FEDERAL BUDGET
2016-17

BUDGET SPEECH

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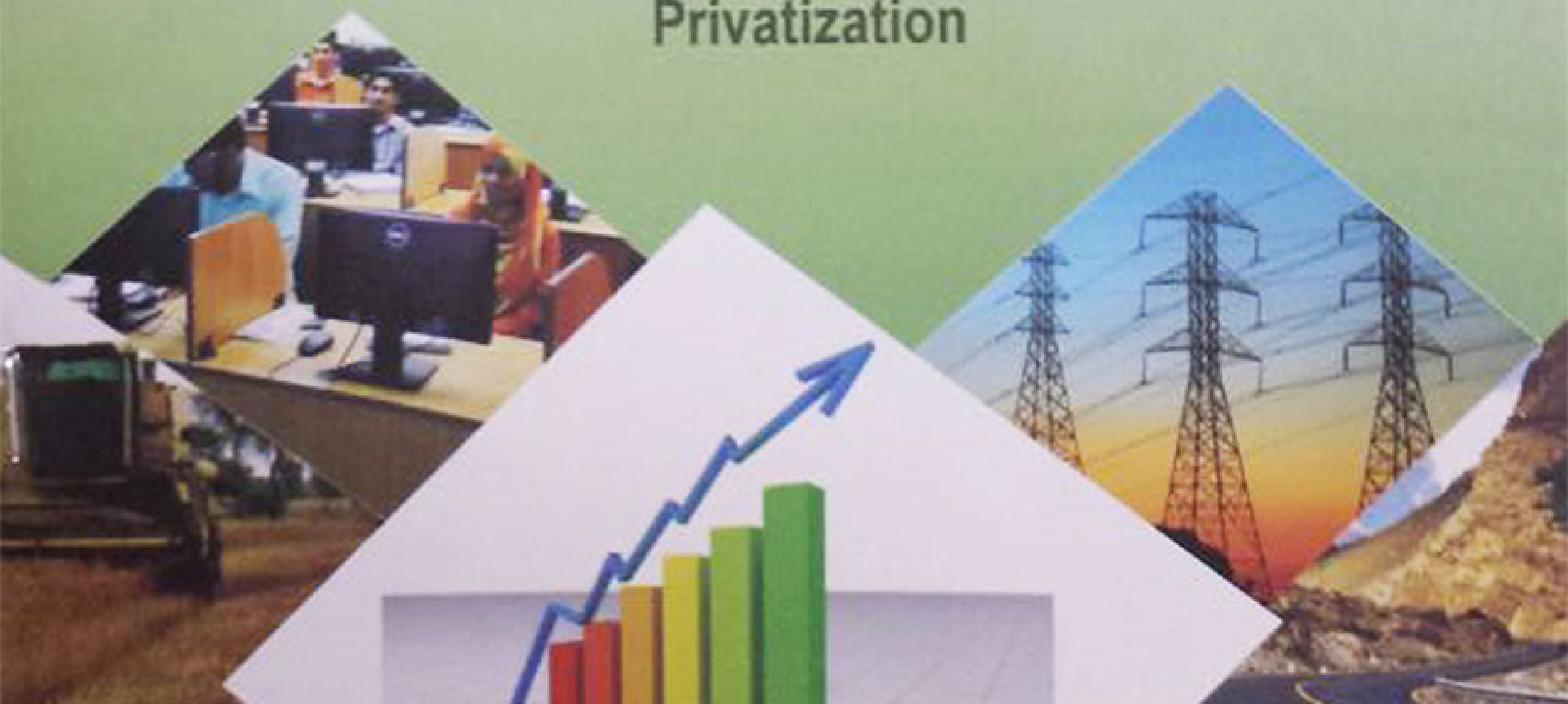

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ISLAMABAD

3 June 2016

Budget Speech 2016-17

Bismillahir-Rehmanir-Rahim

PART-I

Mr. Speaker,

1. As I rise to present the 4th Budget of our Government, the Prime Minister and the Leader of the House is recovering very fast after undergoing surgery. Prayers of this House, entire nation and millions people from around the world are with him for his speedy recovery so that he can come back and take charge of the country's leadership.

Mr. Speaker,

2. When we remember the economic challenges that were faced in June 2013, and the journey we had passed in the past three years under the leadership of Prime Minister Nawaz Sharif, we thank the blessings of Allah bestowed upon us, Alhamdolilah, the dangers faced to the economy are over, and the country is on the path to stability and growth. Those who had predicted Pakistan's default by June 2014 have been defeated. We have not only prevented the country from economic default, but also have stabilized the economy. Today international organisations are taking Pakistan's name with respect.

Mr. Speaker

3. We had a well-defined response for this purpose, which we had articulated in our Manifesto before the 2013 general elections on the basis of which we won the national elections. Our challenge was to put them in action and diligently remain on course until their fruits were borne. We have done

precisely this and have not only prevented default but have solidly stabilized the economy and reinvigorated growth. Today, Allah has honored us to present the 4th Budget of the country and in every budget we have done better than the previous one and all economic indicators testify to this claim.

Comparative Economic Performance 2012-13 vs. 2015-16

Mr. Speaker:

4. I would like to place before this august House the following key economic indicators, based on 9 or 10 months data or projected for the full current fiscal year (2015-16) in comparison with the situation that existed in a similar period or at the close of FY2013 or at End-June 2013:

1) **Economic Growth**, in the past two years has remained above 4% in the past two years, and during FY2015-16 has been provisionally recorded at 4.71% which is highest in the previous eight years. This performance could have been better if cotton crop had not witnessed loss of 28% due to which national economic growth was reduced by 0.5%.
2) **Per Capita Income**, which stood at $1334 in FY2012-13 is projected to increase to $1561 in FY2015-16, showing a growth of 17% in dollar terms, while it increased by 24% in terms of rupee;
3) **Inflation**, which had averaged around 12% during the period FY2008-13 before our government, was recorded at 7.4% in FY2012-13. In the period Jul-May FY2016, the average inflation was recorded at 2.82%, the lowest in a decade. This also means that the revival in growth has not been accompanied by rise in prices;
4) **FBR Revenues** had recorded an increase of merely 3.38% in FY2012-13 when collections stood at Rs.1,946 billion. For the current FY2015-16 the target of RS.3,104 billion has been fixed and considering the collections to date, Inshallah this target will

be achieved. This way tax revenues will be increased by 60% which will be a historic increase. The tax to GDP ratio for FBR taxes that was 8.5% in FY2012-13 has been increased to 10.5% in FY2015-16.

5) **Fiscal Deficit** was 8.2% of GDP in FY2012-13 is being brought down to 4.3% of GDP in FY2015-16;

6) **Credit to Private Sector** that was negative Rs.19 billion in FY2012-13 has reached Rs.312 billion till May of current fiscal year;

7) **Policy Rate of SBP** was 9.5% in May 2013, which has now been brought down to 5.75% as on May 2016 which is lowest rate in the past four decades.

8) **Exports** were $20.5 billion during Jul-Apr FY2012-13. Against this, exports for the same period in FY2015-16 were recorded at $18.2 showing a decline of 11%. The main reason for this decline is global commodity prices.

9) **Imports** were recorded at $33.0 billion during Jul-Apr FY2012-13 compared to $32.7 billion for the same period in FY2015-16. Savings in the import bill of oil were nearly 40% but we diverted these savings to increased imports of machinery and industrial raw materials, thus enabling more growth oriented activities. The imports of machinery over the last three years have increased by a cumulative growth of 40%, which is again an indication of rising investment in the economy;

10) **Remittances** were recorded at $11.6 billion during Jul-Apr FY2012-13, which have risen to $16.0 billion for the same period in this fiscal year FY2015-16, For the current year target is $19 billion for which efforts of devoted Pakistani overseas workers and professionals are admirable.

11) **Exchange Rate** has shown remarkable stability in the last three years. Against Rs.99.66/$ in June 2013, the exchange rate is currently at 104.70/$. For an economy like Pakistan, Exchange Rate has a pivotal position, as it impacts pervasively on all other variables. The exchange rate stability we have achieved has not

been witnessed in recent years and is a source of rebuilding the credibility of our economy;

12) **Foreign Exchange Reserves** were in a precarious level of $6 billion with the SBP in June 2013, that after payment of past liabilities and swaps were reduced to worrying some level of $2.8 billion. These have increased to $16.8 billion by end May. Including reserves with commercial banks have $4.8 billion, Alhamdolilah, the level of $21.6 billion has been achieved, which is a new historic record. And this way we have guarded the economy from frequent external fluctuations;

13) **Current Account Deficit:** In the last three-year, we have kept average current deficit to a very low level of 1% of GDP.

14) **Stock Exchange (KSE) Index** stood at 19,916 on 11 May 2013, has now surged to above 36,000. In the same period, market capitalization has increased from Rs.5.2 trillion to Rs.7.391 trillion and from $51.3 billion to $70.5 billion. The merger of Lahore, Karachi and Islamabad stock exchanges, that was pending for the past 15 years, was completed on 11th January 2016. It is expected that in the near future Pakistan's stock exchange will be part of the emerging markets.

5. This brief review clearly demonstrates that we have not only achieved solid macroeconomic stability, but the country has been put on to a path of growth. International organisations, economic experts as well as world's leading publications have lauded Government's performance. Therefore, with Allah's blessings we remain committed to economic growth and this budget will reflect our commitment.

Main Elements of Budget Strategy

Mr. Speaker

6. The main elements of our budget strategy are as follows:

1) **Reduction of fiscal deficit:** In FY2016-17 we will target a deficit of 3.8% compared to 4.3% in FY2015-16;

2) Improvement in fiscal discipline: We are furthering advantages derived from reduction of fiscal deficit. In 2016-17 the fiscal deficit will be reduced from 4.3% to 3.8% of GDP. Through amendment in Fiscal Responsibility and Debt Limitation Act 2005 we are about to undertake two deep-rooted reforms in our fiscal management system. First, we are putting a statutory limit on the deficit of the federal government. Starting 2017-18, in three years the federal deficit would be brought down to 4% of GDP and thereafter to 3.5%. Second, the Debt to GDP ratio would be brought down to 60% of GDP in the next two years and then over a 15 years period it would be brought down to 50%;

3) **Raising Tax Revenues:** Part-II of the speech will deal with tax proposals. At this stage, however, I would say that the proposed reduction in deficit will be achieved through a combination of better tax collection and tight expenditure controls;

4) **Continued Focus on Energy:** Energy has been our focus from the start. The country was facing a dreadful energy crisis in June 2013. We formulated short, solid policies to avert this crisis on permanent basis due to which considerable reduction in load shedding. Today load shedding is being carried out systematically. Implementation as the plan formulated by the Cabinet committee formed by Prime Minister Nawaz Sharif's will result in 10,000 MW of additional electricity to be added in the national grid by March 2018. Beyond March 2018 Inshallah, Dasu, Diamer-Bhasha, Karachi Civil Nuclear Energy and many other projects will also be completed besides coal-based projects under China Pakistan Economic Corridor (CPEC).

5) **Exports Promotion:** In this budget, we would be announcing additional measures to incentivize exports and taking other initiatives to ease the cost of doing business and improving the overall regulatory regime to facilitate exporters.

6) **Poverty and Unemployment:** One major outcome of our economic policies has been the reduction in poverty and unemployment, both in the rural and urban areas. The recently published poverty report compiled with the support of World Bank, based on the Pakistan Social and Living Standard Measurement (PLSM), based on cost of basic needs, indicates that poverty has been reduced from around 64.2% in 2001-02 to 29.5% in 2014. Based on food energy intake the poverty during this period has reduced from 34.6% to 9.31%. Similarly, unemployment has also been reduced from 6.2% in 2012-13 to 5.9% in 2014-15;

7) **Income Support Program (BISP):** This program is an effort to provide relief to the poor and weak segments of the society as a matter of our responsibility and their right. The following have been the main highlights under this program:

   i. From Rs.40 billion in FY2012-13, we have progressively increased the size of the program to Rs.102 billion during the current year. We are further enhancing this allocation to Rs.115 billion, representing a nearly three-fold increase since 2012-13;
   ii. By End-June 2013, the cash transfer program was covering 3.7 million families, which will be increased to 5.3 million by the close of June 2016. By the end of next financial year the number of beneficiary families would further rise to increase to 5.6 million;
   iii. The stipend under the program in 2013 was a mere Rs.12,000 annually, which had been set in 2008. During the last three year we have increased the stipend to Rs.18,800;
   iv. Budget for Bait-ul-Maal has been increased from Rs.2 billion to Rs.4 billion.

8) **Development & Promotion of ICT Sector:-** A number of initiatives were announced in the last budget for the development of promotion Information and Communication

Technology (ICT). These initiatives have been operationalized with the following key features:

- **Rural Telephony & E-Services (RTEs) Program:** To extend IT and Telephone services to far-flung areas four new projects were started in 2016-17 under Universal Services Fund. A part of this project in Balochistan, Kharaan, Washuk, Dera Bugti, Kohistan and in FATA Warisistan areas, new lines for Rs.2.43 billion are being laid in these areas. For on-going projects Rs.9.52 billion will be allocated. In 2016-17 for provision of telephone services in rural areas an amount of Rs.11.94 billion have been allocated.
- **Broadband Program:** The ongoing Broadband projects in Southern Telecom Region are expected to provide coverage to over 56,000 new subscribers in un-served/underserved areas in FY 2016-17. Furthermore, 125 Educational Broadband Centers (EBC's) and 55 Community Broadband Centers (CBC's) are to be established under these projects with subsidy of 482.5 million.
- **Optic Fiber Cable Program:** Under this scheme in FY2016-17 Rs.63.4 million have been allocated for on-going projects in Balochistan and Rs.1.9 billion for three new projects in Khyber Pakhtunkhwa, Balochistan, Sindh and Punjab;
- Other than the above, work on; establishment of computer labs under Pakistan Bait ul Maal women empowerment centres, Prime Minister's Information and Communication Technology scholarship, Prime Minister's scholarship program for talented students of Balochistan and Prime Minister's National ICT internship program, is underway. For the current year 2016-17 around Rs.1 billion will be spent on these schemes.
- **Construction of Cross-Border Optic Fiber System between China and Pakistan:** Only recently the Prime Minister has inaugurated the establishment of cross-border

optic fiber project which will further open relations between the two countries.

Medium-term macroeconomic framework

Mr. Speaker

7. As always, our budget strategy is embedded in a three year medium term macroeconomic framework spanning the period 2016-19, the main features of which are as follows:

1) GDP growth to gradually rise to 7.0% by FY2018-19;
2) Inflation will be contained to single digit;
3) Investment to GDP ratio will rise to 21% at the end of medium term;
4) Fiscal deficit would be brought to down to 3.5% of GDP;
5) Tax to GDP ratio will be increased to 13.9%;
6) Foreign exchange reserves would reach $30 billion, inshaAllah.

8. In our view, this is a realistic macroeconomic framework given the performance we have rendered in the last three years.

Development plan

Mr. Speaker

9. The past history of adjustments and reforms in Pakistan is replete with the common phenomenon of cutting the development expenditures to control fiscal deficit. Our Government has succeeded in breaking out from this cycle, as the fiscal discipline we have achieved is without sacrificing development spending.

10. At the close of the third year of our Government, the development expenditure would increase from Rs.348 billion to Rs.661 billion and in FY2016-17 the target is Rs.800 billion.

11. The development plan is geared towards developing human and social capital of the country by enabling universal access to education and health facilities, empowering women and eradicating poverty; thereby capitalizing the demographic dividend and increasing the total factor productivity.

12. For development process Public Private Partnership policy has been prepared. For this purpose, transport, communications, financial, and industries and services have been identified. To enhance their share in the GDP a comprehensive strategy has been formulated.

13. In addition to increasing the public Investment, concerted efforts are being made to entice the private investment through a variety of mechanisms such as promoting public private partnerships, FDI, creating special economic zones with fiscal incentives.

14. I would now present some highlights of the development budget, focusing mainly on the sectors that will contribute most to economic development.

Water

15. As usual, one of the key sectors claiming significant resources is the water sector, where we are investing Rs.32 billion for projects in various parts of the country. Other than these allocations, a project that will be the future lifeline of Pakistan is the Diamir Bhasha Dam, which will store 4.7 MAF of water and generate electricity of 4500 MW. We have provided Rs.32 billion for the project. Another important hydropower project is Dasu, which will have the

capacity to generate 2160 MW in phase 1. We have allocated Rs.42 billion for phase 1 of Dasu Hydro Power Project.

16. Water projects in **Balochistan** are the second most important focus of water sector investments comprising construction of delay action dams, flood dispersal structures, canals and small storage dams. Main focus will be on the existing projects that can be completed within the next 2 years. In this regard, work is in advanced stages on projects such as Kachhi Canal (DeraBugti and Nasirabad), Naulong Storage Dam (JhalMagsi), extension of Pat Feeder Canal to DeraBugti and ShadiKaur Dam (Gawadar). Recently work on Basool Dam in Gawadar has also started. This year an amount of Rs.300 million has been allocated for further advancing the project of construction of 100 small dams.

17. Similarly, in **Sindh**, projects that are advancing gradually are Rainee Canal (Ghotki and Sukkur), extension of Right Bank Outfall Drain from Sehwan to sea, and Darwat Dam. In **Punjab** construction of Papin Dam in Rawalpindi will commence. In **Khyber Pakhtunkhwa**, other than Dasu, funds will be provided for construction of small dams in district Mansehra, and a sizeable project of Chashma Right Bank Canal – 1st Life Cum Gravity will begin. In **FATA** funding for Kurram Tangi in North Waziristan, and Gomal Zam Dam in South Waziristan will continue.

18. Besides, numerous schemes of lining of water-courses will be undertaken in Khyber Pakhtunkhwa, Sindh and Punjab to reduce water wastage together with flood protection and drainage schemes all over the country.

Power

19. I have already explained how intensely we are committed to alleviate the problems of the energy sector. We have taken a number of steps to

address structural problems of the sector including reduction in system losses, improvement in recoveries, elimination of theft and settlement of inter corporate circular debt. However, our real focus is on developing additional resources of energy so as to permanently overcome energy shortages.

20. As in the past, we have allocated the largest amount of resources to add new and economical capacity in the national grid. During the current year a sum of Rs.380 billion will be invested in this sector up from Rs.287 billion allocated in last year's budget. Of this, Rs.130 billion will come from the PSDP this year as compared to Rs.112 billion allocated last year.

21. Large projects, other than Dasu and Diamir-Bhasha, that are part of this year's allocation include:

(a) Rs.61 billion have been allocated for Neelum Jhelum Hydro Power Project having a capacity of 969 MW;
(b) Rs.16.5 billion have been allocated for completion of Tarbela-IV Extension Hydro Power Project with a capacity of 1410 MW;
(c) Two LNG power plants in Baloki and Haveli Bahadurshah will be allocated Rs.60 billion. Combined, the two power plants will produce 2400-MW of electricity.

22. In addition, a number of other projects such as two Karachi Nuclear Coastal Power Projects (2200 MW) with Chinese assistance; Chashma Civil Nuclear Power project (600 MW); Golan Gol Hydro Power Project (106 MW); Evacuation of power from wind power projects at Jhimpir and Gharo Wind Clusters; Interconnection of Chashma Nuclear Power Plants III and IV are also included in the plan.

23. The broad-based configuration of pipeline projects based as it is on a number of hydel, coal, wind energy and nuclear fuels will correct the energy mix to provide cheap electricity to the people of Pakistan, while improvement

of the transmission and distribution system will reduce the system losses. Steps against electricity theft will reduce burden on the common citizens.

Highways

24. Pakistan's location is such that it can play a central role in regional connectivity. In order to maximally exploit the natural advantage of its geography and to translate it into economic gains, there is an imperative need to invest in communication infrastructure. Accordingly, we have allocated Rs.188 billion for construction of roads, highways and bridges which is an increase of about 18% as compared to last year.

25. An area of our priority in the highways sector is the completion of Lahore-Karachi Motorway. We firmly believe that this highway will change the fate of this country. It will provide jobs, farm-to-road connectivity and economic growth in Pakistan. In the Budget 2016-17, we have allocated Rs.34 billion for Lahore-Abdul Hakeem Section, which is about 230 kilometers long. Similarly, an allocation of Rs.19 billion has been provided for Multan-Sukkar Section (387 kilometers), whereas in order to complete the Sukkur-Hyderabad Section (296 kilometers), a provision of Rs.2.5 billion has been made in the PSDP. This project is being executed in collaboration with private sector.

26. Apart from completion of various segments of Karachi-Lahore Motorway, we have made allocations to start work on other section of China Pakistan Economic Corridor. Furthermore, work on 118 KM Thakot-Havelian link is underway, and this year we will allocate Rs.16.5 billion. For the construction of Burhan-Hakla on M-1 to Dera Ismail Khan, a total of Rs.22 billion will be allocated.

27. We have earmarked resources for numerous projects in Highways sector in this budget. Some of them are: Faisalabad-Khanewal Expressway,

Lowari Tunnel and Access Roads, Qila Saifullah Lora Lai Waigum Road, and Zhob Mughal Kot Road.

Railways

28. Railway is supposed to provide cheaper, faster and convenient mode of passenger and freight transport. Accordingly, its development is one of our important priorities.

29. Newly launched Green Line train express between Islamabad and Karachi is the result of efforts of the Railways Ministry. However, this is the beginning of a bright future. Pakistan Railways will target its investments around locomotives, bogies, tracks, signaling systems, and improvement of existing railway stations.

30. For the current year's budget the following projects will be our key priority:

1) Track rehabilitation project between Khanpur and Lodhran is progressing. This year we aim to start work on doubling / improvement of existing track from Port Qasim to Bin Qasim Station. This is an important CPEC project.
2) Pakistan Railways faces shortage of locomotives and for this reason, we have allocated Rs.14 billion for the procurement / manufacture of new locomotive engines. In addition, rehabilitation of rolling stock will also continue.
3) Repair work on around 800 coaches and 2000 wagons will be completed by this year.

31. In this budget, we have allocated Rs.78 billion, of which Rs.41 billion are in PSDP for 40 development schemes and Rs.37 billion for pay &

pensions of railway employees. Private and international investments are expected during the course of the financial year in this sector, as well.

Human Development

32. People are the most precious resources of any nation. Therefore we consider the expenditures on human development as investments as they lay the foundation of future growth at an accelerated pace.

33. Initiatives that will be undertaken for the promotion of this sector are as follows:

1) A allocation of Rs.21.5 billion has been made for 122 projects of the Higher Education Commission, which will support development plans of different universities all over the country. It may be noted that on the current side also a hefty allocation of Rs.58 billion is made for HEC. Thus a combined outlay of Rs.79.5 billion will be made for higher education. The combined allocation represents about 11% increase.

2) Health sector service delivery has been fully devolved to the provincial governments. As per the decision taken by the Council of Common Interests in 2010, the Federal Government continued to support the provincial Governments till this year for the national health and population welfare programs. This year the Federal Govt will allocate Rs.22.4 billion for the vertical health programs. Implementation of Prime Minister's National Health Insurance Program will continue.

Temporary Displaced Persons (TDPs) and Security Enhancement: Special Development Program

Mr. Speaker

34. The operation Zarb-e-Azb has been successful and highly effective in stemming the continuing threat to country's peace and integrity. Consequently, the law and order situation in the country has improved and investors' confidence, both domestic and foreign, is gradually rising. This has been made possible through self-less devotion of our valiant Armed Forces, who have made great sacrifices in eradicating open sanctuaries terrorists. They deserve the gratitude of the nation. The Temporary Displaced People (TDPs) from the areas of operation were hosted in the mainland. Now their transfer and rehabilitation is underway. However, this process would take some time before completion.

35. To cater for the needs of hosting, rehabilitation and the return of TDPs and security enhancement a Special Development Program of Rs.100 billion has been provided in the budget FY2015-16.

China-Pak Economic Corridor (CPEC)

36. CPEC is a historic scheme that will start a new age between Pakistan and China and will enable both of the countries to extended connectivity with various other countries of the world

37. Under this scheme, $46 billion investment will be made under various schemes that include building of roads and rail networks and telecommunications, development of Gwadar Port and major projects for additional power and improvement in power transmission sub-sector. This will result in economic improvement of economies of the four provinces and special areas of Pakistan.

Development of Gawadar

38. Keeping in view the significant role Gawadar has to play for strengthening the economy of Pakistan in the coming days, the government takes the development of this area very seriously. Accordingly, we are allocating significant resources for a host of development projects aimed at uplift of this area.

SPECIAL INITIATIVES FOR 2016-17

Mr. Speaker

39. After achieving macro-economic stability in past three years, it is our duty that we must further consolidate the achievements and accelerate the reforms in sectors that have been left behind. For this I announce the following measures:

Export Promotion

40. Pakistan's export potential has not been fully realised due to depressed commodity prices and slowdown in major export markets. In order to strengthen exports and remove bottlenecks faced by our exporters, I announced a number of measures in my previous budget speech. These included:

1) Approval of strategic medium-term trade policy framework;
2) Establishment of Export-Import Bank – also known as the Exim Bank;
3) Drawback on local taxes and levies to the tune of Rs.1.4 billion; and,
4) Reduction of mark-up rates on Export Refinance Facility and Long-Term Finance Facility.

41. In order to increase exports the following measures are being made this year – FY2016-17:-

1) To operationalize the trade policy, a total of Rs.6 billion have been allocated in the budget;

2) The existing scheme on Drawback of Local Taxes (DLTL) will continue in the FY2016-17;

3) The mark-up rates on Export Refinance Facility, which was 9.5% in June 2013 will be brought down to 3.0% from 1st July 2016;

4) To encourage Small and Medium Enterprises (SMEs) to invest in new technologies especially in non-traditional exports, a Technology Upgradation Fund (TUF) is being established;

5) Zero-rating of Export Oriented Sectors: The export of manufactured goods in Pakistan comes from five main sectors - textile, leather, sports goods, surgical goods and carpets. For encouragement of these five sectors, from 1st July 2016 they will be made part of zero-rated tax regime;

6) The zero-rating facility will be available on purchase of raw materials, intermediate goods and the purchase of energy i.e. electricity, gas, furnace oil and coal. The retail sales of locally manufactured finished goods of these sectors will continue to be subjected to sales tax @5%.

7) All the pending sales tax refunds till 30th April whose RPOs have been approved, will be paid by 31st August 2016.

Textile Sector

Mr. Speaker,

42. Textile sector is the primary manufacturing sector of Pakistan. In order to further enhance the export competitiveness of this sector the following measures are proposed in Budget FY2016-17:

1) The existing scheme on Drawback of Local Taxes (DLTL) will continue in the FY2016-17;
2) **Technology Up-gradation Fund:** Technology Up-gradation Fund (TUF) Scheme for the textile sector has been formulated which will be implemented from July 1st, 2016. This scheme will particularly benefit the SMEs to invest in new technologies to make Pakistan's exports globally competitive;
3) **Duty Free Import of Machinery:** The benefit of SRO 809, through which textile machinery can be imported duty free, will continue for FY2016-17 and scope would be widened to include more garment specific machinery. This incentive, along with LTFF and TUF, would encourage new investment in textile sector to increase exports;
4) **Withdrawal of Customs Duty on Manmade Fibers:** Concessionary customs duty on the man-made fibers that are not manufactured locally will continue.
5) **Plant Breeders Right Act:** One of the top priorities of the government is to ensure provision of quality seeds to growers. For this purpose, it is important to honor scientists with intellectual property rights of varieties they develop. The draft law is ready which will be implemented after approval of the Parliament.

REVIVAL OF AGRICULTURE SECTOR

Mr. Speaker,

43. Agriculture is the backbone of Pakistan's economy as it provides direct employment to 44% of the labor force and contributes 21% in the GDP. Agriculture also provides 70% of the raw material for textile industry. National food security is also dependent on agriculture. Therefore, enhancing agriculture sector performance is central to increasing GDP, enhancing industrial productivity and income of rural population.

44. Due to higher inventories, declining commodity prices and unfavourable weather conditions, agriculture sector has suffered very badly. All of this has resulted in significant erosion of farm incomes. To enhance agriculture productivity, Prime Minister Nawaz Sharif announced a historic package in September 2015 for Rs.341 for less expensive fertilizer, seeds, loans and availability of water. Key features of the package included:

1) Direct cash support to the tune of Rs.40 billion;
2) Subsidy of Rs.20 billion on urea – which reduced the prices of DAP by Rs.500 per bag;
3) Subsidy on import of urea to keep the prices low;
4) Concessional electricity tariff for agriculture Tubewells.

45. Keeping the view difficulties faced by the agriculture sector the Government has decided to take further special steps in the current financial year. Details are as under:-

1) **Concessions of taxes and duties:** Tax and duty concessions announced in Budget 2015-16 will continue in 2016-17. These concessions amount to Rs.15 billion and are expected to promote agriculture sector development,
2) **Reduction in prices of fertilizer:** Fertilizer is a major input cost in the agriculture sector. In the past few months, through the provision of gas to fertilizer industry, the Government reduced

prices of urea fertilizer from Rs.2050 to Rs.1800 per bag. Consultations of Government with fertilizer industry have resulted in further decrease of Rs.50 per bag. From 1st July 2016, the Government has decided that the price of urea is further reduced to Rs.1400 per bag. In this instance, just as in the past, the Federal and Provincial Governments will pay the cost of the subsidy, which will be Rs.36 billion, in equal shares.

Similarly, use of DAP is very important for improving agriculture productivity. The current price of DAP is Rs.2800 per bag. Consultations of Government with fertilizer industry have resulted in further decrease of Rs.50 per bag. In this instance, the Government has decided that with effect from 1st July 2016, the price per bag of DAP will be Rs.2500. In this instance, just as in the past, the Federal and Provincial Governments will pay the cost of the subsidy, which will be Rs.10 billion, in equal shares.

3) **Enhancement in the target of agriculture credit:** Availability of credit facilities to farmers especially the small farmers is one of the priority areas of this Government. Over the last three years volume of agriculture credit is being increased from Rs.336 billion to Rs.600 billion. For 2016-17 volume of agriculture credit target is being increased to Rs.700 billion.

4) **Reduction of cost of credit:** The Government through SBP has developed a framework to reduce mark-up rates of ZTBL, NBP, Bank of Punjab and Punjab Co-operative by 2.0%.

5) **Credit Guarantee Scheme:** Under this scheme, the Federal Government is sharing risk of non-payment of credit by small farmers by guaranteeing up to 50% of the financing by participating financial institutions. The small farmers have shown overwhelming interest in this scheme. Accordingly, the Government is allocating Rs.1 billion in 2016-17.

6) **Concessional electricity tariff for Agriculture Tube Wells:** From 1st July 2016, current rate of off-peak rate of Rs.8.85 per unit for Agriculture Tube Wells is being reduced to Rs.5.35 per unit. For this special concession, the Government will bear expenses of around Rs.27 billion.

7) **Concession of customs duty for Dairy, Livestock & Poultry Sectors:** To encourage further investment and development of dairy, livestock and poultry sectors, it is proposed that:-

- The rate of 5% for import of machinery for the dairy, livestock and poultry sectors is proposed to be reduced to 2%;
- Incubators and brooders and machinery for animal feed stuffs presently subject to 5% customs duty in Tariff is proposed to be reduced to 2%.

8) **Concessions of Customs Duty for Fish Farming:** To promote fish farming, the following relief measures are proposed:-

- Customs duty on import of fish feed pellet machines and water-aerators, be reduced from 5% to 2%;
- Fish feed is subject to 10% customs duty whereas shrimp feed is at 20%. The duty on import of fish and shrimp feed is proposed to be exempted;
- Similarly, customs duty on live baby fish that is subject to 10% is proposed to be removed.

9) **Relief on Cool Chain Machinery:** For processing of food, customs duty on cool chain storage and in related capital goods will be exempt.

10) **Exemption of Sales Tax on Pesticides:** Pesticides and its ingredients are chargeable to sales tax at reduced rate of 7%. This 7% sales tax rate is proposed to be abolished.

11) **Exemption to Silos:** Exemption to machinery and equipment for the development of grain handling and storage facilities is proposed to extend to silos.

INDUSTRIAL DEVELOPMENT

46. Our industrial sector has shown good performance during the current year as it has registered a growth rate of 6.8%, while Large Scale Manufacturing (LSM) has registered a growth of 4.6% in FY2015-16. It is important that the process of industrial investment should be further accelerated in the country for which the following concessions are announced for the industry:-

1) **Enhancing Tax Credit on Employment Generation:** In order to promote industrial growth and employment generation tax credit @ 1% of the tax payable for a period of ten years that is allowed for every 50 employees in an industrial undertaking to be set up by June 2018, is proposed to be increased to 2%. This concession will be made available for 10 years to the industrial undertakings set up by June 2019;
2) **Tax Credit for Making Sales to Registered Persons:** At present a manufacturer registered under sales tax who is making over 90% sales to registered sales tax persons is entitled to a tax credit of 2.5% of tax payable. The tax credit is proposed to be enhanced from 2.5% to 3% of tax payable;
3) **Tax Credit for Balancing, Modernization and Replacement (BMR) of Plant and Machinery:** At present, tax credit on BMR is allowable at the rate of 10% of investment against tax payable for two years. In case of investment through 100% new equity, tax credit on BMR is allowable at the rate of 20% of investment against tax payable for five years. The period is proposed to be extended to 30th June 2019;
4) **Tax Credit for Establishing New Industry:** Till 30 June 2016, 100% tax credit on tax payable is allowed if 100% fresh equity is raised for establishing new industry through issuance of new

shares. This tax credit is allowable for five years from start of commercial production. It is proposed to reduce the condition of 100% fresh equity to at least 70% equity. In addition, period of setting up of new industrial undertaking, which is going to expire on 30th June, 2016 is also proposed to be extended to June, 2019;

5) **Tax Credit for Expansion of Existing Plant or New Project:** At present, 100% tax credit on tax payable is allowed for expansion of existing plant or new project if 100% fresh equity is raised through issuance of new shares. This tax credit is allowable for five years from start of commercial production. It is proposed to reduce the condition of 100% fresh equity to at least 70% equity. Tax credit would be allowed, proportionately, on owned new equity. In addition, last date for installation of the plant and machinery which is going to expire on 30th June 2016 is also proposed to be extended to June, 2019;

6) **Exemption on investment in green-field industrial undertakings:** Period of exemption to investment in green field industrial undertakings announced under Prime Minister's package of investment that is going to expire on 30th June 2017 is proposed to be extended up to 30th June, 2019;

7) **Reduction in Customs Duty on Raw Materials and Machinery:** To further increase in GDP of industrial sector existing customs duty of 5% will be reduced to 3% on two thousand items of mostly machinery and raw materials, which will benefit industrial sector to the tune of Rs.18 billion;

8) **Abolishing regulatory duty on Bead Wire:** Bead wire is the raw material of the tyres manufacturing industry which is currently subject to 10% customs duty and 30% regulatory duty. This item is not locally produced. In order to provide incentive to the local tyres manufacturers, it is proposed that regulatory duty may be exempted on import of Bead Wire.

9) **Protection of local industry:** To incentivize local industry, custom duty on the following items are proposed to be increased by different rates in the Finance Bill 2016:

- Medium density fiber board,
- Cement clinker,
- Methyl Acetate, and
- Semi-Printed / Printed Security Paper.

ENERGY SECTOR

47. To save energy and promote alternate sources of energy, the following measures are being proposed:

1) **Concessions of Customs Duty on Local Manufacturing of LED Lights**: Customs duty on imports of parts of LED lights is being reduced from 20% to 5%

2) **Incentivizing Import of Items used in Renewable Sources of Energy Technologies:** As per existing laws listed items used in renewable sources of technology are allowed duty free import. More generic descriptions and classifications are proposed to be included in this list which include items like led bulbs/lights, off-grid portable solar home system etc.

3) **Extension in Relief on Import of Solar Panels:** Import of solar panels and related components were exempted from customs duty regardless of local manufacturing of their substitutes till 30th June 2016. It is proposed that this relaxation be extended till 30th June, 2017.

4) **Exemption to Dumper Trucks for Thar Coal Field:** Sales tax on import on dumper trucks for Thar Coal is proposed to be abolished.

FINANCIAL SECTOR

Mr. Speaker,

48. In the recent years in our financial sectors has demonstrated a good performance. In the current financial year till March, the total assets of this sector stood at Rs.14,300 billion which were Rs.12,100 billion in the previous year. This sector's Capital Adequacy Ratio (CAR) was 16.3% while its legal requirement was only 10.25% that reflects strong capital base. To further strengthen the financial sector in the country, the following measures are being taken:

1) Financial Institutions Secured Transactions Bill 2016 through which loans related charge on moveable assets can be created;
2) Deposit protection Bill 2016 through which small depositors will be protected.

49. **Prime Minister's Health Insurance Scheme:** Ministry of National Health Services, Coordination and Regulations have launched The Prime Minister's National Health Program in collaboration with the Provincial Governments. It is aimed at improving the health status of the poor population of the country. Under this scheme, Federal Government would provide insurance cover for tertiary health care and hospitalization for several ailments. During 2015-18 around Rs.9 billion premium will be paid through this scheme. Initially the scheme will be started in 23 districts of Pakistan. It will be gradually increased to cover all the poorest segment of society. Alongside the program, soft loans are being offered to the empanelled hospitals for up gradation of their medical facilities. Through these soft loans, the empanelled hospitals will focus more on improving health services including maternal and child health. The loans will be provided at subsidized rates through provision of mark up subsidy and sharing in credit risk.

Prime Minister's Special Schemes

50. In Budget 2013-14 on the orders of the Prime Minister Muhammad Nawaz Sharif following key schemes were started:-

1) Prime Minister's Youth Business Loan Scheme;
2) Prime Minister's Interest Free Loan Scheme;
3) Prime Minister's Scheme for Provision of Laptops to Talented Students;
4) Prime Minister's Fee Reimbursement Scheme for Students of Less Developed Areas;
5) Prime Minister's Youth Training Programme;
6) Prime Minister's Youth Skills Development Programme.

51. Most of these schemes have been fully started and their performance is satisfactory. In the current financial year 2015-16, expenditure of Rs.19 billion was incurred. For the next financial year 2016-17 an outlay of Rs.20 billion has been allocated for these schemes. All of the schemes will be made operational.

Gender Responsive Budgeting

52. The Government is committed to developing and implementing policies and measures to enhance the socio-economic empowerment of women. Budget allocations are one of the major instruments to strengthen women empowerment. In this regard, we have also introduced a reform agenda. We have started the implementation of Gender Responsive Budgeting at the federal level. In this activity, we are inviting the provincial governments to be part of this reforms, which after the 18th Constitutional amendment are responsible for those functions where women have more opportunities for example, education and health.

Budget Estimates

Mr. Speaker,

53. Now I turn towards the estimates of revenues and expenditures for the next fiscal year.

54. Gross revenue receipts of the federal government for 2016-17 are estimated at Rs.4,915 billion compared to the revised figures of Rs.4,332 billion for 2015-16, showing an increase of 13.5%. We have set an ambitious target for tax collections, as without collecting more taxes we cannot hope to increase development spending that is crucial for economic growth.

55. The share of provincial governments out of these taxes will be Rs.2,136 billion compared to Rs.1,852 billion revised estimates for 2015-16, showing an increase of about 15.3%. For the year 2016-17, net resources left with the federal government will be Rs.2,781 billion compared to the revised estimates of Rs.2,481 billion for 2015-16, showing an increase of 12.1%. Federal Government recognizes that the provincial governments have increased responsibilities of social sector service delivery under the new arrangements. Therefore, we are consistently raising the level of provincial transfers to enable them to improve the social services and law and order for the people of Pakistan.

56. Total expenditure for 2016-17, is budgeted at Rs.4,395 billion compared to the revised estimates of Rs.4,095 billion for 2015-16, showing an increase of 7.3%. By increasing revenue and reducing expenditure, the economy has strengthened.

57. The current expenditure is estimated at Rs.3,400 billion for 2016-17 against a revised estimate of Rs.3,282 billion for 2015-16, showing an increase of 3.6%. However, we have catered for the needs of the Armed

Forces keeping in view the security challenges. The defense budget is being increased from the Rs.776 billion for 2015-16 (Revised) to Rs.860 billion for 2016-17, which is an increase of about 11%.

58. The development budget has been adequately funded in order to meet the investment requirements of a growing economy. Against a revised estimate of Rs.661 billion for PSDP during 2015-16 (Revised) for 2016-17 we have budgeted Rs.800 billion showing an increase of nearly 21%. This also includes the Special Development Program for security enhancement as well as for rehabilitation and resettlement of TDPs as I have explained earlier.

59. As I said earlier, we are targeting to reduce it further to 4.3% for the current year, and 3.8% for the year 2016-17.

PART-II

Mr. Speaker,

60. I have already placed before the house, in earlier part of the speech, the tax relief and growth measures that have been proposed for the different sectors of the economy.

61. Now I shall place before the House further relief and tax measures that are proposed to be introduced in the current Budget starting with income tax measures.

INCOME TAX
RELIEF MEASURES:

62. **Rationalizing Corporate Tax Rate**- As per government policy and in order to encourage corporatization, corporate tax rates are being reduced by 1% each year starting from 35% in TY 2013 and coming down to 30% in TY 2018. The corporate tax rate will be 31% for TY 2017.

63. **Tax Credit for Enlistment** - At present 20% tax credit on tax payable for enlistment in stock exchange is available for 1 year. In order to encourage organized sector tax, credit is proposed to be made available for 2 years instead of 1 year.

64. **Enhancing limit of markup on house building loan** - Presently, an individual is allowed a deductable allowance up to Rs. 1 Million on payment of profit on debt for construction of a new house or acquisition of house. In order to promote activity in the housing sector to meet the deficiency of available housing units, it is proposed to increase the maximum amount allowable from Rs. 1 Million to 2 Million.

65. **Relief on Education Expenses** - In order to provide relief on education expenses which are unbearable for low income groups, it is proposed that individuals having taxable income less than Rs. 1 million should be given tax relief equal to 5% of school fee up to Rs. 60,000 per child per annum.

66. **Tax Credit for Contribution to approved Pension Fund** - At present a tax credit is available for contribution in an approved Pension Fund with a maximum of 20% taxable income. An additional contribution of 2% for persons above 41 years of age to a maximum of 50% of taxable income is available up to 30-06-2016. It is proposed that the period may be extended up to 30-06-2019 with the condition that the maximum tax credit be restricted to 30% of taxable income of the preceding year.

67. **Commission Income of Life Insurance Agents** - Commission paid to life insurance agents is taxed under final tax regime at the rate of 12% for filers and 15% for non filers. To facilitate low income group it is proposed that final tax rate on commission of life insurance agent may be reduced to 8% for filers on commission receipts up to Rs. 0.5 M.

68. **Employers' Annual Contribution in Provident Funds** - Contribution by an employer in Provident Fund up to one-tenth of salary of an employee or Rs. 100,000, whichever is lower, is exempt. Any amount exceeding this limit is treated as income of the employee. To provide relief to salaried taxpayers, the limit of Rs. 100,000 on employer's contribution is proposed to be enhanced to Rs. 150,000.

EXEMPTION FROM LEVY OF MINIMUM TAX ON TURNOVER OF TRADING HOUSES

Mr. Speaker,

69. Large Trading Houses were exempted from payment of minimum tax at the rate of 1% during the first 10 years of commencement of business operations. This exemption shall expire in June 2016. In order to incentivize this organized section of the retail sector and to attract foreign investment, this exemption is proposed to be gradually withdrawn and minimum Tax is proposed to be reduced to 0.5% of the entire turnover up to TY 2019.

70. **Reduced Rate of WHT U/S 152 on FMCG** - Distributors of Fast Moving Consumer Goods are operating at low profit margins and therefore minimum tax u/s 113 is chargeable at reduced rate of 0.2%. However, FMCG distributors are subject to normal rate of withholding tax on their supplies. For distributors of FMCG, it is proposed to reduce WHT rate on supplies from 4% to 3% for companies and from 4.5% to 3.5% for others. However no reduction would be available for non-filers.

71. **Minimum Tax on Corporate Service Providers** - Through Finance Act 2015, Minimum Tax at the rate of 8% was levied on corporate service providers. Some Corporate service providers with low profit margin were allowed a reduced tax rate of 2% for Tax Year 2016. It is proposed that reduced tax rate of 2% allowed to low profit margin corporate service providers for Tax Year 2016 may be extended for Tax Year 2017. In order to

promote IT sector it is proposed that this concession may also be provided to providers of IT and IT enabled services.

72. **Taxation of property income as separate block** - In order to facilitate persons deriving income from renting of property including widows and senior citizens taxation of property income in the case of individuals and associations of persons is proposed to be simplified. It is proposed that for such persons the property income may not be clubbed with income under other heads and may be taxed as a separate block of income. Income up to Rs. 200,000 shall be exempt and income up to Rs. 2,000,000 shall be taxed in slabs of 5%, 10% and 15%. Income above Rs. 2,000,000 shall be taxed at 20%.

REVENUE MEASURES:

Mr. Speaker,

73. I will now present the revenue measures proposed to be taken under the Income Tax law.

74. **Advance tax for alternate corporate tax** - Advance tax is paid on the basis of tax calculated on income and minimum tax on turnover and is required to be deposited in four installments. However, advance tax is not calculated on the basis of ACT. It is proposed that advance tax may also be paid on the basis of ACT paid for Tax Year 2015 and for subsequent years. This will not create any additional liability for the taxpayers and only represents a change in collection methodology.

75. **Rationalising Minimum Tax** - Companies declaring Gross Loss are exempt from payment of Minimum Tax at the rate of 1% of turnover. This exemption is not applicable to Individuals and AOPs. In order to discourage avoidance of tax and to bring uniformity in application of law, it is proposed to withdraw exemption from minimum tax to companies declaring gross loss.

76. **Rationalising Tax Rate for securities for non-filers** - The stock markets in Pakistan are booming and the investors are making unprecedented gains. This sector is expected to make its due contribution to the national exchequer. It is proposed that the maximum taxable holding period for capital gain on securities may be extended from 4 to 5 years. In order to encourage compliance with tax laws, it is also proposed that, for non-filers, higher tax rates of 18%, 16% and 11% for holding period of up to 1 year, 2 years and 5 years respectively may be introduced.

77. **Rationalising rates for capital gain tax on immovable property** - Investment in real estate sector is a means of earning huge gains. Our government is attempting to integrate this sector gradually into the tax system. At present, no tax is charged on capital gain from immovable property if it is

sold after two years of acquisition. It is proposed that Capital Gain on disposal of immovable properties be taxed at a rate of 10% if the property is sold within five years of acquisition.

EXEMPTION TO PRINT AND ELECTRONIC MEDIA

Mr. Speaker,

78. The rate of withholding tax for providing or rendering services by print and electronic media is 1%, whereas for others it ranges from 8-10% and for low margin sectors it is up to 2%. It is proposed that in view of the peculiar nature of the business of print and electronic media withholding tax for providing or rendering services by print and electronic media be enhanced from 1% to 1.5% and the withheld tax may be treated as the final tax in respect of the income from these receipts. Concessionary rate of customs duty on import of newsprint by newspapers and exemption from sales tax on newsprint shall remain intact.

79. **Withholding tax on profit from Term Finance Certificates for companies** - Profit on Term Finance Certificates is exempt from withholding tax if paid to a company whereas the companies are required to pay tax on their income at the time of filing of their return. It is proposed to withdraw this exemption in order to streamline the collection of tax from this source.

EXEMPTION CERTIFICATE TO MANUFACTURERS ON IMPORT OF RAW MATERIALS

Mr. Speaker,

80. Commercial importers have a grievance that facility of exemption certificate is sometimes misused by manufacturers when they sell the raw material imported for own consumption by availing the facility of exemption certificates. To address this issue and to provide a level playing field it is

proposed that manufacturers availing exemption certificate may be subjected to compulsory audit of consumption, production and sales.

81. **Extension in super tax** - In the budget for the financial year 2015-16 a tax on the income of the affluent and rich individuals, association of persons and companies earning income above Rs. 500 million in tax year 2015 at a rate of 4% of income for banking companies and 3% of income for all others was levied. Since the circumstances that necessitated this measure are still continuing, it is proposed to extend this measure by one year for Tax Year 2016.

82. **Persons registered with provincial sales tax authorities** - A large number of persons are filing sales tax returns with the provincial revenue authorities but are not filing income tax returns. It is proposed that such non-filers may be required to pay advance income tax monthly, to be collected by provincial revenue authorities along with sales tax returns, at the rate of 3% of turnover.

83. **Rationalizing of Withholding Tax on Transfer of Property** - In order to broaden the tax base and document transactions, withholding tax is collected on sale of property and also from the purchaser of property if the value of property is more than Rs. 3 million. However, the withholding tax on sale and purchase is based on DC rates which are far lower than the actual market prices and are not revised frequently to reflect increasing property prices. It is proposed to increase the rate in case of sale of property from 0.5% and 1% to 1% and 2% for filers and non-filers respectively and in case of purchase of property, from 1% and 2% to 2% and 4% for filers and non-filers respectively.

84. **Withholding tax on mining** - Various minerals are being extracted in all four provinces through licenses granted by the provincial governments. Most of the non-corporate persons engaged in extracting minerals are non filers. To broaden the tax net, it is proposed that Provincial Government

authorities collecting royalties at the time of dispatch may also collect withholding tax at the rate of 5% of the value of minerals.

RATIONALIZING TAX RATE ON DIVIDEND FOR NON-FILERS

Mr. Speaker,

85. In most of the countries dividend is taxed at normal rates so that there is no adverse impact on the aggregate tax payable on the income of the company. To narrow this gap in Pakistan and to encourage compliance with tax laws it is proposed that, the rate of tax on dividend in the case of non-filers may be increased from 17.5% to 20%. The tax withheld in excess of 12.5% shall remain adjustable.

86. **Rationalizing of WHT on electricity** - Contribution of trading sector to revenues is very low as compared to its share in GDP. Rate of WHT for commercial bills up to Rs. 20,000 per month is fixed with various slabs. Rate of WHT for commercial bills above Rs. 20,000 is 10%. ICAP and Pakistan Business Council has recommended enhancing the rate of withholding tax for commercial consumers. It is proposed to increase this rate to 12%. There will be no change for industrial consumers.

87. **Withholding tax on non-filer lessees of vehicles** - Non-filers try to avoid higher rate of tax for non-filers at the time of purchase and registration of vehicle by getting vehicles leased from various banks, leasing companies etc and the vehicles are registered in the name of the leasing company or bank. To avoid this misuse, it is proposed that an adjustable withholding tax at the rate of 3% of the value of vehicle be collected by every bank/leasing company etc from non-filers at the time of lease.

88. **Rationalizing tax rates for various sources of insurance companies** - In line with the one basket approach for banking companies introduced last year, it is proposed that income of insurance companies from all sources may also be subjected to same corporate tax rate.

89. **Rationalizing WHT on commission of members of stock exchange** - Compared to high profit margins of stock brokers, the withholding tax rate of 0.01% withholding tax on commission of members of Stock Exchange is quite low. It is proposed that it may be enhanced to 0.02%.

DIFFERENTIAL WITHHOLDING TAX RATES FOR NON-FILERS ON PRIZE BONDS

Mr. Speaker,

90. Since prize bonds are bearer instruments, they are often used by tax evaders and non-compliant persons to whiten their income. Therefore, it is proposed to increase the withholding tax rate for non-filers from 15% to 20% on winning of prize bonds.

91. **Differential tax rates for non-filers on dividend from mutual funds etc.** - Non-filers are required to pay tax at higher rate on dividend. It is proposed to introduce higher tax rates of 15% for non-filers receiving dividend from Mutual Funds. The rate for filers shall remain unchanged at 10%. The excess tax at 5% for non-filers shall be adjustable.

92. **Taxation of Capital Gains from sale of securities representing futures contracts** - Through Finance Act, 2015 a transaction tax was levied on trading of commodity futures contracts on Pakistan Mercantile Exchange (PMEX). It is proposed that instead of tax on transaction, tax be levied at the rate of 5% on actual capital gain as is being done for securities traded on Stock Exchange.

93. **Extending the scope of minimum tax** - The undocumented sectors of the economy, including retailers and small businesses, under-report their income. In many cases declared income is below taxable limit. Consequently, their contribution to revenue is much lower than their share in GDP. Currently minimum tax at the rate of 1% of turnover in case of AOP and Individuals is

applicable only where turnover is above Rs. 50 M. It is proposed that this limit may be reduced to Rs. 10 M.

TAXATION OF BUILDERS & LAND DEVELOPERS

Mr. Speaker,

94. Bulk of the public savings are parked in housing sector and heavy investments are made in real estate yet tax collection from this sector does not match with level of investment and the profits earned. Association of Builders and Developers has recommended that in order to bring this sector in to tax net and to eliminate disputes a final tax regime may be devised for builders and land developers. A final tax scheme on the basis of fixed tax per unit area basis is proposed to be prescribed for builders and developers.\

95. **Withholding tax on foreign produced TV plays and advertisements etc** - Through Finance Act 2013, a withholding tax was imposed on airing of foreign produced TV plays and serials only on landing rights channels. In order to encourage locally produced plays and to enable the local production houses to compete with the foreign productions, this withholding tax is now proposed to be collected from all TV channels airing such foreign produced content.

96. It is also proposed that any person making payment for a foreign produced advertisement shall collect withholding tax at the rate of 20% of the payment.

SALES TAX AND FEDERAL EXCISE DUTY:

RELIEF MEASURES (SALES TAX AND FEDERAL EXCISE)

Mr. Speaker,

97. Now I will present relief measures that are proposed to be introduced in the Sales Tax and Federal Excise law during the current Budget:

- **Exemption of sales tax on import of Laptops and PCs** - In order to promote information technology it is proposed that Sales tax may be exempted on the import of Laptops and PCs. This step will also promote genuine imports and will render informal and illegal imports as uncompetitive.
- **Exclusion of second hand and worn clothing from further tax levy** - Sales tax on second hand and worn clothing is currently levied at cumulative rate of sales tax of 10%. In order to provide some relief in the prices of second hand clothing which are used by the common citizens, it is proposed to reduce the tax rate to 8%.

WITHDRAWAL OF FEDERAL EXCISE DUTY ON CERTAIN SERVICES

Mr. Speaker,

98. Federal Excise Duty at 16% is leviable on services such as Advertisement on CCTV / Cable TV, Shipping Agents, Banking Companies, Insurance Companies, Cooperative Financing Societies, Modarbas, Musharikas, Franchise Services, Stevedores, Stock Brokers, Forex Dealers etc. Provinces are demanding withdrawal of FED on such services as the provinces are already charging sales tax on these services. SBP has also endorsed the proposal in respect of banking services. It is proposed to withdraw FED on these services where Provincial Sales Tax is payable.

REVENUE MEASURES (SALES TAX AND FEDERAL EXCISE)

Mr. Speaker,

99. Now I will present revenue measures that are proposed to be introduced in the Sales Tax and Federal Excise law during the current Budget:

1) **Abolition of zero-rated status of stationery items** - Zero-rating of stationery items is open to misuse. In order to prevent the misuse, it is proposed that zero-rating on these items may be converted to exemption.
2) **Abolition of zero-rated status of milk** - Milk, fat-filled milk and preparations for infant use have been enjoying zero-rating facility on supplies since the last so many years. As a result, huge amounts of refunds are claimed by the dairy sector. Despite this, the benefit of the facility is not passed on to the consumers. Therefore, it is proposed that zero-rating on preparations for infant use may be retained, while the zero-rating on milk and fat-filled milk sold in retail packing is proposed to be withdrawn. The exemption on milk and fat-filled milk will remain intact.

FEDERAL EXCISE DUTY ON CEMENT

Mr. Speaker,

100. Cement is currently chargeable to Federal Excise Duty at the rate of 5% of the retail price. It is proposed to replace the current regime with fixed rate basis at the rate of Rs. 1 per kg.

101. **Increase in the rate of sales tax on import of mobile phones** - In order to stop mis-declaration and to bring the tax structure in line with market prices, the rates of sales tax on mobile phones are being rationalized. The existing sales tax rates of Rs. 500 and Rs. 1,000 are proposed to be increased to Rs. 1,000 and Rs. 1,500 for medium and high category mobile

phones respectively. The rate of tax on low category mobiles will remain unchanged at Rs. 300.

102. **Enhancement of rates of Federal excise duty on cigarettes** - In order to enhance revenue from this non-essential sector, and to keep pace with inflation and discourage cigarettes smoking amongst the public the rates of FED on cigarettes are proposed to be increased in two stages with first stage ending on 30th November 2016. The increase in tax rate will be about 23 paisa per cigarette for lower tier cigarettes and about 55 paisa per cigarette for higher tier cigarettes.

103. **Aerated Waters** - The current rate of Federal Excise Duty on aerated waters is 10.5%, which is lower than the standard rate of FED. In order to generate additional revenues from this growing sector, it is proposed that the rate of FED on aerated water may be increased to 11.5%.

SIMPLIFIED REGIME FOR TIER-1 RETAILERS

Mr. Speaker,

104. In order to simplify the procedure of payment of sales tax by Tier-1 retailers and to address their grievances, it is proposed that in addition to existing regime, the retailers may have option of a simplified regime of payment of sales tax at the rate of 2% of their total turnover.

105. **Enhancement of rate of sales tax on certain ingredients of poultry feed** - Concessionary rates of Customs Duty and sales tax on major poultry feed ingredients like soybean meal and vitamin premixes shall remain intact. However, other ingredients that are subject to sales tax at the rate of 5% are proposed to be subjected to sales tax at 10%.

106. **Marble cutting and polishing industry** - Currently, Marble Industry is mostly unregistered and is not paying sales tax. The industry has agreed to pay its share if the tax is collected through electricity bills. In order to bring this

sector in the ambit of sales tax and encourage registration, it is proposed to introduce sales tax on electricity consumption basis at the rate of Rs. 1.25 per Kilo Watt Hour.

CUSTOMS DUTY

107. Now the proposals related with Customs are being presented before the house:

TARIFF SLABS REDUCTION

Mr. Speaker,

108. High tariff barriers create hindrance in the integration of the economy with the larger world markets. Twenty first century is the era of Global Value Chains (GVCs). No single economy can compete in the world market without significant Foreign Value Added (FVA) component. To open the economy to world competition and to protect the vulnerable domestic sectors has always been a challenging task.

109. Two years back, on the instructions of the Prime Minister, tariff reforms process was initiated. As a result of the efforts of the Government, maximum tariff slab of 30% was brought down to 25%, and the numbers of tariff slabs was reduced from 7 to 6 in the budget for financial year 2014-15. Last year, the highest tariff rate was further slashed to 20%, and the number of slabs was reduced from 6 to 5.

110. This year the tariff slabs are being reduced from 5 to 4. The new general slabs will be 3%, 11%, 16% and 20%. From next financial year, the 2% and 5% slabs will be merged in the new slab of 3%. This will reduce the cost of import of more than two thousands items mostly machinery and raw material and will pass on the benefit of Rs. 18 billion to the industrial sector of the country. However, other items will continue to be subjected to customs duty at the rate of 5% by shifting these items to the fifth schedule.

Mr. Speaker,

111. Government is endeavoring to encourage the use of energy efficient technology in the country. It is, therefore, proposed that customs duty may be withdrawn on the import of essential raw material for the manufacturers of LED lights in the country. The scope of duty free import of renewable energy technologies is also being expanded and streamlined.

AUTO DEVELOPMENT POLICY 2016-21

Mr. Speaker,

112. Keeping in view the importance of automobile sector in the economic development of the country, a new Auto Development Policy 2016-21 has already been announced by the Government. In this budget, measures are being taken to initiate the implementation of the policy. This will help encourage the prospective investors to invest in this vital sector of the economy.

INCREASE OF CD ON IMPORT OF BETEL NUTS AND LEAVES

Mr. Speaker,

113. Where the government is providing incentives and relief to the agriculture and industrial sector and taking measures to protect the children from malnourishment, the government is also striving to discourage the use of those items which are considered health hazard. It is therefore, proposed that Customs Duty may be enhanced from the current 10% to 20% and from Rs. 300/kg to Rs. 600/kg on the import of betel nuts and betel leaves respectively.

PART- III

Relief Measures

Pay and Allowances for Government Employees, Pensioners and Labor

Mr. Speaker

114. For Government employees, pensioners and workers I announce the following relief measures:

1) Ad-hoc increases of 2013 and 2014 will be merged in the pay scales;
2) 10% Adhoc Relief Allowance on running basic pay will be allowed to all federal government employees with effect from 1st July 2016;
3) Special Area Compensatory Allowance at the uniform rate of Rs. 300 per month from Rs. 50- 210 for civil armed forces, posted in border areas;
4) Unattractive Area / Compensatory Allowance for Chitral, Dir, Hazara Division, Swat and Malakand at par with rates allowed by the KPK Govt;
5) Special Conveyance Allowance to disabled employees @ Rs.1000/- PM (on the proposal of leader of the opposition);
6) Integrated Allowance allowed to Quasid/N.Quasid/Daftries from Rs.300/- PM to Rs.450/- PM;
7) Revision of Outfit Allowance allowed to Pak Army officers on their secondment to civil Armed Forces and reversion to Army from Rs.800 to Rs.2,500 and from Rs.500 to Rs.2,000, respectively.
8) Revision of Late Sitting Conveyance Charges by 50% to employees in BPS 1-15;
9) Washing Allowance @ Rs. 100/- and Dress Allowance @ Rs. 100/- allowed to employees in BPS 1-4 from Rs. 100/- to Rs. 150/;

10) M. Phil Allowance @25% of Ph.D Allowance i.e Rs.2,500 per month to Federal Govt Employees on the pattern of Govt of Punjab;
11) Additional Charge Allowance /Deputation Allowance Revision of Ceiling from Rs.6,000/- to Rs.12,000/- for identical and non-identical post;
12) Current Charge Special Pay - Revision of ceiling from Rs.6,000/- to Rs.12,000/-;
13) Increase in Qualification Pay @50% and inclusion of ACCA/CIMA qualification - CA/ICMA/ICWA/ACCA/CIMA, Staff College/NMC/NDC, NIPA Adv Course / Mid Career etc.;
14) Upgradation of LDC (BS-7 to BS-9), UDC (BS-9 to BS-11), Assistant (BS-14 to BS-16) and Assistant-in-Charge (BS-15 to BS-16);
15) Upgradation of posts of Khateebs (BS12 to BS-15), Moazzins/Muddaris(BS-5 to BS-7) Khadim (BS-5 to BS-6) Auqaf Directorate, ICT;
16) Risk Allowance/Special Risk Allowance to Federal Levi Force in FATA, PATA (KPK) and Baluchistan equal to One Month Initial Basic Pay of 2008 pay scale.
17) On the pattern of increase in the pay of Government employees the minimum wage of labour for their benefit is being increased from Rs.13,000 to Rs.14,000 per month.

115. The government is fully aware of the hard times that many of the pensioners and their families are facing. For their welfare, the present Government took several measures during last three years. The following relief measures are being announced today for further welfare of pensioners and their families:

1) 10% increase in net pension to all pensioners of federal government with effect from 1st July 2016;

2) 25% increase in net pension to all pensioners of federal government above the age of 85 years with effect from 1st July 2016;
3) Revision of Ex-Gratia Pension allowed to pensioners of former East Pakistan from Rs.2,000 to Rs.6,000 self pension and from Rs.1,000 to Rs.4,500 pm Family Pension;
4) For pensioners Pensioner scheme, and senior citizens' and widows' investment in Bahbood scheme of National Savings, the upper limit of investment is being increased from Rs.4 million to Rs.5 million.

116. For the pay and pensions relief, an increase of Rs.57 billion is estimated.

Concluding Remarks

Mr. Speaker

117. We have given the 4th Budget of the democratically elected Government. This is a highly auspicious development for the country. We are entering the fourth year of our tenure with poise, confidence and determination. We have behind us an unmatched record of progress in almost all facets of the economy – rising growth, contained inflation, fiscal discipline, increasing tax collections, stable exchange rate, increasing reserves and a fully protected external account. Even our worst critics have acknowledged the stability that is unquestionably in witness in the economy. The process of investment has started in earnest, both under and outside CPEC.

118. We are cognizant of the fact that what we have achieved is not fully commensurate with the potential of our people. Indeed, our true goal is to enable our people to realize their dreams and inspirations. We are building a Pakistan where it would be possible for such dreams to be realized. We have made investments that would rid the country of years old menace of loadshedding. Where there would be enough gas to meet the rising demand; sufficient number of schools, universities, dispensaries and hospitals to cater

for the educational and health needs of our population. We are blessed with world's sixth largest and youngest population. It is not the destiny of our people to live in darkness or be deprived of basic amenities of life. We are a Islamic nation, and a responsible nuclear power. We need a strong and prosperous economy. This is our final destination, for which we have laid a very solid foundation. But the path to reforms is long and torturous, which is traversed only by those nations that show consistency and determination. This is exactly our resolve and we would fulfill its demands.

49. For sometime, I have been requesting political parties that our country needs a Charter of Economy. You will agree with me that to achieve sustainable growth, we need to agree on established principles that are not influenced by political ups and downs. I would once again request all political parties that they sit together to develop this Charter. On many occasions over the past three years, it has been proven that we could resolve difficult issues with mutual consensus. Therefore, if we sit together on this matter then a consensus based Charter can be given a practical shape.

50. The Budget 2016-17, like its three predecessors, aims to consolidate gains we have so far made and punctuate our journey to a rising growth trajectory. Federal PSDP of Rs.800 billion and provincial investments of Rs.875 billion will take public sector development spending to Rs.1675 billion, which is nearly 5.7% of GDP. Together with investments in private sector, the investment to GDP ratio will rise to significant level that will support the achievement of the growth rate of 5.7% which will create job opportunities for our youth. In addition, due to poverty alleviation programs, poverty will reduce.

51. Whatever we do is the realization of the Pakistan that was dreamt by Quaid-e-Azam. On the occasion of the first budget in Karachi, in his speech Quaid-e-Azam said "I do not have any doubt in my mind that a glorious future is awaiting Pakistan when it would fully utilize the unlimited human and natural resources. The path on which we are travelling is difficult at this time, but with courage and steadfastness we have to build a strong and prosperous Pakistan".

52. We believe in this vision of Quaid-e-Azam. With the ability of our people no destination is unreachable. Shair-e-Mashriq and creator of the vision of Pakistan believed in the abilities of our people and signaled this in his poem:

جرأت ہو نمو کی تو فضا تنگ نہیں ہے
اے مردِ خدا ملکِ خدا تنگ نہیں ہے

Mr. Speaker,

53. I am grateful to this august house that has given me the opportunity to present the next year’s budget. And I am also grateful to you and pray to Allah that He makes things easy as they have been in the past years.

Pakistan Paindabaad