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Pakistan's IMF-Induced Agricultural Tax: Highest in the Region; Tough to Enforce

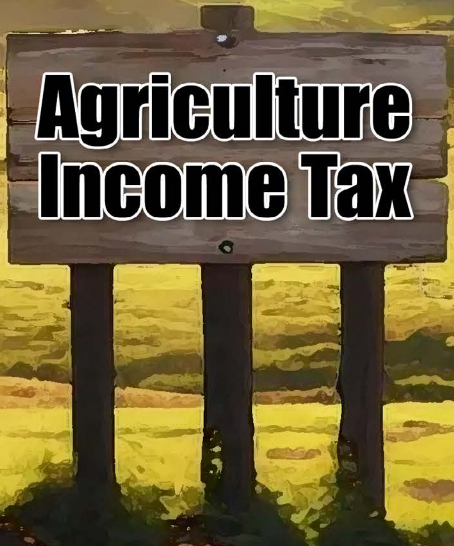
Preamble

Agriculture has historically been one of the "sacred cows" in Pakistan's economy, remaining largely untaxed. However, under IMF pressure to expand the tax base and increase revenue, the government has moved to tax agricultural income. Making a law to tax agricultural income was one of the IMF's pre-conditions for approving the first review of its $7 billion loan program leading to release of a $1.1 billion tranche.

The IMF required provinces to impose up to 45% tax and a 10% super tax on high-income landlords. Though provinces initially missed the October 2024 deadline for legislative amendments, they later complied due to IMF pressure. All provinces have now introduced reforms, including progressive tax rates, livestock taxation (Excluded in Sindh), and corporate farming levies, as part of their commitments under the National Fiscal Pact.

The new tax system has taken effect from January 1, 2025, aligning agricultural taxation with other sectors. Full implementation is expected by July 2025, with Punjab and Sindh generating the highest revenue. The World Bank estimates that by reforming taxes on agriculture, the total revenue can increase upto 1% of Pakistan's GDP.

ICMA's comparative analysis of agricultural income tax in major SAARC countries [Bangladesh, India and Sri Lanka] shows that Pakistan's tax rates are significantly higher than those in these countries, which may discourage compliance and affect the sector's growth. Other challenges in boosting anticipated revenues from agriculture include taxpayer resistance, outdated land records, weak enforcement, fluctuating farm incomes, tax evasion and political influence. Addressing these issues is crucial for ensuring a balanced, growth-friendly, and sustainable taxation system.



Message from the Vice President ICMA and Chairman, Research & Publications Committee

I am pleased to share the latest issue of Economic Intelligence by ICMA's Research and Publications (R&P) Department, focusing on Pakistan's agricultural income tax reforms.

These IMF-driven reforms aim to align agricultural taxation with other sectors, but challenges such as compliance resistance, weak enforcement, tax evasion, political influence and economic impact need careful consideration. ICMA's research provides a comparative analysis, identifies key challenges, and offers practical policy recommendations.

We urge policymakers to consider these insights to ensure a fair, effective, and sustainable taxation system that enhances revenue collection from the agriculture sector. Implementing well-balanced policies will be key to ensuring long-term economic stability.

Muhammad Yasin, FCMA

Key Demands of IMF for Taxing Agricultural Income in Pakistan

IMF has long pushed for taxing agricultural income in Pakistan. All four provinces have now enacted laws to harmonize their agriculture tax rates with the federal personal and corporate tax rates, starting from January 1, 2025. This compliance aligns with IMF conditions under the $7 billion loan program, which is under review by the visiting of IMF Mission with the Ministry of Finance in March 2025.

Standardized Tax Rates

Agricultural tax rate to increase ranging from 15% to 45%, aligning with other sectors.

Provincial Harmonization

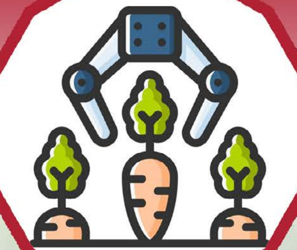
Provinces to align tax rates with federal rates; initially set for October 2024 but implemented belatedly.

Livestock Taxation

Tax exemptions on livestock to be removed to boost revenue.

Corporate Farming Tax

Corporate farming to be taxed like other sectors to expand the tax base.



Timelines for Passage of Agricultural Income Tax (AIT) Laws by Provincial Governments

The Punjab Agricultural Income Tax (Amendment) Bill 2024

Passed on 27th November, 2024 by the Punjab Assembly

The Khyber Pakhtunkhwa Agricultural Income Tax Bill, 2025

Passed on 27th January, 2025 by the KPK Assembly

The Balochistan Tax on Land and Agricultural Income (Amendment) Bill, 2024

Passed on 3rd February, 2025 by the Balochistan Assembly

The Sindh Land Tax and Agricultural Income (Amendment) Bill, 2025

Passed on 4th February, 2025 by the Sindh Assembly

Note: In Sindh, Livestock Sector is excluded from the agricultural income tax.

Agricultural Income Tax Collections by Provinces for FY 2023-24

(**Sources:** Punjab Revenue Authority (PRA), Sindh Revenue Board (SRB), Balochistan Revenue Authority (BRA) & KPK Revenue Authority (KPRA)

PRA PUNJAB REVENUE AUTHORITY GATEWAY TO DEVELOPMENT

Punjab — 66.7% share — Rs. 3,567 Million

SRB Generating Revenue for People

Sindh — 25.3% share — Rs. 1,354 Million

BRA Balochistan Revenue Authority Generating Revenue for People of Balochistan

Balochistan — 5.9% share — Rs. 314 Million

KPRA

KPK — 2.1% share — Rs. 114 Million

Agricultural Tax Rates in Punjab, Sindh, Balochistan & KPK Provinces w.e.f. 1st January, 2025

Agriculture Income Tax Rates

Rate	Income
0%	Up to Rs. 0.6 Million
15%	Above Rs. 0.6 Million to Rs. 1.2 Million
20%	Rs. 90,000 + 20% on income exceeding Rs. 1.2 Million to Rs. 1.6 Million
30%	Rs. 170,000 + 30% on income exceeding Rs. 1.6 Million to Rs. 3.2 Million
40%	Rs. 650,000 + 40% on income exceeding Rs. 3.2 Million to Rs. 5.6 Million
45%	Rs. 1,610,000 + 45% on income exceeding Rs. 5.6 Million to Rs. 150 Million

Progressive Super Tax on the high income-earning landlords

Income	Rate
Up to Rs. 150 Million	0%
Above Rs. 150 to Rs. 200 Million	1%
Above Rs. 200 to Rs.250 Million	2%
Above Rs. 250 to Rs. 300 Million	3%
Above Rs. 300 to Rs. 350 Million	4%
Above Rs. 350 to Rs. 400 Million	6%
Above Rs. 400 to Rs. 500 Million	8%
Above Rs. 500 Million	10%

Note: Corporate farming income tax is 20% for small companies and 28% to 29% for large companies. Late filers will be penalized 0.1% per day or Rs. 1,000 per day, with a minimum of Rs. 10,000 for incomes of Rs. 1.2 million and Rs. 50,000 for incomes above Rs. 40 million.

Comparison of Average Agricultural Tax Rates in Pakistan, Bangladesh, India and Sri Lanka

(In US Dollars and Local Currencies)

Pakistan

Maximum Tax Rate: 45%

On above $19,965.2

(Equivalent to Rs. 5.6 Million)

Minimum Tax Rate: 15%

On above $2,139.1

(Equivalent to Rs. 0.6 Million)

Pakistan has the highest Tax Rate in the Region.

Sri Lanka

Maximum Tax Rate: 36%

On above $10,109.3

(Equivalent to LKR 3 million)

Minimum Tax Rate: 6%

On above $1,684.9

(Equivalent to LKR 0.5 million)

India

Maximum Tax Rate: 30%

On above $27,638.8

(Equivalent to INR 2.4 million)

Minimum Tax Rate: 5%

On above $4,606.5

(Equivalent to INR 0.4 million)

Bangladesh

Maximum Tax Rate: 15%

On above $24,657.9

(Equivalent to BDT 3 million)

Minimum Tax Rate: 5%

On above $8,219.3

(Equivalent to BDT 1 million)

Note: Converstion from local currencies to USD done on exchange rate as of **17th March, 2025.**

Source: Relevant Country's Latest Agriculture Income Tax Act.

Possible Challenges in Increasing Agricultural Revenue

High Tax Rates
Proposed taxes (up to 45% + 10% super tax) exceed regional norms, discouraging compliance.

Indirect Tax Burden
Farmers already pay heavy taxes on fuel, fertilizers, and machinery.

Unstable Income
Weather, pests, and market shifts make farm earnings unpredictable.

Outdated Records
Outdated land data hampers accurate identification and taxation of farmers.

Tech Gaps
Lack of AI, satellites, and digital tools limits real-time income and production tracking.

Weak Tax System
Provincial authorities lack infrastructure and trained staff for effective tax collection.

Tax Evasion
Large landowners split holdings among family members to remain blow taxable thresholds.

Political Influence
Powerful landowners resist taxation through legislative control.

Cash-Based Transactions

The informal nature of agriculture limits traceability of income.

Limited Awareness

Farmers and landowners lack clarity on tax laws and their obligations.

Land Valuation Issues

No reliable system to assess agricultural land value.

Burden on Consumers

Risk of higher food prices due to taxation.

Land Ownership Disputes

Unclear land ownership complicates the identification of taxable individuals.

Historical Failures

Past attempts to tax agriculture have failed, creating skepticism about current efforts.

Livestock Exclusion

All provinces have included livestock in the Tax net except Sindh, leaving a significant revenue source untapped.

Lack of Data Sharing

Poor coordination between federal and provincial authorities leads to income concealment.

ICMA Proposed Strategies to Overcome Agriculture Revenue Collection Challenges

Tax System Reforms

1 **Simplify Tax Structure –** Introduce fair, progressive tax rates with clear slabs and fewer exemptions.

2 **Digitize Land Records –** Use geotagging and blockchain to prevent fraud and ensure transparency.

3 **Use Technology for Taxation –** Implement AI, satellite imagery, and mobile tax filing for better compliance.

4 **Improve Transparency –** Ensure open and accountable tax collection to build trust.

5 **Federal - Provincial Coordination –** Strengthen collaboration to streamline tax collection.

Prevent Tax Evasion

6 **Strict Anti-Evasion Measures –** Prevent landowners from splitting holdings to avoid taxes.

7 **Regular Audits –** Strengthen oversight to detect underreporting and fraud.

8 **Tax Corporate Farms Fairly –** Ensure large agribusinesses pay appropriate taxes.

9 **Tax Livestock Properly –** Develop a infrastructure to measure livestock valuation.

Support for Farmers

10 **Incentives for Compliance –** Offer rebates, subsidies, and concessional loans.

11 **Fixed Tax Options –** Base taxes on land size or crop type for predictability.

12 **Tax Relief on Inputs –** Reduce indirect taxes on fertilizers, fuel, and machinery.

13 **Disaster Tax Relief –** Provide exemptions for farmers affected by floods and droughts.

14 **Multi-Year Income Averaging –** Stabilize tax burdens for fluctuating farm incomes.

Modernization & Awareness

15 **Promote Digital Payments –** Reduce cash transactions for better traceability.

16 **Public-Private Partnerships –** Work with private sector experts to enhance tax systems.

17 **Farmer Awareness Programs –** Educate farmers on tax laws and benefits.

18 **Stable Tax Policies –** Avoid frequent policy changes to build confidence.

19 **Training for Tax Officials –** Improve efficiency with modern collection techniques.

20 **Engage Stakeholders –** Involve farmers and experts in policy decisions.

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Research and Publications Team

Shahid Anwar: Director
Hasan Rashid: Research Officer
Muhammad Wajahat Khan: Graphic Designer

For feedback, please email: **rp@icmap.com.pk**