Day Break

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Economy

Proposed Changes in Income Tax Law

Government Proposes Multiple Changes To Tax Relief Ahead Of IMF Meeting

- Government proposes changes in tax exemption as Pakistan authorities meet0up (likely by month end)
- Federal government has been supposedly supporting the said proposition of the upcoming finance bill pertaining to withdrawal of various tax exemption for industries whilst, National assembly yet to announce final decision.
- . Overall we think proposed changes will have a "neutral" impact on market.

Government proposes multiple changes to tax relief ahead of IMF meeting

As per media reports, government has proposed possible changes in the Income tax law for the year 2021. Removal of these tax exemptions are likely to add nearly PKR 70-150bn in the national kitty, which at times of ongoing IMF Extended Fund Facility (EFF) negotiations for disbursement becomes rather critical.

Federal government has been supposedly supporting the said proposition of the upcoming finance bill pertaining to withdrawal of various tax exemption for industries whilst, National assembly yet to announce final decision.

Nevertheless, from market standpoint we expect proposed removal of tax exemption mainly pertains to a move from tax exemption to tax credit with enhanced documenting and criteria. Overall we do not expect a major negative impact, but rather a "**neutral**".

We highlight possible impact of proposed changes in the Income Tax law.

Analyst

Saad Khan
saad.khan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 912

Abdullah Farhan
abdullah.farhan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 912

Muhammad Shumail Rauf
Shumail.rauf@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 957

Exhibit: Proposed changes in finance bill

Sector	Tax section amended	Tax Amendment	Comments	Implication	Severity	Companies impact
Cements	Omitted: 103c	**Inter-corporate dividends**	Dividend income derived by a company, if the recipient of the dividend, under group relief. This will have negative bearing for companies having group structure and conglomerate.	Negative	High	LUCK, MLCF, DGKC
	Replaced: 65D to 65G	**Tax Credit for specified Industrial Undertaking (Greenfield):**	Pertaining to Greenfield investments, tax credit are now been reduced to a maximum of 25% compared to previous 100% for incorporation carried between, Jun-19 to Jun-24, along with a maximum tax credit carry forward period of 2 years.	Negative	Medium	FCCL
Fertilisers	Omitted: 103c	**Inter-corporate dividends**	Dividend income derived by a company, if the recipient of the dividend, under group relief. This will have negative bearing for companies having group structure and conglomerate.	Negative	High	FFBL, ENGRO
	Omitted: 141	**Setting up of LNG terminals**	Profit and gains derived by LNG Terminal Operators and Terminal Owners such as Engro's ENERGAS for a period of five years is been proposed to be removed.	Neutral	Nil	ENGRO
	Addition: 65F, Removed: 132B	**Tax Credit of 100% allowed**	Coal mining projects in Sindh supplying coal for purpose of power generation. This applies to ENGRO (SECMC - Sindh Engro Coal Mining Company), with enhanced criteria.	Neutral	Medium	ENGRO (SECMC)

Sector	Tax section amended	Tax Amendment	Comments	Implication	Severity	Companies impact
Refineries	Substituted: 126B, Omitted: 126BA	**Tax exemption on refinery setup**	Tax exemption will be extended to now incorporate new deep conversion refineries (min: 100,000 bbl. per day capacity), upgradation/ modernization/ expansion having approval before 31st Dec, 2021.	Positive	Medium	
Steel	Omitted: 103c	**Inter-corporate dividends**	Dividend income derived by a company, if the recipient of the dividend, under group relief. This will have negative bearing for companies having group structure and conglomerate.	Negative	Medium	INIL
Power	Substituted: 132	**Profits and gains derived by a taxpayer from an electric power generation**	No tax exemption will be extended for IPPs who wish to enter in an agreement or acquire letter of intent after 30 June, 2021.	Neutral	Nil	
	Omitted: 74	**Profit on debt derived by Hub Power**	This pertains to Hub Power Company (HUBC) deriving profits/income from bank deposits or accounts with financial institutions directly connected with financial transaction relating to project operations. HUBC- nearly 6-7% (gradually declining to 3%) of its income portion is derived from penal interest income on overdue receivables. However, much needed clarity is required on this.	Negative	Medium	HUBC
	Addition: 65F, Removed: 132B	**Tax Credit of 100% allowed**	Coal mining projects in Sindh supplying coal for purpose of power generation. This applies to ENGRO (SECMC - Sindh Engro Coal Mining Company), with enhanced criteria. HUBC has very minimal stake ~8%.	Neutral	Nil	HUBC
Other	Omitted: 99A	**REIT: Profits and gains accruing to a person on sale of immovable property**	Tax exemption on gains accruing to a person on sale of immovable property to a REIT Scheme for both development & rental purposes now stands removed. This will have more pronounced impact on new listing REITs but not on DCR.	Neutral	Medium	
	Omitted: 72A	**Sukuk Company: Income derived by Sukuk Holders**	Any income derived by Sukuk holder in relation to Sukuk issued by "The Second Pakistan International Sukuk Company Limited" and the Third Pakistan International Sukuk Company Limited, including any gain on disposal of such Sukuk, has been proposed to be removed.	Neutral	Low	
	Omitted: 65C	**IPOs: Tax credit for enlistment**	Company's enlistment in stock exchange in Pakistan before the 30 June, 2022 was previously able to avail tax credit equal to 20% for the first two years and 10% for subsequent two years. This tax credit has now been removed, which can discourage new listings post Jun-21.	Negative	Medium	
	Addition: 65F	**IT: Tax Credit of 100% allowed**	Start-up certified by Pakistan Software Export Board, income derived from exports of software or IT services all stand to benefit from 100% tax credit. Given certain criteria has been met including 80% of exports proceeds are bought in Pakistan, etc. This should benefit IT sector.	Neutral	Low	

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IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Areesha Ishrat	Trainee Analyst	Tel: (+92-21) 111-234-234 Ext: 810	areesha.ishrat@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

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Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	**Islamabad Office** Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**Rahim Yar Khan Office** Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009