Pakistan Economy

Tax Amnesty Scheme expectations and implications

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Rs2-3tn asset declaration, upto US$2bn inflow likely

- With only 3 working days left before the expiry date of June 30, 2018, the Tax Amnesty scheme announced on April 5, 2018 by the previous govt. is finally gathering steam.
- Key trigger that has changed the Amnesty Scheme's outlook is the favorable ruling by the Supreme Court on June 12, 2018 that stated that it will not interfere with the workings or modalities of the scheme.
- Lot of operational and regulatory issues have been addressed that has led to robust response. The Central Depository Company (CDC) amended rules to allow free transfer of securities under tax amnesty scheme. A few days ago, rules and modalities relating to dollar bonds that can be purchased from declared assets have been approved by State Bank of Pakistan (SBP).
- As per our channel checks and assessments, we are of the view that the scheme could possibly lead to asset declarations of Rs2-3tn (US$15-25bn).
- This is expected to result in tax revenues of over Rs100bn (0.3% of GDP) and would help to some extent in bridging the widening fiscal deficit of the country (reported at 6.1% of GDP during Jul-May 2018).
- Given expectations of declarations of US$25-30bn, inflows of up to US$2bn can be expected. This would include both payment of penalty amount on foreign assets and repatriation of foreign assets.
- According to Member Inland Revenue, Federal Board of Revenue (FBR), FBR expects inflows of US$3-4bn, which is higher than our expectations. The amnesty scheme will help in alleviating some pressure on foreign exchange reserves, which have fallen to US$10.3bn as of June 14, 2018 (only 2x import cover).

Extension in scheme would result in higher flows

- We had earlier estimated (refer to report "Pakistan Tax Amnesty Scheme" dated April 6, 2018) that the Govt. can potentially earn around Rs300bn (1.0% of GDP) assuming up to US$70bn (foreign assets US$25bn, local assets US$45bn) is declared under the amnesty scheme. However, this was based on announcement of the scheme in early April but lack of clarity from Supreme Court and short time is restricting people from participating in the scheme.
- Indonesia had launched an ambitious tax amnesty scheme in Jul 2016 that continued for 9 months. Around US$360bn in assets were declared while foreign assets repatriated were US$11bn. The govt. earned around US$8.5bn in tax revenues. It should be noted that Indonesian economy is three times Pakistan's economy.
- We believe that if the deadline of the Tax Amnesty is extended beyond June 30, 2018, then our initial expectations may possibly be realized. Extension of the scheme is possible via Presidential Ordinance and getting approval by Federal Cabinet.
- To recall, following are the modalities of the scheme: Foreign Assets: 1) 2% tax on FX sent from abroad; 2) 2% on undeclared money lying in local dollar accounts; 3) 3% on foreign assets declared but not brought back to Pakistan (valued at market price and not less than cost of acquisition) and 4) 5% tax on foreign liquid assets like bank accounts declared and not brought back. Local Assets: Undeclared local asset or income to be taxed at the rate of 5%.
- Previous amnesty schemes in Pakistan were different. The 2000 Amnesty Scheme was similar but it was not offered on Foreign Assets. In 2000 scheme, over Rs100bn was declared and Rs10bn in taxes was collected. Since 2000 to date, property prices and hence undeclared wealth has increased manifold due to which we expect manifold increase this time around.

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