FEDERAL BUDGET 2019

General and Capital Markets

- Corporate tax rate for companies will be fixed at 29% (the tax rate for companies was further intendedto be reduced from 30% in tax year 2018 to 25% in tax year 2023)
- 25% tax rate on dividend income of companies which enjoy exemption of tax on income or where no tax is payable due to availability of tax credits or due to brought forward business or depreciation losses.
- Introduction of reduced rate/minimal tax rate on gold, silver and diamond jewelry: gold in jewelry may be taxed at 1.5%, diamond at 0.5% and making charges at 3%, with input adjustment available only in respect of gold.
- Increase in salary tax rates:
  - o threshold of taxable income may be revised and fixed at Rs. 600,000 (salaried) instead of Rs. 1.2mn earlier and Rs. 400,000 (non-salaried)
  - o For Rs. 600k+ income, eleven tax slabs ranging from 5% to 35%. For non-salaried, 8 slabs ranging from 5% to 35%
- Reduction of tax credit: Tax credit facility to be allowed to those companies which purchase and install machinery upto 30th June 2019. Further, for tax year 2019 tax credit rate may be reduced from 10% to 5%
- Tax on profit on debt
  - o Rate of income from profit on debt (presently profit on debt taxed separately and not part of normal regime)

Amount	Old	New
Upto Rs. 5mn	10%	15%
Between Rs. 5- 25mn	12.5%	17.5%
Rs. 25mn +	15%	20%

  - o For amounts exceeding Rs. 36 million the profit on debt will be made part of the total income and taxed at normal rates.
- Rate of withholding on profit on debt to be increased from 10% to 15%.
- Tax on dividends
  - o Mutual fund dividends – Flat 15% (Presently dividend from stock fund 12.5%, Rental REIT 7.5%)
- Higher incidence of taxation proposed for real estate and fixed income
- Receipt of gift to be included in income
- Duty on more than 1600 tariff lines (raw materials and intermediary goods) is being exempted

Sectors

Cements – Negative

- Federal PSDP at PKR 701 bn in FY20 vs FY19 revised target of Rs. 675 bn (disbursed Rs. 500 bn). Positive as expected to increase cement demand through lower infrastructure spending.
- Allocation of PKR55bn, PKR20bn and PKR15bn for Dasu, Diamer Bhasha and Mohmand Dam
- 10% exemption on plant and machinery in Section 65B has been replaced by 5% for 2019. This is negative for PIOC, KOHC and LUCK as their expansions are expected to come online in 1HFY20. Companies that have not fully availed the credit will still be entitled to carry forward the unabsorbed available credit of prior years.
- FED increased by Rs. 1500/ton to Rs. 2000/ton. Negative if the industry is unable to pass on to end consumers. Neutral if FED is passed on. Players will need to increase cement bag price by Rs. 25/bag to pass this on. New FED per bag is Rs. 100.

Steel – Negative

- Existing sales tax on imported scrap is Rs. 5,600/MT whereas sales tax on finished products is 17%.
- Sales tax is being discontinued and flat 17% FED is being implemented on scrap as well as finished products.
- 17% FED on imported scrap leads to an increase in cost of ~Rs. 2000/ton at current scrap price of USD 298/ton.
- Impact of higher cost of scrap (if no pass through to the end consumer) will negatively affect earnings of rebar manufacturers

Power – Negative

- Tax rate on dividend income from IPPs is currently at 7.5% which is being increased to 15%. This is negative for investors of IPPs which may lead to pressure on share price.
- Budgeted subsidy of Rs. 162 bn for ex-WAPDA discos and Rs. 25 bn for K-Electric.

Chemicals - Neutral

- Reduction in CD on Acetic Acid (16% to 11%), Oxalic Acid (11% to 3%) (very little usage of this acid by largest PTA manufacturer of Pakistvan)

Fertilizers – Neutral to Negative

- RLNG:FED on RLNG to be raised from Rs 17.18/100cubic meters to Rs 10/mmbtu (Rs 35.38/100cubic meters). (Negative for FATIMA, AGL)
- Customs duty on RLNG to be imposed as 5%. (Negative for FATIMA, AGL)
- Dividend Income from power companies: Dividend income from power generation companies is now taxable at a rate of 15% instead of 7.50% earlier. However companies having their investments in power generating subsidiaries (FFC, FFBL, Engro, NML) shall have a neutral impact as these companies have a stay order for inter corporate dividends.
- PKR 218bn over five years to improve agricultural sector
- GIDC Budget Collection for FY20 (Rs 30bn) almost similar as amount collected in FY19. Target reduced significantly for FY2020 compared to prior year target

Banks –Negative

- Treasury Single Account introduced (TSA) to prohibit placement of government deposits with commercial banks
- Super tax- Bought forward depreciation and business losses to be included for banking, insurance, oil and mineral companies for calculation of super tax liability. Tax expense to increase for banks, insurance and oil and exploration companies
- Provisions reversed are not taxed hence they are proposed to be taxed from now on. Neutral to Negative for Banks depending on the size of reversals recorded. (Insignificant for MEBL, BIPL)
- Taxation allowance only for "loss" provisions not doubtful provisions: Earlier banks were allowed a tax deduction for loss and doubtful provisions. However, now it is being proposed to only allow the loss provisions for taxation purposes. Islamic banks have an insignificant proportion coming in from doubtful provision teherefore it is Neutral for the banks

	2018		2017	
	MBL	BIPL	MEBL	BIPL
QAEM	-	0.2	-	-
Substandard	30.9	88.0	40.6	108.6
Doubful	8.5	112.0	6.1	375.8
Loss	6,7.32.1	10,732.7	6,380.0	10,965.7
Total	6,771.5	10,933.0	6,426.7	11,450.1

* Balance Sheet items

- Income from government securities to be taxed at 37.50%: Income from government papers shall be taxed at a higher rate (i.e. of 37.50% vs Current: 35.0%) if profit from government papers exceeds 20% contribution in the profit before tax. This shall not be a major event for Islamic banks as majority of the income of the banks emanates from advances income
- Property purchase worth over PKR 5mn and other assets above PKR 1mn mandatory through banking channels
- Higher income tax for profit from debt instruments

Textiles - Negative
- Government has removed zero rated sales tax on textile exports and introduced 17% on textile exports.
- Previously, according to SRO 1125 sales tax on locally manufactured finished articles of textile and leathers was applicable at 6%. Now, government has increased it to 15%.
- Furthermore, government has withdrawn zero rating on utilities (gas, electricity and fuels), sales tax rate of 17% now
- Exemption of CD on Machinery Parts / Accessories for Textile Sector
- 10% tax on ginned cotton which was previously exempt
- Continuation of LTFF (6% on various tenors)
- Refund of sales tax shall be immediately sent to SBP for payment as soon as these are generated.

Foods - Negative
- Sales tax on sugar is proposed to be increased to 17% from 8% presently. (Negative impact on overall industry. Negative for Confectionary Industry (IS). Increase in sugar price by Rs 3-4 per kg (Current sugar price Rs. 68-70/kg)
- Exemption removed from 0% and to be applied at a reduced rate of 10% on sausages, meat and similar products of prepared frozen or meat offal including poultry, meat and fish. (Negative for companies in meat business).
- Ghee cooking/oil which are sold in retail packing under brand name are proposed to be subject to sales tax at 17% of retail price. (Negative for companies manufacturing edible oil). Previously fixed FED of Re 1/Kg on vegetable ghee/cooking oil and Rs 0.4/kg on edible oil seeds
- Reduction of rate of sales tax on concentrated milk powder: Presently, the sales tax regime on various forms of milk is uneven. Milk and cream, concentrated, and unsweetened / unflavored is subject to a higher rate. While the sweetened on enjoying exemption. It is proposed to rationalize the same. Both the categories are proposed to be taxed @10%
- FED on aerated water proposed to increase from 11.5% to 14%.
- While FED proposed to be introduced at a rate of 5% on Packaged Non-aerated Sugary/Flavoured Juices, syrups and squash.
- Reduction of CD on input goods for paper based Liquid Food Packaging Industry (Positive for PREMA)

Pharmaceuticals – Positive
- Import duties on 19 items of raw materials and essential items of medicinal use are proposed to be exempted from 3% import duties.
- Medicines for Wilson’s disease, Cystinosis are proposed to be exempted from import duties (No Listed pharmaceuticals)
- Hemodialyzer for kidney related problems is proposed to be allowed duty free (No listed pharmaceuticals)
- Exemption of CD on 18 medicinal inputs/items

Automobile (Negative)

- FED

Previous Regime: 10% FED on 1700cc+ cars

Impact:

	Contribution in topline
HCAR	
Civic (1.8)	22%
INDU	
Corolla (1.8)	15%
Hilux	17%
Fortuner	14%

New Regime: Slabs introduced on cars: 0 to 1000cc at 2.5%, 1001 to 2000cc at 5% and 2001cc and above at 7.5%

Impact:

	HCAR (% contribution in topline)	INDU (% contribution in topline)	PSMC (% contribution in topline)
0 to 1000cc at 2.5%	-	-	Cultus (21%), Wagon-R (23%), Alto (0%), Bolan (11%), Ravi (11%)
1001 to 2000cc at 5%	Civic (27%), City (52%), BR-V (19%)	Corolla (63%)	Swift (5%)
2001cc and above at 7.5%		Hilux (17%), Fortuner (14%)	

- Extra tax of 2% imposed on auto parts and tyres/tubes is proposed to be removed.
- Increase in turnover tax from 1.25% to 1.5%

Refineries - Positive

- Exemption of duty is proposed on import of plant and machinery for setting up Hydrocracker plants for oil refinery. Most of the existing oil refineries in the country are in the process of setting up a hydrocracking plant, they are in the planning stage of the project and are facing issues in financing of this project.
- Exemption of duty will provide the refineries with some relief as far as the cost of project is concerned. PRL has announced plan of setting up the aforementioned unit with a cost of USD 1.1bn..

OMCs - Negative

- Turnover tax increased from 0.5% to 0.75%. Negative for OMCs.
- 3% VAT has been removed from unregulated POL products.
- Pet. Levy collection target of Rs. 215 bn (collection in FY19 Rs. 203bn vs. target of Rs. 300bn)

Paper and Board – Positive

- Customs duty on wood paper and paper scrap to be reduced from 20% to 16%. Positive for paper manufacturers

Miscellaneous

- TREET: Decrease in duty from 11% to 5% on steel strip for razor exporters is also being proposed. This will be positive for Treet Corp as it exports razor blades.
- FED on import of RLNG increased to Rs 10 per MMBTU and Levy of 5% customs duty on import of LNG. (Negative for glass manufacturers using LNG)
- Tyres: Duties on tyres import is proposed to be rationalized to discourage their shifting to smuggling and realize the lost revenue on this account. This will have neutral to negative impact on GTYR.

Real Estate - Negative

- Withdrawal of restriction on purchase of property for non-filers (previously restriction was placed on fair market value exceeding rupees 5 million)
- Income from capital gains is proposed to be taxed at normal rates (At present, capital gain on immovable properties is subject to separate taxation on the basis of holding period. There is no tax if the property is held for more than 3 years. The tax rates are 10%, 7.5% and 5% for holding periods less than one year, between one to two years and between two to three years respectively.
  - o Income from capital gains for open plots to be taxed at 100% of the gain where the open plot is sold within 1 year. If holding period is between 1 to 10 years, 75% of the gain shall be taxed. No tax if holding period is more than 10 years.
  - o Income from capital gains on constructed property is also proposed to be taxed on a similar line but with a difference of holding period. Gain on sale of constructed property is to be fully taxed where the holding period up to 1 year. On a holding period between 1 to 5 years, 75% of the gain will be taxed. Holding period over 5 years will not be taxed
- FBR rates of immovable properties would be taken closer to or about 85% of actual market value. In addition, 3% tax for not explaining the source of investment is being withdrawn.
- The rate of withholding tax on purchase of immovable property may be reduced from 2% to 1%
- Withholding tax on purchase of property is proposed to be collected regardless of the value of the property (previous limit was more than 4m rupees)
- Withholding tax on sale of property will be collected where the holding period is upto 5 years. (previously 3 years)
- Additional slabs of income from property added. Previously it was Rs. 200,000 plus 20% of income exceeding Rs. 2,000,000. Now it is limited from Rs. 2 million to Rs. 4 million, and 3 additional brackets on income between Rs. 4-6million, Rs. 6-8million, and exceeding Rs. 8 million.
- Transfer of immovable property exceeding 5m will be required to make payment through a banking instrument to identify the transaction.