

Federal Budget

Pakistan Budget FY21 Initial Impression

- ✓ Federal Minister for Industries and Production, Mr. Hamad Azhar presented the budget for fiscal year 2020-21.
- ✓ GDP growth target for FY21 is set at +2.1% as against 0.4% negative growth in FY20 while fiscal deficit target has been set at PKR 3,195bn or 7.0% of GDP and Inflation target has been set at 6.5%
- ✓ The total outlay of budget 2020-21 is PKR 7,294.9bn. This size is 11% lower than the size of budget estimates 2019-20.
- ✓ FBR tax target has been set PKR 4,963bn (+27%, 10.9% of the GDP) whereas actual collection for FY20 stood at PKR 3,908bn down by 30% from FY20 budgeted amount of PKR 5,555bn, while Current expenditure is budgeted at PKR 6,345bn

Federal Minister for Industries and Production, Mr. Hamad Azhar presented the budget for fiscal year 2020-21. With a total outlay of PKR 7,294.9bn (down by 11%/y/y) the government is eyeing a GDP growth of +2.1% for FY21 with a budget deficit target of 7.0% of GDP and a tax collection target of PKR 5,464bn (up by +30%). While current expenditures are planned at PKR 6,345bn (down by 11%), development expenditures also see accretion of +25% to PKR 950bn.

Key Budgetary Highlights:

- ✓ The **total outlay** of budget 2020-21 is PKR 7,294.9bn. This size is 11% lower than the size of budget estimates 2019-20.
- ✓ The government has set a **Fiscal Deficit target of PKR 3,195bn** for FY21 (7.0% of GDP),
- ✓ With interest payment for the year targeted at PKR 2,946bn, **primary deficit comes at PKR 249bn** or 0.5% of GDP for FY21.
- ✓ **Gross revenue target has been set at PKR 6,573bn** (+19%/y/y) with Tax revenue target of PKR 5,464bn (+30%/y/y) and non-tax revenue (-14%/y/y) at PKR 1,109bn.
- ✓ **FBR tax target has been set PKR 4,963bn** (+27%, 10.9% of the GDP) whereas actual collection for FY20 stood at PKR 3,908bn down by 30% from FY20 budgeted amount of PKR 5,555bn
- ✓ **Current expenditure** is budgeted at PKR 6,345bn (down by 11%/y/y) whereas development expenditure is planned at PKR 950bn (up by +25%/y/y)
- ✓ The size of **Federal Public Sector Development Programme (PSDP) for 2020-21 is PKR 650bn** (PKR 1,324bn total) up by +15%/y/y.
- ✓ **Subsidies worth PKR 209bn** have been granted for FY21, compared to PKR 350bn for previous year.
- ✓ **Defence budget is set at PKR 1,289bn** up by +5%/y/y
- ✓ **GDP growth target for FY21 is set at +2.1%** as against 0.4% negative growth in FY20
- ✓ The Inflation target has been set at 6.5% for FY21 (current 11-12% in FY20) and gross debt is expected to reach 87% of GDP in FY21

Key tax measures

- ✓ Levy of FED on caffeinated energy drinks @ 25%
- ✓ Levy of FED @ 7.5% ad valorem in case of locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones.
- ✓ Rationalization of sales tax of Potassium Chlorate from PKR 70 to PKR 80 per kg to discourage illicit manufacturing of match boxes.
- ✓ Minimum Tax on is extended to Permanent Establishments of Non-Resident Persons. Currently it was being enforced on local companies

Key relief measures

- ✓ Extension up to 2023, in exemption of customs duties on imports for setting up new industries in erstwhile FATA area.
- ✓ Tariff rationalization under National Tariff Policy 2019, by reducing customs duty on 90 tariff lines from 11% to 3% and 0%.
- ✓ Exemption from customs duties on import of 61 COVID19 related items, which was due to expire on 20th June has been extended due to the continuation of pandemic.
- ✓ Reduction in regulatory duty on smuggling prone items to bring these items under legal imports
- ✓ Regulatory duty on several industrial inputs is also being reduced to decrease their cost of doing business
- ✓ Tariff protection for domestic industry by increasing/levy of regulatory duty on import of those items which are also locally manufactured
- ✓ Incentivizing soap manufacturing industry by reducing rate of Additional customs duty on Palm Stearin
- ✓ Enhancing scope of concessions available to Special Economic Zones
- ✓ The minimum threshold of supplies by retailers for obtaining CNIC of the buyers is proposed to be increased from PKR 50,000 to 100,000;
- ✓ Removal of WHT provision
 - Collection of advance tax on education related expenses remitted abroad
 - Withdrawal of balance under pension fund
 - Tax on local purchase of cooking oil or vegetable ghee by certain persons
 - Advance tax on functions and gatherings
 - Advance tax on dealers, commission agents and arhatis etc.
- ✓ Advance Tax On Extraction of Minerals to Extend to Persons on The Active Taxpayers List
- ✓ Tax Exemptions and Concessions for the Gwadar Port and the Gwadar Free Zone
- ✓ Reduction in Holding Period and Tax Rates for Capital Gain on Immoveable Property
- ✓ Enabling Adjustability of Property Expenses for All Individuals/AOPs
- ✓ Advance Tax on Auction of Immovable Property to be Collected in Installments
- ✓ PKR 100bn allocated for Corona fund, PKR 50bn allocated for Utilities Stores, PKR 100bn allocated for relief in Electricity & gas bills.

- ✓ Additional PKR 10bn allocated for agricultural sector & catering to locust issue. This is in addition to previously allocated PKR 50bn for this sector in PM's stimulus package.

Equity Market

Based on our initial impression of the Budget FY21, we believe Budget is largely Neutral for Equity Market. Most of the taxes have been carried forward to FY21, whereas no new taxes have been imposed. Whereas few incentives to construction, health and food sector is expected to be positive for market.

Key market related measures:

- ✓ **Corporate Tax:** No change in corporate tax rate,
- ✓ **Super Tax:** No super tax levied on companies other than banks whereas for Banks it has been maintained till FY21
- ✓ **Capital gain tax:** Tax rates on Capital Gain on disposal of securities in terms of Division VII, Part I of the First Schedule under section 37A of the Ordinance are being extended to Tax Year 2021 and onwards, implying no change in CGT,
- ✓ **Aligning Withholding and Charging Tax Rates - Dividends:** Currently, dividend is taxed at 25% if received from a company not liable to pay tax. However, the withholding tax rate on distribution of such dividend is 15%. The difference in the withholding and the charging rates has created an anomaly which is being removed by synchronizing both rates.
- ✓ **Minimum Turnover tax:** No change in minimum turnover tax
- ✓ **Promoting Investment in Government Debt Instruments:** The tax withheld on profit on debt from such government debt instruments shall be 10% of the gross amount paid which shall constitute final tax. The rate of 100% higher withholding tax rate for those not appearing on ATL shall not apply to such profit on debt.
- ✓ **Aligning Withholding and Charging Tax Rates - Return on Investment in Sukuks:** In the existing law, the rate of tax u/s 5AA on return on investment in Sukuks received from a Special Purpose Vehicle is 25%. However, the withholding tax rate is 15%. The difference in the withholding and the charging rates has created an anomaly which is being removed by synchronizing both rates.

Sector-wise measures

Exhibit: Sector-wise key measures taken in budgeted 2020-21		
Sector	Key Measures	Impact
Steel	PSDP for 2020-21 is set at PKR 1,324bn total down by 10%/y	Neutral
	Incentivizing and Promoting the Construction Industry	Positive
	Reduction in regulatory duty from 12.5% and 17.5% to 6% and 11%, respectively on Hot Rolled Coils (HRC) of Iron and steel.	Positive
	Prevailing concessional rates on meltable scrap of iron and steel, imported under the rescinded SRO 1125(I)/2011 dated 31.12.2011, has been maintained	Neutral
	Removal of WHT provision on steel melters	Positive
Cement	FED on cement from PKR 2 per kg to PKR 1.75 per kg.	Positive
	PSDP for 2020-21 is set at PKR 1,324bn total down by 10%/y	Neutral
REIT	Profit realized from sale of immovable property has been exempted from tax till 31st June, 2021 if development and construction of residential buildings is through REITs	Neutral
Fertilizer	Prevailing concessional rates on potassic and urea fertilizers, imported under the rescinded SRO 1125(I)/2011 dated 31.12.2011, has been maintained	Neutral
Automobile Assemblers	Levy of FED @ 7.5% ad valorem in case of locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones.	Neutral
OMC	Petroleum Levy has been proposed to be enhanced from PKR 216bn (revised PKR 260bn for FY20) to PKR 450bn	Neutral
Power	Subsidy to WAPDA/PEPCO has been proposed to be reduced to PKR 124bn for FY21 compared to PKR 191bn budgeted for FY20 (revised PKR 201bn)	Neutral-Negative
	Subsidy to KESC reduced to PKR 25.5bn for FY21 compared to PKR 59.5bn budgeted in FY20.	Neutral-Negative
Tobacco	Increase in the rate of FED on cigars, cheroots, and cigarillos and cigarettes from 65% to 100% of retail price; increase in the rate of FED on filter rods from PKR 0.75 to PKR 1 per filter rod,	Negative
	Levy of FED on e-liquids of electric cigarettes @ PKR 10 per ml.	Neutral
	Removal of Advance tax on tobacco	Positive
Communication	Removal of advance tax on cable operators and other electronic media	Positive
Packaging	Reduction in CD and removal of ACD on import of raw material by food packaging industry	Positive
Cable	Reduction of custom duty and exemption of additional custom duty and regulatory duty on import of raw materials by manufacturers of Wire rod	Positive
Edible Oil	Exemption from 2% ACD on import of edible oils and oil seeds under PM's COVID19 Relief Package has been extended.	Positive
Food	Exemption of duties & taxes on import of Dietetic Foods for Children with inherited metabolic disorders.	Positive
Pharmaceutical	Exemption of Customs duties on inputs of Ready to use Supplementary Foods (RUSF).	Positive
	Exemption of Customs duties on import of life saving drug Meglumine Antimonite for treatment of leishmaniasis.	Positive
	Exemption of all duties & taxes on import of Diagnostic Kits for Cancer and Corona Virus.	Positive
Can Manu.	Exemption of custom duties on import of raw material by beverage can manufacturers.	Positive
Banks	Super tax for banking companies maintained	Neutral
	Exempting Withholding Tax on Cash Withdrawal to the extent of Foreign Remittances	Positive
	Removal of advance tax on insurance premium	Neutral-Positive

Source: IGI Research, Federal budget 2021

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