

HABIBMETRO

Financial Services

# BUDGET

# FY 2026-27

— R E P O R T —



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# FEDERAL BUDGET FY2026-27

## Budget at Glance

Receipts		PKR Bn	Expenditure		PKR Bn
Tax Revenue		15,264	<b>CURRENT:</b>		17,495
Non-Tax Revenue		5,336	Interest Payments		8,054
(a) Gross Revenue Receipts		20,600	Pension		1,169
(b) Less Provincial Share		8,848	Defence Services		3,000
<b>Net Revenue Receipts (a-b)</b>		<b>11,751</b>	Grants and transfers		2,680
Non Bank Borrowing (NSSs & Others)		2,034	Subsidies		1,091
Net External Receipts		813	Running of Civil Government		1,071
Bank Borrowing		4,012	Provision For Emergency and Others		430
Privatization Proceeds		161			
			<b>DEVELOPMENT &amp; NET LENDING:</b>		<b>1,276</b>
			Federal PSDP		1,000
<b>Total</b>		<b>7,020</b>	Net Lending		276
<b>Total Resources</b>		<b>18,771</b>	<b>Total Expenditures</b>		<b>18,771</b>

Source: MoF, HMFS Research

## Economic Targets

Fiscal and Economic Benchmarks	Targets
GDP Growth	4.0%
Expenditure	PKR 18.77tn
Inflation	8.20%
Fiscal Deficit as % of GDP	-3.6%
Tax Target	PKR 15.26tn
Primary Surplus as % of GDP	2.0%
Defence Budget	PKR 3.1tn
PSDP	PKR1tn

Source: MoF, HMFS Research

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## Fiscal Credibility Takes Centre Stage

The FY27 Federal Budget reflects the realities of a fiscally constrained economy operating under IMF oversight, where policy flexibility remains limited and fiscal consolidation continues to take precedence over acceleration. Despite the government's attempt to position the budget as growth-supportive, the underlying framework suggests that revenue enhancement, expenditure containment, and documentation of economic activity remain the primary policy objectives. The PKR18.77tn budget outlay is therefore less a statement of expansionary intent and more a continuation of the stabilization strategy that has defined economic policy-making over the past two years.

The government's macroeconomic assumptions project GDP growth of 4.0%, inflation of 8.2%, and a current account deficit of merely 0.7% of GDP (USD 3.6bn). While improving external sector indicators and record remittance inflows provide a degree of support to these projections, the targets appear demanding given still-fragile domestic demand, elevated borrowing costs, and the economy's continued dependence on external financing. More importantly, the budget appears to assume a relatively smooth transition from stabilization to growth at a time when private-sector investment and consumer spending remain below historical trends.

## Relief at the Margin, Consolidation at the Core

A defining feature of the budget is its aggressive revenue ambition. Gross revenue receipts have been targeted at PKR 20.6tn, supported by an FBR collection target of PKR 15.26tn and non-tax revenues of PKR 5.34tn. After accounting for the provincial share of PKR 8.85tn, net federal revenue receipts stand at PKR 11.75tn. However, a closer examination suggests that a significant portion of the projected revenue increase is expected to originate from enhanced enforcement, digitized tax administration, data-driven compliance measures, and indirect taxation rather than broad-based economic expansion. The increasing reliance on faceless assessments, algorithmic audits, banking transaction monitoring, and retail-price-based taxation reinforces the view that the government is pursuing compliance-led fiscal consolidation instead of undertaking deeper structural tax reforms.

While tax relief for salaried individuals and selected sectors has been positioned as a measure to support disposable incomes and investment activity, its economic impact is likely to be moderated by persistent inflationary pressures. The substantial expansion of the Third Schedule and the widening of the indirect tax base effectively transfer part of the fiscal adjustment burden to consumers, raising the risk that inflation could erode a meaningful portion of the announced relief. As a result, the budget's capacity to generate a broad-based consumption recovery appears limited, despite the government's efforts to stimulate demand.

The expenditure profile further highlights Pakistan's structural fiscal challenges. Of the total PKR 18.77tn budgeted resources, current expenditure accounts for PKR 17.50tn, with debt servicing alone consuming PKR 8.05tn—equivalent to approximately 43% of total expenditure and nearly 69% of net federal revenues. Defence expenditure has been budgeted at PKR 3.0tn, while grants and transfers, pensions, subsidies, and civil government operations collectively exceed PKR5.9tn. Against this backdrop, development expenditure and net lending of PKR1.28tn appear modest, underscoring the limited fiscal space available for growth-enhancing investments and infrastructure development.

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## Macro Stability at the Cost of Growth

The budget ultimately projects a federal financing gap of PKR 7.02tn, which is expected to be bridged through a combination of domestic borrowing of PKR 6.05tn, external inflows of PKR 813bn, and privatization proceeds of PKR 161bn. While fiscal arithmetic remains broadly consistent with IMF programme objectives, successful execution will depend on the government's ability to deliver historically ambitious revenue targets without materially undermining economic activity. Consequently, FY27 should be viewed less as a growth budget and more as a fiscal consolidation budget—one that prioritizes programme compliance, even if doing so comes at the expense of a stronger near-term growth impulse.

## Public Sector Development Programme (PSDP)

Allocation	Amount
Education	PKR 46bn
Science and IT	PKR 3.6bn
Water	PKR 103bn
Transport	PKR 365bn
Energy	PKR 116bn
Health	PKR 25.1bn
Agriculture	PKR 258bn

Source: MoF, HMFS Research

**National Development Envelope:** Approved at PKR 3,675bn, including PKR 1,000bn for Federal PSDP, PKR 2,224bn for Provincial PSDP, and PKR 451bn for SOE capital investments.

**Transport Infrastructure (PKR 365bn):** Includes PKR 100bn for dualizing the N-25 Pakistan Expressway (Karachi-Chaman); PKR 30bn for the M-6 Sukkur-Hyderabad Motorway; PKR 25bn for the Karachi-Rohri section of ML-I (ADB funded); and PKR 2bn for the Thar Coal Connectivity Project.

**Energy Infrastructure (PKR 116.2bn):** Funds major hydropower (Dasu, Tarbela 5th Extension, Mohmand Dam); PKR 10.2bn for STATCOM transmission upgrades; PKR 3bn for battery storage systems; and PKR 50.2bn to WAPDA for 9 clean/renewable energy projects.

**Water Infrastructure (PKR 103.1bn):** Finances 43 water projects, including PKR 14bn for Diamer-Bhasha Dam, PKR 22bn for Mohmand Dam, PKR 15bn for Dasu, and PKR 10bn for Karachi K-4 bulk water supply.

**Physical Planning & Housing (PKR 54.6bn):** Finances the construction of 150,000 low-cost, climate-resistant residential units and digital master plans for 10 major cities.

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**Education & Human Capital:** Allocated PKR 46bn for Higher Education (scholarships, PERN upgrade, AI systems); PKR 22bn for the Danish Schools network (total school/college education budget at PKR 26.3bn); and PKR 7.9bn for the PM Youth Skills Development Programme via NAVTTC.

**Regional Development:** Allocated PKR 45bn for AJ&K (+ PKR 5bn PM package); PKR 44bn for Gilgit-Baltistan (+ PKR 4bn PM package); and PKR 56bn for KP-Merged Districts.

### Budget FY26-27 - Proposed Changes In Salary Slabs & Tax Rate

	Taxable Income	Old Tax Rate	New Tax Rate
1	Where taxable income does not exceed PKR 600,000	0%	0%
2	Where taxable income exceeds PKR 600,000 but does not exceed PKR 1,200,000	1%	1%
3	Where taxable income exceeds PKR1,200,000 but does not exceed PKR 2,200,000	11%	11%
4	Where taxable income exceeds PKR 2,200,000 but does not exceed PKR 3,200,000	23%	20%
5	Where taxable income exceeds PKR 3,200,000 but does not exceed PKR 4,100,000	30%	25%
6	Where taxable income exceeds PKR 4,100,000 but does not exceed PKR 5,600,000	35%	29%
7	Where taxable income exceeds PKR 5,600,000 but does not exceed PKR 7,000,000	35%	32%
8	Where taxable income exceeds PKR 7,000,000	35%	35%

Source: MoF, HMFS Research

### Budget FY26-27 - Proposed Changes In Super tax

	Income under section 4C	Old Rate	New Rate
1	Where income does not exceed PKR 150mn	0%	0%
2	Where income exceeds PKR150mn but does not exceed PKR 200mn	1%	0%
3	Where income exceeds PKR 200mn but does not exceed PKR 250mn	2%	0%
4	Where income exceeds PKR 250mn but does not exceed PKR 300mn	3%	0%
5	Where income exceeds PKR 300mn but does not exceed PKR 350mn	4%	0%
6	Where income exceeds PKR 350mn but does not exceed PKR 400mn	6%	0%
7	Where income exceeds PKR 400mn but does not exceed PKR 500mn	8%	0%
8	Where income exceeds PKR 500mn	10%	8%

Source: MoF, HMFS Research

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## Tax Revenue

PKR Mn	2025-26B	2025-26R	2026-27B
<b>1. Direct Taxes</b>			
Income Tax	6,811,243	6,331,484	7,480,521
Worker's Welfare Fund	25,740	8,453	22,318
Worker's Profit Participation Fund	47,825	72,211	83,580
Capital Value Tax	17,192	19,606	26,581
<b>Total (Direct)</b>	<b>6,902,000</b>	<b>6,431,754</b>	<b>7,613,000</b>
<b>2. Indirect Taxes</b>			
Customs Duties	1,588,000	1,366,047	1,651,000
Sales Tax	4,753,000	4,333,908	4,927,000
Federal Excise	888,000	851,291	1,073,000
<b>Total (Indirect)</b>	<b>7,229,000</b>	<b>6,551,246</b>	<b>7,651,000</b>
<b>TOTAL TAX REVENUE</b>	<b>14,131,000</b>	<b>12,983,000</b>	<b>15,264,000</b>

Source: MoF, HMFS Research

## Relief Measures — FY27 Budget Commentary

### Salaried Class Relief

- Relief provided for salaried individuals across four tax slabs.
- The income tax surcharge on the salaried class has been eliminated.

### Corporate Tax Relief

- Super Tax on six income slabs (PKR 150mn–500mn), previously 1%–7.5%, fully abolished.
- Super Tax on corporate income above PKR 500mn reduced from 10% to 8%, excluding banking, O&G exploration, and fertilizer sectors (existing surcharges retained).

### Export Sector Support

- Export advance income tax and minimum tax reduced from 2% to 1.25% (now treated as minimum tax).
- 0.25% FTR on IT and IT-enabled services exports extended till June 30, 2029.

### Property & Financial Transaction Relief

- WHT on property transactions rationalized for filers:

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- \* Purchase tax reduced from 2.5% to 1.25%
- \* Sale tax reduced from 5.5% to 2.75%
- WHT on international debit/credit card transactions reduced from 5.0% to 0.5%.
- CVT on declared foreign assets abolished to encourage documentation and formalization.

### Import Duty Rationalization (Industry Inputs)

- Customs, additional customs, and regulatory duties reduced on broad range of raw materials.
- Relief targeted toward SMEs, chemicals, pharmaceuticals, and export-oriented industries.
- Customs duty eliminated on 100+ raw materials for cancer and life-saving medicines.

### Sales Tax Exemptions (Selected Goods & Sectors)

- Maritime sector: vessels (tankers, dredgers, platforms, cargo ships) exempted from sales tax.
- EV CKD import exemption extended till June 2027.
- PIACL aircraft parts and ground handling equipment exemption expanded.
- Refinery BMR and upgradation equipment exempted.
- Karachi Shipyard: machinery and capital goods imports exempted.
- WHO-compliant sports/electrolyte drinks removed from FED scope.
- Business class international travel FED significantly reduced across regions.
- Agricultural machinery placed under comprehensive 0% duty regime.
- Defence imports fully duty-free; selected security-related imports also exempted.
- Construction vehicles customs duty reduced from 20% to 10%.

### Power Sector & Subsidy Reforms

- Transition from blanket power subsidies to targeted cash transfers from January 2027.
- PKR 1,091bn allocated for transition-period power subsidies.
- Competitive Trading Bilateral Contract Market (CTBCM) first electricity auction scheduled for September 2026.

### Public Livelihood & Support Programs

- Zarkhezi digital credit scheme: PKR 300bn for 750,000 small farmers.
- PM Housing Finance Scheme: subsidized financing at 5.0% markup.
- PAVE scheme for e-bikes and e-rickshaws.
- PM Fan Replacement Programme to improve energy efficiency.
- Social Impact Financing: NAVTTC Skills Impact Bond and PKR 7.1bn Agri Storage Financing Facility.

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## Government Salaries & Pensions

Federal government employee salaries are raised by 7%, retired employee pensions are raised by 7%, and the minimum monthly wage is set to increase by 10%.

## Revenue Measures — FY27 Budget Commentary

### Insurance & Digital Economy Taxation

- New tax on life insurance/takaful payouts: 15% on payouts within 1 year; 10% on payouts between 1–7 years; exempt after 7 years, or on death/disability.
- New 5% withholding tax on social media income (YouTube, Facebook, Instagram, TikTok, etc.) for digital creators and influencers; deducted at source by banks.

### Withholding Tax Revisions (Services)

- General WHT rate for specified services raised to 7%.
- Independent professionals (doctors, lawyers, architects, accountants, software developers) taxed at 15%.
- Advertising services taxed at 1.5%; other services at 14%.
- WHT on export of services to non-residents increased from 15% to 20% (Division IIIAA).

### Minimum Tax & Turnover Adjustments

- Minimum tax rate for distributors and wholesalers raised from 0.25% to 0.5%.

### Compliance, Reporting & Enforcement

- Banks and EMIs required to report accounts with credits/withdrawals exceeding PKR 100mn for algorithmic crossmatching with tax data.
- Fixed Tax System is introduced for retailers with annual sales of PKR 200mn or less. They will pay a flat 1% tax on annual sales, are exempted from routine audits and POS requirements, and must pay a minimum of PKR 25,000 when filing a simplified one-page return.
- Failure to install FBR electronic resource: penalty of PKR 1mn for first default, PKR 2mn for each subsequent default; plus, up to 5% expenditure disallowance.
- Penalties enhanced substantially — minimum penalty for first offence raised from PKR 10,000 to PKR 50,000; certain defaults attract 5% of tax involved (up from 3%).
- New penalties for fake invoice issuers: penalty equal to face value of fictitious invoices; name placed on public "simulated invoice issuers register"; automatic reversal of input tax credit for counterparties.
- Withholding sales tax extended to AOPs and individuals purchasing from unregistered sellers.
- Mandatory electronic filing and machine-readable financial statements required for companies to facilitate automated processing and analysis.

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### Federal Excise Duty (FED) Enhancements

- FED on e-cigarette liquid raised from PKR 10,000/kg to PKR 16,500/kg; previous 65%-of-retail-price cap removed.
- New FED on naphtha, white spirit/mineral turpentine oil, and solvent oil at PKR 80/litre.
- New FED on lubricating oil and base lubricating oils at 5% ad valorem.
- New FED on luxury imported vehicles: 40% additional ad valorem on 2,000–3,000cc; 41% on above 3,000cc.
- New FED on luxury imported EVs: 0% on import value below PKR 20mn; 30% on PKR 20–30mn; 40% above PKR 30mn.

### Sales Tax Expansion (Third Schedule)

- Third Schedule significantly expanded — sales tax now levied at the manufacturing stage (on consumer price) on approximately 20 new product categories including: vegetable/animal fats and oils, sugar confectionery, pasta/noodles, sauces/ketchup, footwear (all types), cosmetics/hair care products, crockery, household utensils, plastic tableware, luggage/bags, bathroom accessories, tissue paper products, milk products, ceramic tiles, and car accessories.
- 3% value addition tax imposed on manufacturers who import raw materials and sell them unprocessed; prosecution triggered if this exceeds 50% of total imports.

### Sector-Specific Measures

- Steel sector: tax to be collected on a per-unit electricity consumption basis (adjustable); monthly refunds available for digitally integrated units.

## Streamlining Measures — FY27 Budget Commentary

### Faceless Audit & Assessment

- A National Faceless Centre is being established to conduct audits, assessments, and appeals through technology-driven, faceless processes.

### Capital Gains Administration

- Role of NCCPL in the computation and determination of capital gains on listed securities expanded and clarified.

### Digital Compliance Infrastructure

- Companies will be required to submit financial statements in electronically readable formats to facilitate automated processing and analysis.

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## Sector-wise Budget Proposals & Sector Impacts

Sector	Budget Proposals	Impact
Banking	<ul style="list-style-type: none"> <li>Banks earning more than PKR 150mn will <b>continue to pay super tax at 10%</b>.</li> <li>Banks have <b>not been included</b> in the super tax relief provided to most other corporate sectors.</li> <li>Financial institutions will be required to <b>submit information</b> on accounts with annual deposits or withdrawals <b>exceeding PKR 100mn</b> to the Central Data Hub.</li> </ul> <p><i>Previously: 10% super tax applied; no Central Data Hub obligation; banks self-reported capital gains</i></p>	↓ Negative
Life Insurance	<ul style="list-style-type: none"> <li>A new withholding tax has been imposed on life insurance policy proceeds.</li> <li>A <b>15% tax</b> will apply if a policy is <b>surrendered or matures within 1 year</b>.</li> <li>A <b>10% tax</b> will apply if a policy is <b>surrendered or matures between 1 and 7 years</b>.</li> <li><b>Death and disability</b> claims will <b>remain exempt</b>.</li> <li>Policies with a <b>tenure exceeding 7 years</b> will remain <b>exempt</b>.</li> <li>Insurance companies will be responsible for deducting the tax at source.</li> </ul> <p><i>Previously: No WHT on life insurance payouts regardless of tenure; FED exemption on life/health/crop insurance maintained</i></p>	↓ Negative
General Insurance	<ul style="list-style-type: none"> <li>Federal Excise Duty on financial services will remain <b>unchanged at 16%</b>.</li> <li><b>Tax exemptions</b> on health, crop and livestock insurance will continue.</li> <li>Companies with taxable income of <b>up to PKR 500mn</b> will benefit from <b>super tax relief</b>.</li> </ul> <p><i>Previously: Same FED structure; super tax at 10% for all</i></p>	Neutral
Oil & Gas Exploration & Production	<ul style="list-style-type: none"> <li>E&amp;P companies earning more than PKR 150mn will <b>continue</b> to pay super tax at 10%.</li> <li>A new <b>Federal Excise Duty of PKR 80 per litre</b> has been imposed on naphtha.</li> </ul> <p><i>Previously: 10% super tax applied; no naphtha FED; petroleum products STA-exempt (maintained)</i></p>	↓ Negative
Refinery	<ul style="list-style-type: none"> <li><b>Sales tax exemption</b> has been granted on machinery and equipment imported for refinery balancing, modernization and upgradation projects.</li> <li>The exemption covers equipment such as reactors, heat exchangers, pumps and compressors.</li> <li>Naphtha has been moved to a <b>value-added tax regime</b> that allows input tax adjustment.</li> <li><b>Regulatory duty reductions</b> have been provided on various energy-related imports.</li> </ul> <p><i>Previously: Refinery BMR capex subject to standard STA; no naphtha-specific FED; petroleum products STA-exempt maintained</i></p>	↑ Positive

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Sector	Budget Proposals	Impact
Power / IPPs	<ul style="list-style-type: none"> <li>Super tax for companies earning more than <b>PKR 500mn</b> has been reduced from <b>10% to 8%</b>.</li> <li><b>Regulatory duty reductions</b> on imported power equipment may lower costs for <b>new projects</b>.</li> </ul> <p><i>Previously: 10% super tax; no direct power sector tariff measures in prior bill</i></p>	↑ Positive
Cement	<ul style="list-style-type: none"> <li>Super tax has been <b>abolished</b> for companies earning up to <b>PKR 500mn</b>.</li> <li>Super tax for companies earning <b>more than PKR 500mn</b> has been <b>reduced from 10% to 8%</b>.</li> <li>Regulatory duty <b>reductions</b> have been introduced on imported clinker and other raw materials.</li> <li>Customs duty on construction vehicles has been <b>reduced from 20% to 10%</b>.</li> <li>The deemed income tax on immovable property has been <b>abolished</b>.</li> <li>Advance tax on property transfers has been <b>reduced to 2.75%</b>.</li> <li>Advance tax on property purchases has been <b>reduced to 1.25%</b>.</li> </ul> <p><i>Previously: 10% super tax across the board; higher ACD on inputs; s.7E deemed income tax active; property advance tax at variable 4.5%–5.5%</i></p>	↑ Positive
Steel	<ul style="list-style-type: none"> <li>Sales tax liability for steel manufacturers will now be linked to electricity consumption.</li> <li>Tax authorities will use electricity usage as a benchmark for production levels.</li> <li>Regulatory duty reductions have been provided on imported scrap and other raw materials.</li> <li>Super tax for companies earning <b>more than PKR 500mn</b> has been <b>reduced from 10% to 8%</b>.</li> </ul> <p><i>Previously: STA based on declared sales; no electricity-based computation; 10% super tax; scrap STA exemption under EFS maintained</i></p>	↑ Positive
Automobiles	<ul style="list-style-type: none"> <li>A new <b>40% duty</b> has been imposed on imported completely built vehicles with engine capacities between <b>2,001cc and 3,000cc</b>.</li> <li>A new <b>41% duty</b> has been imposed on imported completely built vehicles with engine capacities <b>above 3,000cc</b>.</li> <li>A new <b>Federal Excise Duty (FED)</b> has been imposed on imported electric vehicles, applicable at <b>30% for vehicles valued above PKR 20mn</b> and <b>40% for vehicles valued above PKR 30mn</b>.</li> <li>Tax <b>exemptions</b> on electric vehicle CKD kits have been <b>extended until June 2027</b>.</li> <li>Regulatory duty reductions have been introduced on selected auto components.</li> </ul> <p><i>Previously: New Table IA SED: 40% on imported CBU cars 2001–3000cc; 41% on &gt;3000cc — on top of existing Table-I FED (30%–40%). New s.55A FED on imported CBU EVs &gt;Rs.20M (30%–40%). EV CKD STA/FEA exemption extended to June 2027. ACD reductions on auto components.</i></p>	↑ Positive
Textiles	<ul style="list-style-type: none"> <li>Regulatory duty has been reduced on 2,676 tariff lines, including a large number of textile inputs.</li> <li>Duty rates of 4% have been <b>reduced to 2%</b>.</li> <li>Duty rates of 2% have been <b>reduced to 0%</b>.</li> <li>Customs duty has been <b>reduced</b> on several industrial raw materials.</li> </ul>	↑ Positive

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Sector	Budget Proposals	Impact
Textiles	<ul style="list-style-type: none"> <li>Withholding tax on exports has been <b>reduced from 2% to 1.25%</b>.</li> <li>Super tax has been <b>abolished</b> for companies earning <b>up to PKR 500mn</b>.</li> <li>Existing <b>sales tax exemptions</b> available under the Export Facilitation Scheme will continue.</li> </ul> <p><i>Previously: Higher ACD on inputs; export WHT at 2%; 10% super tax</i></p>	↑ Positive
FMCG / Consumer Goods	<ul style="list-style-type: none"> <li><b>Twenty-one additional</b> consumer product categories have been brought under a special sales tax regime.</li> <li>Manufacturers will be required to pay <b>sales tax at 18%</b> of the printed retail price at the production stage.</li> <li>The affected categories include packaged milk, edible oils, sauces, confectionery, footwear, hair care products, toiletries, tissue paper, plastic household items, crockery and ceramic tiles.</li> </ul> <p><i>Previously: Most of these goods were zero-rated, exempt, or taxed at supply-chain VAT stage (multi-tier input credit chain); dairy had Sixth Schedule exemptions for non-corporate milk</i></p>	↓ Negative
Pharmaceuticals	<ul style="list-style-type: none"> <li>Customs duty on cancer-related Active Pharmaceutical Ingredients (APIs) has been <b>abolished</b>.</li> <li>Sales tax <b>exemptions</b> on medicines will <b>continue</b>.</li> <li>Regulatory duty reductions have been introduced on various pharmaceutical inputs.</li> <li>Minimum tax on pharmaceutical distributors has been <b>increased from 0.25% to 0.50%</b>.</li> <li>Companies with taxable income <b>up to PKR 500mn</b> will <b>benefit</b> from super tax relief.</li> </ul> <p><i>Previously: Cancer APIs subject to standard CD; medicine STA exemption maintained; distributor min. tax at 0.25%</i></p>	↑ Positive
Real Estate / Construction	<ul style="list-style-type: none"> <li>The deemed income tax on immovable property has been completely <b>abolished</b>.</li> <li>Capital Value Tax on foreign assets held by resident Pakistanis has been <b>abolished</b>.</li> <li>Advance tax on property transfers has been <b>reduced from 4.5%–5.5% to a flat 2.75%</b>.</li> <li>Advance tax on property purchases has been <b>reduced from 1.5%–2.5% to a flat 1.25%</b>.</li> <li>Clarifications have been introduced regarding inherited property transactions.</li> </ul> <p><i>Previously: s.7E active — 1% annual deemed income tax on FMV of immovable and foreign assets; CVT on foreign assets active; higher variable advance tax rates on all property transactions</i></p>	↑ Positive
Information Technology	<ul style="list-style-type: none"> <li>The concessional 0.25% withholding tax regime for IT and IT-enabled service exports has been <b>extended until Tax Year 2029</b>.</li> <li>Advance tax on foreign card payments has been <b>reduced from 5% to 0.5%</b>.</li> <li>Businesses integrating their systems with FBR platforms will be eligible for a 10% tax credit.</li> <li>Income earned by social media influencers and digital content creators will <b>now be subject to a 5%</b> withholding tax.</li> </ul>	↑ Positive

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Sector	Budget Proposals	Impact
Information Technology	<i>Previously: IT exports WHT at 0.25% expiring June 2026; foreign card payments at 5%; no FBR integration credit; no specific influencer income provision</i>	↑ Positive
Shipping / Maritime	<ul style="list-style-type: none"> <li>Sales tax <b>exemption</b> has been granted on the import of maritime vessels.</li> <li>The exemption covers tankers, dredgers, drilling platforms and cargo vessels.</li> <li>Cruise ships are not covered under the exemption.</li> <li>Imports approved for Karachi Shipyard will be exempt from sales tax.</li> <li>Certain vehicles imported for SCO Summit logistics and security operations will remain exempt from sales tax and federal excise duty.</li> </ul> <i>Previously: No specific vessel import STA exemption; Karachi Shipyard without blanket import exemption</i>	↑ Positive
Fertilizer	<ul style="list-style-type: none"> <li>Fertilizer companies earning <b>more than PKR 150mn</b> will <b>continue</b> to pay super tax at 10%.</li> </ul> <i>Previously: 10% super tax applied under general provisions; no explicit fertilizer-specific carve-out in Division IIB language</i>	↓ Negative
Media / Advertising	<ul style="list-style-type: none"> <li>Withholding tax on advertising services provided through print and electronic media has been <b>reduced from 6% to 1.5%</b>.</li> <li>Magazines have been included in the sales tax <b>exemption</b> regime already available to books and newsprint.</li> <li>Income earned through social media influencing and content creation will be <b>subject to a 5% withholding tax</b>.</li> </ul> <i>Previously: Advertising WHT bundled in general 6% services rate; magazines not explicitly listed in Sixth Schedule newsprint exemption</i>	↑ Positive
Capital Markets / Asset Management Companies	<ul style="list-style-type: none"> <li>Tax <b>exemptions</b> have been introduced for Special Purpose Vehicles established for asset-backed securitization structures.</li> <li>Construction REITs distributing at least 90% of income for three consecutive years will qualify for automatic withholding tax <b>exemption</b> certificates.</li> <li>Capital gains taxation through NCCPL's centralized mechanism has been extended to banks, insurance companies and mutual funds.</li> <li>Capital gains earned on Pakistan Stock Exchange securities through Foreign Currency Value Accounts (FCVA) and Non-Resident Value Accounts (NRVA) will be exempt from tax.</li> <li>Capital Value Tax on foreign assets held by resident Pakistanis has been <b>abolished</b>.</li> </ul> <i>Previously: SPV income taxable; REIT exemption certificates required annual Commissioner approval; mutual funds/banks/ insurance outside NCCPL; diaspora PSX gains had less explicit treatment</i>	↑ Positive
Retail / Informal Economy	<ul style="list-style-type: none"> <li>The threshold for classification as a Tier-1 retailer has been <b>reduced</b>.</li> <li>Wholesaler-cum-retailers with annual turnover exceeding PKR 200mn will now be classified as Tier-1 retailers.</li> <li>Additional Tier-1 retailers will be required to integrate with the FBR Point-of-Sale (POS) system.</li> <li>Twenty-one consumer product categories have been brought under a higher-compliance sales tax regime.</li> <li>Associations of Persons (AOPs) and individuals have been added to the list of sales tax withholding agents.</li> <li>A fixed tax scheme has been introduced for small retailers with annual sales of up to PKR.200mn, allowing them to pay a flat 1% tax on turnover.</li> </ul> <i>Previously: Tier-1 threshold at higher turnover; Third Schedule narrower; AOPs and individuals not included as STA WHT agents</i>	↓ Negative

Source: MoF, HMFS Research

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HMFS RATING GUIDE	
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HOLD	Between 15% Upside & 15% Downside
SELL	More than 15% Downside
<b>Note:</b> All fair value estimates are for a twelve month time horizon unless specified otherwise in the report Upside/Downside represents the difference between the stated “Fair Value” & the prevailing “Market Price” Total Return is based on both the Capital Gains return & the Dividend Yield & is exclusive of all applicable taxes	