

PSX FEDERAL BUDGET PROPOSALS

FY2025-26



**PAKISTAN
STOCK EXCHANGE
LIMITED**

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INTRODUCTION

Taxation policy is the primary fiscal tool to shape the economic landscape of the country and provides the basis for guiding development, innovation and entrepreneurship which are foundations of sustainable growth, employment generation and social stability in the nation. In today's world data is the most critical resource for any activity and taxation revenue generation is no exception. Without sufficient data and integrity of that data, the full potential of tax revenue generation will remain unrealised.

In this context, PSX believes that the government's first and foremost role is in comprehensively documenting all economic activity in the country. The financial sector including the capital markets are few of the well documented sectors in the economy, along with companies listed on the stock exchange. At the same time, whether it is rest of the service and trade sector, the real estate sector, the agricultural sector – which together constitute the bulk of GDP – all have to be documented in order to have a realistic picture of actual economic activity and the taxation potential therein. Unless this is done, fiscal deficits will remain the bane of economic development, holding back the country's progress.

Concurrently, in order to support the documentation drive, digitization of the payment system is a must in today's world. Estimates of the cash-based economy range from 35% to 50% of GDP. Technology is now available to digitize a huge portion of these cash transactions and thus allow for proper assessment of the economic activity pool. It is therefore imperative that the government devise a policy for comprehensively digitizing the payment system and provide incentives to the private sector to rapidly adopt it.

Finally, in order to fashion a proper policy, appropriate data collection methodology and data analytics expertise is imperative. In this regard it is recommended that the Pakistan Bureau of Statistics be made into an autonomous body with sufficient resources, powers and accountability to the parliament to provide independent surveys, statistical studies and assessments based on global best practices. Unless data integrity is established, policies based on flawed data and estimates thereof will not achieve desired objectives.

Coming to capital market itself, fiscal discipline and tax measures have a direct and profound impact on the structure and functioning of the capital markets. The stock market is one of the most documented sectors of the economy and over the decades GOP has perhaps been the biggest beneficiary from it. It is imperative for the growth of Pakistan's economy to create a conducive environment which will help to attract more companies and investors to the capital markets. All capital market participants are fully documented; hence developing the capital markets is fully aligned with FBR's efforts to increase the tax base in Pakistan. An efficient, equitable and broad-based tax system and a culture of corporatization are interdependent. In addition, a broad-based capital market helps to achieve important economic and social objectives like increasing the number of tax payers, savings and investment rates, and reducing wealth inequality.

Capital markets can play a significant role in tackling many of the structural imbalances that have bedeviled Pakistan's economy over the years. These include, lack of documentation, small tax base, low savings rates and low investment rates. In fact, these can only be properly addressed by first developing the capital markets. Pakistan's capital market needs to be and can be much larger and deeper than it is today. We have come a long way but need to go



much further to help businesses raise capital and for all investors to make a good return. As the markets grow, they will contribute to growth of Pakistan's economy and create new revenue sources for FBR.

To achieve this, well thought through, balanced, regionally competitive and long-term tax policies and measures are needed. Tax measures are an important policy tool to increase investments and savings in the economy and to stay competitive with other markets. Capital markets are highly specialized and have many varied and different segments, each with their own commercial imperatives that need to be fully understood before successful tax measures can be implemented. Innovations and new products are a constant feature of capital markets. Hence, it is important that tax policies and measures are reviewed regularly, with input from specialist stakeholders, so that debt and equity markets, commodity futures, mutual funds, REITs, corporate and insurance sector, amongst others, can grow successfully. Development of these important sectors is a prerequisite for the growth of a modern economy and will contribute greatly to the documentation and growth of tax revenue in Pakistan.

As much as favorable tax treatment, investors need a stable and predictable tax environment. Government of Pakistan must consider adopting long term measures to promote savings and investment and development of the capital market.

We believe that in the coming years, Pakistan's capital market has immense potential for growth. PSX remains committed to building the capacity and trust required for capital formation and financial inclusion by introducing new products and investing in world-class trading infrastructure.

We are pleased to present the following proposals for the kind consideration of the Ministry of Finance and the Federal Board of Revenue for inclusion in the federal budget 2025-26. The core principle of our proposals is aimed at increasing the size and depth of the capital market by incentivizing new listings and increasing the investor base, without impacting government revenues.

All the proposals detailed below essentially focus on impediments and disincentives that are negatively impacting the development of the capital market, as well as the documented corporate sector. The recommendations are primarily designed to remove the disincentives, and the incidence of double, and at times multiple, taxation that are penalizing capital formation, which is essential for our corporate sector to be able to compete effectively in the world. Most proposals are revenue neutral, and in many cases, likely to increase the government's revenue.

We believe that implementation of these proposals will greatly help in improving the saving rate, encourage investment, increase tax revenue, contribute to economic growth and lower wealth inequality in Pakistan. We look forward to your favorable consideration and discussing these proposals with you.



EXECUTIVE SUMMARY

S. NO.	DESCRIPTION	PROPOSAL
1	ALIGN RATES OF CAPITAL GAINS TAX ON ALL DERIVATIVES AND FUTURE CONTRACTS TRADED ON PSX WITH FUTURE COMMODITY CONTRACTS TRADED ON PMEX	<i>CGT on all derivatives and future contracts (including cash settled derivative contracts) traded on PSX to be taxed in line with future commodity contracts traded at PMEX.</i>
2	DOCUMENTING REAL ESTATE SECTOR & PROMOTING REITS STRUCTURES	<ul style="list-style-type: none"> • <i>Exempt advance tax on property transfers to/from a REIT Scheme.</i> <i>Remove sunset clause for all categories of REIT.</i>
3	TREATMENT OF BONUS SHARES AS AN INCOME OF SHAREHOLDERS	<i>It is proposed that amendment made in clause (29) of Section 2 and newly inserted section 236Z of the Ordinance through Finance Act 2023 may be withdrawn.</i>
4	ALIGN RATES OF CAPITAL GAINS TAX ON DISPOSAL OF SECURITIES WITH THE RATES OF CGT ON SALE OF IMMOVABLE PROPERTY	<i>CGT rates on listed securities be brought in line with CGT on sale of immovable property. This is essential to eliminate the tax driven distortion between different asset classes.</i>
5	TAX RELIEF FOR FOREIGN INVESTMENT IN CAPITAL MARKET	<i>In order to attract and encourage foreign investment into capital market, it is proposed to offer tax relief to foreign investors in terms of exemption on capital gains and dividend earned on such investment, in line with similar tax relief offered for investment in GoP securities.</i>
6	RATIONALISATION OF TAX RATES FOR COMPANIES LISTED ON STOCK EXCHANGE	<i>Reinstatement of the repealed section 65C of the Income Tax Ordinance, 2001 amended to allow tax credit to certain companies meeting the prescribed requirements of 25% free float, which will generate CGT and other tax revenue.</i>
7	INTER-CORPORATE DIVIDEND	<i>Restoration of exemption on inter-corporate dividend between companies eligible for group taxation.</i>
8	ENHANCED TAX CREDIT FOR LISTED SMALL AND MEDIUM ENTERPRISES (SME)	<i>In order to encourage small and medium enterprises to get listed on the SME Board, it is proposed that the rate of tax for such listed SME companies be lowered by giving tax credit of 50% of tax payable for 3 to 4 years and 20% onwards of the tax payable.</i>



9	REINSTATEMENT OF TAX CREDIT ON INVESTMENT IN SHARES	<i>It is requested to reinstate Section 62 of the Income Tax Ordinance that was removed in the Federal Budget 2022-23 to promote savings for the taxpayers with no major impact on revenue.</i>
10	UNLOCKING POTENTIAL OF PRIVATE FUNDS	<ul style="list-style-type: none"> • <i>Insert proper definition of Private Fund referring to 2015 regulations</i> • <i>Reinstate exemption of profits and gains to be given to all categories of Private Equity & Venture Capital including Private Fund.</i> • <i>Revision of CGT rates as provided for mutual funds, CIS and REITs</i> • <i>Specified exemptions to include Private Fund</i>
11	ELIMINATION OF MINIMUM TAX REGIME FROM LISTED COMPANIES	<i>Minimum tax regime should be eliminated or reduced for listed companies as such companies are documented and compliant with specific documentation requirements of various statutes.</i>
12	PROVINCIAL SALES TAX ON SERVICES – JURISDICTION ISSUES TO BE SETTLED IN COUNCIL OF COMMON INTEREST	<i>The wordings of the laws enacted by the Sindh Revenue Board, Punjab Revenue Authority and Khyber Pakhtunkhwa Revenue Authority are overlapping. The matter being of equal relevance to all the provinces and affecting the entire Services Sector, may be placed on the agenda of the Council of Common Interests so that a sharing formula for each province can be devised.</i>
13	CONSISTENT AND LONG-TERM TAX POLICIES	<i>Government of Pakistan must move away from short term measures and frequent changes in tax regime and adopt long term measures to promote savings and investment and development of the capital market.</i>



1. ALIGN RATES OF CAPITAL GAINS TAX ON ALL DERIVATIVES AND FUTURE CONTRACTS TRADED ON PSX WITH FUTURE COMMODITY CONTRACTS TRADED ON PMEX

Globally, exchange traded derivatives overwhelmingly dominate trading volume relative to the Cash/Regular market.

Review of the local and international markets revealed that Cash Settled Derivative Contracts available on exchanges have a lower taxation rate. For instance, cash settled contracts on PMEX (Pakistan) are taxed at 5% of the gains whereas there is no CGT on derivative contracts in Borsa Istanbul.

We would also like to highlight that the taxation incentive similar to PMEX contracts was also available to PSX's Cash Settled Futures Contracts in the past, however, it is now lapsed since 2020. Currently, all derivatives and future contracts traded on PSX are subject to higher CGT that should be aligned with future commodity contracts traded at PMEX.

Exchange traded derivatives are also viewed as better alternatives for leveraged trading platforms currently available in our market. Derivative Market Review Committee constituted by the Securities and Exchange Commission of Pakistan (SECP) in 2016 had also recommended to phase out the leverage products in favor of derivative products. Asian Development Bank (ADB), in its Capital Market Development Plan 2020 – 2027, which was also endorsed by Ministry of Finance, has recommended to establish a modern derivative market.

Hence, it is crucial to have favorable treatment for all derivatives and futures, including Cash Settled Derivative Contracts, traded on PSX to develop a robust and efficient Derivative Market.

Proposal

CGT rate for all derivatives and future contracts, including cash settled derivative contracts, traded on stock exchange is proposed to be taxed at 5% in line with tax rate on future commodity contracts entered into by the members of Pakistan Mercantile Exchange.

Rationale

Alignment of CGT rates on all derivatives and future contracts traded on PSX with future commodity contracts traded on PMEX is important due to the following reasons:

1. The current tax framework treats gain from derivatives in general and cash settled in particular in the same manner as traditional capital assets i.e., the underlying assets. This lack of differentiation fails to recognize the unique characteristics and risks associated with derivatives trading; leading to unintended consequences, discouraging potential market participants to trade and thereby hindering the development of derivative market in Pakistan.
2. In order to bring derivative segment in line with international best practices and reduce risk in the market, rationalization of taxes on such products be implemented to revive this segment.



3. To give a fair treatment for Cash Settled Derivative Contracts traded on PSX vis-à-vis PMEX contracts.
4. This incentive will have no revenue loss implications for FBR as the products are either inactive or are yet to be launched by PSX.
5. The proposed incentive was already in place in the income tax ordinance until 2020 for Cash Settled Futures, after which it was lapsed due to time bound incentive.
6. To develop a robust and efficient derivative market in Pakistan in the light of ADB Capital Market Development Plan 2020-2027.

Proposed Amendment

Division VII, Part I of the First Schedule to the Income Tax Ordinance, 2001, serial # 8 of the table shall be amended to include "all derivatives and future contracts, including cash settled derivative contracts (futures and options), traded on stock exchange".

Explanation under clause (b) of sub-section (3A) of section 37A be amended as under:

Explanation: For removal of doubt it is clarified that derivative products include future commodity contracts entered into by the members of Pakistan Mercantile Exchange whether or not settled by physical delivery or Futures and Options contracts entered into by the members of Pakistan Stock Exchange whether or not settled by physical delivery



2. DOCUMENTING REAL ESTATE SECTOR & PROMOTING REITS STRUCTURES

REITS are an ideal instrument to document and help develop the real estate sector, a priority for the government. They also allow smaller investors to gain exposure to the real estate sector, an important step to reduce wealth inequality in Pakistan.

Following table illustrates the investment avenues and the value of these assets classes in Pakistan

Asset class	Investment amount (Rs in Trillion)
Real Estate	90.00
Banking deposits	30.28
PSX Market capitalization	14.50
Mutual Funds AUMs	4.25

It is evident from the above table that real estate sector is a major investment avenue in Pakistan, however it is undocumented. REITs can prove to be an effective tool in bringing this sector into the tax net and encourage documentation. Therefore, it is imperative to incentivize REITs.

In comparison to Pakistan, REITs form an integral part of the international capital market as can be seen in the below chart:

Country	Mkt Cap (USD mn)	Stock Market Size (USD mn)	REIT as % of Stock Market Cap.
USA	1,599,680	42,640,760	3.75%
Australia	122,130	1,965,296	6.21%
Japan	88,420	4,693,230	1.88%
India	74,470	4,296,606	1.73%
Canada	63,210	2,587,246	2.44%
Singapore	61,420	357,370	17.19%
Saudi Arabia	35,030	2,901,990	1.21%
Thailand	33,500	472,729	7.09%
UK	25,850	2,605,780	0.99%
Taiwan	23,610	1,903,806	1.24%
Indonesia	15,410	741,650	2.08%
South Korea	6,803	1,560,553	0.44%
Turkey	2,230	247,604	0.90%
Pakistan	195	33,669	0.58%

Proposal

- **Exempt advance tax on property transfers to/from a REIT Scheme u/s 236A, 236C & 236K.**
- **Remove sunset clause i.e. June 2023 for all categories of REIT.**
- **Under clause 99A, Part I of Second Schedule, replace 'immovable property' with 'real estate' as defined under the Real Estate Investment Trust Regulations, 2022.**

- *Under clause 11A, Part IV of the Second Schedule, add "Special Purpose Vehicle, which has the same meaning as defined under the Real Estate Investment Trust Regulations, 2022".*

Rationale

Promoting documented real-estate will attract more investments particularly by companies with disclosure of actual prices and income. Revenue impact will be positive as it will generate indirect and additional revenues from allied businesses.

Alignment of the provisions of the Income Tax Ordinance, 2001 with the provisions of REIT Regulations, 2022.

REITs are already excluded from Minimum Tax under clause (11A). Whilst granting status of SPVs equal to REITs for all tax purposes under clause (47B), clause (11A) could not be amended. This is an anomaly and ought to be corrected.

Proposed Amendment

Appropriate amendment to be made in the Income Tax Ordinance, 2001.

For proposal relating to sun-set clause, remove "June 30, 2023" from clause 99A of Part I of Second Schedule of the Income Tax Ordinance, 2001.



3. TREATMENT OF BONUS SHARES AS AN INCOME OF SHAREHOLDERS

The present treatment of bonus shares as income of the shareholder is very detrimental to the growth of the capital market and has hampered the issuance of bonus shares by listed companies.

Under the present scheme of taxation that has prevailed in Pakistan and adopted from the Income Tax Act, 1922, the value of bonus shares or the amount of any bonus declared, issued or paid by a company to its shareholders was always excluded from the definition of “**income**” due to the reason that shareholder does not derive any income from the receipt of bonus shares. Comparative jurisdictions also support the view that bonus share does not *per se* represent income under the Ordinance. The Finance Act, 2014 introduced tax on the value of Bonus shares issued by listed and non-listed companies as “**Income from other sources**” with effect from tax year 2015 at the rate of 5% of the value of bonus shares and then it was abolished vide Finance Act, 2018 after representations made by PSX as tax on bonus shares did not contribute much to the Government treasury due to decline in the issuance of bonus shares by the companies.

Last year, similar kind of amendment was made vide Finance 2023 by introducing new section 236Z to treat it as deemed income subject to collection of tax in prescribed manner and withholding of tax on bonus shares at the rate of 10 percent of the value of bonus shares.

It is also pertinent to submit that in the period i.e. from July 01, 2022 to June 30, 2023, 53 companies announced bonus shares amounting (at Face Value) to over Rs. 31.4 billion, whereas, for the period July 01, 2023 to January 31, 2025, only 12 companies announced bonus shares amounting (at Face Value) to over Rs. 24.8 billion as a result of which the Government has not fetched significant revenue under this head rather the GOP has lost an anticipated CGT due to trading on such increased number of shares had the same quantum of bonus shares were also issued this year as well.

Moreover, this is also causing hindrances for such unlisted companies who are intending to list and in the process to increase their capital base have to increase their paid up capital by issuing bonus shares out of their accumulated reserves which resultantly attracts unnecessary tax on bonus shares.

Moreover the Bonus shares issued do not increase the resources of that recipient against any payment of consideration, therefore it cannot be termed as income in the hand of recipient and distribution by the issuer resultantly applying a tax on such issue does not fall under the ambit of the Ordinance, as it is merely an accounting treatment of reclassification of reserves of the issuing company, resulting in diluted earnings per share amounts for profit or loss to such ordinary equity holders.



We further understand that taxability of bonus shares brought attention of taxation authority when it was observed that few of the Collective Investments Scheme distributed profits through bonus shares in order to comply with the provision of Clause (99) of the Second Schedule to the Ordinance, which was disputed by the tax department and exemption was denied. The Finance Act, 2014 has already amended Clause (99) by inserting proviso in Clause (99) of Part I of the Second Schedule, whereby for the purpose of determining distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be considered.

Since the appropriate cognizance in respect of exemption to any income derived by a Collective Investments Scheme or REIT scheme under Clause (99) of Part I of the Second Schedule has already been taken care and the value of bonus shares, the amount of any bonus declared, issued or paid by a company to its shareholders is not "income" at all and it is just an accounting treatment;

Proposal

It is proposed that amendment made in clause (29) of Section 2 and newly inserted section 236Z of the Ordinance through Finance Act 2023 may be withdrawn.



4. ALIGN RATES OF CAPITAL GAINS TAX ON DISPOSAL OF LISTED SECURITIES WITH THE RATES OF CGT ON SALE OF IMMOVABLE PROPERTY

During discussions with respect to the Federal Budget 2022-23 with the then Finance Minister and FBR Chairman, a consensus was developed that the tax on capital gains on listed securities should be uniform with that on real estate and other classes of assets. This is important to remove any tax driven distortions amongst different asset classes and to create a level playing field to ensure efficient allocation of scarce resources towards productive assets.

On June 10, 2022, Finance Bill 2022 (Bill) addressed this issue through introduction of revised rates based on holding period, aligning capital gain tax rates on disposal of securities with rates on disposal of immovable properties. However, the Finance Act 2022 (Act) has again created such tax disparity between securities and immovable properties.

There is an anomaly in Act with respect to the rate of tax to be paid under section 37A of the Ordinance, which has arisen due to a Proviso added on in the Act, which was not in the Bill. The same is explained as follows:

Division-VII of First Schedule of the Ordinance as approved in the Act contains the following Proviso which was not present in the Bill presented earlier. The Proviso states:

Provided that for securities except at S. No. 8 of the table,-

(i) the reduced rates of tax on capital gain arising on disposal shall apply where the securities are acquired on or after the first day of July, 2022; and

(ii) the rate of 12.5% tax shall be charged on capital gain arising on disposal where the securities are acquired on or after the first day of July, 2013 but on or before the 30th day of June, 2022; and

(iii) the rate of 0% tax shall be charged on capital gain arising on disposal where the securities are acquired before the first day of July, 2013

This is to submit that subsequent inclusion of above Proviso has changed the taxability under section 37A altogether.

We would reiterate that the Bill was the outcome of detailed and comprehensive discussions at the relevant forums. Any suggestions and comments by the stakeholders on the Bill were also limited to the extent of table presented in the Bill, without expecting that any Proviso would be added, which completely changes the taxation scheme.



The Bill was drafted in order to bring uniformity in taxation of capital gain on securities under Section 37A and taxation of gain arising on disposal of immovable property under Section 37(1A).

However, the addition of above referred Proviso defies the purpose of uniformity of taxation. Under the Ordinance as it is now, a person has to pay tax @ 12.5% on disposal of a security which was acquired by him in July 2013. On the contrary, on disposal of immovable property acquired by him in July 2013, he has to pay tax @ 0%. While in the case of securities, the tax rate is 12.5% even if sold after ten years.

The above example clearly illustrates that the taxation on gain on securities is still not presently aligned with the taxation on gain on immovable property, as was agreed.

Currently, carry forward of losses is allowed up to a period of three years. Last year and the year before CGT collection was merely Rs. 19.4 billion and Rs. 6.1 billion respectively. Moreover, brought forward losses amounting to Rs. 221 billion are available to be adjusted against future capital gains, therefore CGT collection will continue to be negligible.

Proposal

It is proposed to remove the flat CGT rate of 12.5%, applicable on disposal of securities acquired on or after July 1, 2013 but on or before June 30, 2022; and so that gain on such securities be subject to the same rates as applicable on securities acquired after June 30, 2022.

Rationale

This will encourage documentation of real estate activity, and lead to an easing of speculative pressure on real estate property prices in Pakistan, where much of the undocumented wealth has been currently flowing.

Proposed Amendment

The following proviso under Division-VII of First Schedule of the Income Tax Ordinance, 2001 should be removed

Provided that for securities except at S. No. 8 of the table,-

- (i) the reduced rates of tax on capital gain arising on disposal shall apply where the securities are acquired on or after the first day of July, 2022; and*
- (ii) the rate of 12.5% tax shall be charged on capital gain arising on disposal where the securities are acquired on or after the first day of July, 2013 but on or before the 30th day of June, 2022; and*
- (iii) the rate of 0% tax shall be charged on capital gain arising on disposal where the securities are acquired before the first day of July, 2013*



5. TAX RELIEF FOR FOREIGN INVESTMENT IN CAPITAL MARKET

In order to attract foreign investment and to support the depleting foreign exchange reserves, government announced a major relief for non-resident banking companies making investment in government debt securities, including treasury bills and PIBs, whereby profit on debt and capital gains from such debt instruments shall be exempt from tax for these non-resident banking companies as per clause 4 of Rule 8 of Seventh Schedule of ITO, 2001.

A similar incentive for the capital market will not only benefit the struggling economy, but will also help restore local investors' confidence in the market, which will eventually yield a positive impact in terms of tax revenue.

Proposal

In order to attract foreign investors into the capital market, it is proposed to exempt income derived from such foreign investments from tax.

Rationale

- 1) This move will further help inject foreign inflows into the foreign exchange reserves of the country; and
- 2) Help increase foreign and local investors' confidence in the capital market and economy, which will trigger increase in taxable activities in the market and consequently tax revenue

Proposed Amendment

Appropriate amendment to be made in the Income Tax Ordinance, 2001 to exempt capital gain and dividend income, derived from foreign investment in capital market, from tax, in line with similar tax relief offered for investment in GoP securities.



6. RATIONALISATION OF TAX RATES FOR COMPANIES LISTED ON STOCK EXCHANGE

It is generally observed that when companies opt for a listing on a stock exchange, their profits grow substantially due to effective corporate governance, better disclosures, and ability to raise capital from the market. Increased number of listed companies and higher profitability leads to higher tax revenue for the government, including incremental revenues from CGT. Hence it is important to encourage companies to get listed on PSX.

The average rate of tax in the Asian region is 19.74%; whereas, currently in Pakistan the corporate tax rate is 29%. In addition, super tax up to 10% for tax year 2023 and onwards based on income brackets has also been imposed through Finance Act 2023 on high earning persons. As such it is imperative that the corporate tax rate after the tax credit is brought down reasonably to compete with the other regional and global countries.

Therefore, in order to encourage documentation and create a long-term positive impact on tax revenue, there should be reduced rates of tax for listed companies compared to unlisted companies.

Proposal

To encourage documentation of the economy, the corporate tax rate should be permanently lowered for listed companies, by giving tax credit of 20% of tax payable for those companies that meet the prescribed requirements including a minimum free float of 25% throughout. This will be long term positive for tax revenue.

Rational and impact

The table below outlines the five-year summary of listings and de-listings on the Pakistan Stock Exchange:

Particulars	Number of Companies	Capital (Rs.)*
New Listings	34**	148,421 Million
De-listings	18	5,082 Million
Delisted due to Merger	20	75,841 Million

*As of December 31, 2024

** It includes listing of preference shares of already listed companies.

Rationale

- i) *It is generally observed that publicly-listed companies are able to improve profitability due to effective corporate governance, better corporate disclosure and availability of additional funds.*



- ii) *The incremental benefits arising from the preferential tax structure for listed companies will foster a business environment that encourages new listings on the stock exchange, resulting in higher trading volumes and lead to:*
- a) *Higher tax revenue from listed companies' income as a result of higher corporate profits.*
 - b) *Higher revenues from tax on brokers activity on new listings.*
 - c) *Higher revenue from Capital Gains Tax on disposal of newly listed securities.*
- iii) *Furthermore, with the government's increased pace of privatization of its entities, the stock market will attract local and foreign investors and increase the market size. The average rate of tax in the Asian region is 19.74%; whereas, currently in Pakistan the corporate tax rate, apart from recently levied super tax, is 29%. As such it is imperative that the corporate tax rate after above tax credit is brought down reasonably to compete with the other regional and global countries. Following are the average worldwide corporate tax rates:*

LOCATION	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Africa	27.9	27.9	27.5	28.73	28.81	28.45	28.50	27.97	27.60	27.37	27.28
Asia	21.9	22.6	21.9	20.05	20.65	21.32	20.06	19.62	19.52	19.80	19.74
Europe	19.7	20.1	20.5	18.35	18.38	20.27	19.99	19.84	19.74	19.92	20.18
Oceania	27.0	27.0	26.0	23.67	22.00	23.75	23.75	23.75	23.75	23.75	24.38
North America	33.3	33.3	33.3	23.08	23.01	25.85	26.06	26.37	25.33	25.46	25.59
OECD	24.1	24.9	24.8	24.18	23.93	23.59	23.51	23.04	23.57	23.73	23.85
Global	23.6	23.9	23.6	22.96	23.03	24.18	23.85	23.54	23.37	23.45	23.51

Proposed Amendment

Reinstate section 65C of Income Tax Ordinance, 2001 to be read as under:

"Where a taxpayer being a company opts for enlistment in any registered stock exchange in Pakistan, a tax credit equal to twenty percent of the tax payable shall be allowed for the tax year in which the said company is enlisted and for the following years for those companies that meet the prescribed requirements including a minimum free float of 25% throughout"

7. INTER-CORPORATE DIVIDEND

- Corporate businesses profits are taxed twice. Once at company level @ 29% and on dividend distribution @15%. This is in addition to the super tax up to 10% for tax year 2023 and onwards based on income brackets imposed through Finance Act 2023 on high earning persons.
- Removal of exemption on inter-corporate dividend under section 59B of the Income Tax Ordinance, 2001 is unfavorable to potential corporate groups discouraging compliance with best practices of corporate governance requirements.

Proposal

- *Restoration of exemption on inter-corporate dividend between companies eligible for group taxation under section 59B of the Income Tax Ordinance, 2001.*

Rationale

- *Equality of tax regime will promote corporatization culture leading towards documentation and will therefore generate more tax revenue.*
- *Exemption on inter-corporate dividend will result in formation of potential Corporate Groups leading to compliance with best practices of corporate governance requirements.*

Proposed Amendment

- *Part I, Second Schedule, clause 103C reinstated as follows:*

“Dividend income derived by a company, if the recipient of the dividend, for the tax year is eligible for group relief under section 59B.”



8. ENHANCED TAX CREDIT FOR LISTED SMALL AND MEDIUM ENTERPRISES (SME)

Small and Medium Enterprises (SMEs) contribute immensely to Pakistan's employment, exports and GDP growth, and provide 80% of all employment in the country. A well-functioning SME segment at the Stock Exchange offers a range of benefits including greater access to growth capital for innovative SMEs, documentation, good governance, new jobs through entrepreneurship, more investment opportunity for domestic investors and local venture capitalists.

PSX has launched an SME board (GEM Board) to attract smaller companies to get listed on the exchange. The aim is to facilitate SMEs with an alternative to bank financing for their expansion growth and projects.

Proposal

In order to encourage small and medium enterprises to get listed on the SME Board, it is proposed that the rate of tax for such listed SME companies be permanently lowered by giving tax credit of 50% of tax payable for 3 to 4 years of listing and then onwards 20% of the tax payable.

Rationale

- i) The share of the manufacturing sector in the job market is only 14%. This is very low because 80% of the manufacturing investments in large scale industries provide less than 20% of the manufacturing jobs. Over 80% jobs are provided by SMEs.
- ii) There are significant fiscal tax credit benefits in Spain, Kenya, Brazil, Argentina and other parts of the world for SMEs.

Proposed Amendment

In Division II, Part I of the First Schedule to the Income Tax Ordinance, 2001 following proviso shall be added, namely:

"Provided that where a tax payer is a small or medium sized company as defined under the Third Schedule of the Companies Act, 2017 and is also listed on the registered Stock Exchange in Pakistan, the tax credit @ 50% of the tax payable on the taxable income of such company, other than a banking company, shall be allowed for the tax year 2024 and onwards."



9. REINSTATEMENT OF TAX CREDIT ON INVESTMENT IN SHARES

Tax credits are essential for small savers, especially salaries class, to promote long term savings for their retirement and other life goals. These savings are channelized towards the stock market and government securities.

Capital market already struggling to match returns available under other investment avenues, needs incentives to attract investors. Withdrawal under Finance Act 2022 of tax credits available to individual investors for investment in new shares, mutual funds, sukus, and life insurance policies will divert the public funds towards other undocumented sectors offering attractive returns.

Proposal

It is requested to reinstate Section 62 of the Income Tax Ordinance that was removed in the Federal Budget 2022-23 to promote savings for the taxpayers with no major impact on revenue.

Rationale

Tax Credits available under Section 62 of Income Tax Ordinance 2001 have been incentivizing individuals towards savings for retirement and other objectives for the last many years. In a country which has savings rate much lower than its peer group, such measures are perhaps even more important. Such incentives are not uncommon in other countries.

Proposed Amendment

Restore section 62 of the Income Tax Ordinance, 2001



10. UNLOCKING POTENTIAL OF PRIVATE FUNDS

Revamped regulations in 2015 introduced different types of Private Funds by replacing Private Equity & Venture Capital (PE&VC) Regulations. Currently, pass-through status under the Income Tax Ordinance 2001 is available to only PE&VCs category. Moreover, current sunset clause upto June 2025 for PE&VC is detracting long-term investors from participating.

A private fund (alternate fund) investing in listed securities attracts CGT at the rates that applies to unlisted securities (redemption of units of alternate funds will attract treatment of unlisted security under CGT regime, which is significantly higher for corporate investors).

Proposal

No modern economy can develop without a well-functioning VC and PE industry. These are woefully absent in Pakistan, primarily due to inconsistent tax treatment for such investment vehicles. The benefits that will accrue to Pakistan's economy are clear and there are innumerable international examples to follow in the tax treatment. Current taxation regime for Private Funds is discouraging for locally domiciled funds due to the following reasons:

- a. No pass-through status at fund level.
- b. Not aligned with taxation of collective investment schemes.
- c. Taxation at entity, investors and investee company level.

Therefore, making the development of the domestic industry unviable, resulting in value creation taking place offshore. Therefore, we strongly propose:

- a. Provide tax credit of 100% to all categories of private funds without any sunset clause.
- b. Restore exemption of tax on capital gain, earlier available to the investors of private funds or a specific rate, as provided for mutual funds, CIS and REITs.
- c. Exclude private funds from application of minimum and withholding taxes.

Rationale

This sector can be developed with rational taxation. Revenue impact will be neutral to positive as only CIVs will be exempted but the investors will still be obliged to pay tax. The amendment will exempt private funds from applicability of withholding tax as it is a pass through entity.

Proposed Amendment:

- ***Insert proper definition of Private Fund referring to 2015 regulations***
- ***Revise clause 152 of part I of Second Schedule for:***
 - ***Inclusion of Private Fund; and***
 - ***Removal of sun-set clause.***



- *Restore exemption of tax on capital gain, earlier available to the investors of private funds or a rate of 12.5% CGT be specified in Division VII of 1st Schedule, as provided for mutual funds, CIS and REITs (if more than 70% invested in listed equity securities and/or debt securities)*
- *Exemptions provided in sub-clause (xii) of clause 11A and clause 47B of Part IV of the second schedule to include Private Fund*



11. ELIMINATION OF MINIMUM TAX REGIME FROM LISTED COMPANIES

Though the concept of minimum tax is prevalent in a few other countries, however, in other countries, as a principle, it is levied only in cases where high-income taxpayers don't pay any tax due to different tax exemptions available to them.

Proposal

Minimum tax regime should be eliminated from listed companies as such companies are strongly compliant towards specific documentation requirements of various statutes.

Rationale

The application of minimum tax on listed companies has resulted in discouraging documentation of the economy. Listed companies have significant documentation and regulatory requirements and need to engage external auditors to audit their business affairs. The stringent regulations keep the listed companies strongly compliant towards filing of income tax / sales tax returns, paying quarterly advance taxes, adjustment of withholding taxes on sales and purchases and consequently filing withholding statements, statements on final taxation and fulfilling various other requirements which resultantly align their books of accounts with the statutory requirements and provide a comfort zone to the authorities and stakeholders over the reported numbers. However, the levy of minimum tax puts downward impact on the earnings of listed company despite having current and brought forward losses.

Proposed Amendment

Appropriate amendment to be made in the Income Tax Ordinance, 2001.



12. PROVINCIAL SALES TAX ON SERVICES – JURISDICTION ISSUES TO BE SETTLED IN COUNCIL OF COMMON INTEREST

Provincial Sales Tax is applicable on management services including fund and assets management services. The wordings of the laws enacted by the Sindh Revenue Board, Punjab Revenue Authority and Khyber Pakhtunkhwa Revenue Authority are overlapping as the law governing Sindh Sales Tax enacted by Sindh Revenue Board states that sales tax is to be provided where business is registered while Punjab Sales Tax on Services Act, 2012 and Khyber Pakhtunkhwa Finance Act 2013 states that the province where taxable services are provided or rendered by the service provider is entitled to levy, charge and collect sales tax on such services.

We request that this issue, being of equal relevance to all the provinces and affecting the entire Services Sector, may be placed on the agenda of the Council of Common Interests so that a sharing formula for each province can be devised to resolve this matter.



13. CONSISTENT AND LONG TERM TAX POLICIES

As much as favorable tax treatment, investors need a stable and predictable tax environment. When making a long-term investment decision, they need to know what tax treatment their investment will receive over the term of their investment horizon. Otherwise, they may simply decide not to invest or adopt short term trading strategies (like most investors unfortunately tend to do).

It should also be considered that the changes in policies should be prospective rather than retrospective in nature. Therefore, the government is requested to rectify all such amendments which have retrospective effect so that all the amendments made have a prospective effect.

Government of Pakistan must move away from short term measures and frequent changes to tax treatment and adopt long term measures to promote savings and investment and development of the capital market.

