Budget Speech 2019-20

PART – I

BismillahirRehmanir Raheem

Mr. Speaker,

1. I would like to start by thanking Almighty Allah, the most gracious, the most merciful,as I present the first Annual Budget of the democratic government. A new journey has begun under the leadership of Prime Minister Imran Khan.*Tehreek-e-Insaaf* brings a new vision, a new commitment, a new Pakistan.

2. 22 years of hard work, and the will of the people of Pakistan have brought us here today. It is now time to improve the lives of citizens, to remove corruption from public life, to inject merit in our institutions, and to lead the economy, to remember the forgotten and to fulfil the destiny of our people.

3. In 1947 our forefathers came together to convert Iqbal's vision into reality and Pakistan emerged as a reality. In 1973, another generation came together and gave our nation its Constitution. Now we are the custodians of both our country and its rule of law.

Economy We Inherited

Mr. Speaker,

4. Let usrecall the economic situation inherited by this government that existed at the time when this government took over: an economy at the brink of a financial crisis. Please allow me to state some of the facts:

a. Our total debt and liabilities wereabout Rs.31,000 billion

b. Foreign debt and liabilities were around $97 billion. Many of the commercial borrowings were undertaken at high rates of interest

c. Foreign exchange reserves with the State Bank of Pakistan had fallen from $18 billion to less than $10 billion in the last two years

d. Current account deficit had increased to a historic high of $20 billion, and trade deficit $32 billion

e. Exports growth over the last five years was zero

f. Fiscal deficit, government's revenues less expenditures, was a threatening Rs.2,260 billion. Reckless disregard for financial discipline in an election year had contributed towards this high deficit

g. Electricity circular debt had swelled to Rs.1,200 billion, adding Rs.38 billion per month

h. The miserable performance of Public Sector Enterprises was reflected in a cumulative loss of Rs.1,300 billion

i. Billions of dollars were used to keeping the Pak Rupee over-valued. This expensive policy proved disastrous for exports, subsidised imports and hurt the economy. It could not be sustained, and the Rupee began to adjust itself from late 2017

j. Momentum of growth had been lost

k. Pressures on commodity price increase were fast building with inflation was touching 6 percent.

<u>Our Government's Response</u>

Mr. Speaker,

5. The government had to take actions to control the situation. We confronted the immediate threats and took measures to stabilise the economy. These included:

a. Increase in duties to cut imports - from $49 billion to $45 billion by April– and trade deficit was reduced by $4 billion

b. Increase in remittances by $2 billion as Prime Minister provided confidence to Pakistanis living abroad

c. Electricity circular debt which had reached Rs.38 billion per month was brought down by Rs.12 billion to Rs.26 billion per month

d. $9.2 billion mobilised from China, UAE and Saudi Arabia. I am thankful to our friends for their support

e. To boost exports, the government provided:

- Subsidised electricity and gas to industrial and export sectors
- Loans at low interest rates
- Import duties on raw materials of export-oriented industries reduced with a benefit of Rs. 10 billion
- Prime Minister's export package extended to three years
- Duty free access to 313 items secured from China

These initiatives led to higher volumes of exports. Knitwear exports increased 16%, readymade garments 29%, fruits 11% and vegetables 18%, and basmati rice 22%.

f. An agreement has been reached with the IMF for a $6 billion programme. Once approved by the IMF board, this programme will have the following benefits:

- Generate additional international assistance of $2 - $3 billion from the World Bank and Asian Development Bank at relatively lower interest rates

- Signal government resolve for fiscal discipline and reforms leading to favourable response from international capital and investors

- Achieve stabilisation of the economy and build a sustainable platform for growth.

g. A deferred payment of $3.2 billion for purchase of oil and gas products from Saudi Arabia acquired to reduce pressures on foreign reserves. The government operationalised Islamic Development Bank for deferred payment facility of $1.1 billion.

6. With these measures, it is expected that the current account deficit for the year will reduce by $7 billion this year.

7. In addition to the stabilisation effort, the government took other measures including:

a. An Asset Declaration Scheme is being implemented to enhance the tax base and bring *benami* and other unregistered assets in the formal economy

b. Required funds were released to complete 95 projects in the development budget

c. Accountability, institutional strengthening and governance were strengthened, including:

- Greater autonomy to State Bank of Pakistan. The monetary policy is used for controlling inflation

- A Treasury Single Account has been created disallowing government money to be parked in commercial bank accounts.

d. Pakistan *banao* certificate launched as an investment opportunity for overseas Pakistanis with 6.75% of return in dollars

e. FBR increased refunds to Rs.145 billion from Rs.54 billion last year to provide liquidity

f. Provision of support and relief to vulnerable segments of our society through a combined set of programmes

g. Clean and Green Pakistan and billion tree Tsunami initiatives were launched

h. High priority was awarded to mainstreaming of FATA in the province of Khyber Pakhtunkhwa.

<u>Budget 2019-20</u>

Mr. Speaker,

8. I shall now discuss the budget 2019-20. The overriding goal of the government in this budget of course is the welfare and prosperity of the People of Pakistan. We have the following guiding principles:

a. **Managing the external deficit** –by reducing imports and aiming for higher exports. We want to bring current account deficit from $13 billion estimated this year to $6.5 billion in 2019-20. For increasing exports, the government will:

- Support duty structure on raw materials and intermediate goods
- Improve mechanism for tax refunds
- Provide electricity and gas at competitive cost
- Redo the Free Trade Agreements and make Pakistan part of the global value chain.

b. **Reduction of fiscal deficit** – A challenging target of Rs.5,555 billion FBR revenue collection will be combined with aggressive expenditure controls to reduce primary deficit to 0.6% of GDP. Both the civil and military governments have announced unprecedented reduction in expenditure

c. **Enhanced collection of taxes** - Our fundamental reform in will be that of tax enhancement. Pakistan has one of the lowest tax-to-GDP ratios at below 11 percent which is lower than others in our region. Only 2 million people file income tax returns - of which 600,000 are employees. 380 companies alone account for more than 80 percent of the total tax. There are over 341,000 electricity and gas connections - but only 40,000 are registered with sales tax. Only, 1.4 million out of 3.1 million commercial consumers pay tax. There are estimated 50 million bank accounts but only 10 percent pay taxes. Out of 100,000 companies registered with

Securities and Exchange Commission of Pakistan only half pay tax. Many rich do not to contribute to our taxes. This has to change in Naya Pakistan.

Pakistan cannot develop until we reform our tax system. Historically, we have under allocated for health, education, drinking water, municipal services, and things that matter to the people. Now we are reaching a point where we have difficulty in paying our debts and even our salaries without recourse to borrowing. This situation has got to change.

d. **Austerity**– shall be put in place in the regular civil and defence budgets. As a result, the running of civil government which was Rs.460 billion this year, is being budgeted at Rs.437 billion for the coming year, a decrease of 5%. The defence budget is being maintained at the last year level of Rs.1,150 billion. In taking these difficult decisions on austerity, I want to appreciate the wisdom of the Prime Minister and the support of armed forces leadership in particular the Army Chief. Let me be clear on one point the sovereignty and defence of Pakistan is paramount. All other considerations are secondary to that of national dignity and honour. We will ensure that the capacity of our armed forces to defend our country and our people is never compromised

e. **Protection of vulnerable segments** – I want to highlight four policy proposals:

- **Subsidy to low electricity consumers** – Around 75 percent of total electricity consumers use less than 300 units of electricity in a month. Government will provide electricity to them at the rate lower than the cost of generation. Subsidy of over Rs.200 billion is being proposed in the next year's budget

- ***Ehsaas*** - A new Division of Poverty Alleviation and Social Safety has been established to design and implement social safety programmes in the country. The beneficiaries of *Ehsaas* programme are extreme poor, orphans, widows, the homeless, the differently abled, medically challenged, and the jobless.

  - A new ration-card scheme shall provide nutritious food to 1 million deserving people
  - Special nutritious food will be provided for infants and mothers
  - 80,000 deserving poor to be provided interest-free each month
  - 6 million women to get stipends in their saving accounts and increased access to mobile phones
  - 500 *Kifalat* centres to be provide online access to free courses to women and children
  - Wheelchairs, hearing aids and related provisions shall be provided to differently abled persons
  - Special incentives will be provided for parents to send their children to schools in lagging districts
  - Work on build 'Ehsaas homes' for the elderly has started

- BISP under Ehsaas programme is using unconditional cash transfer intervention with Rs.5,000 per quarter to 5.7 million poorest of the poor families, with an annual budget of Rs.110 billion. Keeping in view current inflation level, government is going to enhance the quarterly stipend from Rs.5,000 to Rs.5,500. National Socio-economic targeting data is being updated and expected to be completed by May 2020 with coverage of 32 million households and 200 million population. 3.2 million children of BISP beneficiary families in 50 districts are receiving conditional cash transfer of Rs.750 per quarter helping government to reduce the drop-out ratio. Expansion to further 100 districts is planned. Government plans to enhance stipend amount for girls from Rs.750 to Rs.1,000 from the next year.

- ***SehatSahulat*** - *This* program is a health insurance scheme for the poor. The recipient of this scheme is entitled free of charge healthcare to indoor health care services worth Rs.720,000 per year from any of the 270 selected hospitals across Pakistan. As a first step, the program has been launched in 42 districts of Pakistan addressing the health needs of 3.2 million poor families. The program shall be gradually expanded to cover 15 million poor and vulnerable families in all districts of Pakistan which includes all families of merged districts of Khyber Pakhtunkhwa, District Tharparkar and disabled individuals and their families.

- **Low-cost housing** - Initiatives are being taken in low-cost housing, addressing climate change – through billion tree tsunami and clean and green Pakistan.

f. **Fighting inflation** - we will attempt that there is minimal increase in prices. If, however due to movement in international markets we are forced with any price increase we will ensure that consumers are protected to the extent possible. Accordingly, we have made budgetary allocations to enhance social safety net for the vulnerable population.Fighting inflation will be paramount for us. We will tailor our fiscal and monetary policies, coordinate with the provinces and adopt administrative measures to fight this menace. The measures proposed for 2019-20 budget shall be as follows:

- Government borrowing from the State Bank is inflationary, the government will no longer use this facility with effect from 1 July 2019
- Our medium-term inflation target will be in the range of 5 - 7%.

In addition, we will continue to focus on good governance and remain committed to fighting corruption. We will assign autonomy to our institutions, strengthen their capacity and choose their leadership on merit.

The year 2019-20 shall continue to be the period of stabilisation. This is a difficult transition that we want to achieve within a minimum amount of time. We will try to minimise the adverse effects of any difficult decisions on our citizens.

Mr. Speaker,

9. I now present the development budget for infrastructure projects for economic growth, connectivity and job creation. This year, the combined allocation of national programmes is Rs.1,863 billion. Out of this the Federal PSDP is Rs.951 billion which will be increased from Rs.500 billion.

10. Policy priorities are water management, building a knowledge economy, fixing electricity transmission and distribution, low-cost hydel power generation, China-Pakistan Economic Corridor, investing in human and social development and "Public Private Partnership" in eligible sectors such as highways

11. Notable details are:

a. **Water** – To better utilise our water resources the PSDP focus is on building dams and drainage projectswith an allocation of Rs.70 billion.Diamer Bhasha Damshall be allocated Rs.20 billion for land acquisition, while Mohmand Dam “hydel power”will get Rs.15 billion for its ongoing construction

b. **Road / rail networks** – Some of these projects of road networks are also part of China-Pakistan Economic Corridor. Around Rs.200 billion is allocated of which Rs.156 billion is through the National Highways Authority. Key projects are:

- Rs.24 billion for Havelian-Thakot road
- Rs.13 billion for Burhan-Hakla motorway

- Rs.19 billion for Sukkur-Multan section of Peshawar-Karachi motorway.

Additionally, “Public Private Partnership” financing mode will be utilised for construction of Chakdara-Bagh Dheri extension of Swat expressway, Construction of road from Sambrial-Kharian Motorway,and dualization of Mianwali-Muzaffargarh road.

c. **Energy –**Rs.80 billionof projects shall be undertaken. For construction of Dasu hydro power Rs.55 billion are allocated.

d. **Human development / knowledge economy**–Rs.58 billion are proposed in budget for human development. Health, education, attainment of development goals, and climate change are some of the key areas. For higher education record funds of Rs 43 billion are proposed to for an important sector

e. **Agriculture** – While agriculture sector is administratively under the domain of the provinces, the Federal Government is investing a recordRs.12 billion for multiple projects in consultation with them

f. **Quetta development package** – the government has announced second phase of “Quetta development package” for Rs.10.4 billion. This is in addition to Rs.30 billion of water and road sector projects that the federal government is financing

g. **Karachi development package** –9 projects costing Rs.45.5 billion are being undertaken.

Job Creation

Mr. Speaker,

12. Creating jobs is our top consideration. Ours is a young country. Every year the number of young men and women seeking jobs is increasing. We have to meet their expectations. Here are some of initiatives we are adopting:

a. **Housing** – The Prime Minister's scheme of 5 million houses will benefit 28 industries and employ many. We have started by acquiring land in Lahore, Quetta, Peshawar, Islamabad, Faisalabad, etc. Other areas will follow. Financing arrangements are being completed. This initiative will provide low-income housing, trigger economic activity, develop related infrastructure and attract foreign investment. The Prime Minister has inaugurated 25,000 housing units at Rawalpindi / Islamabad and 110,000 units in Baluchistan which includes low-cost housing facilities for fishermen

b. **Self-employment for youth** – *KamyabJawan* programme provides Rs.100 billionin low cost loans for entrepreneurs to setup / expand businesses

c. **Jobs in industry** – To boost jobs the government is providing a series of subsidies and incentives to industrial sector. These include:

- Rs.40 billion subsidies to industry for electricity and gas
- Rs.40 billion for export development package
- The government will continue to provide Long-Term Trade Financing.

<u>Agriculture</u>

13. This year agriculture sector registered decrease of 4.4 percent. To improve agriculture sector, an important 5-year programme worth Rs.280 billion for uplift of agriculture sector is being launched in consultation with the provinces. Details include:

a. **Improvement of water productivity through building water infrastructure** including small water conservation projects – Rs.218 billion worth of projects will be implemented

b. **Increase in yields of wheat, rice, sugarcane, cotton** – Rs.44.8 billion shall be provided for this purpose

c. **Harnessing untapped potential in fisheries through shrimp farming, cold water trout farming etc.** – Rs.9.3 billion of shall be spent on these projects

d. **Undertaking livestock initiatives for small and medium farmers** – Rs.5.6 billion will be provided for backyard poultry and save the buffalo calf programme

e. In addition, in the budget 2019-20, the proposals are for:

- **Continuation of subsidy to agriculture tube wells** - Agriculture sector tube-wells shall be charged ata subsidized rate of 6.85. In Balochistan, a flat rate of Rs.10,000 per month is charged from the farmers and excess bill up to Rs.75,000 per month is shared by the Federal and provincial Governments

- **Crop loan insurance** – Small farmers who had incurred losses due to damages to their crops shall be provided loan insurance scheme. In this regard, Rs.2.5 billion have been proposed in the budget 2019-20.

Reforming Public Sector Companies

Mr. Speaker,

14. Each year our public sector enterprises are incurring massive lossesand this drain on the economy is detrimental to productivity, innovation and job creation. In the coming years this sector will be an important plank of government's reform agenda. A detailed implementation plan that includes corporatisation, privatisation and restructuring is being formulated and will be presented. The two LNG power plants are being privatised for expected proceeds of $2 billion and other smaller entities. International investors have been approached for a joint-venture in the Pakistan Steel Mill, renewal of telecom licenses for mobile sector in excess of $1 billion.

Reforming Energy Sector

Mr. Speaker,

15. Currently the circular debt is Rs.1.6 trillion. Gas sector faces the similar situation where circular debt of Rs.150 billion. The circular debt is created due to non-recoveryof bills and high transmission and distribution losses. The present government has undertaken a number of initiatives to ward-off this menace. Circular debts force government to borrow expensive debt to ensure the continuing operation of these inefficient companies. I would like to mention some of them:

a. Power and gas tariff were revised ensuring that minimum impact is transferred to low end consumers

b. Campaign against power defaulters and power thieves was launched to recover over Rs.80 billion in the last six months which has proved successful

c. Transmission bottlenecks were removed to transmit 3,000 megawatts of electricity resulting in zero load shedding in almost 80% of feeders

d. Government is clearing subsidy arrears to improve liquidity position

16. Collectively, the above measures have resulted in reduction of circular debt from Rs.38 billion per month to Rs.24 billion per month. Over the next 18months, further measures will be taken with the aim to reduce the circular debt to zero. These achievements will change the energy system once in for all.

<u>Merged districts in Khyber Pakhtunkhwa</u>

17. The federal government will allocate Rs.152 billion for development of districts that were previously part of FATA. This includes a 10-Year development package in which the federal government shall allocate Rs.48 billion this year. This 10-year package is part of Rs.1 trillion to be provided by both federal and provincial governments.

<u>China Pakistan Economic Corridor</u>

18. China Pakistan Economic Corridor continues to be the priority of the present government. Scope of CPEC has been enhanced through inclusion of new sectors including socio economic development, agriculture and industrial development of Pakistan through establishment of Special Economic Zones. Funds have been allocated for providing utilities i.e. electricity and gas to the special economic zones under CPEC. Allocation has also been made for the ML-1 railway project for revamping the railway sector.

<u>Anti-Money Laundering</u>

19. Money laundering is a menace and source of bad publicity and economic cost, a completely new regime is being proposed to curb the practice of trade-based money laundering.

Enhancing institutional capacity

20. Greater autonomy is being awarded to State Bank of Pakistan in determination of monetary policy which is used for controlling inflation.

21. A Treasury Single Account has been created disallowing government money to be parked in commercial bank accounts.

Relief Measures

Mr. Speaker,

22. For Federal government employees and pensioners following relief measure are proposed:

a. Ad-hoc Relief Allowance @10% on running Basic Pay of BPS 2017 to civil government employees in BPS grade 1 to 16, and employees of Armed Forces

b. Civil employees BPS 17 – 20 will be given ad-hoc Relief Allowance @5%

c. Civil employees in BPS 21 and 22 will receive no increase in pay as they have decided to sacrifice for the sake of improvement in economic situation of the country

d. Increase in net pension @10% will be given to all civil and armed forces pensioners of federal government

e. Special conveyance allowance for disabled employees will be enhanced from Rs.1,000 per month to Rs.2,000 per month

f. Special pay admissible to SPS/PS/APS to Ministers, Ministers of State, Parliamentary Secretaries, Additional Secretaries, and Joint Secretaries will be enhanced by 25%.

23. In addition to the above, minimum wage is being increased to Rs.17,500 per month.

Budget Estimates FY 2019-20

Mr. Speaker,

24. I would now like to present key budgetary figures for the revised estimated 2018-19 and budget estimates 2019-20:

a. The outlay of the federal budget for FY 2019-20 is proposed to be Rs.7,022billion, which is 30% higher than the revised outlay of Rs.5,385 billion for the outgoing financial year

b. The gross federal revenues have been estimated at Rs.6,717 billion during FY 2019-20 as compared to Rs.5,661billion budgeted for Financial Year 2019-20, reflecting an increase of 19%

c. FBR is expected to generate Rs.5,555billion, reflecting an FBR tax to GDP ratio of 12.6%

d. Out of federal revenue collections, a sum of Rs.3,255 billion will be transferred to the provinces under the 7th NFC Award as compared to Rs.2,465 billion during the current financial year, which means an increase of over 32%

e. The net federal revenues are estimated at Rs.3,462 billion during 2019-20 in comparison to the Rs.3,070 billion budgeted in the current year, which indicates an increase of 13%

f. This is expected to produce a federal budget deficit of Rs.3,560 billion

g. Provincial surplus is estimated at Rs.423 billion during Financial Year 2019-20

h. The consolidated fiscal deficit is estimated at Rs.3,137 billion or 7.1% of the GDP as against 7.2% of the GDP in Financial Year 2018-19.

PART – II

Finance Bill

25. I shall now present the Finance Bill:

Budget Speech 2019-20

PART II

Mr. Speaker,

Now I shall present part II of the speech which comprises of tax proposals.

This year Pakistan witnessed the crippling effects of faulty tax policies introduced by the previous Governments, which were devoid of the mandate of people of Pakistan. The outgoing Government provided excessive tax relief and at the same time shrivelled the effective tax base by 23.6%. During the last five years, the Governments' skewed approach of achieving revenue targets by arbitrarily altering the tax rate only and failure to recognize the importance of enhancing the tax base in order to establish a more efficient, equitable and robust tax system has led to calamitous results.

The consequence Mr. Speaker; today out of a population of 220 million people only 1.9 million are filers of income tax return, and out of these only 183 thousand paid tax with their annual returns. Equally alarming are numbers of sales tax filers which are 141 thousand, out of which only 43 thousand are paid taxes with their returns. Pakistan's tax to GDP ratio is 12% which is amongst the lowest not only in the region but also in the world whereas the current expenditure layout necessitates a tax to GDP ratio should be 20%.

It is in this backdrop that this government has chosen a tax reform agenda which has mandated tough choices, which are proposed to be made not only to ensure macroeconomic stability but also national integrity for future generations.

Mr. Speaker,

To start with I shall briefly put forth before the august house the broad principles of the proposed taxation measures for FY 2019-20 which are embodied in the Medium Term Policy Framework envisioned by this government. The framework is pivoted around bridging the tax gap in revenue collection and actual potential in medium term. Pakistan's tax expenditure has been estimated at Rs. 972.4 for fiscal year 2018-2019. This expenditure is a consequence of the multiple tax exemptions and concessions provided to various sectors of economy. Where these exemptions and concessions serve as an incentive on one hand, at the same time they tend to distort market competition and result in forfeiture of a large quantum of tax revenue. Besides enhanced revenue generation, an allied outcome of scaling down these exemptions and concessions would be the broadening of tax net. Two pronged efforts are proposed to be made to minimize the tax gap: (1) phasing out tax exemptions and concessions (2) gradual uniformity in VAT rate and review of special procedures. Our focus shall be to ensure effective and harassment free taxpayer compliance. IT based interface between taxpayer and tax collector shall be introduced to minimize point of contacts between the two by employing virtual platforms. This would reduce the trust deficit between the taxpayer and the tax department and also minimize the cost of tax compliance. Steps are proposed to be taken to reduce the quotient of regression in our tax system by taxation of real income instead of presumptive taxation and by eliminating unnecessary withholding taxes, a natural corollary of which would be visible in Pakistan's ranking on the Ease of Doing Business Index. Documentation of economy shall be the main thrust in upcoming years to broaden the tax base by the extensive use of data analytics of the data bases existing with government organizations and by generating pre populated returns.

The Government introduced a reform package by promulgating the Assets Declaration Ordinance, 2019 to allow the non-documented economy's inclusion into the taxation system and serve the purposes of economic revival and growth by encouraging a tax compliant country.

Mr. Speaker,

Now I shall place before the House relief and tax measures that are proposed to be introduced in the current Budget starting with the Customs Duty.

Customs

(1) In the past, due to lower revenues from domestic taxes, customs tariffs were harshly used to enhance revenues from imports. At present, Pakistan has the highest average customs tariffs and import stage revenues in the region. While the revenues from imports increased steeply, costs of imported raw materials and intermediary goods also increased, negatively impacting competitiveness of both

domestic and export industries. The government strongly believes that customs tariffs rationalization is a key requirement to boost exports and domestic manufacturing. For this purpose, duty on more than 1600 tariff lines, being raw materials and intermediaries in principle, is being exempted in this budget. This measure will cause a revenue loss of around Rs. 20 billion but much higher gains are expected in return from industrial growth. The government is finalizing a customs tariff reforms plan which will be implemented in phased manner.

(2) Textile sector is important, and government's policy is to support this sector with exemption of duty on various accessories and parts of textile machinery. Similarly, duty on Elastomeric yarn and non-woven fabric is to be reduced.

(3) Paper plays a very important role in country's education sector as its prices affect overall cost of education. Basic raw material for paper production i.e. wood pulp and paper scrap, may be exempted from customs duty and duty on different types of paper may be reduced from 20% to 16%. This will reduce prices of paper and books in the country and encourage printing industry. Special considerations are being given for Quran publication.

(4) To promote non-traditional exports, duty on some of the inputs of wooden furniture and razor manufacturing may also be reduced, from 3% to 0% on wood and from 11% to 3% on wooden veneering panels to save local forests and to encourage furniture manufacturers. Decrease in duty from 11% to 5% on steel strip for razor exporters is also being proposed.

(5) To reduce input costs of domestic home appliance industry, printing plate industry, solar panel assemblers and chemical industry, duties on their inputs like parts/components of home appliance, aluminum plates, metal surface agents and Ascetic acid may also be reduced. In

order to encourage investment in large scale manufacturing, exemption of duty is also being proposed on import of plant & machinery for setting up Hydrocracker plants for oil refining.

(6) Prohibitive regulatory duties to save forex reserves succeeded in creating import compression but some of these items shifted to transit trade and were smuggled back. It is proposed that duty structure on tyres, varnishes and food preparations for food industry may be rationalized to discourage their shifting to smuggling and realize the lost revenues on this account.

(7) Increasing costs of living has made the life of common man very difficult. To reduce cost of medicines for general public, 19 items of raw materials and essential items of medicinal use are being proposed to be exempted from 3% import duties. Similarly, medicines for rare diseases like Wilson's disease and Cystinosis disease are proposed to be exempted from import duties. Hemodialyzer is used in hydrolysis equipment for patients suffering from kidney failure. It is proposed that its raw materials and components may be allowed duty free import for local manufacturers.

(8) To promote exports different export facilitation schemes are being simplified and automated to minimize human interaction and expedite processing in a transparent manner. It is pertinent to mention that during first eleven (11) months of the current fiscal year, duty free concessions worth more than Rs. 124 billion were allowed on the imports of inputs and raw materials by the prospective exporters under different Export Facilitation Schemes. In order to further reduce time lag for exporters, their input/ output ratios are being proposed to be accepted provisionally subject to final determination, without causing any delay in fulfilling export orders.

(9) One administrative tier is being reduced by making the Additional Collector as regulatory authority of certain export facilitation schemes. At present, plant, machinery and equipment, brought duty free under different export facilitation schemes, cannot be disposed off without payment of duty/taxes before ten (10) years of their import. In order to encourage exporters to upgrade to new machinery and technology, it is being proposed that this period may be reduced to five (5) years. For disposal before five years, the option to pay duty and taxes at different depreciated rates is also being proposed.

(10) Money laundering is a menace and source of bad publicity and economic cost, a completely new regime is being proposed to curb the practice of trade-based money laundering. A new separate Directorate of Cross Border Currency Movement has also been established for focused enforcement against money laundering and currency smuggling to reflect Pakistan's commitment towards fulfilling FATF's action plan. In order to further strengthen drive against smuggling in the border areas, separate preventive collectorates have been established in Karachi, Peshawar and Quetta.

(11) Pakistan customs, like other modern customs administrations, has been using risk management system to expeditiously clear cargo through an automated system. In order to provide a more comprehensive legal cover to the use of risk management as a tool throughout customs controls, detailed legal provisions are being proposed to be added in the Customs Act.

(12) The government has to take some tough decisions to meet its expenditures. Realizing the fact that any increase in duty and taxes at import stage is passed on to the consumer, effort has been made to keep revenue measures from import stage at a bare minimum. It is being proposed that the rate of additional customs duty may be enhanced from existing rate of 2% to 4% and 7% on tariff slabs of 16% and 20%, respectively, which in principle, are finished

products, including luxury items. Presently, LNG is exempted from customs duty. Since LNG has replaced Furnace oil which was subjected to 7% customs duty, it is being proposed to levy 5% customs duty on the import of LNG.

Sales Tax

Mr. Speaker,

In the interest of poor people at large the Government has not adopted the easier option of collecting revenue by increasing the general sales tax rate of 17%.

RELIEF MEASURES

Fixed Sales Tax on Brick Kilns

Presently, brick kilns are being taxed at standard rate of 17%. It is proposed to decrease the rate of sales tax from 17% to a fixed rate based on location. The industry pertains to rural area, where it is difficult to fulfil the requirement of documentation. Therefore, this measure shall ensure improved compliance at a lower cost.

Reduced Rate of Sales Tax on Food Supplied By Restaurants and Bakeries

Food related inputs such as meat, vegetables, flour etc are difficult to document and resultantly require increased cost of enforcement. Therefore, in order to encourage compliance at a minimal cost of enforcement for the tax authorities, it is proposed to reduce the sales tax rate from 17% to 7.5% against which input tax adjustment will not be allowed.

Reduction of Rate of Sales Tax on Concentrated Milk (Powder)

Presently, the sales tax regime on various forms of milk powder is not uniform. Similar products are subject to varied tax rates. Therefore in order to remove this anomaly it is proposed to tax both milk and cream, concentrated, and unsweetened / unflavoured at 10% instead of current 17%.

Removal Of Bar On Export of PMC and PVC to Afghanistan

Removal of bar on export of PMC and PVC is proposed by zero rating export of these items to Afghanistan and Central Asian Republics. This measure would encourage local manufacturing of the aforementioned materials in the country and at the same time shall also promote exports.

Reforming Extra Tax Regime

Currently extra tax of 2%, in addition to standard sales tax, is payable on many items such as electric and gas appliances, foam, confectionary, arms and ammunition, lubricants, batteries, auto parts, tyres / tubes etc. In order to realise full revenue potential it is proposed that these items (auto parts and arms & ammunition) be moved to Third Schedule (retail price taxation) of the Sales Tax Act, 1990. In respect of two remaining items i.e. auto parts and arms & ammunitions, it is proposed to withdraw extra tax on the same to reduce the cost of production of local industry.

Expansion of Exemption to Tribal Areas

After the merger of FATA and PATA exemptions were extended for five years in respect of supplies to promote economic activity. It is proposed to extend exemption to tax on import of industrial raw materials and plant and machinery also. Additionally, exemption is also proposed for supply of electricity to all residential and commercial consumers and to industries set before 31-5-2018 excluding steel and ghee sector in these areas.

Withdrawal of 3% value Addition on Import of Mobile Phones

Currently commercial imports are subject to 3% value addition tax which has unnecessarily increased the tax burden. Therefore, it is proposed that 3% value addition tax on import of mobile phones maybe withdrawn. This measure would also ensure rationalization of tax on import of mobiles.

Reforming 3% Value Addition Tax – Petroleum Products

Exclusion of VAT is only available on those products imported by OMCs where prices are regulated. It is proposed that exclusion be provided to all Petroleum products like furnace oil, imported by the OMCs.

Simplification of Law and Reduction in Rules and Procedures

Through the years the Sales Tax law has become a complex phenomenon by insertion of multi tiered taxation and subordinate legislation. After thorough study the Special Procedures Rules are being abolished and made part of the Sales Tax Act. All redundant SROs are also being rescinded

REVENUE MEASURES

Streamlining SRO 1125(I)/2011 Regime

SRO 1125(I)/2011 provides for zero-rate of sales tax on inputs and products of five export-oriented sectors i.e. textile, leather, carpets, sports goods and surgical goods. The objective was to resolve delay in refund payments. However, zero-rating has created loophole and the benefit is being availed by unintended beneficiaries / non-exporters. Reduced rates for finished goods are also harming revenues. To streamline and prevent revenue leakage following measures are proposed:

- SRO 1125 be rescinded, thus restoring standard rate of 17%
- The rate of sales tax on local supplies of finished articles of textile and leather and finished fabric may be raised to 17%. However, retailers opting for real time reporting shall be

given a relaxation of rate which shall then be charges @ 15%.

- Zero-rating of utilities be withdrawn.
- Refund of sales tax to these sectors be automated, thus ensuring that the sales tax paid on inputs is immediately refunded. Refund Payment Orders (RPOs) shall be immediately sent to SBP for payment.
- Ginned cotton which is presently exempt is proposed to be subjected to reduced rate of 10%

Restoration of Normal Regime for Steel Sector

Currently sales tax from steel sector is collected through electricity bills at Rs. 13 per KWH. Imported scrap used in making billets is subject to sales tax at Rs. 5,600 / MT which is adjustable. For ship-breakers, ships imported for breaking are exempt from payment of sales tax. However, for ship-plates obtained from breaking of ship, sales tax is payable at Rs. 9300 per MT. Further, steel industry set up in tribal areas is exempt from payment of sales tax and steel units in other areas are not able to compete with them. In order to do away with this complex regime and realise the actual revenue potential of this sector, it is proposed:

1. The special procedure may be scrapped and these items be brought in normal tax regime.
2. Billets, ingots, bars, ship plates and other long profiles may be subjected to FED at 17% in sales tax mode in lieu of sales tax for the reason that there is no exemption from FED for tribal areas.
3. Minimum benchmarks are also being set of electricity consumption and production.

Increase in Fixed Value of Gas Supplied To CNG Dealers

Since the deregulation of CNG prices by OGRA, CNG prices have risen. However, tax rates have not be rationalised proportionately. Therefore it is proposed that but government the value for the CNG dealers may be increase in respect of Region I from Rs 64.80 per kg to Rs 74.04 per kg and in respect of Region II from Rs 57.69 per kg to Rs 69.57 per kg.

Change in the Retailers Regime

Retailers have been divided in tiers to pay sales tax .Tier-I retailers: Standard regime or 2% turnover. Tier-II taxed through electricity. Turnover tax is proposed to be abolished .Tier-I retailers shall be linked with FBR's online system. Incentive to buyers to buy from integrated and demand invoices shall be refund of sales tax up to 5% of the tax amount. Shop with size of 1000 sq ft or more will also be included in Tier-I retailers.

Increase in Rate of Tax on Sugar

Presently Sugar is subject to sales tax at 8%. This sector has huge economic potential but the tax collection from this sector is Rs 18 billion which is much lower than its actual potential. To minimize this tax gap and to harmonize its rate with other items, it is proposed that the sales tax rate on sugar may be enhanced to 17 %. However, to provide partial relief to the consumer from this rate enhancement, it is proposed that the sugar may be excluded from the items on which further tax at 3% is payable if supplied to unregistered persons. The price increase as a result of this measure is expected @ Rs. 3.60 per kg.

Review of Exemptions under Sixth Schedule

Following exemptions is proposed to be moved to be withdrawn, thus subjecting these items to 17%, if sold in **retail packing** with **brand name** as the consumers of these goods can bear the burden of taxes:

> Sausages,Meat and similar products of prepared frozen or meat offal including poultry, meat and fish.,fat filled milk, in liquid or powdered form and Cereals and flours , other than those of wheat and meslin, falling in PCT Chapter 11

Exemption of Cottage Industry

Exemption to cottage industry is being grossly misused it is proposed to redefine it to include:

- Not having an industrial gas/electricity connection
- Located in residential area
- Employing not more than 10 labourers working
- Annual turnover is not more than Rs. 2 million

Insertion of Gold, Silver, Diamond and Jewellery in Eighth Schedule to the Sales Tax Act, 1990 – Reduced Rate

Based on international best practices and to broaden the tax net, it is proposed to introduce reduced rate/minimal tax rate on gold, silver, diamond and jewellery.

Special procedure for Marble Industry

Rate of tax is Rs 1.25 per unit of electricity. It is proposed to introduce normal regime in this sector.

Provisions to Be Added in the ICT Law

It is proposed that services which have been made liable for tax in the provincial laws and are found absent in the ICT law may be inserted accordingly. Secondly, services which are already liable for FED shall not be inserted in ICT Law to avoid double jeopardy.

<u>MEASURES FOR EASE OF DOING BUSINESS</u>

Section 58 of Sales Tax Act, 1990 – Enabling Directors etc to Recover Paid Dues

This measure shall enable the director or a shareholder to recover the tax paid from the Company also.

Simplification of sales tax registration – Ease of Doing Business

Sales tax registration procedure is being simplified so that contact between the tax collectors and tax payers is almost eliminated and verification be made through NADRA

Decreasing the Legislative Burden of Federal Government Cabinet

On the instructions of the Cabinet Division substantive powers shall remain with Federal Government. Proposals have been prepared to replace the words "Federal Govt" with that of "the Board" or "the Board with the approval of Minister-in-charge" in relation to procedural matters.

De-registration and Blacklisting

Rules related to deregistration are being amended to facilitate the taxpayers. Now during the process of deregistration return filing will not be compulsory.

FEDERAL EXCISE

REVENUE MEASURES

Mr. Speaker,

Following measures are proposed for Federal Excise Duty:

Increase in FED on Aerated Waters

In order to harmonize the rates of taxes of different items, rate of FED on aerated waters is proposed to be increased.

Restoration of Normal Procedure for / Increase in Fed on Ghee/Cooking Oil

Vegetable ghee and cooking oil are subject to FED only. Manufacturers only pay Rs1 per kg on value addition and Rs .40 per kg on value addition of edible oilseeds imported. Collection of taxes is very less as compared to its actual potential: Rs. 466 million for their value addition and Rs 42 billion at import stage despite the fact that 27% of edible oil production is local.

It is proposed to increase rate of FED to 17% on edible oils / ghee / cooking oil and do away with Rs. 1 / kg tax in lieu of value addition tax and do away with concessional rates on edible seeds. Ghee cooking / oil which is sold in retail packing under a brand name is proposed to be subject to sales tax at 17% of retail price. It is proposed to restore normal FED regime in sales tax mode under which industry pays FED on actual value addition.

FED on Packaged Non-aerated Sugary / Flavoured Juices, Syrups & Squashes

In view of the health hazards FED proposed to be introduced at rate of 5% of RP.

Increase in Federal Excise Duty on Cement

Cement is chargeable to federal excise duty @ 1.5 per kg. It is proposed to increase federal excise duty on cement to Rs. 2 per kg.

FED on LNG

Increase in FED on import of LNG from Rs. 17.18 per 100 cu. m to Rs. 10 per MMBTU as for local gas

FED on Cars

Through Finance Supplementary Second Amendment Act 2019 FED on cars 1700 cc and above was introduced @10%. Now it is proposed to enlarge the scope of FED and following slabs are being introduced as Cars from 0 to 1000cc at 2.5%, Cars from 1001cc to 2000cc at 5% and Cars from 2001cc and above at 7.5 %

Increase in FED on Cigarettes

FED on cigarettes is levied on fixed rate basis. The rates need to be increased each year to account for increase in prices. FED is proposed to be increased. Traditionally cigarettes are taxed in two slabs but during 2017 a third tier was introduced to attract low priced illicit market which did not yield desired results. The upper slab will be taxed from Rs 4500 per 1000 sticks to Rs 5200 per 1000 sticks. For lower slab the existing two slabs will be merged to Rs 1650 per 1000 sticks

The proposal is to collect Rs 147 billion compared to estimated Rs. 114 billion for 2018-19.

Income Tax

Mr. Speaker,

International best practices reveal that taxes are the outcome of documentation of economic transactions. The primary theme of this budget is to improve documentation of economy and collect taxes from the people who can afford it instead of collecting taxes from withholding and presumptive tax regime. As you shall observe from various amendments proposed in the law through this Finance Bill, instead of promoting semi legalized culture of evasion of taxes due by being categorized as non-filers it is being ensured that all persons who are legally required to file return on income should file return of income and pay taxes on taxable income under the law. This is a major and substantial change in the taxation paradigm of this country. We firmly believe that all persons who are required to pay taxes should file return and pay the due taxes. Nevertheless at the same time we do not want to over burden the tax filers. We are introducing very simple automated non-personal basis of filing the return of income. These two complimentary steps will remove primary aberrations in our taxation regime.

Furthermore the corporate rate for companies is not proposed to be increased despite acute budget pressure so as to promote corporatization. It has also been ensured, that in a gradual manner the rate of tax on disposable income in the hands of businessmen undertaking business within the corporate sector be equal to those undertaking business in non-corporate sector.

<u>RELIEF MEASURES/ EASE OF DOING BUSINESS</u>

Issuance of Refund Bonds

In order to facilitate the cash flow constraints of business concerns due to stuck up income tax refunds, an income tax refund bonds may be issued by FBR Refund Settlement Company Limited. FBR will issue a promissory note to FBR Refund Settlement Company Limited incorporating details of refund claimants and the amount of refund payable to each claimant. A similar model has been applied for Sales Tax Refunds in this financial year which has successfully addressed the concerns of business community.

Placement on ATL after Due Date of Filing of Return

Previous Government has introduced a provision in law which prohibits placing a person's name on the active taxpayers' list if the return is not filed within the due date. Hence, a person who files a return after the due date would still be treated as a non-filer and subjected to higher tax rates which was an injustice and a major hardship case for a person who has filed the return yet taxed as a non-filer. In order to ease the continuation of filing tax returns even after due date, the condition of not placing name on ATL be done away with.

Withdrawal of Restriction on Purchase of Property

Previous Government has imposed a restriction on registration or transfers of property exceeding rupees five million in the name of a non-filer. It has been observed that the provision of placing restriction on purchase of property has not achieved the desired goal of increasing filers and rather such restriction has been legally challenged in Courts of law on the point of jurisdiction. Therefore, restrictions placed on purchase of immovable property may be withdrawn.

Tax Credit for Persons Employing Fresh Graduates

Keeping in view the Government's policy to create opportunities of employment for fresh graduates a new tax credit for persons employing freshly qualified graduates is proposed to be introduced. Persons employing fresh qualified graduates from universities or institutions recognized by the Higher Education Commission would be given a tax credit equal to the amount of annual salary paid to such graduates. The tax credit shall be deducted from the tax payable by such persons. This tax credit would be in addition to the expenditure claimed by businesses on payment of salary to their employees. Persons, who have graduated after 01 July, 2017 would be treated as fresh graduates for claim of tax credit.

REVENUE MEASURES

Increase in Tax Rates for Salaried and Non-Salaried Persons

Tax rates for both salaried and non-salaried persons were drastically reduced in the Finance Act, 2018. Previously, the threshold of taxable income was Rs.400, 000. Through the Finance Act, 2018, the threshold was substantially increased three-fold to Rs.1, 200,000 which has resulted in huge shortfall of approximately Rs.80 Billion in revenue collection. The threshold of taxable income is generally a proportion of the per capita income of a country and such significant increase is unprecedented. It is therefore proposed that the threshold of taxable income may be revised and fixed at Rs.600, 000 for salaried persons and Rs.400, 000 for non-salaried persons.

In the case of salaried individuals deriving income exceeding Rs.600, 000 it is proposed to introduce eleven taxable slabs with progressive tax rates ranging from 5% to 35% .For non-salaried persons deriving income exceeding Rs.400, 000 it is proposed to introduce eight taxable slabs of income with tax rates ranging from 5% to 35%.

Freezing Tax Rates for Companies at 29%

The tax rate for companies was 35% prior to the Finance Act, 2014. The tax rates were reduced from 35% to 30% with one percent decrease every year from the tax year 2014 to the tax year 2018. The tax rate for companies was further intended to be reduced from 30% in tax year 2018 to 25% in tax year 2023 with one percent decrease every year. At present, the tax rate is 29%. As the tax rates have already been substantially reduced from 35% to 29% in the last six years and considering the prevailing economic conditions, it is proposed that the tax rate for companies may be fixed at 29% for the next two years.

Receipt of Gift to Be Treated As Income

One of the common methods employed to reconcile wealth acquired through undisclosed sources of income is to explain the source of investment in the form of receipt of gift. In this regard , data analysis has shown that amount of gift as shown in Income Tax Returns exceeds Rs.256 Billion .In order to plug this loophole it is proposed that receipt of gift may be included in the definition of income from other sources. However receipt of gifts from relatives is proposed to be excluded from the purview of this measure.

Depreciation and Brought Forward Losses Not To Be Allowed While Computing Income for Super Tax

Super tax was introduced through the Finance Act, 2015. It is imposed on all banking companies and all other persons deriving income equal to or exceeding Rs.500 million. Brought forward depreciation and business losses are excluded while computing income for calculating liability of super tax. However, such losses are not excluded in the case of banking, insurance, oil and mineral exploration companies. In order to ensure similar tax treatment, it is proposed that same treatment be applied for the aforesaid sectors.

Reduction of Tax Credit and Its Withdrawal after Tax Year 2019

Presently Industrial undertakings investing any amount in purchase of machinery for extension, expansion, balancing, modernizing & replacement are allowed tax credit equal to ten percent of the purchase price of machinery. This facility of tax credit was introduced through the Finance Act, 2010 and was available up to 30th day of June, 2015. Although the facility has already consumed its utility yet it has been extended further till 2021 by the previous Government. Analysis of data indicates that this tax credit has been claimed by well established companies which would have invested even without this tax incentive. It is therefore proposed that the said tax credit may be allowed to those companies which purchase and install plant & machinery up to 30th June, 2019.Further,for the tax year 2019, it is proposed that the tax credit may be reduced from 10% to 5% of the purchase value of machinery. The facility is proposed to be discontinued after that. However, brought forward adjustment of the credit shall continue and initial depreciation shall also be available.

Withholding Tax on Domestic Royalty

Withholding tax is deducted on any payment of royalty to a non-resident person. However, there is no such withholding tax in case of payment of royalty to a resident person. Now there is a growth in local entities which are also deriving income from royalty but the true potential of such persons cannot be gauged. In order to provide a level playing field it is proposed that withholding tax at the rate of 15% of the gross amount of royalty may be deducted from resident persons.

Streamlining Tax Regime for Real Estate Sector

- At present capital gain on immovable properties is separately taxed on the basis of holding period of property. It is proposed that income from capital gains may also be taxed under normal tax regime at normal tax rates. It is therefore proposed that;

  1. Income from capital gains on open plots is proposed to be taxed at 100% where the open plot is sold within one year and for period up to ten years. Income from capital gains on constructed property is also proposed to be taxed on similar lines when sold within period of five years.
  2. In case a property is sold within one year it shall be taxed as normal income
  3. Tax shall be charged on 3/4rth of the income if the same property is sold after one year.

- At present if a purchaser of an immovable property pay 3% tax on the difference between the DC value and FBR value of property than he is not required to explain the source of investment on the said differential amount. This is a permanent tool for whitening of undeclared money which is against the international tax norms. Therefore it is proposed to withdraw the tax at the rate of 3% on differential amount.

- FBR had introduced valuation tables of immovable properties in major cities. The rates notified by the Board are still considerably lower than actual market value. It is therefore intended that FBR rates of immovable properties would be taken closer to or about 85% of actual market value. As the increase in FBR values of immovable property is going to increase the incidence of tax on genuine buyers and sellers, it is proposed that rate of withholding tax on purchase of immovable property may be reduced from 2% to 1%.

- At present, withholding tax on purchase of property is attracted only if the value of property is more than four million rupees. There is a tendency to avoid this tax by breaking the transaction into amounts less than rupees four million whereas the actual value of property is more than four million. In order to stop the misuse of this threshold, the withholding tax on purchase is proposed to be collected irrespective of the value of property.

- At present, there is no withholding tax on sale of property if the property is held for a period of more than three years. This is in line with the holding period for taxability of capital gain which is also three years. As capital gain is to be taxed under normal tax regime even beyond the period of three years, it is proposed that withholding tax on sale of property be collected irrespective of the holding period to bring it in line with the proposed treatment of capital gains.

Taxation, Assessment and Filing of Returns of Persons Not Appearing On the Active Taxpayers List

The concept of making the cost of doing business higher for non-filers were first introduced through the Finance Act, 2014 and separate and higher rates for non-filers were prescribed. However, it was misconstrued that a non-filer may still choose to not file income tax return and thereby forego the higher tax collected. Although the measure was meant to increase the number of filers yet over time the focus shifted to raising additional revenue from this measure. Further, persons who were not required to file their return or who had just started their business were also required to file return to save them from higher tax collection.

In order to remove the misperception that non-filers can go scot free by just paying higher tax and also to remove certain anomalies, the concept of "non-filer" is proposed to be done away with. Instead, a new scheme which focuses on persons whose names are not appearing on the active taxpayers' list [ATL] is proposed to be introduced. The scheme is a major paradigm shift from the erstwhile non-filer higher tax regime in that it not just penalizes those not appearing on the ATL but also introduces an effective mechanism for enforcing returns from such persons. In this regard, a new schedule titled "The Tenth Schedule" is proposed to be introduced in law which envisages the entire path to be adopted by the Inland Revenue Department to enforce returns from persons who undergo financial transactions yet choose not to file their returns of income.

Changing Final Tax into Minimum Tax Regime for Certain Persons

Persons involved in certain transactions are not required to pay tax on their actual profit. Instead, the tax collected or deducted on these transactions is treated as their final tax liability. As the tax deducted is final tax, such persons are saved from scrutiny of audit. At present, final tax regime is available for commercial importers, exporters, commercial suppliers of goods, contractors, persons earning income from prizes and winnings, sellers of petroleum products, persons deriving brokerage or commission income and persons earning income from CNG stations. In order to tap the actual tax potential, the tax collected or deducted from these transactions is proposed to be treated as minimum tax except for exporters, prizes and winnings and sellers of petroleum products. This is a step towards gradual phasing out of Final Tax Regime.

Tax Rates for Persons Earning Dividend Income

Dividend income is separately taxed and it is not made part of income under normal tax regime. The general rate of dividend income is 15% which is quite low considering that no expenses are incurred in deriving dividend income. Presently dividend income is taxed at lower rates because of the fact that companies have already suffered full rate taxation. However, there are companies which are either exempt or don’t pay any tax because of tax credits and allowances available to them.

Therefore it is proposed that the dividend income from such companies may be taxed at 25% as opposed to the general rate.

Withdrawal of Initial Depreciation on Buildings

Buildings have a normal useful life exceeding approximately thirty years. However, depreciation in buildings is allowed at the rate of 10 percent every year and in the first year, initial depreciation is also allowed at 15 percent. In this way, 25 percent of the total cost of building is claimed as depreciation in first year which is totally against the actual useful life of buildings. It is therefore proposed that initial depreciation allowance on buildings may be withdrawn being in consistent with the total life of buildings.

Taxation of Income from Profit on Debt

At present, income from profit on debt is separately taxed at the rate of 10%, 12.5% and 15% for profit on debt up to five million, between five to twenty five million and exceeding 25 million respectively. The rate is proposed to be revised as 15%, 17.5% and 20% in respective thresholds of profit.

The rate of withholding on profit on debt is also proposed to be enhanced from 10% to 15%. Further, the separate rates mentioned above would be applicable for profit on debt up to Rs.36 million and for amounts exceeding Rs. 36 million the profit on debt will be made part of the total income and taxed at normal rates.

Measures To Avoid Profit Shifting through Dealer

It has been observed that manufacturers tend to appoint their associates as commission agents/dealers to whom they shift their profit margin in the form of excess commission to avoid their actual tax liability. It is therefore proposed that any amount of commission paid in excess of 0.2 percent of the gross amount of supplies shall be disallowed unless the dealer is registered under the Sales Tax Act, 1990.

Reduction in Limit for Not Explaining Source of Investment through Foreign Remittance from Rs.10 Million to Rs.5 Million

Through the Finance Act, 2018, a limit of Rs.10 million was imposed so that source of unexplained investment up to Rs.10 million could not be probed in case of foreign remittance. As the average workers remittance size is quite low, it is proposed that the threshold may be reduced from Rs.10 million to Rs.5 million for explaining the source of investment through foreign remittance.

Plugging Loopholes in Taxation of Banking and Insurance Companies

Reforms in the present tax regime of banking and insurance sectors are being proposed. This will enable the government to tax the real income of these sectors.

PROCEDURAL MEASURES

Purchase of Property through Banking Instrument

In order to capture the actual value of a real-estate purchase or sale transaction, it is proposed that persons purchasing immovable property of fair market value greater than rupees five million in the case of immovable property and one million or more in the case of movable property may be required to purchase through a banking instrument other than a bearer cheque and a penalty at the rate of five percent of FBR value of immovable property is proposed for violation of this requirement. Further in case of violation of this condition no depreciation allowance shall be available and purchase price for capital gain purpose shall also be treated as zero.

Prosecution for Non-Filing of Return

Process for prosecution is proposed to be made easier. It is also proposed that the moment prosecution is filed with the special judge, arrest of the person shall be possible.

Simplified Tax Regime for Certain Sectors

In order to broaden the tax base there is a need to simplify procedures regarding determination of tax payable and filing of return by certain sectors of economy. A new enabling section is therefore proposed to be introduced in the Income Tax Ordinance, 2001 which would empower the Federal Government to prescribe special procedures for scope and payment of tax, record keeping, filing of returns and assessment in respect of small businesses, construction business, medical practitioners, hospitals, educational institutions and any other sector specified by the Federal Government.

Approval of Trusts and Welfare Institutions for Claiming 100% Tax Credit

Non-profit organizations, trusts and welfare institutions are allowed hundred percent tax credit subject to fulfillment of certain conditions. NPOs which are recognized by the Commissioner under the law are allowed 100% tax credit. While condition of recognition of NPOs exists, there is no such requirement for trusts and welfare institutions. In order to ensure similar treatment and appraisal, it is proposed that trusts and welfare institutions may also be required to obtain recognition to avail the facility of 100% tax credit.

Obtaining Data of Comparables from Independent Chartered Accountant

Transfer pricing is a common method employed by associated companies to evade income tax by not declaring transactions on their true market value. In order to ascertain the actual market price in such situations, a comprehensive data of comparables is required. As such data is not readily available; it is proposed to empower the commissioner to obtain such data from an independent chartered accountant firm.

Recovery of Tax of AOP from Member of AOP

Under the existing law, tax payable by a member of association of persons can be recovered from the association itself. On the contrary, tax payable by an association of persons cannot be recovered from its member. In order to ensure recovery of tax, it is proposed that where any tax payable by an association of persons, the same may be recovered from any person who is a member of the association.

Separation of Audit and Assessment Functions

It is proposed that the process of completion of audit and issuance of audit report may be separated from assessment of income on the basis of audit. By separating audit and assessment provisions in law, it is intended that functions of audit and assessment shall be performed by separate and independent officers to ensure impartial treatment to the taxpayers.

Business License for Persons Engaged In Business

At present, only taxpayers are required to register with the Board for tax purposes. Persons deriving business income below taxable threshold are not required to register. In order to create a verifiable database, it is proposed that every person deriving business income, even if below the tax threshold, be required to obtain business license from the Board through NADRA's e-sahulat centers. Business license per se would not make the licensee liable to file return.

Thank you

CONCLUDING REMARKS

Mr. Speaker,

The government is committed to get our country out of its financial predicament which was not of its making. A quick solution would have been to borrow extensively from all sources both external and internal. But the government has refrained itself from applying quick solutions. Instead, we have chosen the difficult path for country's sake. As described above we have focused on the entire gamut of financial management from macro-policy reform to business flow to med-term strategy towards debt restructuring. The initial year or so will be tough but eventually the fruits of our labour will show in aa sustainable manner to the benefit of our people and Pakistan. I want to conclude with a reaffirmation of our resolve to serve the people of our great country. Your hopes and ours are the same, and we will do our best to realise these hopes. As Quaid-e-Azam Muhammad Ali Jinnah said, '*With faith, discipline and selfless devotion to duty, there is nothing worthwhile that you cannot achieve'*.

Pakistan Paindabad