ICMA INTERNATIONAL
lead strategically

75 Years of Excellence
ESTD. 1951

ICMA
BUDGET 2026-27 COMPENDIUM:

FEDERAL BUDGET 2026–27 & FINANCE ACT 2026 THROUGH THE ICMA LENS

Research and Publications Department
Institute of Cost and Management Accountants of Pakistan

CONTENTS

Message from Vice President & Chairman, Research and Publications Committee

It is my pleasure to present the ICMA's Budget 2026–27 Compendium, a comprehensive publication that provides an objective analysis of the Federal Budget 2026–27 and the Finance Act, 2026. Prepared at a time when Pakistan continues its pursuit of macroeconomic stability amid evolving domestic and global challenges, this Compendium offers valuable insights into the government's fiscal priorities, policy reforms, and their implications for businesses, industries, and the broader economy.

The Federal Budget 2026–27 seeks to maintain fiscal discipline while supporting economic recovery through revenue mobilization, targeted tax relief, and administrative reforms. While these measures demonstrate the government's commitment to strengthening public finances, their long-term success will depend on effective implementation, policy consistency, and the ability to create a competitive environment that promotes investment, exports, productivity, and sustainable economic growth.

This Compendium brings together the perspectives of leading economists, business leaders, and industry experts, offering diverse viewpoints on the opportunities and challenges arising from the budget. It also presents the findings of the ICMA–Gallup Post-Budget Survey 2026–27 alongside the results of a public opinion poll, providing a balanced assessment of how both professionals and the general public perceive the government's fiscal policies and economic direction.

To provide a comprehensive understanding of the budget, the publication includes a comparative analysis of the Federal Government's revised allocations for FY2025–26 and budget estimates for FY2026–27, highlighting changes in expenditure priorities across key sectors. It further examines "Who Pays, Who Gains, and Who Waits" through ICMA's independent observations, assessing the distributional impact of the budget on various stakeholders. In addition, the Compendium evaluates the anticipated short-term and long-term economic implications of the Finance Act, 2026 and presents an overview of the provincial budgets of Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, Azad Jammu & Kashmir, and Gilgit-Baltistan, providing readers with a holistic view of Pakistan's fiscal landscape.

At ICMA, we remain committed to promoting sound public financial management, evidence-based policymaking, and informed economic dialogue. It is our hope that this Compendium will serve as a valuable resource for policymakers, business leaders, researchers, academia, and the wider public by facilitating a deeper understanding of the country's fiscal framework and supporting constructive policy reforms.

I extend my sincere appreciation to the R&P Department, Gallup Pakistan, and all distinguished contributors whose expertise and dedication have made this publication possible. I trust that this Compendium will contribute meaningfully to policy discussions and support Pakistan's journey towards sustainable, inclusive, and resilient economic growth.

Muhammad Yasin, FCMA

VIEWPOINTS

ON BUDGET 2026-27

Usman Shaukat

President, Rawalpindi Chamber of Commerce and Industry- RCCI

The Federal Budget 2026–27, reflects a balanced approach by providing targeted relief to key sectors while maintaining fiscal discipline. However, it also raises concerns regarding the ambitious revenue targets and the need for stronger measures to stimulate industrial growth and broaden the tax base.

The government has set a Federal Board of Revenue (FBR) tax collection target of Rs. 15.264 trillion, representing a significant increase over the revised estimates for the previous year. While this demonstrates the government's commitment to fiscal consolidation, the business community remains cautious given the challenges in achieving past revenue targets and the likelihood of increased enforcement if collections fall short.

The budget offers meaningful relief to the salaried class through revised tax slabs and the abolition of the salary surcharge on high-income earners. Exporters also benefit from the removal of the super tax and reduced withholding tax on export proceeds, while the extension of preferential tax treatment for the IT and IT-enabled services sector until 2029 supports Pakistan's growing digital economy.

Healthcare and pharmaceutical manufacturing have received notable incentives through the abolition of customs duties on over 100 pharmaceutical raw materials, particularly those used in cancer treatment and essential medicines. Taxes on contraceptives and women's hygiene products have also been removed, reducing production costs and improving affordability for consumers.

For small businesses, the introduction of a fixed-tax scheme for retailers aims to encourage documentation by allowing eligible traders to pay a simplified one percent tax on sales while being exempt from routine audits, physical inspections, and point-of-sale requirements. The real estate sector has also received relief through lower withholding tax rates on property transactions and the abolition of the deemed rental income tax, measures expected to improve market activity.

Despite these positive initiatives, concerns remain regarding the limited allocation for export financing relative to the country's export targets, the modest development spending, and the absence of a comprehensive strategy to accelerate industrial expansion and support small and medium-sized enterprises. Businesses also seek greater clarity on sales tax measures and implementation procedures to ensure a predictable regulatory environment.

Overall, the Federal Budget 2026–27 provides welcome tax relief and sector-specific incentives while pursuing fiscal consolidation. However, its long-term success will depend on effective implementation, consistent tax policies, and complementary reforms that promote investment, industrial competitiveness, and sustainable economic growth.

...

Zubair Motiwala

Former President, Karachi Chamber of Commerce & Industry (KCCI)

Former Chairman, Trade Development Authority of Pakistan (TDAP)

The business community has responded to the Federal Budget 2026–27 with a mixed reaction, recognizing several reform-oriented initiatives while questioning the budget's ability to address the structural challenges facing Pakistan's economy. Although the government has presented the budget as a step towards fiscal consolidation, improved tax administration, and economic stability, industry stakeholders argue that the proposed measures do not adequately support exports, industrial growth, or the development needs of Karachi.

Business leaders have welcomed the government's emphasis on automation and digitalization of the tax system, particularly the introduction of a faceless taxation mechanism, viewing the initiative as an important step towards improving transparency, minimizing discretionary powers, and reducing corruption. The reduction in income tax rates for the salaried class, the increase in the minimum wage, relief measures for the construction and real estate sectors, the continuation of concessions for electric vehicle kits, and the reduction in Super Tax rates, including its abolition for companies earning profits of up to Rs. 500 million, have also been regarded as positive developments capable of strengthening business confidence and supporting selected sectors of the economy.

Despite these positive measures, concerns remain over the limited support provided to Pakistan's export sector, which continues to serve as the country's principal source of foreign exchange earnings. The availability of fiscal space, as reflected in the Economic Survey 2025–26, is viewed as an opportunity that could have been utilized to introduce stronger incentives for exporters and productive industries.

The decision not to replace the minimum tax on exporters with a fixed tax regime has also drawn criticism, with the reduction in the minimum tax rate considered insufficient to significantly improve export competitiveness. Furthermore, the budget is perceived as placing additional pressure on existing taxpayers rather than substantially broadening the tax base.

Energy affordability remains another key concern for the business community. The absence of measures to rationalize electricity and gas tariffs or address the persistent issue of circular debt is viewed as a major policy gap, particularly at a time when high energy costs continue to undermine industrial productivity and international competitiveness. Without meaningful reforms in the energy sector, the expected gains from other fiscal measures are considered likely to remain limited.

Concerns have also been expressed over the limited allocation for Karachi's infrastructure, particularly the K-IV water supply project, where the allocated funding is considered insufficient to meet the project's financial requirements and ensure timely completion. Given Karachi's significant contribution to the national economy, greater investment in the city's infrastructure is regarded as essential for sustaining industrial activity, improving the business environment, and supporting long-term economic growth.

Overall, the business community views the Federal Budget 2026–27 as containing several constructive fiscal and administrative reforms but falling short of providing the comprehensive policy support needed to stimulate exports, reduce the cost of doing business, strengthen industrial competitiveness, and address critical infrastructure challenges. The effectiveness of the budget is therefore expected to depend on the implementation of complementary structural reforms that promote investment, encourage export-led growth, rationalize energy costs, and create a more predictable and competitive business environment.

Junaid Naqi

Former President, Korangi Association of Trade & Industry-KATI & Industrialist

Pakistan stands at a critical juncture. With global geopolitical shifts, including the recent Iran–US tensions, a new window of opportunity has opened to strengthen Pakistan's global image and attract investment. The real question is whether we are prepared to capitalize on it.

From an industry and manufacturing perspective, the current federal budget presents a mixed picture. While it contains some positive measures, it falls short of addressing the structural issues that continue to hinder industrial growth and competitiveness.

The taxation framework appears to be driven by short-term revenue objectives rather than a long-term economic vision. Instead of broadening the tax base and creating a predictable policy environment, the burden continues to fall on the existing tax-paying industry and business community. Sustainable economic growth requires policy continuity over the next 10 to 20 years, not annual adjustments based on immediate fiscal needs.

Similarly, improving the investment climate requires more than simply highlighting emerging opportunities. Investors need a genuine one-window operation, ease of doing business, regulatory certainty, and an environment that protects and encourages industrial investment. Without these structural reforms, Pakistan may struggle to convert interest into actual investment.

The cost of doing business remains one of the country's most significant challenges. The policy rate is still relatively high compared to regional competitors, while energy costs continue to place a heavy burden on industry. Basic utilities and infrastructure are also inadequate. Water, an essential industrial input, is available only at considerable cost. Karachi, which contributes more than 60% of FBR revenues, continues to face deteriorating infrastructure, affecting labour mobility, logistics, drainage, road networks, and other essential services. Coupled with inconsistent taxation policies, these factors significantly reduce the competitiveness of Pakistan's manufacturing sector.

Competitiveness requires more than rhetoric—it demands sustained action. Greater support for SMEs and cottage industries is essential, as they have the greatest potential to generate employment. At the same time, Pakistan must invest more aggressively in skills development and vocational training, particularly when nearly 65% of the population is between the ages of 15 and 29. Women's participation in the workforce also remains far below its potential, leaving a significant portion of the country's human capital underutilized. Equally important is improving the quality of education, where Pakistan continues to lag behind international standards.

Overall, Pakistan's current economic approach appears reactive rather than strategic. We cannot rely on external geopolitical developments to create temporary economic opportunities while continuing the cycle of debt servicing and increasing pressure on existing taxpayers. Nor can dependence on the IMF serve as an excuse for avoiding the structural reforms needed to build a resilient economy.

For Pakistan to achieve sustainable industrialization, it needs a clear long-term vision, consistent economic policies, a lower cost of doing business, and sustained investment in human capital. The opportunity exists, but without decisive action and policy continuity, it may once again be lost.

...

Gliding Towards Growth or Financing Around Stagnation?

By: Dr. Aadil Nakhoda
(Chairman, Economic Advisory Group-EAG)

The FY27 budget marks the first time in several years that trade and tax policies are moving in the same direction. By lowering the export-tax wedge, reducing the cost of imported inputs, and preserving access to affordable finance, it aims to stimulate business, investment, and export-led growth. This represents a departure from previous budgets that increased the tax burden on businesses. Central to this shift is the National Tariff Policy (NTP) 2025–2030, which introduces a tariff glide path by simplifying and reducing customs duties across a wide range of products. However, the growing use of Federal Excise Duties (FED) as a substitute for customs duties may weaken the predictability envisioned under the NTP and create uncertainty for investors.

These reforms come at a time when Pakistan continues to face a competitiveness challenge. The economy recorded provisional GDP growth of 3.7 percent, with GDP reaching US$452 billion and GDP per capita US$1,901. While the current account posted a surplus of US$72 million, it was supported mainly by US$41.6 billion in remittances and over US$4.5 billion in IT exports, whereas goods exports contracted by 5.8 percent. Inflation accelerated from 6.2 percent during the first ten months of the fiscal year to 10.9 percent in April and 11.7 percent in May 2026, prompting the State Bank of Pakistan to raise the policy rate by 100 basis points to 11.5 percent, the first increase in three years.

The second year of the NTP further simplifies Pakistan's tariff regime by introducing standardized tariff slabs and lowering customs duties on raw materials, intermediate goods, and capital equipment, while capping duties on finished goods at 15 percent. Tariffs that previously reached as high as 100 percent on some products had created an anti-export bias by shielding domestic industries. The reforms are already encouraging modernization, with imports of textile machinery rising by 21 percent. Lower tariffs, together with the gradual phase-out of concessions under the Fifth Schedule, are expected to improve productivity, competitiveness, exports, and formalization of trade by eliminating Regulatory Duties (RDs) and Additional Customs Duties (ACDs), thereby reducing complexity and encouraging greater documentation.

The budget also provides targeted relief to exporters by reducing the minimum tax from 2 percent to 1.25 percent, abolishing the Export Development Surcharge, removing the Super Tax for certain businesses, and expanding the Export Finance Scheme to Rs. 88 billion. The reduction in FED on business-class travel further supports business activity by improving travel affordability and route economics.

While lower international oil prices have provided temporary relief to Pakistan's external financing position, this cushion remains vulnerable to geopolitical uncertainty. More importantly, despite the positive direction of tariff and tax reforms, high energy costs, expensive logistics, and weak firm-level capabilities continue to constrain export competitiveness. If the increasing reliance on FED undermines the tariff glide path under the NTP, the opportunity created by these reforms may be diluted, limiting Pakistan's prospects for sustained export-led growth.

...

Can Fiscal Stability Deliver Sustainable Growth?

Prof. Dr. Nooreen Mujahid
(Director, Applied Economics Research Centre-AERC, University of Karachi)

The Federal Budget 2026-27 reflects a continued emphasis on macroeconomic stabilization, fiscal consolidation and the preservation of external credibility. The government has set a real GDP growth target of approximately 4%, an inflation target of 8.2%, an overall fiscal deficit target of 3.6% of GDP and a primary surplus target of 2% of GDP. These targets indicate that fiscal policy remains focused on controlling the deficit and maintaining debt sustainability while supporting a gradual economic recovery.

The federal government has budgeted total expenditure of Rs. 18.771 trillion, against net federal revenue of Rs. 11.751 trillion. Gross revenue receipts are estimated at Rs. 20.600 trillion, comprising an FBR tax target of Rs. 15.264 trillion and non-tax revenue of Rs. 5.336 trillion. After the transfer of Rs. 8.848 trillion to the provinces, the federal budget records a deficit of Rs. 7.020 trillion. Following an expected provincial surplus of Rs. 1.794 trillion, the overall fiscal deficit is projected at Rs. 5.226 trillion, equivalent to 3.6% of GDP.

A major macroeconomic challenge is the composition of expenditure. Current expenditure amounts to Rs. 17.495 trillion, including Rs. 8.054 trillion in interest payments, Rs. 3 trillion for defence affairs and services, and Rs. 1.169 trillion for pensions. Interest payments alone absorb a substantial proportion of federal resources, sharply limiting the fiscal space available for development and social-sector investment. Development expenditure and net lending are budgeted at Rs. 1.276 trillion, of which the Federal Public Sector Development Programme accounts for Rs. 1 trillion.

The budget provides necessary support for macroeconomic stability, but the relatively limited development envelope may restrict the government's ability to address infrastructure gaps, human-capital deficiencies, climate vulnerability and regional disparities. The effectiveness of the PSDP will consequently depend not only on the size of the allocation but also on project selection, timely fund releases, implementation capacity and measurable development outcomes.

The budget's success depends heavily on implementation. The revenue framework requires significant improvement in tax administration, compliance and documentation. It also relies on non-tax revenues, including petroleum-related receipts, and on the realization of the projected provincial surplus. The substantial federal financing requirement-largely expected to be met through domestic financing - may continue to exert pressure on debt-servicing costs and private-sector credit.

The budget is broadly consistent with the macroeconomic stabilization objectives of Pakistan's IMF-supported programme. The IMF has emphasized continued revenue mobilization, expenditure efficiency, expansion of the tax base, energy-sector viability, state-owned-enterprise reforms, social protection and productive public investment.

Overall, the Federal Budget 2026-27 provides a credible framework for short-term fiscal and macroeconomic stabilization. However, durable and inclusive growth will require the budget to be complemented by stronger fiscal-monetary coordination, tax-base broadening, export and productivity enhancement, energy-sector reform, improved governance and greater investment in human capital. Its ultimate success should therefore be judged not only by whether numerical fiscal targets are achieved, but also by whether stabilization creates sufficient space for employment, investment and sustainable development.

...

POST-BUDGET 2026-27 SURVEY

A Report developed by
Gallup Pakistan for **ICMA**

Preamble

The Federal Budget 2026–27 and the Finance Act, 2026 introduce significant fiscal and tax reforms aimed at broadening the tax base, strengthening revenue mobilization, and modernizing tax administration. Key measures include revised income tax slabs, expansion of the sales tax net, faceless tax assessments, algorithmic tax settlement, and new taxation on life insurance payouts and digital platform income. To assess stakeholder views and insights regarding the Federal Budget 2026-27 and the Finance Act, 2026, the Institute of Cost and Management Accountants of Pakistan (ICMA), in collaboration with Gallup Pakistan, conducted the ICMA-Gallup Post-Budget 2026–27 Survey among professionals from academia, business, industry, tax practitioners, entrepreneurs, ICMA members, and other stakeholders. The survey findings provide evidence-based insights into stakeholder views on the budget's fiscal measures, their expected economic impact, and policy direction, serving as a valuable resource for policymakers, researchers, businesses, and other stakeholders. The survey results form an integral part of the ICMA Budget Compendium 2026-27.

Survey Methodology

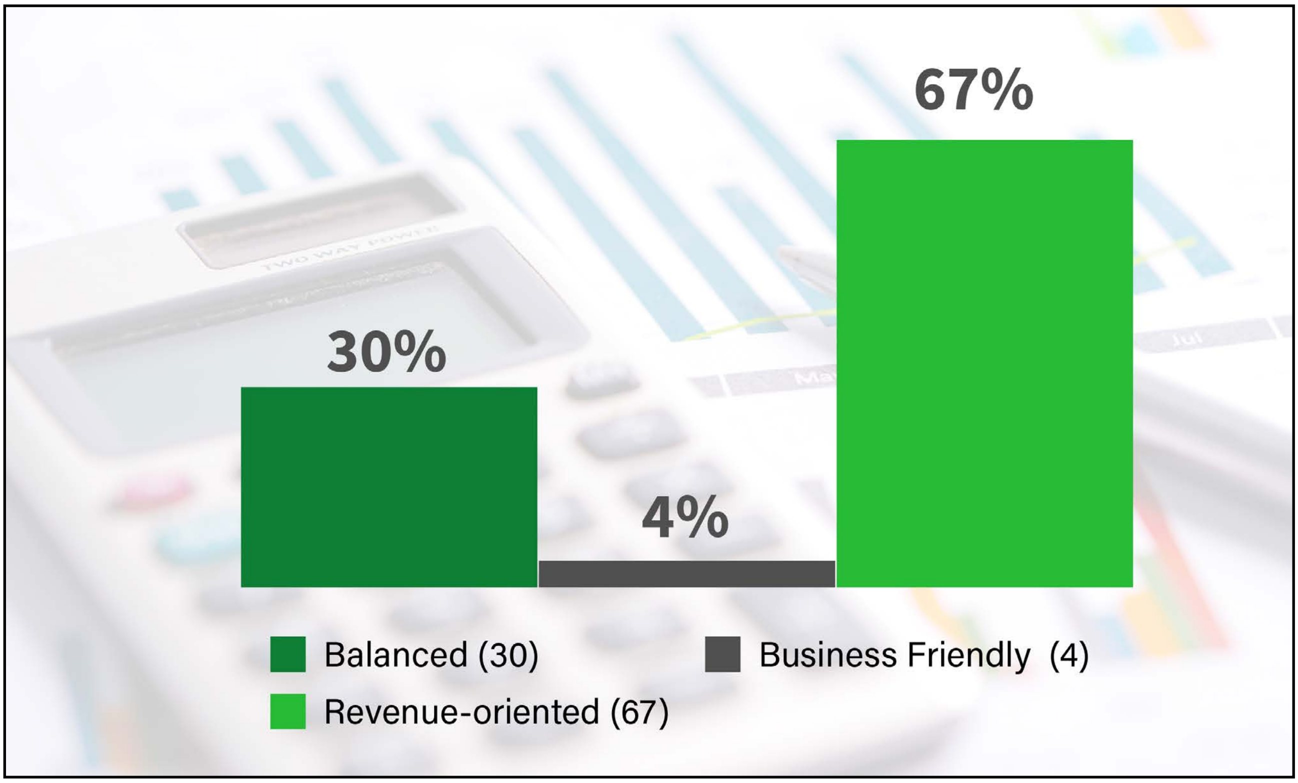
Gallup Pakistan conducted an opinion-based survey among ICMA members and non-members to gather views on the post-budget 2026-2027. ICMA provided key issues and themes, whereas Gallup, in consultation with ICMA, designed the questionnaire and incorporated feedback through multiple revisions. The survey was scripted into online software for electronic data collection via a group link. Gallup sent emails to over 5,000 respondents, including ICMA members. Data were collected over two weeks, checked for quality, and analyzed using empirical software. The findings were summarized and shared with ICMA.

Survey Results

67% **consider the Federal Budget 2026–27 to be "Revenue-Oriented".**

In the survey, when questioned about the overall characterization of the Federal Budget 2026–27, 67% of the respondents described it as revenue-oriented, while 30% considered it balanced. Only 4% of the respondents viewed the budget as business-friendly, indicating limited confidence in its pro-business majors.

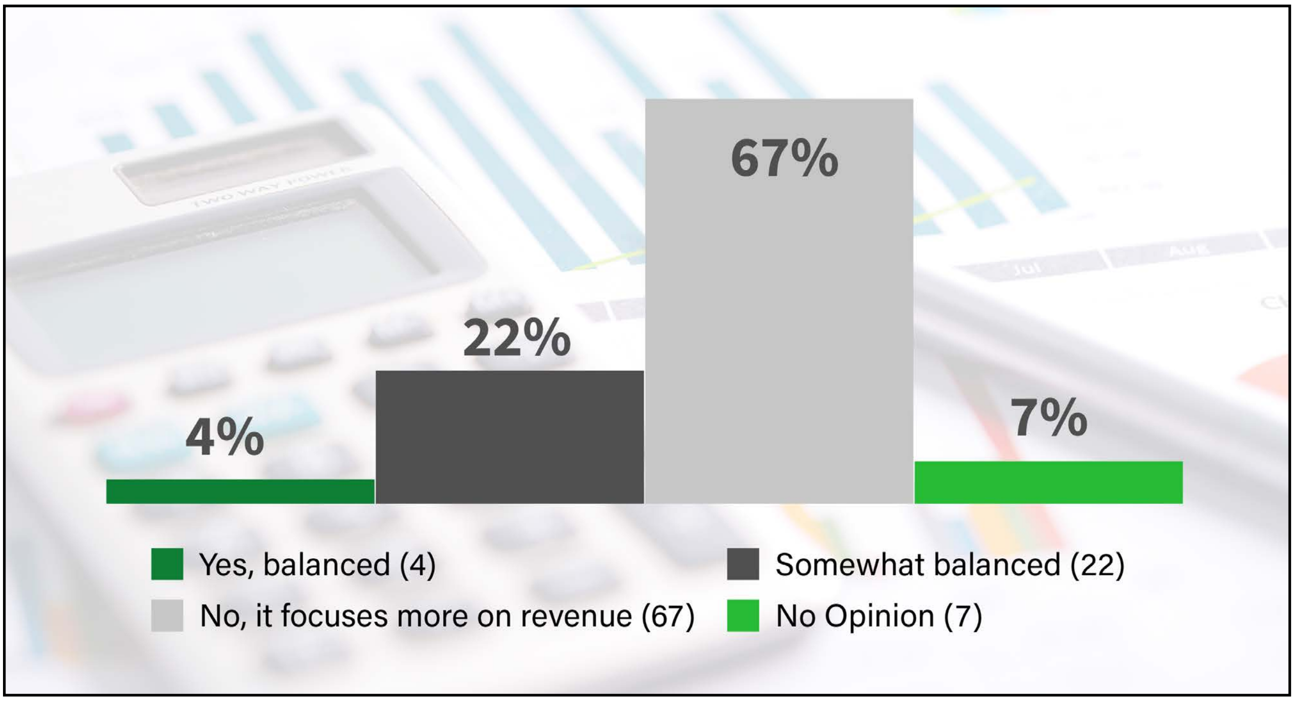
How would you characterize the Federal Budget 2026-27 overall?



67% perceive the Federal Budget 2026–27 prioritizes revenue generation over public relief.

The survey findings depict that 67% of respondents believe the Federal Budget 2026–27 focuses more on revenue generation than public relief. Whereas 26% consider it appropriately balanced and somewhat balanced, while 7% expressed no opinion, reflecting a strong perception that revenue generation outweighs public relief.

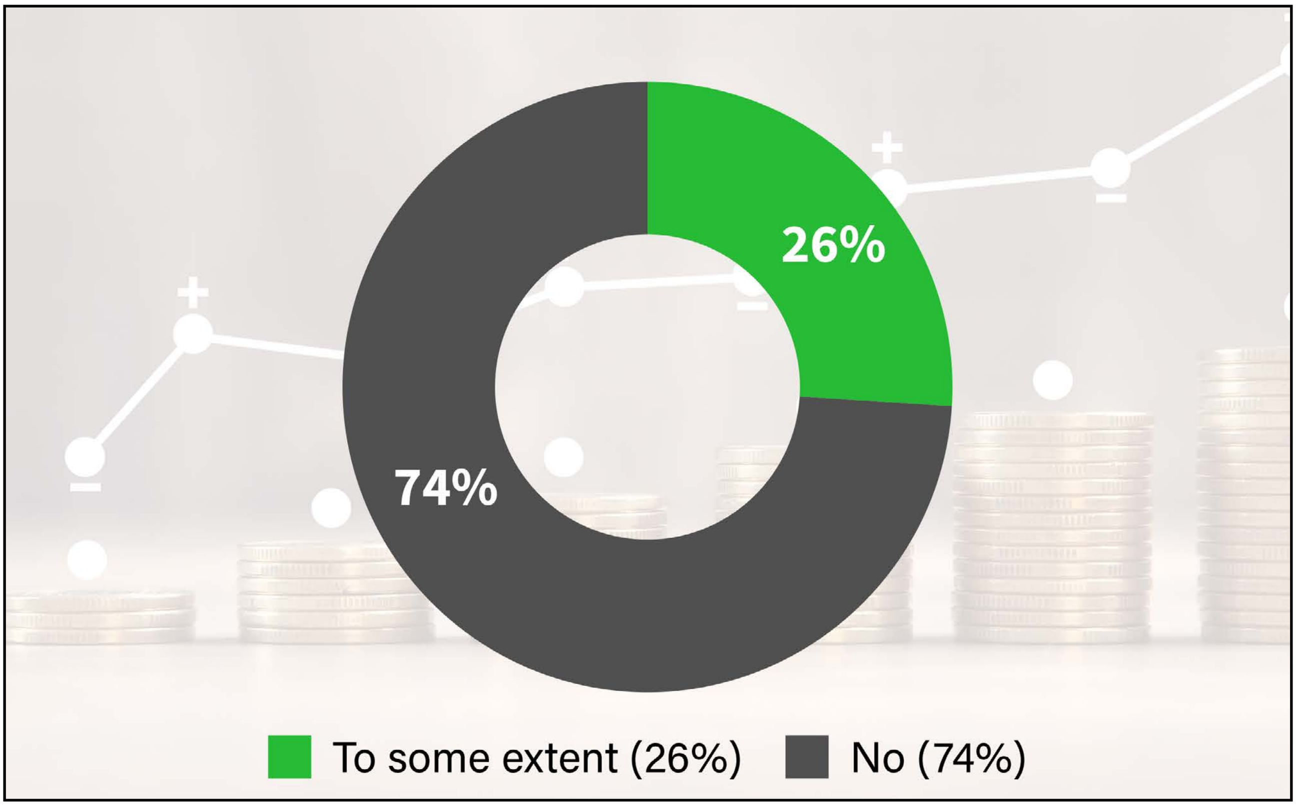
Does the Federal Budget 2026-27 appropriately balance revenue generation with public relief?



74% say the Federal Budget 2026–27 lacks adequate measures to control inflation.

Based on the responses, 74% of respondents believe that the Federal Budget 2026–27 does not provide adequate measures to control inflation, while 26% feel it helps to some extent. The findings reflect widespread skepticism regarding the budget's ability to effectively contain inflationary pressures and ease the rising cost of living.

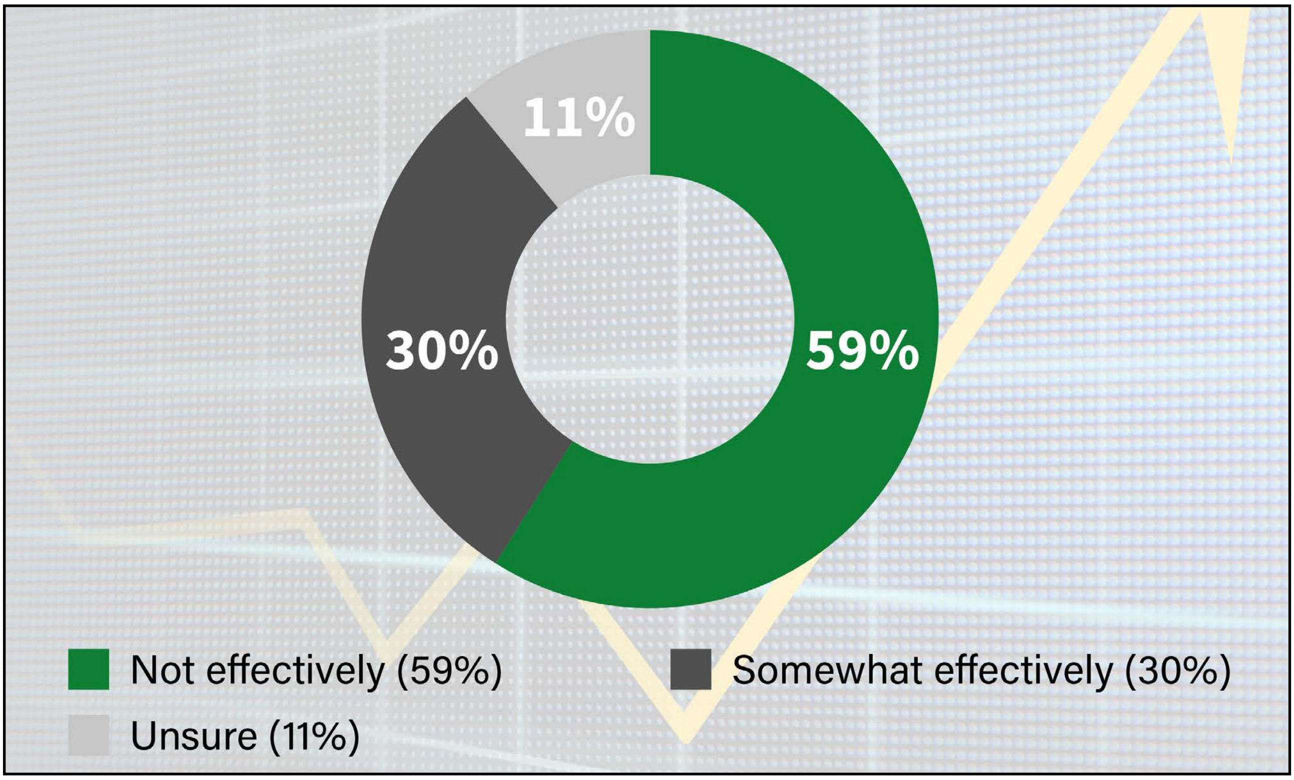
Inflation averaged 7.05% during Jul-Jun 2025-26. Do you think the Budget 2026 provides adequate measures to control inflation?



59% find the Federal Budget 2026–27 falls short in addressing Pakistan's major economic challenges.

When it comes to addressing Pakistan's major economic challenges, 59% of respondents believe that the Federal Budget 2026–27 falls short, citing ineffective measures. With only 30% considering it somewhat effective and 11% remaining unsure, the findings reflect limited confidence in the budget's ability to tackle the country's key economic challenges.

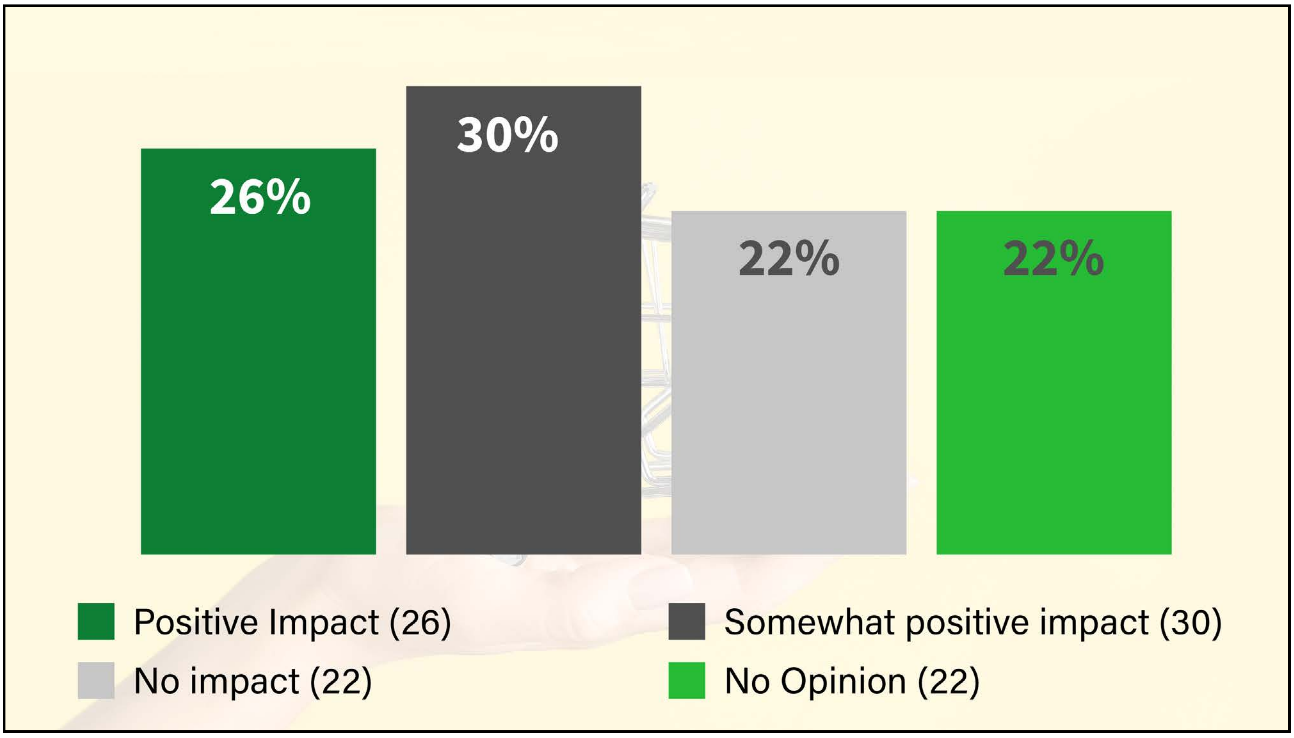
To what extent do you believe Budget 2026-27 addresses Pakistan's major economic challenges?



56% support the proposed turnover tax hike for its expected positive impact.

A majority of 56% of respondents believe the proposed increase in the minimum turnover tax will have a positive impact, either to some extent or overall. Meanwhile, 22% expect the measure to have no impact, while another 22% remain uncertain, indicating cautious optimism alongside considerable uncertainty regarding its effect on the trade and business sector.

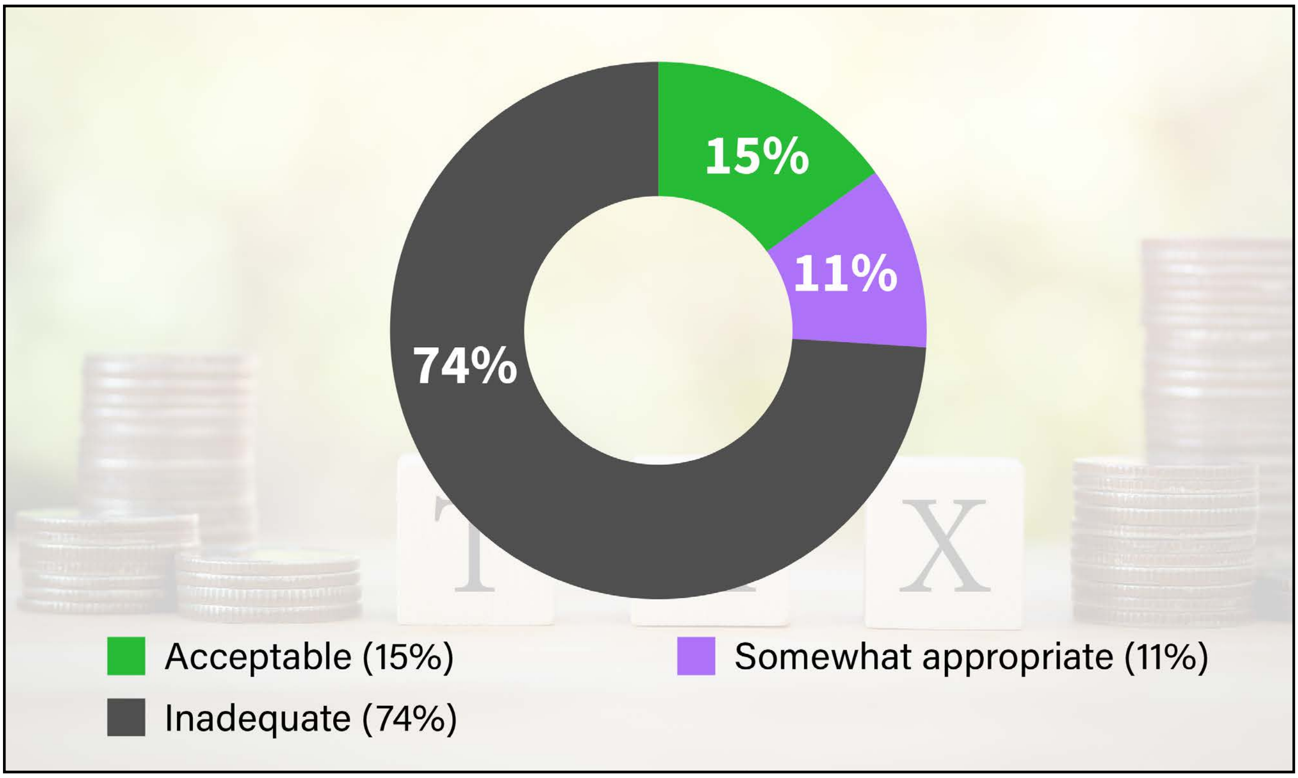
How do you assess the proposed increase in the minimum turnover tax from 0.25% to 0.5% for distributors, dealers, sub-dealers, and wholesalers?



74% believe the tax-free income threshold should be revised.

The survey asked respondents about the decision to keep the annual tax-free income threshold unchanged at Rs. 600,000. Results showed that 74% consider the threshold inadequate given current inflation and living costs. In comparison, 26% find it acceptable or somewhat appropriate, reflecting broad concern that the existing threshold no longer provides sufficient relief to taxpayers.

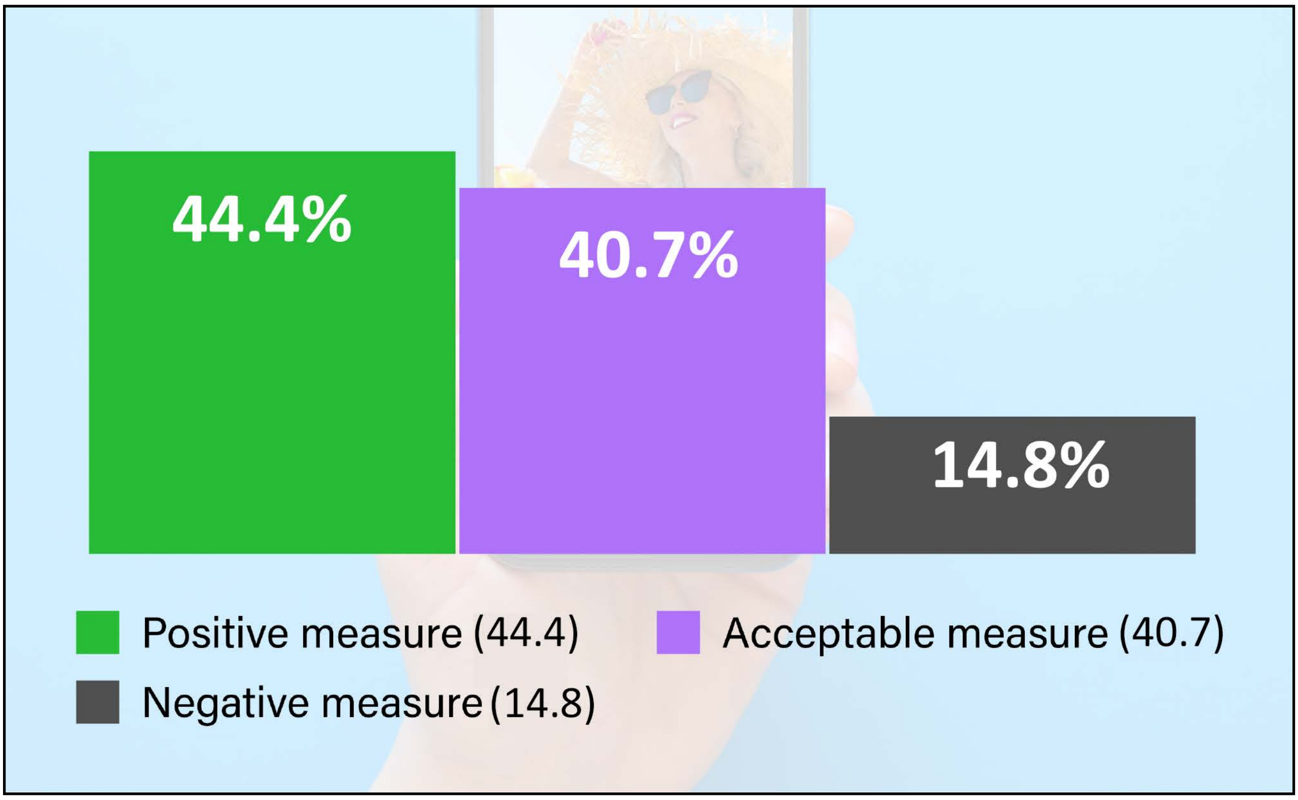
The annual tax-free income threshold for AOPs and non-salaried individuals remains Rs. 600,000. What is your opinion on this decision?



85% endorse the introduction of a 5% withholding tax on digital platform income.

The survey sought views on introducing a 5% withholding tax on income earned through digital platforms such as YouTube and TikTok. Results showed that 85% of respondents viewed the measure as positive and acceptable, while only 15% regarded it as negative, reflecting broad support for extending the tax net to the digital economy.

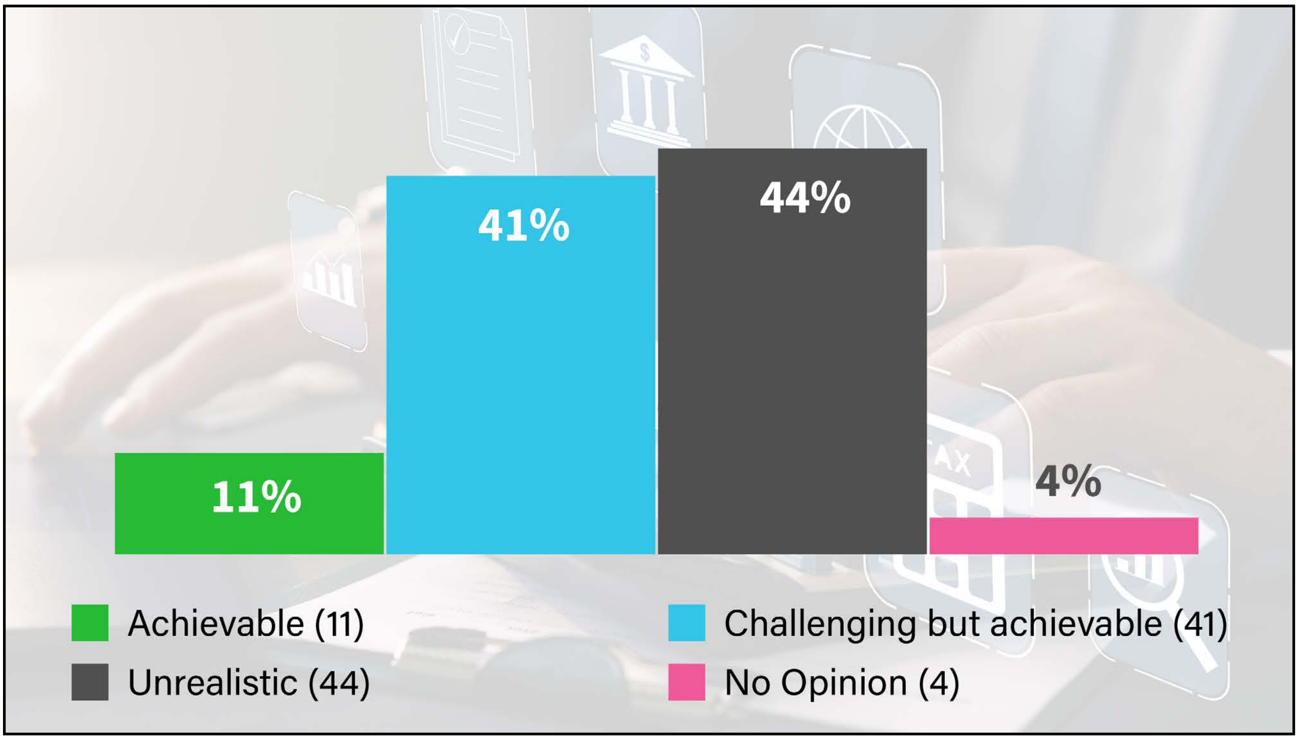
What is your opinion on the introduction of a 5% withholding tax on income earned through digital platforms such as YouTube and TikTok?



52% view the FBR's Rs. 15.264 trillion tax targets as achievable.

When asked about the government's Rs. 15.264 trillion FBR tax collection target for FY2026–27, 52% of respondents believed it was achievable, either outright or despite significant challenges, while 44% considered it unrealistic. A further 4% remained uncertain, indicating cautious optimism alongside persistent concerns about the target's feasibility under current economic conditions.

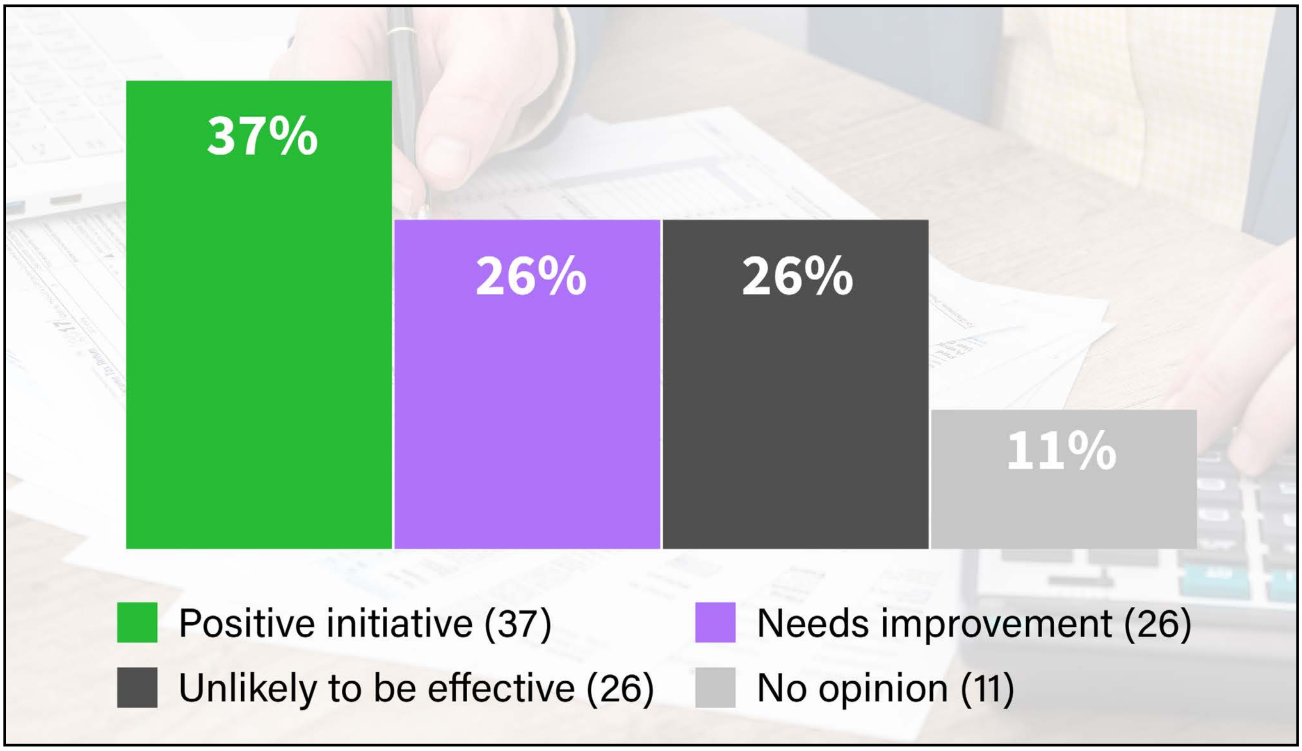
The government has set an FBR tax collection target of Rs. 15.264 trillion for FY2026-27. What is your opinion on this target?



63% favor the new faceless appeals and algorithmic tax settlement mechanism.

A majority (63%) view the introduction of faceless appeals and algorithmic tax settlement positively or believe the initiative can be effective with further improvements, while 26% consider it unlikely to be effective. Meanwhile, 11% remain uncertain, indicating broad support for modernizing tax administration and confidence in the reform's potential to enhance efficiency and transparency.

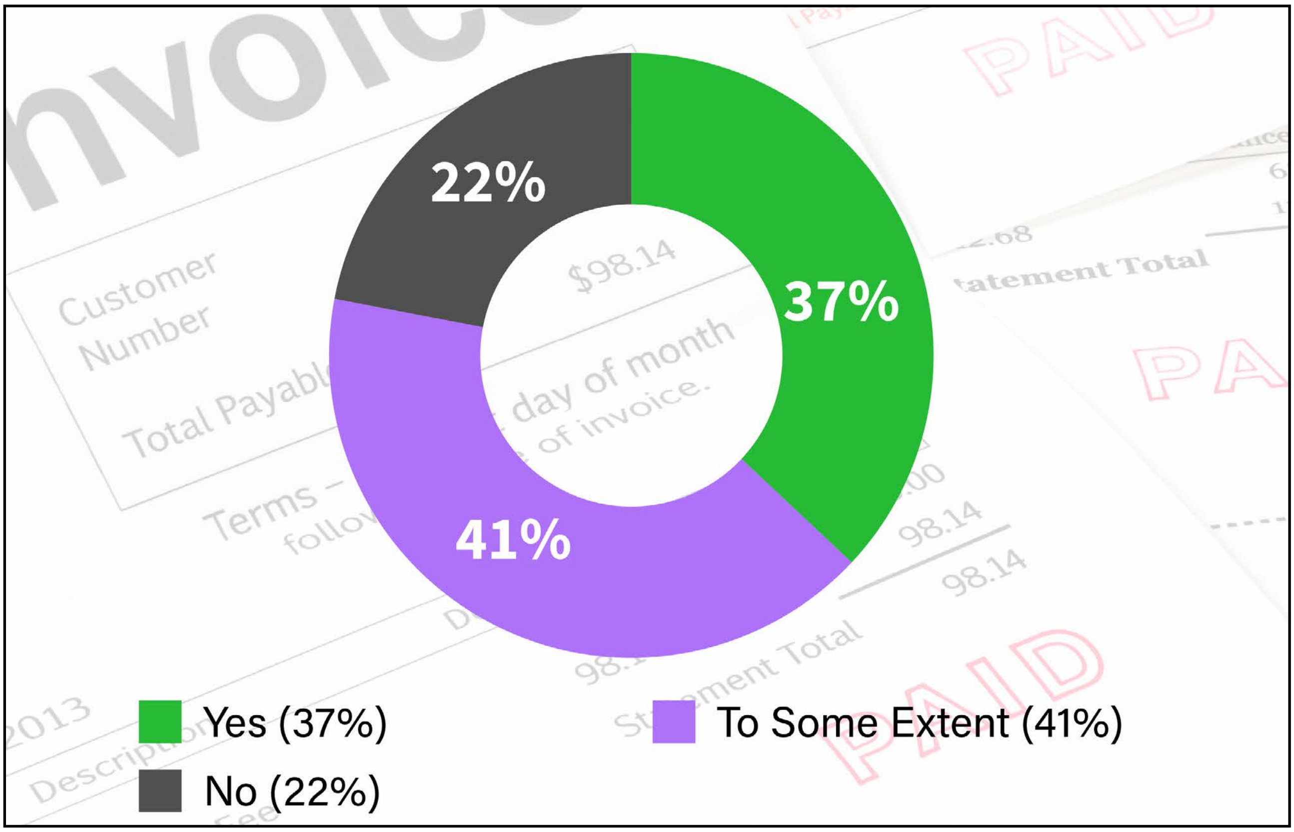
What is your opinion on the faceless appeals and algorithmic tax settlement introduced in the Finance Act, 2026?



78% back stricter penalties for fake invoices and fraudulent tax claims.

According to the survey, 78% of respondents believe stricter penalties for fake invoices and fraudulent tax claims will improve tax compliance, while 22% do not expect these measures to be effective. The findings reflect strong confidence that tougher enforcement can strengthen tax compliance and help curb fraudulent tax practices.

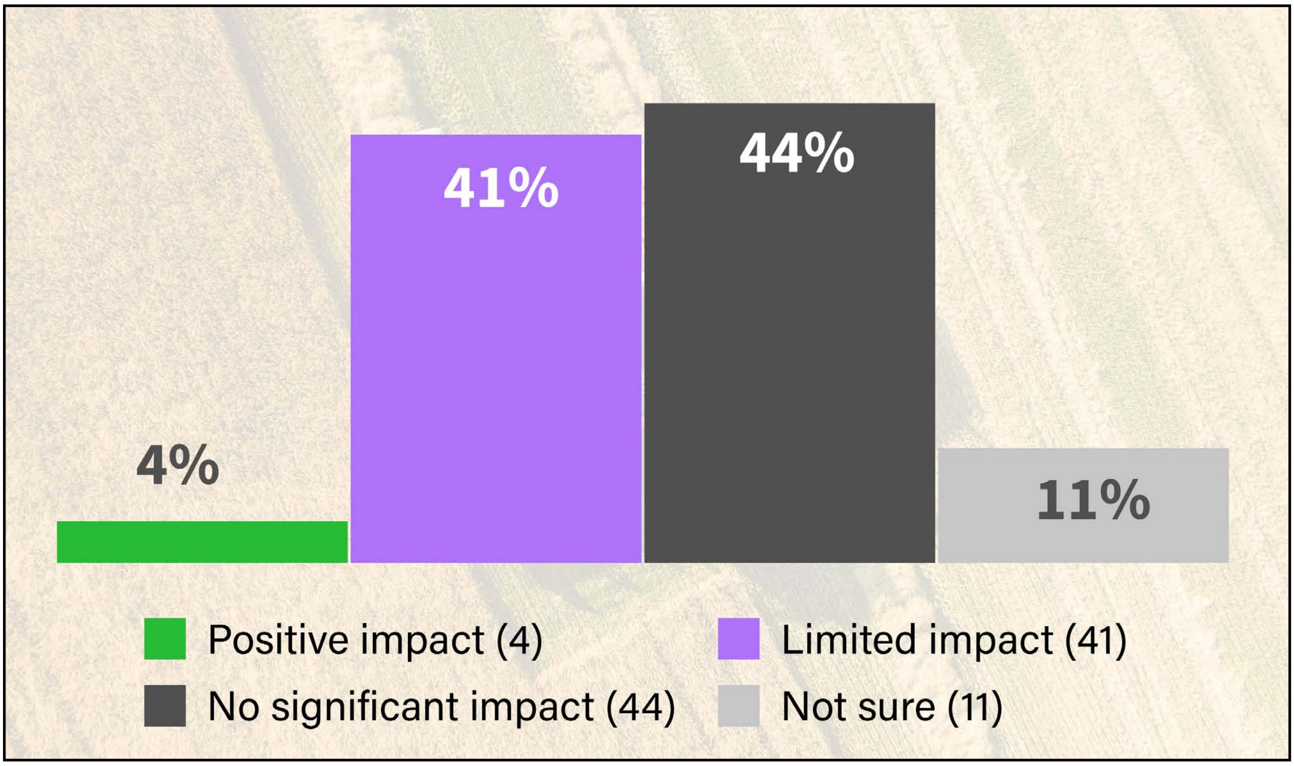
The Finance Act, 2026 also introduces stricter penalties against fake invoices and fraudulent tax claims. Do you think these measures will improve tax compliance?



45% believe the tax exemptions will provide at least some support to the targeted sectors.

The survey asked respondents about the expansion of tax exemptions for selected agricultural products and the aviation sector. A combined 45% expected the measures to have a positive but limited impact, while 44% believed they would have no significant impact. Another 11% remained uncertain, indicating that respondents recognize the potential of these exemptions, particularly if complemented by broader sectoral support and policy measures.

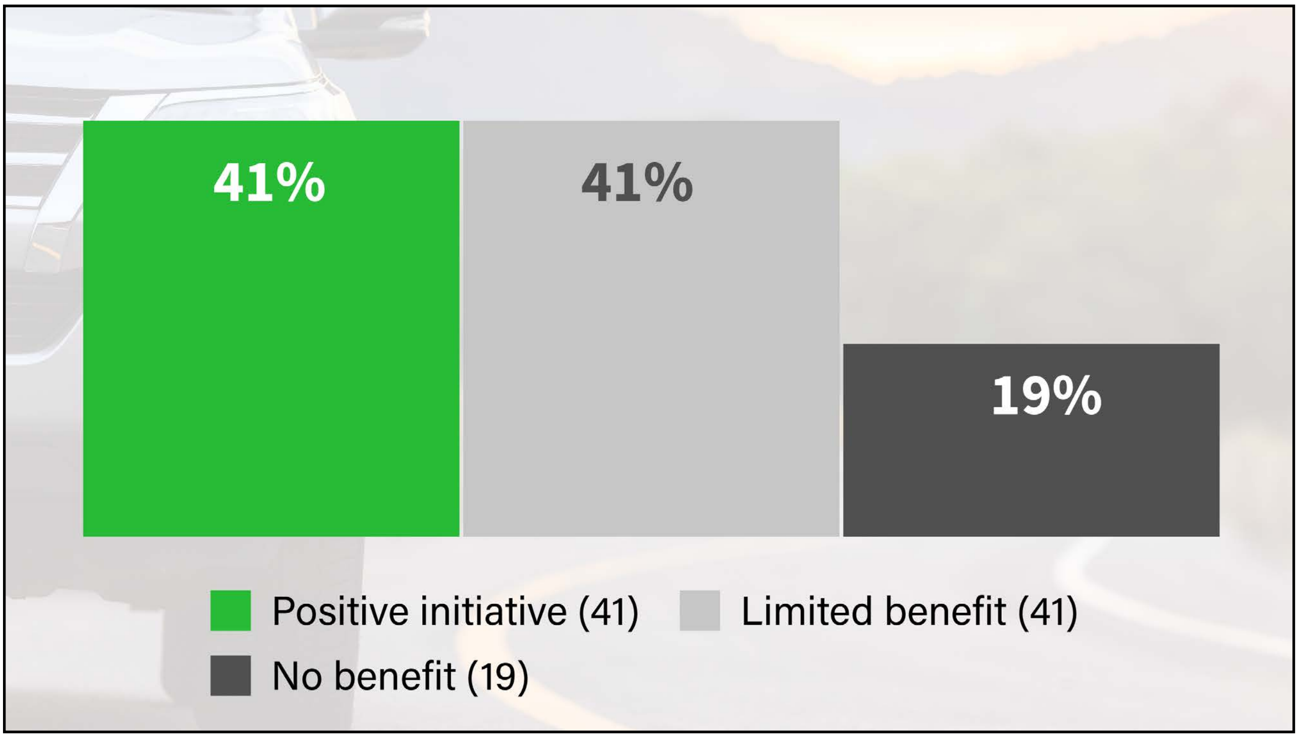
The budget expands tax exemptions for selected agricultural products and the aviation sector. What impact do you expect these measures to have?



82% consider tax breaks for CBU electric vehicles a positive policy measure.

The survey result shows that 82% of respondents view the tax breaks for completely built unit (CBU) electric cars and electric SUVs as a positive initiative or limited benefits. In comparison, 19% believe the incentives will provide no benefit. This indicates broad support for encouraging electric vehicle adoption.

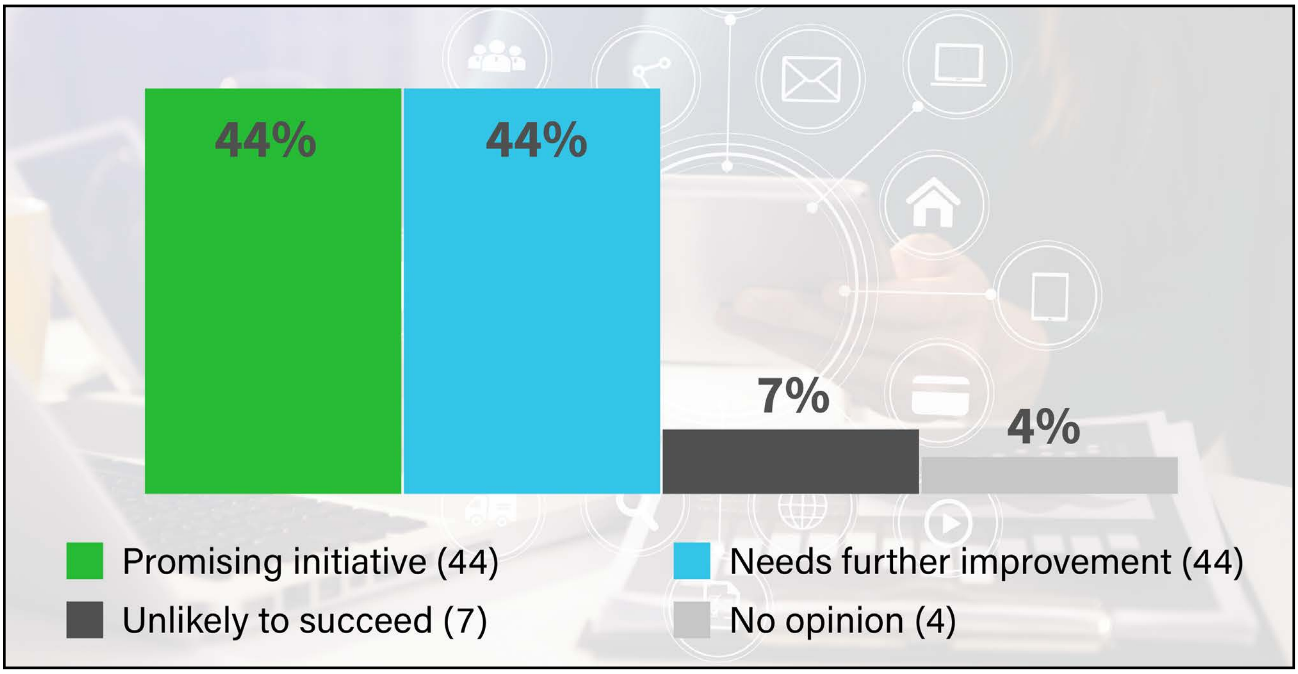
The Finance Act, 2026 offers tax breaks for completely built unit (CBU) electric cars and electric SUVs. How do you view these incentives?



88% recognize the potential of FBR's digital transformation initiatives.

The survey asked respondents about the government's efforts to digitalize the Federal Board of Revenue (FBR). A combined 88% of respondents viewed the initiative as promising or believed it can succeed with further improvements, while 7% felt it was unlikely to succeed and 4% remained uncertain. The findings indicate strong support for FBR's digital transformation, recognizing its potential to enhance efficiency, transparency, and tax administration.

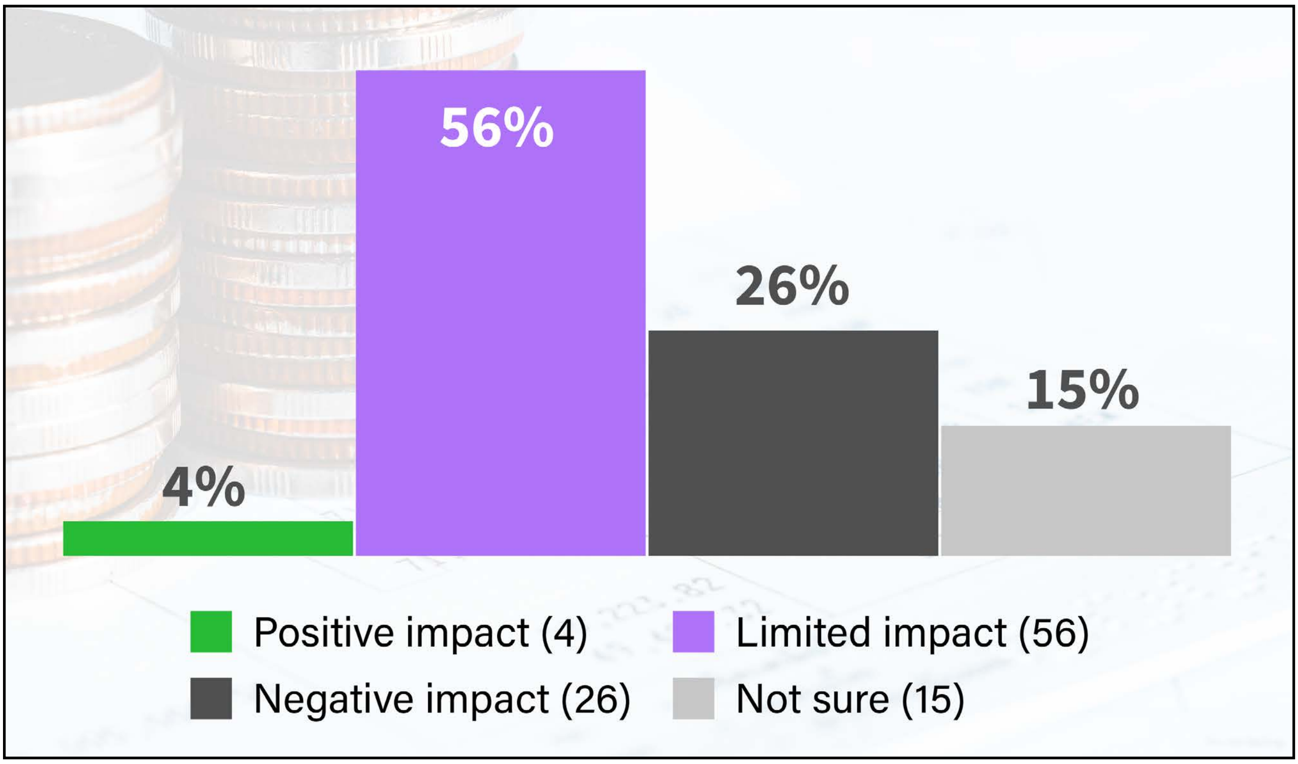
What is your opinion on the government's efforts to digitalize the Federal Board of Revenue (FBR)?



60% anticipate modest economic benefits from the Finance Act, 2026.

A majority of respondents (60%) expect the Finance Act, 2026 to have a most anticipating impact only with limited economic benefits, while 26% of respondents foresee a negative impact. Another 15% remain uncertain, reflecting expectations that the Act will have only a modest overall impact on economic performance.

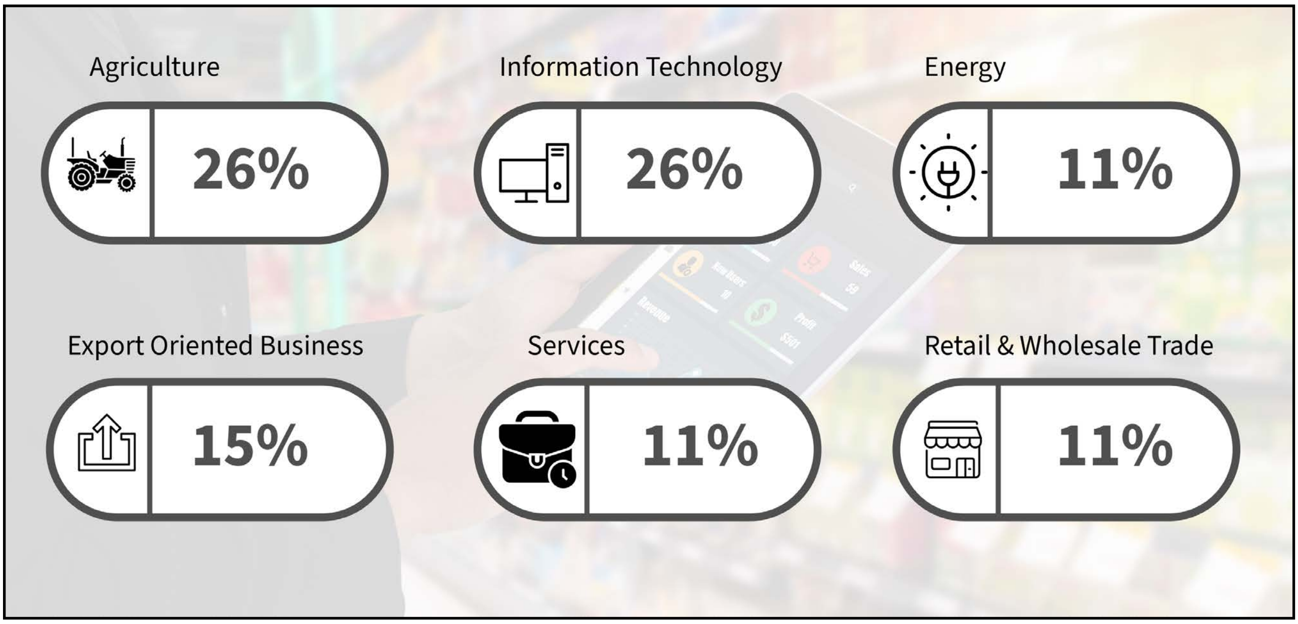
What impact do you perceive the Finance Act, 2026 will have on the economy?



52% identify Agriculture and Information Technology as the biggest beneficiaries

The survey results show that Agriculture and Information Technology are viewed as the sectors most likely to benefit from the Finance Act, 2026, with 26% of respondents selecting each, followed by Export-Oriented Businesses (15%), while Energy, Services, and Retail & Wholesale Trade each received 11%. The findings suggest that respondents expect the greatest gains to accrue to productive and technology-driven sectors under the current fiscal measures.

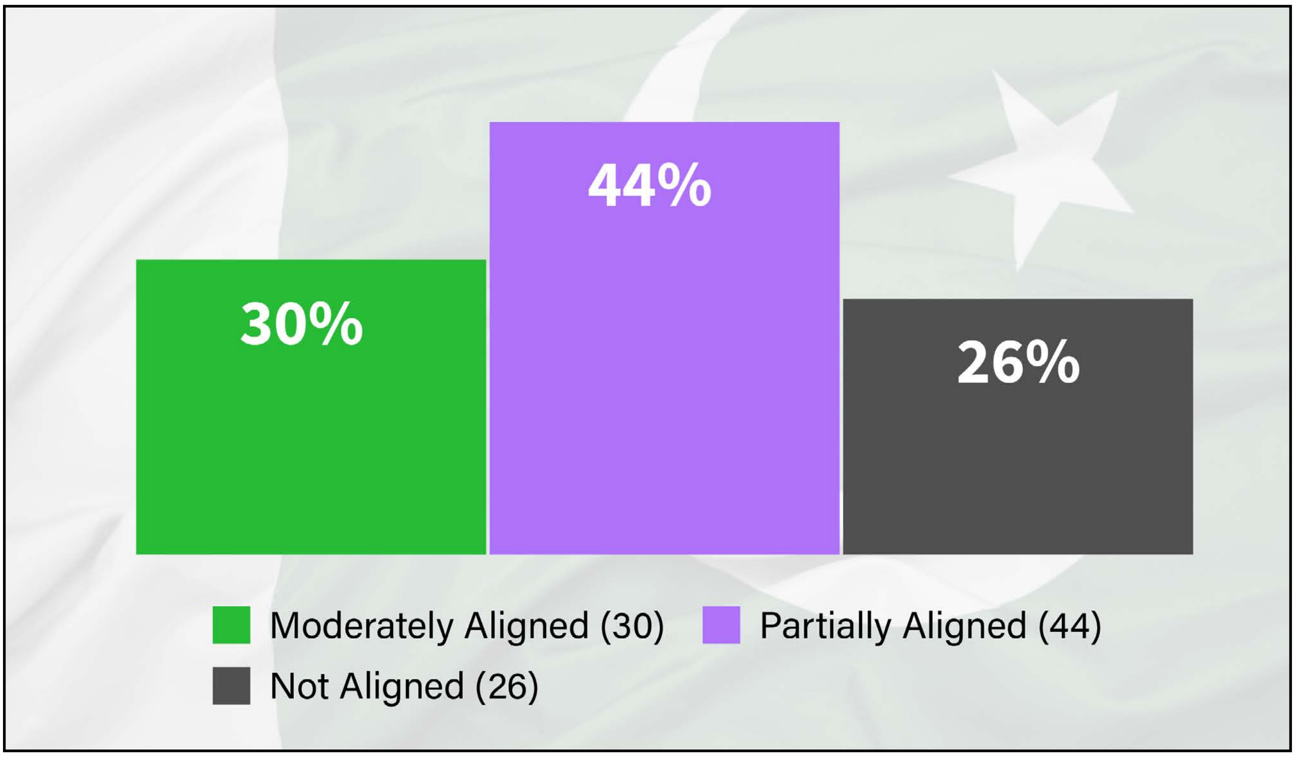
Which sector is likely to benefit the most from the Finance Act, 2026?



74% perceive the Budget and Finance Act as broadly aligned with economic objectives.

Overall, respondents believe that 74% of the Federal Budget 2026–27 and Finance Act, 2026 are either partially or moderately aligned with Pakistan's economic goals, while 26% feel they are not aligned. The findings indicate that, although respondents recognize some alignment with the country's growth, inflation control, and fiscal consolidation objectives, many believe there is a room for stronger policy alignment and more effective implementation.

Overall, how well do the Federal Budget 2026-27 and Finance Act, 2026 align with Pakistan's economic goals (growth, inflation control, and fiscal consolidation)?



DISCLAIMER

The views expressed by the survey participants do not necessarily reflect the official viewpoint of the Institute of Cost and Management Accountants of Pakistan. Furthermore, Gallup Pakistan has conducted this poll according to the ESOMAR Code of Ethics and internationally recognized principles of scientific polling. The results of this Report do not represent views held by the authors or Gallup Pakistan. The results only represent public opinion, computed based on views expressed by anonymous respondents.

FINANCE ACT, 2026
PUBLIC PERCEPTIONS AND CONCERNS

Summary

To gauge public sentiment on the Federal Budget 2026-27 and Finance Act, 2026, the Research and Publications Department of ICMA conducted a poll following the budget announcement. The objective of this poll was to gather feedback from ordinary citizens on whether the budget measures address their everyday needs and concerns.

The results from six key poll questions reveal strong support for greater tax flexibility for small online sellers. However, they remain concerned that stricter digital enforcement and higher penalties may place an excessive compliance burden on small businesses. The taxation of life insurance and takaful payouts has also raised concerns about its possible effect on household saving behavior. Overall, the findings point to the need for more visible relief, simpler compliance procedures and policies that protect purchasing power, small businesses and long-term savings.

Key Findings

- 38% believe the Act provides some level of relief to citizens, while 53% say there's no meaningful relief, reflecting limited public optimism.
- 49% think tax relief for salaried individuals will positively affect income, but 50% feel inflation offsets any benefit.
- Around 81% anticipated price increases in goods and services, confirming inflation as a major concern.
- All respondents supported allowing small online sellers to move out of the final tax regime. Around 60% believed that the measure would benefit digital SMEs, while 40% supported it subject to appropriate compliance monitoring.
- 76% believe stricter digital tax enforcement may burden small firms, with only 24% seeing it as reducing evasion.
- 70% think the new tax on life insurance and takaful payouts could discourage savings, while 30% remain unsure.

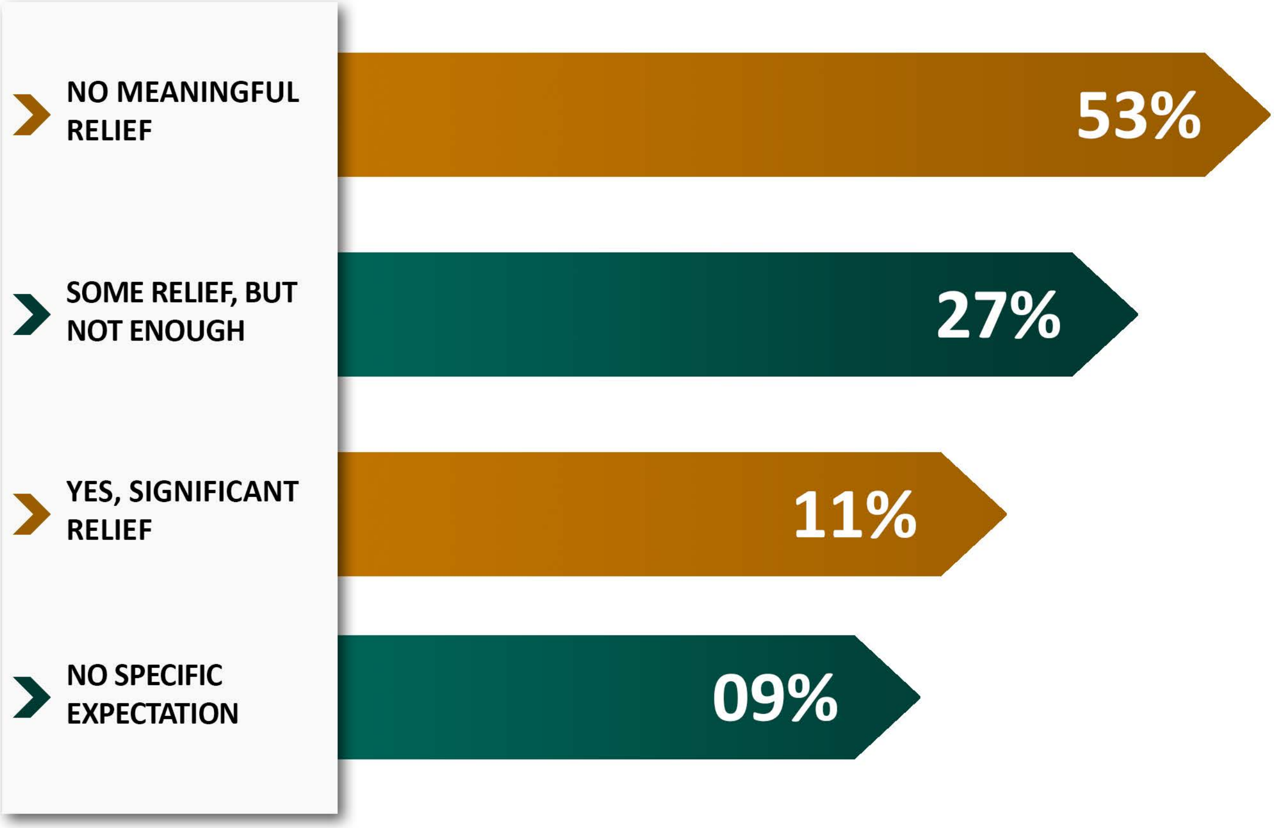
Overall Insight

The Finance Act, 2026 is viewed as offering limited real relief, with inflation overshadowing tax measures and most respondents expecting higher prices. Support for easing conditions for small online sellers highlights a clear demand for inclusive digital economy reforms, suggesting that respondents value policies that empower SMEs over those that impose stricter compliance. Meanwhile, concerns about the taxation of life insurance and takaful payouts point to a trust deficit in long-term savings instruments, which could undermine financial sector stability if left unaddressed.

POLL QUESTIONS

AND BRIEF ANALYSIS

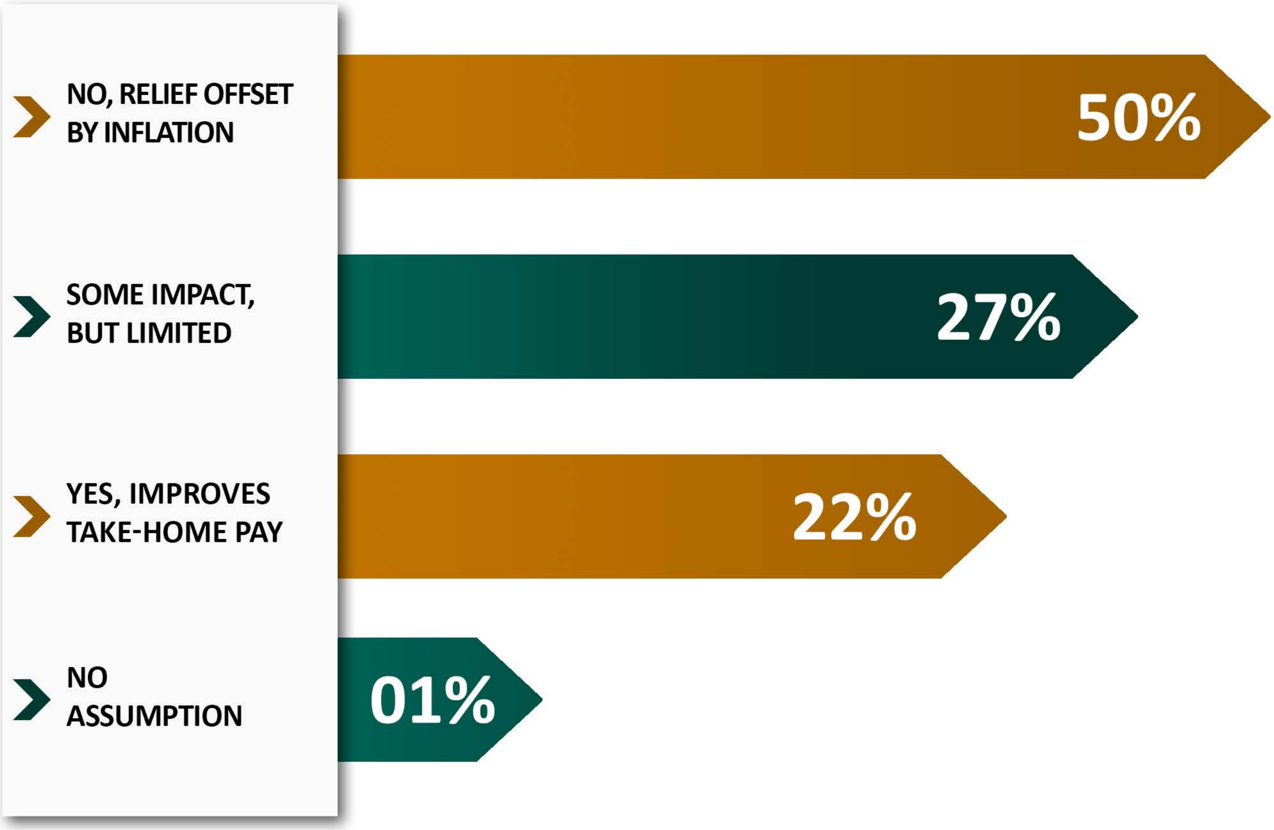
Q1. Overall, do you think the Finance Act 2026 provides relief to ordinary citizens?



A majority of respondents expressed dissatisfaction with the relief provided under the Finance Act, 2026. Around 53% believed that it offers no meaningful relief, while 27% felt that some relief has been provided but it remains insufficient. Only 11% reported significant relief, whereas 9% had no specific expectations.

Overall, the findings show that respondents consider the relief either insufficient. This reflects a wide gap between the announced measures and their perceived impact on household budgets, highlighting the need for broader and more visible relief for ordinary citizens.

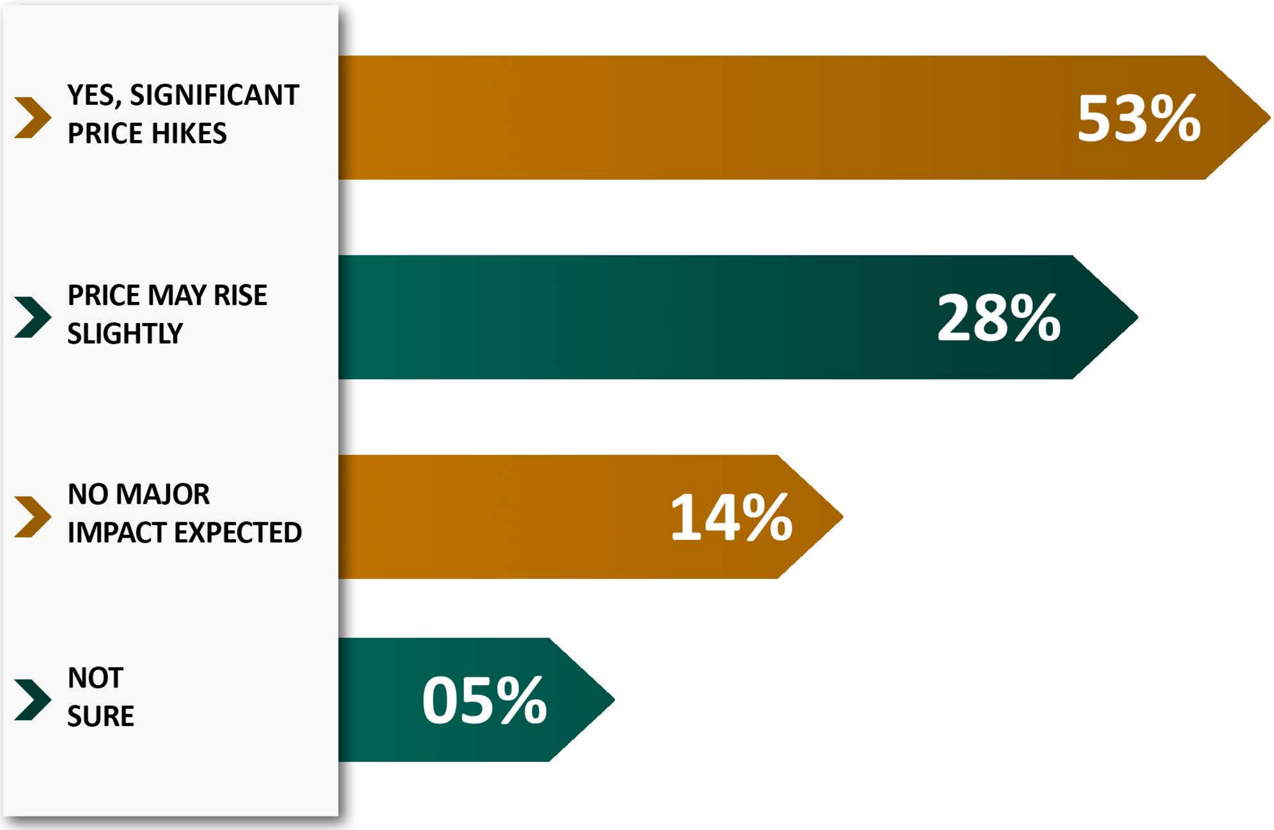
Q2. Do you think the tax relief for salaried individuals will improve household income?



Half of the respondents (50%) believed that the tax relief would not improve household income because its benefits would be offset by inflation. Another 27% expected only a limited impact, while 22% felt that the measures would improve take-home pay. Only 1% expressed no assumption.

Overall, the findings indicate that most respondents do not expect the tax relief to produce a substantial improvement in household finances. This suggests that reductions in income tax alone may have limited effect unless accompanied by lower inflation and relief from rising living costs.

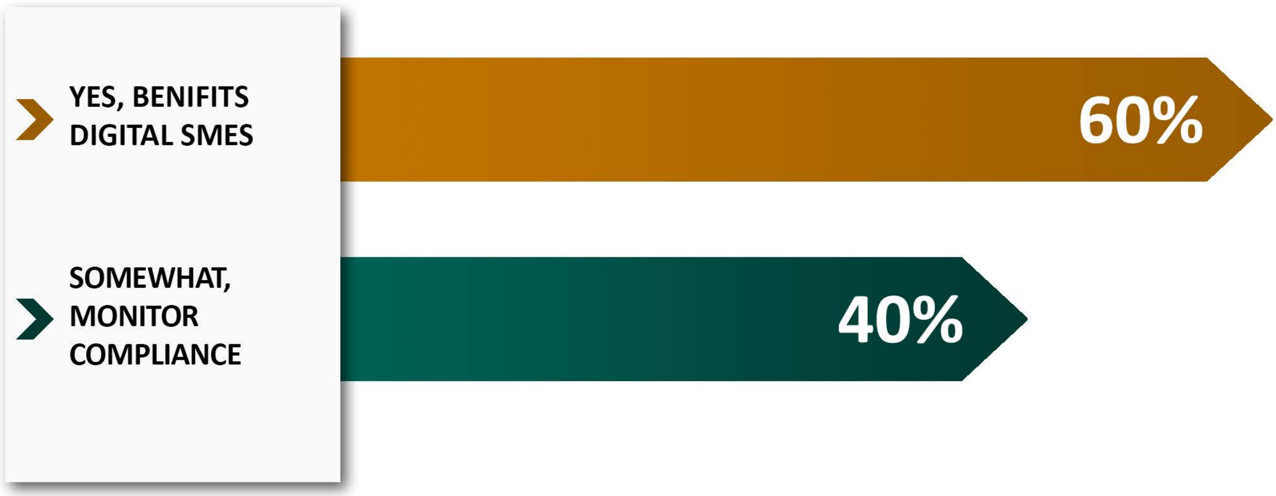
Q3. Do you expect the Finance Act 2026 to increase the prices of goods and services?



A majority of respondents expected the Finance Act, 2026 to increase prices. Around 53% anticipated significant price hikes, while another 28% believed that prices may rise slightly. In contrast, 14% expected no major impact, and 5% were unsure.

Overall, the findings show that respondents expect some increase in the prices of goods and services. This reflects strong public concern that taxes, levies and higher business costs may be passed on to consumers, adding further pressure to household budgets.

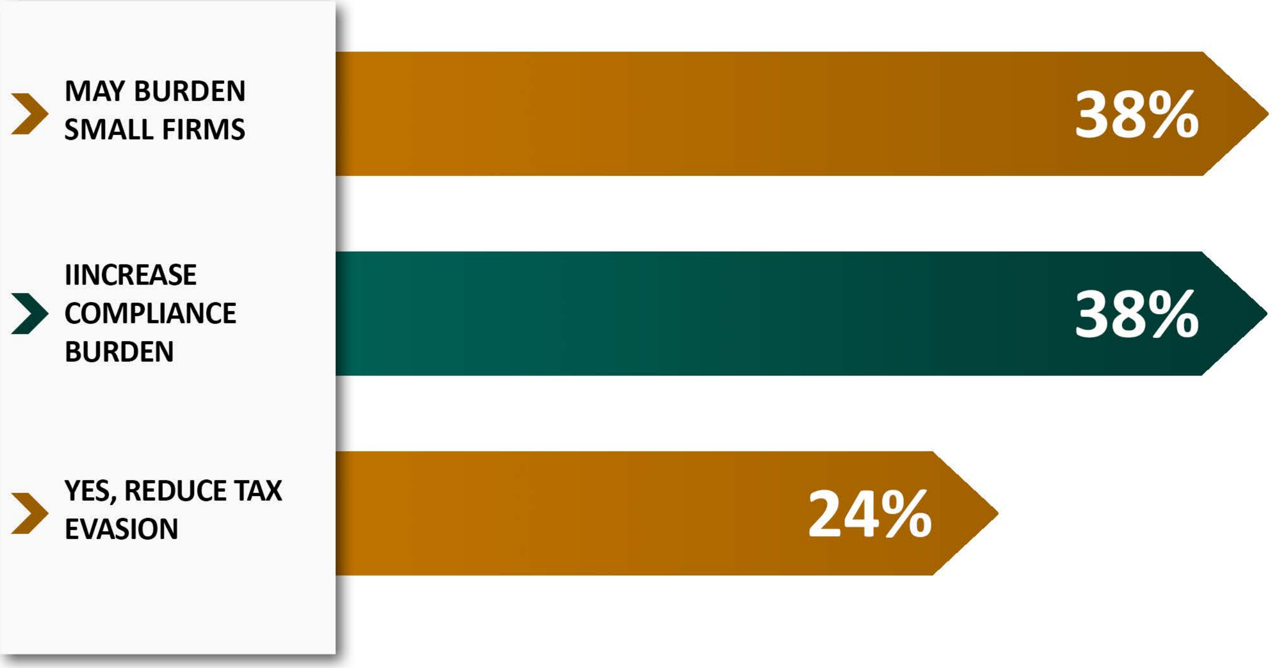
Q4. Do you support giving small online sellers the option to move out of the final tax regime?



All respondents supported the proposed option for small online sellers. A clear majority of 60% believed that it would benefit digital SMEs, while the remaining 40% supported the measure with the condition that compliance should be closely monitored.

Overall, the findings show strong public support for providing greater tax flexibility to small online businesses. However, effective monitoring and simple compliance procedures will be important to ensure that the measure encourages formalization without creating opportunities for tax avoidance.

Q5. Do you think stricter digital tax enforcement and higher penalties will improve tax compliance?



Only 24% of respondents believed that stricter digital enforcement and higher penalties would reduce tax evasion. In contrast, 38% felt that the measures may burden small firms, while another 38% expected them to increase the overall compliance burden.

Overall, the findings show that respondents are concerned about the burden of stricter enforcement than its potential compliance benefits. This highlights the need for proportionate penalties, simpler procedures and supportive implementation, particularly for small and newly formalized businesses.

Q6. Do you think the new tax on life insurance and takaful payouts will discourage people from long-term savings?

Around 40% of respondents believed the new tax may discourage long-term savings, while 30% expected only a short-term effect and another 30% were unsure.

Overall, the findings indicate concern about the possible impact of the tax on household saving behavior. This highlights the need for clear exemptions, stable rules and incentives that protect long-term insurance and takaful savings.

Disclaimer: The opinions expressed by survey respondents are those of the individuals concerned and do not represent the official stance of the Institute of Cost and Management Accountants of Pakistan. Findings are based solely on responses from anonymous participants and reflect general public sentiment.

FEDERAL BUDGET ALLOCATIONS

FY 2025-26 vs FY 2026-27

Budget Allocations	FY 2025-26 (Revised)	FY2026-2027 (Estimated)
Total Budget Outlay	Rs. 17.57 trillion	Rs. 18.771 trillion
Nominal GDP	Rs. 126.870 trillion	Rs. 143.604 trillion
GDP Growth	3.7%	4%
Tax to GDP Ratio*	10.2%	10.6%
Inflation	6.2%	7%
Tax Collection	Rs. 12.98 trillion	Rs. 15.26 trillion
Non-Tax Revenue	Rs. 5.09 trillion	Rs. 5.34 trillion
Total Revenue	Rs. 18.08 trillion	Rs. 20.60 trillion
Net Revenue	Rs. 10.49 trillion	Rs. 11.75 trillion
Total Federal Expenditure	Rs. 15.64 trillion	Rs. 18.77 trillion
Current Expenditure	Rs. 15.01 trillion	Rs. 17.50 trillion
Overall Fiscal Deficit as % of GDP	-3.0%	-3.6%
Primary Surplus as % of GDP	2.5%	2.0%
Defense Affairs & Services	Rs. 2.59 trillion	Rs. 3 trillion
Federal PSDP	Rs. 1 trillion	Rs. 1 trillion
Benazir Income Support Program	Rs. 0.71 trillion	Rs. 0.84 billion
Privatization Proceeds	Rs. 87 billion	Rs .161 billion

* Calculated FBR Revenue ÷ Nominal GDP

WHO GAINS?
WHO PAYS?
WHO WAITS?

WHO GAINS? / WHO PAYS? / WHO WAITS?

Budget 2026–27 comes at a time of gradual economic recovery, with real GDP growth provisionally estimated at 3.7 percent in FY2026. However, the benefits and costs of the budget are unevenly distributed across sectors and income groups. This section identifies who gains from relief and incentives, who bears additional taxes and costs, and who continues to wait for meaningful policy support and structural reform.

Group	
Government Sustainability	**Who Gains?** The Federal Government gains greater fiscal space through higher tax and non-tax revenue collection. **Who Pays?** Existing taxpayers, businesses and consumers bear the burden through taxes, petroleum and climate levies, import-stage charges and their pass-through into prices. **Who Waits?** Compliant taxpayers and formal businesses continue to wait for genuine tax-base broadening and meaningful reductions in non-essential government expenditure. **ICMA Observation** A budget should not be judged only by how much revenue it collects, but by whether that collection is fair and sustainable.
Non-Filers	**Who Gains?** None. **Who Pays?** Non-filers face higher late-filer surcharges, stronger digital monitoring, electronic integration requirements, faceless audits, and stricter penalties for non-compliance. **Who Waits?** A simpler and more facilitative path to voluntary registration and compliance. **ICMA Observation** Stronger enforcement can improve compliance, but expanding the tax base also requires making registration and filing easier for new taxpayers.

Households & Salaried Class	**Who Gains?** Higher-income salaried taxpayers benefit from reduced tax rates in the upper slabs, with the largest relief going to individuals earning above Rs. 10 million annually through the abolition of the 9 percent surcharge. Low-income households covered by BISP and other social-protection programs also receive greater support through higher allocations and cash assistance. **Who Pays?** Lower- and middle-income salaried taxpayers, particularly those earning around Rs. 100,000 to Rs. 183,000 per month, receive no reduction in their applicable tax rates and continue to bear the combined burden of income tax, inflation and rising utility costs. Consumers outside targeted support programs also face higher living costs as petroleum levy, climate levy and indirect taxes are passed through to transport, energy and product prices. **Who Waits?** Lower-middle-income salaried employees and households that are not eligible for BISP but remain vulnerable to inflation continue to wait for inflation-adjusted tax thresholds, lower tax rates, direct relief and stronger protection of purchasing power. **ICMA Observation** Since salary income is fully documented and taxed at source, tax relief should be broader and more balanced across income groups. At the same time, protecting household affordability should remain a central objective of fiscal policy.
SMEs & Retailers	**Who Gains?** A simplified fixed-tax framework has been introduced for eligible retailers with annual sales of up to Rs. 200 million, subject to prescribed rules and minimum tax requirements. Persons whose export proceeds exceed 80% of their total turnover during the tax year are exempt from Super Tax. **Who Pays?** Businesses above the applicable thresholds face stricter documentation, digital invoicing, POS integration and monitoring requirements. **Who Waits?** A genuinely simple return and a gradual, facilitative transition towards full documentation. **ICMA Observation** Formalizing small businesses should encourage them to enter the tax net rather than discourage them through complex compliance requirements.

Import-dependent Businesses, Manufacturers & Industrial Investor	**Who Gains?** Reduced or Abolished Additional Customs Duty on a large number of tariff lines provides relief to importers using imported inputs and goods. Plant and machinery used in manufacturing units of solar cells, panel, batteries, and inverters also continues to be exempt from Additional Customs Duty. **Who Pays?** Goods, components and industrial inputs that still fall outside the exemption or concessional coverage remain more expensive to import. **Who Waits?** A predictable and stable customs duty framework is needed so businesses can plan input costs, machinery imports and production decisions without sudden cost shocks. **ICMA Observation** Import-stage taxation supports government revenue, but inputs that feed directly into local production should be protected from excessive revenue measures to avoid raising the cost of doing business.
Exporters & Manufacturers	**Who Gains?** Tax on export earnings has been reduced: the combined withholding and advance tax on export proceeds is 1.25%. **Who Pays?** High energy costs, delays in tax refunds, and weak global demand continue to squeeze exporters' margins. **Who Waits?** Faster refunds and stable energy pricing; tax relief on its own cannot fix competitiveness. **ICMA Observation** Supporting exports needs more than tariff and tax adjustments; the whole ecosystem around exporters needs to work.
Transport Sector	**Who Gains?** Electric buses with 25 or more seats and electric trucks continue to enjoy a reduced 1 percent sales tax rate, while eligible imported electric vehicles benefit from 0 percent FED up to the prescribed customs-value threshold. **Who Pays?** Larger-engine and higher-value imported vehicles still face higher duties and additional charges. **Who Waits?** Wider access to affordable public transport, and EV incentives properly linked to Pakistan's transport system rather than just private car imports. **ICMA Observation** EV incentives should help build a genuine public transport ecosystem, not just benefit private car buyers.

Digital Economy / Freelancers / IT Sector	**Who Gains?** The special 0.25% tax rate for registered IT exporters and freelancers has been extended for another three years, until 2029, providing greater policy certainty and continued tax support for the IT export sector. **Who Pays?** A new 5% withholding tax will now apply to payments received by digital creators and social media influencers; smaller creators may feel a cash-flow strain since there is not yet a simple refund process. **Who Waits?** Simple registration and refund processes, especially for smaller freelancers and creators who are not PSEB-registered. **ICMA Observation** The digital economy should be documented, but not in a way that discourages young freelancers and small creators from staying formal.
Agriculture & Food Sector	**Who Gains?** Farmers and agribusinesses able to access agricultural credit, storage financing and related facilities gain from the continued policy support. **Who Pays?** Input-intensive farmers, livestock producers and food processors continue to bear high fuel, transport and imported-input costs, which may also feed into food prices. **Who Waits?** Small and subsistence farmers continue to wait for better water management, storage facilities, market access and productivity-enhancing support. **ICMA Observation** Agriculture needs support that builds long-term productivity rather than relying only on one-off relief measures.
Property / Real Estate	**Who Gains?** Property owners, buyers, sellers and investors benefit from the abolition of Section 7E and lower transaction taxes. **Who Pays?** Undocumented market participants and frequent property traders continue to face transaction reporting and documentation requirements. **Who Waits?** Genuine homebuyers, long-term investors and developers continue to wait for a stable and predictable property-tax regime. **ICMA Observation** This is genuine, meaningful relief for the real estate sector this year, and should be recognized as such, while documentation efforts continue.

Banking, Capital Market & Financial Institutions	**Who Gains?** Standardized capital gains computation through NCCPL may improve transparency and support investor confidence. **Who Pays?** Banks and financial institutions face additional reporting and data-sharing requirements. **Who Waits?** Stable capital market taxation, clear compliance rules and stronger safeguards for investor data privacy. **ICMA Observation** Better documentation and data integration should strengthen investor trust, provided privacy and misuse risks are properly addressed.
Insurance Policyholders / Savers	**Who Gains?** Payouts made on death or disability, as well as payouts from policies or takaful plans held for more than four years, remain outside the new tax regime. **Who Pays?** Life insurance and family takaful payouts made within the taxable holding period may face withholding or final tax, increasing the cost of some savings-linked products. **Who Waits?** Clear and stable long-term incentives that encourage households to maintain insurance and takaful coverage. **ICMA Observation** Taxing savings-linked insurance products should be balanced against the objective of expanding financial inclusion and encouraging long-term household savings.
Education Sector	**Who Gains?** Students and institutions covered by continued school, higher-education and vocational-training allocations may benefit from expanded programs and facilities. **Who Pays?** Households in areas where public education remains underfunded continue to bear the cost of private schooling, transport and supplementary learning. **Who Waits?** Students in rural, low-income and underserved regions continue to wait for equal access, qualified teachers, digital facilities and improved learning quality. **ICMA Observation** Spending on education should be treated as investment in future growth and human capital, not merely a routine expenditure.

Health Sector	**Who Gains?** Patients covered by funded public hospitals, health programs and preventive-care initiatives may benefit from continued allocations. **Who Pays?** Households' dependent on underfunded or uneven public services continue to bear high out-of-pocket costs for medicines, diagnostics and private treatment. **Who Waits?** Low-income and rural communities continue to wait for reliable primary healthcare, nutrition support and accessible quality treatment. **ICMA Observation** Health spending should be protected as essential human-capital investment, even when fiscal space is limited.
Social Protection Beneficiaries	**Who Gains?** Existing BISP beneficiaries gain from the higher allocation and increase in the quarterly Benazir Kafaalat payment. **Who Pays?** Beneficiary families still bear the loss in real purchasing power where inflation and essential living costs rise faster than cash assistance. **Who Waits?** Eligible but uncovered low-income households continue to wait for inclusion, while existing beneficiaries wait for regular inflation-based adjustment of payments. **ICMA Observation** Protecting people's real purchasing power matters more than simply increasing the numbers on paper.
Youth and Job Seekers	**Who Gains?** Young people enrolled in government-supported skills, IT and digital-training programs may gain improved employability. **Who Pays?** Graduates and unemployed youth bear the cost of weak job creation through prolonged unemployment, underemployment and loss of income opportunities. **Who Waits?** Young people entering the workforce, particularly outside major cities, continue to wait for sustainable private-sector jobs and wider access to training programs. **ICMA Observation** Growth figures matter only when they translate into decent and sustainable jobs for Pakistan's youth.

Climate-vulnerable Groups	**Who Gains?** Communities, local governments and projects supported through climate- and disaster-related allocations, including government green grants and subsidies for clean energy, environmental protection and climate resilience, may benefit from improved preparedness and adaptation measures. **Who Pays?** Households, farmers and workers exposed to floods, heatwaves and livelihood losses continue to bear the direct economic and welfare costs of climate shocks, while climate-related levies may also increase costs indirectly. **Who Waits?** High-risk communities without resilient infrastructure, early-warning systems and adaptation support continue to wait for effective implementation of climate-resilient projects and equitable access to disaster-risk financing. **ICMA Observation** Climate budgeting should move beyond tagging expenditures and announcing green allocations towards ensuring measurable adaptation outcomes, effective implementation and stronger resilience for vulnerable communities.

…

Assessing The SHORT-TERM & LONG-TERM IMPACTS OF FINANCE ACT, 2026 PROVISIONS on Pakistan's Economy

Preamble

Prepared by the ICMA's Research and Publications Department, this analytical section presents a structured assessment of selected provisions of the Finance Act, 2026 and their anticipated implications for Pakistan's economy over the short term (1–2 years) and long term (5–6 years). The analysis evaluates the likely fiscal, economic, and sectoral effects of each measure, including impacts on revenue mobilization, tax compliance, investment, business activity, and market dynamics, as well as broader implications for structural reforms, competitiveness, and fiscal sustainability. By providing an evidence-based perspective on the expected outcomes of key policy measures, this assessment aims to support informed decision-making by policymakers, development partners, businesses, and other stakeholders.

For each key measure introduced under the Finance Act, 2026 this section provides:

- The relevant provision and statutory reference under the Finance Act, 2026.
- A concise summary of the legislative amendment, including changes in tax rates, exemptions, duties, incentives, or compliance requirements.
- An assessment of the expected short-term impact (1–2 years), focusing on revenue implications, business activity, taxpayer behavior, compliance, sectoral performance, and market response.
- An evaluation of the long-term impact (5–6 years), highlighting implications for fiscal sustainability, economic competitiveness, investment, formalization, institutional efficiency, sectoral development, and overall macroeconomic stability.

By presenting both short- and long-term perspectives, the analysis provides policymakers, businesses, and development partners with a balanced, evidence-based assessment of how the Finance Act, 2026 may influence Pakistan's fiscal framework and economic trajectory.

1. Faceless Administration and Compliance

The Finance Act, 2026 establishes a comprehensive digital framework by introducing the National Faceless Center (Sections 32C and 227D), Faceless Audit & Assessment (Sections 11H and 122E), Faceless Appeals (Sections 45C and 129A), and Faceless Jurisdiction (Sections 30AA and 209B), enabling electronic audits, assessments, and appeals through automated case allocation, E-hearings, and confidential officer identities.

Short-term Impact

- **Faster Tax Processing:** Electronic audits and assessments will speed up tax proceedings and reduce time, legal, and administrative expenses.
- **Greater Transparency:** Faceless proceedings will improve fairness and reduce discretion.

Long-term Impact

- **Modernized Tax Administration:** Digital systems will create a technology-driven, efficient tax administration.
- **Improved Governance:** Automation will enhance transparency, consistency, accountability while strengthening taxpayer confidence.

2. Algorithmic Settlement Mechanism

The Finance Act, 2026 introduces the Algorithmic Settlement Mechanism under Section 47AA of the Sales Tax Act, 1990, Section 134B of the Income Tax Ordinance, 2001, and Section 7A of the Sales Tax Act, 1990, enabling settlement of tax proceedings through automated settlement offers, with taxpayers required to accept the offer and deposit the settlement amount within 10 days for the proceedings to stand settled.

Short-term Impact

- **Faster Revenue Collection and Lower Cost:** Early settlements will accelerate recovery of tax revenues and reduce legal and administrative expenses.
- **Higher Voluntary Compliance:** Transparent digital processes will encourage timely dispute resolution.

Long-term Impact

- **Efficient Dispute Resolution:** Digital mechanisms will streamline tax dispute management and improve voluntary tax compliance.
- **Enhanced Tax Governance:** Reduced litigation will strengthen transparency and administrative efficiency.

3. Independent Case Scrutiny Committees

The Finance Act, 2026 introduces Section 196JJ of the Customs Act, 1969, Section 47AAA of the Sales Tax Act, 1990, Section 133A of the Income Tax Ordinance, 2001, and Section 34AA of the Federal Excise Act, 2005 to establish Independent Case Scrutiny Committees.

Short-term Impact

- **Better Appeal Screening:** Independent scrutiny will reduce the number of non-meritorious appeals, saving judicial time and state resources.
- **Initial Administrative Delays:** New approval processes may temporarily slow down the filing of appeals as stakeholders adapt.

Long-term Impact

- **Stronger Litigation Framework and Efficiency:** Improved scrutiny will enhance the overall quality and integrity of tax litigation while enabling courts to focus on complex cases.
- **Reduction in Frivolous Litigation:** The binding nature of the committees' recommendations will deter weak appeals.

4. Tax on Life Insurance Payouts

The Finance Act, 2026 introduces taxation on life insurance payouts under Sections 7G and 151B of the Income Tax Ordinance, 2001, which were previously exempt from tax. The measure aims to align taxation of insurance proceeds with other forms of income and broaden the tax base.

Short-term Impact

- **Higher Government Revenue:** The new tax will generate additional revenue from a previously untaxed income stream.
- **Reduced Payouts for Beneficiaries:** Beneficiaries may receive lower net payouts, potentially affecting the attractiveness of life insurance as a savings vehicle.

Long-term Impact

- **Shift in Household Investment Patterns:** As life insurance becomes relatively less tax-efficient, households may gradually reallocate savings toward alternative investment and retirement products, reshaping demand within the financial services sector.
- **Transformation of the Insurance Sector:** Insurers may respond by redesigning products and expanding tax-efficient insurance and investment offerings, thereby increasing competition and innovation within the insurance sector and the broader financial sector.

5. Withholding Tax on Social Media Platforms

The Finance Act, 2026 introduces a 5% withholding tax under Sections 5(26) – Income Tax Ordinance, 2001 (Section 154B) and 5(44)(b)(iv) – First Schedule, Division IIIAB, on payments received by digital content creators and social media influencers through platforms such as YouTube, Facebook, Instagram, and TikTok. Banks and financial institutions will deduct the tax at source.

Short-term Impact

- **Higher Government Revenue:** Immediate tax collection from the rapidly expanding digital content creation sector.
- **Formalization of Digital Income:** More influencers and content creators will be brought into the documented tax system.

Long-term Impact

- **Broader Tax Base:** Improved documentation of digital income will strengthen Pakistan's long-term tax base.
- **Sustainable Digital Tax Framework:** The measure aligns Pakistan's tax system with global practices for taxing the digital economy.

6. Data Reporting Requirement

The Finance Act, 2026 introduces Section 165AB of the Income Tax Ordinance, 2001, mandating enhanced data reporting requirements for banks and financial institutions. This measure will enable FBR to monitor financial transactions and taxpayer compliance more effectively.

Short-term Impact

- **Improved Monitoring Capability:** FBR will gain access to more detailed and timely financial data. It will allow for more sophisticated identification of non-compliance and potential tax evasion.
- **Implementation Costs for Banks:** Financial institutions will incur costs to upgrade their reporting systems and ensure data accuracy.

Long-term Impact

- **Sustainable Tax Base Expansion:** Data-driven compliance will significantly expand the tax base by detecting and addressing evasion.
- **Enhanced Transparency and Reduced Documentation Gap:** Greater visibility into financial flows will improve the overall integrity of the financial system. It will bridge the gap between the documented and undocumented economy.

7. Economic Viability Rate Reduction

The Finance Act, 2026 introduces Section 53A of the Income Tax Ordinance, 2001, to reduce the economic viability rate. The measure aims to support businesses facing financial difficulties by allowing tax rates to be reduced based on economic viability assessments.

Short-term Impact

- **Tax Relief for Struggling Businesses:** Eligible businesses will benefit from reduced tax liabilities, improving cash flow. It may help prevent business closures and job losses.
- **Potential Revenue Loss:** The government may experience a short-term reduction in revenue from eligible businesses.

Long-term Impact

- **Sustained Business Recovery and Industrial Growth:** By allowing financially viable reductions, the measure can support business continuity, preserve productive capacity, and encourage long-term investment in affected sectors.
- **Improved Economic Resilience:** Targeted support for distressed but viable enterprises may reduce permanent business closures, protect supply chains, and strengthen the resilience of key sectors during economic downturns.

8. Tax Credit for Integration

The Finance Act, 2026 introduces a 10% tax credit under Section 64D (Substituted) for investments in electronic resources required for integration with FBR's computerized system, enabling real-time monitoring of production and electronic reporting of sales or receipts. The credit applies only to eligible capital investment and excludes operation and maintenance expenses.

Short-term Impact

- **Accelerated Digital Adoption and Stronger Tax Compliance:** The tax credit will encourage investment in FBR-integrated digital systems. Real-time reporting will improve transparency and reduce underreporting.
- **Initial Compliance Costs:** Businesses, particularly SMEs, may face upfront implementation expenses.

Long-term Impact

- **Modernized Tax Administration:** Digital integration will strengthen real-time tax monitoring and administration.
- **Broader Tax Base:** Improved reporting will enhance compliance and support sustainable revenue growth.

9. New Penalties for Electronic Resource and Data Integration Failures

The Finance Act, 2026 inserts new penalties under Section 182 of the Income Tax Ordinance, 2001. S. No. 2A imposes a penalty of 1% of turnover or Rs. 1,000,000 (whichever is higher) for the first default and Rs. 2,000,000 for subsequent defaults for failure to install, use, or maintain electronic resources. S. No. 2B imposes personal penalties on the principal officer of Rs. 500,000 for the first default and Rs. 1,000,000 for subsequent defaults for failure to integrate IT platforms, share required data, or remedy deficiencies. S. No. 36 imposes a penalty equal to the full amount of excess credit claimed where tax withheld is not verifiably deposited.

Short-term Impact

- **Enhanced Revenue Protection:** Tougher enforcement will reduce revenue leakages and fraudulent claims and will compel businesses to prioritize integration with FBR systems.
- **Concern Among Businesses:** Heavy penalties, especially personal liability, may cause significant concern and prompt immediate compliance actions.

Long-term Impact

- **Improved Tax System Integrity:** Stricter action against fake invoicing and fraudulent claims will enhance transparency and promote long-term tax discipline.
- **Enhanced Corporate Governance:** Personal liability of principal officers will lead to stronger internal controls and data governance.

10. New Sales Tax on Retail-Packed Products

The Finance Act, 2026 expands the Third Schedule of the Sales Tax Act, 1990, by adding new categories of retail-packed products (Serial Nos. 56–75), which are generally subject to 18% sales tax at the retail stage. However, where the Federal Government has notified a higher sales tax rate for any product, such higher rate shall continue to apply. The measure covers various consumer goods, including packaged foods, dairy products, personal care items, plastics, footwear, household goods, and ceramic products, to broaden the sales tax base and increase revenue collection.

Short-term Impact

- **Higher Consumer Prices:** The sales tax will increase retail prices of covered products.
- **Greater Tax Compliance and Higher Revenue:** Businesses will strengthen compliance for retail-packed goods, leading to increased sales tax collection.

Long-term Impact

- **Greater Market Formalization:** More businesses will operate within the documented economy.
- **Higher Cost of Living:** Sustained tax incidence may contribute to inflationary pressures.

11. Special Excise Duty on Imported Vehicles

The Finance Act, 2026 imposes a Special Excise Duty on imported motor cars, SUVs, and other motor vehicles, excluding auto-rickshaws, electric vehicles, and transport vehicles, under the Federal Excise Act, 2005 (First Schedule, Table-IA). The measure aims to discourage luxury imports, support local vehicle manufacturing, and reduce the import bill.

Short-term Impact

- **Higher Cost of Imported Vehicles:** The duty will increase the price of imported cars and SUVs
- **Support for Local Industry:** Higher import costs may encourage demand for locally assembled vehicles.

Long-term Impact

- **Growth in Local Manufacturing:** The duty will encourage domestic vehicle assembly and production.
- **Strengthen Balance of Payments:** Reduced reliance on imported vehicles may help lower import demand and contribute to a more sustainable external balance over the long term.

12. Customs Duty Exemption for Refinery Upgradation Machinery

The Finance Act, 2026 grants a customs duty exemption on the import of machinery and equipment required for the upgradation of existing oil refineries, including reactors, exchangers, vessels, coolers, heaters, pumps, compressors, furnaces, and filters, subject to approval by the Ministry of Petroleum under Sales Tax Act, 1990 (Sixth Schedule, Table-3, Serial No. 23). The measure aims to reduce modernization costs, improve refinery efficiency, and strengthen Pakistan's energy sector.

Short-term Impact

- **Lower Modernization Costs and Support for Energy Infrastructure:** The exemption will reduce the cost of refinery upgradation projects and encourage investment in refinery modernization.
- **Improved Refinery Efficiency:** Upgraded equipment will enhance operational performance.

Long-term Impact

- **Enhanced Refining Capacity:** Modernized refineries will reduce reliance on imported petroleum products.
- **Greater Energy Security and Higher Value Addition:** Improved domestic refining capabilities will strengthen energy resilience and support the long-term growth of Pakistan's petroleum sector.

13. Customs Duty Exemption for Karachi Shipyard

The Finance Act, 2026 provides a customs duty exemption for imports by Karachi Shipyard under Serial No. 24. The measure aims to support maritime infrastructure and the shipping industry by reducing procurement costs for maritime equipment.

Short-term Impact

- **Lower Procurement Costs:** The exemption will reduce the cost of acquiring maritime equipment and materials.
- **Support for the Maritime Sector:** Lower costs will encourage investment in shipbuilding and repair activities and strengthen Karachi Shipyard's operational capabilities.

Long-term Impact

- **Enhanced Domestic Technical Capability:** Continued access to advanced machinery and specialized inputs may strengthen local expertise and technical capacity for complex vessel construction, repair, and refitting.
- **Strengthened Industrial Linkages:** Growth in ship-related engineering activities may increase demand for local suppliers, fabrication services, and skilled labor, supporting broader industrial development.

14. Production Monitoring System & Electronic Invoicing System

The Finance Act, 2026 inserts new definitions for "production monitoring system" (Section 2(19b)) and "electronic invoicing system" (Section 2(9b)) in the Sales Tax Act, 1990, providing a legal basis for mandatory real-time production monitoring and digital invoicing across the supply chain.

Short-term Impact

- **Accelerated Digital Adoption:** Businesses, particularly SMEs, will face upfront compliance costs.
- **Reduced Underreporting:** Real-time monitoring and invoice verification will deter fake invoicing.

Long-term Impact

- **Modernized Tax Administration:** Complete supply chain transparency will reduce tax fraud.
- **Sustainable Revenue Growth:** A level playing field will benefit compliant manufacturers.

15. Federal Excise Duty on Petroleum Products

The Finance Act, 2026 imposes Federal Excise Duty at Rs. 80 per liter on Petroleum Top Naphtha, White Spirit/Mineral Turpentine Oil (MTT), and Solvent Oil under Serial No. 65 of Table-1, First Schedule to the Federal Excise Act, 2005, with exemptions available under the Second Schedule.

Short-term Impact

- **Additional Government Revenue:** The duty will generate immediate revenue from petroleum derivatives.
- **Higher Input Costs:** Industries that use these products may face higher production costs and potential increases in consumer prices.

Long-term Impact

- **Sustainable Revenue Stream:** The duty will provide recurring revenue from the petroleum sector.
- **Shift in Consumption Patterns:** Industries may explore alternatives, balanced by targeted exemptions for strategic users.

16. Omission of Deemed Income Tax on Property

The Finance Act, 2026 omits Section 7E of the Income Tax Ordinance, 2001, which imposed a deemed income tax on property. The omission aims to provide relief to property owners and simplify the tax treatment of immovable property.

Short-term Impact

- **Tax Relief for Property Owners:** Removing the deemed income tax will reduce the tax burden and simplify tax filing.
- **Lower Tax Revenue:** The omission will result in a loss of revenue that was collected under Section 7E.

Long-term Impact

- **Improved Taxpayer Confidence:** The move may be seen as taxpayer-friendly, potentially encouraging voluntary compliance.
- **Focus on Capital Gains:** Taxation of property will now be limited to capital gains on sale, making the system more focused and predictable.

17. Omission of 9% Surcharge on High-Income Individuals (Section 4AB)

The Finance Act, 2026 omits the 9% surcharge under the Income Tax Ordinance, 2001 (Section 4AB) on individuals with taxable income exceeding Rs. 10 million, eliminating the additional tax burden on high-income taxpayers. The measure aims to simplify the tax structure, improve taxpayer confidence, and enhance Pakistan's investment climate.

Short-term Impact

- **Tax Relief for High-Income Individuals:** Eligible taxpayers will benefit from the removal of the surcharge.
- **Higher Disposable Income:** Additional post-tax income may support consumption and demand for goods and services.

Long-term Impact

- **Simplified Tax System:** Improved Investment and Entrepreneurial Incentives: Over time, a lower tax burden on high-income individuals may encourage greater investment, thereby supporting private-sector activity.
- **Improved Competitiveness:** The measure will enhance Pakistan's attractiveness for high-income professionals and investors.

18. Omission of Capital Gains Rules for Non-Banking Finance Companies

The Finance Act, 2026 excludes non-banking finance companies (NBFCs) from the scope of the Income Tax Ordinance, 2001 (Section 100B), and omits Clauses (c) & (d) of Section 100B (2). A new provision requires NCCPL to compute capital gains for banking companies, insurance companies, and mutual funds. The amendment aims to simplify tax compliance for NBFCs while providing greater clarity in the taxation of capital gains.

Short-term Impact

- **Simplified Tax Compliance:** NBFCs will benefit from reduced compliance requirements. It will also provide a clearer framework for capital gains taxation.
- **Improved Administrative Efficiency:** Streamlined procedures will reduce compliance costs.

Long-term Impact

- **Growth of the NBFC Sector:** Reduced compliance burden will support sector development.
- **Stronger Financial Markets:** A clearer tax framework will improve regulatory certainty.

19. Omission of Late Filer Category

The Finance Act, 2026 omits Rule 1A of the Tenth Schedule to the Income Tax Ordinance, 2001, abolishing the separate "Late Filer" tax rate category. Consequently, the withholding tax regime reverts to a two-tier structure comprising only Active Filers and Non-Filers, with late filers now subject to the same rates as those who file returns by the due date.

Short-term Impact

- **Tax Relief for Late Filers:** Individuals and businesses filing returns after the due date will no longer face higher withholding tax rates on transactions.
- **Potential Revenue Loss:** The government may experience short-term revenue reduction as late filers are no longer subject to penal withholding rates.

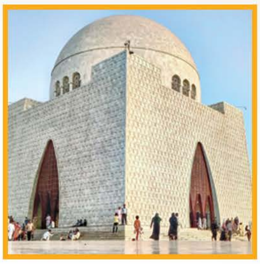
Long-term Impact

- **Simplified Tax Administration:** A two-tier structure streamlines tax administration and reduces complexity for withholding agents.
- **Enhanced Compliance Focus:** With penal rates removed, the focus shifts to encouraging timely filing through increased ATL surcharges rather than transaction-based penalties.

Concluding Remarks

The Finance Act, 2026 represents a transformative fiscal strategy that balances revenue generation with economic growth through digital modernization, enhanced enforcement, targeted incentives, and taxpayer relief. In the short term, the reforms are expected to accelerate digital adoption, improve tax compliance, and generate additional revenue through new taxes on social media platforms, life insurance payouts, and petroleum products, while providing relief to property owners, high-income individuals, and NBFCs through various omissions and simplifications. In the long term, the effectiveness of these measures will depend on implementation capacity and policy consistency; if effectively enforced, the reforms have the potential to modernize Pakistan's tax administration, expand the documented economy, enhance investor confidence, and strengthen fiscal sustainability, ultimately contributing to macroeconomic stability and inclusive economic growth.

Punjab



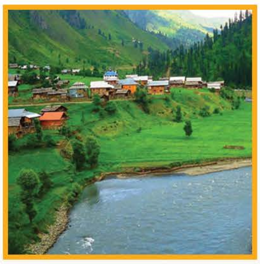
Sindh

Khyber Pakhtunkhwa

ICMA ANALYSIS OF PROVINCIAL BUDGETS for FY 2026-2027

Balochistan

Gilgit Baltistan



Azad Jammu & Kashmir

INTRODUCTION

ICMA presents a comprehensive analysis of Pakistan's Provincial Budgets for FY 2026–27 across Punjab, Sindh, Khyber Pakhtunkhwa (KPK), Balochistan, Gilgit-Baltistan (GB) and Azad Jammu & Kashmir (AJK). ICMA highlights provincial fiscal capacity, development priorities, and key sectoral allocations in infrastructure, health, education, and social welfare through comparative tables, charts, percentage changes, and per-capita analysis.

Since the enactment of the 18th Constitutional Amendment and the implementation of the 7th National Finance Commission (NFC) Award in 2010, Pakistan has undergone one of the most significant fiscal decentralization reforms in its history, substantially increasing provincial shares in federal revenues while devolving major service delivery functions to provincial governments. The FY2026–27 budget reflects the continued evolution of this framework, with the federal government estimating Rs. 1,035 billion in grants and receipts from provinces under Article 164 of the Constitution, underscoring the growing fiscal interdependence between the federal and provincial governments.

ICMA also examines provincial contributions toward Pakistan's IMF-supported fiscal targets, including a primary surplus of 2% of GDP and an overall fiscal deficit of 3.6% of GDP. While the FY27 budgets reflect continued fiscal discipline following a strong FY26 performance, revenue mobilization remains constrained by structural weaknesses in tax administration. The ambitious tax target of 10.6% of GDP relies heavily on a substantial provincial surplus, while relatively low capital expenditure may constrain medium-term economic growth. High debt servicing costs, reflected in a projected interest-to-revenue ratio of 39.1%, continue to limit fiscal flexibility, and dependence on multilateral financing remains a key vulnerability despite improved market confidence following Fitch's recent credit rating upgrade.

Pakistan's Fiscal Performance (% of GDP)

	2025-26 Budget	2025-26 Official Estimate	2026-27 Budget
Federal Tax Revenue	10.9	10.2	10.6
O/W Provincial Share	6.3	6.0	6.2
Non-Tax Revenue	4.0	4.0	3.7
Federal Expenditure	13.6	12.3	13.1
O/W Interest	6.3	5.5	5.6
O/W Capex	1.0	0.5	0.9
Provincial Balance	1.1	1.1	1.2
Overall-Balance	-3.9	-3.0	-3.6
Primary Balance	2.4	2.5	2.0

FitchRatings

Source: Fitch Ratings; The Ministry of Finance, Pakistan

But despite these reforms, the World Bank in its recent report argues that Pakistan's fiscal federalism continues to face structural weaknesses that limit fiscal sustainability and the effectiveness of decentralization. The federal government remains engaged in constitutionally devolved sectors, resulting in overlapping expenditure responsibilities, duplication of functions, and weakened accountability. At the same time, the decentralization of the General Sales Tax (GST) on services has fragmented the tax system, increasing compliance costs, constraining interprovincial trade, and leaving major provincial tax bases including agricultural income and property taxation significantly underutilized.

The World Bank further observes that while the NFC Award provides predictable revenue transfers, it has created a persistent vertical fiscal imbalance by reducing federal fiscal space without a corresponding rationalization of expenditure responsibilities. The horizontal distribution formula similarly offers limited incentives for provincial revenue mobilization and improvements in public service delivery. Moreover, local governments remain fiscally constrained due to irregular Provincial Finance Commission (PFC) transfers and limited own-source revenues.

ICMA analysis therefore calls for reforms to clarify expenditure assignments, strengthen provincial tax administration, redesign intergovernmental transfer mechanisms to reward fiscal performance, and enhance the fiscal autonomy of local governments to improve the overall efficiency and accountability of Pakistan's decentralized fiscal system. Overall, ICMA links provincial budget performance to Pakistan's broader fiscal sustainability and economic outlook.

Per Capita Budget Analysis (FY2026–27)

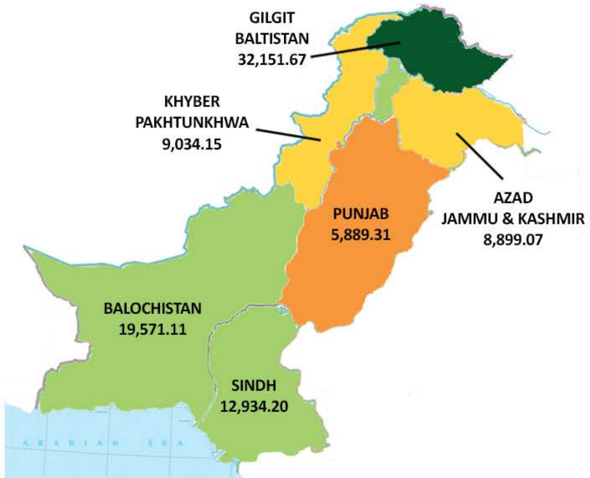
Per capita budget allocations reveal significant regional disparities driven by population size, fiscal capacity, and development priorities. Gilgit-Baltistan records the highest per capita development allocation while Balochistan and Sindh also allocate relatively high amounts per resident, compared with Punjab, which reports the lowest among the provinces due to its large population base. Khyber Pakhtunkhwa leads provincial spending on health, AJK allocates the highest per capita education budget, and Balochistan provides the highest social welfare allocation. In contrast, Punjab's comparatively lower per capita allocations across development, health, and education highlight the fiscal pressures of serving Pakistan's largest population.

PER CAPITA BUDGET ALLOCATION (FY2026–27)

Heat Map of Pakistan

(Amounts in Rupees)

PER CAPITA ALLOCATION SCALE	
Very High	(Above 20,000)
High	(10,001 – 20,000)
Moderate	(5,001 – 10,000)
Low	(1 – 5,000)
Very Low	(Below 1,000)



EDUCATION PER CAPITA (Rs.)	
Azad Jammu & Kashmir	14,152.00
Khyber Pakhtunkhwa	11,454.84
Sindh	11,131.83
Balochistan	10,540.87
Punjab	5,874.43
Gilgit-Baltistan	795.08

The exceptionally high development and low social sector allocations reported for Gilgit-Baltistan should be interpreted with caution, as a substantial portion of public expenditure is financed through federal transfers and may not be fully reflected in the regional budget, limiting direct comparability with the provinces.

SOCIAL WELFARE PER CAPITA (Rs.)	
Balochistan	1,016.49
Khyber Pakhtunkhwa	559.77
Punjab	391.81
Sindh	347.53
Azad Jammu & Kashmir	296.64
Gilgit-Baltistan	10.05

HEALTH PER CAPITA (Rs.)	
Khyber Pakhtunkhwa	8,175.03
Sindh	7,059.02
Balochistan	4,968.31
Azad Jammu & Kashmir	6,179.91
Punjab	3,920.47
Gilgit-Baltistan	267.93

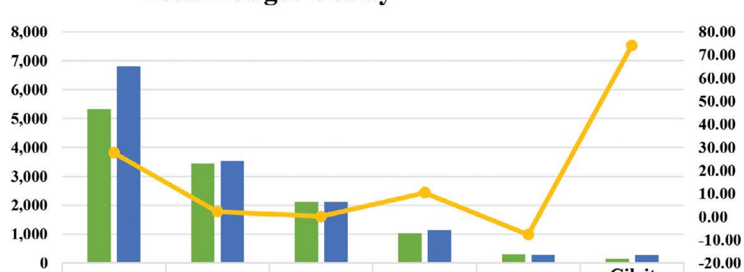
DEVELOPMENT BUDGET PER CAPITA (Rs.)	
Gilgit-Baltistan	32,151.67
Balochistan	19,571.11
Sindh	12,934.20
Khyber Pakhtunkhwa	9,034.15
Azad Jammu & Kashmir	8,899.07
Punjab	5,889.31

Source: Provincial Budgets FY2026–27 | Population: 2023 Consensus (2017 for AJK & GB)

Percentage Change in Budget Estimates from FY2025-2026 to FY2026-2027

Overall Budget Outlay

The total budget outlay increased in Punjab, Balochistan, Gilgit-Baltistan and Sindh. While Khyber Pakhtunkhwa remained almost unchanged. AJK was the only region to record a decline in its total budget by 7.8%, reflecting a relatively contractionary fiscal stance.

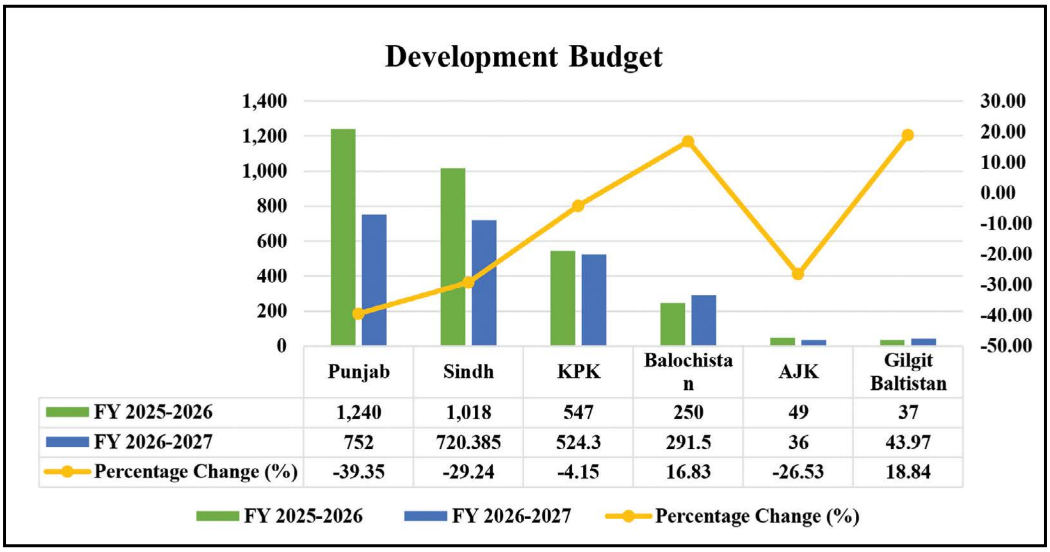


	Punjab	Sindh	KPK	Balochistan	AJK	Gilgit Baltistan
FY 2025-2026	5,335	3,450	2,119	1,028	310	149
FY 2026-2027	6,814	3,525	2,122	1,135	286	259
Percentage Change (%)	27.71	2.17	0.14	10.41	-7.80	74.22

FY 2025-2026 FY 2026-2027 Percentage Change (%)

Development Expenditure

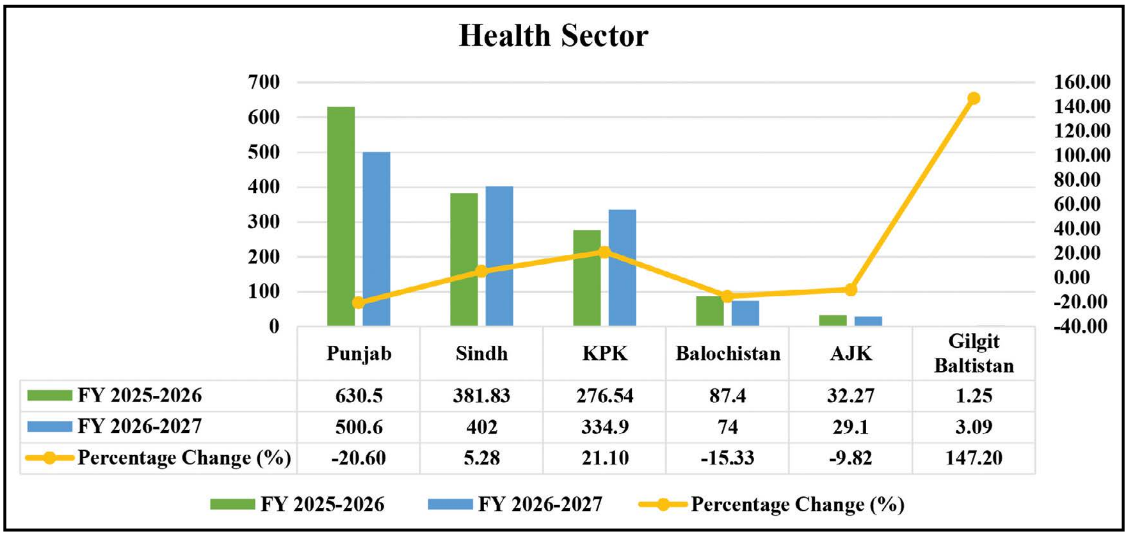
Development spending declined across all provinces except Gilgit-Baltistan. The sharpest reductions were observed in Punjab, Balochistan and Khyber Pakhtunkhwa indicating that increased budget outlays have largely been absorbed by recurring expenditures rather than capital investment.



	Punjab	Sindh	KPK	Balochistan	AJK	Gilgit Baltistan
FY 2025-2026	1,240	1,018	547	250	49	37
FY 2026-2027	752	720.385	524.3	291.5	36	43.97
Percentage Change (%)	-39.35	-29.24	-4.15	16.83	-26.53	18.84

Health Spending Outlook

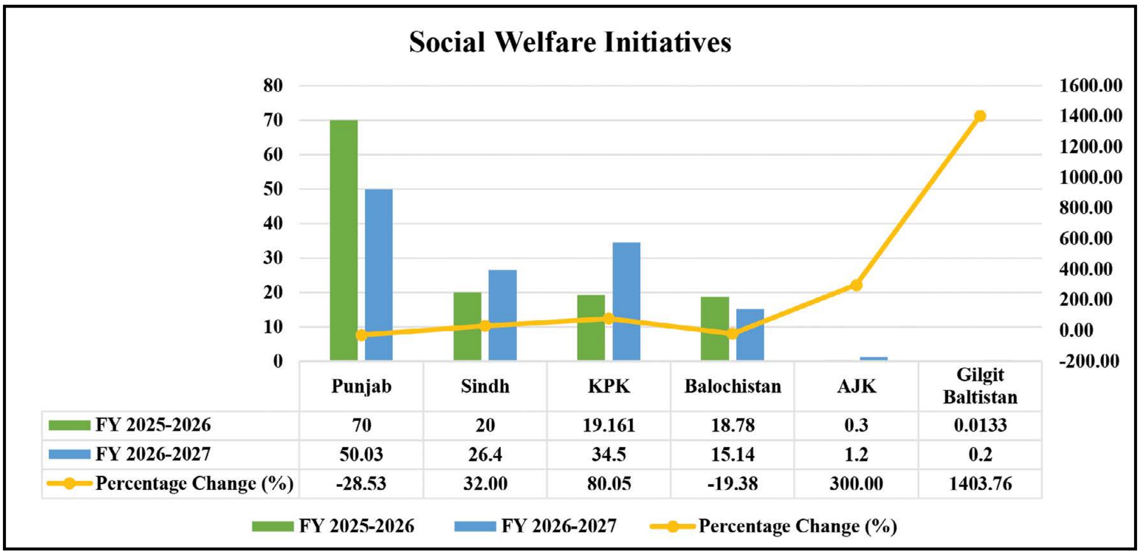
Increased health allocations were observed in KPK, Balochistan, and Sindh, reflecting continued prioritization of the health sector. In contrast, Punjab reduced its development health budget by 20.6%, limiting investments in specialized healthcare infrastructure. Since 2017, Pakistan has experienced a 59% decline in grant-based foreign assistance and international donor funding, adversely affecting vertical disease control programs such as HIV/AIDS, malaria, and tuberculosis. This reduction has been particularly pronounced in smaller regions with declines in budgetary allocations in AJK and Gilgit-Baltistan.



	Punjab	Sindh	KPK	Balochistan	AJK	Gilgit Baltistan
FY 2025-2026	630.5	381.83	276.54	87.4	32.27	1.25
FY 2026-2027	500.6	402	334.9	74	29.1	3.09
Percentage Change (%)	-20.60	5.28	21.10	-15.33	-9.82	147.20

Social Welfare Allocations

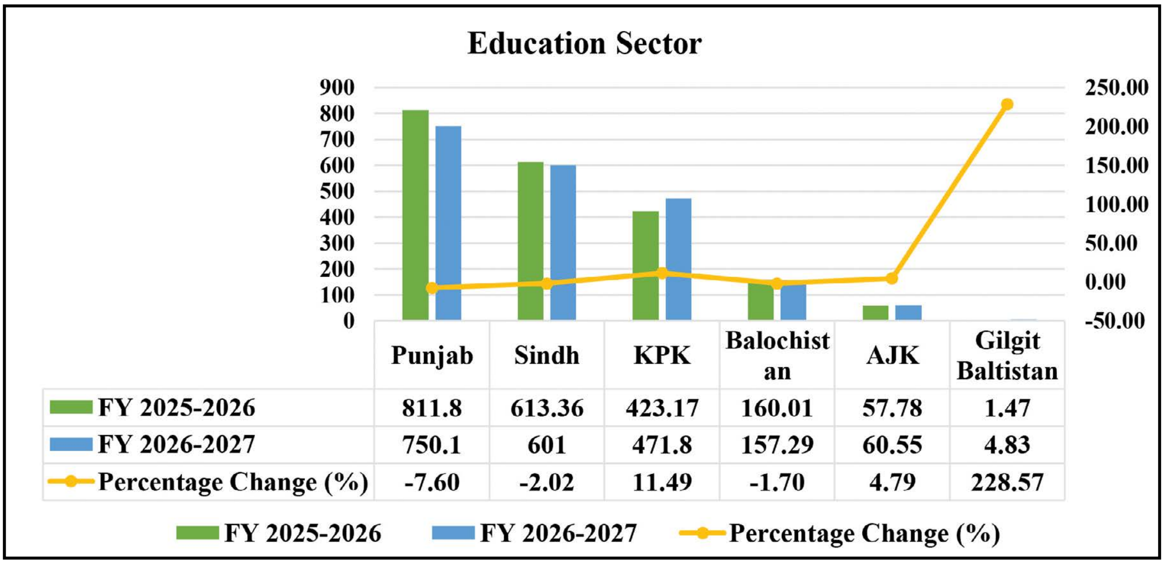
Sindh and AJK had the largest increases, indicating a renewed focus on social safety nets. Khyber Pakhtunkhwa and Gilgit-Baltistan also increased their spending. In contrast, Punjab and Balochistan reduced allocations reflecting inconsistent provincial approaches to social welfare financing, which may affect the effectiveness of poverty alleviation programs.



	Punjab	Sindh	KPK	Balochistan	AJK	Gilgit Baltistan
FY 2025-2026	70	20	19.161	18.78	0.3	0.0133
FY 2026-2027	50.03	26.4	34.5	15.14	1.2	0.2
Percentage Change (%)	-28.53	32.00	80.05	-19.38	300.00	1403.76

Education Expenditure

Mixed results were observed in education investments across provinces. Khyber Pakhtunkhwa and Sindh increased their education budgets, whereas Punjab, Balochistan, AJK, and Gilgit-Baltistan reduced their spending. These budget cuts signal potential issues for education reforms, infrastructure, and learning outcomes, which could adversely affect long-term human capital development and economic growth.



	Punjab	Sindh	KPK	Balochistan	AJK	Gilgit Baltistan
FY 2025-2026	811.8	613.36	423.17	160.01	57.78	1.47
FY 2026-2027	750.1	601	471.8	157.29	60.55	4.83
Percentage Change (%)	-7.60	-2.02	11.49	-1.70	4.79	228.57

KEY HIGHLIGHTS OF PUNJAB BUDGET 2026-2027

Total Budget Outlay: Rs. 5,903.5 billion
Development Budget: Rs. 752 billion
Current & Service Delivery Budget: Rs. 2,746.5 billion*
Social Welfare & PESSI: Rs. 50.03 billion**
Solid Waste Management: Rs. 170 billion
Foreign Project Assistance: Rs 140.1 billion
Health: Rs. 500.6 billion
Education: Rs. 750.1 billion
Infrastructure Sector (including Land Administration & Management): Rs. 272.8 billion
Local Government: Rs. 409.8 billion
Public Safety & Police (Home Department): Rs. 252.1 billion
Agriculture: Rs. 91.9 billion
Information Technology: Rs. 12.3 billion
Transportation: Rs. 198.5 billion***
Environment / Climate Change: Rs. 479 billion
Energy Sector: Rs 5.73 billion
Tourism: Rs. 6 billion
Youth Program: Rs. 3.02 billion
Salary Raise: 7%↑
Pension Raise: 3.5%↑
Provincial Tax Target: Rs. 528.5 billion
Provinces' Own Source Revenue: Rs. 1,209.9 billion
Total Expenditure: Rs. 4,993 billion
Budget Surplus / Deficit: Rs. 910 billion

Disclaimer
* Cumulative figure of Current Expenditure at Rs. 1,962.9 billion and Service Delivery Expenditure at Rs. 783.6 billion.
** Cumulative figure of Rs. 40 billion (Maryam Nawaz Social Security Ration Card for Secured Workers) Additional allocations of Rs. 3.7 billion (PWD support), Rs. 2.2 billion (Old Age Homes), Rs. 1.7 billion (Dhee Rani Program), Rs. 1.43 billion (Sanatzars Upgradation), Rs. 1 billion (Family Support & Mediation Complexes).
***The Transport allocation comprises Rs. 78.5 billion for mass transit and transport services and Rs. 120 billion for road infrastructure.

KEY HIGHLIGHTS OF SINDH BUDGET 2026-2027

Total Budget Outlay: Rs. 3,525 billion
Development Budget: Rs. 720.385 billion
Current & Service Delivery Budget: Rs. 2,560 billion*
Social Welfare Department: Rs. 19.356 billion
Solid Waste Emergency and Efficiency Programme (SWEEP): Rs. 9 billion
Foreign Project Assistance: Rs. 256.055 billion
Health: Rs. 393.16 billion
Education: Rs. 620 billion
Infrastructure Sector (including Land Administration & Management): Rs. 121.66 billion
Municipalities and Local Government: Rs. 155 billion
Public Safety & Police (Home Department): Rs. 210.573 billion
Agriculture: Rs. 6.1 billion
Information Technology: Rs. 1.878 billion**
Transportation: Rs. 39.54 billion
Environment, Climate Change & Coastal Development: Rs. 1.739 billion***
Energy Sector: Rs. 66.48 billion
Tourism: Rs. 6 billion
Sports & Youth Affairs: Rs 3.9492 billion
Salary Raise: 7%↑
Pension Raise: 7%↑
Provincial Tax Target: Rs. 690.060 billion
Provinces' Own Source Revenue: Rs. 85 billion
Total Expenditure: Rs. 3,562 billion
Budget Surplus / Deficit: Rs. 37 billion

Disclaimer

* Inclusive of budget allocation for Empowerment of Persons with Disabilities.
** The Rs. 1.878 billion figure combines the throw-forward for ongoing schemes Rs. 1.478 billion and the FY2026–27 ADP allocation Rs. 0.4 billion. It is not the actual FY2026–27 budget allocation; the actual development allocation is Rs. 400 million, while the throw-forward represents the remaining cost of ongoing projects carried forward into the fiscal year.
*** The Rs. 1.739 billion figure combines the throw-forward for ongoing schemes Rs. 1.198 billion and the FY2026–27 ADP allocation Rs. 0.541 billion. It does not represent the actual FY2026–27 budget allocation; the actual development allocation is Rs. 541 million, while the throw-forward reflects the remaining cost of ongoing projects carried into the fiscal year.

KEY HIGHLIGHTS OF
KHYBER PAKHTUNKHWA BUDGET 2026-2027

Total Budget Outlay: Rs. 2,122.0 billion
Development Budget: Rs. 369.1 billion
Current & Service Delivery Budget: Rs. 1,645.7 billion
Social Welfare Department: Rs. 22.87 billion
Foreign Project Assistance: Rs. 150.0 billion
Health: Rs. 334 billion
Education: Rs. 468 billion
Infrastructure Sector: Rs. 77 billion*
Local Government: Rs. 90 billion
Public Order and Safety Affairs: Rs. 191.39 billion
Agriculture: Rs. 29 billion
Information Technology: Rs. 1 billion
Transportation: Rs. 14 billion
Green Development: Rs. 14.5 billion**
Energy Sector: Rs. 42 billion
Tourism: Rs. 12 billion
Youth Program: Rs. 7 billion
Salary Raise: 7%↑
Pension Raise: 7%↑
Provincial Tax Target: Rs. 115.9 billion
Provinces' Own Source Revenue: Rs. 66.5 billion
Total Expenditure: Rs. 2,170.0 billion
Budget Surplus / Deficit: Rs. 48 billion

Disclaimer
* Cumulative allocation for Roads Rs. 39 billion and Urban Development Rs. 38 billion.
** Cumulative allocation of Rs. 12 billion for the Disaster Risk Management Fund and Rs. 2.5 billion for the Electric Vehicle Adoption Incentive Programme.

KEY HIGHLIGHTS OF BALOCHISTAN BUDGET 2026-2027

Total Budget Outlay: Rs. 1,135 billion
Development Budget: Rs. 206 billion
Current (Non-Development) Budget: Rs. 797.808 billion
Social Welfare and Inclusivity Sector: Rs. 15.14 billion
Foreign Project Assistance: Rs. 40.38 billion
Health: Rs. 101.27 billion*
Education: Rs. 157 billion
Infrastructure Sector (including Land Administration & Management): Rs. 198.166 million
Local Government: Rs. 58.19 billion
Public Safety & Police (Home Department): Rs. 15.14 billion
Agriculture: Rs. 23.6 billion
Information Technology: Rs. 15.9 billion
Transportation and Communication: Rs. 27 billion
Environment / Climate Change: Rs. 12.44 billion**
Energy Sector: Rs. 28.35 billion
Tourism: Rs. 2.095 billion
Youth Engagement Plan: Rs. 4 billion
Salary Raise: 7%↑
Pension Raise: 7%↑
Provincial Tax Target: Rs. 8.460 billion
Provinces' Own Source Revenue: Rs. 136 billion
Total Expenditure: Rs. 1,089 billion***
Budget Surplus / Deficit: Rs. 46 billion

Disclaimer
* Cumulative figure of Health sector allocation Rs. 86.77 billion, Medicines Budget: Rs. 8.5 billion, Balochistan Health Card: Rs. 6.0 billion.
** Cumulative figure represents Environment Protection development budget Rs. 7.70 billion, the Forest & Wildlife current budget Rs. 3.76 billion, and Forest & Wildlife development schemes under the PSDP Rs. 0.98 billion.
*** Cumulative figure of development Rs. 285 million and non-development/current expenditure Rs. 1.81 billion.

KEY HIGHLIGHTS OF GILGIT BALTISTAN BUDGET 2026-2027

Total Budget Outlay: Rs. 158.54 billion
Development Budget: Rs. 48 billion*
Current & Service Delivery Budget: Rs. 88 billion
Social Welfare Department: Rs. 0.015 billion
Solid Waste Management Company: Rs. 0.138 billion
Health: Rs. 0.400 billion**
Education: Rs. 1.187 billion
Infrastructure Sector (including Land Administration & Management): Rs. 0.722 billion***
Agriculture: Rs. 0.350 billion****
Tourism: Rs. 89 billion*****
Salary Raise: 0%↑******
Non-Tax Revenue Target: Rs. 6.98 billion
Total Expenditure: Rs. 258.95 billion*******
Budget Surplus / Deficit: Rs. 100.41 billion

Disclaimer

* Cumulative allocation comprising of Rs. 48 billion has been earmarked for Gilgit-Baltistan, comprising Rs. 44 billion under the Annual Development Programme and an additional Rs. 4 billion under the Prime Minister's Special Package.

** Cumulative allocation comprising Rs. 300 million to strengthen the Health Endowment Fund and Rs. 100 million for the purchase of ambulances.

*** Cumulative allocation comprising of Rs. 430 million for Urban Development Projects and Rs. 292 million for Local Councils and Municipal Committees.

**** Cumulative allocation comprising Rs. 350 million earmarked specifically for the development and promotion of the Agriculture, Livestock and Fisheries Sectors.

***** Cumulative allocation of Rs. 89 billion has been earmarked under the Federal Public Sector Development Programme (PSDP) for the combined regional development of Gilgit-Baltistan and Azad Jammu & Kashmir, targeting localized infrastructure and tourism projects.

****** The Interim Budget earmarks Rs. 15.22 billion exclusively for employee salaries and allowances. The Government of Gilgit-Baltistan has presented an **Interim Budget for FY2026–2027** instead of a full-year budget. Consequently, specific percentage increases in salaries and pensions have not yet been announced and will be determined once final resource allocations are finalized in consultation with the Federal Government.

******* Full-year financial requirement is estimated at Rs. 258.95 billion, highlighting continued reliance on federal transfers to address the fiscal deficit and overall financing needs.

KEY HIGHLIGHTS OF AZAD JAMMU & KASHMIR BUDGET 2026-2027

Total Budget Outlay: Rs. 286 billion
Development Budget: Rs. 36 billion
Current & Service Delivery Budget: Rs. 26.28 billion
Social Welfare Department: Rs. 1.2 billion
Research & Development: Rs. 0.78 billion
Foreign Project Assistance: Rs. 1 billion
Health: Rs. 25 billion
Education: Rs. 57.25 billion
Infrastructure Sector (including Land Administration & Management): Rs. 20.52 billion
Local Government: Rs. 3.2 billion
Public Safety & Police (Home Department): Rs. 13.2 billion
Agriculture: Rs. 0.9 billion
Information Technology: Rs. 0.55 billion
Transportation: Rs. 14 billion
Environment / Climate Change: Rs. 6.55 billion*
Energy and Water Resources Sector: Rs. 3 billion
Salary Raise: 7%↑
Pension Raise: 7%↑
Provincial Tax Target: Rs. 75.2 billion
Provinces' Own Source Revenue: Rs. 111 billion**
Total Expenditure: Rs. 286 billion***
Budget Surplus / Deficit: Balanced

Disclaimer
* Cumulative figure of Rs. 600 million for Forestry, Watershed Management and Climate Resilience Rs. 2.5 billion for Forests, Wildlife and Fisheries, and Rs. 3.45 billion for Disaster Relief and Rehabilitation.
** Cumulative figure comprising Rs. 67 billion from Income Tax, Rs. 42 billion from internal receipts and other taxes, and Rs. 1 billion from water-use charges.
*** Cumulative figure of Recurring (Non-Development) Expenditure of Rs. 250 billion and Development Expenditure of Rs. 36 billion.

COMPARATIVE ANALYSIS OF PROVINCIAL BUDGET FY 2026-27 FIGURES

(Rs. in billion)

S. No	Key Budgetary Heads	Punjab	Sindh	K.P.K	Balochistan	A. J. K	Gilgit Baltistan
1	Total Budget Outlay	6,813.5	3,525.1	2,122	1,135	286	158.54
2	Development Budget	752	720.385	369.1	206	36	48*
	Current & Service Delivery Budget	2,746.5*	2,560*	1,645.7	797.808	26.28	88
4	Social Welfare Department	50.03*	19.356	22.87	15.14	1.2	0.015
5	Solid Waste Management	0.15	9	-	-	-	0.138
6	Research & Development	-	-	-	-	0.78	-
7	Foreign Project Assistance	140.1	256.055	150.0	40.38	1	-
	SECTORAL ALLOCATIONS						
8	Health	500.6	393.16	334	101.27*	25	0.400*
9	Education	750.1	620	468	157	57.25	1.187
10	Infrastructure Sector/ Land Administration & Management	272.8	121.66	77*	198.166	20.52	0.722*
11	Local Government	409.8	155	90	58.19*	3.2	-
12	Public Safety & Police (Home Department)	252.1	210.573	191.39	15.14	13.2	-
13	Agriculture	91.9	6.1	29	23.6*	0.9	0.350*
14	Information Technology	0.42	1.878*	1	15.9	0.55	-
15	Transportation	78.5*	39.54	14	27	14	-
16	Environment / Climate Change/ Green Development	15.24	1.739*	14.5*	12.44*	6.55*	-
17	Energy Sector	4.3	66.48	42	28.35	3	-
18	Tourism	6	6	12	2.095	-	89*
	OTHER						
19	Youth Program	5.5	3.9492	7	4	-	-
20	Salary Raise	7%↑	7%↑	7% ↑	7% ↑	7% ↑	0%↑↓*
21	Pension Raise	3.5%↑	7%↑	7%↑	7%↑	7%↑	0%↑↓*
22	Provincial Tax Target	528.5	690.060	115.9	8.460	75.2	-
	TOTAL						
23	Provinces' Own Source of Revenue (non-tax)	1,209.9	85	66.5	136	111*	6.98
24	Total Expenditure	4,993	3,562	2,170	1,089*	286*	258.95*
25	Budget Surplus / Deficit	910	37	48	46	-	100.41

* The disclaimers included in each Province's Budget Highlight section are applicable here.

REFERENCES

Federal Budget 2026-2027
https://download1.fbr.gov.pk/Docs/20266291261044366FinanceAct2026.pdf
https://english.aaj.tv/news/330460191/budget-2026-27-government-cuts-income-tax-rates-for-salaried-class
https://kpmg.com/pk/en/insights/2026/07/a-brief-on-finance-act-2026.html
https://www.crowe.com/pk/-/media/crowe/firms/asia-pacific/pk/crowehorwathpk/1updates/finance-act-tax-handbook-2026.pdf?rev=b29f2afe81174162bf93b85ab63de887&hash=EC37240DA062335E55A241331A0DA44E
https://kpmg.com/us/en/taxnewsflash/news/2026/07/pakistan-tax-customs-measures-finance-act-2026.html
https://pid.gov.pk/site/press_detail/33066
https://profit.pakistantoday.com.pk/2026/06/06/nccpl-revises-capital-gains-tax-super-tax-computation-mechanism-for-tax-year-2026
https://tribune.com.pk/story/2612818/budget-2026-27-govt-cuts-taxes-ends-surcharge-for-four-salaried-class-income-slabs
https://www.arabnews.com/node/2646486/amp
https://www.brecorder.com/news/40425286
https://www.brecorder.com/news/40425334/customs-duty-rates-on-92-tariff-lines-lowered
https://www.brecorder.com/news/40425455
https://www.brecorder.com/news/40425897/a-tax-breather-not-a-digital-leap
https://www.brecorder.com/news/40426466/tax-declarations-na-body-rejects-proposal-seeking-info-sharing
https://www.dawn.com/news/2005956
https://www.dawn.com/news/2007389
https://www.dawn.com/news/2007478
https://www.dawn.com/news/2007713
https://www.finance.gov.pk/budget/budget_2026_27/Annual_Budget_Statement.pdf
https://www.finance.gov.pk/budget/budget_2026_27/Budget_in_Brief.pdf
https://www.finance.gov.pk/budget/budget_2026_27/Budget_Speech_2026_27.pdf
https://www.finance.gov.pk/survey/chapter_26/Complete_PES2025_26.pdf
https://www.finance.gov.pk/tpo_updates/Finance_Bill_2026.pdf
https://www.islamabadscene.com/pakistan-budget-fy2026-27-brings-modest-tax-relief-for-salaried-class-businesses/
https://www.nation.com.pk/13-Jun-2026/budget-prioritises-education-health-social-sector-faces-neglect
https://www.pakistantoday.com.pk/2026/06/14/health-allocation-rises-to-rs533bn-in-proposed-fy2026-27-budget
https://www.samaa.tv/2087351914-budget-2026-27-govt-announces-fixed-tax-scheme-for-small-shopkeepers
https://www.techjuice.pk/fy-budget-2026-27-bisp-allocation-increased-to-rs838-billion/
https://www.techjuice.pk/govt-plans-new-fixed-tax-scheme-for-retailers-in-budget-2026-27/
https://www.thenews.pk/story/1421066-budget-2026-27-relief-up-front-enforcement-behind-the-curtain

SRO 1063(I)/2026:
https://download1.fbr.gov.pk/SROs/20266301763307131063-2026.pdf

SRO 1072(I)/2026:
https://download1.fbr.gov.pk/SROs/20266301865615173SRO1072.pdf

Government of Pakistan- Provinces
https://www.pakistan.gov.pk/provinces

PUNJAB:
https://voicepk.net/2026/06/punjab-budget-2026-27-bigger-budget-but-smaller-allocations-for-health-welfare-and-minority-rights/
https://www.app.com.pk/punjab/punjab-allocates-rs170b-for-suthra-punjab-programme/
https://www.app.com.pk/punjab/punjab-govt-unveils-major-it-digital-governance-initiatives-in-budget-2026-27/
https://www.app.com.pk/punjab/rs-479b-allocated-for-climate-budget-tagging-system/
https://www.dawn.com/news/2008412
https://www.dawn.com/news/2008447

Population:
https://www.citypopulation.de/en/pakistan/admin/

SINDH:
https://finance.gos.pk/Home/Download?path=Budget%2FBudgetBooks%2FFY-26-27%2FVOL-V%2FVolume-V.pdf
https://www.24newshd.tv/17-Jun-2026/karachi-sports-projects-receive-funding-boost-sindh-budget-2026-27
https://www.app.com.pk/domestic/sindh-assembly-continues-discussion-on-budget-proposals-for-next-financial-year-2026-27/
https://www.app.com.pk/sindh/sindh-govt-eyes-rs-775-billion-receipts-from-provincial-taxes-non-tax-revenue-in-fy26-27/

https://www.brecorder.com/news/40427545/sindh-assembly-concludes-budget-debate-as-cm-outlines-rs720bn-development-plan
https://www.dawn.com/news/2008648
https://www.dawn.com/news/2008655
https://www.dawn.com/news/2008710
https://www.dawn.com/news/2011562

Population:
https://www.citypopulation.de/en/pakistan/admin/8__sindh/

K.P.K:
https://taxcalculators.pk/kpk-budget-2026-27-review/
https://www.app.com.pk/kp/kp-govt-presents-rs-2-170-trillion-budget-2026-27-carrying-rs-48bn-deficit/
https://www.arabnews.pk/node/2647900/pakistan
https://www.finance.gkp.pk/article/annual-budget-statement-2026-27
https://www.finance.gkp.pk/article/budget-speech-2026-27
https://www.finance.gkp.pk/article/citizen-budget-2026-27
https://www.finance.gkp.pk/article/white-paper-2026-27
https://www.thenews.pk/print/1421561-budget-fy27-kp-cm-presents-rs2-17tr-budget-with-rs48bn-deficit

Population:
https://www.citypopulation.de/en/pakistan/admin/6__khyber_pakhtunkhwa/

BALOCHISTAN:
https://balochistanpulse.com/balochistan-budget-2026-27-poor-middle-class/
https://www.app.com.pk/balochistan/balochistan-cabinet-approves-rs-1089-billion-budget-for-fy-2026-27
https://www.brecorder.com/news/40425989/balochistan-unveils-rs1089-billion-budget-for-fy-2026-27
https://www.brecorder.com/news/40428658/work-on-projects-of-youth-engagement-plan-underway-balochistan-cm
https://www.dawn.com/news/2008696
https://www.dawn.com/news/2008696
https://www.finance.gob.pk/wp-content/uploads/2026/06/ABS-2026-27-Final-.pdf
https://www.finance.gob.pk/wp-content/uploads/2026/06/Budhet-White-Paper-2026-27.pdf
https://www.finance.gob.pk/wp-content/uploads/2026/06/Budhet-White-Paper-2026-27.pdf
https://www.pakistantoday.com.pk/2026/06/18/balochistan-unveils-rs1089-trillion-surplus-budget-with-focus-on-relief
https://www.pakistantoday.com.pk/2026/06/22/balochistan-assembly-passes-rs1089tr-budget-for-2026-27

Population:
https://www.citypopulation.de/en/pakistan/admin/2__balochistan/

A.J.K:
https://www.app.com.pk/kashmir/ajk-unveils-record-rs286-billion-budget-with-focus-on-education-health-and-infrastructure/
https://www.brecorder.com/news/40427741/ajk-govt-presents-rs286bn-budget
https://www.dawn.com/news/2011771
https://www.facebook.com/radiopakistannewsofficial/posts/the-azad-jammu-and-kashmir-budget-for-the-next-financial-year-will-be-presented-/1593832069087422/
https://www.nation.com.pk/29-Jun-2026/ajk-assembly-present-rs286bn-budget-today

Population:
https://www.citypopulation.de/en/pakistan/cities/azadkashmir/

Gilgit Baltistan:
https://pamirtimes.net/2026/07/14/interim-budget-highlights-gilgit-baltistans-persistent-dependence-on-federal-funding/
https://tribune.com.pk/story/2618081/new-govt-presents-g-bs-interim-budget
https://www.dawn.com/news/2015297/gb-unveils-rs2048bn-first-quarter-budget

Population:
https://www.citypopulation.de/en/pakistan/cities/gilgitbaltistan/

The provincial budgets of FY26 by Dr Hafiz A Pasha
https://www.brecorder.com/news/40369290/the-provincial-budgets-of-fy26

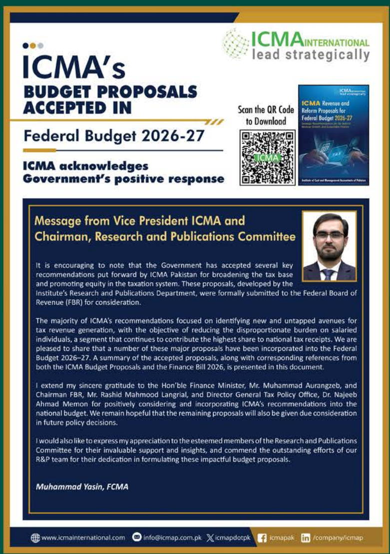
Fitch Wire- Fitch Wire - Pakistan's FY27 Budget Shows Discipline in Fiscal Priorities
https://www.fitchratings.com/research/sovereigns/pakistans-fy27-budget-shows-discipline-in-fiscal-priorities-16-06-2026

Strengthening Fiscal Federalism in Pakistan - World Bank Report
https://documents1.worldbank.org/curated/en/099060626042014186/pdf/P507205-d279e611-c636-411a-949c-875c1a4c8c30.pdf

Political Map of Pakistan
https://pakun.org/pakistan-political-map

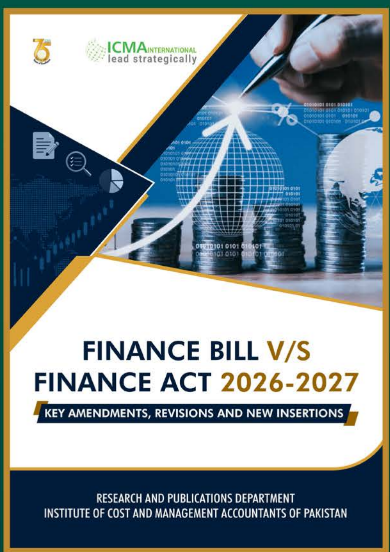
ICMA INTERNATIONAL
lead strategically

ICMA BUDGET PUBLICATIONS
FY 2026-27



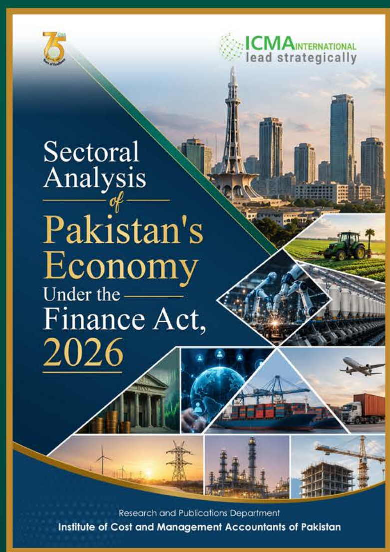
Scan QR Code
to View
& Download

Scan QR Code
to View
& Download



Scan QR Code
to View
& Download

Scan QR Code
to View
& Download



Research & Publications Directorate

Contact: +92 21 99243900; Ext: 107/ 117/ 220; Email: rp@icmap.com.pk

www.icmainternational.com | WhatsApp Channel | icmapak | icmaintl | @icmaintl | /company/icmap