Amended Finance Bill

A right direction on a bumpy road

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Key Highlights/Summary of Amended Finance Bill

- Budget deficit to be contained to 5.1% from earlier target of 6% for FY19.
- Federal Public Sector Development Program (PSDP) to be set at Rs725bn, +10% YoY vs. last years actual Federal PSDP of Rs661bn.
- Withdrawal of restriction on purchase of new motor vehicles by non-tax filers.
- Withdrawal of requirement of being tax filer to purchase immovable property of value exceeding Rs5mn.
- Increase in excise duties in cigarettes and expensive cell phones. On the flip side, measures to curb illegal/smuggled cigarettes would be ensured.
- Reduction in collection target of Petroleum Development Levy (PDL) by Rs100bn.
- Tax exemption on salaried class with taxable income of less than Rs2.4mn to be maintained while upward revision was made for individuals earning taxable income of more than Rs2.4mn.
- Regulatory Duties (RD) to be reduced on inputs (82 items) used by zero-rated five export sectors (including textile).
- Additional revenue measures of Rs182bn, including curbing tax evaders, increasing WHT, RD and Customs Duty (CD).
- Increase in RD on luxury imported vehicles for 1800cc or more from 10 to 20%.
- Withholding tax on banking transactions for non-tax filers to be increased to 0.6% from earlier 0.4%.
- Construction of nearly 18k houses for poor segment with immediate release of Rs4.5bn in first phase.
- Minimum 10% increase in Employees Old-Age Benefits Institution (EOBI) pensioners.
- Sehat Sahulat health program to be extended to FATA, Islamabad and Punjab.

Amended Budget to bode well for economy & select sectors

- In a much awaited development, the new Govt. has announced the amendment in finance bill (that was announced by the PML-N government in its 6th budget in May this year) in today's session of the National Assembly (Lower House) with an objective to reduce fiscal deficit by around 100bps to 5.1%. This follows yesterday's bold decision of the new Govt. to raise gas prices on average by more than 35% (see our report Pakistan Strategy dated September 17, 2018).
- With measures taken so far, the new govt. is now clearly showing ability to take challenging decisions in light of the current economic challenges. Today's measures could well likely be followed by further measures to curtail the burgeoning twin (fiscal and external account) deficits of the country in future. We believe that these measures will also send a positive signal to lending agencies for taking valiant steps to revive the economy.
- New Government's additional revenue measures of Rs182bn coupled with reduction in development expenditures by Rs250bn will likely contain the fiscal deficit to 5%.

Following are amendments in Finance Bill and our analysis on the same:

- In a major development the new Govt. has withdrawn the previously imposed restrictions on non-tax filers to buy new motor vehicles manufactured in Pakistan or new imported vehicles. This will be largely positive for the local auto assemblers (PSMC, INDU and HCAR will likely be the beneficiaries) as demand for autos may not be as much affected as we were previously anticipating due to non-tax filer issue as well as economic slowdown.

Development Budget set at Rs725bn, +10% YoY (vs. spent)

- The Govt. has increased excise rates on cigarettes below Rs58.5 per pack (20 cigarettes) by over 50% to Rs25 per pack. Further, excise rates on cigarettes between Rs58.4-90 per pack are increased by 10% to Rs36.8 per pack while excise rates on cigarettes above Rs90 per pack are increased by 20% to Rs90 per pack. This will be negative for cigarette producers like PMPK and PAKT which have been enjoying healthy sales growth due to previous Government's tax relief to cigarette producers in form of lower excise rates.
- Moreover, as per news reports, development budget has been set at Rs725bn which is 25% lower than previous Government's budgeted amount of Rs1tn for FY19. However, the target of Rs725bn is 10% higher than Rs661 development budget spent in FY18. Further, the Govt. has withdrawn restrictions on non-tax filers from buying properties in excess of Rs5mn. This will likely be positive for sectors like cement (LUCK, DGKC, MLCF, KOHC, FCCL etc) and steel sector (INIL, ISL, ASTL, MUGHAL etc) as aforesaid measures will likely boost infrastructural activities.
- To reduce input costs of five zero-rated exporters (textile, leather, sports goods, surgical goods and carpets), the Govt. has announced to reduce RD which should bode well for textile exporters such as NML, KTML, GATM etc.
- Previous government had projected to increase collection of petroleum levy from Rs179bn to Rs300bn. To remove anomaly (created by previous Govt.) and rationalize the amount, the levy is reduced by Rs100bn.

New revenue measures to contain fiscal deficit

- New revenue measures of Rs183bn has been announced. Out of this, Rs92bn is expected to be raised through curbing tax evasion. Other revenues measures include 1) increase of withholding tax on non-tax filers for banking transaction, 2) increase in tax rate on salaried individuals on taxable income above Rs2.4mn and 3) increase in RD on few items.
- Import duty on imported luxury cars (1800cc or more) to be increased from 10 to 20%.
- Sehat Sahulat health program (that provides health card coverage of Rs540,000 to poor families) will be initially extended to FATA and Islamabad provinces and eventually Punjab. However, other two provinces will likely initiate a similar program going forward, we believe.
- Tax relief for Govt. officials will be withdrawn.
- Finance Minster also claimed to maintain CPEC and Dam related development budget and ensured speedy construction of dams, mostly likely within 5-6 years vs. 9-10 years in normal circumstances. Moreover, special packages of Rs50bn (public private partnership) was also announced in the budget speech.

Relief to most of the salaried class remained intact

- Tax benefit for salaried class up to taxable income of Rs2.4mn will remain same as proposed by the previous Govt. while taxes on taxable income higher than Rs2.4mn will be increased as follows:

New Slabs	
Tax Rates	**Tax Rate**
Below Rs400,000	0%
Between Rs400,000-800,000	Rs1,000
Between Rs800,000-1,200,000	Rs2,000
Between Rs1,200,000-2,500,000	5% of the amount exceeding Rs1,200,000
Between Rs2,400,000-3,000,000	Rs. 60,000 + 15% of the amount exceeding Rs2,400,000
Between Rs3,000,000-4,000,000	Rs. 150,000 + 20% of the amount exceeding Rs3,000,000
Between Rs4,000,000-5,000,000	Rs. 350,000 + 25% of the amount exceeding Rs4,000,000
Above Rs 5,000,000	Rs. 600,000 + 29% of the amount exceeding Rs5,000,000

Source: Finance Ministry

Previous Slabs	
Tax Rates	**Tax Rate**
Below Rs400,000	0%
Between Rs400,000-800,000	Rs1,000
Between Rs800,000-1,200,000	Rs2,000
Between Rs1,200,000-2,400,000	5% of the amount exceeding Rs1,200,000
Between Rs2,400,000-4,800,000	Rs. 60,000 + 10% of the amount exceeding Rs2,400,000
Above Rs4,800,000	Rs. 300,000 + 15% of the amount exceeding Rs4,800,000

Source: Finance Ministry

Impact of budgetary measures on select sectors

Autos to be the major beneficiary of amendment in finance bill

Sector	Impact	Comment
Macro	Positive	As reported, the new Govt. with new revenue measures of Rs183bn and reduction in expenditures is aiming to reduce budget deficit to 5% from 6% budgeted by previous Government. We eye this development as a positive event for the economy.
Banks	Neutral	Although WHT on banking transactions is increased to 0.6% from earlier 0.4%, we believe it will not have any material impact on business transactions and hence will be neutral for banks.
Cements & Steels	Positive	10% increase in development budget (vs. Rs661bn spent last year) coupled with commitment to construct around ~18000 houses should bode well for construction sector. Other than this, withdrawal of restrictions on non-tax filers to purchase properties above Rs5mn will be positive for infrastructural activities. Similarly, continuity of CPEC projects and Dam budget will serve to act as catalyst for cement and steel.
Textile	Positive	Reduction of RD on imported inputs of textile is positive for textile companies. To note, in its commitment to increase exports, the Govt. did not increase gas prices for the textile sector in yesterday's Economic Coordination Committee meeting, while other sectors were not fortunate enough.
Autos	Positive	Major development for auto sector comes from withdrawal of condition of being tax filer to purchase new cars. This will lead to a rebound in sales of local auto assemblers which remained muted for last couple of months as non tax filers were barred from purchasing new vehicles. Further, increase of RD on luxury cars (1800cc+) will also bode well for local assemblers.
Tobacco	Negative	Due to increase in excise rates, sales of tobacco companies (which so far have enjoyed healthy sales growth) will be affected.

Source: Company Accounts, Topline Research

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