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Negative net revenue impact in mini-budget, says finance ministry

ISLAMABAD: The third money bill of the fiscal year to be presented in the parliament on Jan 23 would offer major incentives to boost stock market, housing, agriculture and industrial sector besides imposing punitive duties on luxury imports.

“The main factors of the economic package is to turn around manufacturing and exports, incentivise low-cost housing and facilitate agricultural financing to spur economic activities in the country”, confirmed Dr Khaqan Najeeb Khan, the finance ministry’s adviser and spokesman.

Responding to a question, the spokesman said the package would have negative net revenue impact. When asked specifically about widespread speculation that the mini-budget will bring a 1pc increase in the GST rate, the ministry spokesman chose his words carefully and said only that “no taxation measure is envisaged in the supplementary finance bill”. He refused to clarify or dilate upon his words.

He claimed the mini-budget would support ease of business processes, simplify procedures and facilitate business by reducing bureaucratic red-tape. “The government is not presenting any mini budget, rather introducing a reform package for industrial and export promotion”, he remarked.

Stockbrokers seem biggest winner

Informed sources, however, said the government is planning to reverse documentation reforms introduced for the equity markets in a bid to turn around the declining stock index which fell from its high at 53,000 points in 2016 to around 38,000 points at present. The package would likely include reduction and removal of some tax rates, commissions and capital gain tax.

The sources said the most of the budgetary measures had been finalised by Finance Minister Asad Umar before leaving for Qatar with prime minister.

The sources said the supplementary budget will also envisage reduced cost of credit to the agriculture and industries relating to housing sector as part of prime minister’s vision to support low-cost housing as proposed by various stakeholders who have been briefing the prime minister on plans to create five million housing units.

Moreover, it has been decided to increase customs duty on imported vehicles over 1800cc by 10pc as part of government’s plan for import compressions in addition to removing the ban on non-filers to purchase vehicles even though the tax rates for non-filers would be significantly higher than those for the filers. “We have decided to resolve this issue to the benefit of automobile industry” that would generate more jobs and revenue, an official said.

Also, filing of statements to tax authorities by businesses would be reduced by at least 50pc from current 24 filings to less than 12 an year. The refund payments under drawback of local taxes and duties would be made through auto-debit by the State Bank of Pakistan (SBP) without an interface with the Federal Board of Revenue (FBR).

Whereas machinery and equipment imports for new industrial projects including housing would be exempted from taxes and duties.

On the other hand, customs duty would be completely abolished on about 150 types of industrial raw materials. On top of that, one percent reduction is being made on four slabs of customs duties besides a roadmap for gradual decrease in regulatory duties will also be announced in the supplementary budget.

Officials said many of the reform measures to gradually reduce customs duty, regulatory duty and additional duty were part of the five-year (2019-2024) strategic trade policy framework due in July that could not materialise owing to negative revenue impact but were now being made part the supplementary budget to move on to the second phase of national trade policy.

In the first phase, duties were curtailed or removed on 250 industrial raw materials. They said the custom tariff is being revised in the supplementary budget by reducing customs duty from 21 to 20pc for first slab, from 16pc to 15pc in the second slab, from 11 to 10pc on third slab and from 5 to 4pc on fourth slab. These slabs would be reduced by 5pc each in five years.

The source said the FBR is still opposed to these reductions but ministries of commerce, industries and nati-onal tariff commission were pushing for reduction in customs and regulatory duties on industrial raw material particularly those required for electronics, engineering, aut-om-obile and related spare parts to generate job opportunities.

Major relief for PSX

The equity markets have been demanding from the government to abolish advance tax on sale and purchase of shares. The rate of advance tax was doubled from 0.01pc to 0.02pc through Finance Act, 2016. The advance tax of 0.02pc is considered on the higher side by the PSX. This is being reversed to 0.01pc of the value of either purchase or sale of securities taking into account the fact that in day trading only one side commission is being charged by brokers. Furthermore, such advance tax shall not be applicable on proprietary trades as they do not yield any brokerage commission.

Also, stock players would be allowed to carry forward capital losses up to three years for capital gain tax (CGT). The removal of restrictions on carry forward of capital losses has been a longstanding demand of the broker community and reports suggest that in the mini-budget the government is likely to am-e-nd the ITO to allow carry forward of capital losses made on disposal of securities.

The CGT on equities would be rationalised at par with real-estate. Brokers believe that the tax disparity between various asset classes is discouraging public from investing in the capital market. Tax rates on gains made on disposal of securities and immovable property are therefore being aligned, by bringing the tax rate for immovable property at par with securities, to reduce this arbitrage.

The bill will also promote listing of GoP and China-Pakistan Economic Corridor project debts at PSX.

An official said over-regulation of brokers would be curtailed to promote equity investments. The process of renewal of licence for brokers has been simplified whereby securities broker license can be renewed upon submission of minimum documents along with nominal fees. A new Category B of eligible securities has been introduced in the Margin Trading and Deliverable Futures Market to increase liquidity and activity.

The SECP has increased eligible forms of collateral for meeting Base Minimum Capital requirements by brokers. Earlier restrictions in Negotiated Deal Market (NDM) with respect to intra-participant NDM transactions and back-to-back repurchase transactions between same accounts have been removed effective Dec 31, 2018.

Applicability of Liquid Capital (LC) requirements has been deferred for one year and submission of audi-ted LC statements relaxed whereby no audited LC shall be submitted for December, 2018 and June, 2019. Efforts are also underway to facilitate online submission of LC and NCB through system-based solution.

To manage custody of customer assets, operationalisation of revised securities broker regime is being pursued which provides categorisation of brokers according to their financial strength and capacity to undertake different functions such as trading, clearing, custody and settlement.

Amendments are also underway for discontinuing requirement for securities brokers to submit limited assurance report on adequacy of internal control systems and efficiency of compliance function. Inspection regime is being rationalised to ensure that in any given year, a broker is not subject to more than one routine inspection, which encompasses all applicable laws and requirements of the SECP, PSX, Central Depository Committee and the National Clearing Company of Pakistan Ltd.

Moreover, system audit is being discontinued with its scope included as part of areas covered by Joint Inspection Team whereas criteria for Margin Eligible Securities acceptable as collateral is being revisited for removing excessive requirements without increasing systemic risk.

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