

16th May, 2025

Dr. Najeeb Ahmad
Member Policy
Federal Board of Revenue
Islamabad

Dear Dr. Najeeb,

INFORMATION REQUESTED ON THE IMACT OF TAXATION ON LISTED COMPANIES AND EXPORTERS

We were grateful to you for meeting us on Zoom on 9th May to discuss our main recommendations for the forthcoming budget. You will recall that when we met the Finance Minister, the Chairman FBR, you and your team on 27th January, we had presented proposals to provide a roadmap to promote formalisation of the economy and to address the key economic imperatives of exports and indigenisation of inputs. We had also offered to assist the FBR in gathering data to support the strategic intent of our proposals. In our discussion with you last week, you had sought the following information:

1. BONUS SHARES

In support our recommendation to withdraw tax on the issue of bonus shares, please note the sharp reduction in bonus share declarations, leading to reduced tax revenue. Conceptually, it is inequitable to tax an action that does not lead to increase in the intrinsic value of shareholding. Bonus distributions merely increase the number of shares issued, leaving the aggregate value unchanged.

Number of Bonus Declarations:	Number of Bonus Share Distributions
FY 2021	49
FY 2022	47
FY 2023	33
FY 2024	7

2. IMPACT OF 1% REDUCTION IN CORPORATE TAX RATE OF LISTED COMPANIES

Based on data from PSX for the FY 2024, we have quantified the impact of a 1% reduction in the corporate tax rate of listed companies at Rs. 29.4 Bn as per Annexure One attached. In our recommendations for the federal budget, we had requested for a 1% per annum reduction in the corporate tax rate until it reaches 25%, which is more in line with the regional norm.

3. IMPACT OF MINIMUM AND ADVANCE TAX ON EXPORTS

Based on turnover and profit before tax as reported for the latest quarter ended 31 March 2025 by 34 listed composite textile companies which are the main exporters, our observations are below:

- a) The minimum tax on turnover of 24 out of the 34 companies will exceed the tax due on profit under the Normal Tax Regime by a total of Rs. 985 Mn for the quarter. This extrapolates to Rs. 3.9 Bn for the year.
- b) Compared to the tax liability under the Normal Tax Regime, for 28 of the 34 companies, the imposition of minimum tax on turnover and Advance Tax on export realization results in excess payment of Rs. 3.54 Bn for the quarter. Whilst the Advance Tax is adjustable, refunds take time, and this adds considerably to their cash flow burden.

The assumptions on which the above conclusions are based are listed in the attached Annexure Two. We urge you to reconsider the imposition of minimum tax on turnover and to reduce the Advance Adjustable Tax on export receipts. The margins on which the export sector operates are likely to suffer due to the uncertainty arising from the levy of higher tariffs by the US, our largest export market.

We look forward to discussing matters relating to the aforementioned. Please let us know if you need additional information for an equitable budget, which is also well-aligned with the longer-term strategic needs of the economy.

Yours sincerely,



Ehsan Malik

Encl: Annexures One and Two

**ANNEXURE ONE: IMPACT OF 1% REDUCTION IN CORPORATE TAX OF LISTED COMPANIES
BASED ON REPROTED PROFIT BEFORE TAX FOR THE FINANCIAL YEAR 2024**

				PROFIT BEFORE TAX FOR FY 2024
				PKR Millions
CLOSE-END MUTUAL FUND				25
LEASING COMPANIES				281
INVESTMENT BANKS / INVESTMENT COMPANIES / SECURITIES COMPANIES				26,956
COMMERCIAL BANKS				1,248,094
INSURANCE				49,658
TEXTILE SPINNING				4,603
TEXTILE WEAVING				60
TEXTILE COMPOSITE				49,151
WOOLLEN				288
SYNTHETIC & RAYON				5,010
JUTE				19,644
CEMENT				132,033
PROPERTY				3,235
TOBACCO				49,878
REFINERY				48,958
POWER GENERATION & DISTRIBUTION				62,329
OIL & GAS MARKETING COMPANIES				59,605
OIL & GAS EXPLORATION COMPANIES				616,842
ENGINEERING				9,175
AUTOMOBILE ASSEMBLER				77,343
AUTOMOBILE PARTS & ACCESSORIES				8,497
CABLE & ELECTRICAL GOODS				8,094
TRANSPORT				9,398
TECHNOLOGY & COMMUNICATION				22,303
FERTILIZER				225,319
PHARMACEUTICALS				41,343
CHEMICAL				31,829
PAPER, BOARD AND PACKAGING				10,260
VANASPATI & ALLIED INDUSTRIES				11
LEATHER & TANNERIES				3,468
FOOD & PERSONAL CARE PRODUCTS				94,089
GLASS & CERAMICS				16,766
MISCELLANEOUS				10,342
TOTAL Rs. Millions				2,944,886
1% CORPORATE TAX REDUCUTION IMPACT (Rs. Millions)				29,449
NOTES:				
1) Loss making companies have been excluded from above				
2) Modarabas and REITS have also been excluded				
3) Assumption is that none of the companies are in tax holiday zones				
4) Impact of depreciation allowances has been ignored				

NOTES

1) 34 composite textiles sampled due to their high level of exports. PSX data for the most recent reported quarter (to 31 Mar 2025) adjusted to arrive at unconsolidated turnover and profit before tax.

2) An average export reliance of 85% used to simplify. Some like Gul Ahmed, Nishat and Sapphire have lower export reliance but the accurate split for the quarter was not available.

3) Assumed that 85% of reported profit before tax also represents the profit attributable to export income.

CONCLUSION

1) 24 out of 34 companies would over pay an aggregate of Rs. 984 Mn against their liability under the NTR regime due to the imposition of minimum tax on turnover.

2) Compared to the tax liability under the Normal Tax Regime, the imposition of minimum tax on turnover and Advance Tax on export realization would for 28 of the 34 companies result in excess payment of Rs. 3.54 Bn for the quarter.