**Desperate Times, un-impressive Budget**

Desperate times call for desperate measures yet the budget unveiled by the government on 12th June, 2020 lacked creativity and showed no sense of the emergency at hand. The economic activity generating sector including the business and industrial community is now sandwiched between anti-business policies crafted under the IMF and economic consequences of government's weak handling of covid-19.

The government had hyped up the budget like a good movie trailer, promising no new taxes. Yet when the budget was presented in the parliament, it received mixed response from majority of the stakeholders.

The budget contained few good steps, such as no new taxes (a delusion that might change if the government decides to launch a mini budget), reduction in custom and regulatory duties, etc. However, these measures can be considered mere window dressing and cosmetic tactics given the economic position at hand. These are desperate times and require proper planned strategies instead of poor legislation.

The Budget completely lacked relief and allocation for innovative measures for the Covid-19 hit local businesses, importers, exporters, small and medium enterprises. In a relief budget, taxes and utility tariffs are reduced to ease the sufferings of industries and businesses across the board and not just on one or a few sector. Instead of providing relief to businesses that needed them, private hospitals in Karachi who can now just be called pure businesses, are minting money in the pandemic and continue to enjoy complete tax breaks and relief. Even foreign companies such as China Overseas Ports Holding Company Pakistan, Gwadar International Terminal and many others were all tax-exempt in in this budget in relation to income derived from their Gwadar port–related operations. Later on this heinous recommendation got shot down in the standing committee of Finance in the National assembly. The budget also clearly has the blessings of IMF as the entity hasn't raised any objections since it's unveiling. Instead of focusing on the miseries of the common man the budget was prepared to just pass through the impending Financial Action Task Force (FATF) review at the cost of relief on Pakistanis.

**Unrealistic Targets Mediocre Performance**

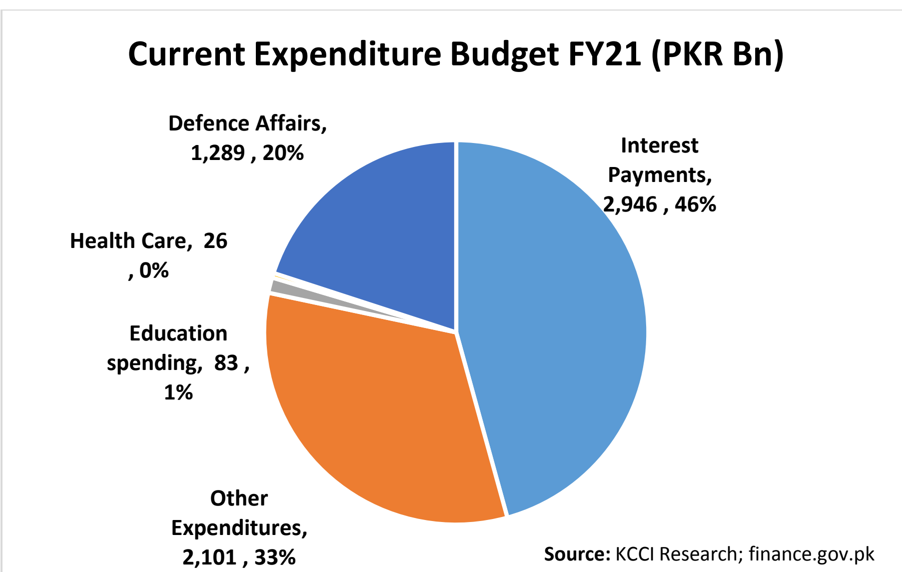
Continuing with Past year's theme, the government has proposed economic and revenue collection targets that are simply not realistic and achievable. The incumbent regime has set GDP growth target of 2.1% which is unlikely to be achieved especially when the pandemic is rapidly spreading in Pakistan. It could only muster a paltry negative growth of -0.38% for FY20.

Furthermore the budget is targeting tax collection of PKR 4.963Tn which is a 27% increase from the target set in the last budget however the cluelessness of the government is apparent as it has itself said that no new taxes will be imposed. It's a case of 'good cop bad cop' being played at the highest level as it expects FBR to achieve this growth when just recently the government itself admitted that FBR is a corrupt institute and blamed it for PKR 1Tn loss to the national exchequer. Because of FBR's weak performance the deficit for Budget FY21 is also the highest in the country's history, at PKR 3.44Tn.

The uncertainty in numbers has investors and businessmen on edge as the new unrealistic revenue target points towards government announcing a mini-budget in Oct'20 or Nov'20 and then the whole drama of a tax free budget will finally come to an end and new taxes would most likely be announced.

**Priorities not straight**

Even in this critical time, the government hasn't gotten its priorities straight. The Imperial College of London has estimated that the total death toll from Covid-19 in Pakistan by Jan'21 will be around 2.29Mn. The government itself has estimated that by Jul'20 the number of Covid-19 patients could rise to 1.2Mn. Common sense would argue that the government should spend on improving the dysfunctional health-care system of the country and the now paralyzed education sector. Yet from a total outlay of PKR 7,294.9Bn, the government has allocated only PKR 83Bn for education and a joke of PKR 25Bn for the health sector. In the last decade, Pakistan's spending on health as a percentage of the GDP is less than 1%, much below the international average of 9%. In Budget FY21, debt servicing and the defence budget comprise around 60% of the government's expenditure. Even a greater proof of government's cluelessness is that it allocated a mere PKR 10Bn to counter the locust problem that is expected to cause a minimum of PKR 250Bn economic loss to the country and further push millions into poverty.



**Salient features of the budget**

Mentioned below are the salient features of the budget:

- The government has set a development outlay of PKR 7.294Tn for FY21
- Resource availability during FY21 is estimated at PKR 6.315Tn against PKR 4.917Tn in budget estimates of FY20
- Overall expenditure during FY21 has been estimated at PKR 7.295Tn, out of which the current expenditure is PKR 6.345Tn
- Net revenue receipts estimated at PKR 3.699Tn, an increase of 6.7% over budget FY20
- Provincial share in federal taxes is estimated at PKR 2.874Tn
- Net capital receipts for FY21 are estimated at PKR 1.463Tn against PKR 831.7Tn in budget FY20, an increase of 75.93%
- The budget hikes petroleum levy by almost 73%, cuts down subsidies by 48% and freezes salaries and pensions
- External receipts in FY21 are estimated at PKR 2.223Tn, a decrease of 26.7% over FY20 budget
- Development expenditure outside PSDP is estimated at PKR 70Bn
- The provinces' share of the budget has also been reduced. It is estimated at 2,873.7 billion rupees, which is 11.7% less than under the previous budget.
- Size of PSDP for FY21 is PKR 1.324Tn including PKR 676Bn as provincial allocation.
- PKR 650Bn is Federal PSDP including PKR 7Bn for Corona response
- The government has allocated Rs208 billion for the Ehsaas Programme for the alleviation of poverty and helping the poor.
- To counter the impact of climate change, Rs6 billion will be spent.
- The government will also be spending on development projects in special areas. Forty billion rupees will be spent in Gilgit-Baltistan and Kashmir, while Rs48 billion on merged districts.
- The funds for higher education have been earmarked at 34 billion, while Rs 180 billion will be spent on energy, food and other sectors.
- Funds worth Rs30 billion will be spent on the Naya Pakistan Housing Scheme which aims to build 10 million houses for the poor in Pakistan.
- Pakistan Railways will be given Rs40 billion and Rs13 billion have been allocated for the federal government-run hospitals in Karachi and Lahore.
- The welfare fund for the artistes has been increased to Rs1 billion from Rs250 million on the recommendation of the president.
- For the health sector, the government has allocated Rs20 billion, while Rs20 billion for science and information projects.
- The government has allocated Rs70 billion for combatting the coronavirus and other disasters and Rs80 billion for special economic zones.
- Rs70bn for water projects.

- Pakistan’s Defence budget for 2020-21 is Rs1.289 trillion (almost 12% higher than last year’s).

**A snapshot of Taxation measures in budget**

- There will be no tax on coronavirus and cancer diagnosis kits and the import taxes on kid’s food supplement and diet food have been abolished too.
- Tax exemption is being given to overseas Pakistanis over the investment in saving bills, and the advance tax on auto rickshaws, motorcycle rickshaws and up to 200cc motorcycles has been abolished.
- The sales tax rate for big retailers has been decreased from 14 to 12%. The decision was taken to facilitate them because of the coronavirus outbreak.
- People will have to show their CNICs while making a purchase of over Rs100,000. Earlier, this was applicable on Rs50,000 purchase.
- The government has reduced the federal excise duty on cement from Rs2 to Rs1.75 per kg.
- The federal excise duty will be increased on e-cigarettes. The FED on imported cigarettes, ‘bidi’, and cigars has been increased to 100%, it was 65% before. The tax on cigarette’s filter rod has been increased from Rs0.75 to Rs1.
- The FED on caffeine-related products is being increased from 13% to 25% to discourage their use. Excise duty has also been imposed on double cabin pick-ups.
- The FED on cement has been reduced by 25 paisas to Rs1.75.
- The FBR has set his revenue target at Rs3,900 billion this year. It is recommended that regulatory duties are decreased to stop the smuggling of products.
- Regulatory duty on 1,623 tariff lines of raw materials has been removed.
- Collection of advance tax on education related expenses remitted abroad to be deleted
- Collection of Advance Tax by Educational Institutions not to Apply to Persons on the ATL
- Tax on steel melters and composite units is being deleted
- Withdrawal of balance under pension fund
- Where the sukuk holder is a company, the rate of tax to be deducted under Section 150A on account of return on investment in Sukuk is proposed to be increased from 15% to 25%
- Profit on debt derived by an individual from a debt instrument issued by the Federal Government and purchased exclusively through a bank account maintained abroad, a non-resident Rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan is proposed to be subject to withholding tax at the rate of ten percent as a final discharge. Further, such taxpayers would fall outside the purview of the Tenth Schedule even if their name does not appear on the ATL.
- Deletion of Withholding Tax on local purchase of cooking oil or vegetable ghee by certain persons

- Advance tax on functions and gatherings is being deleted
- Advance tax on cable operators and other electronic media is being deleted
- Advance tax on dealers, commission agents and arhatis etc. is being deleted
- Advance tax on insurance premium is being deleted
- Advance tax on tobacco is being deleted
- Enhancement of Threshold for Becoming Prescribed Person for Withholding of Tax on Supplies, Services and Contracts from fifty to hundred million rupees and a similar threshold of hundred million rupees is being prescribed for a sales tax registered person to become a withholding Agent.
- To incentivize and propel economic activity in the real estate sector, the bifurcation of plots and constructed property for determining holding period of capital gains is being done away with i.e. the holding period for taxation of Capital gains on disposal of immovable property is being restricted to 4 years. Taxability of capital gains arising on disposal of immovable property revamped, depending upon the holding period.
- In addition, rates are also being reduced on capital gains emanating from Disposal of immoveable property. Further, rate of tax on such gains also proposed to be reduced by 50%.
- Advance Tax on Auction of Immovable Property to be Collected in Installments
- The definition of the term 'industrial undertaking' has been proposed to be expanded to include builders and developers for the purpose of import of plant and machinery.
- Increase in Threshold of Section 21(l) per transaction delineated under section 21(l) is being increased from Rs. 10,000/- to Rs. 25,000/-. Similarly, the threshold of payments under a single from Rs.50,000/- to Rs.250,000/
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- Enabling Adjustability of Property Expenses for All Individuals/AOPs. Individuals and AoPs can now opt for net income taxation in respect of 'income from property'
- Exempting Withholding Tax on Cash Withdrawal to the extent of Foreign Remittances
- Hajj Operators to be Exempted from Withholding Tax on Payments to Nonresidents
- Prompt Issuance of Exemption Certificates to Public Listed Companies within 15 days
- Withholding tax rate on dividend is proposed to be synchronized with the charging rate.
- The rate of deduction of tax on account of supply of goods made from outside Pakistan under a cohesive business transaction is 1.4%
- Shifting from person-specific rates to goods specific rates cascaded according to the type of goods, with tax @1% for capital goods, 2% for raw materials and 5.5% for finished goods irrespective of status of the importer. However, the prevailing concessional rates on certain items such as remeltable scrap of iron and steel, potassic and urea fertilizers, LNG, Gold, Cotton, goods that were importable by manufacturers under the rescinded SRO 1125(I)/2011 dated 31.12.2011, mobile phones etc. are being maintained.

- Rates of collection of tax at import stage from capital goods, raw material and finished goods proposed to be revamped by inserting a new Twelfth Schedule to the Ordinance.
- Rate of tax proposed to be reduced to 1% and 2%on capital goods and raw material imported by an industrial undertaking, respectively.
- It is proposed that for all categories of taxpayers, tax paid at import stage will be a minimum tax except for industrial undertaking paying tax at the rate of 1% or 2% in respect of goods for its own use.
- The rate of deduction of tax on account of supply of goods made from outside Pakistan under a cohesive business transaction is proposed to be reduced to 1.4% as against the current rate of 2.1%
- The rate of deduction of tax and the scheme of taxation under section 152 on payment to a permanent establishment of a non-resident person on account of sale of goods, rendering of services (including applicability of reduced 3% rate for specified sectors) and execution of contracts is proposed to be synchronized with that of a resident person.
- The Bill proposes to impose tax at the rate of 4% on import of finished pharmaceutical products not manufactured in Pakistan as certified by Drug Regulatory Authority of Pakistan
- A Pakistani company registered with the SECP after 15 November 2019 and having its own Pakistan Flag sea worthy vessel will be subject to fixed tax based on Tonnage
- Electricity Expense to be Treated as an Inadmissible Business
- Deduction subject to non-disclosure of name of actual user from 01.01.2021
- Disallowance of Business Expenditure Proportionate to Sales Made to Sales Tax Unregistered Persons
- Rationalizing Depreciation Deduction based on the Half Year Rule limiting Interest Deductibility to Foreign Affiliates. Normal depreciation in the first year of use is proposed to be allowed to the extent of 50%. Similarly, in the year of disposal, normal depreciation is proposed to be allowed to the extent of 50%.
- Rationalization of Cost of Transport Vehicle for Claiming Deduction on Account of Lease Rentals
- Filing of Withholding Statements under section 165 on Quarterly Basis
- Deductibility of interest / profit on debt paid to foreign affiliates is proposed to be restricted to 15% of taxable income before depreciation, amortization and foreign profit on debt.
- Tax credit on enlistment is proposed to be restricted for companies opting for enlistment on or before 30 June 2022.
- Certain specified persons are required to prepare and furnish a Tax Profile to the FBR within the prescribed time.
- Non-furnishing of the Tax Profile may lead to non-inclusion of the name of the taxpayer in the ATL.
- Wealth statement can now only be revised after seeking prior approval from the CIR.

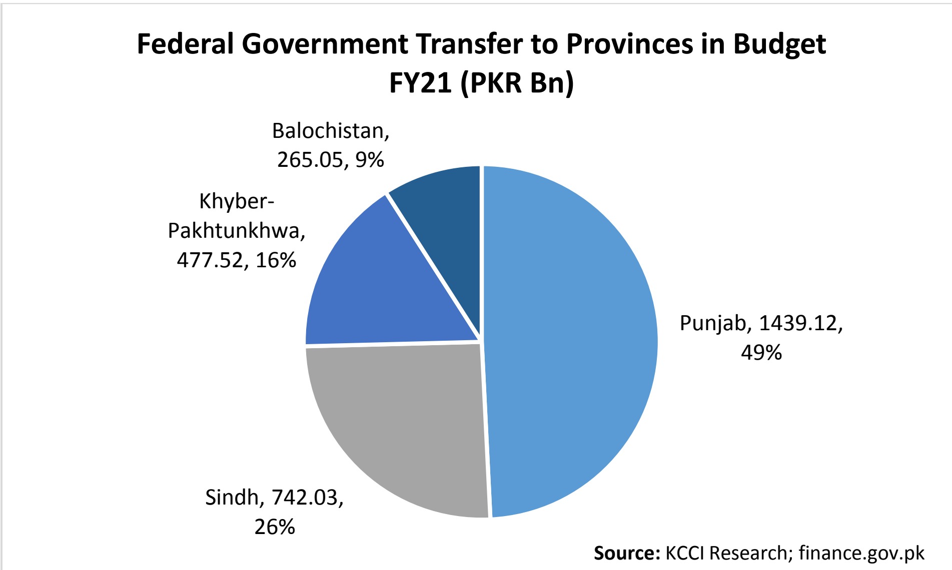
- Receipts on account of engineering services are proposed to be subject to withholding tax at 8%

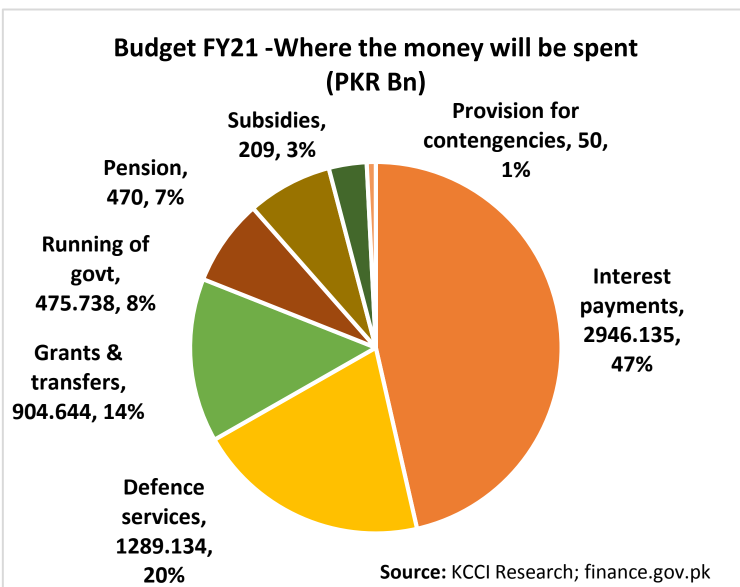
**KCCI's Proposals and Common Man ignored**

For the common man, the greatest issue is that of jobs and employment. And the budget failed the common man. Instead of feeding them peanuts through programs such as Ehsaas, the government needs to create an economic eco-system that nurtures and supports businesses of all scales during these tough times. This budget however, lacks these innovative measures to stimulate growth of the manufacturing sector of the country.

- No policy has been announced to reduce energy cost which is one of the biggest reasons for high industrial input cost. Gas companies are continuously pushing for mammoth increases in tariff every day and Pakistan still suffers from high cost of electricity even when global prices are at record low thanks to the IPPS.
- Taxes on key manufacturing sectors such as beverage have almost been doubled which is likely going to affect the production and lead to job losses in the industry.
- KCCI's fundamental demand of reduction in sales tax from existing 17% to 8% was not accepted as not a single percentage cut in ST has been proposed in the budget.
- KCCI had also put forward a genuine demand for introducing schemes for different industries including IT sector in order to attract investment and job opportunities, likewise the government has come up with a scheme for the textile and Naya Pakistan Housing Scheme.
- KCCI had recommended an across the board 50% cut in taxes for one year, however the government has proposed bringing Customs Duty to Zero on most of raw materials imports of some sectors, while additional Sales Tax has been abolished on raw materials import whereas taxes on some sectors have been enhanced.
- The budget should have significantly reduced all applicable taxes throughout all sectors, including income and sales tax, so that businesses could remain afloat, retain employees and people could maintain their current lifestyle during times of decreased or no earnings.
- Demands of interest-free loans to small and medium sized enterprises (SMEs), further improvement in refunds system, restoration of zero rated regime, removal or reduction in withholding tax and elimination of advance tax at import stage remain unaddressed in the federal budget. Demands of critical sectors such as automobiles were completely ignored.

Targets for GDP, manufacturing, agriculture and services are not achievable as the entire world including Pakistan is going through an economic downturn, due to Covid-19. The government will have to revisit its calculations / estimates if the virus continues spreading for the next few months. Government needs to start listening to key stakeholders such as KCCI otherwise it will lose in the real wars against poverty, illiteracy and the pandemic and businesses and common man will be in utter ruin.




## Ignoring the stakeholders

The Budget FY21 remained disappointing for majority of the stakeholders of the economy. Despite expecting relief form the government through the budget, the people of Pakistan were left disappointed. Before the budget was announced, the government's attitude was to facilitate business survival and growth, hence, various groups had submitted proposals pertaining to their sectors of business for the government to consider. However, it seems that the government decided to completely ignore most of them in order to keep international creditors such as the IMF happy. The economic situation of Pakistan is now critical. There is no apparent economic relief provided across the economy. How the government wins back business sentiment and how this budget plays into its economic strategy of supporting the domestic industry remains to be seen. For now, it seems that Karachi's business and industrial community is on its own.

| Federal Revenue (PKR Bn) | |
|---|---|
| **Tax Revenue** | 5,464 |
| FBR Taxes | 4,963 |
| Other Taxes | 501 |
| **Non-Tax Revenue** | 1,109 |
| **Less: Provincial Share** | -2,874 |
| **Net Federal Revenue** | 3,700 |

*Source: KCCI Research; finance.gov.pk*