BUDGET 2013-14
PAKISTAN

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Budget 2013-14

Federal Minister for Finance Ishaq Dar announced Pakistan Budget 2013-14. Salient features of Budget 2013 are as follows.

Budget size: Rs 3.591 trillion
Project Gross Domestic Product (GDP) growth: 48 percent
Fiscal Deficit: 8 percent
Inflation Target: 9.5 percent

Ishaq Dar claimed that Budget 2013 is business friendly. However, he failed to mention that the increase of GST from 16% to 17% will open the floodgates for inflation.

Budget 2013-14 Announcements:

Funds Allocation:

- Rs. 1.1 trillion allocated for Public Sector Development Program (PSDP) of the federal and provincial governments with the federal government bagging Rs 540 billion and the provincial governments getting a total of Rs 615 billion.
- Rs 75 billion allocated for Income Support Fund
- Rs. 225 billion to be spent on energy sector
- Rs. 627 billion allocated for Defense expenditures (compared to Rs. 570 billion in previous budget)
- Federal government would provide Rs 21 billion to the health sector for programs of immunization, mother and child care, family planning, reduction of blindness, and other national health objectives.

Tall Claims:

- Revenue target pushed to Rs 2.475 trillion
- Circular debt amounting to more than Rs 500 billion will be eliminated in 60 days
- The new government will have less than 40 ministries
- Prime Minister Youth Skills Development Program will be launched. Whoever is younger than 25 years will be provided with 6-month vocational training. All expenses will be covered by the federal government (*Benazir Bhutto launched a Skill Development program in her first tenure. The program is still on but the results are unknown*)
- Whoever is younger than 25 years old and has completed 16 years of education will be eligible for the one year training program. Rs10,000 will be paid monthly to the enrolled candidates.
- Rs2 billion relief package will be granted during Ramadan.
- Secret Service Expenditures (aka Secret Fund) have been abolished.
- Ban on imports of duty and tax free vehicles for the VVIPs.
- No new car will be purchased by the government, with the exception of operational vehicles of law enforcing agencies and critical development projects.
- The discretionary grant of federal ministers is removed.

Austerity Measures:

- 45% cut in expenditures of Prime Minister's Office and 44% cut from the expenses of Prime Minister House (excluding salaries and allowances)

New and Increased Taxes:

- Tax exemption for luxury cars was proposed to be abolished while 1200 CC hybrid cars are being exempted from import duty. A concession of 50 percent has been proposed for 1200 to 1800 CC cars while Rs 20,000 in tax will be applicable on purchase of 1000 CC cars.
- A withholding tax on wedding ceremonies being held at commercial venues has also been proposed.
- Tax proposed on foreign movies and dramas
- Taxes on cigarettes, pan and chaliya have also been increased.
- Minimum tax increased from 0.5% to 1%
- Taxation of construction sector: A minimum tax on builders and developers is proposed. The tax will be paid at a the rate

of Rs.50 per sq.ft. of the constructed area; or Rs.100 per square yard of the developed land.
- Rate of tax on Business individuals and AOPs will be gradually increased from current maximum of 25% for income exceeding Rs.2.5 million to 35% for income above Rs.6 million.
- Taxing Education: An adjustable withholding tax of 5% may be imposed on annual tuitions fee of Rs.200,000 paid to an educational institution.
- Tax on movable assets of Non Resident Pakistanis: A 0.5% tax is proposed on earnings of non resident Pakistanis. Earnings from this tax will be used for the income support program of the government.
- 5% sales tax is imposed on electricity and gas bills of those having commercial or industrial connections but remain unregistered. Once they get registered, the sales tax will be removed from their bills.
- All taxable supplies made to unregistered persons will include 2% further tax, for encouraging registration. Once they get registered, they will no longer have to bear this charge.
- Finished goods and items having multi-purpose use are taken out of the reduced rate regime.
- To address the grievances of oil importers, locally produced oil and imported oilseed are being subjected to the similar tax regime as imported edible oil.
- A federal excise duty of 40 paisa per kilogram is imposed on imported canola seed.
- Federal Excise Duty is imposed at the same rate on persons providing financial services that are offered by banking and nonbanking institutions.
- Custom duty on betel nuts (chalia) and betel leaves is increased

Excerpts from Ishaq Dar’s Budget 2013-14 speech

How the government plans to curb deficit:

We will be using public savings and cheap foreign borrowings to finance deficit and reduce the burden of debt servicing. New domestic saving schemes will be introduced aimed at enhancing public access to government securities which are presently heavily concentrated amongst the banks and given their high spreads much of the benefits of government borrowings are flowing to banks than to general depositors.

Remember the scheme from previous tenure of Nawaz Sharif? **Qarz Chukao, Mulk Bachao**

Projects to improve water sector:

We are investing Rs.59 billion for the water sector projects that will include such projects as Katchi Canal (Dera Bugti and Nasirabad), Rainee Canal (Ghotki and Sukkur), Kurram Tangi Dam (North Waziristan), Extension of Pat Feeder Canal to Dera Bugti, Gomal Zam Dam (South Waziristan), Ghabir Dam (Chakwal), completion of Mangla Dam raising, lining of water courses in Sindh and Punjab, flood protection and drainage schemes all over the country.

Plans to curtail Energy and Power Crisis:

During the current year a sum of Rs.225 billion will be invested in this sector of which Rs.107 billion will come from the PSDP and the remaining will be mobilized by PEPCO WAPDA through government support. The projects included in the program include Neelum-Jehlum Hydro Power Project (1000 MW), Diamir-Bhasha Dam and Hydropower Project (4500 MW), Tarbela Fourth Extension Project (1410 MW), Thar Coal Gasification Project (100 W), Chashma Civil Nuclear Power project (600 MW), Two Karachi Nuclear Coastal Power Projects (2200 MW) with Chinese assistance, Keyal Khawar Hydro Project (122 MW), Allai Khawar Hydro Project (122 MW), Combined Cycle Power Projects at Nandipur and Chichiki Malian (950 MW), Upgradation of Guddu Power Project (747 MW gas-based), conversion of oil based power projects to coal at Muzaffargarh and Jamshoro (3,120 MW) and numerous projects to improve the transmission lines, grid-stations and distribution systems.

Budget 2013 allocation for Higher Education Commission (HEC)

A sizeable allocation of Rs.18 billion has been made for the Higher Education Commission, which will support development plans of different universities all over the country. It may be noted that on the current side also a hefty allocation of Rs.39 billion is made for HEC. Thus a combined outlay of Rs.57 billion will be made for higher education.

Tax relief to Corporate Sector:

(1) With effect from fiscal year 2014-15, the maximum corporate tax rate will be reduced by 1% annually to coming down to 30% from the present 35%. This will promote a culture of corporatization in the country;
(2) The income tax exemption of 5 years for investments made in Special Economic Zones will be increased to 10 years. This will be helpful in increasing investments in such zones;

Allowing FBR to access bank details of individuals and corporate:

The law for obtaining information from bank regarding its customers is being aligned with international practices.
The objective is to strengthen the National data warehouse at FBR for tax base broadening.

We all know that how fair and transparent the workings of FBR are. Allowing FBR to access personal details related to bank accounts of individuals without incorporating proper procedures and safety measures will invoke panic amongst the business community of Pakistan – leading to possible flight of capital.

Tax relief on Hybrid Electric Vehicles (HEV)

Use of imported POL products as a major source of energy has not only led to high import bill, but has also created a negative environmental impact. Therefore, use of alternate energy efficient Hybrid Electric Vehicles (HEVs) needs to be encouraged. It is, therefore, proposed that HEVs up to 1200cc will be exempt from duties and other taxes. From 1201cc to 1800cc 50% relief from duties and other taxes will be provided 45 and from 1801cc to 2500cc, 25% relief is proposed. No relief will be available for vehicles beyond 2500cc.

Youth Development Programs:

(1) Prime Minister’s Youth Training Program: Amongst the youth, the most vulnerable group are those who have completed a 16-year degree program but have not been able to find a decent job, mostly for lack of appropriate experience and training. It is the most cherished desire of the Prime Minister that the government must handhold this group of highly educated youth to inspire confidence and assurance in their lives. Accordingly, he has directed that a comprehensive scheme be developed for such youth in government offices, corporations, bodies and authorities at all levels. All those completing a 16-year degree program and below the age of 25 years will be eligible for selection under the scheme. A one-year training program will be designed for these graduates during which they will be entitled for a stipend of Rs.10,000 per month. Ministry of Education, Training and Standards for Higher Education will
administer the scheme and each applicant will apply on-line and his/her degrees will be verified also on-line by HEC. I am confident that this scheme will provide a useful training to qualified youth nearer their homes and will enable them to fare better in the job market.

(2) Prime Minister’s Youth Skills Development Program: Under this program 25,000 young persons up to the age of 25 and will minimum qualification of middle, will be imparted training in a number of trades across the country. National Vocational and Technical Training Authority (NAVTEC) will manage the program in collaboration with provincial TEVTA

authorities. ***Six months training will be given for which fee will be paid by the government***. Emphasis will be placed on such trades as are in demand abroad or will enable the graduates to become self-employed.

(3) Small Business Loans Scheme: With a view to enable our youth to start their own business, small business loans will be made available through the banking system. Under the scheme ***loans ranging from Rs.100,000 to Rs.2,000,000 will be available at a mark-up cost of 8%***. The remaining cost will be borne by the Government. In the first year of the scheme, 50,000 loans will be offered. The scheme will be strengthened in the light of experience gained in first year of operation.

(4) Prime Minister's Scheme for Provision of Laptop: To promote access to information and communication technology it has been decided that provision of a laptop for distinguished student pursuing higher education should be made. All students pursuing a degree program from one of the HEC recognized universities or institutions and meeting merit criteria to be developed by HEC would be eligible to get a laptop. HEC will announce the details of the scheme shortly.

(5) Fee Reimbursement Scheme for Less Developed Areas: Under an existing scheme bright students from less developed areas are provided tuition fee support while pursuing higher education at Master's and Doctorate levels. Presently, it is available to students from Balochistan, FATA, Gilgit-Baltistan. There is no reason why this support should not be expended to other less developed areas such as those of Interior Sindh and Multan, Bahawalpur and D.G. Khan Divisions of South Punjab, which are equally less developed. Accordingly, students from these areas pursuing higher education on merit will also be eligible for tuition fee support.

Prime Minister's Micro Finance Scheme:

To enable our men and women to undertake micro enterprise activities, it is decided to allocate Rs.5 billion to launch a scheme of Qarze-Hassana (loans without mark-up). These will be made available through selected micro finance providers including Akhuwat, NRSP and Provincial RSPs. Fifty percent of the beneficiaries of this scheme will be women.

Prime Minister's Housing Finance Scheme:

Under this scheme, a mortgage facility of Rs. 1.5 million to Rs. 5.0 million will be offered at a mark-up rate of 8%. Fifty thousand people will benefit from this scheme.

Direct Taxation

- Income Support Levy imposed @ 0.5% from tax year 2013 on all net moveable assets in excess of Rs 1 million. Whether net movable assets are to include foreign currency bank accounts and the like has yet to be clarified.

- Agricultural income to be considered as non taxable source to the extent of income on which agricultural tax paid is in the Province.

- Tax slabs for income of individuals, other than from salary, increased beyond existing Rs. 4 million. Henceforth, income in excess of Rs 4 million but less than Rs 6 million is proposed to be taxed at Rs 722,500 *plus* 30% for amount exceeding Rs 4 million. For income exceeding Rs 6 million, tax is proposed at Rs 1,322,500 *plus* 35% of the amount exceeding Rs 6 million.

- Salaried income will henceforth be taxed under 12 slabs, instead of 6. Critically salary in excess of Rs 4 million but less than Rs 7 million shall be taxed at Rs 587,500 *plus* 27.5% of the amount exceeding Rs 4 million. Beyond Rs 7 million the tax burden is increased to Rs 1,412,500 *plus* 30% applied to the amount in excess of Rs 7 million.

- Tax rate for companies, other than banking companies, reduced to 34%.

- Withholding tax on dividend income of companies to be considered as final tax.

- Tax rates on income from property proposed to be increased through fresh slabs. Beyond Rs 4 million these will be taxed at Rs 432,500 (Rs 440,000 if recipient is a company) *plus* 17.5% on the amount in excess Rs 4 million. Withholding tax rates to be accordingly enhanced.

- Advance tax rates on imports, and withholding taxes in the case of goods and services increased for other than companies.

- Facility of exemption certificate reintroduced for manufacturing sector provided tax was paid in any of the preceding 2 years.

- Withholding tax on cash withdrawals from banks once again increased to 0.3%.

- Withholding tax at 10% imposed through NCCPL on income earned by member, margin financer or securities' lender.

- Changes in withholding tax rates: at time of vehicle registration (lump sum collection for 10 years), purchase of vehicles and prize bonds - all on the higher side of course.

- Adjustable advance tax levied on getting married, on foreign produced films and dramas, cable television, on distributors and retailers, educational institutions, dealers, commission agents and *arhties*. Most everything is sought to be brought into this quasi indirect tax net.

- Hybrid cars appear to be fortunate to have been granted reduction in taxes. Curiously, the relief is envisaged for cars over 1800cc!!

- Tax holiday for special economic zone increased to 10 years.

- Carry forward of minimum tax now extended to AOP and individuals as well.

- Minimum tax on builders and developers levied at Rs 25 per square feet of constructed area sold and Rs 50 per square yard for developed land sold.

- Rate of initial depreciation reduced to 25% on plant and machinery for companies.

- Reduced rate on pilots flight allowance withdrawn.

- Exemption from tax to species dividend, airline employee concessions, and universities or other educational institutions withdrawn.

- Banks no more immune to disclose information to tax authorities.

- Teachers and researchers no longer entitled to reduction in tax.

Sales Tax

With effect from 13 June 2013

- Standard rate of sales tax increased from 16% to 17%.

- Further tax at 2% imposed on taxable supplies made to a person who has not obtained registration number. In substance the rate is now 19%. Certain exemptions are to be notified.

- Certain products containing milk were exempt from sales tax. These exemptions now stand withdrawn.

- Tax exemption on supplies against international tender withdrawn, now taxable at standard rate.

- Non-registered commercial and industrial consumers to pay additional sales tax at 5% on electricity and gas having in each case monthly bill in excess of Rs. 15,000, in addition to the standard rate (of 17%).

- Withholding tax regime extended to purchases made from unregistered person.

Federal Excise Duty

With effect from 13 June 2013

- FED at 40 paisa per kg on imported seeds and at Rs 1 per kg on locally produced oil imposed.

- 10% ad-valeram FED to be charged on motor vehicles of capacity of 1800cc and above.

- The scope of chargeability of FED on financial services is expanded by making all kinds of financial services to be chargeable to FED at 16%.

- Exemption of FED on hydraulic cement and services provided or rendered by Asset Management Companies is being withdrawn.

- Three tier structure of chargeability of FED on cigarettes is being replaced by a two tier specific rate structure

With effect from 01 July 2013

- Rate of Federal Excise Duty [FED] on aerated beverages being increased from 6% to 9%; Capacity based taxation to be introduced to minimize tax evasion and malpractices in the sector.

Customs Duty

- Custom duty and taxes on Hybrid Electric Vehicles is being reduced from 25% to 100%, according to vehicle's engine capacity.
- Duty free import of "bio re-absorbable vascular scaffold" (heart stents).
- Exemption of duty and sales tax on energy saving tubes on which presently duty is at 20%.
- Reduction of customs duty on office and school supplies from 25% to 20%.
- Duty and sales tax free import of solar submersible pumps presently dutiable at 20%.
- Reduction of duty on water treatment & purifying machinery and equipment from 20% to 15%.
- Duty on betel nuts increased from 5% to 10% and on betel leaves from Rs 200 per kg to Rs 300 per kg.

This document contains significant highlights of the Budget 2013. The amendments in taxation laws are generally applicable from 01 July 2013, unless otherwise stated.

This document contains comments, which represent our interpretation of the legislation, and we recommend that while considering their application to any particular case, reference be made to specific wordings of the relevant statutes.

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