

## Economic Reform Package

The much anticipated finance bill amendments for the ongoing year 2018-19 dubbed “Economic Reform Package” was presented to parliament today by finance minister Asad Umar. The finance minister started his discourse by evaluating outgoing government fiscal management performance citing total budget deficit for FY18 at 6.6% of the GDP or PKR ~2.3trn compared to previous government understated fiscal deficit of PKR ~1.9trn. Nevertheless, the budgetary measures taken today echo government’s continuing effort to benefit the underprivileged segment of the country.

### More on tax relief

In short we see budget to have a positive impact on the market. However, it does lack concrete steps to address country’s ailing tax revenues. Sector – wise Banks, Textiles and Autos to respond positively to new changes in bill, while for fertiliser issue related to reduction in GIDC will be resolved in the cabinet meeting.

Sector	Budgetary Measures	Comments	Impact	Key Beneficiaries
General Industries and manufacturers	Regulatory Duty on raw materials for various imported goods reduced/abolished	Impact varies industry wise	Neutral - Positive	
	Tax relief on inter-corporate dividend restored	Tax on dividend derived from inter-corporate holdings is now abolished, this will impact Group companies.	Positive	
	Tax on undistributed profits abolished (eff. July-2019 onwards)	Punitive tax penalty of 5% on undistributed profits (tax ordinance 5A) has now been abolished, which is improve overall cash management for corporates.	Positive	
	Super-tax on non-banking companies abolished after 2019	This will have major bottom-line relief on companies having excess of PKR 500mn net income.	Positive	
	Annual 1% decline in corporate tax rate unchanged	Continuation... Corporate tax rate for companies will be reduced by 1% each year from current 29% to 25% by 2023. However, for banks there is no change in corporate tax.	Neutral - Positive	
	Government to issue 'Promissory Notes'	To improve exporters liquidity and resolve sales tax refund, government will issue 'Promissory Notes', mainly to resolve textile sector outstanding sales tax refunds.	Positive	Textiles
Stock Market	WHT of 0.02% on sale/purchase of shares	Expected to improve market volumes	Positive	
	Capital losses for year 2019, can now be carried forward for the next 3years		Positive	
Automobile Assemblers	Non-filers can now buy vehicles with engine capacity of 1,300cc and below, however tax rate has been increased	Overall, this measure will provide some relief as against the previous measure where non-filers were completely barred from purchasing cars. Auto assemblers having a higher contribution driven from small variant size engine, will benefit the most.	Neutral-Positive	INDU / PSMC
	Higher tax rates for imported vehicles having engine capacity 1,800cc and above	This will shift demand to local auto assemblers, producing cars over and above 1800cc	Positive	INDU / HCAR
Commercial Banks	20% corporate tax rate for banking sector on income generated from additional loans to SME, Agri and Low-income Housing Schemes	This initiative by govt. is to extend credit facilities in SME, Agri and Housing Sector, such as that of Microfinancing banks. However, we view commercial banks are unlikely to grab on this opportunity in full flavour, primarily due to high infection ratio held by SME historically and secondly due to impact on CAR, with few banks having the right capital to extend such credit loans. Nevertheless, this is a positive development.	Positive	NBP, HBL, ABL, UBL / BOP, BAFL, FABL
	WHT on banking transaction abolished for Filers only	We do not expect a major implication of this on banking transaction growth	Neutral	
	Super-tax	No relief on super-tax	Neutral	
	PKR 5bn interest free revolving loan 'Qarz-e-hasna' for companies providing low-income housing scheme	We do not expect a major impact of this on commercial banks	Neutral - Positive	
Fertiliser	GIDC will be reduced and PKR 200/bag reduction in Urea prices (Issue to be disclosed tomorrow after consultations with stakeholders)	Decision to reduce GIDC will be offset by decline in urea prices by PKR 200/bag. Company-wise, EFERT, FATIMA and FFC stand a loss, while FFBL is likely to gain	Neutral - Negative	FFBL - Positive
<b>Other tax measures</b>				
Special Economic Zones	SEZ plants and machineries exempted from all taxes		Positive	
Greenfield Projects	Greenfield 5years income tax holiday and withdrawal of custom duty on all machineries imported		Positive	
Renewable Power generation	All taxes abolished on production of renewable power generation machinery for the next 5years		Positive	
Property	Non-filers can now buy property valued PKR 5.0million and below		Positive	
Traders and Commercial Importers	WHT on traders/commercial importers changed from 6% minimum tax rate to FTR		Positive	

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Pakistan Customs Tariff					
PCT code	Description	Previous	Revised	Conditions	
9925	Pharmaceuticals instruments added to the First Schedule	0%	0%	0%	Instruments added
3901	Polymers of ethylene, in primary forms	5%	3%	-2%	Reduced
4801	Newsprint in rolls or sheets	5%	0%	-5%	Removed
Footwear Sector					
3506.91 10	Shoe adhesives	16%	16%	0%	Unchanged
3926.906	Shoe lasts	20%	16%	-4%	Reduced
8453.2	Machinery for making and repairing footwear	3%	0%	-3%	Removed
8477.9	Parts	3%	0%	-3%	Removed
8480.71	Injection or compression types	3%	0%	-3%	Removed
Tanners					
2915.11	Formic acid	20%	16%	-4%	Reduced
3204.13	Basic dyes and preparation	3%	3%	0%	Maintained
3809.92	tanners used in paper industries	16%	11%	-5%	Reduced
3906.902	acrylic binders	16%	20%	4%	Increased
3909.5	Polyurethanes	3%	0%	-3%	Removed
Home appliances sector					
2902.191	CycloPentane	3%	0%	-3%	Removed
2903.393	Tetrafluoroethane	3%	0%	-3%	Removed
3903.3	Acrylonitrile butadiene styrene (ABS) co-polymers	3%	0%	-3%	Removed
3907.2	other poly-ethers	3%	0%	-3%	Removed
3919.101	insulation tape double sided	11%	0%	-11%	Removed
7607.191	Adhesive tape	3%	0%	-3%	Removed
8418.991	Evaporators	3%	0%	-3%	Removed
8501.1	Motors of an output exceeding 37 5 W	3%	0%	-3%	Removed
9032.101	Refrigerators, deep freezers and air conditioners	3%	0%	-3%	Removed
Infant Formula					
1901.909	Others	20%	5%	-15%	Imports By Manufacturers Of Infant Formula Milk
Chemical manufacturing					
2902.41	o-Xylene	3%	0%	-3%	Removed
2905.16	Octanol (octyl alcohol) and isomers thereof	3%	0%	-3%	Removed
3812.39	Other	3%	3%	0%	Unchanged

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