

## Budget

### Pakistan Federal Budget

#### Pakistan Budget 2021–22 Initial Impression

- Minister of Finance presented the budget for fiscal year 2021-22, with a total outlay for budget is set at PKR 8,487bn, this size is roughly +16% higher budget estimates 2020-21.
- For a starter, overall budget deficit for 2021 comes in at PKR 3.2trn or 7.0% of the gdp, for 2022 government is targeting PKR 3.42trn 6.3% of gdp (up by 7% y/y).
- On economic front, for year 2022, the government is eyeing a gdp growth of +4.8% comprising of 3.5%, 6.8% and 4.7% projected growth in the agricultural, industrial and services sector respectively. Moreover, Inflation rate for 2022 is projected to fall down to 8% compared to current level of 9% in the outgoing fiscal year.

We review key summary points from 2020-22 budget speech announced on 11th June, 2021.

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For a starter, overall budget deficit for 2021 comes in at PKR 3.2trn or 7.0% of the gdp, for 2022 government is targeting PKR 3.42trn 6.3% of gdp (up by 7% y/y). Moreover, government has budgeted in for a primary deficit at PKR 360bn or 0.7% of the gdp. On revenue side, FBR tax collection is targeted at PKR 5.83trn (up by +17.5%), whereas expenditures are planned at PKR 8.48trn (up by +19%).

On economic front, for year 2022, the government is eyeing a gdp growth of +4.8% comprising of 3.5%, 6.8% and 4.7% projected growth in the agricultural, industrial and services sector respectively. Moreover, Inflation rate for 2022 is projected to fall down to 8% compared to current level of 9% in the outgoing fiscal year and current account balance is projected to be in surplus of USD2.3bn as compared to a surplus of USD 0.8bn in FY21. FY22 target for exports and imports in 2022 stands at 26.8bn and 55.3bn respectively which is projected to widen trade balance to USD 28.5bn.

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## Key Budgetary Highlights

Nevertheless, some of the key highlights from the budget 2022 speech are;

- The total outlay of budget 2022 is PKR 8,487bn.
- The government has set a fiscal deficit target of PKR 3,420bn or 6.3% of GDP
- FBR tax target has been set PKR 5,829trn up by +17.5% from last year budgeted amount, of PKR 4,96bn. However for 2021, government missed the FBR tax collection target by PKR 273bn or 6%.
- Current expenditure is budgeted at PKR 7,523bn up by +19%y/y.
- The size of Federal Public Sector Development Programme (PSDP) is targeted at PKR 900bn u from PKR 650bn last year budgeted amount. However in actual total PSDP deployed fell short by PKR 20bn or 3%.
- Subsidies worth PKR 682bn have been granted for FY22, compared to PKR 209bn for previous year almost up by 3.3x. Majority of increase is down to payments planned for IPPs worth PKR 136bn and PHPL PKR 118bn.

### Exhibit: Key salient features of Budget 2021-22

#### Revenue Measures:

- The sale of goods through online market place is proposed to be brought into the sales tax net by deeming the online market place as supplier in respect of third party sales through their platform.
- For specified goods, it is proposed that it may be made mandatory for manufacturers of such goods to obtain brand license for each separate brand or SKU.
- Section 56C provides for prize scheme to promote tax culture. To ensure that the said incentive is not misused, a new sub-section is proposed to be inserted to provide for randomize "mystery shopping".
- The rate of sales tax on potassium chlorate is proposed to be increased from Rs. 80 per kg to Rs. 90 per kg in addition to 17% standard rate.
- Zero-rating is proposed to be withdrawn from Petroleum Crude Oil, parts/components of zero-rated plant and machinery, import of plant and machinery by petroleum and gas sector and supply, repair and maintenance of ships.
- Sixth Schedule is proposed to be streamlined and exemptions other than relating to basic food items, health and education are proposed to be withdrawn.
- Eighth Schedule is proposed to be streamlined and reduced rates other than relating to basic food items, health and education are proposed to be brought into standard regime.
- Reclaimed lead and used lead batteries is an unorganized sector. Therefore, entire amount of sales tax in respect of sales of such goods is proposed to be withheld at source under Eleventh Schedule.
- To ensure collection of due taxes, sales tax on sugar is proposed to be levied on retail price by including the said product in Third Schedule.

#### Exemptions:

- from federal excise duty 4-wheelers granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Federal Excise Act.
- from value addition tax on import of electric vehicles, CKD kits for small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions was granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Twelfth Schedule.
- of ACD on import of raw materials for cables / optical fiber manufacturers.
- of CD & ACD on 06 life-saving drugs.
- of CD & ACD on more than 350 APIs
- of CD & ACD on raw material of auto-disable syringes and Reduction in tariff on finished auto-disable syringes
- on import of CKD kits for electric vehicles by manufacturers granted by Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- to auto disable syringes granted vide Tax Laws (Second Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.

### Reductions/Exemptions:

- of CD & ACD on goods falling under more than 100 PCT codes relating to Tourism industry.
- of CD & ACD on inputs for Electronics Manufacturing Industry.
- of CD & ACD on inputs for poultry industry.
- of CD & ACD on raw material for manufacturer of aseptic plastic packaging.
- of CD & ACD on raw materials / inputs of furniture, coating, boiler manufacturing industry, bobbins and cops manufacturing industry etc.
- of CD & ACD on raw materials for Chemical and Artificial Leather Industry
- of CD & ACD on raw materials for Paint Industry.
- of CD & ACD on Vaccines for veterinary medicines and feed additives to incentivize the dairy sector.
- of CD and ACD on raw materials and intermediary goods and point of sale machines falling under 328 tariff lines as a consequent of tariff rationalization.
- of CD, ACD & RD on import of flat rolled products of HRC and stainless steel.
- of CD, ACD & RD on import of goods falling under 589 PCT codes to incentivize the textile industry.
- on inputs / raw materials of food processing industry.

### Other:

- Extension in exemption from customs duties on import of COVID-19 related items for further six month.
- The minimum annual threshold of turnover from all supplies for cottage industry is proposed to be increased from Rs. 3 million to Rs. 10 million.
- The rate of federal excise duty on telecommunication is proposed to be reduced from 17% to 16%
- To encourage IT industry in the country, import of plant, machinery and raw material by Special Technology Zone is proposed to be exempted from sales tax.
- To incentivize the pharmaceutical sector and to keep the prices stable in the market,
- it is proposed that small cars upto engine capacity of 850cc may be exempted from value added tax besides reducing sales tax rate from 17% to 12.5%.
- Plant, machinery and equipment subject to concessionary rate of 5%
- Public limited companies are proposed to be excluded from the purview of section 8B.
- Rationalization of tariff structure on auto sector
- Reduced rate of sales tax @ 1% on locally supply of electric vehicles granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule

### Export Facilitation Measures:

- To ease of doing business, a new Uniform Export Facilitation Scheme is being proposed. The existing schemes shall be phased out in next two years.
- Bond to Bond Transfer of goods through WeBOC without prior approval of the Collector is being proposed to be allowed.
- Reduction of RD on export of molasses, skin and hides to boost positive image of the country with our important trading partners across the world.

### Ease of doing business:

- For promoting ease of doing business, the concept of Common Identifier Number is proposed to be introduced.

### Relief Measures

- The rate of sales tax on potassium chlorate is proposed to be increased from Rs. 80 per kg to Rs. 90 per kg in addition to 17% standard rate.
- Zero-rating is proposed to be withdrawn from Petroleum Crude Oil, parts/components of zero-rated plant and machinery, import of plant and machinery by petroleum and gas sector and supply, repair and maintenance of ships
- Sixth Schedule is proposed to be streamlined and exemptions other than relating to basic food items, health and education are proposed to be withdrawn.
- To ensure collection of due taxes, sales tax on sugar is proposed to be levied on retail price by including the said product in Third Schedule.
- Special regime for export of services at par with export of goods to be taxed @ 1% under final tax regime.
- Elimination of block taxation of property income and shift to normal tax regime.
- Reduction of block taxation on capital gain on disposal of immovable properties if gain exceeds Rs. 20 million.
- Tax on "on" money on vehicles, if vehicle is disposed without registration.
- Reduction in block taxation on interest income, if it exceeds Rs. 5 million.
- Withdrawal of personal income tax exemptions
- Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10 years.

- Tax exemption on the import of capital goods and dividend income of private funds from investment in special technology zone enterprise.
- Reduced rate of withholding tax of 3% on oilfield services, warehousing services, logistic services, collateral management services and telecommunication services.
- Allowance of provincial WWF and WPPF as a deductible allowance while calculating income.
- Adjustment of business loss against property income.
- Reduction in tax rate on capital gain tax on disposal of securities from 15% to 12.5%.
- Inclusion of live animals, raw hides and unpackaged meat in definition of agriculture produce.
- Exemption from tax on import of books and agriculture equipment.
- Tax exemptions and concessions for Roshan digital accounts and implementation of electric vehicles and mobile phone policy implemented vide Tax Laws (Amendment) Ordinance, 2021 dated 11.02.2021 made part of bill

#### WHT Withdrawn:

- Collection of tax on cash withdrawal.
- Collection of tax on banking instruments.
- Collection of tax on certain petroleum products.
- Collection of tax on domestic air travel.
- Collection of tax on international air travel.
- Collection of tax on extraction of minerals.
- Collection of tax from members by a stock exchange registered in Pakistan
- Collection of tax on marginal financing by NCCPL
- Collection of tax from CNG stations.
- Collection of tax on banking transactions other than through cash.
- Collection of tax on payment of royalty to residents.
- Collection of tax from persons remitting amounts abroad through credit or debit or prepaid cards.

#### WHT Merged:

- Deduction of tax on return on investment in Sukuks. --- TO ---Proposed to be merged in section 151 for residents and in section 152 for non-residents which deal with such payments.
- Deduction of tax on payments for foreign produced commercials. --- TO ---To be merged with section 152 which deals with payments to non-residents.
- Collection of tax on dividend in specie. --- TO ---To be merged with section 150 which deals with dividend.

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