

ICMA Revenue and Reform Proposals for Federal Budget **2026-27**

*Strategic Recommendations for Tax Reform,
Revenue Growth, and Sustainable Finance*



Submitted to:

Tax Policy Office
Ministry of Finance
Government of Pakistan

Submitted by:

Muhammad Yasin, FCMA
Vice President ICMA and Chairman,
Research and Publications Committee



Dr. Najeeb A. Memon
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Room 620, Q-block, Pakistan Secretariat
Islamabad

Subject: Submission of ICMA Budget Proposals for Financial Year 2026-27

Dear Dr. Najeeb Memon, Aoa

With reference to your letter No. F.2(2)-TPO/2025, dated 31 December 2025, regarding the strategy paper on taxation and invitation for proposals for Budget 2026-27, I am pleased to submit the ICMA Policy Recommendations for your consideration.

These proposals have been carefully developed through detailed analysis of Pakistan's economic priorities, sectoral challenges, and international best practices. They are organized under seven key segments:

- 1) New Revenue Initiatives to Broaden the Tax Base
- 2) Climate and Green Taxation
- 3) Urban and Transport Revenue Measures
- 4) Corporate and Financial Services Revenue
- 5) Formalizing Digital and Informal Economy for Tax Revenue
- 6) Agriculture and Rural Income Revenue
- 7) Wealth and Luxury Tax Revenue

We have also mapped each proposal against the national priorities of industrial growth, export expansion, digital transformation, energy efficiency, and social equity to ensure full alignment with the government's strategic objectives.

We are confident that these recommendations will contribute to an efficient, sustainable, and equitable tax framework, supporting revenue mobilization while fostering economic growth, environmental sustainability, and social development.

We would be pleased to visit your office in Islamabad at your convenience to discuss these proposals in further detail and provide any necessary clarifications. Kindly let us know a suitable time for the meeting.

Best regards,



Muhammad Yasin, FCMA
Vice President, ICMA and
Chairman, Research and Publications Committee

ICMA Policy Recommendations for



NEW REVENUE INITIATIVES TO BROADEN THE TAX BASE

(1) Introducing BIM, Green Incentives, and Building Safety Levy (BSL)

Rapid urban growth and gaps in construction safety in Pakistan highlight the need for stronger regulations and modern project management. The Federal Budget 2026–27 may introduce a comprehensive framework to make buildings safer, more sustainable, and digitally managed through nationwide adoption of BIM, promotion of Green Building Incentives, and levy of the Commercial Building Safety Levy (BSL).

- (a) BIM Platform:** The nationwide adoption of Building Information Modelling (BIM) will streamline planning, approvals, and monitoring of both public and private infrastructure projects. This approach will improve efficiency, reduce delays, and increase transparency throughout construction projects.
- (b) Green Building Incentive:** Certified green buildings can benefit from a 1.5 percent concessionary tax on financing costs and rental income. This incentive encourages energy efficiency and water conservation while lowering operational expenses, making sustainable construction financially attractive for investors.
- (c) Commercial Building Safety Levy (BSL):** A 0.25 percent levy on commercial property transactions will help fund safety inspections and ensure compliance with regulations. Residential properties are excluded, keeping the focus on commercial buildings where safety risks are higher.

Policy Rationale

- *Green incentives lower operating costs and improve energy and water efficiency*
- *Levy ensures commercial buildings contribute to safety compliance*
- *Addresses inspection and enforcement gaps in construction*
- *Supports safe, sustainable, and efficient urban development*

Expected Impact

- *Stimulates investment in certified green buildings*
- *Reduces long-term energy and water costs*
- *Cuts delays and inefficiencies in infrastructure projects*
- *Generates large economy-wide savings over time*

(2) Introducing Additional Residential Property Tax (ARPS)

Pakistan’s housing market faces challenges from multiple-property ownership, speculative purchases, and rising urban property prices. The Federal Budget 2026–27 may introduce a 2 percent tax on additional residential properties, such as second homes or investment properties, valued at PKR 20 million and above. This tax will be payable by the buyer at the time of registration. First-time buyers and primary residences will be fully exempt. Buyers will be required to declare ownership of any other residential property. Tax on additional residential properties can help to promote housing equity and discourage speculative property purchases.

Policy Rationale

- Ensures tax fairness by requiring owners of multiple properties to contribute proportionally.
- Encourages efficient use of housing stock and helps prevent artificial price inflation in urban property markets.

Expected Impact

- Assuming annual transactions of additional residential properties worth PKR 500 billion above the PKR 20 million threshold, the 2 percent tax could generate approximately PKR 10 billion per year.
- Revenue can be directed toward housing development, urban infrastructure, and affordable housing programs.

(3) Imposing Digital Services Tax on Platform Revenues

Pakistan’s digital economy is expanding rapidly, with billions of online transactions and growing e-commerce and digital media activity. However, revenues from streaming, apps, and digital platforms are not fully captured under existing taxes. The Federal Budget 2026–27 may impose a 1 percent Digital Services Tax on revenues earned in Pakistan by streaming, gaming, app, and digital media platforms. This measure would formalize digital business activities, ensure equitable contribution to public revenue and strengthen fiscal resources.

Policy Rationale

- Captures revenue from the fast-growing digital platform sector, which is largely untaxed in Pakistan.
- Encourages compliance and formalization of digital business activity.
- Aligns Pakistan with international best practices on digital service taxation.

Expected Impact

- A 1% tax on digital services revenues may generate PKR 10–15 billion annually, depending on sector growth.
- Revenue would support public services without overburdening traditional taxpayers.

(4) Introducing Licensing and Taxation of Online Gaming and Speculative Gaming

Online gaming and speculative gaming in Pakistan are currently illegal, yet many users access offshore platforms, representing a lost opportunity for revenue and potential consumer risks. The Federal Budget 2026–27 may propose a regulated licensing framework for online gaming and speculative gaming, where only authorized platforms can operate under government oversight. Licensed operators would pay a 2 percent tax on gross revenues. Countries such as the United Kingdom, Australia and Germany have successfully implemented similar regulated frameworks.

Policy Rationale

- *Converts an informal and illegal market into a formal, taxable sector.*
- *Protects consumers through regulatory safeguards and responsible gaming measures.*
- *Reduces illegal activity and offshore revenue leakage.*
- *Aligns Pakistan with international best practices in regulating digital gaming sectors.*

Expected Impact

- *A 2% levy on licensed online gaming and speculative gaming revenues may generate PKR 5–10 billion annually, depending on sector growth.*
- *Revenue strengthens fiscal resources without affecting traditional taxpayers.*
- *Establishes a legal, safe, and monitored online gaming ecosystem in Pakistan.*

(5) Implementing Dedicated Levy on Corporate Advertising Spending

Corporate advertising is a clear indicator of business turnover, yet Pakistan has no dedicated levy to capture this revenue. The Federal Budget 2026–27 may introduce a 1.5 percent levy on total advertising and brand promotion expenses for enterprises with turnover above PKR 100 million. This approach leverages existing invoices and contracts maintained by advertising agencies, ensuring minimal administrative burden.

Policy Rationale

- *Ensures enterprises with high market visibility contribute equitably to public revenue.*
- *Encourages transparency in corporate advertising spending.*
- *Provides a reliable revenue source without imposing significant administrative complexity.*

Expected Impact

- *A 1.5% levy on corporate advertising expenses may generate PKR 10–20 billion annually, depending on advertising spend growth.*
- *Revenue can be allocated to public services and programs without impacting ordinary taxpayers.*

(6) Introducing One-Time Settlement for Old Tax Disputes

Long-standing tax disputes create uncertainty for taxpayers and place a heavy burden on the Federal Board of Revenue (FBR). While mechanisms like Alternate Dispute Resolution Committees and agreed assessments under Section 122D allow settlement of specific audit cases, they do not provide a broad, unified option for all stop-filers or pending disputes. The Federal Budget 2026–27 may introduce a one-time settlement scheme allowing taxpayers to resolve disputes by paying a reduced percentage of the disputed amount. Upon payment, all related audits, appeals, and litigation would be closed, providing a clear path to reconciliation and voluntary compliance.

Policy Rationale

- Provides a final resolution for long-standing disputes, reducing litigation burden on FBR.
- Encourages stop-filers to return to the Active Taxpayer List (ATL), strengthening compliance culture.
- Improves administrative efficiency by freeing FBR resources for current audits and enforcement.

Expected Impact

- Recovers previously inaccessible revenue from unresolved disputes.
- Frees FBR resources for active enforcement and compliance initiatives.
- Enhances predictability, efficiency, and trust in the overall tax system.

(7) Imposing Commercial Utility Levy via FBR Data Sharing

Many commercial entities in Pakistan use residential utility connections to pay lower rates, causing significant revenue loss and reducing fairness in billing. The Federal Budget 2026–27 may introduce a Commercial Utility Levy, supported by a data-sharing protocol between utility providers (electricity, gas, water) and the FBR, to identify residential connections used for commercial purposes, reclassify them at commercial tariffs, and apply retrospective penalties. Similar programs in India have successfully formalized hidden commercial consumption, ensuring fairness, efficiency, and broader tax compliance.

Policy Rationale

- FBR is expanding data integration with provincial revenue bodies and third-party sources to broaden the tax base and improve compliance.
- Agreements for data sharing with land and estate authorities demonstrate readiness for wider data use.
- Ensures fair taxation by correctly classifying commercial consumption.
- Reduces misuse of residential utility rates for commercial benefit.

Expected Impact

- Unlocks substantial revenue from previously hidden commercial activity.
- Brings unrecorded consumption into the formal taxation system.
- Strengthens FBR's capacity to monitor and enforce correct utility classification.
- Potentially generates significant annual revenue while promoting fairness in utility billing.

(8) Introducing Financial Transaction Tax (FTT)

Financial markets in Pakistan generate substantial transaction volumes, yet these remain largely untapped for revenue. Federal Budget 2026–27 may introduce a small Financial Transaction Tax (FTT) on equities, derivatives, and digital asset trades, applied as a fixed percentage of transaction value. Implementation can use stock exchanges, clearinghouses and payment settlement systems, leveraging existing reporting infrastructure to minimize compliance costs. The rate can be modest (0.05–0.1%) to avoid market distortion.

Policy Rationale

- Provides a scalable and consistent revenue source from untapped financial transactions.
- Leverages existing infrastructure to minimize compliance costs and administrative burden.
- Follows international best practices from Taiwan and Sweden to strengthen Pakistan’s fiscal base.
- Encourages formal reporting of market activity and enhances transparency in the financial sector.

Expected Impact

- Produces a reliable revenue stream for the government.
- Formalizes market transactions, improving efficiency and fairness.
- Supports fiscal consolidation without significant market distortion.
- Encourages investor confidence through transparent and equitable taxation.

(9) Launching Consumer Sales Tax Lottery

A large portion of retail sales in Pakistan is undocumented, leading to significant losses in sales tax revenue. The Federal Budget 2026–27 may introduce a National Consumer Receipt Lottery, giving each verified receipt a chance to win periodic cash prizes. This approach encourages consumers to demand official receipts, effectively turning them into partners in tax compliance. Similar programs have been successfully implemented in countries such as Taiwan, Brazil, Portugal, Czech Republic, and China, resulting in higher VAT compliance and increased revenue. Implementing the lottery initially in major cities and then expanding nationwide can unlock substantial revenue from informal retail economy while educating consumers about the importance of tax documentation.

Policy Rationale

- Encourages consumers to request official receipts, increasing sales documentation and VAT compliance.
- Leverages citizen participation to strengthen voluntary tax compliance.
- Raises awareness about the importance of tax documentation among the public.

Expected Impact

- Unlocks substantial revenue from previously undocumented retail sales.
- Expands the tax base by formalizing the informal retail sector.
- Improves voluntary compliance and citizen engagement in the tax system.
- Strengthens long-term sustainability of sales tax collection.

(10) Introducing Windfall Gains Tax in Sugar, Oil & Gas, and Fertilizer

Pakistan’s sugar, oil & gas, and fertilizer sectors have occasionally earned extraordinary profits due to global price surges and domestic market conditions, which are not specifically taxed under current rules. The Federal Budget 2026–27 may introduce a temporary tax on profits above a defined threshold, ensuring the public benefits from these gains without affecting normal profits. Transparent rules and cost audits by CMAs can help unlock substantial revenue while maintaining investor confidence. Similar levies exist globally, including the Energy (Oil and Gas) Profits Levy in the United Kingdom, the former Minerals Resource Rent Tax in Australia, and Norway’s petroleum tax framework that captures surplus returns from oil and gas production.

Policy Rationale

- *Captures extra profits in sectors with documented windfall gains.*
- *Ensures fair contribution during periods of unusually high profits.*
- *Leverages international best practices for temporary levies.*
- *Uses CMAs for professional cost audits to ensure accurate assessment.*
- *Protects normal profits while targeting extraordinary gains.*

Expected Impact

- *Generates substantial additional revenue from sectors with exceptional profits.*
- *Provides a fair and temporary mechanism to share extraordinary gains with the public.*
- *Improves transparency and predictability in sector-specific taxation.*
- *Maintains investor confidence through clear rules and professional audits.*



CLIMATE AND GREEN TAXATION

1) Property Tax Relief for EV Charging Operators to Boost Infrastructure and Revenue

High upfront costs are slowing Pakistan’s transition to electric vehicles (EVs), limiting investment and electricity-based transport revenue. The Federal Budget 2026–27 may provide a ten-year property tax and municipal levy reduction for operators of certified, grid-compliant public and commercial EV charging stations. Relief will be 80% for the first five years and 50% for the next five years, after which standard rates apply. This measure is expected to encourage private investment, expand electricity consumption, increase formal commercial activity, and support Pakistan’s climate and EV adoption targets, generating additional government revenue over time.

Policy Rationale

- *Reduces cost barriers for EV charging operators, accelerating nationwide infrastructure deployment.*
- *Supports low-carbon transport, reducing fuel imports and emissions.*
- *Stimulates private investment in sustainable energy infrastructure, expanding the formal economic base.*

Expected Impact

- *Improves project IRR by 2–4%, making investments financially viable.*
- *Adds 2,000–3,000 EV charging points by 2030, enough to serve a significant portion of Pakistan’s growing EV fleet.*
- *Generates additional government revenue through expanded electricity use.*

2) Introducing Landfill Disposal Tax to Reduce Waste and Raise Revenue

Pakistan’s municipal and industrial waste is increasing rapidly, yet landfill disposal is mostly treated as a basic service cost rather than an environmental responsibility and remains largely untaxed. The Federal Budget 2026–27 may introduce a Pakistan Landfill and Waste Diversion Tax (PLWDT) to discourage excessive dumping, promote recycling and resource recovery, and generate a new stream of green revenue. Many countries already apply such measures, including the Landfill Tax in the United Kingdom, the Waste Tax in Sweden, and volume-based waste charging systems in South Korea, demonstrating that landfill taxation can reduce waste while strengthening public finances.

Proposed Rates Effective FY 2026–27

- Standard rate PKR 15,000 per tonne for general non-hazardous landfill waste.
- Lower rate PKR 1,000 per tonne for inert or partially treated waste streams such as construction debris.

Policy Rationale

- *Discourages landfill dumping and promotes recycling.*
- *Supports transition toward a circular economy.*
- *Creates a predictable environmental revenue stream.*
- *Encourages investment in modern waste management.*

Expected Impact

- *Estimated to generate PKR 70 to 80 billion annually in new public revenue.*
- *Promotes recycling industries and waste to energy investment.*
- *Reduces landfill pressure, pollution, and long-term environmental costs.*
- *Improves sustainability of urban waste management systems.*

3) Introducing Progressive Carbon and Pollution Levy for Large Industrial Units

Industrial pollution imposes costs on health, infrastructure, and productivity that are not currently captured in Pakistan’s tax system. The Federal Budget 2026–27 may introduce a Progressive Carbon and Pollution Levy (PCPL) on large industrial units to incentivize cleaner production, reduce emissions, and generate revenue for environmental programs. The levy will be based on facility-level emissions and pollutant intensity, with higher-emitting industries paying proportionally more. Revenues will fund environmental protection, pollution mitigation, and public health initiatives.

Policy Rationale

- *Encourages cleaner production and low-carbon technologies.*
- *Funds mitigation initiatives and improves air quality.*
- *Supports compliance with international climate commitments and sustainable industrial growth.*

Expected Impact

- *Reduces emissions by 10–20% in high-emitting sectors.*
- *Generates a predictable revenue stream for environmental programs.*
- *Promotes adoption of best practices and innovation in industrial operations.*

4) Introducing Green Transport Levy to Fund Low-Carbon Mobility

Pakistan’s transportation sector is a major source of carbon emissions, and the existing carbon levy on fuels introduced in the Federal Budget 2025–26 only partially addresses this. The Federal Budget 2026–27 may introduce a 2% Green Transport Levy (GTL) on fuel purchases, high-emission vehicle registration, and transport-related emissions. Rates will be progressive, incentivizing cleaner vehicles and fuels, while revenue will fund green transport projects, renewable energy, and environmental conservation.

Policy Rationale

- *Encourages cleaner vehicles and fuels.*
- *Supports green transport infrastructure.*
- *Generates dedicated funding for sustainable mobility.*
- *Promotes responsible behavior by internalizing environmental costs.*

Expected Impact

- *Reduces transport emissions.*
- *Generates predictable revenue for green projects.*
- *Promotes long-term shift to low-carbon mobility.*
- *Strengthens public awareness and accountability on transport emissions.*

5) Implementing Carbon Market Levy for Businesses

Pakistan currently has no formal mechanism to collect revenue from businesses participating in carbon trading or offset programs, including domestic and foreign project developers, credit buyers, and trading platform users. The Federal Budget 2026–27 may introduce a registration fee, either fixed or based on the volume of carbon credits traded. Administration will be coordinated by the Environmental Protection Agency (EPA) and registered trading platforms to ensure transparency, compliance, and traceability.

Policy Rationale

- *Formalizes carbon trading and promotes accountability.*
- *Supports transparent and traceable market activity.*
- *Generates modest but stable revenue as market grows.*
- *Aligns Pakistan with international carbon market practices and sustainability goals.*

Expected Impact

- *Provides predictable revenue from carbon market activities.*
- *Strengthens oversight and compliance.*
- *Encourages broader participation in carbon finance.*
- *Positions Pakistan alongside global sustainability markets.*



URBAN AND TRANSPORT REVENUE MEASURES

1) Implementing Annual Vacant Urban Land Tax

Pakistan currently has no nationwide tax specifically targeting vacant urban land, though some provinces have limited measures under broader property tax frameworks. The Federal Budget 2026–27 may introduce an annual tax on undeveloped or long-term vacant urban plots, calculated as a percentage of the assessed land value. Identification and billing will use municipal property records and digital mapping tools, with higher rates applied to prime urban locations to encourage development and productive land use. This will reduced speculative holdings and increased municipal revenue.

Policy Rationale

- Promotes productive urban development.
- Generates predictable municipal revenue.
- Aligns urban incentives with sustainable city planning.

Expected Impact

- Increases municipal revenue from previously idle land.
- Encourages development of underutilized urban plots.
- Improves land-use efficiency in cities.
- Supports sustainable urban growth and planning.

2) Implementing One-Time Betterment Levy (BTL) on Land Value Gains

Infrastructure projects such as highways, bridges, and metro stations often increase surrounding land values, currently captured entirely by landowners. The Federal Budget 2026–27 may introduce a one-time Betterment Levy (BTL) of 20% on the incremental land value from state-funded infrastructure. Assessment will rely on updated property valuations and coordination with provincial land registries and municipal authorities. Similar measures exist internationally, including in the United Kingdom and India, which have successfully captured gains from public infrastructure investments. This levy ensures economic gains from public spending are shared with the public and converted into revenue for development.

Policy Rationale

- *Captures unearned gains from state-funded infrastructure.*
- *Ensures equitable sharing of public investment benefits.*
- *Generates transparent, one-time revenue for urban development projects.*
- *Encourages fair and accountable land-use practices.*

Expected Impact

- *Generates substantial one-time revenue from urban and peri-urban landholders.*
- *Supports equitable funding of ongoing and new development projects.*
- *Promotes transparency in property taxation.*
- *Reduces speculative land gains linked to public infrastructure.*

3) Imposing Distance-Based Urban Road Usage Fee

Traditional fuel taxes are less effective for urban road maintenance, particularly with the rise of electric vehicles. The Federal Budget 2026–27 may introduce a distance-based road usage fee, charged according to kilometers driven. Initial pilots in Karachi, Lahore, and Islamabad will allow system refinement before nationwide rollout.

Policy Rationale

- *Links road usage directly to payment for fairness*
- *Provides stable, dedicated funding for urban road maintenance*
- *Encourages efficient vehicle use and congestion reduction*

Expected Impact

- *Provides predictable revenue for urban road infrastructure*
- *Reduces congestion and overuse of vehicles*
- *Supports better planning and maintenance of city roads*
- *Encourages fair and accountable road usage*



CORPORATE & FINANCIAL SERVICES REVENUE

1) Introducing Incentives for FinTech and Cryptocurrency

Pakistan’s fintech ecosystem is growing rapidly, but high taxation and regulatory uncertainty limit formalization, especially in cryptocurrency trading and blockchain-based services. The Federal Budget 2026–27 may introduce a Financial Sector Incentive Scheme, offering qualifying fintech companies concessionary corporate tax rates of 10–15% or phased taxation, subject to licensing and regulatory compliance. This initiative formalizes digital financial activities, encourages innovation, and strengthens taxable revenue.

Policy Rationale

- Encourages formalization and transparency in cryptocurrency trading
- Promotes fintech innovation and investment
- Reduces informal economy risks
- Strengthens compliance and reporting culture

Expected Impact

- Generates PKR 5–10 billion in new taxable business activity over 5 years
- Expands the formal digital economy and corporate tax base
- Enhances technology adoption and market confidence
- Improves long-term revenue predictability

2) Expanding Tax and Incentives for Alternative Financing Instruments

To strengthen Pakistan’s capital markets, the scheme may extend tax incentives and regulatory support to alternative financing instruments, including corporate bonds, sukuk, hybrid debt-equity instruments, and structured products. Eligible instruments will receive concessionary tax treatment, encouraging long-term investment and formalization of taxable financial activity.

Policy Rationale

- Deepens financial markets and expands investment choices
- Supports sukuk, corporate bonds and hybrid instruments
- Reduces dependence on short-term debt and high-cost borrowing
- Encourages long-term private sector financing

Expected Impact

- Broadens access to long-term financing for corporates
- Increases market liquidity and formal reporting
- Expands taxable financial transactions
- Strengthens sustainable investment and fiscal stability

3) Launching Global Export Incentive (GEI) to Boost Revenue

To boost exports and foreign exchange inflows, the Federal Budget 2026–27 may introduce a Global Export Incentive (GEI) Scheme, offering reduced corporate tax rates of 5–10% on qualifying international trading income. Eligible entities include commodity traders, brokers, supply-chain managers, and derivative traders, subject to minimum substance, employment, and local presence requirements. The scheme formalizes international trading, attracts multinational firms, and increases documented taxable revenue.

Policy Rationale

- Encourages export-oriented business activity
- Attracts multinational trading firms and regional HQs
- Enhances foreign exchange inflows without eroding domestic tax base
- Strengthens formalization and compliance in international trade

Expected Impact

- Increases corporate and indirect tax revenues
- Expands documented trade flows and foreign exchange earnings
- Creates skilled employment opportunities
- Supports export-led growth and long-term fiscal stability

4) Introducing Corporate Services and VAT Taxation

Pakistan’s corporate sector and digital economy are expanding, but high-value service providers and exempted companies contribute unevenly to the tax base. The Federal Budget 2026–27 may introduce a Corporate Services Tax at 7% on gross revenues of corporate service providers from exempted entities. The tax will be progressive, starting at 0.5% for entities with assets around PKR 2 million and rising to 5% for assets above PKR 104 billion. In parallel, VAT and consumption taxes on selected products may be increased upto 19% to enhance revenue mobilization.

Policy Rationale

- Broadens tax base by targeting high-value service providers
- Improves compliance and economic documentation
- Enhances equity in contribution across corporate sector
- Strengthens fiscal consolidation and predictable revenue

Expected Impact

- Improves FBR revenue collection and predictability
- Reduces fiscal deficit pressures
- Supports public investment planning
- Provides a stable revenue stream from corporate and digital services



FORMALIZING DIGITAL AND INFORMAL ECONOMY FOR TAX REVENUE

1) Introducing Simplified Micro-Trader Licensing and Digital VAT

Pakistan’s large informal retail sector and fast-growing digital services market generate significant economic activity but remain largely untaxed, creating a fiscal gap and opportunity for new revenue. The Federal Budget 2026–27 may introduce a Simplified Micro-Trader License, modeled on Tanzania’s Nguvu Kazi, offering presumptive taxation, simplified digital registration, and easy-to-file returns for small traders and self-employed individuals. In parallel, a 20% VAT on digital services may apply to resident and non-resident providers supplying services to Pakistani consumers, with mandatory registration and local tax representation for foreign entities.

Policy Rationale

- *Brings micro-traders into the documented economy*
- *Reduces tax leakage from cross-border digital services*
- *Simplifies registration and filing for small businesses*
- *Reduces administrative burden through digital processes*

Expected Impact

- *Broadens indirect tax base and formalizes small-scale commerce*
- *Generates sustainable VAT revenue from digital platforms*
- *Encourages voluntary registration and compliance*
- *Strengthens compliance culture and predictability of revenue*

2) Implementing Simplified Micro-Entrepreneur Regime (SMER)

Pakistan’s large self-employed and micro-business base operates mostly outside the tax net due to complex procedures and unpredictable liabilities. The Federal Budget 2026–27 may introduce a Simplified Micro-Entrepreneur Regime (SMER) for businesses with annual turnover up to PKR 5 million, requiring a fixed monthly tax of PKR 2,000 covering income tax and minimum social security contributions. The scheme includes simplified digital registration, minimal documentation, quarterly confirmation filings, and access to basic social protection benefits such as health insurance and pensions, contingent on continued compliance.

Policy Rationale

- *Encourages voluntary formalization of self-employed workers*
- *Provides a predictable and affordable tax structure*
- *Links taxation with access to social protection benefits*

Expected Impact

- *Expands the documented tax base and brings informal businesses into compliance*
- *Generates stable, predictable revenue from small enterprises*
- *Improves reporting, economic documentation, and transparency*
- *Strengthens compliance culture and fiscal predictability*



AGRICULTURE & RURAL INCOME REVENUE

1) Farmer Income Stability Fund (FISF) for Revenue and Income Formalization

Pakistan’s farmers face frequent extreme weather and market volatility that reduce income stability and investment. The Federal Budget 2026–27 may introduce the Farmer Income Stability Fund (FISF), allowing registered farmers to voluntarily deposit up to 3 % of annual net agricultural sales, with matching government contributions of up to 3 % plus annual bonuses. The fund will integrate crop/weather insurance, targeted price support, access to credit and digital marketplaces and incentives for climate-smart practices e.g., drought-tolerant seeds and efficient water use, while encouraging documentation and formalization of agricultural incomes.

Policy Rationale

- *Encourages farmer savings and structured risk management*
- *Supports climate-smart practices and productivity*
- *Reduces reliance on emergency subsidies*
- *Strengthens documentation and potential taxable base*

Expected Impact

- *Boosts investment in inputs, technology, and climate-smart practices*
- *Reduces income volatility due to weather or market shocks*
- *Expands participation in formal financial systems*
- *Supports longer-term farm income documentation and revenue flow*

2) Standardized Agricultural Income Assessment for Revenue Expansion

Pakistan currently lacks uniform agricultural income measurement, limiting fair taxation and revenue collection. The Federal Budget 2026–27 may introduce a Standardized Agricultural Income Assessment Framework, offering four calculation options:

- (a) Book-keeping for large/commercial farms
- (b) Inventory-based crop and input valuation
- (c) Flat/unit-valuation per acre or crop for smallholders
- (d) Administrative valuation based on landholding, crop type, and regional benchmarks

Mandatory record-keeping will apply to large farms while smallholders can opt for simplified methods. The framework formalizes farm incomes, enabling direct taxation and improving provincial and federal revenue collection.

Policy Rationale

- *Ensures fair and feasible income assessment across farm sizes*
- *Encourages compliance with minimal administrative burden*
- *Supports provincial and federal revenue generation*
- *Promotes transparency and formalization of agricultural reporting*

Expected Impact

- *Broadens the agricultural tax base and enhances fiscal revenue*
- *Improves reporting accuracy for large and small farmers*
- *Encourages formal documentation of farm businesses*
- *Strengthens revenue predictability and provincial fiscal capacity*



WEALTH & LUXURY TAX REVENUE

1) Introducing Capital Acquisitions Tax (CAT) on Gifts and Inheritances

Pakistan currently has no formal tax on high-value gifts and inheritances. The Federal Budget 2026–27 may introduce a Capital Acquisitions Tax (CAT), applied when either the donor or beneficiary is a Pakistan tax resident, or the asset is located in Pakistan. Beneficiaries pay tax only on the value above specified thresholds, aligning with international practice and helping formalize wealth transfers.

- Direct heirs (children/spouses): PKR 50 million tax-free; excess taxed at 5%
- Close relatives: PKR 10 million tax-free; excess taxed at 10%
- Other beneficiaries: PKR 5 million tax-free; excess taxed at 15%

Policy Rationale

- Captures high-value wealth transfers effectively
- Improves equity in wealth distribution
- Encourages asset reporting and documentation
- Aligns Pakistan with international inheritance tax practices

Expected Impact

- Generates predictable revenue from gifts and inheritances
- Formalizes high-value wealth transfers
- Enhances transparency of asset ownership
- Supports equitable taxation across income groups

2) Expanding Luxury and Excise Taxes for Revenue Enhancement

To increase revenue and discourage non-essential or harmful consumption, the Federal Budget 2026–27 may expand Federal Excise Duties (FED) on luxury and selective items. Rates may include:

- Mineral oil & high-end electricity: Additional 5–7% FED
- Tobacco products: 10–15% FED increase
- Alcoholic beverages: 20–25% FED on imported and local products
- Luxury vehicles (at registration): Progressive 5–10% excise levy based on engine capacity/value
- Sugar-sweetened beverages: 10% FED
- E-cigarettes & e-liquids: New 15% FED

Policy Rationale

- *Progressive taxation targeting high-income users*
- *Discourages harmful consumption and supports health*
- *Easy administration through existing FED systems*
- *Promotes formal documentation of luxury spending*

Expected Impact

- *Could generate expected revenue of PKR 120–150 billion*
- *Tobacco & nicotine products: PKR 40–50 billion*
- *Luxury vehicles & registration levies: PKR 25–30 billion*
- *Energy/fuel (high-end use): PKR 30–40 billion*
- *Sugar-sweetened beverages: PKR 15–20 billion*

ICMA Budget Proposals Aligned with National Priorities

New Revenue Initiatives to Broaden the Tax Base

S.No	Proposal / Measure	Aligned National Priority
1	BIM, Green Incentives, and Building Safety Levy (BSL)	Industrial Growth, Social Equity
2	Additional Residential Property Tax (ARPS)	Social Equity
3	One-Time Settlement for Old Tax Disputes	Industrial Growth, Social Equity
4	Commercial Utility Levy via FBR Data Sharing	Industrial Growth
5	Consumer Sales Tax Lottery	Digital Transformation, Social Equity
6	Windfall Gains Tax in Sugar, Oil & Gas, and Fertilizer	Industrial Growth, Energy Efficiency
7	Digital Services Tax (DST) on Platforms	Digital Transformation
8	Licensing & Taxation of Online Gaming & Speculative Gaming	Digital Transformation
9	Corporate Advertising Levy	Industrial Growth
10	Financial Transaction Tax (FTT)	Industrial Growth, Digital Transformation

Climate and Green Taxation

S.No	Proposal / Measure	Aligned National Priority
11	Property Tax Relief for EV Charging Operators	Energy Efficiency, Industrial Growth
12	Landfill Disposal Tax	Energy Efficiency, Social Equity
13	Progressive Carbon and Pollution Levy	Energy Efficiency, Industrial Growth
14	Green Transport Levy	Energy Efficiency
15	Carbon Market Levy	Energy Efficiency, Industrial Growth

Urban and Transport Revenue Measures

S.No	Proposal / Measure	Aligned National Priority
16	Annual Vacant Urban Land Tax	Industrial Growth, Social Equity
17	One-Time Betterment Levy (BTL) on Land Value Gains	Industrial Growth, Social Equity
18	Distance-Based Urban Road Usage Fee	Energy Efficiency, Industrial Growth

Corporate & Financial Services Revenue

S.No	Proposal / Measure	Aligned National Priority
19	Incentives for FinTech and Cryptocurrency	Digital Transformation, Industrial Growth
20	Tax & Incentives for Alternative Financing Instruments	Industrial Growth
21	Global Export Incentive (GEI)	Industrial Growth, Export Expansion
22	Corporate Services and VAT Taxation	Industrial Growth, Digital Transformation

Formalizing Digital and Informal Economy

S.No	Proposal / Measure	Aligned National Priority
23	Simplified Micro-Trader Licensing & Digital VAT	Digital Transformation, Social Equity
24	Simplified Micro-Entrepreneur Regime (SMER)	Social Equity, Industrial Growth

Agriculture & Rural Income Revenue

S.No	Proposal / Measure	Aligned National Priority
25	Farmer Income Stability Fund (FISF)	Social Equity, Industrial Growth
26	Standardized Agricultural Income Assessment	Social Equity, Industrial Growth

Wealth & Luxury Tax Revenue

S.No	Proposal / Measure	Aligned National Priority
27	Capital Acquisitions Tax (CAT) on Gifts and Inheritances	Social Equity
28	Expanded Luxury and Excise Taxes	Industrial Growth, Social Equity

Acknowledgement

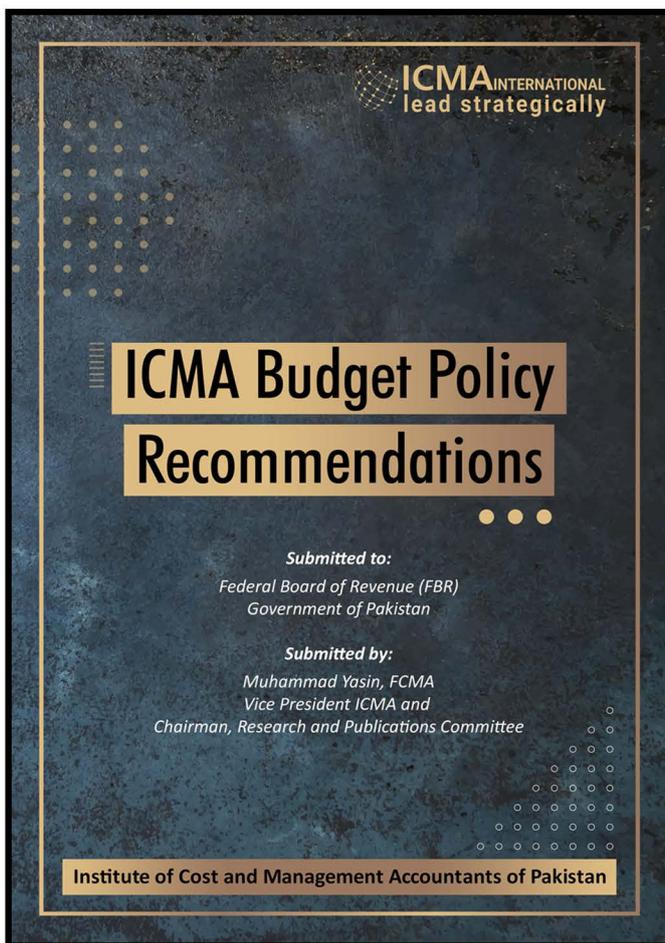
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