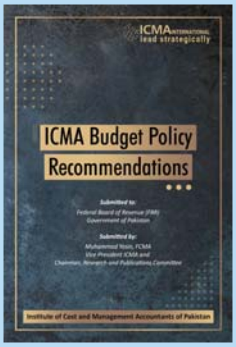
By ICMA Research and Publications Department

Strengthening Pakistan's Tax System: Policy Recommendations for FBR



Pakistan's Federal Board of Revenue (FBR) faces the challenge of expanding the tax base while ensuring sustainable revenue generation. To support this, ICMA's Vice President, Mr. Muhammad Yasin, and Chairman of the Research and Publications Committee have submitted budget recommendations to the FBR and the Ministry of Finance, Government of Pakistan.

This article provides a summary of the key measures proposed in these recommendations, focusing on tax reforms to enhance compliance, reduce distortions, and promote economic growth.

ICMA's proposals aim to improve revenue collection and reduce reliance on external borrowing. Key recommendations include a Green Tax Reform with incentives for businesses adopting renewable energy and digitalization, a phased taxation framework for EV manufacturers, and aligning Pakistan's tax system with the OECD's Pillar Two minimum corporate tax to meet international standards. Other measures include a progressive pension tax, a cap on employer-provided health insurance benefits, an expansion of Federal Excise Duty (FED), and GST integration. ICMA has also suggested an 18.5% Minimum Alternative Tax (MAT), a 2% Wholesale Equalization Tax (WET), and bringing exporters under the regular tax regime to ensure fair taxation and long-term fiscal stability.

Broadening the Tax Base through Green and Digital Incentives

A proposed **Depreciation Scheme** would incentivize businesses to invest in renewable energy and digital transformation by offering tax deductions—ranging from **50% for green energy investments** to **40% for digital infrastructure.** Similarly, a phased taxation model for EV manufacturers ensures gradual tax integration while fostering industry growth. These measures are projected to add **0.5%-1% of GDP** to tax revenues within 3-5 years.

Implementing Global Tax Standards

The recommendation to **enforce a 15% minimum corporate tax** under the OECD/G20 BEPS framework aims to align Pakistan with international norms. This reform is expected to **generate PKR 25 billion annually,** ensuring fair taxation of multinational corporations.

Equitable Taxation on Pension Incomes and Health Benefits

To ensure fairness, a **10% tax on pension incomes above PKR 200,000/month** is proposed, safeguarding low-income retirees. Additionally, **capping employer-provided health insurance benefits** at **PKR 500,000 per year** would reduce tax distortions and generate up to **PKR 10 billion annually**.

Expanding Federal Excise Duty (FED) Coverage

Introducing **FED on property sales, sugar, and lubricants,** along with harmonized taxation on tobacco and cement, could elevate tax revenues to **12.3% of GDP.** This strategy is estimated to generate **PKR 1,723 billion,** reducing reliance on external borrowing.

Flat GST Policy for Mid-Tier Businesses

Businesses with **annual sales between PKR 6 million and PKR 40 million** would be **required to register for GST and pay a flat 1% tax on sales.** This measure aims to **simplify tax compliance** and **increase formalization** in the mid-tier business sector. Formalizing the value chain could contributeto 0.1-0.2% growth in GDP.

Flat -Rate Credit Scheme for Non-GST-Registered Sellers

Under this scheme, businesses would c**ollect GST at a standard 15% rate,** with **8.5% credited back to sellers** for input costs and **6.5% remitted to the FBR**. This initiative would help **gradually integrate non-registered sellers into the formal tax system** while ensuring **fair cost recognition.** Encouraging formalization in high-growth sectors such as e-commerce, digital services, and small manufacturing could lead to a 0.5%- 0.7% GDP contribution to tax revenues.

Mandatory GST Registration for Offshore E-Commerce Sellers

Offshore businesses with **annual sales exceeding PKR 9 million to domestic consumers** would be **required to register for GST.** This measure ensures that **cross-border digital transactions are taxed fairly,** preventing revenue losses and promoting a **level playing field for local businesses.** The estimated revenue impact of this initiative is **PKR 20-30 billion annually.**

Promote Fairness in Taxation via MAT

Implementing a **Minimum Alternative Tax (MAT) at 18.5%** would ensure that **corporations with substantial profits contribute their fair share**, even when benefiting from **tax incentives, loopholes, or aggressive tax planning strategies.** This measure would help **minimize revenue losses**, enhance **tax equity,** and improve **fiscal sustainability** by preventing businesses from avoiding taxation despite high earnings.

2% Wholesale Equalization Tax (WET)

A **2% WET** is proposed for **retailers, wholesalers, processed food industries, and certain agricultural products,** in addition to the **existing 18% GST.** This measure would **increase transparency in business transactions** and **ensure fair contributions from wholesale and retail sectors**. This additional revenue is expected to contribute 0.1-0.2% to GDP, bolstering government finances, reducing the fiscal deficit, and enhancing the efficiency and transparency of the tax system.

Integrating Exporters into the Regular Income Tax System

Bringing exporters into the regular income tax system and simplifying **Personal Income Tax (PIT)** by reducing tax slabs to five while **raising the maximum tax rate for non-salary individuals (NSI) to 45%** would ensure fair contributions from high-income earners. This could lead to a **0.5%-0.7% increase in the tax-to-GDP ratio** while maintaining economic stability.

Progressive Wealth Tax on High-Net-Worth Individuals

A **progressive wealth tax (1.7%-3.5%)** on the **top 0.5% of households** could generate **1% of GDP** in tax revenue, raising Pakistan's **tax-to-GDP ratio from 10.3% to 11.3%.** This measure would ensure **wealthier individuals contribute proportionally,** while robust enforcement would **minimize capital flight and administrative costs.**

Real Estate Wealth Tax

A **real estate wealth tax (0.5%-1.5%)** on properties valued **above PKR 50 million** would ensure equitable contributions from high-value asset holders. This could generate **billions in tax revenue** without burdening salaried individuals, with funds reinvested in **social housing, urban infrastructure, and public services.**

Enhancing Tax Compliance through Technology and Governance

The introduction of a **Compliance Risk Management (CRM) framework** and a **Tax Planning Unit within the Ministry of Finance** would streamline enforcement and reduce tax evasion by **5-8% annually**. Additionally, **automating TDS/TCS compliance and implementing cross-border VAT/GST on digital sales** would further secure revenue streams.

Conclusion

Pakistan's taxation system requires bold reforms to improve tax compliance, expand the tax base, and enhance fiscal sustainability. The proposed measures, including green incentives, global tax alignment, wealth taxation, and digital transformation, offer a comprehensive roadmap to increase tax revenues while promoting economic equity.

If successfully implemented, these policies could:

- Increase Pakistan's tax-to-GDP ratio from 10.8% to over 12%.
- Generate billions in additional tax revenue, reducing reliance on foreign borrowing.
- Ensure fair taxation across all sectors, supporting long-term economic growth and fiscal stability.

By adopting these recommendations, FBR can create a modern, transparent, and effective tax system, driving sustainable development and economic resilience in Pakistan.