

Budget Seminar (2020-21)

Riphah Institute of Public Policy RIPP-Riphah has organized a budget session on 23rd June, 2021 at 4.00 PM at ETB campus to discuss the Finance Bill 2021-22 and to propose the recommendations likely to be considered by the parliament through two members of national assembly who will be the part of panel discussion. The followings distinguished guests were the key speakers, Dr Rashid Aftab (Director Riphah International University), Dr. Atique-Zafar Khan (Economist/Dean, Riphah International University), Raja Amir Iqbal (Ex. President Rawalpindi Chamber), Ms. Noureen Farooq Ibrahim (Member National Assembly and Member taskforce on SDG's), Dr. Vaqar Ahmed – Sustainable Development Policy Institute (SDPI), Mr. Ali Suleman (CEO of Policy Research Institute of Market Economy (PRIME), Dr. Mian Muhammad Akram (Economist), Mr. Qasid Ahmad (Mashoom Enterprises (SEZ), Dr. Naveed Yousuf (Faculty member at National Defense University, Islamabad), Mr. Ameer Zafar Durrani (International Development Expert), and Dr Faisal Sultan Qadri (Economist at - Applied Economics Research Centre (AERC, Karachi).

It was highlighted by the speakers that the budget is pro-growth with an overall focus on increasing expenditures with a total value of Rs8.49 trillion, an increase of Rs700 billion over the last budget. The industrial and services sectors had helped the economy rebound and post GDP growth of 3.94 per cent in the first 9 months of the fiscal year (July to March), significantly higher than the target of 2.1pc. After last year's contraction of 0.47pc, the economy witnessed a V-shaped recovery.

Budget Highlights

The finance minister announced that for FY22, the government had set GDP growth target at 4.8%. The total allocations for the Public Sector Development Programme (PSDP) have been budgeted at Rs. 2,135 billion for FY22, up from Rs. 1,324 billion last year.

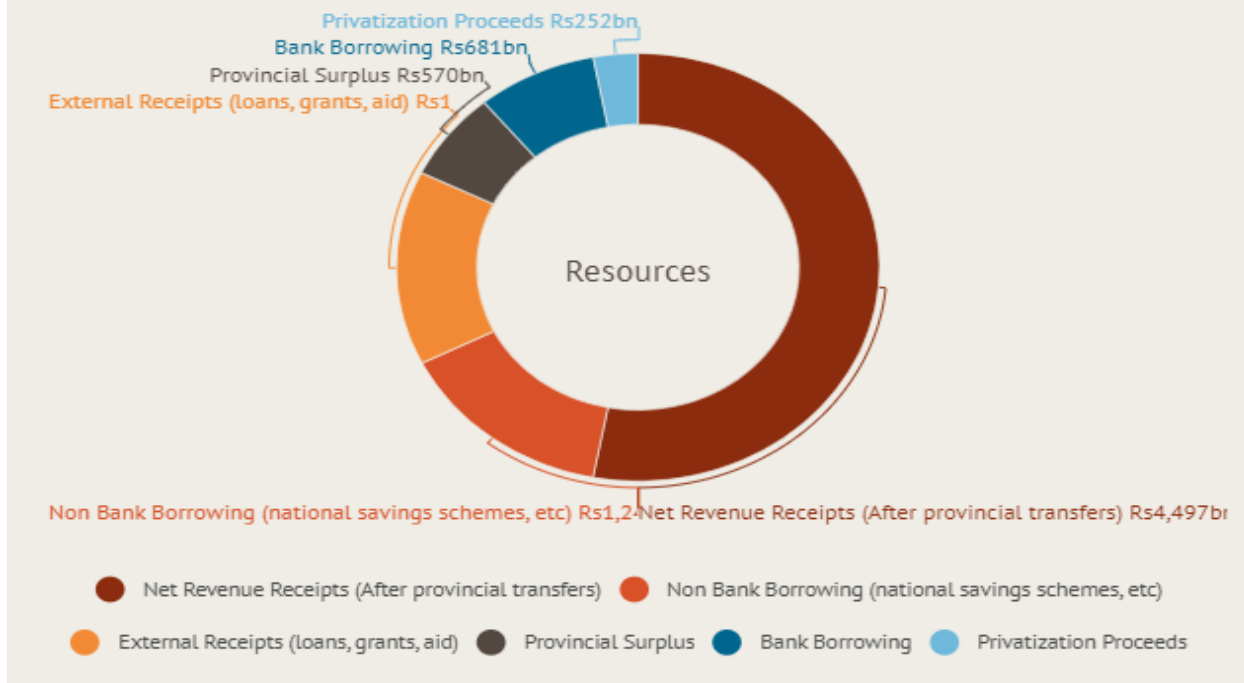
- The sale of goods through the online marketplace is proposed to be brought into the sales tax net by deeming the online marketplace as a supplier in respect of third-party sales through their platform.
- For specified goods, it is proposed that it may be made mandatory for manufacturers of such goods to obtain brand licenses for each separate brand or SKU.
- Section 56C provides for a prize scheme to promote tax culture. To ensure that the said incentive is not misused, a new sub-section is proposed to be inserted to provide for randomizing “mystery shopping”.
- The rate of sales tax on potassium chlorate is proposed to be increased from Rs. 80 per kg to Rs. 90 per kg in addition to 17% standard rate.
- Zero-rating is proposed to be withdrawn from Petroleum Crude Oil, parts/components of zero-rated plant and machinery, import of plant and machinery by petroleum and gas sector, and supply, repair, and maintenance of ships.
- Sixth Schedule is proposed to be streamlined and exemptions other than relating to basic food items, health, and education are proposed to be withdrawn.
- The eighth Schedule is proposed to be streamlined and reduced rates other than relating to basic food items, health, and education are proposed to be brought into the standard regime.
- Reclaimed lead and used lead batteries are an unorganized sector. Therefore, the entire amount of sales tax in respect of sales of such goods is proposed to be withheld at source under Eleventh Schedule.
- To ensure collection of due taxes, sales tax on sugar is proposed to be levied on the retail price by including the said product in the Third Schedule.
- The minimum wage of a laborer is being fixed at Rs. 20,000.

- The minimum annual threshold of turnover from all supplies for cottage industry is proposed to be increased from Rs. 3 million to Rs. 10 million.
- The threshold of shop area in case of furniture outlet/showrooms is proposed to be increased from 1000 square feet to 2000 square feet for inclusion in tier-1 retailer.
- Public limited companies are proposed to be excluded from the purview of section 8B.
- A separate section introduced for allowing extension of time for furnishing of return.
- Exemption is proposed to be granted to art and printing paper for publication and printing of Holy Quran.
- Exemption on import of CKD kits for electric vehicles by manufacturers granted by Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- To facilitate international athletes, exemption to goods temporarily imported by athletes/sportsmen granted by Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- Tax exemption to auto disable syringes granted vide Tax Laws (Second Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- To encourage IT industry in the country, import of plant, machinery and raw material by Special Technology Zone is proposed to be exempted from sales tax.
- To facilitate farmers and encourage the storage of grain, tax exemption on locally manufactured silos is proposed to be granted till 30.06.2026.
- Reduced rate of sales tax @ 1% on locally supply of electric vehicles granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.
- In order to address the litigation issue, a fixed tax on SIM cards is proposed to be deleted with effect from 1st July, 2021.
- Exemption from value added tax on import of electric vehicles, CKD kits for a small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions was granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Twelfth Schedule.
- For facilitation purposes, the concept of constructive payment is proposed to be introduced in section 73.

- To provide relief to the registered persons, the benefit of compensation for delayed payment of refund is also proposed to be extended to those persons in whose case order under section 66 is passed.
- For promoting ease of doing business, the concept of Common Identifier Number is proposed to be introduced.
- For the establishment of Border Sustenance Markets, exemption from sales tax is proposed to be granted on food-related and other consumable goods.
- In order to introduce the umbrella Export Facilitation Scheme by Customs Wing, exemption on import and zero-rating on local supplies in respect of raw materials, components, parts and plant and machinery to authorized exporters is proposed.
- Rising prices of locally manufactured small cars is a major concern for low earning families. Accordingly, it is proposed that small cars up to an engine capacity of 850cc may be exempted from value-added tax besides reducing the sales tax rate from 17% to 12.5%.

Resources for Budget 2021-22:

Where the money will come from

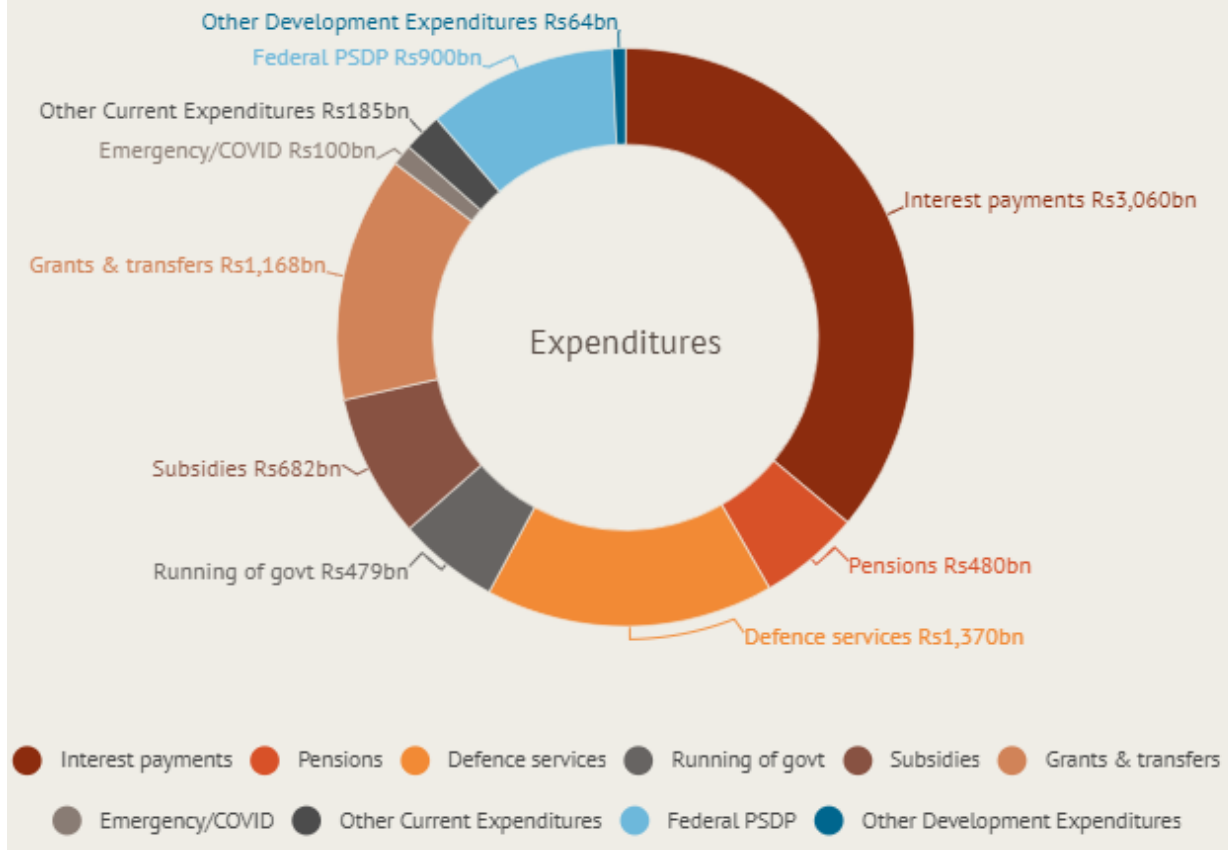


Expenditures for Budget 2021-22:

Budget 2021-22

Graph compiled by Geo.tv

Where the money will be spent



During the penal discussion, the economic analysts added, the challenges for achieving the budget targets are enormous including; Sustained GDP Growth, Tax/Non-Tax Revenue, Current expenditure, PSDP expenditure, Pensions (civil/military), Social Protection Programs, Debt Financing and above all huge budget deficit and rationality of the assumptions for the revenue collection and external finances. Although the economic policy goals also featured in the previous budget, what's different this time around is that the government has achieved some fiscal space to instigate more consistent and wide-ranging pro-growth measures, however over the feasibility of these targets has to be worked out and the assumptions in this regard for a balanced and realistic approach.

Policy Recommendations for Budget 2021-22:

- Projected growth rate of Pakistan by IMF after COVID-19 is 4.8%. So first measure need to be taken in the budget must focus to focusing on incentives and measures that will accelerate our growth from 4.
- Manufacturing sector growth already face shortfall due to COVID-19 and lockdowns around the world and we are about to face the fall of growth rate along with the unemployment, this is the time to find out ways and means necessary for survival.
- Ehsas program is one of the significant initiatives taken by government for inclusive growth. This budget gives commitment to enhance the capacity of youth in skills and business. A specific portion of budget allocation was required for youth loan scheme.
- Manufacturing sector is one of the main sector of any economy providing highest employment based on a cycle including imports and exports. So, if we want to boost our manufacturing sector than should give optimum utilization to this sector by encouraging local products and focus on sectors that have still high demands like food, fisheries and on IT sectors.
- Government should come in front to lead the industries that striving hard to transform themselves according to the world needs.
- Government protection is the only way to secure SMEs and MSMEs that are not only the part of our local manufacturing but also contribute in exports.
- Pakistan export sector has shown very rapid recovery in export sector in recent month. Pakistan's exports of goods recorded their highest level of \$25.3 billion during the fiscal year 2020-21, higher than the \$25.11 billion recorded in 2013-14. So government should focus on the policies which reduce cost of production by reducing or eliminating duties on import led exports and unnecessary compliance.
- Government should work on Rationalization of our compliance system that will reduce cost of doing business . There is a strong need to identify the industries which are excluded to access to facilities announced by Government by finding the gaps.
- MSMEs and some SMEs lacks information regarding Government facilities and the information cost to these organizations are very high so, chambers and association bonding should be improved the issue.
- Special measures in housing and residential scheme are necessary to be taken. There are many housing societies but they lacks regulatory measures in their projects.
- Government should ensure the availability of announced facilities to all SMEs as banks are reluctant Government must attach these credit facilities with FBR as electronic data of all industries are available at FBR and after reviewing the tax profile of industry loans are allocated.
- To achieve the real outcomes of the budget allocations, central data bank is required.