

Pakistan Federal Budget

Initial Impression: Pakistan Budget 2023-24

Key macroeconomic targets for FY24

GDP growth at market price: +24.5%

GDP size: PKR 110 trillion

GDP growth: +3.5%

Services: +3.6%

Agriculture: +3.5%

Industry: +3.4%

Inflation: +21%

- Finance minister presented the Budget 2024, with an total outlay of PKR 14.5 trillion.
- Tax Revenue target has been set at PKR 9.2 trillion whereas current expenditure is PKR 13.3 trillion.
- Total budget deficit for FY24 is projected at PKR 7.6 trillion or PKR 6.54% of the GDP.
- GDP growth for FY24 is targeted at 3.5% whereas inflation is estimated at 21%

Federal Budget 2023-24

We review key summary points from 2023-24 budget speech announced on 9th June, 2023. The budget for the fiscal year has a total outlay of PKR 14.46 trillion. The revenue target is set at PKR 9.2 trillion, with non-tax revenue estimated to be PKR 3.0 trillion. Notably, interest payments will account for a significant portion, totaling PKR 7.3 trillion, which is approximately 79% of the tax revenues. In terms of development expenditure, the government has allocated PKR 1.14 trillion, with the federal PSDP (Public Sector Development Program) set at PKR 0.95 trillion. As a result, the budgeted deficit for the year stands at PKR 7.6 trillion or 6.5% of the GDP, representing a decline compared to 7.1% in the previous fiscal year.

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Exhibit: Budget 2024, at a glance
in PKR trillion

Total Resources	14.46	Total Expenditure	14.46
Tax Revenue	9.20	Current	13.32
Non-Tax Revenue	2.96	Interest Payments	7.30
Gross Revenue	12.16	Pension	0.76
Less: Provincial Share	5.28	Defense	1.80
Net Revenue	6.89	Grants to provinces	1.46
Non-bank Borrowing	1.91	Subsidies	1.07
Net External Borrowing	2.53	Running of Civil Govt	0.71
Bank Borrowing	3.12	Development	1.14
Privatization	0.02	Federal PSDP	0.95
		Net lending	0.19

Source: IGI Research, Newsprint, Ministry of Finance

Key tax measures related to stock market and corporate earnings of listed companies

Industry	Tax measures	Impact
Stock Market	Rationalization of Super Tax under section 4C to apply on all persons across the board on income above Rs. 150 (m). Insertion of additional three new income slabs of: - Rs. 350(m) to Rs. 400(m), to be taxed at 6% - Rs. 400(m) to Rs. 500(m) to be taxed at 8% - Rs. 500(m) above to be taxed 10%.	Negative
	Insertion of enabling provision for computation, collection and payment of super tax under section 4C.	
	Re-imposition of 10% final withholding tax on issuance of bonus shares by a company (20% for non-ATL).	Negative
	Reduction of minimum tax liability on turnover from 1.25% to 1.0% for companies listed on Pakistan Stock Exchange.	Positive
	Imposition of additional tax at the rate not exceeding fifty percent on income profit and gains of a person or class of persons on account of extraordinary gains due to exogenous factors.	Negative
Banks	Removal of technical mistake in banking sector super tax regime by substituting tax year 2022 with tax year 2023.	Neutral
	Extension for two years for the purpose of concessionary tax rate of 20% for banking company's income from additional advances to low cost housing, agriculture, and SMEs including IT & ITeS.	Neutral
	Re-imposition of 0.6% advance adjustable withholding tax on non-ATL persons on cash withdrawal.	Neutral
	Increase in withholding tax rate from 1% to 5% on payment to non-resident through debit/credit or prepaid cards. (2% to 10% for Non-ATL person).	Neutral
IT & ITeS	Continuation of concessionary fixed tax rate of 0.25% for IT & ITeS exports for Tax years 2024, 2025 and 2026.	Positive
	Grant of exemption of sales tax on import of IT equipment by exporters of IT and ITeS registered with Pakistan Software Export Board.	Positive
	Withdrawal of Sales Tax return filing requirement for availing concessionary fixed tax rate of 0.25% for IT & ITeS exports.	Positive
	Increase in business turnover limit of a manufacturer from Rs. 250 (m) to Rs. 800(m) to qualify for concessionary tax regime for SMEs and inclusion of IT & ITeS in SMEs definition.	Neutral
	Concessionary tax rate of 20% on banking company's income from additional advances to IT & ITeS sector instead of standard rate of 39%.	Positive
Leather and Textile	Enhancement in reduced rate of sales tax from 12% to 15% on supplies made by the POS retailers dealing in leather and textile products.	Negative

Autos	Withdrawal of capping of the fixed duties and taxes on the import of old and used vehicles of Asian Makes above 1300 CC	Positive
REIT	Extension of exemption for one-year granted to a person to profits and gains on sale of immovable property or share of special purpose vehicle to any type of REIT scheme i.e. up to 30th June, 2024.	Positive
Pharmaceutical	Incentive for Pharma sector by including one more API and 03 drugs in the existing duty free regime.	Positive

Key Salient Features of Budget 2024

Customs duties

Exemption of customs duties on:

- Specific papers, art card, and board for printing the Holy Quran.
- Machinery, equipment, and inputs for manufacturing solar panels.
- Raw materials for manufacturing diapers, sanitary napkins, adhesive tape, capacitors, molds, and dies.
- Duty-free import of IT equipment for exporters of IT and IT-enabled services equivalent to 1% value of their export proceeds.

Removal or reduction of regulatory duty on:

- IT-related equipment.
- Second-hand clothing, fish, tiles, and sports goods
- Pet scrap for manufactures of polyester filament yarn
- Various parts and materials.
- Certain articles to protect local industries.
- Specific industrial inputs.
- Reduction from 10% to 5% on non-localized (CKD) of Heavy Commercial Vehicles (HCVs)
- Increase in export regulatory duty on Molasses

Other Miscellaneous:

- Incentives for the pharmaceutical sector by including additional APIs and drugs in the duty-free regime.
- Creation of separate PCT codes for smartwatches and wooden splints for matches.
- Changes in descriptions of PCT codes for specific items.
- Withdrawal of capping of fixed duties and taxes on the import of old and used vehicles of Asian makes.

- Increase of Customs duty on Carbides of Calcium from 3% to 11% to protect the local industry.

Sales Tax Measures

Exemption of sales tax on;

- Contraceptives and accessories,
- Plant saplings,
- Agricultural equipment,
- Bovine semen,
- Imported IT equipment for IT and ITeS exporters, and
- Extension of sales tax exemption for NMDs (FATA/PATA) for another year.

Revenue Measures:

- Removal of sales tax exemption on bulk sales of branded edible products.
- Increase in sales tax rate from 12% to 15% for leather and textile products sold by POS retailers.

Streamlining Measures:

- Enhancement of penal action scope by replacing "cigarette packs" with "goods specified by the Board".
- Expansion of zero-rating provision (S. No. 21 of Fifth Schedule) for exporters under Export Facilitation Scheme, 2021 to include "commodities".
- Harmonization Measures:
- Exclusion of production, transmission, and distribution of electricity from sales tax, in accordance with the decision of National Tax Council.

Income Tax Measures

Imposition or re-imposition of;

- Adjustable advance tax at Rs. 200,000 at the time of issuance of work permit/visa on employment of a foreign domestic helper.
- Imposition of additional tax at the rate not exceeding 50% on income profit and gains of a person or class of persons on account of extraordinary gains due to exogenous factors.

- 0.6% advance adjustable withholding tax on non-ATL persons on cash withdrawal.
- 10% final withholding tax on issuance of bonus shares by a company (20% for non-ATL).

Increase in;

- 0.5% increase in withholding tax rate for commercial importer on import of goods falling in Part III of Twelfth Schedule to the Income Tax Ordinance, 2001.
- Withholding tax rate for commercial importers on specified goods.
- Increase in withholding tax rate from 1% to 5% on payment to non-resident through debit/credit or prepaid cards. (2% to 10% for Non-ATL person).
- 1% increase in withholding tax rates on supply of goods other than sale of rice, cotton seed or edible oils, on rendering of services including service subject to concessionary tax rate of 3% but excluding electronic and print media advertising services and on execution of contracts excluding sportsperson.

Other;

- Rationalization of Super Tax under section 4C to apply on all persons across the board on income above Rs. 150 (m). Insertion of additional three new income slabs of:
 - Rs. 350(m) to Rs. 400(m), to be taxed at 6%
 - Rs. 400(m) to Rs. 500(m) to be taxed at 8%
 - Rs. 500(m) above to be taxed 10%.

Concessionary tax rate;

- Continuation of concessionary fixed tax rate of 0.25% for IT & ITeS exports for Tax years 2024, 2025 and 2026
- Concessionary tax rate of 20% on banking company's income from additional advances to IT & ITeS sector instead of standard rate of 39%.
- Extension for two years for the purpose of concessionary tax rate of 20% for banking company's income from additional advances to low cost housing, agriculture, and SMEs including IT & ITeS.
- Encouraging export of commodities (Agriculture produce, gems, metals etc) through online platform by providing 1% concessionary final tax rate to indirect exporters.

- Increase in business turnover limit of a manufacturer from Rs. 250 (m) to Rs. 800(m) to qualify for concessionary tax regime for SMEs and inclusion of IT & ITeS in SMEs definition.

Tax Reduction/ waiver/ Exemption & tax Holidays;

- 10% reduction in tax liability or Rs. 5 (m) whichever is lower for a builder and 10% reduction or Rs. 1 (m) whichever is lower for an individual for own construction of house for three years.
- 50% reduction in tax liability for three years for youth entrepreneurship (maximum limit of Rs 2 million for Individual / AOP and Rs 5 million for a company). Youth is defined as a natural person up to the age of 30 years.
- Waiver of 2% final withholding tax on purchase of immovable property for non- resident individual POC/NICOP holder where immovable property is acquired through foreign remittances remitted from abroad.
- Reduction of minimum tax liability on turnover from 1.25% to 1.0% for companies listed on Pakistan Stock Exchange.
- Extension of exemption for one-year granted to a person to profits and gains on sale of immovable property or share of special purpose vehicle to any type of REIT scheme i.e. up to 30th June, 2024.
- Extension of Income Tax exemption for one year i.e. up to 30th June, 2024 for resident persons of FATA/PATA.
- Five years tax holiday for agro based industries being SMEs set up on or after 1st July, 2023 from tax year 2024 to tax year 2028.
- Enhancement of monetary limit of foreign remittance remitted from outside Pakistan from five million rupees to rupee equivalent of USD 100,000 for the purpose of section 111(4) which places bar on asking nature and source of unexplained income/assets.
- Withdrawal of Sales Tax return filing requirement for availing concessionary fixed tax rate of 0.25% for IT & ITeS exports

Streamlining & Documentation Measures;

- Clarification in carry forward regime of minimum tax on turnover.
- Correction in banking sector super tax regime.
- Provision for computation, collection, and payment of super tax.
- Re-imposition of advance adjustable withholding tax.

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