Faysal Asset Management

BUDGET FY18 REVIEW

May 29, 2017

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BUDGET 2017-18: RELIEF AND BURDENS OF THE FINANCE BILL

In its fifth budget, the PML-N government has imposed around PKR 120bn worth new taxes. The new finance bill contains a mix of revenue and relief measures — income tax, customs, sales tax and federal excise duty (FED) for all sectors of the economy.

Key Economic Indicators						
	FY13A	FY14A	FY15A	FY16A	FY17E	FY18B
Real GDP growth (%)	3.70%	4.10%	4.00%	4.60%	5.30%	6.00%
Inflation (%)	7.40%	8.60%	4.60%	2.90%	4.30%	6.00%
Fiscal Deficit (%)	8.20%	5.50%	5.30%	4.60%	4.20%	4.10%
Investment to GDP ratio (%)	14.60%	14.90%	15.50%	15.60%	15.80%	17.00%
Current Account as % of GDP	-1.00%	-1.30%	-1.00%	-0.60%	2.70%	3.10%
FX reserves (US$bn)	11	14	18.2	23.1	21	21
Remittances (US$bn)	13.9	15.8	17.9	19.9	20	20.9

The breakdown of the new tax measures shows an amount of PKR 47.4bn worth income tax measures, PKR 52.6bn of sales tax and FED and PKR 20bn customs duty.

The relief measures announced are worth PKR 32.5bn. Of them, PKR 1.2bn relief was given in customs, PKR 18.7bn in sales tax and FED and PKR 12.6bn in income tax.

Tax measures revolve around four principles — strengthening the existing reforms, enhancing cost of business for non-filers, extending further relief to farm sector, and protection to local industry.

- In order to incentivize the start-ups, tax exemption is being accorded to profits earned by such start-ups for a period of three years. Moreover, exemption from levy of minimum tax as well as withholding tax (as recipient) is also being accorded to such start-ups.

- Sales Tax on seven different types of machinery for use in poultry control sheds is proposed to be reduced from 17% to 7%.

- It is proposed to provide exemption from sales tax to vehicles for construction and development of Gwadar Port and Gwadar Free Zone on the line of exemption available to vehicles under the Customs Act, 1969. Scope of exemption already provided to materials and equipment, is being clarified by extending exemption to plant, machinery, equipment, appliances and accessories.

- At present an individual is obliged to pay advance tax if his latest assessed taxable income is PKR 500,000 or more. In order to provide relief and to facilitate small taxpayers, the threshold for payment of advance tax on the basis of latest assessed taxable income is being enhanced from PKR 500,000 to PKR 1,000,000.

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KEY HIGHLIGHTS:

MACRO:

- Budget deficit target for FY18 has been set at 4.1% of GDP, compared to the estimated 4.2% of GDP in FY17 (vs. 4.6% of GDP in FY16).
- Total outlay of Budget FY18 has been set at PKR 5.1tn, higher 4.3%YoY. Total resources for FY18 have been budgeted at PKR 4.71bn vs. estimated PKR 4.44bn for FY17R
- Development expenditure has been materially increased at PKR 1.34tn with Federal PSDP allocated at PKR 1,001tn (provincial at PKR 1,112tn) in FY18 vs. PKR 715bn in the FY17.
- Allocation of development expenditure for CPEC projects has been made at PKR 180bn for FY18B.
- Current Expenditure has been allocated at PKR 3.76bn with Defense expenditure budgeted at PKR 920bn (vs. PKR 841bn in FY17R).
- FBR missed its tax collection target of PKR 3.6tn for FY17, recorded at PKR 3.52tn for the year (vs. PKR 3.11tn in FY16). Tax-to-GDP for FY17 is estimated at 13.2% compared to 12.4% last year. Tax collection target for FY18 has been set at PKR 4.0tn.
- The external receipts in FY18 are estimated at PKR 837.8bn, up 2.2%YoY

MARKET:

- Reduction in corporate tax rate by 1ppt to 30% for non-banking companies
- Minimum tax rate on turnover has been increased from 1.0% of turnover to 1.25%
- Super Tax has been extended at the prevailing 4% for Banks and 3% for companies in other sectors having annual income of PKR 500mn or above, payable for the tax year 2017
- Holding period slabs for Capital gains tax on sale of securities have been abolished, and will be held at a flat rate of 15%
- Taxation on dividend income for filers has been increased to 15% from 12.5% earlier
- Tax credit on enlistment on PSX extended to 4yrs (vs.2yrs earlier) where credit of 20% is available for the first two years while 10% credit is made available for the next two yrs.
- FED has been increased for multiple sectors including Cements, beverages (up 10%) and cigarettes.
- For Cements FED rate has been increased from PKR 1.0/kg to PKR 1.25kg
- Continuation of subsidy on fertilizer by reducing GST (by PKR 300/bag on DAP) in place of current cash subsidy

- Zero-rating regime has been continued for export sectors
- Withholding taxes on new car registrations have been cut for lowest three categories by PKR 5000 each.

TAXES

The government has extended the levy of super tax by one more year, imposed 5% withholding of the purchase value of tobacco by cigarettes manufacturers, the rate of minimum tax was enhanced to 1.25% from 1%, the rate of tax on dividend income was increased to 15% from 12.5%, and an increased rate of 12.5% from 10% on dividend received from mutual funds.

1. CAPITAL GAINS TAX (CGT) HAS BEEN INCREASED

The Govt. has introduced a fixed rate Capital Gain Tax (CGT) of 15% (for filers) irrespective of holding period for stocks bought on or after July 1, 2013. Previously, CGT was imposed in a tiered structure depending on holding period and varied from 7.5% to 15%. In other words, the Govt. has increased the tax incidence for investors holding stocks from 1 to 5 years for the tax year FY18 and is negative for investor sentiments. For non-filers, CGT has been increased to 20% irrespective of holding period on stocks bought on or after July 1, 2013. Previously, CGT on non-filers varied in the range of 11%-18% depending on holding period.

Tax Year	<6m	> 6m but < 12m	<12m	12m or more but <24m	24m or more*
2013	10.00%	8.00%	-	-	-
2014	10.00%	8.00%	-	-	-
2015	12.50%	12.50%	12.50%	10.00%	-
2016	15.00%	15.00%	15.00%	12.50%	**7.50%**
2017	15.00%	15.00%	15.00%	12.50%	**7.50%**
2017 (Non-Filers)	18.00%	18.00%	18.00%	16.00%	**11.00%**
2018	**15.00%**	**15.00%**	**15.00%**	**15.00%**	**15.00%**
2018 (Non-Filers)	**20.00%**	**20.00%**	**20.00%**	**20.00%**	**20.00%**

2. TAX ON DIVIDEND INCOME FROM STOCKS INCREASED

The Govt. has increased the tax on dividend income, which is negative for investor sentiments. Previously, dividends were subject to tax of 12.5% for filers, which has now been increased to 15%.

3. Mutual Funds Dividend Income subject to higher Tax

Tax on dividend income from mutual funds has also been increased. Previously, tax on dividend income from mutual funds was 10%, which has now been increased to 12.5% and is negative for mutual fund industry.

4. No change in Tax regime on Bonus Shares

There were strong market expectations that tax on bonus issue would be levied on face value as compared to current practice of market value. However, the budget did not unveil any such measure, which will lead to fewer companies declaring bonus as has been the case during the last two years.

5. Corporate Tax rate down while Super Tax maintained

Corporate tax rate has been proposed to be reduced to 30% in FY18 from current 31%, which is in line with Govt. policy to gradually bring the corporate tax rate down to 30%. This 1% reduction will increase profits of non-banks by 1.5% and is already incorporated in our forecasts.

Super tax that was levied in Tax Year 2015 to meet revenue needs and was extended to Tax Year 2016 is now being extended to Tax Year 2017 as well. Companies earning more than Rs500mn in pre-tax profits will be subject to 3% tax (4% for banks). This will have negative earnings impact of ~3% on our sample companies.

6. Tax credit on Listing extended

Currently, there is a 20% tax credit for new listings on Pakistan stock exchange for 2 years. In order to encourage enlistment of companies on PSX, it is proposed to further extend the benefit for another two years in addition to tax year of enlistment however such tax credit will be subject to 10% of the tax payable.

7. 40% of profits to be distributed as Dividend

In FY16, the Govt. had imposed tax on reserves if listed company (other than bank/modaraba) did not distribute dividends. As a result, a company had to pay dividend within 6 months of its result announcement, if its reserves were in excess of 100% of its paid up capital. In this case, the company either paid 40% of its profits or 50% of its paid-up capital, whichever was lower. If it did not distribute dividend, the company had to pay 10% tax on its excess reserves.

The finance bill now proposes to revamp and substitute this section. As per proposed, a company (other than Banks, IPPs, Govt. owned) will have to pay 40% of their profits as dividends. If it does not distribute dividend, the company will pay 10% tax on its profits for the year and not on the reserves.

8. Increased Tax on Brokers

Previously, advance Withholding tax (WHT) collected from stock brokers was 0.02% and was adjustable. This WHT is now being made final tax liability, which would lead to higher taxes for brokers.

9. Lower Tax on Pakistan Stock Exchange

Presently services rendered by Pakistan Stock Exchange (PSX) are subject to 8% minimum tax rate. It is proposed to reduce this tax rate to 2%, which would lead to lower effective tax rate for PSX and higher net earnings.

10. Minimum Turnover Tax increased

The Govt. has proposed to increase the minimum tax on turnover on companies from 1% to 1.25% for companies declaring losses. This will likely help encourage companies to declare normal tax rather then minimum tax and lead to better declaration of revenues and expenses by companies.

11. Budget is ‘Neutral to Negative’

Given higher tax incidence on investors and on companies, we are of the view that Budget FY18 will be ‘Neutral to Negative’ for the market. However, the change in regime for compulsory dividend distribution will lead to higher dividend payouts, which should help prop investor sentiment in future.

WE AT FAML MAINTAIN OUR ‘OVERWEIGHT’ STANCE ON CEMENTS, AUTOS, CONSUMERS, OIL & GAS MARKETING AND STEEL SECTORS WHICH WILL BENEFIT FROM RISING CONSUMER DEMAND AND CPEC LED ACTIVITY.

SECTOR-WISE IMPACT

SECTOR	IMPACT	COMMENT
BANKS	NEGATIVE	Govt. has decided to extend super tax of 4% for another year for banking companies. This will likely have an earnings impact of around 6% to top banking universe. In order to promote branchless banking, it is proposed that WHT (0.3% for filers and 0.6% for non-filers) on cash withdrawals exceeding PKR 50,000 per day through branchless banking, is removed. Govt. has set bank borrowing target of PKR 390bn in FY18 as against PKR 741bn in FY17. Reduced bank borrowing will allow banks to lend more credit to private sector. Govt. has increased the volume of agriculture credit to PKR 1.1trn in FY18, up 43% YoY which will be financed through banks. This bodes well for the sector.
CEMENTS	NEUTRAL / POSITIVE	The Govt. has proposed to increase Federal Excise Duty (FED) on cements to PKR 1.25/kg (PKR 1,250/ton), up 25% (an increment of PKR 12.5/bag). It is pertinent to mention here that the net impact on manufacturers' margin will not be PKR 12.5/bag, but PKR 15/bag as sales tax is levied on top of FED. This will have a negative impact on manufacturers in the short run. However, owing to contraction in supply-demand gap due to robust demand, it is expected that manufactures will gradually pass on this impact to customers in 1HFY18. PSDP (Public Sector Development) of PKR 2.1tn (up 37%) for FY18 is being proposed (Federal PSDP up 40% to PKR 1tn). This higher Govt. spending bodes well for the sector as this will increase construction activities. Further, the Govt. has allocated PKR 90bn for construction of Hyrdo power projects (key projects) and PKR 21bn for construction of Diamer Bhasha Dam – Lot 1 (cement usually constitutes 15-20% of a dam's

		construction cost). The Govt has proposed to launch Risk Sharing Guarantee Scheme for low-income housing as long-term financing is a major hurdle. Under this scheme, the Government will provide 40% credit guarantee cover to Banks and DFIs for home financing for up to PKR 1mn (PKR 6bn have been allocated for this purpose). This should lift construction activities as there are over 1mn shortage of housing units in the country with per year additional demand of 300k units. The Govt. in recommendation of builders and developers in the last budget announced fixed tax per unit area. However, this has now been proposed to be withdrawn. This will negatively affect construction activities, it is believed.
AUTOS	**NEUTRAL**	**Withholding tax on registration of vehicles to be reduced by PKR 2,500- PKR 5,000: 850CC reduced from PKR 10,000 to PKR 7,500, 851CC-1000CC reduced from PKR 20,000 to PKR 15,000 and 1001CC-1300CC reduced from PKR 30,000 to PKR 25,000. In order to facilitate the generation of employment opportunities among the unemployed youth and to mitigate their hardship, exemption from advance tax of 3% is being accorded to vehicles leased to non-filers under the Prime Minister's Youth Loan Scheme. Additional duty on cylinder head for motorcycles levied. Separate PCT classification for compressors of vehicle at 35% Customs Duty created. Withholding tax of 0.5% extended to batteries.**
TEXTILE	**NEUTRAL**	**Cotton hedging would reduce price volatility and inventory risk. Imposition of 6% sales tax on commercial import of fabrics would benefit domestic weaving segment. All refunds to be cleared by August 2017, this would ease liquidity issues and financing costs. Imposition of 5% RD on Polyester Yarn would support local manufactures. Exemption of customs duty on Raw Hides & Stamping Foils would significantly boost competitiveness of leather exporters.**

		Higher sales tax on retail sales (6% vs. 5%) though negligible, may have negative perception. Minimum wage increased from PKR 14,000 to PKR 15,000 would increase labor costs. Continuation of zero-rating and other incentives announced previously would benefit industry if the government were able to effectively implement them.
STEEL	NEUTRAL	Regulatory Duty levied/increased on 565 non-essential items (which include finished steel) by various rates ranging from 5% to 15%. Recall that Govt. imposed RD on 400 non-essential items vide SRO568/2014. It is believed this SRO would soon be amended to include fresh levies on additional 165 non-essential items & potential 5-15% increase on original items. Fixed rate sales tax on electricity consumption increased from PKR 9/unit to PKR 10.5/unit; tax liability for melting/rolling calculated on fixed 800/130 units per ton, therefore it would increase by PKR 1,200/195 per ton. Fixed rate tax regime is only applicable to long steel producers whereas flat steel producers are charged a variable tax based on actual electricity usage. Cost increase of ~ PKR 1,395/ton for composite long steel producers would be passed on to consumers.
FERTILIZER	NEUTRAL	Urea price to be maintained at PKR 1,400/bag via continuation of cash subsidy and 5% GST, dependence on repayments would continue, any delays would spike financing requirements & costs. Due to complications and delays in subsidy disbursement, substitution of cash subsidy with reduced sales tax of PKR 100/98/165 per bag on DAP/CAN/NP would improve liquidity. Further, adjustable GST of 17% on fertilizer supplies has been removed from Third Schedule, and 10%/5% GST on gas/phos acid has been inserted in Eighth Schedule, though the tax is adjustable this mechanism would reduce reimbursements and improve liquidity as well. Commercial import of DAP fertilizer by urea manufacturers is proposed to be brought into the

		final tax regime, this would eliminate adjustability and may actually be slightly positive.
E&Ps	Neutral	The Govt. has set dividend income target of PKR 35bn (PKR 12/share) from Oil & Gas Development Company limited (OGDCL). Similarly, it has set target PKR 13bn (PKR 9.8/share) from Pakistan Petroleum Limited (PPL). However, it is expected dividend of PKR 8/share and PKR 9/share from OGDC and PPL, respectively in FY18.
OMCs	Neutral	From Pakistan State Oil (PSO), the Govt. expects to receive dividend income of Rs.1.5bn (PKR 24.5/share). While it expects to receive dividend income of PKR 500mn (Rs.0.8/share) and PKR 1,500mn (PKR 1.7/share) from Sui Northern Gas (SNGP) and Sui Southern Gas (SSGC), respectively. However it is expected that dividend per share of PKR 3/share from SNGP while no expected any dividend from SSGC. The Govt. has proposed to withdraw extra 2% sales tax on lubricating oils. This reduction could help improve lubricant sales in our view. The Govt. has set target of PKR 160bn collection under petroleum development levy (PDL) in FY18, which is up 3.2%. This will have no impact on the sector.
Tobacco	Positive	FED tiers increased from two (-/+PKR 88 per pack taxed at PKR 32.98/ PKR 74.1), to three (<PKR 58.5/ PKR 58.5- PKR 90/ PKR 90 per pack to be taxed at PKR 16/ PKR 33.4/ PKR 74.8). The Govt. has reduced FED on cheaper cigarettes, which is positive for local manufacturers and consumers. Tobacco Board shall collect advance tax of 5% on value of tobacco from every person purchasing tobacco including manufacturers, which shall be adjustable.
Pharmaceutical	Positive	The Govt. has proposed to enhance limit on sale promotion expenses by pharmaceutical sector from 5% of turnover to 10%. Customs duty on fabric (used in the pharmaceutical sector for manufacturing of bandages, surgical gowns, wound dressings etc.) to be reduced from 16% to 5%. This will help in reducing patient cost (positive for hospitals).

INSURANCE	**POSITIVE**	**Presently, advance tax is collected by insurance companies from non–filers if life insurance premium paid exceeds PKR 200,000 per annum. This threshold is proposed to be increased from PKR 200,000 to PKR 300,000 to provide relief to policy holders.**
TELECOM	**POSITIVE**	**Customs duty of 11-16% on telecom equipment is being withdrawn and a uniform rate of 9% regulatory duty is being levied. The Govt. has also proposed to reduce withholding income tax on cell phone call from 14% to 12.5% and FED from 18.5% to 17%.** **Proposal to reduce customs duty on smart phones by 35% to PKR 650 has been made.** **Set Top Boxes, TV broadcast transmitter, Reception apparatus etc. are allowed to be imported at concessionary rate of 11%. Duration to avail this facility has now been extended till Jun 2018 as opposed to Jun 2017, previously. Concessionary rate of sales tax at 5% is also proposed to be extended till Jun 2018.** **These measures should help in improving revenues of the telecom sector.**

SUMMARIZING

Key Sectors	Impact
Cement	Neutral to Positive
Fertilizer	Neutral
Textile	Neutral
Steel	Neutral
Auto	Neutral
Pharmaceutical	Positive
Auto	Neutral
Consumer	Neutral
Telecommunication	Positive
OMCs	Neutral
Banks/IPPs	Negative
Insurance	Positive
E&Ps	Neutral
Tobacco	Positive
PSX	Neutral to Negative
General Measures	Neutral
Overall	**Neutral**

ANNEXURE I- DETAILS OF TAXATION

• INCOME TAX

The government has extended the levy of super tax by one more year, imposed 5% withholding of the purchase value of tobacco by cigarettes manufacturers, the rate of minimum tax was enhanced to 1.25% from 1%, the rate of tax on dividend income was increased to 15% from 12.5%, and an increased rate of 12.5% from 10% on dividend received from mutual funds.

Tax Year	<6m	> 6m but <	<12m	12m or more but	24m or
2013	10.00%	8.00%	-	-	-
2014	10.00%	8.00%	-	-	-
2015	12.50%	12.50%	12.50%	10.00%	-
2016	15.00%	15.00%	15.00%	12.50%	**7.50%**
2017	15.00%	15.00%	15.00%	12.50%	**7.50%**
2017 (Non-	18.00%	18.00%	18.00%	16.00%	**11.00%**
2018	**15.00%**	**15.00%**	**15.00%**	**15.00%**	**15.00%**
2018 (Non-	**20.00%**	**20.00%**	**20.00%**	**20.00%**	**20.00%**

To raise easy money, the Federal Board of Revenue (FBR) has further enhanced the rates of withholding taxes for non-filers in various transactions — payments made to residents and non-resident persons for sales, services, contracts, payments for prize bond, lottery, sale by auction, Commission, discount to petrol pump operators, etc.

To raise easy money, the Federal Board of Revenue has further increased the rates of withholding taxes for non-filers in various transactions

On interest income, three new slabs were introduced — 10% where mark-up does not exceed PKR 5m, 12.5% on mark-up income between the ranges of PKR 5m up to PKR 25m, while the rate will be 15% on mark-up income exceeding the limit of PKR 25m.

On stock market transactions, a flat single rate of 15% for filers and 20% for non-filers is introduced, and the advance withholding tax of 0.02% on stock exchange brokers is being made final tax.

The government has withdrawn a tax credit of 3% of tax liability available to all manufacturers who make 90% of their sales to sales tax registered persons, the fixed tax regime on builders and developers has been reversed to normal tax regime, the commercial import of DAP fertilizer both by commercial as well as urea manufacturers will be brought under final tax regime.

The rate of withholding tax is enhanced to 1% from 0.5% on sales made by manufacturers, wholesaler, dealers and distributors of electronics goods to retailers, and extended the scope of the tax to batteries as well. The manufacturers and commercial importers will collect 0.1% withholding tax on sale of batteries to dealers, distributors, and wholesales. Similarly, every distributor, dealer, wholesaler while making sales to retailers in respect of batteries are required to collect withholding tax at the rate of 0.5% of the amount of sales.

The tax rate for corporate sector was reduced to 30% from 31%, withholding tax for mobile phone subscribers reduced from 14% to 12.5%, allowed three years exemption on profits of a start-ups in information technology, along with exemption from levy of minimum tax as well as withholding tax (as recipient) is also being accorded to such start-ups.

The government exempted 3% advance tax on vehicles leased under Prime Minister's Youth Loan Scheme, the quantitative limit for import of raw materials by industrial undertaking, without collection of income tax at the import stage, on the basis of exemption certificate issued by the Commissioner, is being enhanced from 110% to 125% of the quantity imported and consumed in the previous tax year.

The threshold for payment of advance tax on the basis of latest assessed taxable income is being enhanced from PKR 500,000 to PKR 1,000,000 for the threshold of taxable income for individuals entitled to a deductible allowance in respect of education expenses incurred, which is being increased from PKR 1,000,000 taxable incomes to PKR 1,500,000.

In order to provide respite to taxpayers having life insurance policies the threshold for collection of advance tax from such non-filers is being enhanced from PKR 200,000 to aggregate amount of PKR 300,000 per annum. In order to provide respite to individuals and associations of persons availing health insurance the lower limit of tax credit available to such persons, on a proportionate basis, is being increased from PKR 100,000 to PKR 150,000.

For filers of income tax returns, withholding tax on registration and transfer of motor vehicles having engine capacity up to 850cc, 851cc to 1000cc and 1001cc to 1300 cc is being reduced from existing PKR 10,000, PKR 20,000 and PKR 30,000 to PKR 7,500, PKR 15,000 and PKR 25,000, respectively.

The limit of interest free loans was enhanced to PKR 1m from PKR 0.5m to employees for availing tax exemption, the period of tax credit for enlisting on stock market was extended for another two years. However, the rate of tax credit was reduced to 10% from 20% payable for each of the subsequent two tax years.

The rate of 8% minimum tax on services rendered by Pakistan Stock Exchange was reduced to 2%; the fixed rate of PKR 5,000 per Haji extended for the tax year 2017, income of registered political parties exempted from tax, three charitable organizations — Gulab Devi Chest Hospital, Pakistan Poverty Alleviation Fund and National Academy of Performing Arts — exempted from tax, taxpayers allowed to revise withholding tax statements within 60 days, and chief commissioner can allow a taxpayer to file return despite refusal by commissioner.

Tax measures revolve around four principles: strengthening the existing reforms, enhancing cost of business for non-filers, extending further relief to farm sector, and protection to local industry

The rates of withholding tax are being reduced to 2% and 2.5%, respectively, for companies and non-companies on fast-moving consumer goods, in order to protect the interest of small investors and to promote payment of dividends the condition regarding distribution of 50% of paid-up capital is being removed, exempted accorded to branchless banking agents operating under the Asaan Mobile Account Scheme from withholding tax on cash withdrawals made for the purpose of making payments to their respective customers.

The concept of provisional assessment was done away with to facilitate taxpayers, in order to promote and incentivize Islamic banking, special provisions have been introduced whereby tax neutrality has been accorded in the case of Musharika financing by extending the benefit of depreciation on assets co-owned in the case of a Musharika arrangement.

The limit for expenditure incurred by pharmaceutical companies on sales promotion, advertisement and publicity was being enhanced from 5% to 10% of turnover.

• Customs

The government has enhanced regulatory duties on 565 items mostly eatables in the range of 5% to 15%. This will generate alone around PKR 10bn revenue for the government. The government convert flat rate of PKR 250 per set into regulatory duty at the rate of PKR 250 per set on mobile phones, 9% regulatory duty on telecom equipment, regulatory duty increased to 25% from 10% on betel nuts, and PKR 200 per kg levied on betel leaves, and concession in duty and taxes on hybrid electric vehicles above 2500cc withdrawn.

Exemption from customs duty extended on import of combined harvesters threshers up to five years old while 10% and 20% regulatory duty levied on five to 10 years and more than 10 years old, respectively, additional duty levied on cylinder head of motorcycles, and import of solar panels and related components were exempted from the condition of 'local manufacturing' till June 30, 2017 which is extended till June 30, 2018.

The customs duty was reduced to 3% from 11% and removal of 5% regulatory duty on grandparent and parent stock of chicken, duty reduced to 3% from 11% on import of hatching eggs, reduced regulatory duty on aluminum waste or scrap from 10% to 5%, exempted 3% regulatory duty on raw skins and hiders, 16% on stamping foils, reduced duty to 11% from 16% on sheets for veneering rom, reduced duty to 3% from 20% on pre-fabricated modular clean rooms panels, exempt 3% duty on import of ostriches and reduced duty on fabric (non-woven) for pharmaceutical industry from 16% to 5%.

To provide protection to local industry, 5% regulatory duty levied on import of synthetic filament yarn (of polyesters), increased duty to 20% from 11% on aluminum beverage cans, reduced duty to 11% from 20% on uncoated polyester film and aluminum wire from 20% to 11% for manufacturers of metalized yarn, duty reduced from 20% to 16% and from 16% to 11%, on raw materials for manufacturers of baby diapers.

Similarly, customs duty at the rate of 5% on bituminous coal and other similar coal. However, for the power projects in IPPs mode, customs duty on import of both types of coal reduced to 3%, 20% customs duty imposed on electric cigarettes, and 10% regulatory duty on animal protein meals.

• Sales Tax

Government has proposed specific rates on various fertilizers. However, the rate on urea fertilizer will remain unchanged at 5% ad valorem, rate of sales tax reduced on import of seven types of poultry machinery, combined harvesters and agricultural diesel engines exempted from sales tax, import of sunflower and canola hybrid seeds meant for sowing exempted from sales tax, import of multimedia projectors exempted for educational institutions, gifts and donations received from foreign governments and organizations exempted to the Federal and Provincial governments and public sector organizations.

The levy of 2% sales tax withdrew on lubricating oils, reduction in sales tax at the rate of 50pc is available on import of Hybrid Electric Vehicles up to 1800cc and at the rate of 25% on Hybrid Electric Vehicles exceeding 1800cc. It is proposed to maintain reduction in sales tax at the rate of 50% on Hybrid Electric Vehicles having engine capacity up to 1800cc and restrict reduction at the rate of 25% on engine capacity from 1801cc to 2500cc only. Similarly, reduction is proposed to be provided on local supply of the two categories of Hybrid Electric Vehicles.

Sales tax exempted on premixes to fight growth stunting, exemption provided on vehicles for construction and development of Gwadar Port and Gwadar Free Zone, exemtion on items for renewable sources of energy, and for conservation of energy, exemption on parts and components for manufacturing LED lights, sales tax withholding is proposed to be withdrawn on supplies from registered persons to other registered persons with the exception of advertisement services, reduced duty on telecommunication services from 18.5% to 17%.

Services which are subject to sales tax on the basis of turnover without input tax adjustment under Provincial Sales Tax Laws are proposed to be taxed in the similar manner. Exemption from sales tax is also proposed to be provided on export of IT services.

Mobile phones are chargeable to sales tax at the rates of PKR 300, PKR 1,000 and PKR 1,500 per mobile phone set depending upon categories of mobile phones. It is proposed to merge sales tax rates of PKR 300 and PKR 1,000 per set into PKR 650 per set. Increase in Federal Excise Duty on cement Federal Excise Duty on cement is proposed to be enhanced from PKR 1 per kg to PKR 1.25 per kg. Enhancement of rates of Federal Excise Duty on cigarettes.

Steel sector is currently paying sales tax on the basis of consumption of electricity at the rate of PKR 9 per unit of electricity. The existing rate of PKR 9/unit of electricity is proposed to be enhanced to PKR 10.5 and corresponding increase shall be made in ship breaking and other allied industry.

Retail sales of five export oriented sectors are chargeable to sales tax at the rate of 5% which was enhanced to 6%. It is proposed to levy 6% sales tax on commercial import of fabrics. Minimum sales tax at the rate of PKR 425 per metric tonne is proposed to be provided for locally produced coal.

It is proposed that the Federal Board of Revenue may assign jurisdiction to Chief Commissioners Inland Revenue who may further assign jurisdiction to Commissioners Inland Revenue under his administrative control. Notices sent to companies through electronic medium are proposed to be treated as proper service along with other prescribed modes.

Penalties are proposed to be imposed on persons manufacturing, possessing, transporting, distributing, storing, selling non-duty paid/counterfeit cigarettes.

Tier-1 retailers are under obligation to pay sales tax under normal regime. Alternatively, they have the option to pay sales tax rate of 2% of turnover without any input tax adjustment. The said regime had been introduced under an SRO which has been struck down by the Lahore High Court. It is proposed to provide for payment of sales tax by tier-1 retailers through Sales Tax Act, 1990.

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