



Al Meezan
Investment Management Ltd.

Federal Budget 2021-22 Review



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Federal Budget 2021-22

Growth & Inflation projections

	FY20a	FY21a	GoP FY22e	IMF FY22e	J.P Morgan FY22e	World Bank FY22e
Real GDP	-0.5%	3.9%	5.0%	4.0%	4.0%	2.0%
Inflation	10.7%	9.0%	8.2%	8.0%	7.8%	

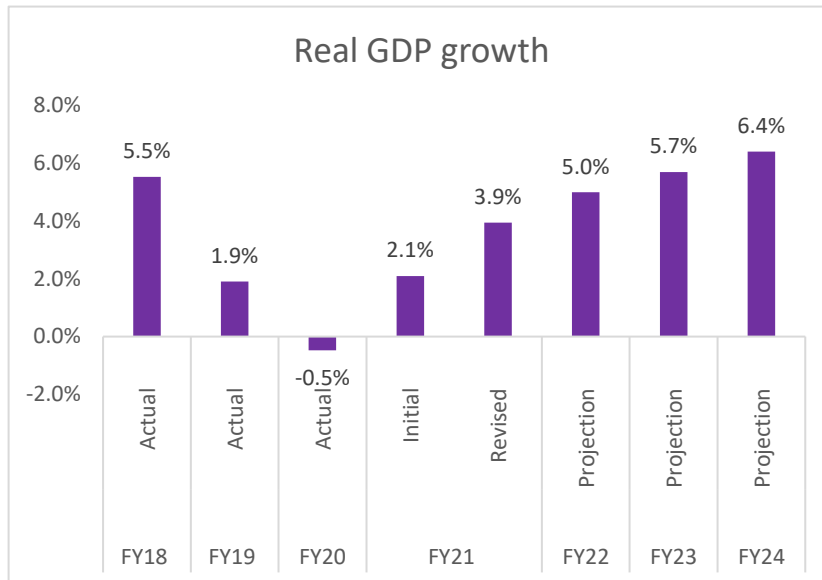
*a denotes actual numbers, **e denotes projected numbers

Revenue, Expenditure & Debt

Key Budget Indicators		FY18	FY19	FY20	FY21		FY22	FY23	FY24
		Actual	Actual	Actual	Initial	Revised	Projections		
Macro indicators									
Real GDP growth	%	5.53%	1.91%	-0.38%	2.10%	3.94%	5.00%	5.70%	6.40%
Inflation	%	3.92%	7.34%	10.74%	6.50%	9.00%	8.20%	7.20%	6.40%
Debt to GDP	% GDP	72.09%	86.14%	86.80%	87.60%	83.10%	81.80%	79.10%	73.90%
Fiscal Deficit	% GDP	-6.57%	-8.93%	-9.20%	-7.00%	-7.10%	-6.30%	-5.30%	-3.90%
Revenue									
Gross Revenue total	Rs. Bn	5,228	4,901	5,504	6,573	6,395	7,909		
Provincial share	Rs. Bn	2,217	2,398	2,402	2,874	2,704	3,412		
FBR revenue	Rs. Bn	3,842	3,829	3,908	4,963	4,691	5,829		
Non-tax revenue	Rs. Bn	630	427	1,296	1,610	1,704	2,080		
Privatization proceeds	Rs. Bn	2	-	150	100	-	252		
Expenditure									
Budget Outlay	Rs. Bn	7,488	8,346	8,135	7,231	7,137	8,487		
Current	Rs. Bn	5,854	7,104	7,376	6,349	6,561	7,523		
Mark-up payments	Rs. Bn	1,500	2,091	2,709	2,946	2,851	3,060		
PSDP	Rs. Bn	576	502	564	650	630	900		
Taxation:									
Corporate Tax		30%	29%	29%	29%	29%	29%		
Super tax (on banks)		4%	4%	4%	4%	4%	4%		
Minimum turnover tax		1.25%	1.25%	1.50%	1.50%	1.50%	1.25%		



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Key measures introduced in FY21-22 Budget

General (Positive)

- Second amendment act made part of the finance bill. The bill was announced in Mar'21.
- Reduction/exemption on 328 tariff lines of CD and ACD on raw materials and intermediary goods
- Reduction of ACD on goods falling under 2436 tariff lines pertaining to 20% customs duty slab from 7% to 6%
- Increase in RD on import of non-essential/luxury items to support local industry
- Ecommerce to be brought under sales tax net by deeming the online market place as supplier in respect of third-party sales through their platform.
- For domestic users not in active tax payer list, withholding tax to be applied at 7.5% if electricity bill is higher than Rs 25,000 (previously it was Rs 75,000)
- Retailers accepting payments through Debit/credit card or any other digital platform will be included in tier-1 retailer.
- Exemption to Special Economic Zone Enterprises from payment of minimum tax.

Capital Markets (Positive)

- Reduction in tax rate on capital gain tax on disposal of securities from 15% to 12.5% (Positive)
- Block taxation on interest income will no longer be applicable, if the interest income exceeds PKR5Mn.



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- Profit on debt earned on provident fund, exceeding PKR500k shall be chargeable to tax of 10%. Previously it was exempt from income tax
- Any withdrawal of accumulated balance from approved pension fund representing profit on debt shall be chargeable to tax 10%. Previously it was exempt from income tax.
- Removal of withholding tax on
 - members of a stock exchange registered in Pakistan.
 - marginal financing by NCCPL.

Real estate (Neutral to Positive)

- Separate taxation of property income has proposed to be withdrawal and shifted to normal tax regime.
- Adjustment of business loss against property income has been allowed
- Exemption on profit/gain on sale of immovable property to development REIT scheme of commercial building has been extended till 2023.

Impact on Listed Sectors

Autos (Positive)

- Reduction in sales tax for small cars up to 850cc from 17% to 12.5%.
- Exemption from FED on small cars up to 850cc (current FED 2.5%).
- To discourage retailers from selling smuggled goods, retailing has been included in the definition of smuggling.
- Reduction in sales tax from 17% to 1% on locally assembled electric vehicles
- Tax on “on” money on vehicles, if vehicle is disposed without registration.

Steel (Positive)

- Exemption of CD from 5% on import of HRC. Price of imported HRC, raw material for CRC manufacturers, can come down by 8-9k/ton based on current international HRC price.

Chemicals (Neutral to Positive)

- Reduction/exemption of CD & ACD on raw materials for paint industry.
- Reduction/exemption of CD & ACD on raw material for manufacturer of aseptic plastic packaging.
- The rate of sales tax on potassium chlorate is proposed to be increased from Rs. 80 per kg to Rs. 90 per kg in addition to 17% standard rate.

Refinery (Positive)

- Customs duty on MS/HSD/crude oil changed from 3/11/3% to 10/10/2.5%.
- Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10 years.
- Minimum tax on oil refineries has been reduced from 0.75% to 0.5%.



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Oil Marketing Companies (Positive)

- Petroleum levy is set at Rs 610bn as compared to Rs 450bn in FY21.
- Minimum turnover tax kept unchanged at 0.75%.
- GST on RLNG increased from 12% to 17%

Telecommunications (Neutral)

- Withholding tax rates reduced from 12.5% to 10% for tax year 2022 and 8% for onward for telephone user on account of mobile telephone and prepaid internet or telephone cards.
- The rate of federal excise duty on telecommunication is proposed to be reduced to 16%
- Federal excise on mobile phone calls exceeding three minutes @ Re 1 per call, SMS message @ Re. 0.1 per SMS, and internet data usage @ Rs. 5 per GB is being proposed. This will result into mild taxation of a broad spectrum of population
- Rationalization of RD on import of Mobile Phones to encourage import substitution
- Inclusion of telecommunication services in definition of industrial undertaking

Technology (Positive)

- Import of plant, machinery and raw material by companies in Special Technology Zone is proposed to be exempted from sales tax.
- Zero rated status given to companies exporting services from Islamabad tax territory
- Ten-year tax exemption for Special Technology Zone Authority, Zone Developers and Zone Enterprises.
- Tax exemption on the import of capital goods and dividend income of private funds from investment in special technology zone enterprise.

Textiles (Positive)

- Reduction/exemption of CD, ACD & RD on import of various raw materials.
- Tax credit on installation of point of sale machines has been introduced which should be lesser of (1) amount actually invested in purchase of point of sale machine; or (2) Rs 150k/machine
- Increase in minimum wage rate to PKR 20,000/month from PKR 18,000

E&P (Neutral)

- GoP has budgeted PKR90bn as dividend income (124%/48% higher than last years revised estimate/ budgeted numbers of PKR40/61bn).

Dividends Company	FY20		9MFY21		FY22 Budget	
	Per sh	in Rs. Mn	Per sh	in Rs. Mn	Per sh	in Rs. Mn
OGDC	6.8	24,678	5.4	19,742	15.5	56,500
PPL	1.0	1,837	1.5	2,755	8.2	15,000



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Packaging (Neutral)

- Reduction of CD & ACD on uncoated paper and paperboard for printing and graphic arts industry

Fertilizers (Neutral)

- Rate of advance tax on dealers reduced to 0.25% if they appear on active taxpayer's list.
- An agriculture transformation plan has been devised for this purpose. Under this plan, support will be provided from water to seeds, fertilizer, agri-credit, tractors and machinery, commodity warehousing, cold storage, and food processing industry

Banks (Positive)

- Ijarah Sukuk issuance target for next year has been set at PKR1,200Mn, 174% higher from FY21 revised estimate of PKR437Mn
- Withholding tax have been removed on cash withdrawal, banking instruments, banking transactions other than through cash and remitting amounts abroad through credit or debit or prepaid cards.
- Tax exemptions and concessions for Roshan digital accounts

Cements (Positive)

- Federal PSDP: Rs900bn for FY22, up 59% from utilized amount of around Rs566bn in FY21TD, whereas budgeted amount for FY21 was Rs630bn.
- WHT of 5% removed from extraction of minerals.
- Allocation on different projects: Rs 57bn for Dasu Hydropower Project, Rs 23bn for Diamer Basha dam, Rs 6bn for Mohmand Dam and Rs 14bn for Neelum Jhelum Hydropower Project.
- Rs 30 Bn allocated to subsidize low-cost housing under the Prime Minister Imran Khan's Naya Pakistan Housing Programme
- Rs 33bn subsidy allocated for low cost housing scheme (Rs 3lac/household).

Power (Positive)

- Power subsidy increased to Rs. 596 bn (Rs. 140 bn in FY21).
- Exemption from tax for bagasse fired power generating units and reduced rate of tax to 7.5% on dividend income from such projects.

Consumers Staples (Positive)

- Reduction / exemption on inputs / raw materials of food processing industry.
- Reduction/exemption of CD & ACD on inputs for poultry industry.
- Soya bean Meal is now charged GST at 17% from 10% previously.
- GST on flavored milk, yogurt, cheese, butter, cream, milk and cream concentrated has been increased from 10% to 17%
- 17% FED on Edible oils excluding soya bean oil has been removed, however, it will now be charged 17% sales tax



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Pharma (Positive)

- Exemption of CD & ACD on more than 350 APIs. This would reduce cost of production and in-turn improve the gross margin of the sector.
- Plant, machinery and equipment subject to concessionary rate of 5% would reduce the cost of financing BMR/expansion projects.
- Exemption of CD & ACD on six life-saving drugs.
- Blanket exemption of 10% sales tax on APIs not exceeding 11%

Leather and tanneries: (Positive)

- Reduction of duties on raw material/inputs of footwear industry

Electronics (Neutral)

- Reduction/Exemption of CD & ACD on inputs for electronics manufacturing industry