

Summary of  
**Federal Budget FY23**

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# Executive Summary

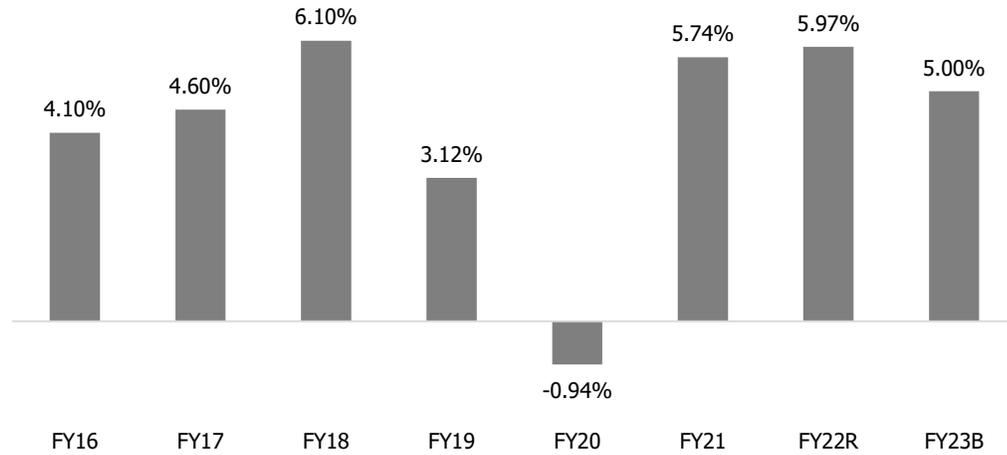
- ❑ The Budget for FY23 was unveiled on June 10, 2022, where government has highlighted the following key targets a) stabilization of CAD b) reduction in fiscal deficit and c) control the ever increasing inflation and its impact on the less privileged.
- ❑ The Government has set rather optimistic budgetary targets including GDP growth target of 5%, considering the high interest rates and inflation, elevated CAD levels, overheating of the domestic economy and expectations of a global recession.
- ❑ Outlay of the budget is PKR 9,502bn, an increase of 4% from the revised outlay of FY22.
- ❑ An ambitious target of PKR 7,004bn is being set for tax collection through FBR, an increase of 17% from the revised target of PKR 6,000bn for FY22.
- ❑ Both direct and indirect tax revenues are budgeted to improve handsomely by 17% from revised targets of FY22.
- ❑ Non-Tax Revenue is expected to increase by 52% from revised target of FY22 to PKR 2,000Bn, due to expected increase in PDL by PKR 615bn.
- ❑ Petroleum Levy is budgeted to increase by 456% from PKR 135bn to PKR 750bn.
- ❑ Current Expenditure (excluding markup repayment) is expected to decrease by PKR 628bn (12% YoY) to PKR 4,744bn, mainly because of decrease in subsidies by 815bn.
- ❑ Mark-up payments are predicted to rise 26% YoY to PKR 3,950bn. Therefore, a major part of Current expenditure will be taken up by Debt-Servicing.

# Executive Summary

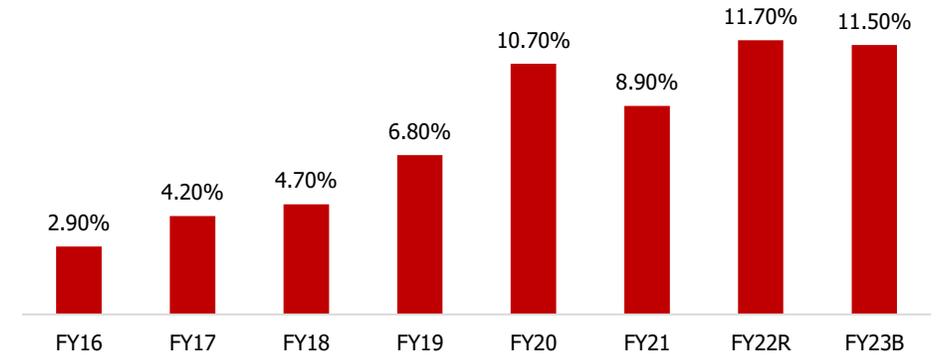
- ❑ The Government has allocated PKR 727bn for PSDP for FY23, which compares favorably to the expected disbursement of PKR 550bn in FY22. However, we expect similar level of disbursements in FY23 considering the Government will be targeting to control expenses under the IMF program which is expected to be revived in the near future as successful revival of the program is one of the key targets identified in the budget.
- ❑ Spending on Defence is expected to increase by 3% YoY to PKR 1,523bn.
- ❑ Subsidies are projected to decrease from PKR 1,514bn to PKR 699bn compared to last year (54% increase) as the Government has projected zero PDC and a huge decline in subsidy related to electricity.
- ❑ Expected Primary deficit of 1.8% of GDP for FY22 is targeted to be converted into surplus of 0.2% of GDP in FY23.
- ❑ Fiscal Deficit is expected to be contained at PKR 3,798bn (4.9% of GDP), as compared to expected 6.5% of GDP for the current fiscal year.
- ❑ Current account deficit is budgeted to be around 2.2% of GDP compared to this year's target of 4.1%.
- ❑ The government is targeting 5% GDP growth for FY23 and expects GDP growth to hover around 6% in FY22.
- ❑ The Government is expecting similar inflation level of 11.5% for FY23.

# Key Economic Indicators

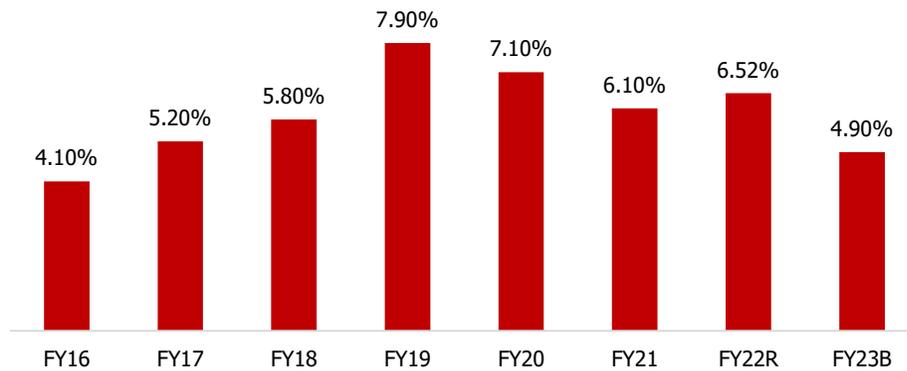
*Real GDP growth (%)*



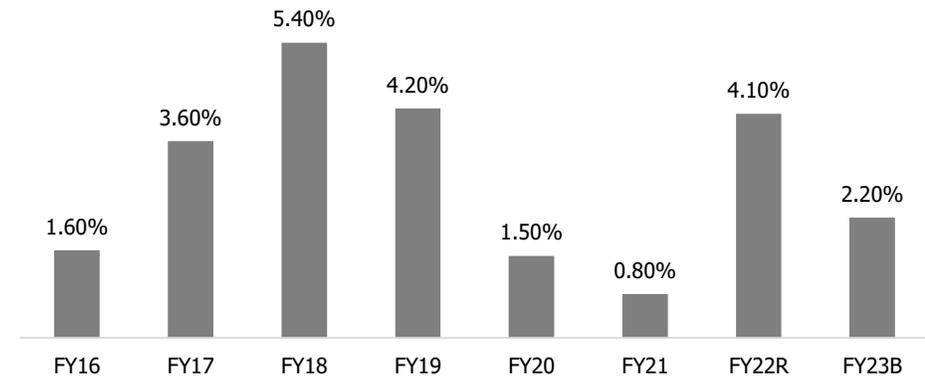
*Inflation to persist in double digits*



*Austerity measures to contain Fiscal Deficit in FY23*

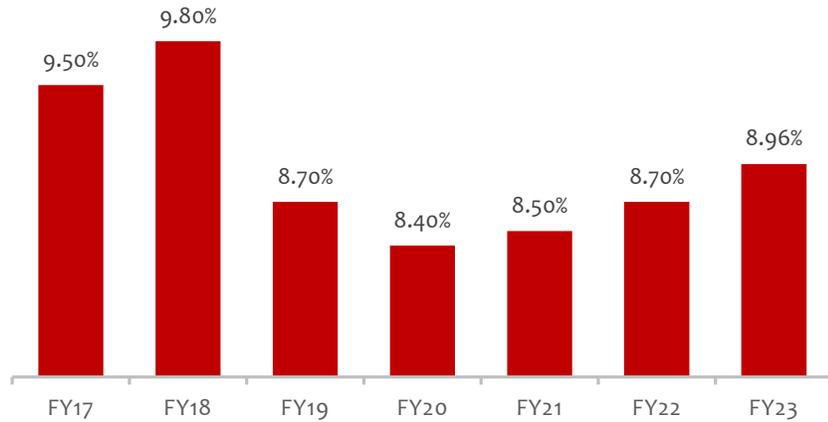


*Current Account Deficit is expected to decline*

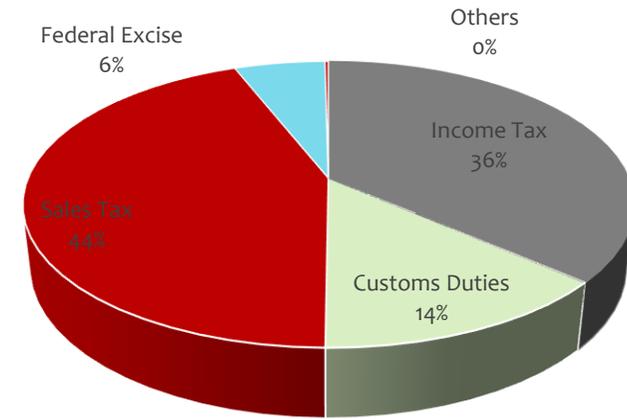


# Budget At a Glance

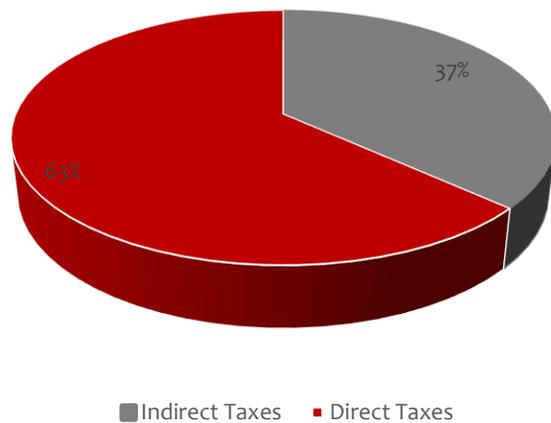
*Tax Revenue as % of GDP*



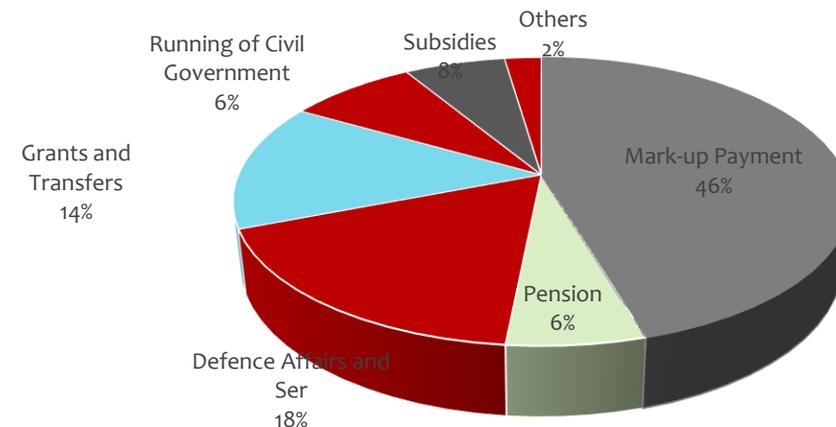
*FBR taxes composition*



*Indirect Taxes lead the race*



*Breakup of Current Expenditure*



# Budget At a Glance

	FY22B	FY22R	FY23B	Change	FY22B	FY22R	FY23B
<b>Revenues</b>	<b>PKR'bn</b>				<b>As % of GDP</b>		
<b>Tax revenue</b>							
FBR Taxes	5,829	6,000	7,004	17%	8.7%	9.0%	9.0%
-Direct	2,182	2,204	2,573	17%	3.3%	3.3%	3.3%
-Indirect	3,647	3,796	4,431	17%	5.4%	5.7%	5.7%
<b>Non - Tax revenue</b>	<b>2,080</b>	<b>1,315</b>	<b>2,000</b>	<b>52%</b>	3.1%	2.0%	2.6%
<b>Gross Revenue</b>	<b>7,909</b>	<b>7,315</b>	<b>9,004</b>	<b>23%</b>	11.8%	10.9%	11.5%
Less: Provincial Share	(3,412)	(4,213)	(4,100)	-3%	-5.1%	-6.3%	-5.2%
<b>Net Revenue</b>	<b>4,497</b>	<b>3,102</b>	<b>4,904</b>	<b>58%</b>	6.7%	4.6%	6.3%
<b>Expenditure</b>							
<b>Current</b>	<b>7,523</b>	<b>8,516</b>	<b>8,694</b>	<b>2%</b>	11.2%	12.7%	11.1%
Mark-up	3,059	3,143	3,950	26%	4.6%	4.7%	5.1%
Defence	1,370	1,480	1,523	3%	2.0%	2.2%	1.9%
Grants and Transfers	1,168	1,090	1,242	14%	1.7%	1.6%	1.6%
Government	482	560	567	1%	0.7%	0.8%	0.7%
Pension	480	525	530	1%	0.7%	0.8%	0.7%
Subsidies	682	1,515	699	-54%	1.0%	2.3%	0.9%
Others	125	232	100	-57%	0.2%	0.3%	0.1%
<b>Development</b>					0.0%	0.0%	0.0%
Federal PSDP	900	550	727	32%	1.3%	0.8%	0.9%
Outside PSDP	23	119	13	-89%	0.0%	0.2%	0.0%
Loans & Grants to	106	94	82	-13%	0.2%	0.1%	0.1%
<b>Total Expenditure</b>	<b>8,487</b>	<b>9,118</b>	<b>9,502</b>	<b>4%</b>	12.7%	13.6%	12.2%
Provincial adjustment	570	1,653	800	-52%	0.8%	2.5%	1.0%
<b>Fiscal Balance</b>	<b>(3,420)</b>	<b>(4,363)</b>	<b>(3,798)</b>	<b>-13%</b>	-5.1%	-6.5%	-4.9%
<b>Primary Balance</b>	<b>360</b>	<b>(1,220)</b>	<b>152</b>		0.5%	-1.8%	0.2%
<b>GDP</b>	<b>67,059</b>	<b>66,950</b>	<b>78,197</b>	<b>17%</b>			

# Revenue measures

- ❑ Capital Gains Tax (CGT) in case of disposal of property within one year will be charged at 15% and will be reduced by 2.5% on annual basis till 'zero' in the sixth year.. Same applies for securities as well.
- ❑ Withholding tax on filers and non filers on acquisition of property has been increased to 2% and 5% respectively.
- ❑ Banks will be taxed 47% instead of 39% (inclusive of windfall tax and poverty alleviation tax).
- ❑ Tax on immovable property at 1% of fair market value subject to condition of ownership of more than one property with value exceeding Rs25mn.
- ❑ 2% additional income tax on individuals, corporates and AOPs has been imposed on income of Rs300mn and above (Poverty alleviation tax).
- ❑ Advance tax on purchase of 1600+ cc cars to be increased; 2% advance tax imposed on electric cars
- ❑ For small retailers, fixed income tax introduced in the range of Rs3,000-Rs10,000
- ❑ Foreign transaction through debit/credit card will be charged Advance tax of 1% for filer and 2% for non-filers.
- ❑ Custom duty, additional custom duty and regulatory duty rationalized on more than 400 headings.
- ❑ Individual having more than one immovable property valuing above 25 million will subject to charge tax rate at 1% of the fair market value of the property.

# Relief measures

- ❑ Threshold for taxable income for salaried class have been increased from Rs0.6mn to Rs1.2mn.
- ❑ Maximum tax on behbood saving certificate, pensioners benefit account and shuhada family welfare to be reduced to 5% from 10%.
- ❑ Initial depreciation for new fixed asset acquisition to be increased from 50% to 100%.
- ❑ For film makers, new cinema production houses, film museums will avail 5 year income tax relief on establishment, and 10year export tax rebate on film and drama, film producers exempt from income tax, distributor & producer.
- ❑ Import of solar panels will be tax exempt.
- ❑ Tractors and seed to be exempted from sales tax. Currently 5% sales tax is implemented on tractors.
- ❑ Not for profit hospitals having more than 50 beds to be exempted from sales tax on electricity and supplies.
- ❑ More than 30 Active Pharmaceutical Ingredients (APIs) to be exempt from custom duty.
- ❑ Sales tax on imported APIs will be refunded instantly to pharmaceuticals for betterment of cash flows and will ultimately result in decrease in working capital requirements.
- ❑ 3 special economic zones will be formed where state of the art facilities will be provided along with nonstop electricity and gas
- ❑ Sales tax will be charged at 0% for both Agriculture and agriculture equipment.
- ❑ Government also announced that the Duty Drawback on Local Taxes and Levies (DLTL) will be released during this month to textile and other export sectors amounting to 40.5billion.

## Relief measures

- ❑ Maximum tax on behbood saving certificate, pensioners benefit account and shuhada family welfare to be reduced 5% from 10%.
- ❑ For AoPs and business individuals tax exemption limit is to be raised from PKR400,000 to PKR600,000.
- ❑ Imported Raw Material for manufacturing industries will be subject to adjustable tax rates.

## Other measures:

- ❑ Three special economic zones will be formed where state of the art facilities will be provided along with nonstop utilities.
- ❑ Government has decreased fuel allowance for government official and cabinet members by 40%
- ❑ Free laptops plus laptops on installment will be provided.
- ❑ There will be no Custom Duty on machinery which is imported for environmental purposes
- ❑ First aid bandages and other important medical supplies won't be charged any custom duty
- ❑ Government has allocated PkR 100bn for Dams.
- ❑ Young people will be given interest free business loan up to Rs0.5 million and low interest business loan of up to Rs25 million. Women would be given 25% fixed quote under these schemes.
- ❑ Incidence of taxes on alternative asset classes (such as real estate) has been increased which may potentially result in funds flowing out of the asset class and potentially into equities.

# Mutual funds – Tax Implications

- ❑ Capital Gains Tax (CGT) in case of disposal of securities within one year will be charged at 15% and will be reduced by 2.5% on annual basis till 'zero' in the sixth year. This is applicable on disposal of Mutual Funds units as well. However, the rates for withholding of CGT by mutual funds remains unchanged and is mentioned below:

Investor Category	WHT Rate
Individuals	10% for stock and other funds
Corporates	10% for stock funds, 25% for other funds

- ❑ Reduced tax rate of 15% on profit on debt derived from investment in Government securities has been withdrawn and applicable tax rate will be charged from now onwards. Banking and Insurance companies were already being taxed at higher rates. With this change, Mutual Funds will become more attractive investment avenue for Corporates and High Net Worth Individuals.
- ❑ Poverty alleviation tax of 2% will be applicable on any person/corporate earning more than PKR 300mn in a year.
- ❑ Income derived by a collective investment scheme is exempt from tax, provided they distribute 90% of their accounting income as reduced by realized and unrealized capital gains. The new finance bill proposes to allow adjustment of accumulated accounting losses against accounting income in the next year. This change is positive for the Mutual funds industry and is aimed to address the profit distribution by these schemes, who having incurred accounting losses in previous years are unable to adjust previous years losses in the year of profits.
- ❑ The tax credits under section 62 and 63 on investment in Mutual funds and VPS have been withdrawn.
- ❑ In respect of accumulated balance received from VPS, exemption is presently available to the extent of 50% of such accumulated balance. The restriction of 50% is proposed to be done away with and is now available on 100% balance, at any point of time.

# Sector Analysis

Sector	Measure	Impact
<b>Cement and Steel</b>	<ul style="list-style-type: none"> <li>❑ Federal PSDP allocation of PKR 727bn compared to PKR 900bn in the same period last year.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Neutral. The number looks on the higher side as the actual funds disbursed during 10MFY22 stood at PKR 466bn. Govt. might face difficulty in disbursement of the allocated PSDP, hence, not enough support is expected to support demand growth of construction industry.</li> </ul>
	<ul style="list-style-type: none"> <li>❑ Increase in corporate tax rates by 2%.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Negative. Will result in a drag in overall profitability of the sector.</li> </ul>
	<ul style="list-style-type: none"> <li>❑ Increase in taxation of Real estate sector.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Negative. Might hurt demand for construction material.</li> </ul>
	<ul style="list-style-type: none"> <li>❑ PKR 100bn allocated for dams.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Positive. This measure will support sales volume for the sector.</li> </ul>
	<ul style="list-style-type: none"> <li>❑ Increase in first year tax allowance.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Positive for Companies under expansion.</li> </ul>
<b>Banks</b>	<ul style="list-style-type: none"> <li>❑ Increase in corporate tax rate for the sector by 8% (inclusive of super tax, windfall tax and poverty alleviation tax).</li> </ul>	<ul style="list-style-type: none"> <li>➤ Negative. This will result in decline in profitability of the sector.</li> </ul>
	<ul style="list-style-type: none"> <li>❑ Increase in tax on income from government securities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Negative for Banks with ADR less than 50%.</li> </ul>

# Sector Analysis

Sector	Measure	Impact
<b>Autos</b>	❑ Decrease in sales tax to 0% on tractors (currently at 5%).	➤ Positive. Will improve cash flows for the companies and potentially increase sales volumes.
	❑ Ban on import of CBU cars for the next few months.	➤ Negative for companies with high CBU sales.
	❑ Additional advance tax on 1600+cc engines.	➤ Negative for local manufacturers.
	❑ 2% advance sales tax on electric cars.	➤ Negative
	❑ Increase in corporate tax rates by 2%.	➤ Negative
<b>Textile</b>	❑ Duties on imported Yarn will be rationalized.	➤ Positive for the sector.
	❑ DLTTL will soon be released amounting to PKR 40.5bn.	➤ Positive. Will result in improvement in cash flows.
<b>Food</b>	❑ Removal of the sales tax on supply of seeds of wheat, maize, sunflower, Canola etc	➤ Positive

# Sector Analysis

Sector	Measure	Impact
Pharmaceuticals	❑ Companies that manufacture first aid bandages will be exempt from CD.	➤ Positive
	❑ Exemption of custom duties for more than 30 APIs.	➤ Positive. This will result in improvement in profitability for the sector.
	❑ Increase in corporate tax rates by 2%.	➤ Negative. Will result in a drag in overall profitability of the sector.
Fertilizers	❑ Increase in corporate tax rates by 2%.	➤ Negative
OMCs	❑ Government has completely eliminated PDC for next year.	➤ Positive for cash flows of the sector.
	❑ Increase in corporate tax rates by 2%.	➤ Negative