

Foundation Alert

Federal Mini Budget FY22 – Aiming to meet IMF conditionality

Event

- Gov't has made an attempt to increase revenue to rein in the fiscal deficit through introduction of Finance (Supplementary) Bill 2021 presented by the Finance minister. Measures have been taken to either impose or increase sales tax rate to 17% on ~150 goods. Along with the mini budget Bill, Gov't also tabled the SBP (Amendment) Bill 2021. Both these Bills are a requirement to release the US\$1.1bn tranche of the US\$6.0bn IMF EFF program which has been pending for nearly 7 months. The IMF Executive Board meets on Jan'12, 2022 to decide on release of the tranche.

Relief measures

- Exemption of sales tax on import of petroleum crude oil.
- Addition of clause to exempt dividend income though REIT if invested through Special Purpose Vehicle.
- Exemption of sales tax on certain imported medicines.
- Exemption of sales tax on bread, nan, chapatti, sheer mal prepared in tandoors excluding those prepared in bakeries, restaurants, food chains and sweet shops, locally supplied live animals, meat and poultry sold as unbranded, vegetables sugar cane, eggs and laptop/computers.

Revenue measures

- Withdrawal of sales tax exemption on electric vehicle CKD kits for road tractors for semitrailers, electric buses, three wheelers.
- Ending of sales tax exemption for infant milk, bicycles, sunflower and canola seed, animal and fish feed.
- Withdrawal of sales tax exemptions given to imported and local supplies of live animals, meat, fish, eggs, red chillies sold in brands packaging and sugarcane.
- Imposition of tax on diplomatic supplies, goods received as foreign aid and gifts.
- Withdrawal of sales tax exemption on goods imported and denoted by Gov't to hospitals, goods imported from Afghanistan for re-export, good exported and then re-imported into Pakistan within one year period.
- Withdrawal of sales tax exemption on apparel products imported by overseas Pakistanis and tourists and raw cotton.
- Withdrawal of zero rating for supplies made to duty free shops, services to shipping sector.
- Withdrawal of sales tax exemption for supply of locally manufactured plant and machinery to power sector supplies and exporters authorized under Export Facilitation Scheme, 2021.
- Withdrawal of sales tax exemption on import of solar panels/wind turbines and other supplies to renewables power sector, machinery and equipment for marble, granite and gem stone extraction and processing industries.
- Imposition of sales tax on import of cotton seed, sewing machine used for household, machinery used in EPZs, pharmaceuticals APIs, imported salt sold in branded packaging
- Imposition of sales tax on irrigation equipment, plant and machinery for FATA, operational machinery for Greenfield airports, import of machinery for mobile phone manufacturing, laptops and computers.

- Withdrawal of sales tax exemption for machinery supplied to oil and gas sector, coal fired boilers, mining/construction sector logistic supplies, machinery, equipment, apparatus, and medical, surgical, dental and veterinary furniture, materials, fixtures and fittings imported by hospitals and medical or diagnostic institutes.
- Increase in sales tax rate to 17% on supplies of oilseeds for sowing, plant and machinery not manufactured locally and having no compatible local substitutes, flavored milk, yogurt, cheese, butter, cream, desi ghee, whey milk powder.
- Increase in tax rate on agriculture machinery (except tractors), lithium iron phosphate battery and gold in unworked condition.
- Increase in sales tax to 17% from 12.5% on locally assembled cars above 850cc and 12.5% on import and local supply of hybrid vehicles upto 1800cc.
- Increase in advance tax on purchase of automobiles to 100/200/400K for upto 1000/1000-2000/2000cc and above engine capacity.
- Imposition of 5% sales tax on laptop, computers and notebook imports and imposition of 17% sales tax on import of mobile phone costing US\$200 and above instead of fixed sales tax.
- Imposition of 5% sales tax on IT and ITES services rendered in Islamabad territory
- Collection of advance tax on foreign TV drama serial or play dubbed in Urdu and advertisement starring foreign actor.

Table 01: FED changes in supplementary budget

Federal excise duty	Old Rate	New Rate
Imported motor vehicle for cylinder capacity up to 1000cc	2.5%	2.5%
Imported motor vehicle for cylinder capacity from 1000-1799cc	5.0%	10.0%
Imported motor vehicle for cylinder capacity from 1800-3000cc	25.0%	30.0%
Imported motor vehicles for cylinder capacity exceeding 3000cc	30.0%	40.0%
Locally manufactured vehicles for cylinder capacity upto 1000cc	0.0%	0.0%
Locally manufactured vehicles for cylinder capacity from 1000-2000cc	2.5%	5.0%
Locally manufactured vehicles for cylinder capacity exceeding 2000cc	5.0%	10.0%
Imported double cabin pickup (4x4)	25.0%	30.0%
Locally manufacture double cabin pickup (4x4)	7.5%	10.0%

Source: Foundation research, December 2021

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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.