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Federal Budget 2020

A·F·FERGUSON&Co.
Chartered Accountants
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ECONOMIC OVERVIEW

The Federal Budget 2020-21 has been proposed in extraordinary, unusual and unpredictable economic circumstances due to prevalent COVID 19 pandemic. It is the first time in the recent history that major economic activities throughout the world are effectively closed since February / March, 2020. At this stage, there cannot be any certainty for the resumption of economic activities in the financial year 2020-21. Various assumptions and projections will require reconsideration after the end of the first quarter.

The pandemic has resulted in serious economic consequences for the world especially the developing countries like Pakistan where a reasonable portion of the industrial output is exported and there is heavy reliance on remittances of expatriate Pakistanis. The downturn in the western economies, being the importer of Pakistani products and reduction in earning capacity of expatriate Pakistanis will place pressure on Pakistan's current account balance. This would require re-strategizing the economic priorities by promoting manufacture and consumption of locally produced goods and employment in other sectors such as construction, etc. Pakistan requires a critical review of its import bill to align the ultimate objective of import substitution and industrialization. This has become all the more necessary on account of saturation of exports and home remittances on account of pandemic. The policy as described above needs to be clearly demonstrated in order to curtail speculative activities in relation to value of Pakistani currency against USD.

On an international level, a cohesive approach by all developing countries would have to be adopted to reschedule and restructure foreign debts. At present, Pakistan's liability ranges around USD 90 to 100 Billion. A concerted and cohesive international effort require remodelling of the debts on international level as was undertaken after the end of Second World War by way of Bretton Woods System.

In these unusual circumstances, some 'out of the box' solutions are to be explored for reducing the incidence of financing cost of country on account of domestic debts, which represent a major component of total expenditure of the Government.

Tax collections for the fiscal year 2020-21 will be directly related with the timing of resumption of economic activities. In these circumstances, a positive approach of not levying any new tax without substantially reducing the development expenditure is correct. This growth oriented strategy appears to be the only solution in these circumstances. The effect of this policy will be an increase in the budget deficit, which may escalate inflationary pressure. It is, therefore, proposed that targeted subsidies and supports be provided to common man.

There has been a positive feature in the budget in relation to non-tax revenue. The projected amount is substantially higher as compared with previous years. There has to be concerted effort that the projected amount is actually collected.

In these unusual circumstances, the country cannot bear the burden of bleeding resources on account of losses in State owned enterprises and deemed subsidy in energy sector which is generally termed as financing the circular debt by the Government of Pakistan.

It is expected that the consequences and effect of the pandemic will subside in the following months and Pakistan will be again on the trajectory of growth of 3% to 5% of GDP. We are fortunate that our country is self-sufficient in basic food requirements and there is a substantial reduction in the international oil prices in the recent past, which is a major component of our import bill. Pakistan requires speedy industrialization and local production in order to balance the current account and increase the employment opportunities. The solution lies in implementing the project - **"Make in Pakistan"**.

KEY ECONOMIC INDICATORS

	FY 19 – 20	*FY 18 – 19*
GDP growth rate	-0.4%	1.9%
Per capita income - US$	1,355	1,455
FDI (July – April) US$ million	2,100	900
Inflation (July – April)	11.2%	6.5%
Public debt (PKR billion)		
- Domestic	22,478	20,732
- Foreign	12,729	11,976
	35,207	32,708
Budget deficit - %age of GDP	7.5%	9.1%

Source: Economic Survey of Pakistan 2019-2020

BUDGET AT GLANCE

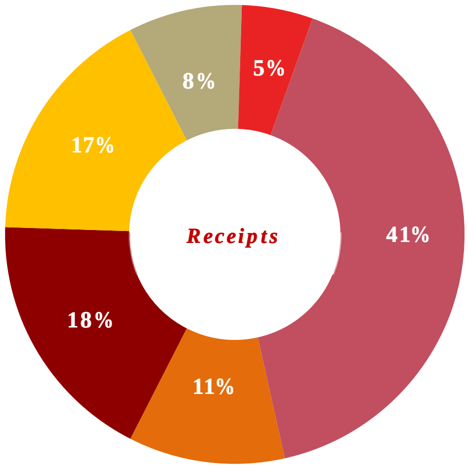
Budget Financials

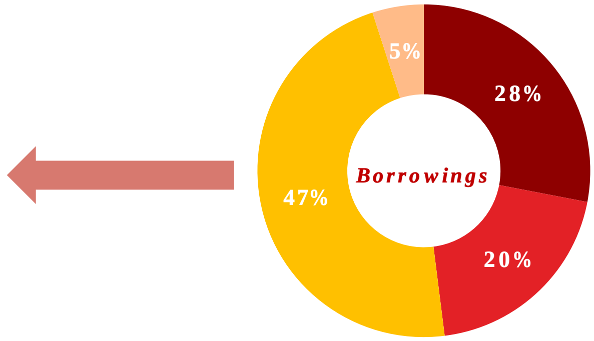
The following table sets out the Key Budget Financials:

	2020-2021		2019-2020 (Revised)	
	Rs in Billion	**%**	**Rs in Billion**	**%**
Tax revenue	5,464		4,208	
Non-tax revenue	1,109		1,296	
Gross revenue receipts	6,573		5,504	
Public account receipt – net	216		421	
Total receipts	6,789	100	5,925	100
Less: Provincial share in Federal taxes	(2,874)	(42)	(2,402)	(41)
Net revenue receipts	3,915	58	3,523	59
Expenditure				
- Current expenditure	7,836	115	7,586	128
- Development expenditure	949	14	759	13
	8,785	129	8,345	141
Deficit	**(4,870)**	**(71)**	**(4,822)**	**(82)**
- Domestic debts non-bank	1,326		756	
- Domestic debts banks	979		1,724	
- Foreign debts / grants	2,223		2,273	
- Privatization proceeds	100		150	
- Surplus from provinces	242		(81)	
	4,870		**4,822**	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

IN

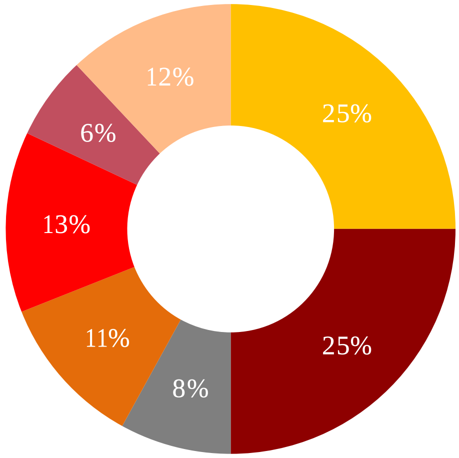




- Income Tax (18%)
- Sales Tax (17%)
- Customs Duty (5%) and FED (3%)
- Petroleum levy, Gas Infrastructure Cess & Others (5%)
- Borrowings (41%)
- Non-tax revenue (11%)

- Domestic debts non-bank (28%)
- Domestic debts banks (20%)
- Foreign debts / Grants (47%)
- Surplus from provinces (5%)

OUT



- Provincial share in Federal taxes (25%)
- Debt servicing (25%)
- Development expenditure (8%)
- Defence Affairs and Services (11%)
- Federal Government expenses including pensions (13%)
- Grants and transfers (6%)
- Foreign Loan repayments (12%)

BREAK-UP OF TAX REVENUE

There is a slight downward change in the ratio of direct and indirect taxes.

A substantial and incremental shift is required to decrease disparity in income and reduce the burden of indirect taxes on common man.

	FY 20 –21 Rs in Billion	FY 19 –20 (Revised) Rs in Billion
Direct Taxes:		
• Income Tax	2,037	1,618
• Workers' Welfare Fund	3	3
	2,040	1,621
Indirect Taxes:		
• Customs Duty	640	546
• Sales Tax	1,919	1,427
• Federal Excise Duty	361	312
• Petroleum Levy	450	260
• Gas Infrastructure Cess	15	11
• Natural Gas Development Surcharge	10	10
• Others	29	21
	3,424	2,587
	5,464	4,208