

PSX Proposals for Federal Budget FY2026-27

S. NO.	TOPIC	BRIEF OF PROPOSAL
1A	GROUP RELIEF U/S 59B	<p>The primary benefit of group relief under Section 59B of the Income Tax Ordinance, 2001 is the ability for a subsidiary or holding company to surrender its assessed business losses in favor of its holding or subsidiary company or another subsidiary within the same group to reduce the group's overall tax liability.</p> <p>Currently, the company can surrender its losses for <u>only three years</u>. This three-year limitation constraint the holding companies from listing their 100% owned subsidiaries on the stock exchange.</p> <p>Hence, it is proposed that group relief available u/s 59B should not be time bounded.</p>
1B	INTER-CORPORATE DIVIDEND	<p>Corporate businesses profits are taxed twice. Firstly, Companies profits are taxed @ 46% (29% tax, 10% super tax, 2% WWF and 5% WPPF). Then dividend is taxed @15% on distribution.</p> <p>Inter-corporate dividend exemption was available till FY2021, however, the Finance Act 2021 removed the exemption for companies eligible for group relief under section 59B by omitting clause 103C of Part I of Second Schedule.</p> <p>It is proposed to restore clause 103C of part I of second schedule.</p>
1C	WITH-HOLDING ON INTERCOMPANY INTEREST PAYMENTS	<p>With-holding tax on Inter-company interest payments within a corporate group result in no revenue gain to exchequer but causes cash flow constraints, refund accumulation and increased compliance cost for the companies.</p> <p>The exemption from withholding tax was available to the companies availing group relief u/s 59B of ITO till tax year 2016 and the said relief was abolished through Finance Act 2016.</p> <p>It is proposed to reinstated the exemption available to the companies availing group relief u/s 59B of the income tax ordinance till tax year 2016.</p>
2	TREATMENT OF BONUS SHARES AS AN INCOME OF SHAREHOLDERS	<p>Finance Act 2023 introduced new section 236Z requiring every company, issuing bonus shares to withhold tax @ 10% of the value of bonus shares to be issued.</p> <p>It is proposed that amendment made in clause (29) of Section 2 and newly inserted section 236Z be <u>withdrawn</u>.</p>

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3	<p>ALIGN RATES OF CAPITAL GAINS TAX ON ALL DERIVATIVES AND FUTURE CONTRACTS TRADED ON PSX WITH FUTURE COMMODITY CONTRACTS TRADED ON PMEX</p>	<p>Commodity contracts on PMEX (Pakistan) are taxed at 5% of the gains. This incentive was in place in the income tax ordinance until 2020 for Cash Settled Futures. However, it was subsequently lapsed.</p> <p>Further, there is no CGT on derivative contracts in Borsa Istanbul.</p> <p>it is proposed that the CGT rates for derivative traded on PSX should be aligned with the rates applicable for future commodity contracts traded at PMEX.</p>
4	<p>REINSTATEMENT OF TAX CREDIT ON INVESTMENT IN SHARES</p>	<p>Tax credits available to individual investors for investment in new shares, mutual funds, sukuks, and life insurance policies had been withdrawn in year 2022.</p> <p>It is proposed to reinstate Section 62 of the Income Tax Ordinance that was removed in the Federal Budget 2022-23.</p>
5	<p>DOCUMENTING REAL ESTATE SECTOR & PROMOTING REITS STRUCTURES</p>	<p>It is proposed to exempt advance tax on property transfers to/from a REIT Scheme.</p> <p>Gain on the sale of immovable property or shares of Special Purpose Vehicle to any type of REIT scheme was exempt till June 2023. It is therefore proposed that this sunset date i.e. June 2023 be removed from clause 99A, Part I of 2nd Schedule of Income Tax Ordinance.</p>
6	<p>RATIONALISATION OF TAX RATES FOR COMPANIES LISTED ON STOCK EXCHANGE</p>	<p>The average rate of corporate tax in the Asian region is 19.74%; whereas, currently in Pakistan the corporate tax rate is 29% which with super tax and WWF and WPF taxes raises to approx. 46%. The average rate of tax in the Asian region is 19.74%.</p> <p>The corporate tax rate should be permanently lowered by 5% for companies listed on the registered stock exchange in Pakistan, with the reduced rate of 24% applicable from the tax year in which company becomes listed and for the following year for those companies which maintain a minimum free float of 25% throughout.</p> <p>It is therefore proposed to make appropriate amendment in Division II of Part I of the first schedule of the Income Tax Ordinance, 2001</p>