BUSINESS RECORDER
Founded by M.A. Zuberi

Finance Act amendments

Page No.22 Col No.01

The much-awaited amended budget for the current fiscal year was laid in the National Assembly by Asad Umar, the federal finance minister, immediately after the cabinet, under the chairmanship of Prime Minister Imran Khan, gave it formal approval. Umar began by presenting facts which, he claimed, did not deviate from the assessment of independent economists, a claim supported by Business Recorder, and ended by stating that Shahbaz Sharif and Bilawal Bhutto Zardari would be equal partners in the development of the country. Going into the numbers, Umar added that expenditure as shown in the 2018-19 budget was underestimated by 250 billion rupees, revenue overestimated by 350 billion rupees and the provincial surplus budgeted at 266 billion rupees for the year past showed a deficit of 18 billion rupees. He added that the government has decided to generate additional revenue of 183 billion rupees and increase development outlay from 661 billion rupees in 2017-18 to 725 billion rupees in the current year. Umar presented few details and a complete assessment of the measures he proposed would have to wait till the details are known.

Be that as it may, he stated that income tax exemptions extended in the April 2018 budget would remain up to those whose income was less than 2,400,000 rupees per annum while all other income groups, which he added constituted 70,000 individuals, would witness an increase in their tax relative to what was allowed in April but which would be less than applicable before June 2018 (those paying at 35 percent rate would now pay at 29 percent). Another 92 billion rupees would be generated through the Federal Board of Revenue (FBR) using the available technology more ably. It is unclear whether he meant the FBR would be in a better position to bring the non-filers into the tax net though like the previous government, he appeared to extend legitimacy to non-filers by announcing that the government has raised the tax on banking cash withdrawals to 0.6 percent (from the existing 0.4 percent).

The previous government's decision to disallow non-filers to purchase cars and immovable property valued in excess of Rs 5 million, a measure that was generally supported but resisted by non-filers, has been done away with on the pretext that overseas Pakistanis had argued that they were non-filers because they did not earn in this country. The restriction on non-filers for buying real estate worth over rupees 4 million has been rescinded which is a major setback to efforts for documentation of the economy. It is well-known that real estate is the destination of choice for parking tax-evaded money and speculation in real estate values has rendered the acquisition of a plot of land beyond the reach of the middle class. This appears to be a big capitulation by the PTI government under pressure of the powerful real estate lobby.

Regulatory duties on expensive imported items (including food) would be taxed at a higher rate, tax on tobacco would be raised, pricey cell phones would be taxed at a higher rate, but sadly again details were missing.

The failure of the government to take note of the withholding taxes in the sales tax mode (on services and products) instead of in the income tax mode (erroneously credited as direct taxes by the FBR) would account for the continuation of multiple taxes on the income of the filers. In other words, filers would continue to have their income taxed at source and would then pay additional tax on any purchases/services on which a withholding tax is levied, for example, on the purchase of a car or an airline ticket. At present, around 75 percent of all direct tax collections are sourced to withholding taxes. Petroleum levy raised in April would be reduced – a decision that would impact positively on the disposable income of the poor, he added. The two guiding principles, Umar stated, would be to ensure: (i) that the poor and the vulnerable are not burdened; and (ii) productive sectors, including export industry, are to be facilitated which include 5 billion rupee relief on 82 tariff lines as well as 44 billion rupee relief on the five zero-rated industries.

Umar also did not present any details with respect to expenditure either though he did mention that the China Pakistan Economic Corridor projects would be protected a 100 percent and big dams would receive the same amount as budgeted in April 2018. He further stated that the government would launch a financial innovative way to generate resources for infrastructure – essential on public private partnership basis, which he added was too technical for the assembly members though he agreed to share the details with those who have the capacity and mentioned Naveed Qamar as well as Ahsan Iqbal. Karachi Infrastructure Development Company would receive 50 billion rupees from this technically challenging financial methodology with the Sindh government already on board and the National Highway Authority would receive 100 billion rupees. Current expenditure would be raised through increasing pension by 10 percent (those associated with EOBI).

It is unclear whether the current expenditure in terms of administrative expenses would be reduced (though Umar mentioned tax exemption on allowances/perks/accommodation to cabinet members would end – a largely cosmetic measure given the very small amounts involved), whether defence would receive the amount budgeted in April, whether specific items in the expenditure outside the PSDP, budgeted at 180 billion rupees, including the BISP, would witness a curtailment and what would be the target for the foreign/domestic borrowing for the current year?