.75tr | FED: 0.89tr | CUSTOMS DUTIES: 1.59tr

TOTAL EXPENDITURES, (PKR)



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II. POSITIVE MEASURES

- **Tax Relief for Salaried Individuals:** The government has provided relief to salaried individuals by reducing tax rates for those within specified income brackets. Significant steps have also been taken to simplify tax returns for salaried persons and small businesses, including the reduction of 800-column returns to a simplified format, which will significantly reduce the compliance burden.

- **Tax Relief for Real Estate Sector:** The withholding tax (WHT) on the purchase of properties has been reduced by 1.5% per slab, a move aimed at stimulating activity in the real estate market. Furthermore, the Federal Excise Duty (FED) on transfer of properties, implemented last year, has been removed, which is expected to lower transaction costs and drive increased property market activity.

- **Support to Housing Sector:** The federal government offers a tax credit for loans taken from approved institutions to construct or acquire a personal house (up to 2,500 sq. ft.) or a flat (up to 2,000 sq. ft.). This initiative is a positive step in addressing the ongoing housing crisis by making homeownership more accessible and affordable.

- **Removal of Tribal Areas Exemption:** The sales tax exemptions on supplies and imports previously enjoyed by tribal regions have been announced to be gradually removed, with a 10% sales tax to be implemented in the coming year. This measure will provide a level playing field for businesses, broaden the tax base, and promote fair competition across the country.

- **Sales Tax on Imported Cotton Yarn in Export Facilitation Scheme**: The imposition of sales tax on imported cotton yarn in the Export Facilitation Scheme marks a strategic move to support the domestic textile sector's recovery. After facing significant challenges last year, the textile sector has posted growth of 2.2% in FY25, and this initiative is expected to boost fair competition, and foster long-term industry stability.

II. POSITIVE MEASURES

- **Tariff & Customs Reforms:** The phased removal of Additional Customs Duties (ACDs) and Regulatory Duties (RDs) under the National Tariff Policy 2025–30, targeting a maximum duty of 15%, is a strategic move to enhance industrial competitiveness and support export growth. By reducing tariffs on raw materials and intermediate goods, the policy is expected to strengthen domestic manufacturing. However, any tariff liberalization on consumer and finished goods could open the floodgates to increased imports, risking the external account stability achieved through significant sacrifices by the industry and the public.

III. NEGATIVE MEASURES

- **Inadequate allocation for K-IV Water Project.** The allocation for the K-IV Water Project is grossly insufficient. With a meager PKR 3.2 billion allocated, the government's claim of completing the K-IV project is nothing short of an empty promise. The K-IV project is critical to resolving Karachi's severe water crisis, yet the budgetary allocation reflects a lack of genuine commitment to addressing the city's urgent needs.

- **Lack of Support for Exporters and Key Sectors of the Economy:** The budget fails to provide support for both exporters and the manufacturing sector. There is no clear strategy for export-led growth, despite the shifting dynamics in international trade, such as the imposition of U.S. tariffs. Additionally, the manufacturing sector, which contracted by 1.5% in the first nine months of FY25, continues to struggle due to a lack of policy interventions or financial relief.

  Similarly, given the widening trade deficit in services, no new initiatives have been announced for the IT sector, one of the country's fastest-growing sectors. This oversight undermines the growth potential of key sectors in the economy, with insufficient support and high taxation, making it increasingly difficult for exporters and sectors to thrive.

III. NEGATIVE MEASURES

- **Inadequate Efforts to Broaden the Tax Base:** The budget lacks reform measures to broaden the tax base, particularly in critical sectors such as agriculture, retail, and real estate, which remain largely untaxed. However, the FY 2025-26 budget does not address this need, missing an opportunity to implement necessary reforms that would enhance tax compliance and contribute to long-term economic sustainability.

- **Impact of 18% Tax on Imported Solar Panels:** The 18% tax on imported solar panels is expected to increase their prices significantly. This will not only impose a financial burden on consumers but also negatively impact small businesses that are transitioning to cleaner energy alternatives in order to mitigate the high costs of grid electricity. Furthermore, this policy may undermine the government's broader environmental and sustainability objectives, hindering progress towards renewable energy adoption and climate goals.

- **Concerns Over Fiscal Health and Development Spending:** The budget highlights significant fiscal challenges, with debt servicing consuming 50.4% of current expenditure and 74.1% of net federal revenues in FY26. This limits resources for development, with the PSDP cut by 29%, from PKR 1,400 billion to PKR 1,000 billion. This reduction undermines long-term economic development by limiting critical infrastructure investment and social programs.

- **Proposed 10% Circular Debt Surcharge on Electricity Bills:** The federal government's proposal to impose a 10% surcharge on electricity bills to tackle the growing circular debt in the power sector is a deeply concerning measure. This surcharge, which will affect electricity consumers nationwide, adds further financial strain on an already burdened public. This additional surcharge is likely to exacerbate the financial challenges faced by consumers.

III. NEGATIVE MEASURES

- **Carbon Levy Introduction:** The introduction of a Rs. 2.5 Carbon Levy per litre for FY2025-26 and Rs. 5 per litre for FY2026-27 on furnace oil, motor spirit, and high-speed diesel, is set to significantly raise fuel prices. Any additional PDL may exacerbate inflationary pressures and further burden consumers.

- **Digital Presence Proceeds Tax Act, 2025:** This new act introduces a tax on digital payments for goods purchased by Pakistani customers through e-commerce platforms, including transactions with international online marketplaces. By increasing the cost of online purchases, this measure is likely to discourage digital transactions, further deterring the shift towards digital commerce.

- **New Energy Vehicle (NEV) Adoption Levy:** Under the Budget 2025-26, the federal government has proposed a New Energy Vehicle (NEV) Adoption Levy targeting internal combustion engine (ICE) vehicles. While this initiative aims to generate revenue, it risks burdening consumers with additional costs without providing support for a smooth transition to eco-friendly vehicles. This move may place unnecessary financial strain on consumers.

- **Reverting Sales Tax on Small Cars:** The federal budget has reversed the reduced 12.5% sales tax on locally manufactured or assembled motorcars up to 850cc, restoring the standard 18% sales tax. This change is expected to drive up prices, adversely affecting consumers' purchasing power and potentially limiting demand in the automobile sector.

IV. KEY AMENDMENTS IN FEDERAL BUDGET 2025-26

A. INCOME TAX

First Schedule – Part I Division I: Tax for Salaried Individual

Taxable Income	Tax Rates FY2024-25	Proposed Rates FY2025-26
Up to Rs. 600,000	0%	0%
Rs. 600,001 – Rs. 1,200,000	5% of the amount exceeding Rs. 600,000	1% of amount exceeding Rs. 600,000
Rs. 1,200,001 – Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000	Rs. 6,000 + 11% of amount exceeding Rs. 1,200,000
Rs. 2,200,001 – Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000	Rs. 116,000 + 23% of amount exceeding Rs. 2,200,000
Rs. 3,200,001 – Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000	Rs. 346,000 + 30% of amount exceeding Rs. 3,200,000
Above Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000	616,000 + 35% of amount exceeding Rs. 4,100,000

First Schedule – Part I Division IIB: Super Tax

Taxable Income	Existing Tax Rates FY2024-25	Proposed Tax Rates FY2025-26
Up to Rs. 150 Million	0%	0%
Exceeding Rs. 150 million but does not exceed Rs. 200 million	1%	1%
Exceeding Rs. 200 million but does not exceed Rs. 250 million	2%	1.5%
Exceeding Rs. 250 million but does not exceed Rs. 300 million	3%	2.5%
Exceeding Rs. 300 million but does not exceed Rs. 350 million	4%	3.5%
Exceeding Rs. 350 million but does not exceed Rs. 400 million	6%	5.5%
Exceeding Rs. 400 million but does not exceed Rs. 500 million	8%	7.5%
Exceeding Rs. 500 million	10%	10%

A. INCOME TAX

First Schedule: - Part I Division III: Rate of Dividend Tax(Section 5)

Currently, dividends from mutual funds are taxable at the rate of 15%, except for dividends received from mutual funds deriving 50% or more income from profit on debt, which is taxable at the rate of 25%.

It is proposed in Federal Budget 2025-26 that dividends received from mutual funds deriving income from investments in both equity and debt securities are to be taxed at the rate of 15% and 25%, respectively, contingent upon proportionate income derived from average annual investment in debt and equity securities, respectively.

First Schedule: - Part I Division IIIA: Profit on Debt (Section 7B)

Taxable Income	Existing Tax Rates FY2024-25	Proposed Tax Rates FY2025-26
Yield or profit from a banking company or financial institution on an account or deposit maintained with such company or institution	15%	20%
In other cases	15%	15%

First Schedule: - Part I Division IV: Tax on Certain Payments (as proposed by Digital Presence Proceeds Tax Act, 2025

Services	Existing Tax Rates FY2024-25	Proposed Tax Rates FY2025-26
Offshore digital services	10%	15%

First Schedule- Division IVA: Tax Rates on Payments for Digital Transactions in E-Commerce Platforms (Section 6A)

(i) Digital Means or banking channels by a payment intermediary

Amount	Proposed Tax Rates FY2025-26
Upto 10,000	1% of the gross amount paid
Exceeding Rs. 10,000 but does not exceed Rs. 20,000	2% of the gross amount paid
Exceeding Rs. 20,000	0.25% of the gross amount paid

A. INCOME TAX

First Schedule - Division IVA: Tax Rates on Payments for Digital Transactions in E-Commerce Platforms (Section 6A)

(ii) Cash on Delivery by Courier Services

Taxable Items	Proposed Tax Rates FY2025-26
On supply of electronic and electrical goods	0.25% of the gross amount paid
On supply of clothing articles, apparels, garments etc.	2% of the gross amount paid
On supply of goods other than mentioned in S. No. 1 and 2 above	1% of the gross amount paid"

First Schedule – Part IV Division XVIII: Advance Tax on Sale/Transfer of Immoveable Properties

Existing Tax Rates 2024-25			
Fair Market Value (FMV)	**Persons in ATL**	**Persons in ATL with Late Returns**	**Persons Not in ATL**
Up to Rs. 50 Million	3%	6%	10% of the gross amount of consideration received
Exceeds Rs. 50 Million but does not exceed Rs 100 Million	3.5%	7%	
Exceeds Rs. 100 Million	4%	8%	

Proposed Tax Rates 2025-26			
Fair Market Value (FMV)	**Persons in ATL**	**Persons in ATL with Late Returns**	**Persons Not in ATL**
Upto Rs. 50 Million	4.5%	7.5%	11.5% of the gross amount of consideration received
Exceeds Rs. 50 Million but does not exceed Rs 100 Million	5%	8.5%	
Exceeds Rs. 100 Million	5.5%	9.5%	

First Schedule – Part IV Division XVIII: Advance Tax on Purchase of Immoveable Properties

Existing Tax Rates 2024-25			
Fair Market Value (FMV)	**Persons in ATL**	**Persons in ATL with Late Returns**	**Persons Not in ATL**
Upto Rs. 50 Million	3%	6%	12%
Exceeds Rs. 50 Million but does not exceed Rs 100 Million	3.5%	7%	16%
Exceeds Rs. 100 Million	4%	8%	20%
Proposed Tax Rates 2025-26			
Fair Market Value (FMV)	**Persons in ATL**	**Persons in ATL with Late Returns**	**Persons Not in ATL**
Upto Rs. 50 Million	1.5%	4.5%	10.5%
Exceeds Rs. 50 Million but does not exceed Rs 100 Million	2%	5.5%	14.5%
Exceeds Rs. 100 Million	2.5%	6.5%	18.5%

B. Petroleum Products (Petroleum Levy) Ordinance, 1961: Carbon Levy

	Proposed Levy FY2025-26	Proposed Levy FY2026-27
Motor Spirit High Speed Diesel Furnace Oil	Two rupees and fifty paisa (Rs. 2.5) per liter	Five rupees (Rs. 5.0) per liter

C. New Energy Vehicle (NEV) Adoption Levy Act, 2025:

Internal combustion engine motor vehicles with engine capacity:	Proposed Rate of levy 2025-26
less than 1300 cc	1% ad valorem of invoice price inclusive of duties and taxes
1300 cc to 1800 cc	2% ad valorem of invoice price inclusive of duties and taxes
more than 1800 cc	3% ad valorem of invoice price inclusive of duties and taxes
Bus and Truck with internal combustion engine	1% ad valorem of invoice price inclusive of duties and taxes