

January 16, 2026

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Director General  
Tax Policy Office  
Ministry of Finance  
Government of Pakistan  
Islamabad

**Subject: Restoration of Tax Neutrality for Inter-Corporate Dividends (ICD)**

Dear Sir,

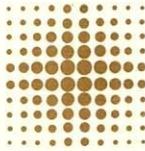
We would like to thank you for engaging with industry representatives and business leaders at the Pakistan Business Council (PBC) as part of the government's outreach to bring key stakeholders on board in support of reforms aimed at separating tax policy from revenue administration and building a more growth-oriented tax framework.

Among the matters discussed during the meeting, we wish to draw particular attention to a structural distortion in Pakistan's tax framework relating to the taxation of inter-corporate dividends (ICD). In this regard, we request the restoration of tax neutrality for dividends distributed within corporate group structures, in line with sound tax policy principles and international best practices.

#### **Multiple Taxation of the Same Income**

Under the current tax regime, profits earned by operating subsidiaries are subject to corporate income tax, super tax, and other statutory levies. When these after-tax profits are distributed to holding companies, they are taxed again as dividends, and upon onward distribution to ultimate shareholders, taxed a third time. This results in cumulative effective taxation approaching 68%, leaving investors with approximately Rs. 32 out of every Rs. 100 earned at the operating level.

Such excessive multiple taxation significantly inflates the cost of capital, suppresses investment returns, discourages reinvestment of earnings, and incentivizes capital flight toward informal or less transparent structures.



## Economy-wide Impact

The current ICD treatment has far-reaching consequences:

- Investment & capital formation: Investors must generate disproportionately high pre-tax returns merely to match low-risk alternatives, discouraging long-term productive investment.
- Partnerships, FDI & capital markets: Even minimal co-investments trigger dividend taxation, discouraging joint ventures, IPOs, and strategic partnerships. In recent instances, potential equity participation has been deferred due to ICD inefficiencies, reducing foreign and domestic investment inflows.
- State owned Entities (SOE) privatization: Additional tax layers materially depress enterprise valuations. Estimates indicate that the Rs. 5.5 trillion SOE equity base could suffer valuation discounts of approximately 25%, significantly outweighing the modest annual revenue collected from ICD taxation.

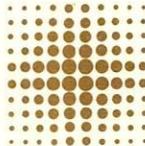
## ICD Relief Is a Structural Safeguard, Not an Exemption

The ICD framework introduced in 2007–08 was developed through a structured taskforce comprising representatives from FBR, SECP, ICAP and industry experts. Its objective was to prevent multiple taxation of the same income within genuine group structures, in line with global best practices.

The earlier ICD regime included robust safeguards, including:

- Minimum effective shareholding thresholds (55% for listed groups, 75% for unlisted groups);
- Mandatory holding periods to prevent short-term extraction;
- Continuity of business requirements to ensure economic substance;
- SECP certification of group structures;
- Arm's-length requirements and exclusions for trading and foreign subsidiaries.

These guardrails ensured that ICD tax neutrality applied only to bona fide operating groups and could not be misused for tax planning.



## Global Alignment and Competitiveness

International benchmarking shows that developed and developing economies across Asia, Europe, North America, Africa, and Oceania do not tax inter-corporate dividends within bona fide group structures, and typically with far fewer safeguards than those previously embedded in Pakistan's regime. Tax neutrality for ICD is a cornerstone of competitive tax systems that encourage scale, diversification, and global competitiveness. Pakistan's current position places organized, compliant domestic investors at a disadvantage relative to both foreign investors and informal sectors.

## Our Request

In light of the above, we respectfully request restoration of tax neutrality for Inter-Corporate Dividends, for holding companies meeting substantial ownership thresholds (e.g., 55%+ effective shareholding), consistent with Pakistan's earlier framework.

This reform would:

- Correct a structural anomaly rather than introduce a new tax concession.
- Unlock domestic and foreign investment.
- Improve SOE privatization outcomes and capital market depth.
- Support formalization, transparency, and long-term revenue growth.

We submit this representation in a spirit of constructive engagement and alignment with Pakistan's economic and fiscal objectives. We would welcome the opportunity to engage further with the Tax Policy Office to discuss this matter in detail.

Yours sincerely,