March 21, 2025

Honorable Finance Minister
Ministry of Finance
Government of Pakistan
Islamabad

Subject: Request to Reduce Tax Burden on Salaried Class and Enhance Tax Collection from the Undocumented Sector

Dear Honorable Finance Minister,

On behalf of the Salaried Class Alliance, Pakistan, we extend our profound regards and hope this letter finds you in good health and high spirits. We write to respectfully highlight the growing concerns of the salaried class in Pakistan regarding the escalating tax burden and the need for a more equitable tax system that aligns with the economic realities faced by the citizens.

As you are aware, tax collection from salaried segment in Pakistan has witnessed a significant surged from PKR 76 billion in 2019 to an expected PKR 570 billion in 2025. While we commend the government's commitment to enhancing revenue collection, it is important to note that this increase has disproportionately impacted the salaried class of our Country. Salaried individuals are already struggling with stagnant wages amidst historically high inflation, making it difficult to maintain a reasonable standard of living.

The removal of tax credits and deductible allowances through Finance Act, 2022 including those related to investments in shares, mutual funds, sukuk, life insurance, and health insurance, has further strained the financial resilience of salaried individuals. Moreover, the situation has been aggravated by the significant increase in tax rates introduced vide the Finance Act, 2024 including additional surcharge of 10 percent which has compounded the hardships faced by salaried workforce. This has forced a large number of salaried class to migrate abroad for better job opportunities and a standard of living. The elimination of deductible allowances on profits from loans by scheduled banks or non-banking finance institutions regulated by the SECP has further diminished available financial relief avenues.

While the current 10% medical allowance and its reimbursement are fully exempt under Clause 139 of Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, this allowance has not kept pace with inflation. Furthermore, no deductions are being allowed to this class for its expenses incurred to earn its salary income unlike other taxpayer groups. Additionally, the annual exempt threshold of PKR 600,000 has remained unchanged despite significant inflation over the past few years.

For your perusal, we would like to provide for a comparative analysis of the tax regime for salaried class in similar economies illustrating the disparity:

Country	**Annual Tax Exemption Limit (Local Currency)**	**Approx. Equivalent in PKR**	**Deductible Allowances**
India	INR 700,000	PKR 2,340,000	Medical expenses, home loans, investments
Bangladesh	BDT 350,000	PKR 890,000	Various deductions for salaried employees
Vietnam	VND 132,000,000	PKR 1,570,000	Personal and dependent deductions
Nepal	NPR 500,000 (individual) / NPR 600,000 (couple)	PKR 1,050,000 (individual) / PKR 1,260,000 (couple)	Medical expenses, retirement savings, education expenses

It is evident from the above data that Pakistan's tax system, with its relatively lower exemption limits and absence of meaningful deductions, places an inequitable burden on salaried taxpayers, rendering the system regressive.

Furthermore, the salaried class, being the most transparent and compliant, continues to shoulder the majority of the tax responsibility, while a large portion of the economy remains undocumented. It is imperative that the government intensifies its efforts to widen the tax net and bring the undocumented sectors; such as real estate, wholesale trading, and bring informal businesses into the formal taxation framework. Doing so will not only alleviate pressure on compliant taxpayers but also ensure sustainable revenue growth and equitable fiscal policy.

We therefore would like to make the following recommendations to the ministry to consider while finalizing the Finance Budget for 2025-2026:

- **Revise Tax Slabs**: Adjust the tax slabs for salaried individuals to align with the prevailing cost of living and global best practices or to least reinstate the tax rates to pre–Finance Act 2024 position **including removal of additional surcharge of 10 percent**. Surcharge is of penal nature which should not be imposed on the compliant taxpayers.
- **Increase Medical Allowance Exemption**: Raise the medical allowance exemption limit from 10% to 25% to reflect current healthcare costs.
- **Introduce Commuting and Related Allowances**: Allow a 15% deductible allowance to cover commuting and other unavoidable employment-related expenses.
- **Enhance Annual Exempt Threshold**: Increase the current exempt threshold from PKR 600,000 to at least **PKR 1,200,000**, acknowledging the erosion of purchasing power due to inflation.

In conclusion, we urge your esteemed office to give due consideration to the pressing issues faced by the salaried class. A revision of tax slabs, enhancement of exemption limits, reintroduction of key deductions, and a focused drive to tax the undocumented sectors will foster a fairer, more balanced taxation system for Pakistan.

We are confident that under your able leadership, necessary reforms will be introduced to safeguard the financial well-being of the salaried class while ensuring fiscal responsibility.

Yours sincerely,
Salaried Class Alliance, Pakistan

Cc:

The Chairman – FBR, FBR House, Islamabad

Member Policy - FBR, FBR House, Islamabad

Member Operations – FBR, FBR House, Islamabad

***Facebook & LinkedIn**: salariedclassalliance*
***Email address**: salariedclassalliance@gmail.com*