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Sectoral Analysis of Pakistan's Economy Under the Finance Act, 2026

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

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Message from Vice President & Chairman, Research and Publications Committee

It gives me great pleasure to present the Sectoral Analysis of Pakistan's Economy under the Finance Act, 2026, a flagship publication of ICMA. This research-based document provides a comprehensive assessment of fiscal, regulatory, and sectoral developments, highlighting their implications for businesses, policymakers, and the wider economy.

The Finance Act, 2026 has been introduced at a pivotal stage in Pakistan's economic journey, characterized by fiscal consolidation, declining inflation, and renewed emphasis on sustainable growth. With its focus on investment promotion, export competitiveness, digital transformation, climate resilience, and tax modernization, the Act reflects the Government's commitment to structural reforms and long-term economic sustainability.

This publication covers thirteen critical sectors including agriculture, manufacturing, trade, IT and digital economy, automotive, banking, construction, energy, education, health, climate and water, salaried class, and tax administration. Each sectoral analysis outlines key measures, their potential impact, and ICMA's professional insights, offering stakeholders a clear understanding of opportunities and challenges ahead.

The Finance Act, 2026 represents a reform-oriented approach by strengthening digital tax administration, supporting industrial modernization, incentivizing green transition, and enhancing regulatory governance. At the same time, increased compliance requirements and selective taxation adjustments underscore the need for businesses to adapt to a more structured and digitally integrated environment.

I appreciate the dedicated efforts of the Research & Publications team in preparing this comprehensive and insightful report. I believe that this publication will prove to be a valuable reference for policymakers, professionals, business leaders, and academia in understanding the wider economic implications of the Federal Budget 2026–27 for Pakistan.

Muhammad Yasin, FCMA

Agriculture and Livestock

Positive Measures

1. **Wheat Price Support:** Rs. 9.5 billion each has been allocated for PASSCO's strategic wheat reserves and wheat sale cost differential subsidy, supporting wheat procurement, market stability, and food security.

2. **Fertilizer Subsidy:** Rs. 10 billion allocated for imported urea fertilizer will boost agricultural productivity.

3. **Support for Farm Mechanization:** A Rs. 5 billion allocation under the Kissan Package will finance markup subsidies and risk-sharing schemes to improve mechanization, productivity, and access to modern farm equipment.

4. **Enhanced Agricultural Risk Protection:** The provision of Rs. 1 billion for the Crop Loan Insurance Scheme (CLIS) and Rs. 0.7 billion for the Livestock Insurance Scheme (LIS), will strengthen protection against production and credit risks.

5. **Climate-Smart Agriculture:** Rs. 21 billion allocated for agriculture-specific climate adaptation initiatives.

6. **Agriculture Development Funding:** Rs. 4.183 billion has been allocated under the PSDP for agriculture and livestock development projects through the Ministry of National Food Security and Research.

7. **Tax Relief on Agricultural Inputs:** The Finance Act, 2026 introduces no new taxes on fertilizers and pesticides and maintains sales tax exemptions on wheat and rice bran, thereby avoiding additional tax burdens on key inputs.

8. **Duty-Free Agricultural Machinery:** Exemption of CD, ACD and RD on import of agricultural machinery will promote mechanization and reduce costs.

9. **Zarkhez Scheme:** Zarkhez scheme has been initiated, under which interest-free and collateral-free loans are available for 750,000 small-scale farmers.

10. **PM Youth Business & Agriculture Loan Scheme:** The Prime Minister's Youth Business & Agriculture Loan Scheme (PMYB&ALS) has been allocated Rs. 21 billion in the budget, representing a 31.3% increase over the previous year.

11. **Subsidy on Production and Supply of Urea:** Rs. 5.8 billion subsidy provided for production and supply of urea fertilizer.

Negative Measures

1. **Reduced Farm Mechanization Support:** Funding for the farm mechanization markup subsidy has declined, reducing financial support for equipment investment.

2. **Reduced Tube Well Subsidy in Balochistan:** The tariff differential subsidy for agricultural tube wells has decreased to Rs. 3 billion, increasing irrigation cost pressures.

3. **Lower Wheat Subsidy for Gilgit-Baltistan:** Wheat subsidy allocation has been reduced to Rs. 15 billion.

4. **No New Market Access Reforms:** The budget introduces no significant initiatives to improve agricultural market access, value chains, or price realization for key crops such as cotton and maize.

5. **No Major New Irrigation Projects:** Apart from ongoing allocations, the budget contains no significant new irrigation infrastructure initiatives.

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- Continued subsidies, tax exemptions, and duty concessions support food security, lower production costs, and climate resilience.
- Reduced development funding and subsidy cuts (e.g., for imported urea and tube wells) may increase input costs and constrain investment.
- While, the reduced budget allocated for imported urea will support local fertilizer manufacturers.
- Tighter fiscal space calls for greater emphasis on productivity, value addition, and efficient use of resources.

Manufacturing and Mining

Positive Measures

1. **Mandatory Monitoring and Tax Stamp Compliance:** Taxable goods will carry prescribed tax stamps and tracking features; non-compliant goods and transport vehicles may be seized to curb tax evasion, enhance transparency, and ensure fair competition among manufacturers.

2. **Toll Manufacturing Compliance Penalty:** Registered toll manufacturers working with unregistered persons face a penalty of four times the sales tax on conversion charges for non-compliance, strengthening compliance and reducing tax evasion in the manufacturing sector.

3. **Value Addition Tax on Imported Goods:** A 3% value addition tax on manufacturers selling imported raw materials or intermediate goods without processing encourages domestic value addition, supports local manufacturing, and promotes the effective use of import concessions.

4. **Reduced Minimum Tax for Manufacturing Supply Chains:** The minimum tax rate has been reduced to 0.5% for active taxpayers in 14 manufacturing and consumer goods sectors, lowering the tax burden and improving formalization, competitiveness, and supply chain efficiency.

5. **Conditional Tax Concessions for Industrial Inputs:** Tax concessions on white spirit and solvent oil are available to eligible manufacturers meeting digital invoicing and quota requirements, lowering input costs while improving compliance and transparency.

6. **Conditional Import of Airport Equipment:** Duty concessions apply to specialized airport equipment only where no local alternative exists and the equipment is used exclusively at airports, supporting aviation while protecting local industry and preventing misuse.

7. **Sales Tax Rationalization:** Sales tax exemptions continue for essential goods, including wheat bran, rice bran, newsprint, books, magazines, contraceptives, and female sanitary products, while expanded Third Schedule coverage and a rationalized import value-addition tax enhance documentation and tax compliance.

8. **Targeted Industrial Subsidies:** Rs. 37 billion has been allocated for industrial subsidies, including Rs. 5.8 billion for urea production, Rs. 8 billion for EV incentives, and Rs. 23.2 billion for arrears of the Utility Stores Corporation.

9. **Green Industrial Incentives:** Rs. 8 billion in industrial subsidies has been classified as Directly Favorable (Climate Mitigation) to promote cleaner production and industrial decarbonization.

10. **Refinery Modernization Incentives:** 0% customs duty applies to specified machinery and equipment imported for petroleum refinery upgradation, subject to approval by the Ministry of Petroleum and Natural Resources.

Negative Impact Measures

1. **Higher Penalties for Digital Non-Compliance:** Businesses failing to integrate with the FBR's computerized system face penalties of up to 1% of turnover or Rs. 1 million for the first default and Rs. 2 million for subsequent defaults, increasing compliance risks.

2. **Tougher Penalties for Fraudulent Invoicing:** Simulated or fictitious invoices now attract penalties equal to the invoice value, automatic reversal of input tax credits, public disclosure of offenders, and reinstatement only after full payment of penalties and surcharge.

3. **Higher Cost of Incorrect Input Tax Claims:** Unmatched input tax claims are subject to a 20% penalty, reversal of inadmissible credits, and default surcharge.

4. **Enhanced Customs Enforcement:** Stricter penalties, including higher fines and imprisonment, have been introduced for customs violations such as warehouse tampering and smuggling.

5. **Tax Disallowance for Non-Integration:** Failure to install the prescribed FBR electronic integration system results in a 3% disallowance of deductible expenditure, increasing the cost of non-compliance.

6. **Higher Industrial Input Costs:** New customs duty on lubricating and base oils and FED of Rs. 80 per liter on specified petroleum products increase manufacturing operating, maintenance, and production costs.

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- Tax relief, customs concessions, and targeted subsidies strengthen competitiveness and industrial modernization.
- Stricter digital compliance, enhanced enforcement, and higher duties on selected inputs increase compliance and operational costs.
- The Finance Act, 2026 balances industrial growth with stronger tax governance and environmental objectives.

Import and Export

Positive Measures

1. **Import of Mobile Phones:** The Act has reduced the tax rate for the import of mobile phones.
2. **Installment Facility for Mobile Phone Import Taxes:** Individuals importing mobile phones may pay applicable PTA/DIRBS taxes in installments.
3. **Tax Exemption on Aircraft Imports and Leasing:** Tax concessions are provided on the import or lease of aircraft and related parts by eligible Pakistani airlines.
4. **Export of Services:** The reduced tax rate of 0.25% is available to exporters of IT and IT-enabled services registered with the PSEB.
5. **Modernized Customs Administration:** Finance Act, 2026 introduces State Warehouse provisions, scanning with physical examination, and competitive auctions of actionable goods under Public Procurement Rules, 2004, improving customs transparency and efficiency.
6. **Customs Duty Concessions for Export Industries:** 0% customs duty continues on machinery, equipment, raw materials, and capital goods for export sectors, including EPZs, Karachi Shipyard, and submarine cable landing stations, enhancing competitiveness.
7. **Financial Support for Exports:** Allocations included Rs. 88 billion for Export Refinance Scheme subsidies, Rs. 10 billion for duty drawback schemes (DLTL, LTLL, DDT), Rs. 20 billion for Export Development Fund, Rs. 4 billion for TDAP, Rs. 630 million for Commerce Division, Rs. 2 billion for SMEDA, Rs. 500 million for PSEB, Rs. 1 billion for export-oriented SMEs via NCGCL, and Rs. 2 billion for export promotion.
8. **FED Relief for Electric Vehicles:** 0% Federal Excise Duty has been maintained on imported electric cars and SUVs valued up to USD 75,000, encouraging electric mobility.

9. **Trader Turnover Threshold Raised:** The turnover threshold for traders has been increased to Rs. 200 million. Individual traders with turnover up to Rs. 200 million now qualify for Section 153 exemption.

Negative Impact Measures

1. **Limit on Importers' Share of Sale Proceeds:** An importer's share of sale proceeds cannot exceed the value declared in the Goods Declaration (GD).
2. **Value Addition Tax:** A value addition tax of 1% has been introduced on imported coal supplied exclusively and directly to Independent Power Producers (IPPs).
3. **Higher Taxes on Transport and Energy Inputs:** Special Excise Duty on imported vehicles, 5% customs duty on lubricating and base oils, FED on selected petroleum products, and higher air travel FED increase transport, logistics, and operating costs.
4. **Higher Petroleum and Climate Levies:** Petroleum Levy (Rs. 1.677 trillion), LPG Petroleum Levy (Rs. 3.455 billion), and Climate Support Levy (Rs. 50 billion) increase the tax burden.
5. **Export of Goods:** The Act has enhanced the tax deduction rate from 1% to 1.25% on amounts received against the export of goods.
6. **Lower Duty Drawback Support:** Allocation for duty drawback schemes (DLTL, LTLL, and DDT) has been reduced to Rs. 10 billion, thereby reducing export incentives and liquidity support for exporters.
7. **3% Value Addition Tax on Unprocessed Imported Goods:** Manufacturers supplying imported goods without processing them will be liable to a 3% value addition tax.

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- Import incentives, customs reforms, and export support enhance trade competitiveness and ease of doing business, while higher energy, transport, and export taxes increase costs.
- Finance Act, 2026 balances trade facilitation with revenue mobilization; sustained export support remains essential for global competitiveness.

Digital and IT, ITeS, E-Commerce

Positive Measures

1. **Digital Economy Framework:** The Finance Act, 2026 establishes a legal framework for the digital economy by defining key digital tax concepts and recognizing electronically readable formats (e.g., CSV, XML, XBRL, JSON), while excluding PDFs, scanned images, and photographs to standardize digital tax reporting.
2. **Electronic Invoicing and Digital Integration:** The Finance Act, 2026 mandates FBR-generated electronic tax invoices with unique invoice numbers and introduces digital advance receipt invoices and electronic debit/credit notes, strengthening end-to-end tax documentation.
3. **Faceless Digital Tax Administration:** The Act establishes National Faceless Centers for digital audits, assessments, appeals, and e-hearings through algorithm-based jurisdiction, enhancing efficiency, transparency, and confidentiality.
4. **Algorithmic Tax Dispute Resolution:** An automated settlement mechanism uses compliance history, litigation stage, and risk parameters to offer settlements; IRIS-approved settlements allow return revisions without Commissioner approval and waive penalties and default surcharges.
5. **Directorate General (Field Compliance):** The Finance Act, 2026 creates the Directorate General (Field Compliance) – Inland Revenue to improve technology-driven compliance monitoring and field enforcement.
6. **Government Support for the Digital Sector:** The Government allocates Rs. 19.58 billion for the IT and Telecommunication Division, Rs. 5 billion for IT initiatives (NITB, PDA, and SCO), Rs. 3 billion for the Universal Service Fund and R&D Fund, Rs. 0.5 billion for PSEB, and Rs. 952 million for STZA, supporting digital infrastructure, IT exports, and technology development.
7. **Extended Tax Benefit for IT Exporters:** The Act has extended the 0.25% reduced tax rate available to exporters of IT and IT-enabled services registered with the Pakistan Software Export Board (PSEB) from tax year 2026 to tax year 2029.

Negative Impact Measures

1. **Enhanced Digital Compliance and Penalties:** The Finance Act imposes stricter penalties, mandatory digital integration, possible business closure, and tax disallowances for non-compliance with FBR's electronic systems.
2. **Stricter Electronic Invoicing Enforcement:** The Act strengthens tax compliance through stricter penalties for simulated or fictitious invoices, reversal of input tax credits, and a 20% penalty on unmatched input tax claims.
3. **Expanded Digital Reporting Requirements:** Companies, banks, and EMIs now face additional compliance burdens due to expanded digital reporting requirements and mandatory transaction filings.
4. **Reduced Public Investment in Technology:** PSDP allocations were reduced in the Information and Broadcasting Division to Rs. 3,019 million, the Science and Technological Research Division to Rs. 3,567 million, and SUPARCO to Rs. 4,895 million, signaling diminished public investment in innovation.
5. **Reduced Digital SME Support:** No budget was allocated for SMEDA Credit Scoring Services and the SME Certification, Accreditation and Quality Improvement.
6. **Limited New Incentives for IT and ITeS Exports:** The Finance Act, 2026 introduces no significant new tax incentives or fiscal measures to promote IT, ITeS, or digital exports beyond the existing tax regime.
7. **Withholding Tax on Social Media Revenues:** A 5% withholding tax will be charged on amounts received through social media platforms, it will increases the tax burden on digital content creators and online entrepreneurs.
8. **Tax Rate on Payments for Digital Transactions through E-commerce Platforms:** A 1% tax shall apply on the gross amount paid or payable for goods or services through e-commerce platforms via banking channels, it will increases the cost of online payments and may discourage digital adoption.

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- Digital tax reforms (e-invoicing, faceless administration, algorithmic dispute resolution) strengthen transparency and efficiency.
- Continued investment in digital infrastructure supports sector growth and aligns with digital transformation objectives.
- Stricter compliance and absence of new IT/ITeS export incentives may constrain long-term competitiveness and innovation.

Automotive and Logistics

Positive Measures

1. **Zero FED for Affordable EVs:** Imported electric cars and SUVs (CBU) valued up to USD 75,000 are exempt from Federal Excise Duty (FED), ensuring affordable EV adoption through a tiered FED structure that maintains 0% duty on vehicles within this price range.
2. **Subsidy for Transport under Green Component:** Rs. 5 billion allocated for the transport sector under the green component subsidy.
3. **Withholding tax rate:** The terminal and port operating services for FY2026-27 withholding tax rate has been reduced from 15% to 12%.
4. **Reduced Sales Tax on Electric Transport:** Imported electric buses (25+ seats) and electric trucks (CBU) are subject to a 1% sales tax, supporting electric public and commercial transport.
5. **Reduced Duty on Electric Motorcycles:** Imported electric motorcycles and CKD/SKD kits for local assembly are subject to 30% customs duty, promoting local manufacturing and EV adoption.
6. **Special Excise Duty on Conventional Vehicles:** A Special Excise Duty applies to imported motor vehicles, while electric vehicles and auto-rickshaws remain exempt, enhancing the relative tax advantage of EVs.
7. **Concessional Duty on Motor Vehicles:** The duty on CBU imports has been cut from 50% to 30% while CKD duties remain unchanged at 15% for non-localized parts and 46% for localized parts.
8. **Concessions for Bulletproof Vehicles:** Customs duty concessions continue for bulletproof vehicles imported by the Federal Government for SCO Summit logistics and security purposes, subject to government approval.
9. **Grant for Pakistan Railways:** A Rs. 70 billion grant for Pakistan Railways has been approved.

10. **PSDP Allocation for Railways:** Rs. 40.658 billion has been allocated for railway infrastructure, modernization, and expansion.
11. **ICT Motor Vehicle Tax Framework:** The Finance Act revises motor vehicle taxation in the Islamabad Capital Territory (ICT) by amending the West Pakistan Motor Vehicles Taxation Act, 1958.
12. **Metro Bus Subsidy:** Rs. 5 billion allocated for metro bus subsidy.

Negative Impact Measures

1. **Levy of FED on Electric Cars and Other Vehicles:** Electric cars and electric SUVs imported in CBU condition exceeding USD 75,000 up to USD 110,000 will pay 30% ad val. Along with the same category exceeding USD 110,000 will pay 40% ad val.
2. **Withholding Tax Rate:** Under the Specified services sector, including transport services, freight forwarding services, air cargo services, and others, are subject to pay 7% withholding tax, increased from 6% in FY2025-26.
3. **Tax Rates on Shipping or Air Transport income:** For a non-resident person, the income from shipping is taxed at 8% and air transport income is subject to 3% (of the gross amount received for receivable).
4. **Higher Duty on Motor Vehicle Parts:** Imported motor vehicle parts continue to attract a 25% customs duty, increasing costs for manufacturers, assemblers, and repair businesses.
5. **Stricter Port Scrapping Rules:** Imported cargo eligible for scrapping is now limited to 10% of total cargo, increasing compliance requirements for damaged or obsolete imported vehicles and goods.
6. **Presumption of Smuggled Vehicles:** Vehicles with tampered chassis numbers will be presumed to be smuggled, resulting in stricter enforcement, higher compliance obligations, and greater legal risks for owners and dealers.

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- Finance Act, 2026 supports electric mobility through EV tax concessions and investment in Pakistan Railways, while promoting transport infrastructure development.
- Lower withholding tax on terminal/port services and reduced vehicle import duties improve logistics efficiency, but higher transport-related taxes may increase costs.
- Higher duties on vehicle parts, anti-smuggling measures, and stricter port scrapping rules enhance compliance but raise operational burdens for automotive and logistics sectors.

Banking and Financial Services

Positive Measures

1. **Capital Gains Tax Compliance:** NCCPL-led centralized CGT computation and collection now covers banking companies, NBFCs, modarabas, and companies, ensuring consistent taxation and improved compliance for listed securities.

2. **Reduced Withholding Tax on International Card Transactions:** The Finance Act, 2026 introduces a 0.5% withholding tax on international credit and debit card transactions, reducing the cost of overseas digital payments and purchases.

3. **Amount remitted abroad via Debit/Credit Cards:** The Act has reduced the rate of advance tax on remittance through credit, debit, or prepaid cards from 5% to 0.5%.

4. **Exemption Certificate for Unit Holders:** Entities distributing ≥90% of accounting income qualify for exemption certificates, with similar eligibility for new businesses through an undertaking.

5. **Reporting of Financial Transaction Data:** Banks and EMIs electronically report transactions through automated and confidential systems, supported by a centralized banking data repository, which will enhance transparency and efficiency.

6. **Tax Credit for Digital Integration:** A 10% tax credit is available on expenditure incurred for hardware, software, and electronic systems required for integration with the FBR's computerized system.

Negative Impact Measures

1. **Tax on Banking Companies:** Banking companies with taxable income exceeding Rs. 150 million are subject to a 10% tax under a separate taxation framework.

2. **Enhancing SMEs Bankability and Sub-Contracting:** Grants for PM Initiatives to enhance SMEs' bankability and sub-contracting have not been allocated any budget.
3. **Tax Rate for Profit on Debt:** The tax rate for profit on debt to be paid by a banking company or financial institution is 20%.
4. **Expanded Reporting Burden on Banks:** Banks and EMIs must report detailed customer transactions exceeding Rs. 100 million during a reporting period, thereby increasing compliance and operational obligations.
5. **Higher Withholding Tax on Services:** The withholding tax on specified services has been increased from 6% to 7%, while non-specified services will be subject to a 14% withholding tax.
6. **Stricter Confidentiality Requirements:** Financial institutions must ensure the confidentiality and lawful handling of customer data reported under the new reporting framework.
7. **Penalties for Non-Compliance with Electronic Systems:** Failure to install FBR-prescribed electronic systems attracts a penalty of 1% of turnover or Rs. 1 million, increasing to Rs. 2 million for continued defaults.
8. **Penalties for Integrated Organizations:** Non-compliance with digital integration requirements results in penalties of Rs. 500,000 for the first default and Rs. 1 million for subsequent defaults.
9. **Higher Tax on Non-Filer Transactions:** Non-filers continue to face higher withholding tax on specified banking transactions, increasing transaction costs.
10. **Tax on Large Corporate Entities:** Corporate entities with annual income exceeding Rs. 500 million are subjected to pay 8% tax, as it trims profitability and could dampen growth incentives.

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- Financial institutions may face increased compliance burdens due to expanded reporting obligations, stricter confidentiality requirements, and penalties for non-compliance.
- The sector is positioned for continued growth, supported by digital integration and financial inclusion, but must navigate higher compliance costs and regulatory pressures.

Construction and Housing

Positive Measures

1. **Abolition of Deemed Property Tax:** Section 7E of the Income Tax Ordinance, 2001 has been abolished, removing deemed income tax on immovable property and reducing the tax burden on property owners and investors.

2. **Reduced Advance Tax on Property Sales:** Advance tax on the sale of immovable property has been reduced to a flat 2.75% of the gross sale consideration.

3. **Reduced Advance Tax on Property Purchases:** Advance tax for filers on the purchase of immovable property has been reduced to 1.25% irrespective of the fair market value.

4. **Fair Market Value for Inherited Property:** Acquisition cost of inherited immovable property will be the fair market value at transfer to the beneficiary, ensuring certainty in future CGT calculations.

5. **Housing and Community Amenities:** Rs. 18.57 billion allocated for housing and community amenities, including housing development (Rs. 0.143 billion) and community development (Rs. 18.427 billion).

6. **Mera Pakistan Mera Ghar Scheme:** Rs. 5 billion allocated for the Mera Pakistan Mera Ghar Scheme under the affordable housing scheme.

7. **Withholding Tax Rates for 'Late-Filers' Abolished:** The Finance Act aligns late filers' withholding tax rates on immovable property purchases and sales with those of timely filers by removing higher rates.

8. **Housing PSDP Allocation:** Rs. 16.395 billion has been allocated under the PSDP for the Housing and Works Division to support housing and related infrastructure.

9. **Exemption to REIT Scheme:** REITs and NPOs are now eligible for full-year exemption certificates under Finance Act, 2026, with relaxed 90% distribution requirement, simplifying compliance and reducing renewal burdens.

Negative Impact Measures

1. **No New Housing Subsidies:** No subsidy has been allocated for Naya Pakistan Housing Authority, Housing Sector, Markup, Risk Sharing, or Low-Cost Housing subsidies.
2. **Tax on Builders and Developers:** The Finance Act imposes a fixed tax of Rs. 210/sq. ft. on commercial buildings and Rs. 210/sq. yd. on commercial plots, while residential buildings and plots are taxed at Rs. 10–70/sq. ft. and Rs. 10–70/sq. yd., respectively, with higher rates in major cities (Karachi, Lahore, Islamabad).
3. **Higher Withholding Tax on REIT Services:** Higher withholding tax on REIT management services increases compliance costs and reduces net receipts for REIT managers.
4. **Higher Taxes for Non-Filers:** Non-filers continue to face significantly higher withholding taxes on property transactions, with advance tax on property sales up to 11.5%, while late filers remain subject to 7.5%–9.5%, increasing transaction costs and encouraging tax compliance.

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- The Finance Act, 2026 reduces the real estate tax burden by abolishing the deemed property tax, lowering transaction taxes, revising CGT, and strengthening REIT investment frameworks.
- Housing development receives strong policy support through PSDP allocations and the Mera Pakistan Mera Ghar program, reaffirming the government's sectoral commitment.
- Fixed taxes on builders and developers, higher REIT management withholding tax, and withdrawal of affordable housing subsidies may raise costs and constrain private housing activity.

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Power and Energy Sector

Positive Measures

1. **Subsidy to Power Sector:** Rs. 830 billion allocated for subsidy to power sector for WAPDA, PEPCO and KESC.
2. **Renewable Energy Equipment:** The Finance Act grants 0% customs duty on renewable energy equipment, components, raw materials, and manufacturing machinery for solar, wind, geothermal, and other approved renewable technologies, including inputs for manufacturing solar PV modules, inverters, lithium batteries, and Battery Energy Storage Systems (BESS).
3. **Power Transmission Infrastructure:** Machinery and materials for transmission lines and grid stations continue to benefit from 0%, 3%, and 5% customs duty, supporting grid expansion and modernization.
4. **Minimum Tax:** Oil refineries and oil marketing companies are subjected to a 0.5% tax rate.
5. **Oil Refining and Petrochemicals:** Machinery and capital goods for oil refineries, petrochemicals, downstream petrochemicals, heavy chemicals, and cryogenic storage remain eligible for concessional customs duty at 0%, 3%, and 10%, while machinery and equipment for petroleum oil refining specifically qualify for 0% customs duty.
6. **Refinery Modernization:** 0% customs duty continues to apply to refinery upgradation machinery, including reactors, compressors, pumps, heat exchangers, filters, furnaces, and related equipment.
7. **Coal for IPPs:** A 1% minimum value-addition tax applies to imported coal supplied directly to Independent Power Producers (IPPs), helping to moderate input costs.

8. **Climate and Green Energy Spending:** The budget allocates Rs. 423 billion for climate mitigation within the energy sector, Rs. 124.067 billion for climate mitigation initiatives, and introduces green revenue measures, including the Climate Support Levy.
9. **Energy Sector PSDP:** Around Rs. 715.45 billion has been allocated under the PSDP for electricity generation, transmission, distribution, and energy infrastructure projects.

Negative Impact Measures

1. **Special Excise Duty on Non-EVs:** Imported non-electric vehicles are subject to a Special Excise Duty, increasing the cost of conventional vehicles.
2. **Higher Petroleum Levy:** Petroleum Levy collections exceeding Rs. 1.676 trillion, together with the LPG levy, are expected to increase fuel, transport, and logistics costs.
3. **FED on Premium Air Travel:** A Special Excise Duty on business, club, and first-class international air travel increases travel costs for businesses.
4. **Reduced Petroleum PSDP:** The Petroleum Division PSDP allocation has been reduced to Rs. 312 million, limiting development spending.
5. **Reduced Power Sector PSDP:** Lower PSDP allocations for the Power Division may slow transmission, grid expansion, and modernization projects.
6. **Limited Support for Indigenous Coal:** The domestic coal sector has not benefited from any notable new incentives.

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- Renewable energy incentives, power subsidies, and infrastructure spending support energy security, grid modernization, and the transition to cleaner energy.
- Concessional tax and customs duty measures for refineries, petrochemicals, and IPPs encourage modernization and investment across the energy value chain.
- Higher petroleum-related levies, reduced PSDP allocations, and limited support for indigenous coal may increase energy costs and slow infrastructure development.

Education

Positive Measures

1. **Federal Education PSDP Allocation:** An allocation of Rs. 36.312 billion has been made under the PSDP for the Federal Education and Professional Training Division to support development initiatives.

2. **Higher Education Commission (HEC) PSDP Allocation:** The Higher Education Commission has been allocated Rs. 46 billion under the PSDP for development projects.

3. **Higher Education Commission (HEC) – Grants and Transfers:** An allocation of Rs. 65 billion has been provided to the Higher Education Commission under Grants and Transfers to support its operations and programs.

4. **Ministry of Federal Education and Professional Training:** A Rs. 2 billion grant has been approved for the Ministry of Federal Education and Professional Training, for enhancing the quality of education across Pakistan.

5. **Federal Education and Professional Training Division – Voted Expenditure:** The Federal Education and Professional Training Division has been allocated Rs. 42,748 million for voted expenditure.

6. **Federal Education and Professional Training Division – Development Expenditure:** An amount of Rs. 28,411 million has been allocated for the development expenditure of the Federal Education and Professional Training Division.

7. **Budget for NAVTTC:** Rs. 8.993 billion has been allocated for NAVTTC; under demand-wise budget, Rs. 1.092 billion allocated for NAVTTC and the remaining budget, i.e., Rs. 7.901 billion, approved for development expenditure of NAVTTC.

8. **Sales Tax Exemption on Newsprint, Books and Magazines:** The existing sales tax exemption on newsprint, books, and magazines, excluding brochures, leaflets, and directories, has been retained.
9. **Education Affairs and Services Allocation:** A total budget of Rs. 117.748 billion has been allocated for Education Affairs and Services, including Rs. 6.275 billion for pre-primary and primary education, Rs. 16.015 billion for secondary education, and Rs. 84.462 billion for tertiary education.
10. **Pakistan Education Endowment Fund:** The Pakistan Education Endowment Fund continues to benefit from income tax exemption through its inclusion in the Second Schedule to the Income Tax Ordinance.

Negative Impact Measures

1. **No New Tax Incentives for the Education Sector:** The Finance Act, 2026 does not introduce any new tax incentives or fiscal relief measures specifically for the education sector.
2. **Daanish Education Trust:** No grant has been allocated for the Daanish Education Trust in the Federal Budget 2026–27.
3. **Education Affairs and Services:** An allocation of Rs. 1.484 billion has been made for Education Affairs and Services (Not Elsewhere Classified), compared to the previous budget allocation of Rs. 55.973 billion, reflecting a significant reduction in funding.
4. **No Significant New Tax Incentives:** The Finance Act, 2026 does not introduce any new tax credits, deductions, or exemptions specifically for the education sector beyond existing provisions.

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- Sustained funding for higher education and vocational training supports skills development and human capital.
- Absence of new tax incentives indicates limited fiscal space for transformative reforms despite persistent systemic challenges.
- The sector requires increased public investment and targeted fiscal relief to achieve sustainable improvements in literacy, quality, and access.

Pharmaceutical and Healthcare

Positive Measures

1. **National Health Services PSDP Allocation:** An allocation of Rs. 16.065 billion has been made under the PSDP for the National Health Services, Regulations and Coordination Division to support health sector development.
2. **National Health Services – Voted Expenditure:** The National Health Services, Regulations and Coordination Division has been allocated Rs. 37,222 million for voted expenditure.
3. **Health Affairs and Services Allocation:** Rs. 37,438 million has been allocated for Health Affairs and Services under current expenditure, including Rs. 28,779 million for hospital services and Rs. 7,417 million for health administration.
4. **Concessional Customs Duty on Medical Equipment:** A 5% customs duty applies to specified medical, surgical, dental, and veterinary equipment imported by approved hospitals and diagnostic institutions, reducing healthcare investment costs.
5. **Minimum Tax Rate:** 0.5% minimum tax rate to be applied on Pharmaceutical products under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.
6. **Sales Tax Exemption on Contraceptives:** Contraceptives classified under PCT 3926.9020 and 4014.1000 have been included in the Sixth Schedule, making their supply exempt from sales tax.
7. **Sales Tax Exemption on Female Sanitary Pads and Tampons:** Female sanitary pads and tampons (PCT 9619.0030) have been added to the Sixth Schedule and are now exempt from sales tax.
8. **Pakistan Foundation Fighting Blindness Grant:** An allocation of Rs. 12 million has been provided to the Pakistan Foundation Fighting Blindness through Grants and Transfers.

9. **Health and Well-being under Gender Budget Tagging:** An amount of Rs. 21.481 billion has been tagged for Health and Well-being under the Gender Budget Tagging framework, reflecting continued support for gender-responsive health initiatives.

10. **Zero Customs Duty on APIs and Pharmaceutical Inputs:** Zero customs duty on a wide range of APIs, excipients, and pharmaceutical inputs reduces production costs, supports domestic manufacturing, and enhances export competitiveness.

Negative Impact Measures

1. **Withholding Tax Collection/Deduction:** Persons importing finished pharmaceutical products that are not manufactured in Pakistan, as certified by DRAP, will be subjected to 4% (active) and 8% (inactive taxpayers).

2. **Conditional Customs Duty Relief:** Concessional customs duty on medical equipment remains subject to Board of Investment (BOI) approval and prescribed certification requirements, increasing administrative and compliance procedures.

3. **No New Health Tax Incentives:** The Finance Act, 2026 introduces no significant new tax incentives or fiscal relief specifically for the health sector beyond existing provisions.

4. **No Consumer Price Pass-Through:** While customs duty concessions reduce manufacturers' costs, the Act provides no mechanism to ensure lower medicine prices for consumers.

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- Fiscal incentives are positioned to reduce production costs and improve access to essential health products.
- Limited public investment in health infrastructure risks undermining long-term service delivery and sectoral growth.

Climate and Water

Positive Measures

1. **Water Resources Development:** Rs. 103.1 billion has been allocated under the PSDP for water resources, including Rs. 55.3 billion for development, Rs. 4.2 billion for operations, and Rs. 47.8 billion in external financing to strengthen water infrastructure and security.

2. **Climate Adaptation and Mitigation:** The budget allocates Rs. 70.5 billion for climate adaptation, Rs. 124.1 billion for climate mitigation, Rs. 19.5 billion for climate-supporting initiatives, and Rs. 21 billion in green agricultural subsidies.

3. **Green Subsidies:** Around Rs. 476 billion in green subsidies has been allocated, including Rs. 423 billion for energy, Rs. 19 billion for food, Rs. 8 billion for industry, and Rs. 5 billion for transport, along with Rs. 21 billion for agriculture.

4. **Green Revenue Measures:** The budget includes green-related revenues through the Petroleum Levy (Rs. 1.677 trillion), Climate Support Levy (Rs. 50 billion), Natural Gas Development Surcharge (Rs. 70.814 billion), Oil and Gas Royalties (Rs. 140.504 billion), Windfall Levy against Crude Oil/Gas (Rs. 18.127 billion), Provision for Green Initiatives (Rs. 0.155 billion) and EV Adoption Levy (Rs. 22.481 billion).

5. **Climate Governance:** Rs. 2.478 billion has been allocated under the PSDP for the Climate Change and Environmental Coordination Division to strengthen climate governance and environmental management.

6. **Climate Conferences:** Rs. 150 million has been allocated for climate change conferences and international forums.

7. **Disaster Risk Management Fund:** A Rs. 110 million grant has been allocated for disaster preparedness, response, recovery, rehabilitation, and reconstruction to strengthen national resilience.

8. **Effluent Treatment Plants:** Concessional customs duty of 0%, 3% and 5% (with 5% as the maximum concessionary rate for goods subject to higher duty slabs) continues to apply to machinery and equipment for effluent treatment plants to support pollution control.

9. **Solar Desalination Systems:** 0% customs duty applies to solar desalination systems and specified components, including solar water pumps, storage batteries, and MPPT inverters.

10. **Environmental Protection:** Rs. 2.406 billion has been allocated for environmental protection, and Rs. 116.24 billion has been allocated in the budget for disaster under Gender, Climate and Disaster to strengthen environmental management and disaster resilience.

Negative Impact Measures

1. **Higher Green Levies:** Continued reliance on the Petroleum Levy and Climate Support Levy may increase fuel and energy costs.

2. **Reduced Provincial Development Allocation:** Funding for provincial development projects has declined to Rs. 88.286 billion from Rs. 105.786 billion, potentially affecting environmental and climate-related projects at the provincial level.

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- Increased climate financing reflects a stronger policy focus on building long-term resilience against environmental risks.
- Green levies may impose additional cost pressures on energy-intensive sectors without ensuring commensurate climate benefits.
- Implementation risks remain high due to limited governance capacity and reduced provincial development funding.

Salaried Class & Individuals

Positive Measures

1. **Revised Income Tax Slabs:** Income tax slabs have been rationalized while maintaining the Rs. 600,000 tax-free threshold, reducing the tax burden across most salaried income brackets and retaining a progressive tax structure.
2. **Withdrawal of Salary Surcharge:** The 9% surcharge on salary income exceeding Rs. 10 million has been abolished, lowering the effective tax liability for high-income salaried individuals.

Negative Impact Measures

1. **Tax on Early Insurance Withdrawals:** Early withdrawals from life insurance and family takaful policies are now subject to withholding tax, while payouts after four years remain exempt.
2. **Tax on Digital Creator Income:** New 5% withholding tax reduces the net income of social media influencers and digital content creators.

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- Rationalized tax slabs and withdrawal of salary surcharge provide targeted tax relief for salaried individuals.
- New withholding taxes on early insurance withdrawals and digital creator income broaden the tax base.
- The measures balance taxpayer relief with expanded taxation of emerging income streams to improve equity and compliance.

Tax Administration and Compliance Measures

1. **Mandatory Electronic Integration:** FBR may require taxpayers to install electronic systems to record, monitor, and verify tax transactions.
2. **Automated Data Processing:** Banking data will be digitally cross-matched through automated systems while maintaining taxpayer confidentiality.
3. **Risk-Based Compliance:** The Compliance Risk Management (CRM) system and the National Faceless Center will handle high-risk cases using data analytics.
4. **Algorithmic Dispute Resolution:** An algorithmic settlement mechanism may be introduced under the Federal Excise Act to expedite tax dispute resolution.
5. **Modernized Customs Procedures:** Reforms relating to scanning, auctions, state warehouses, seizures, and summonses improve customs efficiency and transparency.
6. **Higher Penalties for Digital Non-Compliance:** Failure to install prescribed electronic systems or integrate with FBR attracts stricter financial penalties.
7. **Stricter E-Invoicing Enforcement:** Simulated invoices attract penalties, public disclosure, reversal of input tax credits, and a default surcharge.
8. **Penalty on Unmatched Input Tax:** Unmatched or unreversed input tax credits remain subject to a 20% penalty, reversal of credits, and default surcharge.
9. **Higher Tax Default Surcharges:** Surcharges on unpaid tax liabilities have been increased based on the duration of default.
10. **Asset Freezing Powers:** Courts may freeze assets in cases involving suspected illegal transfer of funds.
11. **Greater Regulatory Oversight:** Enhanced powers of the Directorate General (Field Compliance) and new litigation approval requirements increase regulatory oversight.

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- Digital tax reforms strengthen transparency, governance, and operational efficiency through electronic integration, faceless administration, and risk-based compliance systems.
- Enhanced digital infrastructure and automation support improved tax documentation, data management, and institutional capacity.
- Stricter compliance requirements and reporting obligations may increase short-term compliance and technology costs for businesses.
- Greater enforcement and digital oversight are expected to improve revenue collection, formalization, and long-term fiscal sustainability.

Budget in Brief:
https://www.finance.gov.pk/budget/budget_2026_27/Budget_in_Brief.pdf

Finance Act, 2026:
https://download1.fbr.gov.pk/Docs/20266291261044366FinanceAct2026.pdf

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