Mini Budget FY22:
Rationalization of taxes to help contain fiscal slippages

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Curtailing imports through increased taxation

- **The government has finally announced the Mini Budget – FY22, after getting SBP autonomy bill approved by the cabinet, paving the way for the resumption of IMF the program. The 6th review will be presented to the IMF Board on 12th Jan-22.**
- **The finance Minister Shaukat tarin introduced amendments in the income tax, sales tax and federal excise laws in which the government withdrew PKR 343bn worth exemptions. Though these measures will lead to higher inflation, however, will support in containing imports and resultantly the burgeoning trade and current account deficit.**
- **The mini budget will also raise the tax collection, meeting one of the IMF conditions of expanding the tax horizon. During 5MFY22, the government tax collection stood at PKR 2.3tn, up 37% YoY.**
- **The current account deficit has already swelled to USD 7.1bn in 5MFY22 and is expected to reach USD 14bn (4% of GDP) during FY22, which we expect to settle around 3.5% of GDP post implementation of the new tax regime.**
- **On the expenditure side, the government has hinted to lower its public sector development expenditure by PKR 200bn and hence the net positive impact on fiscal space will be around PKR 543bn.**
- **The new taxes are also levied on the undocumented sectors and at the input stage, in order to bring them under tax net.**
- **Amongst the listed sectors we view the budget to be negative for Autos and IT & Telecom, neutral to negative for Food & personal care and pharmaceutical, while positive for E&Ps and refinery.**

Salient tax changes through proposed Finance Supplementary Bill 2021

Sector	Measures	Impact	
Autos	• Increase in advance tax on purchase, registration and transfer of motor vehicle by 100% on all categories. Up to 1000cc, tax increased to PKR 100,000 from PKR 50,000 earlier 1001cc to 2000cc, tax increased to PKR 200,000 from PKR 100,000 earlier 2001cc and above, tax increased to PKR 400,000 from PKR 200,000 earlier. • Increase in GST on locally assembled vehicle (850cc to 1000cc) to 17% from 12.5% earlier. • FED on all local assembled vehicles above 1000cc increased by 2.5-5%. • FED on CBUs increased by 5-10%. • Imported Electronic vehicles are now subject to 17% GST vs 5% earlier.	**NEGATIVE**	• Will lead to price hike across the board, and hence shrinking demand
Fertilizer	• 2% GST is unchanged	**NEUTRAL**	
Pharmaceutical	• Change of status from exempted to zero rated. • GST raised to 17% on APIs from 0%.	**NEUTRAL to NEGATIVE**	• Will increase production cost, however, pharma companies can claim input tax following sale of final product.

Salient tax changes through proposed Finance Supplementary Bill 2021

Sector	Measures	Impact	
IT & telecom	• 17% GST imposed on imported mobile phones worth more than USD 200. • Imported machines for mobile phone manufacturing are now subject to 17% compared to earlier 0%. • Increase in income tax on cellular services to 15% from 10%.	**NEGATIVE**	• Mobiles will become more expensive • Telecom companies profitability will shrink.
Food & Dairy	• Processed milk and dairy items sold in branded packaging are now subject to 17% GST vs 10% earlier. • GST on imported infant formula milk increased to 17% from 0% earlier. • GST on imported oilseeds raised from 5% to 17% • 17% GST on import of animals • 17% GST imposed on flour mills	**NEUTRAL to NEGATIVE**	• Local payers will benefit from imposition of GST on imported infant milk formula, however, they are now subject to tax on import stage on raw material. • Dairy companies' margins will shrink if higher GST consumer cost is covered through promotional discounts.
E&Ps & Refinery	• Removal of GST of 17% on crude at import stage	**POSITIVE**	• Was levied in FY22 Budget and now removed. Will provide relief on working capital for local E&PS & refineries.

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