REN # REP – 004

REN # REP – 400R

FEDERAL BUDGET FY25

Striking the nerve center of undocumented economy

Date: 13th June, 2024

Executive Summary

On the face of it, Federal Budget FY25 appears to be a usual budget with further increases in taxation on the already taxed and removal of tax concessions. However, we believe it strikes a potentially decisive blow at the heart of the undocumented sector by substantially increasing the cost of accessing the Real Estate sector for parking of undocumented wealth, especially for non-filers. The government has also increased punitive measures for non-filers and substantially increased tax incidence for non-filers through at-source deduction. The budget harmonizes capital gains tax for stock market with real estate with capital gains earned by non-filers from both stock market and real estate proposed to be treated as part of normal tax regime (previously: final tax). With the formal sector a key driver of flows into stock market, we see this as a significantly positive measure for the stock market.

Budget in numbers

- The federal government projects total budgetary outlay of PKR18.9 trillion, up 25.3% YoY and net revenue receipts of PKR 10.4 trillion, up 53.2% YoY
- Fiscal deficit is projected to reach PKR 7.3 trillion or 5.9% of GDP, helped by an expected provincial surplus of PKR 1.2 trillion or 1.0% of GDP.

Fiscal targets

- **FBR revenue targets:** Projected 40.2% growth in direct taxes seems to be driven by a 48.1% growth in corporate profits in FY25, as indicated by a projected 48.1% growth in WPPF. Revenue growth targets exceed expected nominal GDP growth (17%).
- **Petroleum Levy:** Projected 33.4% growth in Petroleum levy is backed by a similar increase in the defined maximum limit for the Petroleum levy to PKR80/liter.
- **Debt servicing expense:** The debt services expense is budgeted to grow 18.5% to PKR 9.8 trillion during FY25.

Executive Summary (continued)

- **Revenue measures focused on non-divisible pool**
  - Federal budget FY25 estimates federal government's share of revenues to rise by 53%, against a projected 37% increase in provinces' share of revenues and 46% increase in gross revenue receipts, as the federal government has focused its revenue measures outside the divisible pool.
  - Since more than half of the tax revenues in the divisible pool are transferred to provinces, the federal government receives a disproportionally smaller gain by increasing taxes in the divisible pool.
- **A not-so-invisible IMF hand looks more effective this time**
  - Several revenue measures in the Federal Budget FY25 - aimed at exporters, real estate and non-filers have a substantial negative impact on the power circles.
  - Exporters of goods are now subject to normal tax regime which will not only increase the tax incidence but will also enhance administrative and compliance cost of dealing with the taxmen.
  - Taxation measures aimed at real estate will substantially dent demand emanating from undocumented wealth in the property market and will likely result in a decline in property values, as well as transaction volume. This is a big negative for builders, developers and intermediaries involved in the Real Estate sector, a significant portion of which represent Pakistan's influential circles.
  - Undocumented real estate sector also serves as a bank or a parking place for undeclared wealth. Tax burden for accessing this bank has been enhanced significantly, especially for non-filers. As such, we believe that IMF's pressure to address structural issues has significantly overpowered power circles.
- **Cracking Down On Non-filers**
  - Federal budget FY25 aims to increase documentation of the economy and promote tax compliance through a three-pronged approach. 1) increased punitive measures for non-filers 2) higher tax incidence for non-filers through at-source deduction, and 3) a substantial increase in cost to access real estate as a potential safehouse / bank for parking undocumented wealth.

Executive Summary (continued)

- **Real estate unfriendly**
  - Federal budget FY25 substantially increases Capital Gains Tax (CGT) on real estate investment for both filers and non-filers, and harmonizes it with CGT for stock market, with CGT for non-filers proposed to be treated under normal tax regime.
  - This means that non-filers will now be subject to effective CGT as high as 45% for Individual/AOPs and 29% for companies and may also attract Supertax if non-filer's combined income in a year crosses certain thresholds.
  - This also means that property transfers by non-filers will automatically invite interest of taxmen for recovery of CGT over and above the minimum thresholds collected at the time of property registration.
  - Additionally, while the budget proposes an increase in advance income tax collection at the purchase and sale of properties beyond PKR50mn from 3.0% to 3.5% (PKR50-100mn) and 4.0% (>PKR100mn) for tax filers, the same is increased to 10% for non-filers at the time of sale and 20% for non-filers at the time of purchase of property.
- **Positive for the market**
  - Capital gains from the stock market earned by non filers are now subject to normal tax regime. However, non-filers are an insignificant driver for the stocks market. Substantial punitive measures on real estate sector have enhanced attractiveness of the stock market as an avenue to park formal savings. Additionally, increase in at-source tax deduction for non filers will promote of the formal sector and increase the amount of savings being channelized into the stock market. We believe these measures have the potential to drive a substantial re-rating.
  - Government appears to be continuing with the supertax in the foreseeable future and multiple listed sectors are subject to higher GST and FED. Additionally, goods exporters are now subject to normal tax regime. However, we believe companies focused on the domestic economy will likely be able to pass through the impact of higher taxes to their customers.
  - **The budget is positive** for Auto Assemblers & Parts, Pharmaceutical and Tobacco sectors.
  - **The budget is neutral** for Banks, Chemicals, Technology, E&P, Refinery, Sugar & Allied Industries, Food & Personal Care Products.
  - **The budget is negative** for Textile & Leather, Cement and Steel, Cable & Electrical Goods, Telecommunication and Fertilizer.

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SECTION 1

FISCAL SUMMARY

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Fiscal Summary

PKR Billion (Year to June)	FY24				FY25		
	Budget	Revised	+/-	%GDP	Budget	+/-	%GDP
FBR Revenues	**9,415**	**9,252**	**-1.7%**	**8.7%**	**12,970**	**40.2%**	**10.4%**
Non-Tax Revenue	**2,923**	**2,921**	**-0.1%**	**2.8%**	**4,820**	**65.0%**	**3.9%**
Petroleum Levy	869	960	10.5%	0.9%	1,281	33.4%	1.0%
Other Taxes	69	23	-66.3%	0.0%	27	16.8%	0.0%
PSE dividends	121	93	-23.4%	0.1%	139	49.4%	0.1%
Pak Telecom Authority	81	44	-46.2%	0.0%	44	0.0%	0.0%
SBP Profits	1,113	972	-12.7%	0.9%	2,500	157.2%	2.0%
Interest (Provinces/PSEs)	195	390	99.7%	0.4%	294	-24.5%	0.2%
Defense receipts	41	31	-24.4%	0.0%	42	36.0%	0.0%
Oil/Gas Revenues	192	180	-6.3%	0.2%	191	6.1%	0.2%
Other non-tax	240	227	-5.4%	0.2%	301	32.4%	0.2%
Gross Revenue Receipts	**12,378**	**12,200**	**-1.4%**	**11.5%**	**17,815**	**46.0%**	**14.3%**
Less: Provincial Transfers	(5,399)	(5,427)	0.5%	-5.1%	(7,438)	37.1%	-6.0%
Net Revenue Receipts	**6,979**	**6,773**	**-3.0%**	**6.4%**	**10,377**	**53.2%**	**8.4%**

Source: Akseer Research, Federal Budget 2024-25

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Fiscal Summary

PKR Billion (Year to June)	FY24				FY25		
	Budget	Revised	+/-	%GDP	Budget	+/-	%GDP
Current Expenditure	**13,344**	**14,232**	**6.7%**	**13.4%**	**17,203**	**20.9%**	**13.9%**
Debt Servicing	7,303	8,251	13.0%	7.8%	9,775	18.5%	7.9%
Defense	1,804	1,854	2.8%	1.7%	2,122	14.5%	1.7%
Subsidies (current)	1,064	1,071	0.6%	1.0%	1,363	27.3%	1.1%
BISP	466	466	0.0%	0.4%	592	27.1%	0.5%
Others	2,708	2,590	-4.3%	2.4%	3,350	29.4%	2.7%
PSDP – Federal (Net)	**1,150**	**834**	**-27.5%**	**0.8%**	**1,697**	**103.5%**	**1.4%**
Gross PSDP	2,709	2,393	-11.7%	2.3%	3,792	58.5%	3.1%
Less: Provincial Share	(1,559)	(1,559)	0.0%	-1.5%	(2,095)	34.4%	-1.7%
Other Development Expenditure	**0**	**0**	**n.a.**	**0.0%**	**0**	**n.a.**	**0.0%**
Total Expenditure	**14,486**	**15,066**	**4.0%**	**14.2%**	**18,877**	**25.3%**	**15.2%**
Federal Fiscal Deficit	**(7,505)**	**(8,388)**	**11.8%**	**-7.9%**	**(8,500)**	**1.3%**	**-6.8%**
Provincial Cash Balance	600	539	-10.2%	0.5%	1,217	125.8%	1.0%
Consolidated Fiscal Deficit (incl. grants)	**(6,905)**	**(7,849)**	**13.7%**	**-7.4%**	**(7,283)**	**-7.2%**	**-5.9%**
%GDP	-6.5%	-7.4%			-5.9%		
Primary Fiscal Deficit	**397**	**402**	**1.2%**	**0.4%**	**2,492**	**519.9%**	**2.0%**
%GDP	0.4%	0.4%			2.0%		
GDP (Market Price)	**105,817**	**106,045**	**0.2%**	**100.0%**	**124,150**	**17.1%**	**100.0%**

Source: Akseer Research, Federal Budget 2024-25

SECTION 2

CRACKING DOWN ON NON-FILERS

A three-pronged approach aims to increase documentation of the economy and promote tax compliance

A three-pronged approach

- Federal budget FY25 aims to increase documentation of the economy and promote tax compliance through a three-pronged approach.
  - Increased punitive measures for non-filers
  - Higher tax incidence for non-filers through at-source deduction and
  - A substantial increase in cost to access real estate as a potential safehouse / bank for parking undocumented wealth.

Prong 1: Increased punitive measures for non-filers

- **Restriction on travel:** Restriction of exit from Pakistan of non-filer persons with exceptions for Hajj and Umrah travelers, minors, students, overseas Pakistanis who do not file return even in response to notice and their names are included in the income tax general order.
- **Penalty on implementing agencies for non-compliance of punitive measures:** At present, persons who do not file return even in response to notice and their names are included in the income tax general order must face blocking of their sims and disconnection of their utility connections. In case the implementing agencies do not block sims or disconnect utility connections or not comply with bar on foreign travel, a penalty of PKR 100 million would be imposed upon the implementing agency for first default and PKR 200 million for each subsequent default.
- **Penalty on non-compliant entities:** Penalties and prosecutions are proposed for entities failing to fully disclose relevant particulars or submitting incomplete information in their tax returns or failure to file return on discontinuation of their business.
- **Penalty on non-compliant traders and shop keepers:** A penalty of sealing of shop is being proposed for traders and shopkeepers who fail to register under a scheme such as Tajir Dost Scheme. Failure to register by a shopkeeper or trader is proposed to be made an offence punishable on conviction with imprisonment for six months or a fine, or both.

Prong 2: Higher tax incidence for non-filers through at-source deductions

Proposed Withholding Tax on Purchase of Local Cars Under Section 231 B				
Engine Size	**Current Tax**		**Proposed Tax**	
	Filer	**Non-Filer**	**Filer**	**Non-Filer**
Upto 850cc	10,000	30,000	0.5%*	1.5%*
851cc to 1000cc	20,000	60,000	1.0%*	3.0%*
1001cc to 1300cc	25,000	75,000	1.5%*	4.5%*
1301cc to 1600cc	50,000	150,000	2.0%*	6.0%*
1601cc to 1800cc	150,000	450,000	3.0%*	9.0%*
1801cc to 2000cc	200,000	600,000	5.0%*	15.0%*
2001cc to 2500cc	6.0%*	18.0%*	7.0%*	21.0%*
2501cc to 3000cc	8.0%*	24.0%*	9.0%*	27.0%*
Above 3000cc	10.0%*	30.0%*	12.0%*	36.0%*

*Note: *of Value*

Source: Akseer Research, Federal Budget 2024-25

Prong 2: Higher tax incidence for non-filers through at-source deductions (Continued)

Advance Tax on Retailers/Distributors

	Current		Proposed	
	Filer	**Non Filer**	**Filer**	**Non Filer**
Advance tax on sale to distributors, dealers or wholesalers other than sale of fertilizer under Section 236G	0.1%	0.2%	0.1%	2.0%
Advance tax on the gross amount of sale to retailers under Section 236H	0.5%	1.0%	0.5%	2.5%

Advance Tax - Profit on Debt

	Current		Proposed	
	Filer	**Non Filer**	**Filer**	**Non Filer**
Advance tax on yield or profit on debt under Section 151	15%	30%	15%	35%

Source: Akseer Research, Federal Budget 2024-25

Prong 2: Higher tax incidence for non-filers through at-source deductions (Continued)

Capital Gains Tax on Disposal of Securities	Existing	Proposed	
	Tax Year 2023 and onwards*	Acquired in FY23 and FY24*	On or after 01 July 2024
Where the holding period does not exceed 1 year	15.0%	15.0%	15% for persons appearing in ATL. Non-filers taken to normal tax regime with min of 15% and max of 45% (AOP) and 29% (Corporate).
Where the holding period exceeds 1 year but does not exceed 2 years	12.5%	12.5%	
Where the holding period exceeds 2 years but does not exceed 3 years	10.0%	10.0%	
Where the holding period exceeds 3 years but does not exceed 4 years	7.5%	7.5%	
Where the holding period exceeds 4 years but does not 5 five years	5.0%	5.0%	
Where the holding period exceeds 5 years but does not exceed 6 years	2.5%	2.5%	
Where the holding period exceeds 6 years	0.0%	0.0%	
Future commodity contracts entered into by members of PMEX	5.0%	5.0%	5.0%

** Rates for filers. 100% higher taxes for non filers*

Source: Akseer Research, Federal Budget 2024-25

Prong 2: Higher tax incidence for non-filers through at-source deductions (Continued)

CGT on disposal of Mutual Fund/ Collective Investment Scheme/ REIT	Existing*	Proposed*
Individuals and AOP	10% for stock funds	15% for stock funds
	10% for other funds	15% for other funds
Company	10% for stock funds	15% for stock funds
	25% for other funds	25% for other funds
In case dividend receipts of the stock fund are less than capital gains	12.5%	20.0%
If holding period is more than 6 years acquired on or before 30th June 2024	0.0%	0.0%

** Rates for filers. 100% higher taxes for non filers*

Source: Akseer Research, Federal Budget 2024-25

Prong 2: Higher tax incidence for non-filers through at-source deductions (Continued)

Advance tax on telephone, mobile and internet users under section 236					
Mobile phone tax Proposed	**Current Tax**		**Proposed Tax**		
	Filer	**Non-Filer**	**Filer**	**Non-Filer**	**Persons mentioned in income tax general order issued under section 114B**
Telephone subscriber - bill < PKR 1,000	0%	0%	0%	0%	0%
Telephone subscriber - bill > PKR 1,000	10%	20%	10%	20%	20%
Internet, mobile telephone and pre-paid internet or telephone card	15%	30%	15%	30%	75%

Source: Akseer Research, Federal Budget 2024-25

SECTION 3

THE BUDGET IS REAL ESTATE UNFRIENDLY

Capital Gains Taxes

- Federal budget FY25 substantially increases Capital Gains Tax (CGT) on real estate investment for both filers and non-filers, and harmonizes it with CGT for stock market, with CGT for non-filers proposed to be treated under normal tax regime.
- This means that non-filers will now be subject to effective CGT as high as 45% for Individual/AOPs and 29% for Companies, and may also attract Supertax if non-filer's combined income in a year crosses certain thresholds.
- This also means that property transfers by non-filers will automatically invite interest of taxmen for recovery of CGT over and above the minimum thresholds collected at the time of property registration.

CGT on the disposal of immovable property (Division VIII, Part 1 of 1st Schedule)

	Existing		
	Open Plots	**Constructed Property**	**Flats**
Where the holding period does not exceed one year	15.0%	15.0%	15.0%
Where the holding period exceeds one year but does not exceed two years	12.5%	10.0%	7.5%
Where the holding period exceeds two years but does not exceed three years	10.0%	7.5%	0.0%
Where the holding period exceeds three years but does not exceed four years	7.5%	5.0%	-
Where the holding period exceeds four years but does not exceed five years	5.0%	0.0%	-
Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
Where the holding period exceeds six years	0.0%	-	-

Source: Akseer Research, Federal Budget 2024-25

Capital Gains Taxes (continued)

Proposed CGT on the disposal of immovable property (Division VIII)

	On or before 30th June 2024			On or After 1st July 2024
	Open Plots	Constructed Property	Flats	15% for persons appearing in ATL. Non filers taken to normal tax regime with min of 15% and max of 45% (AOP) and 29% (Corporate)
Where the holding period does not exceed one year	15.0%	15.0%	15.0%	
Where the holding period exceeds one year but does not exceed two years	12.5%	10.0%	7.5%	
Where the holding period exceeds two years but does not exceed three years	10.0%	7.5%	0.0%	
Where the holding period exceeds three years but does not exceed four years	7.5%	5.0%	0.0%	
Where the holding period exceeds four years but does not exceed five years	5.0%	0.0%	0.0%	
Where the holding period exceeds five years but does not exceed six years	2.5%	0.0%	0.0%	
Where the holding period exceeds six years	0.0%	0.0%	0.0%	

Source: Akseer Research, Federal Budget 2024-25

Advance income tax collection at the time of purchase and sale + FED

- The budget proposes an increase in advance income tax collection at the purchase and sale of properties beyond PKR50mn from 3.0% to 3.5% (PKR50-100mn) and 4.0% (>PKR100mn) for tax filers
- However, the same is proposed to be increased to 10% for non-filers at the time of sale and 20% for non-filers at the time of purchase of property.
- FED of 5% imposed on commercial properties and first sale of residential properties.

<table>
<tr><th>Section 236K - Advance Tax Purchase of Immovable Property</th><th colspan="3">Previous</th><th colspan="3">Proposed</th></tr>
<tr><th></th><th>Filer</th><th>Late Filer</th><th>Non-filer</th><th>Filer</th><th>Late Filer</th><th>Non-filer</th></tr>
<tr><td>Consideration received does not exceed Rs. 50 million</td><td>3.0%</td><td>3.0%</td><td>10.5%</td><td>3.0%</td><td>6.0%</td><td>12.0%</td></tr>
<tr><td>Consideration received exceeds 50 million but does not exceed Rs. 100 million</td><td>3.0%</td><td>3.0%</td><td>10.5%</td><td>3.5%</td><td>7.0%</td><td>16.0%</td></tr>
<tr><td>Consideration received exceeds Rs. 100 million</td><td>3.0%</td><td>3.0%</td><td>10.5%</td><td>4.0%</td><td>8.0%</td><td>20.0%</td></tr>
<tr><th></th><th colspan="3">Previous</th><th colspan="3">Proposed</th></tr>
<tr><th>Section 236C - Advance Tax Sale or Transfer of Immovable Property</th><th>Filer</th><th>Late Filer</th><th>Non-Filer</th><th>Filer</th><th>Late Filer</th><th>Non-Filer</th></tr>
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</table>

Source: Akseer Research, Federal Budget 2024-25

SECTION 3

STOCK MARKET IMPACT

Impact on Stock Market

The federal budget for FY25 is likely to be positive for the stock market.

- **Capital gains tax increased but stays as final tax for filers**
  - Capital gains from stock market earned by filers remain under the ambit of final tax regime. However, stock market purchases from 1st July, 2024 onwards will attract a CGT of 15% irrespective of holding period.
  - Capital gains from stock market earned by non filers are now subject to normal tax regime. However, non-filers are an insignificant driver for the stock market.
- **Substantial increase in taxation for Real Estate**
  - Substantial punitive measures on real estate sector have significantly enhanced attractiveness of stock market as an avenue to park formal savings.
  - Additionally increase in at-source tax deduction for non filers will promote growth of the formal sector and increase the amount of savings being channelized into the stock market.
  - We believe these measures have a potential to drive a substantial re-rating.
- **Some negatives**
  - Government appears to be continuing Supertax in the foreseeable future and multiple listed sectors are subject to higher GST and FED. Additionally, goods exporters are now subject to normal tax regime.
  - However, we believe companies focused on domestic economy will likely be able to pass on the impact of higher taxes to their customers.

Stock Market/ Sectors	Impact
PSX Overall	Positive
Auto Assemblers & Parts,	Positive
Pharmaceutical	Positive
Tobacco	Positive
Banks	Neutral
Chemicals	Neutral
Technology	Neutral
E&P	Neutral
Refinery	Neutral
Sugar & Allied Industries	Neutral
Food & Personal Care Products	Neutral
Textile & Leather	Negative
Cement & Steel	Negative
Cable & Electrical Goods	Negative
Telecommunication	Negative
Fertilizer	Negative

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Sectoral impact

Auto Assemblers & Parts	Neutral to Positive

Key Measures

Positive

- Concession of custom duties on import of Hybrid vehicles has been withdrawn.
- Custom duty is increased from 25% to 50% for the imported 4- wheeler Electric Vehicles of value exceeding USD 50,000
- Levy of ACD on localized auto parts to incentivize local manufacturing sector.
- Proposal to remove sales tax on locally manufactured hybrid vehicles. Currently, sales tax on 1800cc and above cars is charged at 12.75% below 1800cc at 8.50%.

Negative

- Shifting tax basis from engine capacity to a percentage of the vehicle’s value
- Increased withholding tax on registration of vehicles with an engine capacity over 2,000cc.

Impact

- Proposed withdrawal and reduction of concessions on hybrid and electric vehicles will result in higher demand for locally manufactured vehicles within the same category.
- However, changing the tax basis from engine capacity to a percentage of vehicle’s value will likely increase prices, negatively impacting the sector.
- Additionally, increasing taxes on vehicles with engine capacities over 2,000cc may lead new consumers to prefer lower engine capacity vehicles, boosting demand for such vehicles.

Sectoral impact

Pharmaceutical — Positive

Key Measures

Positive

- Exemption of ACD on import of raw materials of Hemodialyzers fluid / powder.
- Exemption of customs duties on import of Bovine Lipid Extract Surfactant (BLES).

Impact

- The exemption of custom duties on specific raw materials will lead to lower manufacturing costs and higher product margins for the manufacturers.

Banks — Neutral

Key Measures

Negative

- Clarity provided on Supertax being applicable in tax year 2023 and all subsequent tax years, the change in expression suggests Supertax on banks has been implemented on a multi-year basis.

Neutral

- Bad debt definition broadened to include bad debt classification under IFRS9
- ECL provision, off balance sheet financing or financial asset existing before 01 Jan 2024 under IFRS9 not allowed as an expense or deduction

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Sectoral impact

Chemicals | Neutral

Key Measures

Negative

- Continuation of RD on import of Chloroparafins liquid.

Textile & Leather | Negative

Key Measures

Negative

- Increase in sales tax from 15% to 18% on supplies made by the POS retailers dealing in leather and textile products.
- Income from exports to be subjected to normal rates with 1% tax collection on export proceeds to be treated as minimum tax.

Impact

- Proposed increase in sales tax for POS retailers dealing in leather and textile products may negatively impact sales in the textile and leather sector.
- Shifting the current 1% tax on export proceeds from final tax regime to the minimum tax regime is expected to reduce profitability for exporters specifically textile industries.

Sectoral impact

Cement & Steel	Neutral to Negative

Key Measures

Positive

- Federal PSDP allocation of PKR 1500Bn, 58% higher than the previous year.
- Exemption of sales tax levy on iron and steel scrap.
- Phased withdrawal of sales tax exemption granted to FATA/PATA.

Negative

- Increase in rate of FED on cement from PKR 2 per kg to PKR 3 per kg.
- Increase in levy of RD on flat rolled products of iron and non-alloy steel.
- Extension of Income Tax exemption for one year i.e., up to 30th June 2025 for resident persons of FATA/PATA.
- FED of 5% imposed on commercial properties and first sale of residential properties.
- Levy of progressive tax rates on purchase and sale of immovable properties with 3% on properties valuing upto PKR 50 million, 3.5% on properties valuing between PKR 50 and 100 million, and 4% on properties valuing above PKR 100 million. The tax rates for late filers and non-filers shall be higher.
- Imposition of 15% capital gains tax on gains from disposal of immovable property acquired on or after 01st July 2024 by filers. Capital gains for non-filers will be treated as part of normal income.

Impact

- The exemption of sales tax levy on iron and steel scrap along with phased withdrawal of sales tax exemption in FATA/PATA may bode well for the steel sector.
- However, the new tax measures unveiled for the real estate sector are expected to adversely affect the construction sector and the underlying cement and steel industries.
- The PSDP allocation has increased by 58%. However, as in previous years, actual spending may be much lower to meet fiscal targets.
- The continuation of Income Tax exemption for FATA/PATA may contribute to continuation of steel dumping from FATA/PATA to other regions of the country.

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Sectoral impact

Cable & Electrical Goods	Negative

Key Measures

Positive

- 20% custom duty is imposed on printed circuits.
- 10% Custom Duty is imposed on import of Glass board for manufacturing TV panels.

Negative

- Exemption of duties on import of inputs for Home Appliances to be reviewed.

Impact

- The review and possible withdrawal of exemption on import duties for Home Appliances'' inputs may lead to increased manufacturing costs and reduced profitability.

E&P and Refinery	Neutral

Key Measures

Positive

- Removal of 10% sales tax on LPG.

Sectoral impact

Sugar & Allied Industries — Neutral

Key Measures

Positive

- 20% custom duty is imposed on cane sugar imported by private sector, earlier cane sugar import was exempted from custom duties.
- 20% custom duty is imposed on White crystalline cane sugar imported, earlier its import was exempted from custom duties.

Telecommunication — Negative

Key Measures

Negative

- Mobile phones valuing US$ 500 or less will be subject to a higher sales tax rate of 18%.
- Tax on telephone users for certain non-tax filers appearing in income tax general order increased to 75%

Impact

- Imposition of sales tax on mobile phones may lead to lower sales for local assemblers such as Airlink Communication.
- This is set to discourage certain non-tax filers appearing in income tax general order from using SIM-based services and look for alternatives like WIFI based calling services including WhatsApp which could hamper PTCL sales.

Sectoral impact

Food & Personal Care Products	Neutral

Key Measures

Positive

- Withdrawal of exemption of RD on import of ground nuts and margarine.
- 10% custom duty is imposed on wheat import, earlier wheat import was exempted from custom duties.

Negative

- FED of Rs. 15 per kg imposed on supply of sugar to manufacturers.
- Removal of exemption on sales tax on Packaging material, Milk, Fat Filled Milk, and Local supply commodities.
- Sales tax exemption proposed on loose milk

Impact

- The government has suggested to withdraw exemption of RD on margarine, which would augment sales of local manufactured products.
- The imposition of PKR 15 FED on supply of sugar may adversely affect several food and beverage manufacturers in the country.
- However, CD on wheat import would benefit UNITY.

Fertilizer	Negative

Key Measures

Negative

- Sales tax on DAT increased to 18%

Sectoral impact

Tobacco	Neutral to Positive

Key Measures

Positive

- Power to seal business premises of retailers selling illicit cigarettes.
- FED price threshold for local manufactured cigarettes increased from PKR 9,000 to PKR 12,500.

Negative

- Imposition of PKR 44,000 FED on acetate tow.
- Rate of FED on filter rod to be increased from PKR 1,500 per kg to PKR 80,000 per kg.
- Reduced rate of 1% on supply of cigarettes by distributors to be enhanced to 2.5%.

Impact

- The government has imposed FED on acetate tow and filter rods which will increase the costs of cigarette manufacturers.
- However, the power to seal business premises may help in increasing the market share of listed players.
- Additionally, the increased price threshold benefits local manufacturers by allowing more room for price increases.

Sectoral impact

Others	Neutral

Key Measures

- Earlier Bare or Stuffed Metal Clad Printed Circuit Board (MCPCB) imported for manufacturing LED lights had zero customs duty. It is proposed that custom duty for Bare Metal Clad Printed Board shall be 11%.
- Livestock imported for research purpose by registered sales tax units and certified by Ministry of National Foods is exempted from custom duties.
- Custom duty is proposed to be abolished on Shrimps and Prawns imported for breeding and production in commercial farms.
- 11% Custom duty has been proposed on Atlantic and Pacific bluefin tunas imported for breeding and production in commercial farms.
- If a trader or shopkeeper fails to register under the Ordinance or pay advance tax, the shop shall be sealed for 7 days incase of first default and 21 days subsequently.
- Losses incurred since Jan-17 will be carry forward over the next 10 years for PIA.
- Sales tax deduction rate for the registered manufacture of lead batteries has increased from 75% to 80%.
- Deduction of 80% sales tax proposed on suppliers of any kind of gypsum, coal, waste of paper and paper board, plastic waster, crushed stone and silica.

SECTION 4

REVENUE & RELIEF MEASURES





Revenue Measures

- Income Tax
  - Income representing government subsidies granted to individuals is no longer exempt from taxation.
  - The 1% tax on specified transactions is now classified as a minimum tax, with a maximum liability equivalent to the corporate income tax rate.
  - For individuals who fail to file income tax returns, the penalty is the higher of 0.1% of the tax payable per day of default or Rs. 1,000 per day, with a minimum penalty of Rs. 10,000 for individuals and Rs. 50,000 for others.
  - Failure to comply with income tax general orders issued by the Board within 15 days will result in a penalty of Rs. 100,000,000 for the first default and Rs. 200,000,000 for subsequent defaults.
  - Final taxation is now limited to payments to non-residents and prizes/winnings, excluding export of services subject to 1% minimum advance tax.
  - Advance tax on sales to certain sectors (pharmaceuticals, poultry/animal feed, edible oil/ghee, auto-parts, tires, varnishes, chemicals, cosmetics, IT equipment, electronics, sugar, cement, iron/steel products, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint, or foam) has been omitted.
- Sales tax
  - Tax rates on distributors of cigarettes and pharmaceutical products have increased from 1% to 2.5%.
  - Tax deductions are now mandatory on all payments, standardizing the process for consistent tax collection.
  - Authorized foreign exchange dealers must deduct both tax and advance tax from export proceeds.
  - The tax credit previously granted to exporters on their sales has been eliminated.
  - Exemptions on sales tax for packaging material, milk, fat-filled milk, and local commodity supplies have been removed.

CGT for Mutual Fund/ Collective Investment Scheme/ REIT	Existing*	Proposed*
Individuals and AOP	10% for stock funds	15% for stock funds
	10% for other funds	15% for other funds
Company	10% for stock funds	15% for stock funds
	25% for other funds	25% for other funds
In case dividend receipts of the stock fund are less than capital gains	12.5%	20.0%
If holding period is more than 6 years acquired on or before 30th June 2024	0.0%	0.0%

** Rates for filers. 100% higher taxes for non filers*

Source: Akseer Research, Federal Budget 2024-25

Revised Tax Slabs for Salaried Individuals

Proposed Slabs and Tax Rates for Salaried Individuals/AOPs	
Below Rs. 600,000	0%
Rs. 600,000 to Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
Rs. 1,200,000 to Rs. 2,200,000	Rs. 30,000 + 15 % of the amount exceeding Rs. 1,200,000
Rs. 2,200,000 to Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
Rs. 3,200,000 to Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
Above Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000
Current Slabs and Tax Rate for Salaried Individuals/AOPs	
Below Rs. 600,000	0%
Rs. 600,000 to Rs. 1,200,000	2.5% of the amount exceeding Rs. 600,000
Rs. 1,200,000 to Rs. 2,400,000	Rs. 15,000 + 12.5 % of the amount exceeding Rs. 1,200,000
Rs. 2,400,000 to Rs. 3,600,000	Rs. 165,000 + 22.5% of the amount exceeding Rs. 2,400,000
Rs. 3,600,000 to Rs. 6,000,000	Rs. 435,000 + 27.5% of the amount exceeding Rs. 3,600,000
Above Rs. 6,000,000	Rs. 1,095,000 + 35% of the amount exceeding Rs. 6,000,000

Source: Akseer Research, Federal Budget 2024-25

Revised Tax Slabs for Non-Salaried Individuals/ AOPs

Proposed Slabs and Tax Rates for Non-Salaried Individuals	
Below Rs. 600,000	0%
Rs. 600,000 to Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
Rs. 1,200,000 to Rs. 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs. 1,200,000
Rs. 1,600,000 to Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
Rs. 3,200,000 to Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
Above Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000
Current Slabs and Tax Rate for Non-Salaried Individuals	
Below Rs. 600,000	0%
Rs. 600,000 to Rs. 800,000	7.5% of the amount exceeding Rs. 600,000
Rs. 800,000 to Rs. 1,200,000	Rs. 15,000 + 15% of the amount exceeding Rs. 800,000
Rs. 1,200,000 to Rs. 2,400,000	Rs. 75,000 + 20% of the amount exceeding Rs. 1,200,000
Rs. 2,400,000 to Rs. 3,000,000	Rs. 315,000 + 25% of the amount exceeding Rs. 2,400,000
Rs. 3,000,000 to Rs. 4,000,000	Rs. 465,000 + 30% of the amount exceeding Rs. 3,000,000
Above Rs. 4,000,000	Rs. 765,000 + 35% of the amount exceeding Rs. 4,000,000

Source: Akseer Research, Federal Budget 2024-25

Revenue Measures (continued)

- Regulatory Duty
  - Import duty on wheat has been set at 10% (previously 0%), and on sugar at 20% (previously 0%).
  - Import duty on fresh and dry fruits from Afghanistan is now based on the respective product duty rate (previously a flat 10% across all products).
  - Import duty on containers for aerosol products has increased from 11% to 16%.
  - Federal Excise Duty (FED) has been imposed on nicotine pouches at Rs. 1200 per kg.
  - FED on e-liquids has also been enhanced.
- Additional tax or penalty on payment of shares and failing information of tax return
  - Companies and associations, including banks, will face penalties of Rs. 500,000 or 10% of the taxable income (whichever is higher) for failing to provide complete information or attachments in their tax returns.
  - Failure to register for small traders is an offense punishable by up to six months of imprisonment, a fine, or both.
  - The default surcharge for failure to pay tax (excluding advance tax) has increased from 12% per annum to KIBOR plus 3%.

Source: Akseer Research, Federal Budget 2024-25

Relief Measures

- General Industry
  - Importers of raw materials/inputs for the poultry and textile sectors are exempt from filing import goods declarations, streamlining the import process.
  - Local manufacturers and assemblers of photovoltaic (PV) modules, solar inverters, and lithium batteries have been granted relief in the form of 0% customs duty on the import of parts and raw materials.
  - Custom duties on seeds for fish and shrimp, as well as machinery and capital goods required for fish farms and hatcheries, have been set at 0%.
  - The custom duty on the import of parts for centrifugal pumps has been reduced from 3% to 0%.
  - Diplomats and diplomatic missions have been granted exemption from Federal Excise Duty (FED).

Source: Akseer Research, Federal Budget 2024-25

SECTION 5

ANALYTICAL REVIEW OF THE BUDGET

GDP growth to rise to 3.6% as inflation eases substantially in FY25

- **GDP growth to rise from 2.4% in FY24 to 3.6% in FY25**
  - The GoP expects GDP growth to clock in at 2.4% in FY24, driven by 6.25% growth in agriculture, 1.2% in services, 2.4% in Manufacturing and in Commodity producing sector.
  - GOP expects FY25 GDP growth to improve further to 3.6%.
- **Inflation to ease**
  - Growth will likely be helped by an expected decline in inflation from 21% in FY24 to 12% in FY25, which will likely lead to reduction in interest rates.
- **Sharp increase in tax to GDP**
  - Despite likely lower nominal GDP growth, GoP has budgeted a substantial increase in tax revenues, resulting in a projected increase in tax to GDP from 9.7% in FY24 to 11.6% in FY25.
  - Tax to GDP improved by 40bps during FY24.

Macroeconomic Indicators	FY22	FY23	FY24R	FY25B
Inflation	12.2%	29.18%	21%	12.0%
Fiscal Deficit	7.9%	6.5%	7.4%	5.9%
Tax to GDP	10.1%	9.3%	9.7%	11.6%
GDP	6.2%	0.2%	2.4%	3.6%

Sector-wise GDP growth5	FY21	FY22	FY23R	FY24P
Agriculture	3.5%	4.2%	2.3%	6.25%
-- Crops	5.8%	8.2%	-1.03%	11.0%
-- Livestock	2.4%	2.3%	3.7%	3.9%
Manufacturing	10.5%	10.9%	-5.3%	2.4%
Commodity Producing Sector	5.6%	5.5%	-0.5%	4.0%
Services	5.9%	6.7%	-0.01%	1.2%
-- Wholesale & Retail Trade	10.8%	10.2%	-4.0%	0.3%
-- Transport and Storage	4.9%	4.5%	3.8%	1.2%
-- Real Estate Activities	3.7%	3.7%	3.7%	3.8%

Source: Akseer Research, Federal Budget 2024-25

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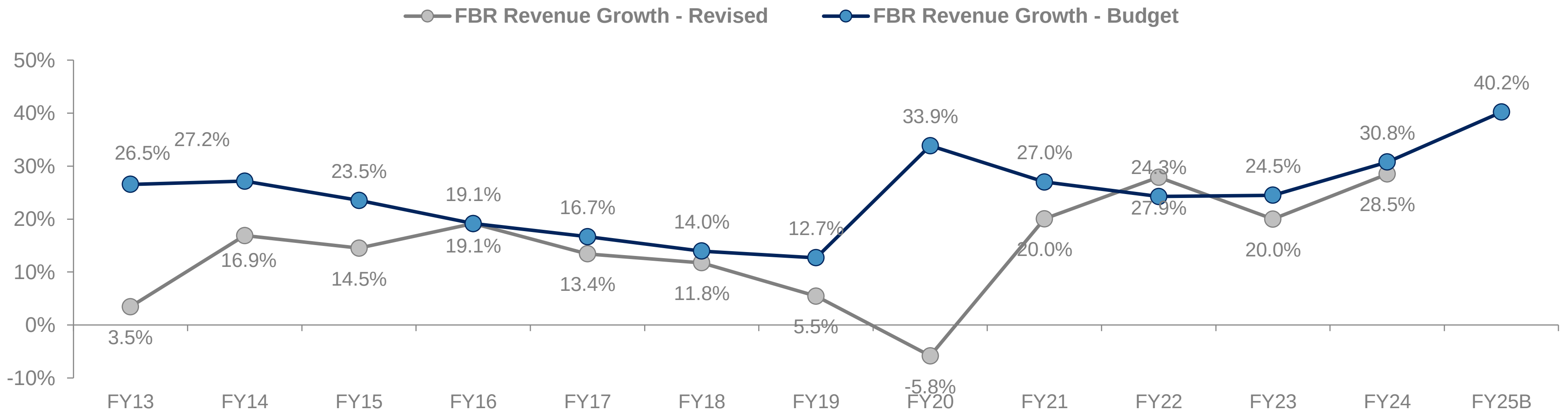
FBR revenue collection targets

- FBR tax collection is projected to increase 37.8% YoY to PKR12.98 trillion in FY25. Growth is driven by 29.5% growth in direct taxes and 44.5% growth in indirect taxes
- GoP projects FY25 Income Tax collection to rise by 48.2% YoY.
- A major driver behind growth in indirect taxes is the projected 58% growth in custom duties, followed by 36.4% growth in sales tax.

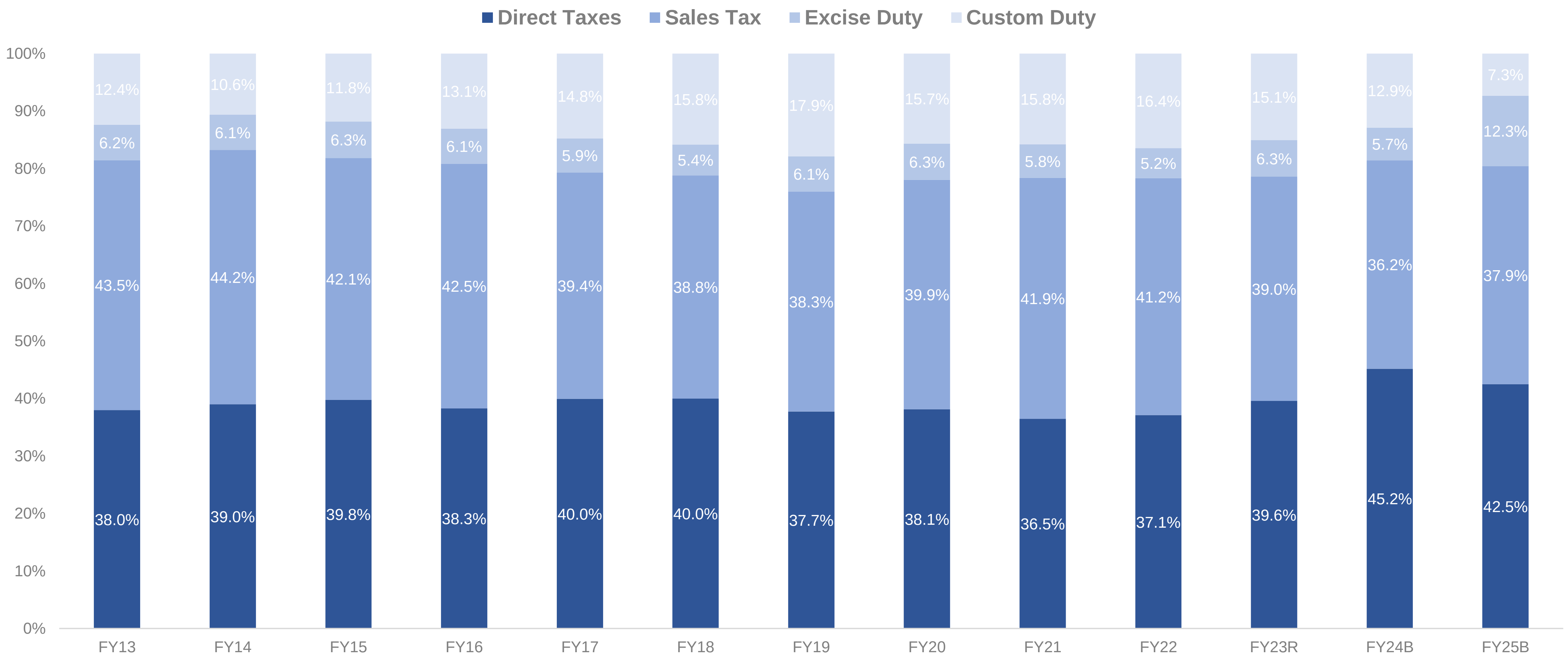
FBR Taxes (PKR bn)	FY24B	FY24R	FY25B	+/-
FBR Tax (1+2)	**9,415**	**9,252**	**12,970**	**37.8%**
1. Direct Taxes	3,411	4,255	5,512	29.5%
2. Indirect Taxes	5,160	5,531	7,458	44.5%
Breakup of direct taxes				
-- Income Tax	4,204	3,681	5,454	48.2%
-- WPPF	35	17	26	48.1%

Indirect Taxes	FY24B	FY24R	FY25B	+/-
-- Customs Duties	1,211	600	948	58%
-- Sales Tax	3,411	3,607	4,919	36.4%
-- Federal Excise	538	1,324	1,591	20.2%



Source: Akseer Research, Federal Budget 2024-25

Breakup of FBR Taxes



Source: Akseer Research, Federal Budget 2024-25

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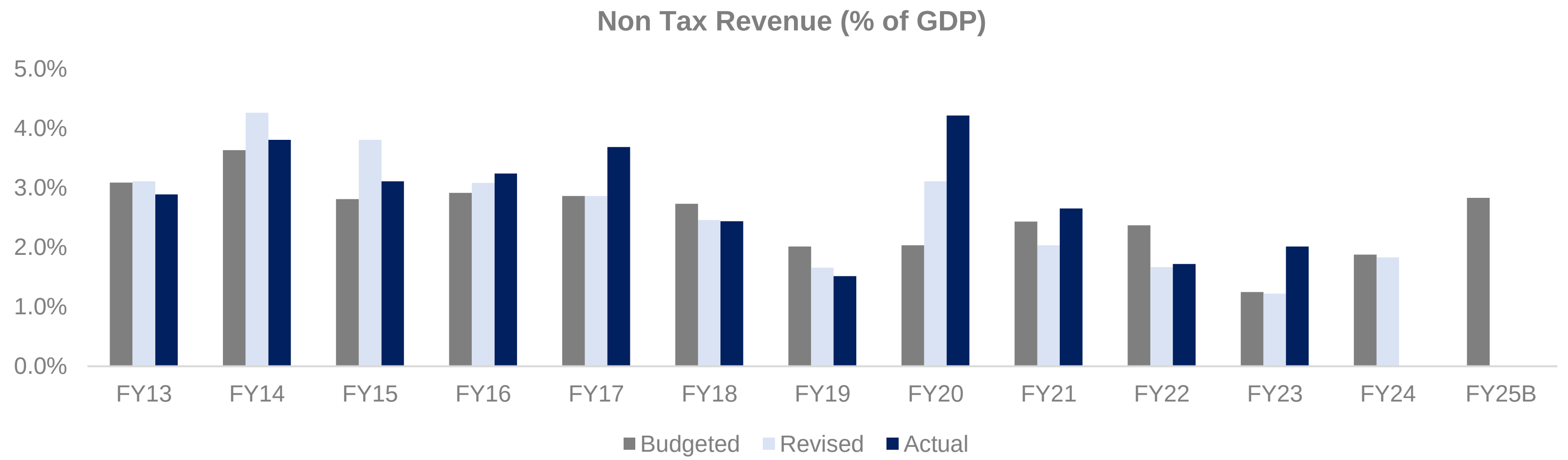
FY25 Non-tax revenue growth contingent upon 157% growth in SBP profits…

- **65% growth in non-tax revenues led by SBP profits**
  - GoP is projecting an 65% growth in non-tax revenues in FY25.
  - 52% of non-tax revenues is budgeted to come from SBP profits whereas 27% will come from petroleum levy.
- **Higher SBP profits driven by OMO injections**
  - GoP is projecting a 157% increase in SBP profits in FY25, against 162% growth in FY24.
  - While likely higher OMO injections will help drive this growth, decline interest rates may well make this growth figure a bit challenging to achieve.

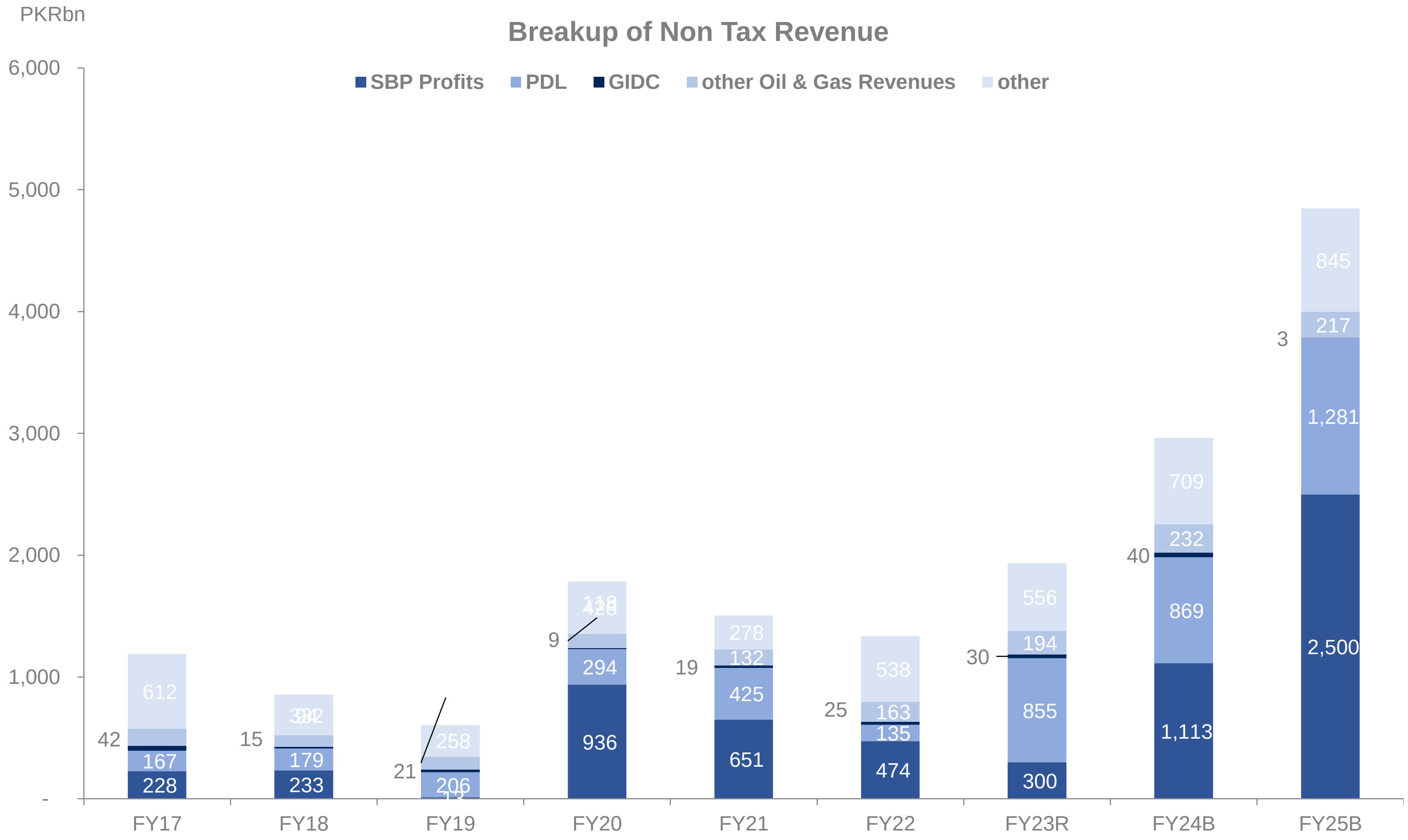
Non-tax Revenue	FY24B	FY24R	FY25B	+/-
Non-tax Revenue	**2,963**	**2,921**	**4,820**	**65.0%**
SBP Profits	1,113	972	2,500	157.2%
Interest(Provinces/PSE)	195	390	294	-24.5%
Oil & Gas Revenues	192	180	191	6.1%
Petroleum Levy	869	960	1,281	33.4%
Gas Development Surcharge / GIDC	80	80	28	-65%
Other Non-tax	416	362	514	42.0%



Source: Akseer Research, Federal Budget 2024-25

… and 34% growth in petroleum levy

- **Petroleum levy growth driven by higher levy rates.**
  - GoP is projecting a 34% increase in Petroleum levy collection in FY25.
  - Bulk of the growth is attributable to the increase in rates of Petroleum levy.
  - GoP has increased rates of petroleum levy on HSD and Petrol from PKR60/litre to PKR80/litre.



Source: Akseer Research, Federal Budget 2024-25

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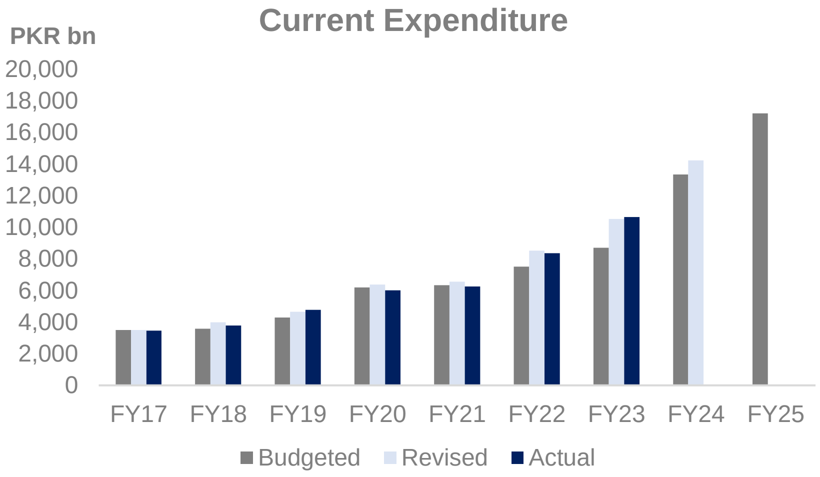
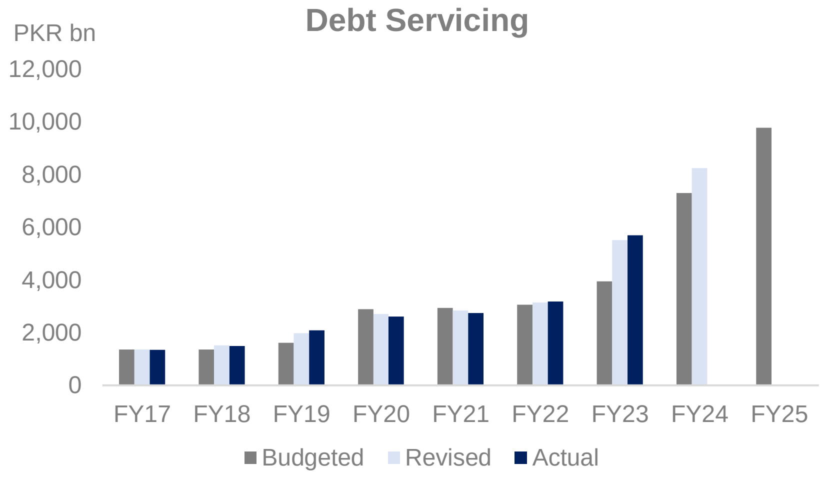
Current expenditures target seems achievable

- **Allocation for current expenditures**
  - The GoP has allocated PKR 17,203 bn for current expenditure, up 18.6% YoY.
  - However, excl. subsidies & BISP, current expenditure is budgeted to increase by 24%.
- **Conservative debt servicing budget**
  - Domestic debt servicing expense is budgeted to grow 18.5% YoY which is conservative considering likelihood of a substantial decline in interest rates in FY25.





PKR Bn	FY23B	FY23R	% of GDP	FY24B	% of GDP	YoY Change %
Current Expenditure	13,346	14,502	13.7%	17,203	13.9%	18.6%
Debt	7,303	8,251	7.8%	9,775	7.9%	18.5%
Defense	1,804	1,854	1.7%	2,122	1.7%	14.5%
Subsidies	1,064	1,071	1.0%	1,363	1.1%	27.3%
Pension	801	821	0.8%	1,014	0.8%	23.5%
Grants & Transfers Ex BISP	943	1,016	1.0%	1,184	1.0%	16.6%
BISP	466	466	0.4%	592	0.5%	27.1%
Running of Civil Govt	714	753	0.7%	839	0.7%	11.4%
Other	252	270	0.3%	313	0.3%	N/A
Development	950	659	0.6%	1,400	1.1%	112.4%
Net Lending	190	0	0.0%	274	0.2%	N/A
Total Expenditure	**14,486**	**15,161**	**14.3%**	**18,877**	**15.2%**	24.5%
Current Expenditure Excl. Subsidies	**13,422**	**14,090**	**13.3%**	**17,514**	**14.1%**	**24.3%**
Current Expenditure Excl. Subsidies & BISP	**12,956**	**13,624**	**12.8%**	**16,921**	**13.6%**	**24.2%**

Source: Akseer Research, Federal Budget 2024-25

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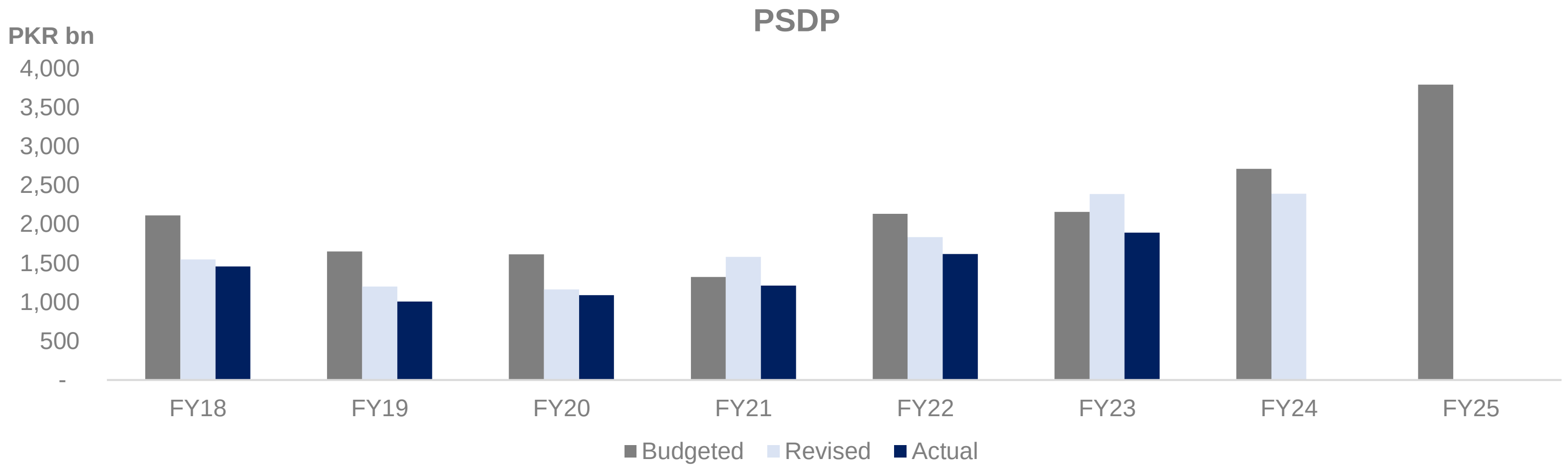
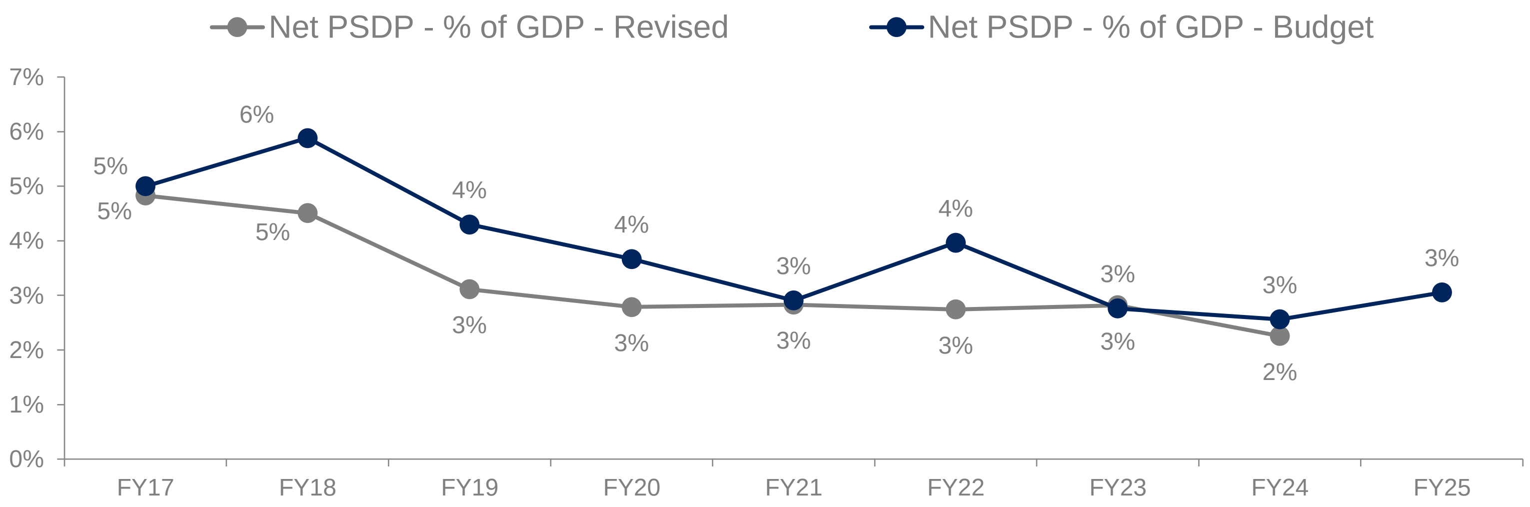
Public Sector Development Program (PSDP)

- **PSDP allocations**
  - The Federal PSDP including VGF and SOEs is budgeted at PKR 1,697bn during FY25, up 100% YoY, while the provincial development outlay is budgeted at PKR 2,095bn.
  - This takes total PSDP allocation to PKR 3,792bn, up 58% from last year's revised figure.
- **PSDP utilization contingent up on achieving revenue targets**
  - PSDP utilization is likely to be contingent on the GoP's success in achieving its revenue targets.
  - During FY24, GoP is likely to utilize a mere 75% of its annual PSDP allocation.





Source: Akseer Research, Federal Budget 2024-25

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Public Sector Development Program (PSDP) allocations

PSDP Allocation (PKR bn)	FY24B	FY24R	FY25B	YoY (%)	Absolute Change	% share in Fed PSDP	
Federal Ministries						**FY24**	**FY25**
Water Resources Division	107.5	100.0	259.6	160%	159.6	15%	19%
Finance Division	3.2	4.4	6.1	37%	1.7	1%	0%
Special Areas (AJK & GB)	60.9	40.0	74.5	86%	34.5	6%	5%
Cabinet Division	90.1	10.9	75.8	594%	64.9	2%	5%
Higher Education Commission	59.7	40.0	66.3	66%	26.3	6%	5%
Railways Division	33.0	32.8	45.0	37%	12.2	5%	3%
Pakistan Atomic Energy Commission	26.1	22.7	25.0	10%	2.3	3%	2%
Interior Division	10.0	8.2	9.1	11%	0.9	1%	1%
National Health Services, Regulations & Coordination Division	13.1	13.1	27.0	106%	13.9	2%	2%
National Food Security & Research Division	8.9	5.0	41.3	722%	36.2	1%	3%
Housing & Works Division	40.5	35.0	27.7	-21%	(7.3)	5%	2%
Information Technology & Telecom Division	6.0	6.0	28.9	382%	22.9	1%	2%
Other	194.0	140.9	353.6	151%	212.7	21%	25%
	653.0	**459.0**	**1,039.8**	**127%**	**580.8**	**70%**	**74%**
Corporations:							
National Highway Authority	157.5	147.0	180.3	23%	33.3	22%	13%
NTDC / PEPCO	54.6	40.0	175.9	340%	135.9	6%	13%
	212.1	**187.0**	**356.2**	**90%**	**169.2**	**28%**	**25%**
Project Liabilities	5.0	5.0	4.0	-20%	(1.0)	1%	1%
VGF for PPP Projects	200.0	175.0	100.0	-43%	(75.0)	27%	15%
Primer Minister's Initiatives	80.0	8.0	0.0	NA	(8.0)	1%	0%
Total Federal PSDP	**950.0**	**659.0**	**1,400.0**	**112%**	**741.0**		
Total (Federal PSDP + VGF)	**1,150.0**	**834.0**	**1,500.0**	**80%**	**666.0**	**100%**	**100%**
SOEs	**0.0**	**0.0**	**196.8**	**NA**	**196.8**		
Total Provinces PSDP	**1,559.0**	**1,559.0**	**2,095.4**	**34%**	**536.4**		
Total National PSDP	**2,709.0**	**2,393.0**	**3,792.2**	**58%**	**1,399.2**		

Source: Akseer Research, Federal Budget 2024-25

SECTION 5

CONTACT DETAILS & DISCLAIMER

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Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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