

PAKISTAN



Revenue Measures of Finance (Supplementary) Bill 2023

	Rs bn
Higher Sales Tax	65
FED on cigarettes	60
FED on aerated drinks/juices	15
FED on cement	5
FED on air travel	5
Income Tax on shares	5
Income Tax on Functions/Gatherings	2
Sales Tax on mobile phones	10-15
Total	170

Source: Foundation Research, Feb 2023

Mini Budget FY23

IMF pressure forces gov't to impose further taxes

Rs170bn of revenue measures

Gov't has tried to appease the IMF by undertaking Rs170bn revenue generating measures by introducing the Finance (Supplementary) Bill 2023 in parliament yesterday. Revenue measures taken include (1) enhanced rate of sales tax, (2) higher federal excise duty on cement, cigarettes, aerated water, sugary drinks and international air travelers, (3) imposition of advance income tax on sale and purchase of shares of unlisted companies, and (4) reintroduction of advance income tax on functions and gatherings. To mitigate the impact of these revenue measures, Gov't increased BISP welfare payouts by Rs40bn to Rs400bn during FY23

The impact of these measures would be inflationary in nature but would help in meeting IMF program conditionality and unlock a tranche of US\$1.2bn.

Sales tax increased to 18% along with enhancements on coal and expensive mobile phones

Gov't has increased the sales tax rate from 17% to 18% on most goods. The rate of sales tax was also increased on locally produced coal from higher of 17% or Rs700/ton to higher of 18% or Rs700/ton. Sales tax on potassium chlorate was increased from 17% plus Rs60/kg to 18% plus Rs60/kg. Whereas, sales tax rate on mobile phones exceeding US\$500 was enhanced from 17% to 25%.

Excise duty raised on cement, cigarettes, sugary drinks, aerated waters and air travel

The Finance (Supplementary) Bill 2023 imposed higher rate on Federal Excise Duty (FED) on cement from Rs1.5/kg to Rs2.0/kg. FED on aerated waters was raised from 13% to 20%. The rate of FED was also increased on sugary fruit juices/syrups/squashes to 10%.

International air travelers of club, business and first class will face enhanced FED of higher of Rs50,000 or 20% of ticket amount compared to previous rate of Rs50,000.

Cigarettes also bore the brunt (see Table 1 below). For cigarettes *below* Rs9,000 per thousand cigarettes, FED was increased from Rs2,050 to Rs5,050 per thousand cigarettes. On cigarettes *exceeding* Rs9,000 per thousand cigarettes, the FED was enhanced from Rs6,500 to Rs16,500 per thousand cigarettes. The minimum retail price of cigarettes exceeding Rs9,000 per thousand cigarettes was increased from Rs2,997 (45% of old threshold of Rs6,660) to Rs5,400 (60% of new threshold of Rs9,000).

Income Tax enhanced on unlisted shares, and functions & gatherings

Gov't has imposed advance income tax on sale or purchase of shares of unlisted companies at the rate of 10%. Further, securities which are not settled through NCCPL or executed through stock exchange (such as open-ended mutual funds and unlisted REITs) would also be charged capital gains tax at the rate of 10%.

Advance tax on all functions and gatherings has been re-introduced and a tax rate of 10% has been levied on all charges including cost of food.

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Table 1: FED on locally manufactured cigarettes (per 1000 cigarettes)

	Existing	New
Retail price exceeds Rs9,000*	Rs6,500	Rs16,500
Retail price does not exceed Rs9,000	Rs2,050	Rs5,050

Source: FBR, Foundation Research, February 2023

* Min retail price changed from Rs2,997 to Rs5,400

Abbreviations

FED Federal Excise Duty

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Recommendations definitions

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