

## **Budget Speech 2012-13**

### **PART-I**

#### **Bismillahir Rehmanir Raheem**

##### **Madam Speaker**

I want to start by thanking Almighty Allah for giving me the responsibility to present the fifth budget of the elected government. This is a historic occasion. The nation should be proud of this achievement. The world can see that democracy is thriving in Pakistan.

This Parliament has made landmark legislations, and I want to appreciate the Leader of the House, Prime Minister Yousuf Reza Gilani for making the parliament the centre of political life of the nation. It is appropriate that he has become the longest-serving Prime Minister in the history of our nation.

I also want to acknowledge the contributions of the leadership of the opposition and all the political parties, who have worked for the success of democracy.

And I want to recognize your role Madam Speaker also. The leadership that you have provided to this House and that Mr. FarooqNaek provided as Chairman of the Senate is noteworthy.

Above all, we must recognize the wisdom and sagacity demonstrated by the President Asif Ali Zardari in leading the country during this transition. He returned the powers of the President to the parliament. He adopted reconciliation in national politics. History will remember the leadership of our times for their role in making Pakistan strong.

In 2008, this nation began a new journey. Democracy made a come back. The people elected this Parliament. The rule of law was established. A President was elected unanimously. Politics of reconciliation was introduced. The Constitution was restored. The Judiciary has been active. The media has been free. The Leader of the Opposition became the Chairman of the Public Accounts Committee. Institutions were strengthened. The provinces were empowered. The Eighteenth Amendment gave them more authority. The Seventh NFC Award gave them more resources. Eighteen Ministries were transferred to the provinces. The concurrent list was abolished. Normal political activity was allowed in FATA. Gilgit-Baltistan was granted new administrative status. As a nation, we have managed the challenges of an inherited economic crisis, regional conflict, global turmoil, and the great floods of 2010 – this shows the resilience of the Pakistani nation. It's a testimony to the will of our people to overcome adversity and realize their destiny. Let me salute the Armed Services of Pakistan, the Para-Military and Police, the FC for the innumerable sacrifices they have rendered in protecting our country. Above all, let me acknowledge the men and women of Pakistan for their love for the country and their willingness to work hard who make it strong.

## **What we inherited?**

It is important that we must realize the economic situation that this government inherited, when the people entrusted them with this responsibility in 2008.

- (1) Real GDP growth had slowed down;
- (2) Headline CPI 12-month inflation had been rising since 2006 and peaked at 25 percent in October 2008;
- (3) External current account deficit 8½ percent of GDP
- (4) Fiscal deficit rose to 7.6 percent
- (5) Gross reserves declined from \$16 billion to \$6 billion.
- (6) Karachi KSE-100 index dropped by one third, prompting exchange authorities to closedown the market.
- (7) Within months, the rupee had depreciated from sixties to the eighties.

There was no escape from starting a Fund program, which we received as we had queued up early before countries affected by 2008 financial crisis approached the Fund for support. Although we have not achieved all of our objectives, the program helped us in stabilizing the economy. For the last nearly two years, when Pakistan specific calamities have affected us, we managed the economy without funding from the IMF. Rather we have repaid \$1.2 billion of the loan amount.

During the last four years, we have faced volatility in international prices, the great floods of 2010, devastating rains in Sindh and parts of Baluchistan and adverse security situation. These have caused slow-down in foreign investment. It is remarkable that our domestic businesses have continued to perform, and also succeed in holding on to their foreign buyers under these circumstances.

The world economic outlook remains weak particularly in the Eurozone where considerable amount of our trade and investment is focused. It is not clear how the

Eurozone crisis will play out. International oil prices and trade and investment from Eurozone will be affected depending on how this crisis is unfolded.

Despite such daunting challenges, it is the resilience of our economy and the strength of our people that we have maintained growth in the economy. The growth rate in the last two years has averaged around 3.4% compared to less than 2% in the previous two years. This is a reasonable performance and the current year growth of 3.7% shows an upward trend.

With grace of Allah, we have succeeded in achieving economic stabilization and are now confident that growth will soon resume to its potential. It will now share elements of the economy showing stability and note some of our continuing challenges.

### **Economic Achievements of the Government**

#### **Madam Speaker**

Our primary goal has been to stabilize the economy.

#### **Macroeconomic stability**

At the outset, let me state that Pakistan has a stable macroeconomic framework. We have maintained a stable external position which we have managed in the absence of IMF disbursement during the last two years. We have returned \$1.2 billion in loans from the IMF. Yet we have adequate reserves, our exchange rate is relatively stable, our exports have again performed remarkably well and our remittances are increasing. Our higher imports are primarily due to global price oil shock and we are not alone is facing this external challenge.

#### **Continuing reforms**

We have continued with economic reforms. Those who thought the end of Fung program would lead to irresponsible economic management and loss of

discipline have been proven wrong. In the last two years, we have displayed more fiscal discipline than even in the past.

The following are the key reforms undertaken during this period:

- (1) Sales tax exemptions, except those on food items, agriculture produce, education and medicines, have been removed.
- (2) Zero-rated regimes eliminated on domestic sales; expanding coverage.
- (3) Sales tax rate reduced from 17% to 16%;
- (4) All special excise duties have been removed.
- (5) 392 regulatory duties have been abolished.
- (6) Major rationalization in excise duties; FEDs have been eliminated or rates decreased.
- (7) Focus of tax policy has been shifted to enforcement, audit and diligent follow-up of court cases;
- (8) Austerity in expenditures was continued for the second consecutive year and current expenditures, other than those for defense and debt servicing, have been kept constant, or in some cases, brought down in nominal terms; Civilian Government expenditure 10% than last year.
- (9) Poverty reducing and social safety net expenditures have been increased while ensuring the targeting;
- (10) Development expenditures have also been protected and fully utilized;
- (11) Public sector reforms have moved forward with the appointment of professional managers in PIA, Pakistan Steel Mills, GENCO, DISCOs and reconstitution of the Board of Directors of most of these entities. More reforms in other public sector corporations are underway;
- (12) Debts parked outside budget were brought into books and commodity debt significantly reduced.
- (13) Interest rate brought down by 200 bsp by Central Bank in response to easing of inflationary pressure.

## **National Finance Commission Award and its implications**

One of the revolutionary steps adopted by this government is finalization of the 7<sup>th</sup> NFC Award. It is a watershed in federal provincial relationship. Through this award, federal government gave a much larger share of federal taxes to the provinces. The combined effect of divisible pool transfers and other related grants to the provinces, Gilgit-Baltistan, AJK and FATA comes to nearly 70% of divisible pool. To appreciate the extent of such transfers, note that in 2009-10 Rs.633 billion were transferred to the provinces which have risen to Rs.1204 in 2011-12, a doubling of the amount in two years.

This huge transfer of resources imposed major adjustment for the federal government in the short-run. While we grapple with this challenge, we are confident that higher transfers will enable the provinces to provide health, education and other services now exclusively in their responsibility.

## **18<sup>th</sup> Amendment and its implications**

It again goes to the credit of this Parliament for passing the 18<sup>th</sup> Constitutional Amendment with consensus.

This Amendment has devolved eighteen ministries to the provinces. The combination of higher autonomy and larger resources will allow provinces to better serve the people.

## **Welfare measures and poverty reduction**

Despite the challenges we have faced, the welfare of the poorest segments of population was always in our minds. Insulating and protecting them from the vagaries of swinging economic conditions is an important goal of economic policy.

The flagship program of the government in this regard is the Benazir Income Support Program (BISP). It is a program recognized as one of the best international practices. The program aims at covering nearly 7 million vulnerable households in the country for provision of Rs.12,000 per year. Women are the recipient of cash support in the family, understandably as they are the ones managing the households.

The program has many additional features that allow funds for training, health insurance and small business to graduate from the program.

Apart from this, we have undertaken a number of initiatives to broaden the social safety net programs for the aid and support of the poor and calamity affected population. Pakistan Poverty Alleviation Fund, Bait-ul-Maal, Citizen Damage Compensation Program (CDCP), provision of low-mark-up loans for affected farmers etc. are some of the programs through which hundreds of billions of additional funds have been provided to mitigate the sufferings of the poor.

There are other programs of support. We are providing electricity at one-sixth the cost of production to about eight million lifeline families whose consumption is below 50 units per month. Instead of paying Rs. 600 per month, they need to pay less than Rs. 100. The total subsidy given on electricity on consumption under 700 units in a month comes to around Rs. 180 billion annually. We are giving a subsidy of at least eight billion rupees per year for sugar. In addition to this, are the continuing poverty alleviation programs like the Bait-ul-Maal, under which Rs. 1000 billion have been distributed to the poor over the past four years.

We have been giving employment opportunities for the educated unemployed. In the National Internship Program, 100,000 Masters Graduates were provided training in high demand areas. We facilitated the employment of at least 1.6 million Pakistanis abroad during the last four years. We created hundreds of thousands of jobs in the public sector. And, we converted thousands of contract employees into permanent employees to give them security.

As part of Peoples Government's legacy, empowerment of women has also been one of our primary concerns. We have empowered women in several ways. During the last four years, the parliament has passed no less than 24 bills to protect women's rights and to empower them.

### **Prices**

A key objective of economic policy is to maintain price stability. Inflation is affected by the international oil and commodity prices, seasonality and shortages in agriculture produce and government expenditures financed through printing of money. In our country, much of the inflation is either because of international prices and supply shocks.

The explosive inflation nearly 25% in late 2008 is now firmly behind us. There is gradual decline in the rate of inflation during the last four years. This year it has been brought down to 11% and we are targeting single digit inflation for the next fiscal year. In fact, there has been a decline in inflation for three years in a row. Due to our austerity last year, we froze nominal expenditure of government in the current year the running of the civilian government is 10% less than last year.

### **Tax collections**

In the first four years of our government, tax collections will be doubled from about Rs.1008 billion in June 2008 to nearly Rs.2000 billion in June 2012.

Much of this growth has been achieved in the last two years, where tax revenues rose from Rs.1327 billion to Rs.1950 billion representing an increase of 46% during the period. Such a collection performance is unprecedented in country's history. This was done while reducing the rate of sales tax, eliminating a large number of special excise duties and nearly abolishing all regulatory duties on imports, to facilitate production and growth.



By the grace of Allah, this performance has been achieved by going after those who were outside the tax net, by strengthening the enforcement regime, by massively improving the tax administration, vigilant follow-up of cases under litigation and carefully auditing the performance of the withholding agents.

## **Agriculture**

Agriculture Sector is the backbone of Pakistan economy. Despite two consecutive floods, the sector has rendered outstanding performance in the last two years. This year, in particular, agriculture sector has given more production in all the major Khareef crops, namely rice, cotton and sugarcane, which have recorded unprecedentedly good production.

For the agriculture sector, we have spent this year nearly Rs.50 billion in subsidies on fertilizer when local production was not possible due to gas shortages. We have also helped sugar growers by procuring sugar from domestic sources. This has enabled sugar mills to make timely payments to sugar growers. As a result of our policies, Pakistan is now exporting wheat and sugar.

## **Industry**

After sluggish performance in recent years, industrial sector has begun to record positive growth. Industry will grow by 3.4% compared to 3.1% last year. However, this is still below its potential as excess capacity remains in the industrial sector which will pick up as the economy gains further pace.

This growth has been registered despite shortages of electricity and gas. Prominent sub-sectors where growth has been registered are sugar, cement, automobiles, textiles and chemicals. The government has given incentives to industry, opened regional and international markets and provided facilitation.

## **Power sector**

Power sector remains a source of concern for the government. Electricity is mostly generated through furnace oil because of limited gas availability. Thus, the cost of generation has risen as the international prices of oil rise. For 18 months oil price is averaging about \$110 per barrel, unprecedented in country's history. We have not passed the full impact of higher cost to the consumers and shared the burden costing us roughly Rs. 250 billion. The total amount of subsidies to power sector in the last five years is Rs.1250 billion. This is a huge burden on country's fiscal system. After NFC award, federal resources cannot carry this burden for too long.

Tariff subsidies are not the only problem with the power sector. There are system losses, non-collection of dues, interest charges on delayed payments and host of management issues. Government is undertaking reforms to set the system right, but these are painful reforms and will not be implemented overnight.

The government has added 3500 MW to the system. Regarding hydroelectric power, we are working on numerous projects such Neelum-Jhelum (1000 mw), Kohala (1000 MW), Jinnah (100), Munda-Dam, Kurram-Tangi, 4<sup>th</sup> Extension of Tarbella Hydroelectric power station (1400 MW) which will add some 5000 MW of cheap electricity to the national grid.

Work is in progress on Pak-Iran gas pipeline as well as Turkmenistan-Afghanistan-Pakistan-India pipeline, both of which will bring as much as 2 BCF gas for Pakistan. Simultaneously, we are finalizing plans for import of LNG that would provide another 0.5 BCF gas. Projects in solar, nuclear, wind and Thar coal are also being pursued.

## **Full impact of petroleum prices**

We have also tried to give consumer relief by not passing all the increases in international prices. Government had to sacrifice its revenues to the tune of Rs.70 billion to prevent prices from rising to the international level

## **Development expenditure**

As economic growth is picking up, we have to sustain its momentum and accordingly we are significantly raising the overall public sector investment. This year the National Economic Council (NEC) has approved an Annual Development Plan (ADP) from Rs.730 billion to Rs.873 billion reflecting an increase of Rs.120 billion or 25% from last year. The federal share of ADP is planned at Rs.360 billion, representing an increase of Rs.60 billion from Rs.300 billion last year, or 20%.

This year the entire Rs. 300 billion were released and utilized in the Federal PSDP. At the federal level, we have completed over 200 projects during the year including such important projects like Chashma Nuclear, Khan Khowar Hydro, Raine Canal Phase-I and roads etc.

The development strategy of the Government is not to spread available resources too thinly across numerous projects, but to concentrate on completion of projects to deliver benefits to the public at the earliest. The core priorities of the Government in next year's PSDP include:

- (1) Completion of ongoing projects
- (2) Regional balance, with a focus on underdeveloped areas
- (3) Projects with welfare of women and children
- (4) Infrastructural development, especially in the energy and water
- (5) Projects in higher education

I will now share with you the PSDP allocations that have been approved by the NEC for the Next Financial Year.

- (1) Out of the total Federal PSDP outlay of Rs.360 billion, the Government has allocated Rs.346 billion or 96% to ongoing schemes.
- (2) Rs.69 billion for power sector and Rs.115 billion additional by federal

entities like WAPDA and electric companies.

- (3) Water Sector has been allocated Rs.48 billion
- (4) Rs.44 billion will be spent for the social sector.
- (5) Rs.37 billion have been provided for special areas, including FATA, Gilgit-Baltistan and AJK.
- (6) Rs.16 billion have been allocated for higher education.
- (7) Rs.84 billion for Transport and Communications sector including Rs.51 billion for NHA and Rs.23 billion for Railways.

### **Focus on Regional development**

An important objective of our development strategy is to ensure balanced regional growth. Federal government is responsible for special needs of Balochistan, and all needs of Gilgit-Baltistan, FATA and AJK from its own programs.

### **Balochistan**

It is important for the Parliament as well as people of Balochistan to know what have done by way of special efforts to make for the past deficiencies in our obligations toward Balochistan:

- (1) The share of Balochistan was increased in the divisible pool to 9.09 percent.
- (2) In the first year after the NFC Balochistan's resources were doubled.
- (3) The government also accepted the right of Balochistan to the payment of Rs.120 Billion in royalty from the sale of gas between 1954 to 1991.
- (4) The Federal Government is financing 11,500 jobs for the educated Baloch youth.

In addition, the Balochistan Package also includes:

- (1) Internships for 15000 youths
- (2) Provision of Agriculture Tubewell Subsidy of Rs.4.00 billion
- (3) Filling of 2400 vacant posts in Federal Government

- (4) Regularization of all contractual employees from Balochistan
- (5) Significant share of Baluchistan in the Federal PSDP.

### **Gilgit-Baltistan (GB)**

- (1) In 2009, the longstanding dream of a more participatory system of governance was introduced in GB. The offices of Governor, Chief Minister, and Ministers have been created. A Gilgit-Baltistan Council, democratically elected and headed by the Prime Minister, has been introduced.
- (2) The financial allocation for GB has been enhanced to bring this part of the country into the mainstream. The block development allocation for GB has been raised to Rs.16 billion during the period of Democratic Government.
- (3) Other initiatives for GB's development include:
  - Appointment of 5,000 police officials
  - 100% increase in the salaries of GB police force
  - Monthly financial support for 50,000 households under Benazir Income Support Program
  - Royalty of Diamer-Bhasha Dam for local people
  - PSDP mega projects worth Rs.10 billion
  - Improvement of the Sust Dry Port to enhance trade links with China
  - Expansion of Gilgit and Skardu airports
  - Subsidy on 150,000 metric ton wheat
  - Allocation of Rs.5.5 billion for institutional capacity-building

### **Federally Administered Tribal Areas**

The People's Government fully realizes that the Federally Administered Tribal Areas are amongst the most under-developed areas of Pakistan and that sustained

affirmative action is required to bring this region at par with the rest of the country. The Government is also alive to the extremely difficult circumstances that the people of the area are passing through. It is for the accelerated development of the people of FATA that the Government provided over Rs.110 billion to FATA over the past four years. These allocations also included subsidies for wheat and electricity. For the next financial year Rs.17 billion have been allocated in the PSDP, Rs.10 billion for power subsidy and Rs.11 billion for current spending.

### **AJK**

In the same spirit, the People's Government has paid special attention to the welfare of the people of Azad Jammu and Kashmir. Over the past four years, the Government has provided Rs.72 billion in budgetary and development support. For the next financial year, Rs. 12 billion have been allocated for development and Rs.16.5 billion have been allocated for current expenditure. A ways and means loan of Rs.8.5 billion is in addition to this. It must be mentioned that the Government is also executing mega hydel power projects like the Neelum-Jhelum in AJK, which will play a pivotal role in the development of the area.

### **Remittances from overseas Pakistanis**

The most outstanding support Pakistan has enjoyed is from its expatriate community. They have remitted unprecedented amounts in the last two years. From about \$9 billion in 2009-10 to over \$13 billion this year, there is an increase of 45% in two years.

Let me also dispel a misgiving some people have tried to create regarding such extraordinary increase in remittances. More than 75% of remittances are less than \$500 per month, showing the family-help nature of such transfers. Also, we have not made any changes in foreign remittances regulatory regime, which is the same that was framed some 3 decades ago. However, we have set up the Pakistan Remittance

Initiative and contacted more than 300 foreign financial institutions to participate in remittance business and establish counter-part arrangements with Pakistani institutions. Also, we have encouraged global corporations engaged in money transfer business to come to Pakistan and do business here. These initiatives are behind the outstanding performance of foreign remittances that have helped stabilize the Balance of Payments situation.

### **Imports, exports and balance of payments**

Pakistan has experienced phenomenal performance in exports in the last two years. Last year, exports increased by 28%, crossing the \$25 billion mark. This year, in spite of global downturn, we will be able to maintain this high level of exports.

Our imports are likely to rise 15% this year, primarily due to higher oil prices. We had to import about 1.2 million tons of urea at a price of more than \$500 dollar per ton, costing a large sum of nearly \$700 million. This was imperative to save our agriculture sector which otherwise would have suffered immensely because of less domestic production.

We have still not received nearly \$1.2 billion in Coalition Support Fund, which had an effect both on our external receipts as well as on the budget.

### **Fiscal Situation**

We recognize the importance of fiscal restraint and the need for fiscal balance. To achieve this, we have followed austerity on the expenditure side and extraordinary mobilization of taxes on the revenue side. However, the policy of not passing the entire burden of oil price increased and electricity prices and to preserve the safety nets for the vulnerable groups, have added to government expenditures. The reduced fiscal space, post NFC has also curtailed government's ability to maneuver in the short run.

We had targeted a fiscal deficit of 4% in the budget. However, for the reasons outlined above, the deficit is projected to be 5.5%.

### **Budget Estimates for 2012-13**

Let me place before the House the salient features of the Budget 2012-13:

- (1) The outlay of the federal budget for FY 2012-13 is proposed to be Rs.2,960 billion, which is 0.6 % higher than the revised outlay of Rs.2,940 billion for the outgoing financial year.
- (2) The gross federal revenues have been estimated at Rs.3,234 billion during FY 2012-13 as compared to Rs.2,732 billion budgeted for Financial Year 2011-12, reflecting an increase of 18.3%
- (3) FBR is expected to generate Rs.2,381 billion, reflecting an FBR tax to GDP ratio of 10.1%.
- (4) Out of federal revenue collections, a sum of Rs.1,459 billion will be transferred to the provinces under the 7<sup>th</sup> NFC Award as compared to Rs.1,203 billion during the Current Financial Year, which means an increase of over 21.3%.
- (5) The net federal revenues are estimated at Rs.1,775 billion during Financial Year 2012-13 in comparison to the Rs.1,529 billion budgeted in Financial Year 2011-12, which indicates an increase of 16.1%
- (6) This is expected to produce a federal budget deficit of Rs. 1,185 billion
- (7) Provincial surplus is estimated at Rs.80 billion during Financial Year 2012-13
- (8) The consolidated fiscal deficit is estimated at Rs.1,105 billion or 4.7% of the GDP as against 5.5% of the GDP in Financial Year 2011-12, excluding debt consolidation of Rs.391 billion, which is 1.9% of the GDP.
- (9) Allocation to Benazir Income Support Program will be enhanced from



Rs.50 billion this year to Rs.70 billion next year

(10) Rs.10 billion will be allocated to Export Development Fund

### **Benefits for the vulnerable groups/safety nets**

The Government has planned several far-reaching new initiatives for Financial Year 2012-13 to benefit those groups who deserve the special care and attention of the state. Let me share some of these initiatives with you:

- A targeted subsidy on food items will be given by the Government to help lower income consumers through the Utility Stores Corporation. Under this scheme, BISP cardholders will be given a special additional discount of 10 percent at utility stores on essential food items, including sugar, ghee, rice, dall channa, dall moong, and wheat flour. This means that the poor will be able to buy these items at 17 percent below their market rates. To give the poor easy access to this concession, the Government also plans to establish 2000 new utility stores. The scheme is expected to bring immediate relief to 35 hundred thousand families.
- To generate job opportunities, one hundred thousand unemployed educated youth will be given an opportunity to work and develop their skills through internships and technical training. Under the National Internship Programme, 40,000 internships, in both government and private sector organizations, will be offered to Master's Degree holders and another 40,000 to Bachelor's Degree holders. In addition, 20,000 Bachelor's Degree holders will be trained in skills that are in demand home and abroad. This intervention is estimated to cost the Government Rs.9.5 billion in Financial Year 2012-13.
- The province of Balochistan and the regions of FATA and Gilgit-Baltistan comprise the most underdeveloped areas of Pakistan. The Federal Government

is already implementing a number of development projects in these areas for special dispensation, but we need to take further affirmative action for their socioeconomic uplift, so as to bring them at par with the rest of the country. The Federal Government has, therefore, decided to promote higher education in Balochistan, FATA and Gilgit-Baltistan by paying the tuition fees of all students studying for masters and PhD in reputable universities of Pakistan. This measure is expected to cost the Government Rs.500 million annually.

### **Relief to Government Employees**

The People's Government has always made an effort to ensure that Government servants do not face acute hardships on account of low public sector salaries vis-à-vis the private sector. To ensure that the Government acquires and retains competent civil servants who can serve the citizens of Pakistan with peace of mind, our Government has increased pay by more than 100% during the last four years. Similar relief has also been provided to pensioners. And now, I am pleased to announce that in the Next Financial Year, an ad hoc relief allowance of 20% in pay and pension is being given. This is the fifth successive increase in pay and pension given by this Government.

## **PART-II**

**Madam Speaker,**

Let me now turn to the Part-II of my speech which relates to tax proposals

### **TAXATION PROPOSALS**

As a country, we have not been successful in mobilizing revenues. Success on this front has eluded all governments. Consequently, our tax system is characterized by following features:

- The overall Tax-GDP Ratio is less than 10% (FBR at 8.6%, overall at 9.6% in FY11);
- Only about three million people pay income taxes
- About 50% of registered corporate taxpayers and withholding agents file tax returns
- Only around 100,000 persons are registered under sales tax
- Under-invoicing and undervaluation have become a norm in our business practices
- Collusion between the taxpayers and tax collectors persists despite reforms

We are acutely aware of the centrality of revenue mobilization in country's economic development and sovereignty. For this reasons, we have thus taken difficult decisions to broaden the tax net, to bring in sectors that were enjoying exemption, to identify new taxpayers and to make sure that the rich abide by law and contribute towards achieving this very important national goal. As I mentioned earlier, our government has collected an unprecedented amount of taxes during its tenure and particularly during the last two years. This success is the result of the resolve of the government and the co-operation of the business community. The good news is that

the overall Tax-GDP Ratio is expected to improve from 9.6% in 2010-11 to 10.3% in the current fiscal year. A lot more needs to be done to build upon this good result.

While we have tried to meet the national goal of raising revenues, we have also ensured that this is achieved without extra burden on the existing honest taxpayers. We do not want those who are paying to be burdened further. We want to lessen the load on the honest tax partners. In fact, our approach is to reduce taxes and rates so the people and businesses are not faced with too many taxes, or high rates. We only want to go after those who are powerful, well connected, and well organized and simply do not pay taxes at all.

Let me share the good news with all honest taxpayers --- salaried employees, individual businesspersons, corporations, --- there is no extra burden on you. There is only relief for you. You have done your duty to be an honest taxpayer. We will now do our duty to give you relief.

The government has ensured that the interests of the salaried class and public servants are protected. Every year, we have increased salaries, allowances, pensions and other benefits of government employees. We have also given tax cuts to the salaried persons and tax payers in the lower brackets.

**Madam Speaker,**

Let me draw your attention to our provisions for **Income Tax**.

In 2009-10, we increased the basic income tax exemption limit from Rs.100,000 to Rs.300,000, benefitting 1.2 million taxpayers in the lower brackets. Last year, we raised this exemption to Rs. 350,000. In continuation of this fiscal support to the salaried class, the basic exemption limit for Income Tax is being further enhanced to Rs.400,000 this year. Similarly, the exemption limit for business individuals and Association of Persons (AOPs) is also being enhanced to Rs.400,000. This will benefit many taxpayers.

We have also decided to reduce the tax slabs to 5 only. Importantly, a major relief will be that only the portion of income exceeding a tax bracket would be charged at the higher tax rate. A taxpayer with an income of Rs. 35,000 per month previously paying Rs. 10,500 would only pay Rs. 1000 as tax. Apart from fundamentally simplifying the income tax system, this measure will provide relief of Rs. 8 Billion and benefit all existing income tax payers by reducing the effective income tax rate.

Under the present scheme of taxation, if an employee obtains a loan from the employer at a concessional rate, it is taxed at 13%. In order to facilitate such employees, it is proposed that such loans up to Rs.500, 000/- shall be exempt from income tax. Loans above this limit shall be taxed at the maximum rate of 10%.

As a relief measure to pensioners, amount received from approved income payment plans or annuity plans invested from any balance of voluntary pension schemes upon retirement will be exempt from tax if invested for a period of ten years.

**Madam Speaker,**

The tax collection has improved due to the cooperation of law abiding businesses and individuals. The government appreciates them. To recognize them, a taxpayers' Honour Card is being introduced. It will entitle its holders to concessions and facilities at various public and private forums such as NADRA, Passport offices, Airports, Customs, Immigration, FBR and other public offices. FBR will also honour them by displaying their names on its official Web Site.

**Madam Speaker,**

We want to give incentives in income tax to promote business activity and lessen the burden on our business. I turn to some of the important measures. These represent the acceptance of demands from the Chambers of Commerce and Business Community.

Under the existing income tax structure, the businesses are being taxed at the minimum rate of 1% of their turn over, even if they are reporting losses. To mitigate the hardship faced by registered businesses the rate of minimum tax on turn-over in this budget is being reduced from 1% to 0.5%. We should consider moving away from this method of collection entirely in the near future.

The government wants to phase out the presumptive tax regime (PTR) in three years. We are thus reducing the rates of tax from 5% to 3% for commercial importers, from 1% to 0.5% for exporters and from 3.5% to 2.5% for suppliers to give them the incentive to opt out of the PTR.

Withholding tax on profits paid on intra-group debt is being abolished.

Currently there is a withholding tax on cash withdrawals if they exceed Rs. 25000 per day. This limit is being enhanced to Rs. 50,000 per day.

To rationalize the rates of depreciation, the value of vehicles is being enhanced to Rs.2.5 million, while the initial rates for new buildings are being reduced to 25%.

Capital Markets are important for economic development of a country. To develop them and give confidence to the investors, the changes made through the Finance (Amendment) Ordinance, 2012 may be incorporated into the Statute through the Finance Bill.

To encourage the Capital Markets, exemption on the profit and gains of a Venture Capital Company and Fund is being extended upto the year 2024.

To promote investment in securities and insurance, the limit of investment as a proportion of taxable income is being increased from 15% to 20% and from Rs. 500,000 to Rs. 1 million, whichever is lower. The required retention period of shares is being reduced from 3 years to 2 years.

To encourage a competitive market for Retirement Schemes, transfer of funds between retirement funds will be exempt from tax. Further, retirement funds shall be exempt from withholding tax provisions on Capital Gains Tax.

Dividends received by banks from money markets and income funds will be taxed progressively over a period of two years as normal business income. Dividends will be taxed at 25% in tax year 2013 and at 35% from tax year 2014 onwards to eliminate tax arbitrage.

To bring certain undocumented sectors into the tax net, manufacturers are being made withholding agents to collect 1% adjustable tax on sales made to distributors and dealers.

## **SALES TAX**

**Madam Speaker,**

Let me turn to sales tax.

This government has reformed the general sales tax system last year, by eliminating zero rating; reduction of the multiplicity of rates; and expanding coverage to all sectors except food, health, and education. This process of reform must continue, to realize the full potential of this task.

To avoid multiplicity of rates and decrease the burden on the consumers, all GST rates above 16% are being brought down to 16%.

To discourage fraudulent refunds and streamline local supply chains in plastic, sprinkler, drip and spray equipment, mono filament yarn and net cloth, and remeltable scrap, it is proposed to eliminate zero-rating of these items. These items shall, however, be exempted from sales tax.

Local waste paper is one of the major inputs used in the manufacturing of paper. The waste paper is collected and supplied by the unorganized sector, leading to a high rate of abuse through a market for flying invoices. To curb this practice, it is proposed to exempt local supply of waste paper from sales taxes.

Cotton-seed is zero-rated while Cotton-seed-oil is exempt from sales tax. The mills producing Cotton-seed-oil are, therefore, not required to issue any sales tax invoice and their production remains undocumented. The Oil and Ghee manufacturing units using undocumented purchases may suppress their production to evade sales tax. It is proposed to zero-rate Cotton-seed-oil to keep it in the documented sector and provide level playing field to the tax compliant Oil and Ghee manufacturing units.

The current sales tax of the steel sector, fixed in 2008, is at the rate of Rs. 6 per unit of electricity consumed. To harmonize it with the current market prices, this rate is being enhanced to Rs. 8 per unit of electricity consumed.

Smuggling of goods causes injury to the local industry, and discourages legal imports. High rates of duties and taxes on these goods provide incentive for under-invoicing. It is being proposed that sales tax on black tea be reduced from 16% to 5% to encourage legal import of tea.

### **FEDERAL EXCISE**

**Madam Speaker,**

Let me turn to Federal Excise Duty.

To bring prices down and give incentives to the private sector, the Government intends to phase out Federal Excise Duty (FED) in the next two years. To ensure this, FED was abolished on 15 items, last year, and the rates were brought down on many more. The Government intends to further eliminate FED on the



additional 10 items including base lube oil, lubricating oils, filter rods, and skin care products.

The Dairy Industry has great potential in Pakistan. Pakistan is the fifth largest producer of milk in the world. But a very large quantity of local milk is never processed. To promote investment in dairy development, it is proposed to abolish Federal Excise Duty leviable on livestock insurance.

To develop capital markets, FED on services rendered by Asset Management Companies is also being abolished.

To boost the construction activity and generate jobs, last year, the FED on cement was reduced from Rs. 750/ PMT to Rs. 500/ PMT. This year, it is being further reduced from Rs. 500/ PMT to Rs. 400/ PMT.

FED is leviable on foreign travel to or from Pakistan. However, collecting FED on foreign travel into Pakistan is practically difficult and not in conformity with international best practice. Therefore, it is proposed that FED may be collected on embarkation of passengers from Pakistan.

## **CUSTOM DUTY**

### **Relief Measures:**

**Madam Speaker,**

I now turn to Custom Duty.

The government wants to reduce the tariffs, simplify procedures and create a conducive environment for boosting the economic activities. In order to reduce the prices and to provide relief to general public, the highest tariff rate is being reduced from 35% to 30%.

Education is the main priority of the government. Therefore, to make text books, exercise books, pencils, pens and inks available at cheaper prices, customs duty on 18 raw materials and 9 components for manufacturing of stationery items are being exempted.

New tariff headings are being created in the Pakistan Customs Tariff, to align our tariff structure with export partner countries (e.g. USA, EU). This measure shall eliminate operational problems of exporters, particularly textiles.

The Government is fully aware of the hardships being faced by the people of Pakistan because of energy shortages. To mitigate people's suffering, it is being contemplated to provide fiscal relief on the import and installation of alternate energy sources, UPS and generators.

**Madam Speaker,**

Promotion of the Construction Industry generates economic activities in thirty-eight downstream industries. To promote the use of scrap of rubber and shredded tyres as a substitute fuel by manufacturing plants, such as cement, duty on scrap of rubber and shredded tyres is being reduced from 20% to 10%.

To ensure availability of medicines at affordable prices, customs duty on 88 pharmaceutical raw materials is being reduced from 10% to 5%.

To promote energy-efficient Hybrid Electric Vehicles (HEVs), the rate of duty and taxes presently applicable to HEVs and their batteries is being reduced by 25%.

In order to encourage legal import of self-copy and self-adhesive papers, their high rate of customs duty is being reduced to 10%.

## **Administrative Measures**

**Madam Speaker,**

To align Pakistan Customs Tariff with international conventions, it is being updated in conformity with the latest WCO nomenclature.

New departments are being created in Customs to deal exclusively with Transit trade issues, including the prevention of smuggling.

To separate the judicial functions from the executive in Customs, offices for adjudication are being created in the Customs department to address this demand.

The government provides incentives to the local industry through reduced rates of import duties through SROs. These complicated procedures are being simplified and the anomalies are being rectified. These measures will reduce the cost of doing business.

## **Concluding Remarks**

**Madam Speaker,**

We have given a budget that will build hope and lay the foundation of a better tomorrow in which not only economic stability will be maintained but growth will be accelerated. Our young population is our assurance for a strong and prosperous Pakistan, provided we can create job opportunities for the use of their capabilities. Growth is the answer and this will be our main focus during the year.

There is no limit to the economic potential of Pakistan. The challenge is to create the enabling environment in which this can be realized. May Allah bless this country and our people. Ameen!

Pakistan Zindabad  
01-06-2012

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