Special Initiatives taken in budget 2016-17 and Amendments proposed in Finance Bill 2016

By: Research and Publications Directorate, ICMA Pakistan

The Federal Minister for Finance, Revenue and Economic Affairs, Senator Mohammad Ishaq Dar, presented his government's fourth consecutive Budget for FY 2016-17 with a total outlay of Rs. 4.394 trillion. The new budget is expected to focus on spurring economic growth and attracting investment; overcoming economic challenges, particularly the energy crisis; maintaining fiscal discipline and reducing non-development expenditures.

The Research and Publications Directorate of ICMA Pakistan, in this brief write-up, has compiled the special initiatives taken in the Budget 2016-17 for the promotion and development of different priority sectors as well as the amendments proposed in Income Tax, Sales Tax, Sales Tax on Services, Customs and Federal Excise laws though the Finance Bill 2016. Before we proceed, let's have a look at the budget 2016-17 in figures and the macro-economic indicators for 2016-19.

Budget at a Glance and Macro-economic Indicators for 2016-2019

BUDGET AT A GLANCE
FOR THE FISCAL YEAR 2016-17

(Rs. in Billion)

RECEIPTS		EXPENDITURE	
TAX REVENUE	3,956.1	**A. CURRENT**	3,400.2
FBR Taxes	3,621.0	Interest Payments	1,360.0
Other Taxes	335.1	Pension	245.0
NON-TAX REVENUE	959.5	Defence Affairs & Services	860.2
a) Gross Revenue Receipts	4,915.6	Grants and Transfers	441.6
b) Less Provincial Share	2,135.9	Subsidies	140.6
I. Net Revenue Receipts (a-b)	2,779.7	Running of Civil Govt.	352.8
II. Net Capital Receipts	538.7		
III. External Receipts (net)	234.4	**B. DEVELOPMENT**	994.5
IV. Estimated Provincial Surplus	339.0	Federal PSDP	800.0
V. Bank Borrowing	452.9	Net Lending	38.0
VI. Privatization Proceeds	50.0	Other Dev. Expenditure	156.6
TOTAL RESOURCES (I to VI)	**4,394.7**	**TOTAL EXPENITURE (A+B)**	**4,394.7**

(Source: Budget in Brief 2016-17, Ministry of Finance, Government of Pakistan)

MACRO-ECONOMIC INDICATORS FOR 2016 - 19

Consolidated Fiscal Projections	Budget 2015-16	Revised 2015-16	Budget 2016-17	Forecast 2017-18	Forecast 2018-19
Real GDP Growth (%)	5.5	4.7	5.7	6.2	7.0
Inflation (%)	6.0	3.5	6.0	6.0	6.0
(as percentage of GDP)					
Total Revenue	15.1	15.9	16.0	15.9	16.1
▪ Tax Revenue	12.0	12.6	12.9	13.4	13.9
▪ FBR Tax Revenue	10.1	10.5	10.8	11.5	12.1
▪ Non Tax Revenue	3.1	3.3	3.1	2.5	2.2
Total Expenditure	19.4	20.2	19.8	19.4	19.6
▪ Current	14.9	15.9	14.9	14.6	14.6
▪ Development	4.5	4.3	4.7	4.8	5.0
Fiscal Balance	-4.3	-4.3	-3.8	-3.5	-3.5
▪ Revenue Balance	0.1	0.0	0.9	1.3	1.6
▪ Total Public Debt	62.0	64.8	61.4	57.8	54.3
▪ GDP at market prices (Rs in Billions)	30,672	29,598	33,509	37,944	43,215

(Source: Budget in Brief 2016-17, Ministry of Finance, Government of Pakistan)

Main elements of Budget Strategy

According to the Federal Finance Minister, the main elements of budget strategy would be as under:

1) Reduction of Fiscal Deficit: The fiscal deficit target of 3.8% of GDP has been set for FY 2016-17 as compared to 4.3% in FY 2015-16;

2) Improvement in Fiscal discipline: Two deep-rooted reforms will be taken in fiscal management system. Firstly, a statutory limit shall be put on the deficit of federal government and fiscal deficit to be brought down to 3.5 percent. Further, the Debt-to-GDP ratio would be brought down to 60% of GDP in the next two years and finally to 50% over a period of 15 years.

3) Raising Tax Revenues: The proposed reduction in deficit will be achieved through a combination of better tax collection and tight expenditure controls;

4) Continued Focus on Energy: 10,000 MW of additional electricity to be added in the national grid by March 2018. Beyond March 2018, Dasu, Diamer-Bhasha,

Budget Strategy 2016-19
(Medium Term Macro-economic Framework)

- GDP growth to gradually rise to 7% by FY 2018-19
- Investment-to-GDP ratio to rise to 21% by 2018-19
- Tax-to-GDP ratio to rise to 13.9% by 2018-19
- Fiscal Deficit to be brought down to 3.5% of GDP
- Forex Reserves to reach US$ 30 billion
- Inflation to be contained to single digit

Karachi Civil Nuclear Energy and many other projects will also be completed besides coal-based projects under China Pakistan Economic Corridor (CPEC).

5) Exports Promotion: The budget contains additional measures to incentivize exports; ease the cost of doing business and improve the overall regulatory regime for facilitating exporters.

6) Reduction of Poverty and Unemployment: Based on food energy intake, the poverty during this period has reduced from 34.6% to 9.31%. Similarly, unemployment has also been reduced from 6.2% in 2012-13 to 5.9% in 2014-15;

7) Income Support Program (BISP): The allocations for BISF will be enhanced from Rs. 102 billion in FY 2015-16 to Rs. 115 billion in FY 2016-17, representing a three-fold increase since 2012-13.

8) Development & Promotion of ICT Sector: In 2016-17 for provision of telephone services in rural areas an amount of Rs.11.94 billion will allocated. Further, 125 Educational Broadband Centers and 55 Community Broadband Centers will be established with subsidy of 482.5 million. Under Optic Fiber Cable Program, in FY 2016-17, Rs.63.4 million will be allocated for on-going projects in Balochistan and Rs.1.9 billion for three new projects in Khyber Pakhtunkhwa, Balochistan, Sindh and Punjab. The construction of cross-border Optic fiber project, recently inaugurate by the Prime Minister, will further open relations between Pakistan and China.

Special Initiatives for FY 2016-17

1) Export Promotion: Following measures are announced for FY 2016-17 to increase exports:

a) To operationalize the trade policy, a total of Rs.6 billion have been allocated in the budget;

b) The existing scheme on Drawback of Local Taxes (DLTL) will continue in the FY2016-17;

c) The mark-up rates on Export Refinance Facility, which was 9.5% in June 2013 will be brought down to 3.0% from 1st July 2016;

d) To encourage Small and Medium Enterprises (SMEs) to invest in new technologies especially in non-traditional exports, a Technology Upgradation Fund (TUF) is being established;

e) For encouraging export-oriented sectors viz. textile, leather, sports goods, surgical goods and carpets, they will be made part of zero-rated regime from 1st July 2016;

f) The zero-rating facility will be available on purchase of raw materials, intermediate goods and the purchase of energy i.e. electricity, gas, furnace oil and coal. The retail sales of locally manufactured finished goods of these sectors will continue to be subjected to sales tax @5%.

g) All pending sales tax refunds till 30th April who's RPOs are approved will be paid by 31st August 2016.

2) Textile Sector: Following measures are proposed for FY 2016-17 to enhance competitiveness of the textile sector:

a) A Technology Up-gradation Fund (TUF) Scheme for the textile sector has been formulated which will be implemented from July 1st, 2016. This scheme will particularly benefit the SMEs to invest in new technologies to make Pakistan's exports globally competitive;

b) The benefit of SRO 809, through which textile machinery can be imported duty free, will continue for FY2016-17 and scope would be widened to include more garment specific machinery. This incentive, along with LTFF and TUF, would encourage new investment in textile sector to increase exports;

c) Concessionary customs duty on the man-made fibers that are not manufactured locally will continue.

d) The draft Plant Breeders Right Act is ready and will be implemented after approval of parliament to ensure provision of quality seeds to growers and honor the scientists with intellectual property rights of varieties they develop.

3) Agriculture Sector: Following measures have been proposed in FY 2016-17 budget for the revival of agriculture sector and to enhance agricultural productivity and performance:

a) Tax and duty concessions @ Rs. 15 billion announced in Budget 2015-16 will continue in 2016-17 to promote agriculture sector development.

b) The prices of urea will be further reduced to Rs. 1400 per bag from 1st July 2016. The federal and provincial governments to pay in equal shares Rs. 36 billion as the cost of subsidy. Further, from 1st July 2016, the price per bag of DAP will be Rs.2500 for which the federal and provincial government will pay in equal shares Rs. 10 billion as cost of subsidy.

c) For FY 2016-17, the volume of agriculture credit target is being increased to Rs.700 billion.

d) The Government through SBP has developed a framework to reduce mark-up rates of ZTBL, NBP, Bank of Punjab and Punjab Co-operative by 2.0%.

e) Under Credit Guarantee scheme, the Federal Government will share risk of non-payment of credit by small farmers by guaranteeing up to 50% of the financing by participating financial institutions. For this purpose, Rs. 1 billion will be allocated in FY 2016-17.

f) From 1st July 2016, current rate of off-peak rate of Rs.8.85 per unit for Agriculture Tube Wells is being reduced to Rs.5.35 per unit. For this special concession, the Government will bear expenses of around Rs.27 billion.

g) The rate of 5% for import of machinery for the dairy, livestock and poultry sectors is proposed to be reduced to 2% and Incubators and brooders and machinery for animal feed stuffs presently subject to 5% customs duty in Tariff is proposed to be reduced to 2%, respectively to encourage further investment and development of dairy, livestock and poultry sectors.

h) To promote fish farming, it is proposed to reduce custom duty from 5% to 2% on import of fish feed pellet machines and water-aerators. The duty on import of fish and shrimp feed is proposed to be exempted. Similarly, customs duty on live baby fish that is subject to 10% is proposed to be removed.

i) For processing of food, customs duty on cool chain storage and related capital goods will be exempt.

j) The 7% sales tax charged on pesticides and its ingredients is proposed to be abolished.

k) Exemption to machinery and equipment for the development of grain handling and storage facilities is proposed to extend to silos.

4) Industrial Development: Following concessions have been announced in budget 2016-17 to further accelerate the process of industrial investment:

a) Tax credit @ 1% of the tax payable for a period of ten years that is allowed for every 50 employees in an industrial undertaking to be set up by June 2018, is proposed to be increased to 2%. This concession will be made available for 10 years to the industrial undertakings set up by June 2019;

b) Tax credit is proposed to be enhanced from present 2.5% to 3% of tax payable for a manufacturer, registered under sales tax and making over 90% sales to registered sales tax persons.

c) At present, tax credit on BMR is allowable at 10% of investment against tax payable for two years. In case of investment through 100% new equity, tax credit on BMR is allowable at 20% of investment against tax payable for five years. The period is proposed to be extended to 30th June 2019;

d) Till 30 June 2016, 100% tax credit on tax payable is allowed if 100% fresh equity is raised for setting up new industry through issuance of new shares. This tax credit is allowable for five years from start of commercial production. It is proposed to reduce the condition of 100% fresh equity to at least 70% equity and the expiry period of 30th June, 2016 is also proposed to be extended to June, 2019;

e) At present, 100% tax credit on tax payable is allowed for expansion of existing plant or new project if 100% fresh equity is raised through issuance of new shares. This tax credit is allowable for five years from start of commercial production. It is proposed to reduce the condition of 100% fresh equity to at least 70% equity. Tax credit would be allowed, proportionately, on owned new equity. The expiry date of June 2016 for installation of plant and machinery is proposed to be extended to June, 2019;

f) The exemption period for investment in green field industrial undertakings announced under PM's package of investment expiring on 30th June 2017 is proposed to be extended up to 30th June, 2019;

g) The existing customs duty of 5% will be reduced to 3% on two thousand items of mostly machinery and raw materials, which will benefit industrial sector to the tune of Rs.18 billion;

h) To provide incentive to local tyres manufacturing industry, it is proposed to exempt 30% regulatory duty on import of bead wire, which is used as raw material by the industry and not locally produced.

i) To protect the local industry, it is proposed to increase custom duty by different rates on import of medium density fiber board, cement clinker, methyl acetate and-semi-printed/printed security paper.

5) Energy Sector: Following measures have been suggested for promotion of alternate sources of energy in the country:

a) Customs duty on imports of parts of LED lights is being reduced from 20% to 5% to provide concession on its local manufacturing.

b) It is proposed to include items like led bulbs/lights, off grid portable solar home system etc in the duty-free list of items used in renewable sources of technology.

c) The relaxation period on import of solar panels and related components, presently exempted from customs duty regardless of local manufacturing of their substitutes, is being extended for further one year i.e. from 30th June 2016 to 30th June, 2017.

d) Sales tax on import on dumper trucks for Thar Coal field is proposed to be abolished.

6) Financial Sector: Following measures are proposed in budget 2016-17 to further strengthen the financial sector in the country:

a) Financial Institutions Secured Transactions Bill 2016 to be promulgated through which loans related charge on moveable assets can be created;

b) Deposit protection Bill 2016 to be promulgated through which small depositors will be protected.

Amendments proposed in Taxation Laws through Finance Bill 2016

Some important amendments proposed by the Finance Bill 2016 in the taxation laws are given below:

Income Tax

1) Corporate Tax rate will be 31 percent in FY 2016-17

2) Advance tax u/s 147 calculations are required to consider Alternate Corporate Tax (ACT) in addition to Minimum Tax.

3) Builders and developers are now proposed to be taxed under Fixed Tax Regime for project initiated and approved after 1st July 2016

4) 10% capital gain tax imposed on sale of immovable property before 5 years

5) Inter-group dividends are proposed to be taxed and group relief is now restricted to percentage holding in the entity.

6) Tax credits for investment in BMR project etc can now be availed up to FY 2019.

7) Withholding tax @ 0.3% is applicable to cash withdrawal of Rs. 50,000 or other banking transactions in a day from all bank accounts. The non-filers shall have to pay 0.6 percent.

8) Tax credit @ 100% of tax payable was allowed for 100% equity financed projects u/s 65D and 65E, this 100% equity requirement is proposed to be relaxed to 70%.

9) Individuals and AoP earning property income of Rs. 200,000 and above are proposed to be taxed on gross rent basis i.e. without any deductions.

10) Capital gain tax on disposal of securities is proposed to be increased for NON-FILERS

11) Provincial Sales Tax authorities would collect 3% of turnover from provincial sales tax registered person who are non-filer for income tax purposes.

12) Specific record keeping requirement for transactions with associates which are required to be reported to Commissioner of Income Tax within 30 days [time limit may be relaxed]

13) Leasing companies and certain financial institutions are required to collect 3% of value of motor vehicle WHT from NON-FILER lessees. (Adjustable tax i.e. Refundable if applicable)

14) Advance tax on Insurance premiums i.e. 4% for General Insurance; 1% for life insurance [in case premium exceeds Rs.200, 000] and 0% for others.

15) Threshold for Minimum Tax on turnover u/s 113 for Individual/AoP is now reduced to Rs.10 million from Rs. 50 million. Also companies making gross loss are required to pay minimum under this section.

16) Rationalized Minimum Tax on services for specified service providers is extended up to FY 2017. IT and IT enabled service providers are also encouraged to avail the rationalized scheme.

17) Insurance companies are taxed differently for different incomes. Corporate tax rate for all incomes is proposed for insurance companies.

18) Super Tax is proposed to be continued for one more year. This tax was imposed last year @ 3% of Income equal

to or exceeding Rs. 500 million (4% for Banking company)

19) Tax credit allowed for health insurance and is applicable on salaried and business individuals

20) The eligibility period of tax credit for employment generation by manufacturing projects is extended to FY 2019

21) Tax credit for sales to sales tax registered person is proposed to be increased to 3% of tax payable.

22) WHT for distributor of FMCG is 3% in case of distributor being company and 3.5% for others.
23) Services and contract execution outside Pakistan is proposed to be taxed at higher rates.

24) WHT on Prize bonds is increased for Non-Filers from 15% to 20%

25) Exemption to Income from Export of computer software / IT services is extended up to 30th June 2019, provided that 80% export proceeds are brought through banking channel

26) PCB's income from outside Pakistan is proposed to be taxed @ 4% of gross receipts.

27) Reduced minimum tax @ 0.5% up to FY 2019 for trading houses and 1% thereafter.

Sales Tax

1) Input tax paid on services cannot be claimed as tax credit

2) Recovery of Sales tax either not or short withheld can be made u/s 11 of Sales Tax, 1990.

3) Due date of payment of sales tax is to be notified by FBR. [This is made with respect to modification in e-portal for sales tax return]

4) Violation of Rules is also brought into penal provisions of Sales Tax, 1990

5) Sales of taxable activity as on-going concern in 'Non-Taxable' event. In order to document the transfer 'Zero-rated' invoice is required to be issued.

6) Turnover threshold to qualify as 'Cottage Industry' is enhanced from Rs 5 million to Rs 10 million

7) Supply of 'Mineral /bottled water' is to be taxed at retail price

8) Zero rating for certain goods viz. milk, fat filled milk, colors in sets, inks, erasers, exercise books, pens, pencils, ball pens, markets, etc have been withdrawn

9) Supplies by China Overseas Ports Holding Company Limited (COPHCL) and its operating companies, their contractors and subcontractors; etc are exempt subject to certain conditions

10) Import and supply of certain goods are now exempt under Sales Tax Act, 1990 such as premises for growth stunting; laptop, computers, notebooks, multimedia kit, personal computers and imported dump trucks for Thar Coal field in Sindh, subject to certain conditions.

11) The supply of certain goods would be subject to enhanced rate [5% to 10%] such as poultry feed and cattle feed including their all ingredients.
12) Reduced rate is withdrawn on specific items used in production of biodiesel as certified byAlternate Energy Development Board (AEDB)

13) Import of grain holding silos are subject to reduced rate of 10%

14) Sales tax on Import or local supply of mobile phones increased [increase of Rs 500 to Rs 1000 on medium priced to smart phones categories]

15) Certain pesticides and their active ingredients registered with department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 are now exempt from sales tax.

16) Supply of urea whether or not aqueous solution is to taxed @ 10%

Federal Excise

1) The basis of levy of excise duty on various types of cement (PCT heading 25.23) is changed from 5% of Retail price to Rs1 per Kg. White cement is now subject to duty.

2) A number of services are excluded from levy of FED as these are subject to provincial Sales Tax viz. advertisement, Shipping agents, Franchise services, Stock brokers, Services provided or rendered by banking companies, insurance companies, cooperative financing societies, modarabas, musharikas, leasing companies, foreign exchange dealers, non-banking financial institutions, asset management companies and other persons dealing in any such services.

3) Adjustment on input duty (goods and services) is made conditional to the declaration in the supplier's return and

payment of duty. [This is made with respect to modification in e-portal for sales tax return]

4) Rate of duty on aerated water is to be enhanced from 10.5% to 11.5%

5) Duty on locally produced cigarettes is enhanced w.e.f. 1st December 2016

Customs Duty

1) Import of new plant and machinery, equipment and apparatus including capital goods for new power units of 25MV and above are subject to concessional customs duty. Subject to condition that these goods are not manufactured locally

2) Goods presently subject to duty @ 5% and 2% are subject to rationalized duty at the rate of 3 percent

3) Import of solar panels are subject to concessionary duty till June 30, 2017

4) Certain sectors and goods are now subject to reduced custom duty.

5) Regulatory duty is now levied on Powdered Milk and Whey Powder.

6) Regulatory duty is withdrawn from bead wire for tyres manufacturers and carbon steel strips used by Razor blade manufactures. ■

ICMA PAKISTAN'S PROPOSALS CONSIDERED IN FEDERAL BUDGET 2016-17

1) **Zero-rated regime for five export-oriented sectors** – The Institute proposed that No Sales Tax – No refund regime for the five export sectors be announced to ensure cash flow for textile industry and remove irregularities and delays in refunds. The budget 2016-17 has restored the zero-rated regime for the five export-oriented sectors.

2) **Disposal of all Refund claims u/s 66** – The Institute proposed to dispose of all the refund claims under Section 66 of Sales Tax Act, 1990 and accordingly, the Finance Minister in his budget speech has promised all pending sales tax refunds till 30th April whose RPOs have been approved, will be paid by 31st August 2016.

3) **Abolishing FED on all Services being taxed in Provinces** – The Institute suggested that Federal Excise may be abolished on all such services which are being taxed under the Sales Tax Laws in Sindh, Punjab, KPK and Baluchistan. In the Budget 2016-17, it has been proposed that FED would be withdrawn on services where provincial sales tax is payable.

4) **Reducing Sales Tax on Agriculture Inputs** – The Institute recommended to the government in its budget proposals for FY 2016-17 that sales tax be reduced on fertilizer, pesticides and electricity to provide incentive to agriculture sector. This proposal also considered and the Finance Minister announced a special package of incentives for this sector which also included sales tax exemption on pesticides; concession in taxes and duties and concessional electricity tariff .

5) **Taxing the Retail sector** – The Institute proposed that the government should expand the tax net of retail sector. The budget 2016-17 announced that the turnover limit for charging minimum tax @ 1% on turnover may be reduced from 50 million to 10 million to bring the retailers, small businesses and other undocumented sector into the tax net.

6) **Allowing Tax Credits for Salaried Persons** – The Institute proposed that the salaried class be allowed tax credits on expenditure related to education of their dependent children as well as tax credit on utilities. This proposal has been considered in budget 2016-17 which mentions that individuals having taxable income less than Rs. 1 million be given tax relief equal to 5% of school fee up to Rs. 60,000 per child per annum.

7) **Extending Tax Credits under Section 65B, 65D and 65E** – The Institute recommended that the tax credits offered u/s 65B, 65D and 65E of Income Tax Ordinance, 2001 may be extended from 10 to 15 years instead of currently 5 years. The budget 2016-17 has considered this proposal but extended the tax credit for another three years i.e. till June 2019.

8) **Zero duty on Import of textile machinery** – The Institute proposed that the textile industry be offered zero-rated duty on import of latest machinery and equipments for Upgradation. The budget 2016-17 has allowed duty free import of textile machinery under SRO 809 by widening its scope to also include more garment specific machinery.