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PHMA seeks tax, energy and trade reforms before budget



The Pakistan Hosiery Manufacturers and Exporters Association (PHMA) has called on the federal government to overhaul its tax, energy, and trade policies ahead of the Federal Budget 2026-2027, while pressing for urgent diplomatic action to shield Pakistan's exports from the fallout of the new US tariff regime and the proposed EU-India free trade agreement.

Presenting a nine-point agenda to the Senate Standing Committee on Finance and Revenue, the hosiery exporters calls for immediate relief on taxation, utility costs, and labour contributions while sounding the alarm over a gathering storm of external threats to the country's very export sector.

PHMA Patron-in-Chief and Former Chairman, Muhammad Jawed Bilwani submitted the proposals to Senator Saleem Mandviwalla, Chairman of the Senate Standing Committee on Finance and Revenue, following the association's participation in a pre-budget meeting held May 6-7 at Parliament House, Islamabad.

They argued that Pakistan's export industry cannot survive without a fundamental shift in government policies — from taxing existing registered businesses harder to facilitating growth that naturally expands the tax base and revenue.

In the set of proposals, the PHMA's most urgent demand is the reinstatement of the Fixed/Final Tax Regime for exporters, with a flat 1 percent turnover tax, alongside the abolition of the Super Tax on exports. The association described the current tax structure as incompatible with the realities of export business, where profit margins stand at just 2 to 3 percent.

Under the present Normal Tax Regime, corporate exporters face a 29 percent income tax liability, while individuals and associations of persons bear up to 45 percent — compounded further by a 10 percent Super Tax and a 10 percent additional surcharge introduced under Section 4AB of the Finance Bill 2024-25, applicable to those with annual taxable income exceeding Rs10 million. PHMA noted the Super Tax was originally introduced as a one-time emergency measure but has since been made a permanent code, adding to what the association called an unjust and unsustainable burden on compliant taxpayers.

On indirect taxation, PHMA demanded the reinstatement of the Export Facilitation Scheme to its original form under SRO-957(I)/2021, before amendments introduced in the Federal Budget 2024-25 abolished zero-rating on local supplies and forced registered exporters into a protracted refund cycle with the FBR.

The situation was further aggravated by SRO 1435(I)2025, issued August 5, 2025, which excluded raw cotton, cotton yarn, and cotton fabrics from the scheme entirely. Billions of rupees in sales tax refunds remain stuck with the government as a result. The hosiery exporters also proposed shifting import duty assessment from C&F to FOB valuation, which would strip freight costs out of the taxable base and reduce the financial burden on both importers and exporters.

A regional benchmarking table presented by PHMA laid bare Pakistan's cost disadvantage with uncomfortable clarity. Pakistani industry pays 14 cents per kilowatt-hour for electricity, against 8 cents in Vietnam, 9 cents in Bangladesh, and 7.2 cents in India. On gas, Pakistan charges USD14.13 per MMBTU for captive industrial use, compared to USD6.75 in India, USD6.50 in Indonesia, and USD9.82 in Bangladesh. The association demanded the reintroduction of Regionally Competitive Energy Tariffs, specifically electricity at 8 cents per kilowatt-hour all-inclusive and RLNG at USD7 per MMBTU all-inclusive for industrial and captive consumption.

The tax disparity is equally glaring. Pakistan's effective rate of 45 percent for individual and AOP exporters — inclusive of Super Tax and surcharge — towers over 10 to 12 percent in Bangladesh, 10 to 17 percent in Vietnam, 15 percent in Sri Lanka, and 22 percent in both Indonesia and India. Bangladesh sweetens its proposition further with cash export subsidies of up to 6 percent, while India offers targeted refund schemes under RoDTEP and RoSCTL that return 4 to 6 percent of FOB value to garment exporters. Pakistan, by contrast, currently offers no export incentive of comparable weight.

PHMA called for the revival of the Duty Drawback of Local Taxes and Levies scheme, suspended by the previous government, proposing a base rate of 5 percent on value-added exports with an additional performance-linked 2 percent for exporters achieving at least 10 percent year-on-year export growth. The association noted that the government has already extended DLTL to the rice sector and argued that value-added textile exporters deserve no less.

On labour welfare, PHMA urged suspension of mandatory contributions to EOBI, SESSI, and PESSI, contending that funds collected by these institutions have not been transparently utilized. As a cleaner alternative, the association proposed a model drawn from Bangladesh's experience, under which exporters would contribute 0.03 percent of their export turnover, deducted directly from export proceeds, toward labour welfare and social compliance obligations.

Two ease-of-doing-business proposals rounded out the domestic agenda. PHMA asked the FBR to allow seamless transfer of tax records — including compliance history, exemptions, and clearances — when businesses restructure from proprietorships to partnerships or companies, with old NTN profiles linked during the transition to preserve tax benefits and prevent administrative disruption, mirroring the harmonization mechanism already in place for sales tax between federal and provincial governments.

The association also called on the federal government to formally designate export and trade as an exclusive federal subject, free from provincial interference. Citing eight distinct grounds — consistency in national trade policy, adherence to

international trade commitments, one-window operational efficiency, uniformity in logistics laws across sea, land, and air corridors, elimination of overlapping regulatory jurisdiction, and the overriding need for centralized direction to drive export-led growth — PHMA argued that the current fragmented regulatory landscape raises costs, creates delays, and steadily erodes Pakistan’s standing in global markets.

Beyond domestic reform, the association flagged a convergence of external pressures it said demands immediate government action. The value-added textile sector, which contributed approximately USD17.1 billion in FY 2024-25 and accounts for around 96 percent of Pakistan’s total textile exports of USD17.88 billion, now faces simultaneous headwinds from three directions. The proposed EU-India Free Trade Agreement threatens to displace Pakistani exporters from one of their most critical markets.

The new US tariff regime compounds the damage by further eroding competitiveness and market access. And the ongoing regional conflict, combined with Pakistan’s strategic positioning, has prompted Gulf countries to reassess their policies toward Pakistan, putting at risk the approximately USD21 billion in annual remittances that Gulf-based workers have historically sent home — a flow of funds the broader economy can ill afford to lose.

PHMA called on the government to launch proactive trade diplomacy without delay to defend Pakistan’s export market share and negotiate favourable terms in an increasingly hostile global trade environment. Framing all nine proposals within a single overarching argument, PHMA urged the government to abandon the approach of squeezing more revenue from a shrinking pool of registered taxpayers and instead adopt a strategy of facilitating business growth to organically expand the tax base.

The association welcomed the establishment this fiscal year of a new Department for Tax Policy under the Finance Division and praised the FBR’s sharpened focus on revenue collection, but stressed that broadening the tax-to-GDP ratio must receive equal priority. It called for full transparency on taxpayer numbers and tax-to-GDP performance, and pointedly observed that taxpayers filing zero or nil returns contribute nothing to the national exchequer and must not be allowed to escape accountability while compliant exporters carry an ever-heavier load.

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