Budget Speech 2021-22

Bismillahir-Rehmanir-Rahim

PART – I

Mr. Speaker,

1. It is my honour to present before this august house the third budget of the Government of Tehreek-e-Insaaf. Under the able and dynamic leadership of Prime Minister Imran Khan, we have weathered several storms to steer the economy to relatively calm waters. The challenges remain on the horizon, but the economy has been put on the sound footing where it is heading toward the desirable direction of growth and prosperity. From managing damaged economy received in inheritance to facing three waves of COVID-19, no government in the past would have faced such adverse conditions. Yet we have remained afloat and now cruising in placid waters. This journey would not have been possible without the visionary leadership of the Prime Minister Imran Khan.

What we inherited

Mr. Speaker,

2. It is a matter of record that the Government of Imran Khan inherited a broken economy. On the one hand we were facing bankruptcy due to high levels of debt and, on the other, we had no money to support the high level of import demand which was created by the outgoing Government of PML-N through reckless borrowings. The exhibitionist growth touted by the previous government was made possible due to heavy borrowing at high interest rates, both from domestic and foreign sources, and the responsibility to bear its debt servicing was left for us to discharge. It is hard to recall another occasion when such precarious conditions were bequeathed to an incoming Government.

3. It is important to recall, briefly, the key features of the economy we inherited:

(1) The current account deficit of $20 billion was highest ever;

(2) Imports at about $56 billion were 224% of exports of $25 billion, compared to 162% in 2012-13;

(3) Higher imports were subsidized by an over-valued exchange rate which remained constant at Rs.104 for nearly five-year period;

(4) Predictably, during this period, exports growth was negative 0.14% while imports grew by more than 100%;

(5) The debt and liabilities, which stood at Rs.16 trillion as on 30-6-2013, rose sharply to reach about Rs.30 trillion as on 30-6-2018, reflecting an increase of Rs.14 trillion or 88%;

(6) Interest rate was also kept artificially low and almost all borrowing was done from the State Bank to the exclusion of commercial banks leading to serious imbalances in the money and credit markets. SBP borrowing reached an alarming level of Rs.7 trillion;

(7) The debt profile was seriously undermined with short term debt reaching 70% of the total debt posing serious refinancing risk;

(8) The fiscal deficit was 6.6% of GDP, one of the highest in five-year;

(9) Foreign reserves, largely built on borrowing, rose from $6 billion in June 2013, to nearly $20 billion in late 2016, but then sharply declined in the last two years of the PML (N) Government to $10 billion by end June 18. In the same period huge foreign debts were also piled up;

(10) Despite clearing a mammoth circular debt of Rs.485 billion through cash payments, a huge circular debt of Rs.1.2 trillion was again allowed to accumulate that was passed on to us.

Mr. Speaker,

4. This was the story of a wreckage that we were asked to clear and rebuild. Against this background, a growth rate of 5.5% is paraded as the main achievement of the previous government. Just imagine how expensive has been the sand-house of growth built on heedless borrowing, over-valued exchange rate, low interest rates and unprecedented borrowings from the State Bank. ***All these elements are***

akin to spending without paying the bills. These were left to be paid by us or sink the country into default.

5. We were thus saddled with a huge debt servicing burden. Investments, which they claimed had been made to achieve high growth, were nothing but an albatross in the neck of this government. There was an increase of Rs.500 billion or 25% in the interest cost in the first year of our government because of the heavy debts we carried, which were repriced on corrected exchange rate and interest rate. Furthermore, we had to make foreign borrowing to avert default which our brotherly Islamic countries and China were gracious to provide.

6. Such were the challenges when this government took office. We are not narrating this story to flagellate the past, but to a realistic perspective and benchmark for measuring our performance.

Mr. Speaker,

7. It is my principle that it is better to get out of graveyard and take the nation towards the lightness than digging graves.

8. Our biggest challenge was to fulfil our international obligations, avoid default and give stability to our economy. Even though due to

COVID-19 pandemic it took us time to stabilise the economy, we did manage to achieve both the goals.

Mr. Speaker,

9. The Government of Prime Minister Imran Khan has not shied away from taking the difficult decisions without which this hopeless situation could not have been salvaged. The following significant measures have helped stabilize the economy:

(1) Completely eliminated current account deficit of $20 billion to a surplus of about $800 million by end April 2021;

(2) Brought down the primary deficit from a high of 3.8% to less than 1%;

(3) A combination of austerity in expenditures and significant increase in revenues;

(4) While doing so, we have not only protected but significantly improved social sector allocations particularly cash transfer program under *Ehsaas*;

(5) Introduced much needed fiscal management reforms by legislating them through a new law called Public Finance Management (PFM) which encompasses all areas of budget, finances, expenditures, debt management, cash management and development spending.

What have we achieved?

Mr. Speaker,

10. We have moved from stabilization to growth. After considerable effort, the government has finally succeeded in stabilizing the economy and putting it on the path of growth. The process was delayed by more than a year because of the COVID-19 pandemic. There have been two additional waves we suffered and yet with Allah's kindness, Pakistan has contained adverse effects of the pandemic and forged ahead its journey toward economic revival and growth. And what an entry it was into the growth club. In particular, the regional countries have suffered immensely both in lives and treasure. Pakistan has largely escaped the devastation and was quick to bounce back compared to its peers in the region.Prime Minister Imran Khan's wisdom saved Pakistan the country from a large catastrophe. This is the performance of the government which is open for any amount of scrutiny that the opposition may like to undertake.

11. The factors that contributed to this turnaround are broad-based and cover a wide range of sectors.

12. **Agriculture showed a historic performance.** The crop sector has lagged-behind last year because of COVID-19 and intense attack of locust. This year, except for cotton, which was affected due to virus and pest attacks, performance of all other crops namely, wheat, rice, sugarcane, and maize were exceptional. *Alhamdulillah* wheat, rice, and maize were historic while sugarcane was the second highest in country's history.

13. **Industry also did exceptionally well.** The LSM saw a growth rate not seen in more than a decade. It grew by nearly 9% as opposed to the negative growth of 10% last year.

14. **Following in the footsteps of agriculture and industry**, the two engines of growth, the downstream activity of **services** in communication, transport, banking, finance, capital market, insurance, wholesale, and retail trade etc. also showed significant growth.

15. This growth will reduce poverty and generate employment.

Mr. Speaker,

16. **We have successfully contained the ill effects of COVID-19** even after facing the third wave during March-May period which in many ways was more severe than the first one. We have avoided large scale lockdowns, expanded the hospitals capacity, improved supplies of equipment and medicines and mass awareness campaigns to elicit voluntary compliance from people. The National Command and Operation Centre (NCOC) kept people aware of the state of pandemic and counselled them on precautionary measures required to avoid infections. NCOC also coordinated with provincial authorities to evolve a national strategy to combat COVID-19.

17. As in the past, we have reached out to affected population through cash transfer programs. Additionally, by avoiding general lockdowns we have enabled people to remain engaged in their economic activities. It is because of such measures that the wheel of the economy has kept running and growth spurt is visible for all to see, which has a significant impact on the lives of the poor.

18. The level of income accruing to low-income groups during the outgoing year was not seen in the recent past. There are several reasons for this:

(1) One, the largest ever cash transfer program for second consecutive year through *Ehsaas* to 12 million households covering more than 40% of population to mitigate the adverse effects of pandemic;

(2) Two, historic flow of remittances, of whichthe vast majority accrues to low-income groups, has led to rising purchasing power at the lowest income level;

(3) Three, the historic performance of main crops has enabled farmers to have income of Rs 3,100 billion compared to 2,300billion last year, showing an increase of 32% at current prices. Much of this income has accrued to the low-income farmers as they own majority of land holding at subsistence level of less than 12.5 acres;

(4) Four, large-scale-manufacturing growth is employment creating and its size is indicative of restoration of lost

employment to pre-COVID-19 level and perhaps some more as the growth is unprecedented in last more than a decade;

(5) Five, the growth of services, especially the increasing use of on-line purchases through e-commerce and other Fintech applications is further reflective of rising employment;

(6) Six, despite COVID-19, on average 15% of per capita income has increased in the last one year, again indicating that people's income levels have generally increased.

19. Tax collections have shown remarkable growth. Those who have questioned the veracity of growth have no answer when asked to explain the reason behind the phenomenal growth of 18% in tax collections, which is highest in last five years. The tax performance is primarily the result of exceptional performance of the economy during the year. Tax collections in the country have crossed the psychological barrier of Rs. 4,000 billion. This is not based on coercion or holding back of refunds. If anything, we have repaid refunds that are 75% more than last year. We have launched a grass roots program of tax compliance and simplification of procedures giving taxpayers the freedom and ease to become tax compliant. This year we have added 312,000 new taxpayers who paid Rs.51 billion taxes with returns compared to only Rs.32 billion a year ago.

20. Exports are now better than they ever were. Another leading sector which has been lagging largely due to ill-conceived policies particularly with respect to distortion in the exchange rate, is the exports sector. The year saw a remarkable growth in exports rising by 14%. A variety of concessions were offered to revive the export industry which included rebates, duty drawbacks and subsidies on utilities. These concessions mitigated some of the competitive disadvantages the industry has been facing. Furthermore, government has worked hard in removing several irritants impeding the working of industry and leading to higher cost of doing business. All these factors have contributed to this heartening growth in exports.

21. Balance of payments has been stabilized. Current account deficit, the factor which was the main challenge for us in 2018 has been firmly put under control. So much so that it was turned into surplus, despite having to import substantial quantities of food grain and other edible items as crops were affected due to COVID-19.

22. The overseas Pakistanis have made a remarkable contribution in improving country’s external account demonstrating their trust on the leadership of Prime Minister Imran Khan. The exceptional growth in workers' remittances, which are poised to achieve the highest ever growth of 25% and reach $29 billion, is the single most important factor turning current account into surplus. Government's relentless efforts to tighten the informal channels of illegal *Hundi* and *Hawala* business has been the primary reason, together with further strengthening of Pakistan Remittance Initiative enabling transmission of remittances through banking channels, have led to this unprecedented increase in foreign remittances.

23. The precarious state of foreign reserves has not only been stabilized but is following an upward trajectory of accumulation. The official reserves of $16 billion are sufficient for three months of imports. This has led not only to stem the depreciation but also a significant appreciation of the Rupee which is now trading at around Rs 155, which isvisibly much higher than last year.

Mr. Speaker,

24. We have faced inflationary pressures, which have affected the economics of the lower income populations. However, it must be recognized that much of the inflation is due to food inflation containing a significant part of imported inflation.

Mr. Speaker,

25. Today Pakistan has become a food deficit country and we import wheat, sugar, edible oil, and pulses. Today food prices globally are at their highest in a decade. Over the last one-year, crude oil prices increased by around 180% while domestically we contained these prices only to an increase of 45%. The price of wheat has increased as much as 27% in global markets. This is the result of the fact that we had to import to meet about a quarter of market's needs because of the failure of the previous crop. Sugar prices increased by 56% internationally, but only 18% domestically. Here again, we had to resort to import to contain the price increases. Edible oil prices also went up by 76% in international markets while in local markets the price increase of 21% has been witnessed. This again reflects government's constant vigilance of price movements which occasionally were spear-headed by the Prime Minister himself. But, Mr. Speaker, what is the way to reduce inflation?

(1) We will have to make our country food sufficient, which means that we would have to pay attention to Agriculture. That is the reason you will see that in the budget year 2021-22 we are given incentives to this sector so that production increases and we do not import food items;

(2) In the agriculture sector, we would have to invest in commodity warehousing, cold storages and farm-to-market road infrastructure so that farmers can get out of the shackles of Arti and can sell the produce in the wholesale market. At this moment price margin between farmer and wholesale market is many 100 percent.

(3) We would have to re-adopt price control mechanisms which were removed during Musharraf’s era.

26. Public Debt has now started to decline. Due to an enormous increase in interest liability, provision of economic package to counter COVID-19 and its adverse impacts on tax revenues, the public debt, which had started rising since 2015,and reached as high as 87% last year, has now been declining. This has been achieved through a combination of expenditure controls, revenue mobilization and exchange rate improvements. Over the medium-term, with continuing fiscal adjustments, we would see the public debt on a further declining path levelling at a sustainable level.

Strategy for the Budget 2021-22

Mr. Speaker,

27. I feel happy in announcing that the stabilization phase is now over, and Budget 2021-22 will focus on inclusive and sustainable growth. The budget 2021-22 will be about fostering growth and investment. We have set a target of 4.8% growth, which would be broad-based as it would encompass all the key sectors of the economy.

Kamyab **Pakistan Program**

Mr. Speaker,

28. Unlike the past, we will not leave vulnerable segments to the mercy of trickle-down effect. For the past 74 years the vulnerable segments have been languishing for their economic prosperity. Trickle-down effect does not reach them, because trickle-down effect does not reach the poor unless economic growth is sustained for 20 – 30 years and this has not happened in our economic history. And the dreams of our poor people remain unfulfilled.

Mr. Speaker,

29. Prime Minister Imran Khan wants to change the course of history. Other than trickle-down effect, for 4-6 million low-income households, from the next year, using the bottom-up approach:

(1) Every household will be provided Rs 5 lakh interest free business loan;

(2) Every farming household will be given Rs 2.5 lakh interest free farming loan, and Rs 2 lakh interest free loans for tractors and machineries;

(3) Low-interest bearing housing loans up to Rs 2 million shall be provided so that they can build their houses;

(4) Every household shall be provided with a *Sehat*-Card;

(5) One person from every household shall be provided free technical training.

Mr. Speaker,

30. Through this action, we are giving a comprehensive package to the low-income people – slogan of which was raised by many leaders in the past, but nothing was given. But this is an essential requirement of Imran Khan's promise of *Riyasat-e-Madina*.

31. 65% of our population is below the age of 30. If we are unable to provide them with jobs and nurture their development, then we will not merely waste this important national capital but also allow simmering anger and agitation in their minds which would expose the society to incalculable risks. Therefore, growth trajectory of achieving 6-7% over the next two to three years is bare minimum that would provide them reasonable opportunities of employment and living a prosperous life.

32. To achieve 6-7 percent growth over the next 2 – 3 years, we plan to undertake the following measures:

(1) **Agriculture:** Together with the provinces, we aim to increase agriculture productivity and provide Agri-loans to ensure food security. An agriculture transformation plan has been devised for this purpose.Under this plan, support will be provided from water to seeds, fertilizer,

agri-credit, tractors and machinery, commodity warehousing, cold storage, and food processing industry.

(2) **Industry and Exports:** Mr. Speaker, I have seen in the past that whenever our economy grows, imports increase but exports do not keep pace with the increase. For this reason, we face crisis of external payments. Our exports have declined below 8% of GDP from around 12% about 15 years ago. Increase in exports is vital for moving out of recurrent balance of payments crisis and repeatedly going into the IMF programs. To increase exports, we are investing in establishment of special economic zones, supporting new exports in IT sector and agro-based industries, and endeavouring to make CPEC the platform where industries will be relocated, employment opportunities created and exports are made possible. In addition, we would expend earnest efforts in promoting Foreign-Direct-Investments in the export sector.

(3) **Housing and Construction:** Pakistan currently faces a housing shortage of at least 10 million units. Prime

Minister Imran Khan has set a target of constructing 5 million houses for the low-income groups. The PM's housing and construction package has spurred a flurry of economic activities in this sector and its allied industries. The government is taking the following steps to promote this program:

i. A Naya-Pakistan housing authority has been established for overall coordination of policymaking and implementation;

ii. A package of tax incentives was especially designed for housing schemes undertaken under the initiative;

iii. In addition, the government is providing a subsidy of Rs 3 lakh for low-income households to enable them to own their own house. For this purpose, an allocation of Rs 33 billion is proposed in the Budget 2021-22;

iv. The mortgage financing has been made operational in Pakistan which was elusive since independence. It is the result of efforts by Imran Khan that foreclosure law has been enacted and markup has been made reasonable;

v. All provincial governments are gearing up to support the initiative by identifying land, undertaking housing projects and supporting the private sector in their housing schemes;

vi. Banks are participating in a financing program which has so far attracted applications of more than Rs 100 billion of which Rs 70 billion have been approved and disbursements have started.

(4) ***Ehsaas* Program for the support of the vulnerable segments:** The major initiative of the government for social protection and poverty alleviation is the *Ehsaas* program, under which more than a dozen carefully designed programs have been launched covering such initiatives as:

i. Cash transfers,

ii. *Kamyab Jawan*,

iii. Interest free loans,

iv. *Nashonuma* (nutrition),

v. *Tahafuz* (one-time financial assistance from catastrophic health expenditure),

vi. *Amdan* (provision of income/assets to start small businesses),

vii. Financial support to orphans, street children, seasonal migrants, victims of child and bonded labour and daily wage workers,

viii. *Langar* (to serve meals to the poorest),

ix. Food card (ration distribution),

x. *Thela* (new generation of *Thela* design that sells food and non-food item.

For *Ehsaas* programme Rs 260 billion are being proposed in the budget 2021-22. This by far is the largest allocation and reflects the vision of the Prime Minister to help the extreme poor segments of our society.

(5) **Reforming the energy sector:** The country is faced with an unusual expansion in generation capacity which is imposing unbearable fixed capacity charges, which are

not possible to be passed onto consumers. Besides, we are confronted with multiple problems of losses, poor recoveries, cross-subsidization, high tariffs, and rising circular debt. A similar set of problems are faced in the gas sector. This situation is posing risks to the larger health of the economy and hence it is imperative that these problems are solved on war-footing so that not only the sector is put on sound basis but the threat to the rest of the economy is also eliminated. Some of the important initiatives that we have undertaken so far include; (i) formulation of a circular debt management plan, (ii) circular debt restructuring with the private power producers, (iii) incentives provided to industry for increased use of excess electricity, (iv) necessary investment in power transmission and distribution to reduce system losses, (v) announcement of electric vehicle policy to promote use of electricity, and (vi) induction of cheap power through hydro and renewable energy to reduce overall cost. Over the next two years, we will be undertaking further structural reforms in this sector to resolve all problems.

33. In addition, we are in the process of finalizing short-term, medium-term and long-term plans in different sectors of the economy including finance and banking, budget and debt sustainability, price stability, industry and exports, public sector enterprises and privatization policy, information technology and domestic commerce. A high-powered Economic Advisory Council has been constituted for this task. We will be presenting the plans in the next few weeks.

Public Sector Development Program

Mr. Speaker,

34. This budget is the development budget. It is the harbinger of progress. The reason I say so is because we are raising the development outlay from Rs 630 billion to Rs 900 billion, which is an increase of around 40%.

35. The current year's PSDP has focused on strengthening our health sector and creating livelihood activities to fight widespread disruptions caused by COVID-19.

36. For the next year, our development priorities areasfollows:

(1) Food and water security;

(2) Energy security;

(3) Improving critical road infrastructure;

(4) Advancing on implementation of China-Pakistan Economic Corridor (CPEC);

(5) Establishment and operations of Special Economic Zones;

(6) Sustainable Development Goals (SDGs);

(7) Combating climate change;

(8) Technology driven knowledge economy;

(9) Removing regional disparities.

37. These priorities are carefully articulated and will help boost economic growth, lower unemployment, and poverty.

38. Our vision for PSPD is simple. We will invest in high return projects that help transform lives of the people and undertake fast-track, transparent and corruption free execution. I am happy to announce that largest ever development budget of Rs 2,135 billion has been approved by the National Economic Council. This is 33% more than what was approved by the NEC last year.

Mr. Speaker,

39. I would now like to present key features of spending proposed under PSDP 2021-22:

Food Security

40. Our government is placing highest priority to uplift agriculture sector. In this year, we have witnessed bumper crops of wheat, sugarcane, and rice. However, the potential is much larger. Our average yields have remained almost constant over the past few decades due to less than desired focus on innovation, modernisation, and productivity. For this reason, the Federal Government announced National Agriculture Emergency Program, which intends to uplift agriculture and livestock sector on modern lines covering crop, livestock, fisheries, and water sector.

41. For the next year, we are proposing Rs 12 billion for the following key initiatives:

(1) Rs 1 billion for **Locust Emergency and Food Security project**;

(2) Rs 2 billion for **enhancing productivity** of rice, wheat, cotton, sugarcane and pulses;

(3) Rs 1 billion for enhancing **olive cultivation** on commercial scale;

(4) Rs 3 billion for improvement of **water courses**.

Water Security

42. Pakistan is fast becoming water scarce country. The Prime Minister is keen in developing water reservoirs, small, medium, and large dams so that our future water needs are safeguarded. The three large dams Dasu, Diamer Bhasha, and Mohmand Dams shall be our priority in the budget. We aim to complete these projects on time. A total of Rs 91 billion are proposed in the budget for ensuring water security. This amount excludes hydel energy generation project. Large projects that will receive majority funding include:

(1) **Dasu hydro power project**, we are proposing Rs 57 billion in the budget for stage-I.

(2) For **Daimer Bhasha**, Rs 23 billion are proposed.

(3) For **Mohmand Dam**, Rs 6 billion are proposed.

(4) **Neelum-Jehlum hydro power project**, Rs 14 billion are proposed.

43. Mr. Speaker, many other projects to increase water security are also underway including Darwat Dam, Khattak Banda Dam, Makh Banda Dam, Pezu Dam, Sari Kalash, Winder Dam etc.

China Pakistan Economic Corridor

Mr. Speaker,

44. This government is committed to fast tracking implementation of CPEC. To date 17 large projects amounting to $13 billion have been completed. Another 21 projects are on-going amounting to $21 billion. Additional 26 strategic projects are in pipeline amounting to $28 billion. Most of these projects are being completed on a timely basis. In the budget 2021-22, the key priorities will be:

(1) Completion of Karachi – Lahore motorway;

(2) Near completion of 120 Km Phase I of HavelianThakot and advancement of work on 118 Km Phase II of Karakorum Highway;

(3) Advancement of work on Zhob to Kuchlak Road;

(4) Improvement and widening of Chitral-Booni-Mastuj-Shandur Road;

(5) Upgrade of Pakistan Railways existing Main Line-1 (ML-1) and establishment of Phase-I dryport near havelian, and

(6) Population of Special Economic Zones with export-oriented Foreign Direct Investment from China and other countries.

Mr. Speaker,

45. A flagship project of ML-1 for improving North South Railways infrastructure and which costs $9.3 billion will be completed in three packages – package 1 started in March 2020, package 2 will start in July

2021 and package 3 will start in July 2022. Our government is keen to accelerate implementation of this national project which will benefit millions of people and ensure better connectivity and improve freight and passenger services.

Energy security

Mr. Speaker,

46. While the country currently has surplus electricity generation capacity, we are unable to transport and distribute all of it to the end-consumers. Therefore, our investment priorities will now shift towards ensuring that we are able to meet up this challenge. For this purpose, we are proposing Rs 118 billion in the budget. Our priorities in the budget shall be on the following:

(1) Rs 7.5 billion for **1000 KVs Islamabad West and Lahore North** transmission lines;

(2) Rs 8.5 billion for evacuation of **2160 MW of power from Dasu;**

(3) Rs 5.5 billion for evacuation of power from **Suki Kinari, Kohala, Mahal Hydro Power Project**;

(4) Rs 12 billion for **secondary transmission lines – Hyderabad and Sukkur.**

47. However, at the same time we will also invest in completing the already started electricity generation projects such as; 1200 MW of coal-fired power project in Jamshoro which will be allocated Rs 22 billion, K1 and K2 in Karachi for which Rs 16.5 billion are proposed, and 5th extension of *Terbela* hydro-power project.

Removing regional disparities

Mr. Speaker,

48. The Government has initiated Special Development Packages to ensure development of the backward areas to bring them at par with other developed regions of the country. The packages are the result of Prime Minister's vision of uplifting the lives of the poor in underdeveloped areas. Rs 100 billion are proposed for this purpose. These packages include:

(1) **Accelerated Development Plan for Southern Balochistan** – The package consists of funding 199 projects with the cost of Rs 601 billion. We are earmarking Rs 20 billion in the budget.

(2) **Karachi Transformation Plan** – The Plan was approved at a total size of Rs 739 billion which includes federal PSDP financing of Rs 98 billion, PPP mode financing of Rs 509 billion and Supreme Court Fund of Rs 125 billion. The Plan focuses on restoration/revamping of nullah/rivers, construction of roads, mass transit projects and water supply to Karachi. An amount of Rs 25.4 billion is allocated in the budget.

(3) **Socio-Economic Development of Gilgit Baltistan** – The Plan consists of 29 projects with the cost of Rs 162 billion. Rs 40 billion are being allocated in the budget.

(4) **Development Plan for 14+ Priority Districts of Sindh** – The Plan aims to execute 107 projects costing Rs 444 billion. Through these schemes the aim is to address the development challenges of connectivity, electricity supply, provision of higher education, skill development and sports facilities for the youth, and development of water resources to cater for rising agriculture sector demand in

the area. Rs 19.5 billion are allocated for this purpose this year.

(5) **Newly Merged Districts of Khyber Pakhtunkhwa** - The Government attaches special attention to development of Newly Merged Districts of Khyber Pakhtunkhwa and has increased allocation for next financial year to Rs 54 billion. This includes Rs 30 billion for Ten Year Development Plan.

Public Private Partnership and PSDP+

Mr. Speaker,

49. Our government realizes the importance of involving private sector in development. As we provide transparent and accountable governance, there is a considerable interest from various investors in national projects. The Public Private Partnership Authority currently has 50 projects at various stages of processing with an aggregate value of about Rs 2,000 billion covering Railways, Roads, Logistics, Science & Technology, Water, Aviation and Health etc. Sialkot-Kharian and Sukkur-Hyderabad motorways with Rs 233 billion have been processed in record time. Another 6 projects of Rs 710 billion will be processed in 2021-22.

The government is proposing Rs 61 billion in Viability Gap Fund as a grant to support projects that are economically justified but not financially viable.

Combating Climate Change

Mr. Speaker,

50. While Pakistan is low on carbon-emissions, it is regarded as one of the top ten countries most affected by climate change. A flag-ship project announced by this government is billion tree Tsunami. In the budget 2021-22, we are proposing Rs 14 billion for this initiative.

Social sector

Mr. Speaker,

51. Prime Minister Imran Khan has made social sector improvement the key priority of this government. Health, education, attaining Sustainable Development Goals, climate change, are some of the key focal areas. For this purpose, Rs 118 billion are proposed in the PSDP. This includes Rs 30 billion for health, Rs 44 billion for higher education, and Rs 68 billion for achievement of Sustainable Development Goals, and

Rs 16 billion for environment. These amounts are in addition to spending on *Ehsaas* program.

Salient Features of the Budget 2021-22

Mr. Speaker,

52. The following are the key features of the budget 2021-22:

(1) The **gross revenues** have been estimated at Rs 7,909 billion compared to the revised estimate of Rs 6,395 billion for 2020-21. This shows a handsome growth of 24% in gross revenues relative to the revised estimate of last year;

(2) **FBR revenues** are projected to grow by 24% from Rs 4,691 billion to Rs 5,829 billion. In Part II of my speech, I will explain our tax policy and how do we intend to achieve this target;

(3) **Non-tax revenues** are projected to grow by 22%.

(4) **Provincial share in federal taxes** would increase from Rs. 2,704 billion last year to 3,411 billion. <u>This means that</u>

an additional Rs 707 billion, or 25% as compared to revised estimates, would be made available to the provinces. This should enable provinces to spend resources on development and critical social sectors like health, education, population welfare, youth, women development, sports, labour welfare etc.;

(5) After provincial transfers, **net federal revenues** are estimated at Rs 4,497billion compared to Rs 3,691 billion under the revised estimate for last year. This shows a growth of about 22%;

(6) **Federal expenditures** are budgeted at Rs 8,487 billion compared to Rs 7,341billion of revised expenditure for 2020-21. This represents an increase of 15%. At a time when the nation is passing through one of the most difficult times in its history, it is imperative that government expenditures are minimised, and their utility should be ensured. Therefore, we will continue to be austere throughout the government;

(7) **The current expenditure** is projected at Rs 7,523 billion from Rs 6,561 billion, reflecting an increase of 14%. Excluding interest and one-off expenditure on COVID-19 and settlement of IPP dues, the current expenditure is projected to increase by 12%;

(8) **Subsidies** are projected at Rs 682 billion up from Rs 430 billion of revised estimates, mostly comprising payments of due of independent power producers, tariff differential subsidies and subsidies on food;

(9) The allocation for ***Ehsaas*** program, including that for Pakistan Bait al Maal and Poverty Alleviation Fund, has been increased from revised estimate FY 2020-21 of Rs. 210 billion to Rs. 260 billion, an increase of 24%. This is by far the highest amount allocated for the lower income segments of our society. It is important at a time when the poor and vulnerable groups are affected because of ravages wrought by the pandemic;

(10) As I had stated earlier, the Federal **development spending** are being increased from Rs 630 billion to Rs 900 billion, which is an increase of around 40%;

(11) The **overall fiscal deficit** for 2021-22 is estimated at 6.3% as opposed to the revised estimate of 7.1% for current fiscal year;

(12) Primary deficit is targeted at 0.7% as against the revised estimate of 1.2% for current year;

(13) With the above primary deficit target, our government would have made a total reduction in primary deficit of 3.2% in three-years from 3.8% in 2018-19 to 0.7% in 2021-22. Despite COVID-19, the government has continued reduction on the path of reduction of primary deficit. This, Mr. Speaker, is a great achievement.

Main Expenditure Priorities

Mr. Speaker,

53. Our key expenditure priorities in the Budget 2021-22 are proposed to be as follows:

(1) **Vaccinations:** To protect our population from COVID-19, around $1.1 billion dollars will be spent on importing vaccinations. In addition, we will provide funding for increasing local production of vaccines. Our initial estimate is that more than 100 million people should be vaccinated by June 2022.

(2) **Universal Health Coverage:** The Prime Minister's universal health coverage scheme will be rolled out further in collaboration with the provinces. The excellent health insurance program launched by the Khyber Pakhtunkhwa government as few years ago has transformed the lives of low-income groups who are now availing free of cost hospitalisation services from the leading public and private hospitals.

(3) **SME Support Programmes:** For risk sharing and collateral free lending to SME, various schemes have been envisaged for which an allocation of Rs 12 billion has been made;

(4) ***Kamyab* Pakistan Program:** For this program Rs.10 billion has been made. Additional amounts will be made available in case of success of this program;

(5) **Anti-Rape Fund:** On the special instructions of the Prime Minister, an Anti-Rape Fund is being established for which an initial allocation of Rs 100 million has been made which will be supplemented subsequently;

(6) **Higher Education:** An amount of Rs 66 billion is proposed to be provided to HEC for the current budget and Rs 44 billionfor the development budget, which would be subsequently expended by an additional Rs 15 billion;

(7) **Support to export sector:** Support for export sectors through different schemes will continue;

(8) **Support to Public Entities:** Although losses of PIA and Steel mills have been reduced through better management, they still need financial support from the Federal government. Budget allocations of Rs.20 billion for PIA and Rs.16 billion for Steel mills have been made;

(9) **Support to Special Areas:** Allocation for Azad Jammu and Kashmir has been increased from Rs 54 billion to Rs 60 billion. Allocation for Gilgit Baltistan is proposed to be enhanced from Rs.32 billion to Rs 47 billion. For merged districts of KPK, allocation is being increased from Rs.56 to Rs 60 billion. Moreover, special grant of Rs.19 billion has been provided to Sindh and Rs.10 billion to Balochistan over and above their NFC share;

(10) **Census:** To undertake a new Population Census in 2022, an amount of Rs 5 billion as federal share is proposed;

(11) **Local Government Elections:** An allocation of Rs 5 billion has been made to hold local government elections.

(12) **Covid-19 Emergency Fund:** Rs 100 billion have been proposed to be kept for meeting exigencies related to COVID-19.

PART – II

Tax Proposals

Mr. Speaker,

54. The lynchpin of our economic policy would be resource mobilisation, especially tax revenues. We plan to fundamentally restructure the taxation regime and working of tax administration. These initiatives are the need of the hour as there are serious issues of public trust and confidence in our tax system.

55. The proposed tax policy will emphasize on expansion of tax bases through identification of new taxpayers, gradual removal of exemptions and concessionary provisions and reduction in tax rates. We would also protect the existing taxpayers so that no further burden is placed on their tax liabilities.

56. At the outset our tax policy would be based on the following principles:

(1) We will restore the purity of **self-assessment scheme**, which would mean that except when there is any

'definitive information' contrary to the information disclosed in a tax return, all tax returns shall be deemed as assessment orders;

(2) The returns under self-assessment scheme would only be subjected to **audit** once they are chosen through an **automated risk-based selection procedure**;

(3) Furthermore, we would make use of outside auditors for carrying out the audit, which will be done remotely through an **e-Audit system**;

(4) These **audits** would be very serious and wilful evasion shall be considered a criminal offense carrying a jail term;

(5) We will strive to hit hard on **harassment** of taxpayers;

(6) The two taxes; **tax on income and tax on consumption**, would be the primary instruments of tax mobilisation;

(7) We will **reorient the tax machinery** to go after tax evaders, identify those who are outside the tax net when they should be inside, and make extensive use of information technology to detect prospective taxpayers

and reach out to them through the use of electronic communications, thereby eliminating personal contact with the taxpayers;

(8) **Progressivity in taxation** shall be further strengthened – the rich will be asked to pay their due share in taxes. Exemptions available to powerful groups shall be removed;

(9) **No new taxes shall be imposed on the salaried class**;

(10) The system of **track and trace** will be implemented initially with four industries but would be expanded to the full spectrum of industrial and trading activities;

(11) A major plank of our strategy would be the **expansion of GST base**. In this regard, we would bring into the tax net all retail and wholesale transactions which are using emerging and evolving digital and electronic payment systems. To this effect, we would help traders install the point-of-sale (POS) equipment and link it up to the FBR system.

(12) We would incentivise consumers through a system of **prizes on sales tax receipts** through an open ballot every month. We have setup a special cell in FBR comprising experienced retail business experts together with a smart complement of young officers who would be engaged in rolling out this plan and ensure its efficient operations;

(13) **Pakistan Single Window** shall be piloted with the view to operationalise it in the near future. This will bring all activities connected with the clearance of imports and exports on a single portal which would lead to significant reduction in the number of days required for cargo clearance;

(14) The work on **harmonisation of sales tax on services** with the provinces is moving apace and would be made fully operational during the year;

(15) We will simplify the system of tax through introduction of **new simplified tax return forms and new tax code** and rules.

Mr. Speaker,

57. I now announce specific tax policy proposals included in the Finance Bill 2021:

Sales Tax and Federal Excise Duty

58. In Sales Tax and Federal Excise Duty, we are giving the following relief measures:

59. Enhancement of threshold for Cottage Industry: Small businesses are the backbone of our economy as theycreate maximum job opportunities and provide subsistence tosignificant number of people, thus supporting economic growth. To facilitate small businesses, threshold of annual turnover is being enhanced. Now a cottage industry having annual turnover of up to Rs 10 million will not be required to register for sales tax. Previously, a small business having turnover of Rs 3 million per annum was required to register and face the hassle of filing monthly sales tax returns.

60. Measures for Ease of Doing Business: Mr. Speaker, to facilitate the registered persons and enhancing ease of doing business, we are proposing various schemes such as:

(1) Allowing constructive payment for adjusting payable and receivable under section 73 of sales tax law;

(2) Doubling the tier-I retailer shop area requirement for furniture business;

(3) Enhancing the scope of compensation for delayed refunds; and

(4) Excluding advance payment from chargeability of sales tax.

61. **Relaxation of restriction on input tax adjustment under section 8B:** Removal of restriction on input tax allowance under sales tax law has been a major demand from business community; however, considering the importance of minimum value addition on VAT model, it is proposed to eliminate this restriction on highly regulated corporate sector that ispublic limited companies listed on Pakistan Stock Exchange. This would be a big breakthrough for further corporatization of economy and facilitation of regulated corporate sector.

62. **Withdrawal of FED and Reduction in Sales Tax on Locally Manufactured cars up to 850 cc:** Rising prices of locally manufactured

small cars is a major concern for low earning families. Accordingly, it is proposed that small cars upto 850 cc capacity may be exempted from levy of FE besides reducing Sales Tax rate from 17% to 12.5% and withdrawing value added tax.

63. Withdrawal of FED on Industries in FATA/PATA: Through Finance Act 2019 Federal Excise was imposed on cooking oil, Ghee and steel products to provide level playing field to the industries located in Tariff areas; however, this scheme has been agitated by industries of FATA/PATA. Accordingly Federal Excise in VAT mode on these sectors is being withdrawn.

64. Allowing Zero Rating to Export of IT Services: To encourage export of IT and IT enables services, zero-rating on these services is proposed to be allowed by amending ICT (Tax on Services) Ordinance, 2001.

65. Withdrawal of FED on Fruit Juices: Federal Excise on fruit juices was imposed vide Finance Act 2019 and resultantly prices of these products increased. Moreover, due to pandemic this sector is faced with adverse situation. To provide relief to this sector it is proposed to withdraw Federal Excise on juices.

66. Enlarging scope of exemption on paper for publication of Holy Quran: Printing and publication of Holy Quran on durable and high-quality paper is part of our faith. Accordingly, it is proposed to grant exemption on import of high-quality art and printing paper for the purpose of printing and publication of Holy Quran.

67. Tax Incentives for promoting electric vehicles: To address environmental issues, reduce reliance on gasoline and provide cheaper source of transportation to public, Government of Pakistan is encouraging the manufacture and use of electric vehicles. For this purpose, various tax exemptions and concessions are being proposed, which include tax exemption on import of CKD kits for local manufacturing of electric vehicles, reduction in sales tax rate on locally manufactured electric vehicles from 17% to 1%, withdrawal ofvalue addition tax on import of electric vehicles and CKD kits and withdrawal of federal excise duty on 4-wheelers electric vehicles.

68. Sales tax exemption to auto disable syringes and oxygen cylinders: We all know that COVID-19 has badly damaged entire human race and global economy. To mitigate adverse effects of this killer virus and debilitating diseases such as Hepatitis, we have been taking several measures, which include tax exemption on import of auto disable syringes and their raw material and exemption on oxygen cylinders.

69. Exemption to Special Technology Zones (STZ): Honourable Prime Minister of Pakistan believes that technological revolution would bring sustainable economic growth and reduce poverty. For this purpose, STZ are being established throughout the country. To encourage investment in these IT zones, tax exemption on import of plant, machinery, equipment, and raw materials is being proposed.

70. Exemption to SILOS for storage of agriculture products: Food security is a major challenge for our government despite being agricultural country. Accordingly, to facilitate the farmer and encourage storage of grain and agricultural activity and improve shelf lives of commodities, in the rural areas, it is proposed to grant exemption on locally produced silos. This initiative is part of the Prime Minister'scomprehensive Agriculture Transformation Plan.

71. Reduction of FED on telecom services: To facilitate businesses and provide relief to the general masses, rate of federal excise duty on telecommunication is proposed to be reduced from 17% to 16%.

72. Withdrawal of FED on MDR: Further, we are proposing withdrawal of federal excise duty on Merchant Discount Rate (MDR) charged on POS by banks, so that businesses are encouraged to carry out transactions through POS machines.

73. Introduction of prize scheme for customers making purchases from integrated Tier- 1 Retailers: One of the uphill tasks for our government is to eliminate the black economy by way of promoting digitalisation of the economy. Accordingly, we are introducing a number of tax measures as well as concessions for promotion of digital economy.

74. Major initiative taken by our government is the introduction of concept of Tier-1 retailers and their integration with FBR. On this front, we have received encouraging results and substantial revenues.

75. This year, we foresee speedy integration of remaining retailers by way of offering more facilitation and concessions. All POS holders will be included in Tier-1. In addition, we are proposing new prize scheme for the customers making purchases from Tier-1 retailers integrated with FBR. The monthly prizes of Rs250 million will be disbursed to customers holding system generated invoices issued by Tier-1 retailers integrated with FBR through computer random balloting. The prize scheme will force the retailers to issue genuine sales tax invoices and pay tax in Government kitty.

76. Bringing e-commerce transactions in sales tax net: We have seen extraordinary sales through online marketplaces especially due to Covid-19 lockdowns. However, contribution made by these e-commerce digital platforms in national exchequer is negligible. Accordingly, it is proposed to bring third party sales made through established online marketplaces within the purview of sales tax.

77. Registration of Brands by certain sectors: One of the major concerns of our times is the availability of counterfeit goods especially cigarettes in the market. Although we have already introduced the mechanism of Trace & Track system, which is in the process of implementation; however, to enforce more stringent measures, legal requirement of registration of brand licenses is being introduced. Through this measure, all the manufacturers of specified goods will be legally required to get registered their brands with FBR and accordingly unregistered brands will be treated as counterfeit goods liable for outright confiscation and destruction.

78. Levy of FED on Certain Telecommunication Services: Telecommunication sector has shown robust growth over period of time. To reap reasonable revenue from this sector, Federal Excise on mobile phone calls exceeding 03 Minutes, Internet data usage and SMS messages is being proposed. This will result into mild taxation of a broad spectrum of population.

79. Inclusion of sugar in the Third schedule: Sugar, although not a staple food, is still a source of daily caloric intake for millions of people in Pakistan. Recently, an unprecedented increase in the prices of sugar has been witnessed; however, this increase has not resulted in corresponding increase in revenue due to that fact that for the purposes of sales tax the value of sugar is not ad-valorem but specific that is Rs.60 per kg, which is considerably below the actual market price of the commodity. To address this anomaly, sugar is proposed to be included in the Third Schedule to the Sales Tax Act so that tax is charged on actual retail price of the product. This measure would not only ensure due payment of tax but also help in putting a more effective price control mechanism.

80. Withdrawal of certain exemptions and reduced rates: Government of Pakistan is following the principles of equity and justice in tax laws. It has time and again been emphasized that numerous tax exemptions and concessions have been allowed under the tax laws, which on one hand compromise national revenues, while on the other hand they do not contribute to socio-economic development. Accordingly, we have carried out an in-depth exercise to review tax exemptions under sales tax and identified number of non-essential items for withdrawal from the purview of exemption. The same exercise has also been done in respect of reduced rates of taxation. This has been done by excluding exemptions currently available for ordinary food, education, and health related items. The details are provided in the Finance Bill.

81. Enforcement of sales tax withholding on reclaimed lead and used lead batteries: At present, the sector related to reclaimed lead and used lead batteries is an unorganized sector which contribute very little to the revenue, as most of the suppliers are unregistered persons. To plug revenue leakage and ensure due payment of taxes, proposal to make withholding of sales tax has been made.

Income Tax

Mr. Speaker,

82. I now present proposals relating to income tax with the objective of ease of doing business and simplification of tax regime.

83. Curtailing the discretionary power of the Tax authorities: The discretionary powers of the income tax authorities are proposed to be curtailed:

(1) Tax authorities can conduct inquiry in certain matters regarding amendment of assessment without selection of case for audit. The power to conduct inquiry is proposed to be withdrawn;

(2) Time limit for disposal of show cause notices is proposed to be 120 days; and

(3) The power of the commissioner to reject advance tax estimates has also been proposed to be withdrawn.

84. Third Party Audits: At present tax authorities exercise multiple powers to conduct audit and inquiries. This has saddled businesses with increased cost. To curb the misuse of these discretionary powers, it has been decided that audits will only be conducted through third parties and not by the officers of FBR.

85. Automated Issuance of Refunds: To claim refunds, taxpayer is required to file refund application and provide documents for physical verification. To facilitate taxpayers, centralized automated refund system is being proposed where there will be no requirement for application and verification. The system based verified refunds would be issued directly into the bank accounts of taxpayers without any face-to-face contact.

86. Prompt Issuance of Exemption Certificate: The delay in the issuance of exemption certificate is a major concern of taxpayers. It is proposed that time limit of fifteen days may be observed for issuance of exemption certificate for corporate taxpayers. After the lapse of statutory time limit, the computerized system would automatically issue exemption certificate to taxpayers.

87. E-Hearing: To provide faceless tax administration, reducing compliance cost and saving precious time of the taxpayers, the mechanism of e-hearing has been devised. Enabling legal provisions for admissibility of evidence collected during e-hearing are proposed.

88. **Alternate Dispute Resolution:** To reduce litigation and disputes, the mechanism of ADRC is proposed to be strengthened. It is proposed that:

(1) The scope of ADRC may be enhanced to include cases where criminal proceedings have been initiated;

(2) Time limit to constitute committee may be curtailed to 30 days from 60 days;

(3) Time limit to decide cases may be curtailed to 60 days from 120 days to formulate recommendations; and

(4) In case of failure to decide, powers to constitute second committee shall be provided.

89. **Minimizing Requirements for Tax Compliance:** Taxpayers are subject to multiple compliances. Currently they are required to update their profile periodically. This requirement costs time, energy, and resources. In view of the fact that significant information is already available through tax returns, and to facilitate taxpayers in line with ease of doing business, therequirement to update tax payers profile is proposed to be withdrawn.

Mr. Speaker,

90. I now present proposals regarding income tax relief measures.

91. Reduction in Withholding Tax Regime by 40%: In the past there has been a trend to collect direct taxes in the indirect manner. This not only increases burden on the people but increase compliance cost for the documented sectors of the economy. At present we are determined to reduce the compliance cost and simplify the taxation system. The documented sector is required to collect taxes on 38 different legal provisions. It is being proposed that 12 withholding tax provisions may be omitted. These includes withholding and tax collection provisions regarding

(1) Banking transactions;

(2) Pakistan stock exchange;

(3) Margin financing;

(4) Air travel services;

(5) International transactions through debit and credit cards; and

(6) Extraction of minerals.

92. It is also proposed that 3 other provisions may be merged with other existing provisions to simplify the tax laws. It is however, clarified that the information which was made available through withholding taxes is now mostly available through the data sharing arrangements and reporting requirements from the documented sectors.

93. Reduction of withholding tax rate on Mobile Phone Users: Currently withholding tax rate on mobile services is 12.5%. To reduce burden on common citizen, it is proposed that the rate may be reduced to 10% for next financial year. It is also proposed that it will further be reduced to 8% afterwards.

94. Reduced rate of tax for certain services: Many services carry low margins and higher withholding rate is causing problem for them. Therefore, it is proposed that withholding tax on oilfield services, warehousing services, security services, logistic services, telecommunication services and collateral management services may be reduced to 3% from existing 8%.

95. Reduction in Capital Gain Tax on Disposal of Securities: Due to Covid-19 pandemic the capital market has been struck hard. In order to alleviate the difficulties faced by the stock market in the past two years, it is proposed that the rate of capital gain tax be reduced to 12.5% from 15%.

96. Adjustment of Losses against Property Income: Under present legal dispensation current year business loss is adjustable against income under all heads except property and salary income. This is causing hardship to many businesses. As property income has been brought under normal tax regime therefore, current year business loss has also been allowed to be adjusted against property income.

97. Unconditional Grant of Exemption from Tax to Different Organizations: Law provides for conditional and unconditional exemptions to different organizations. To encourage philanthropy NGOs like Abdul Sattar Edhi Foundation, Indus Hospital and Network, Patient's Aid Foundation, Sundus Foundation, The Citizen Foundation, Ali Zaib Foundation etc. these are proposed to be placed in the list of unconditional exempt entities.

98. Benefits for Non-Residents – Non recognition Rules: Current law places non-residents on a disadvantageous position where they receive any asset under gift from a relative, or through inheritance or will or for agreement to live apart. Such receipt becomes immediately taxable. This is a major grievance of overseas Pakistanis which Government has decided to address. It is proposed that under such transfers no gain or loss shall be recognized under law.

99. Rationalization of Minimum Tax: The Income tax Ordinance provides for alternate minimum tax on turnover basis. Three different types of interventions have been proposed.

(1) Enhancing threshold for individuals and AOPs to pay minimum tax on turnover basis from 10 million to 100 million;

(2) Reduce general tax rate from 1.5% to 1.25% which will be reduced gradually each year; and

(3) Further reduction in rate for specified sectors like integrated retailers of FMCG and refineries.

100. Exemption from Withholding Tax on Import: It is proposed that no tax may be collected on imports of books, journals, agriculture equipment and motor vehicles in CBU condition upto 850 cc.

Mr. Speaker,

101. I now present proposals to streamline income tax.

102. Reduction in Block Taxation: To make complex tax system a simpler one, the block taxation for property income is proposed to be done away with. The scope of separate block taxation of capital gain on the sale of immoveable property and on interest income is proposed to be curtailed except smaller amounts.

103. Explicit Provisions regarding taxability of transactions of Cooperative Societies with its Members: Doctrine of mutual transactions has become a major tool of tax avoidance. To curb the practice, explicit provision is proposed to be added to law to curb such practices.

Mr. Speaker,

104. I now present measures proposed for enhancing documentation:

105. Tax Credit for Point of Sale (POS) Machines: Tax structure in Pakistan is very lopsided. Every sector of the economy is not contributing to taxation as per its share in GDP. The prime example is the services sector within which the share of wholesale and retail businesses is 18% in GDP whereas its share in taxation is negligible. To tap the potential, a policy of carrot and stick has been adopted. The major tool to document this sector is the information technology. Realtime point of sale mechanism shall be extended to 500,000 retail outlets from the current 11,000 retail outlets in two years. To encourage integration with point-of-sale real time reporting system of FBR, many measures have been proposed that include tax credit for POS machines. It means that Government shall bear the cost of such devices and businesses will not be burdened.

106. Moreover, the scope of very low rate withholding tax on wholesalers and retailers is extended to other sectors of economy. To further facilitate wholesalers and retailers, the threshold for minimum tax for individuals and AOPs is proposed to be enhanced to Rs. 100 million. It is also proposed that reduced rate of withholding tax and turnover tax may be extended to other sectors for the persons who appear on the Active Taxpayer List of Income Tax and Sales Tax.

107. Harmonizing Inquiry and Investigation Procedures under Different Domestic Tax Laws: Non-Compliance of tax laws is a major hurdle. To promote tax compliance culture in the country, the offences prescribed under law are proposed to be made cognizable offences and a harmonized legal framework for investigation and inquiries is proposed to be adopted under all domestic tax laws. Necessary changes have been proposed in the Income Tax Laws to harmonize it with other domestic tax laws.

108. Notified Bank Account: In order to strengthen the compliance regime and document the economy the concept of notified bank account for making business transactions in proposed to be introduced in the Income Tax. Failure to notify such account shall also attract penal provisions.

Mr. Speaker

109. I now present proposed sector-specific incentives:

110. Fixed Tax scheme for Manufacturing SMEs: Development of any nation depends on industrialization. To promote small and medium scale manufacturers, a special tax regime is proposed. Their tax liability would be on category basis. SMEs having turnover up to Rs. 100 million would pay tax at the rate of 0.25% of their turnover or 7.5% of their taxable income at their own option. SMEs having turnover exceeding Rs. 100 million and up to Rs. 250 million shall pay tax at the rate of 0.5% of their turnover or 15% of their taxable income at their own option. A simplified single page tax return is proposed.

111. Export of services: To promote, IT services, freelancers and export of other services, a special regime at par with export of goods regime is proposed. All services receipts which are brought to Pakistan through banking channel shall be taxed at a reduced rate of 1% under final tax regime and no question thereafter shall be asked about it.

112. Relief for IT Sector in Pakistan: Export of IT and IT enabled services has been brought under the ambit of 100% tax credit. The conditions for availing tax credit have been relaxed and discretionary powers of tax authorities have been curtailed. The scope of such services is proposed to be broadened by including data storage and cloud computing services.

113. Special Economic Zone Enterprises: Special Economic Zones are a key project of CPEC. They were exempted from tax however under the law they are still liable to pay minimum tax on their turnover. This is causing hardship to the investors. It is proposed that SEZ enterprises may be exempted from minimum tax for tax-year 2021 and onwards.

114. Special Technology Zone Authorities: The establishment of Special Technology Zones is a flagship initiative of this Government. In order to promote innovation, technology and entrepreneurship, special tax incentives have been proposed including

(1) Ten-year tax exemption for Special Technology Zone Authority, Zone Developers and Zone Enterprises;

(2) Tax exemption on the import of capital goods; and

(3) Tax exemption on dividend income of private funds from investment in zone enterprises.

115. Futures Commodity Markets: Development of regulated commodity markets is another important step of the Government. To provide enabling environment, warehousing services, logistic services and collateral management services have been proposed a reduced rate of 3% instead of 8%. The trading of electronic warehouse receipts on Pakistan Mercantile Exchange has also been proposed to be exempted from withholding taxes.

116. TELCOs: Government is committed to extend all sort of facilitation to organized taxpayers and reduce burden on common man.

To expand telecommunication network and attract investment, telecom sector is proposed to be extended the status of industrial undertaking and tax on telecommunication service is proposed to be reduced from 8% to 3%

Customs

Mr. Speaker,

117. Agriculture, livestock, and poultry are a major source of our GDP. Livestock and poultry, both less organized and informal sectors, form an essential component of our food supply. The government is striving to strengthen these sectors. Multiple relief measures taken have been for livestock & poultry sectors as well as agricultural sector in this budget. Vaccines for the veterinary medicines have been exempted from customs duties. Similarly, concessions in tariff have been given to a number of feed additives which are considered as one of the most basic requirements of the Dairy sector and have now been made importable at concessionary rates. To give relief to agricultural sector and farmers of the country for long term grain storage, mechanical silos have been exempted from the customs duties fulfilling the demand from this sector.

118. I am glad to share that Pakistan Automotive industry contributes significantly to the country GDP and to the national ex chequer in terms of duty and taxes being the second largest revenue contributor. The sector as a whole provides employment to millions of people. Pakistan Auto market is considered among the smallest but fastest growing in Asia. To incentives this sector further additional custom duty and regulatory duty on CBU import of vehicles upto 850cc are being exempted. Whereas relief to existing manufacturing industry and new models is also being provided by removing ACD and rationalizing the tariff structure. Due to these targeted interventions the middle class of this country will be able to afford a car of this specific category and will accrue the benefits of governments flagship projects of **"Meri Gari Scheme"** which will enable many countrymen who wish to graduate from motorcycle to own their car by providing small car at an affordable price. Moreover further incentives in the form of reduction of customs duties are also being provided to electric vehicles for one year to promote the culture of electric vehicle in Pakistan. Similarly, keeping in view the changing international motorcycles trend usage of local manufacturing of heavy motorcycles and specific categories of trucks and tractors are also being incentivised by rationalizing the tariff structure.This will revolutionise the auto-sector as per the vision of Prime Minister Imran Khan and due to untiring efforts of Minister for Industries and Production Makhdoom Khusro Bukhtiar.

119. Government is aware of the condition of a common man in post-Covid-19 scenario. Considering the sensitivity of the fact that we are still in the pandemic, therefore, exemptions given earlier by this government on Covid-19 related medical equipment /items have been extended for further six months. Further, additional 35 raw materials required in manufacturing of these items, have also been exempted from customs duties so that supply of COVID-19related medicines to those in need be available readily at affordable prices.

Mr. Speaker,

120. The Government has taken kinetic measures to boost the industrial growth to tear away the label of “fragile” attached with our economy. This government from the day one is focused on boosting domestic industry and reducing their cost of doing business. In the Finance Act, 2019-20 tariff rates were reduced to 0% on 1639 PCT codes which were primarily raw materials for domestic industry. In Finance Act, 2020-21, 2% Additional Customs Duty was also withdrawn on import of these raw materials and inputs. Due to the implementation of these measures, concessions/benefits amounting to Rs more than 25 billion have already been passed on. Resultantly the economy has kick started and showing growth as evident from latest GDP figures. Under the umbrella of National Tariff Policy, 2019-24, Commerce, FBR and Finance are working in unison for tariff rationalization, removal of tariff anomalies and distortions to provide a positive stimulus to domestic industry and exports.

121. To provide a boost and further strengthen the industrial economy, Additional Customs Duty and Regulatory Duty on 164 tariff headings pertaining to textile related items were removed during current financial year. Besides Additional Customs Duty on 152 tariff codes pertaining to different raw materials/intermediary goods was also removed. Similarly, to meet the demand of value-added textile sector, RD on the import of cotton yarn was removed and later on 5% customs duty on cotton yarn was also removed.

Mr. Speaker,

122. The primary focus of the Government is to reduce the cost of production for the industry. At the same time, much needed protection has also been given to the manufacturing sector of the country.

Therefore, in continuation of the government's well thought out policy and keeping in view the fundamental principles and salient features of the National Tariff Policy, Special focus was given to the textile, pharmaceutical, oil refinery industry, plastic and iron & steel sectors as well as downstream engineering goods manufacturing industry. Textile sector being backbone of the economy, merits special attention. Therefore, tariff structure has been reduced and rationalized comprehensively on cotton value chain, polyester value chain and man-made fibres, thereby fulfilling long standing demands by the Textile industry. Similarly, to give relief to downstream engineering goods manufacturing industry, customs duties and additional customs duty on flat rolled HRC and alloy and stainless-steel products have been exempted along with reduction in Regulatory duty. In view of the sensitivity of the pharmaceutical sector, more than 300 Active Pharmaceutical Ingredients (API) have been exempted from customs duties. Furthermore, raw materials of auto disable syringe manufacturing industry have also been exempted from customs duties to reduce the cost of local production of this important medical item. Besides, multiple exemptions/concessions in tariff have also been given to Artificial Leather

Industry, boiler manufacturing industry, liquefied packaging industry and Dairy industry.

Mr. Speaker,

123. In line with the vision of the Prime Minister of Pakistan to make Pakistan a tourism friendly destination in the world, special attention has been given to the tourism sector in the present budget. Accordingly for promotion of tourism sector and other important manufacturing sectors have been incentivized by placing their various raw materials/inputs either under 0% customs duty slab or under concessionary rates. In this regard it is quite significant to highlight that net revenue impact of all these relief/concessionary measures is more than Rs. 45 billion. The impact of which will be borne by the present government to achieve the objective of industrial development and economic growth.

Mr. Speaker,

124. The Regulatory Duty regime has been reviewed and Regulatory Duties on multiple items have been either reduced or removed. However, it is also important to mention that in many cases Regulatory Duty was imposed with the intention to protect the local industry and to encourage import substitution in the country. These industries include mobile phone industry as well as tyre manufacturing industry. Pakistan is the 8th largest mobile phone consuming market of the world and to meet the annual demand of the market, a huge quantum of the precious foreign exchange is wasted on import of mobile handsets. However, after the launching of the Mobile Phone Device Policy, Pakistan's local mobile phone manufacturing industry has started production in an impressive manner. The days are not far off when Pakistan will be a mobile phone exporting country. As the local mobile phone industry is in its nascent stage, therefore, in order to promote the import substitution and attract more foreign investment, regulatory duties on import of mobile phones are being increased. Similarly Regulatory Duties on import of tyres are also being increased to encourage and protect the local industry.

Mr. Speaker,

125. Government is fully committed towards curbing the menace of smuggling. Government is convinced that enhancement in the legal imports as well as growth in revenue collection are directly linked with the secure and smuggling free borders. Hectic efforts have already been by Pakistan Customs to uproot this gruesome phenomenon in its entirety. Borders are being effectively managed and zero tolerance anti-smuggling policy has been strictly implemented. Due to the hectic efforts of Pakistan Customs, smuggled/banned goods amounting to Rs. 52 billion have been seized so far during the current financial year. The surge in import economy noticed during current financial year and enhancement in revenue collection is the clear evidence of the effective implementation of the enforcement measures. In view of this, special importance has been given to Border Management Initiative to strengthen the Customs formations, so as to secure western borders and sea/costal belts of the country.

126. It is quite important to mention that on completion, Pakistan Single Window (PSW) project will integrate 74+ Government entities and port community into a single plate-form which will be a gigantic step towards import and export facilitation and will be game changer for trade facilitation in the region. For further facilitation, Risk management Systems have also been strengthened to cater to the clearance of more than 60% of import cargo in green channel which will speed up the clearance of raw materials and other goods on real time basis for the domestic and export industries.

Mr. Speaker,

127. Government is striving to facilitate the exporters to the maximum. The phenomenal rise in the share of duty-free import value is mainly due to multiple exemptions given in recent past to export oriented industry and continuation of a more rationalized cascading tariff structure. To ensure that Pakistan is pursuing an export led growth strategy, it is of utmost importance that, steps for the facilitation of exporters should be undertaken that make them more competitive in the international markets, reduces their cost of compliance and increases the predictability of the system. Unfortunately steps for exporter facilitation have been taken in the past in a haphazard manner and all focus had been on large exporters. In this regard, with a view to enhance exporter facilitation, and to target the small and medium exporters, by creating an enabling environment that provides them the same opportunities which were previously available to big exporters, FBR has drafted a unified exporter facilitation Scheme. The Scheme covers the full spectrum of our export market and supply chain. It provides a level playing field to all categories of exporters, specially the small and medium exporters who were not able to avail the previous schemes. The Scheme allows predictability by authorizing import of duty-free goods for export for maximum five years, previously this period was 1-2 years. By use of automation, the role of Regulatory Authorities has been minimized and facilitation has been maximized. To ensure a smooth transition, it has been decided that all previous schemes will remain operative for a period of two years, with the option to existing exporters to shift to this new Scheme. Similarly, introduction of the toll manufacturing scheme will open a new window of opportunity for local industry by providing an enabling environment to generate new production possibilities for exports to foreign principals and buyers creating new jobs and earning much needed foreign exchange.

PART – III

Relief Measures

Mr. Speaker,

128. I will now present the relief measures.

129. The government is cognizant of the hardships that government employees are facing due to higher inflation. Last year because of general austerity we decided not to make any increase in salaries of government employees. However, as economic conditions have improved somewhat, and as we realise that there was a loss of income due to increase in prices, the government is proposing the following relief measures for government employees and pensioners in the budget 2021-22:

(1) Grant of 10% Ad-hoc Relief Allowance to all Federal Government employees with effect from 1 July 2021;

(2) Grant of 10% increase in pension to all pensioners of the Federal Government with effect from 1 July 2021;

(3) Increase in orderly allowance from Rs 14,000 to Rs 17,500;

(4) Increase of integrated allowance for employees in BPS 1.5 from Rs 450 to Rs 900.

130. Minimum wage: Similarly, to mitigate the low-income from inflationary pressures, the minimum wage is proposed to be increased to Rs 20,000 per month.

Concluding Remarks

Mr. Speaker,

131. We have given a budget which is full of hope. Inshallah this budget will bring the good news for sustainable growth.

132. We have given an economic program which addresses the welfare of all segments of the society. From agriculture to industry, services to social sectors, from labour to *kisaan* to women to students, homeless, government servants, youth, and for the first time by targeting the 4-6 million poor households who in the past have been waiting for their lives to change. Now Prime Minister Imran Khan has decided to change their well-being by providing them shelter, income generating opportunities, health protection and skill development in shape of a complete package. There is something for all in this budget.

133. Above all, as I had said at the outset, this is a development budget. A budget for the progress of the country. A budget for enabling the country to stand on its feet. A budget that cares for its poor and vulnerable groups, a budget that plans for the absorption of youth, which is joining our labour market in droves, so that they can justifiably expect that there would be opportunities for them. Our educated youth needs such opportunities that would give them challenge, a challenge that would introduce them to the new world, a world of Information Technology, a world of Artificial Intelligence, a world of connectivity. It is for this reason, that we are making IT industry as the future to lead our exports.

134. Our agriculture potential remains extremely underutilized and much of its true value especially in perishable items is destroyed before it fetches any value for the poor farmer. We are investing in the agriculture sector to bring about cold-chains, storage and access to markets, improved quality of seeds, credit and water supply. The true value of agriculture would be realized once we enable our farmer to export the excess production and fetch international prices.

135. We are giving housing so that the country does not have homeless people.

Mr. Speaker,

136. What we are doing is converting Prime Minister’s vision of establishing the welfare society which was established by our Prophet (S.A.S) in Medina. It is a system that transfers people from darkness to the lightness.

نہیں ہے ناامید اقبالؔ اپنی کشت ویراں سے
ذرا نم ہو تو یہ مٹی بہت زرخیز ہے ساقی

Pakistan Paindabad

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