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Budget 2020-21: Rs56bn tax relief for small businesses in Punjab budget

LAHORE: Facing an uncertain income stream amid surging number of Covid-19 infections and deaths across Punjab, the Usman Buzdar government's Rs2,240.7bn budget for the next financial year announced on Monday proposed to modestly increase development and current spending, including coronavirus-related expenditure of Rs50bn, give significant tax relief of Rs56bn to small businesses affected by the pandemic outbreak, encourage digitisation and documentation of the economy, and, at the same time, produce a cash surplus of Rs125bn to hold down the federal fiscal deficit.

Hours before Punjab Finance Minister Makhdum Hashim Jawan Bakht read out his third budget speech, the provincial health authorities announced enforcing lockdown in several areas of Lahore with 300 or more infections each to halt the spread of the disease. By Monday evening, Punjab reported more than 54,000 infections as it became the first province where the number of Covid-19 deaths crossed the 1,000 mark.

The budget documents show allocation of Rs68.3bn for Covid-19 mitigation expenditure, including Rs35bn for 20 per cent of the existing healthcare workers, Rs10bn for new recruitments to overcome the shortage of caregivers, tax relief of Rs10bn and block allocation of Rs13bn for any emergency expenditure.

Other major initiatives linked directly or indirectly to Covid-19 mitigation measures include reduction of taxes on construction businesses, emphasis on digitisation of economy through additional special rebates on payment of certain taxes digitally, reduction in taxes on internet services and a significant cut in services GST on restaurants on payment through debit or credit cards.

Rs68.3bn set aside for Covid-19 mitigation expenditure; education to get Rs391bn and health Rs284bn; Rs337bn earmarked for development projects

The budget offers substantial fiscal incentives to businesses relating to property and construction and has set aside Rs40bn for Punjab Cities Programme and funds for developing new tourism sites. Education will get Rs391bn, including Rs34bn for development schemes. An amount of Rs284bn has been allocated for health, which includes Rs33bn for development like upgrade of hospitals in south Punjab.

The budget documents show that the provincial government has booked current expenditure of Rs1,318.3bn for the next year, up by just 1.5pc from Rs1,298.8bn budgeted for the present fiscal. It also plans to spend Rs337bn — or nearly 9.5pc more than the original development expenditure estimates of Rs308bn — for the current year.

The actual development spending this year has been revised down to Rs255bn on the back of provincial revenue shortfall of Rs635bn, including a shortfall of Rs509bn in the federal transfers and Rs126bn in the provincial own source (tax and non-tax) revenue, in the projected revenue income of Rs1,989.8bn owing to the countrywide coronavirus lockdown.

The provincial finance managers are expecting a mismatch — or in simple words deficit — in excess of Rs20bn in their actual income and expenditure at the end of the present fiscal year. The hole will be filled though a federal loan of equal amount at the rate of six-month T-bills in July. Last year, the province had closed the year with a cash surplus of Rs42bn, which has now been used to reduce the deficit for the present year.

In his speech, the minister said the budget targeted implementation of labour-intensive projects focusing on development of micro, small and medium enterprises (MSMEs), especially to promote rural enterprises in the province, in the wake of the Covid-19 pandemic, and intended to launch a Credit Guarantee Scheme, besides allowing various tax exemptions for such businesses to create jobs. He said the government planned an SME support programme and invest in technical and vocational education and training to improve human capital.

In addition to its projected share of Rs1433bn from the federal divisible tax pool under the National Finance Commission Award, Punjab plans to raise Rs220.9bn in provincial taxes, down by just over a quarter from the original estimates of Rs295bn, and Rs96.2bn in provincial non-tax income, which also includes federal grant of Rs4.2bn and net hydel profits of Rs10bn.

Provincial Finance Secretary Abdullah Sumbal told Dawn that the federal government owed Rs120bn in unpaid net hydel profits, wrong deduction of provincial GST on services by the Federal Board of Revenue, etc. “We will try to recover this money from the federal government during the next year,” he added.

So far Islamabad has paid back just Rs4bn from the sum outstanding against it.

In addition, the province expects foreign financing of Rs47.1bn for development schemes and capital receipts — loan recoveries, income from sale of wheat, etc, — of Rs443.5bn. It also plans to raise a sum of Rs331.9bn in commercial loans for its wheat procurement operations next year.

In his speech, Mr Bakht said the shortfall in revenue receipts had turned the budget-making process into a major challenge. He claimed that the economy was correcting itself when the pandemic struck, resulting in a major adjustment in the fiscal position of the government. “Major expenditure cuts had to be imposed on development and non-development allocations.”

The estimates for the next year’s budget have been framed under the macroeconomic assumptions that the real GDP growth will be 2.1pc, inflation at 6.5pc and the FBR will collect tax of Rs4,962bn. Due to its tight fiscal situation, the government has almost kept major expenditure heads like salary, pension, non-salary, etc, frozen at the level of the allocation made in 2019-20.

The minister said the government has formulated a post-Covid-19 public investment strategy — Responsive Investment for Social Protection and Economic Stimulus, which presents targeted interventions and policy responses to contain the pandemic. "It integrates seven critical pillars to help Punjab fight back health, economic and special protection challenges," he added.

The Annual Development Programme includes the China-Pakistan Economic Corridor as one of the important priority areas and adequate resources have been allocated for completing two ongoing projects being implemented by the Punjab government — Orange Line Metro Train Project and Allama Iqbal Industrial City in Faisalabad.

The minister said the government also intended to use public-private partnership (PPP) financing to enlarge its development portfolio and expected an investment of Rs25bn in various road infrastructure projects, including ring roads in Lahore and Rawalpindi. He said the government had identified PPP schemes worth Rs165bn, adding that such projects would be exempted from the provincial sales tax on services for five years. The budget for the current year had inflated the development spending to Rs350bn by indicating PPP-financed schemes of Rs42bn in it. None of the schemes could be implemented though.

Since the government expects the negative impact of Covid-19 to continue till at least throughout the first half of next financial year, it has adopted a multi-pronged fiscal strategy with a focus on striking a balance between revenue generation through economic growth and broadening of the tax base rather than increasing taxes, relief/economic stimulus for businesses, especially the construction sector, and social protection by providing relief to the coronavirus-affected sectors of the economy. Besides, special allocation has been made to control the ongoing locust attack.

The minister said the budget also made an allocation of Rs1.5bn for a separate secretariat for south Punjab, in addition to setting aside substantial resources for several initiatives to alleviate poverty, create jobs and financially empower women in 10 districts of south Punjab.