BMA CAPITAL

Pakistan Economy

Amendments in Finance Bill approved by the Parliament

Thursday, June 30, 2022

Largely in line with the proposals put forward by the Finance Minister in his National Assembly speech last week, the amendments to the Finance Bill were smoothly approved by the Parliament. However, in a major development, Corporate Tax rate for banks was reduced from 45% to 39% while retrospective application of Poverty Alleviation tax was reversed. Similarly, in line with the reduction in corporate tax rate, applicable tax on income from federal government securities was revised down to 39% from 45% budgeted earlier if ADR exceeded 50%. Furthermore, one time super tax of 6% (if annual earnings exceeded PKR 300Mn) was imposed on 15 sectors as oil and gas sector was broken down into OMC's, Refineries and E&P's. Now that the amendments to the Finance Bill have been approved, the reservations IMF had with regards to the concessions have largely been addressed and Pakistan seems to be increasingly close to reaching an agreement in the next few weeks.

We opine the revision in Finance Bill to be negative from an earnings standpoint and corporate results will be materially affected as these changes are incorporated in the quarter ending Jun-22. That said, we can also expect dividends to be restricted with the Jun-22 results as retrospective impacts are incorporated.

A sigh of relief for the banking sector: In a major development, Corporate Tax rate for banks was reduced from 45% to 39% while retrospective application of Poverty Alleviation tax was reversed. The other two rates if ADR ranged between 40-50% or below 40% were unchanged at 49% and 55% respectively. Furthermore, one time super tax of 6% (if annual earnings exceeded PKR 300Mn) was imposed on 15 sectors as oil and gas sector was broken down into OMC's, Refineries and E&P's. Note that the Super Tax of 6% will only be applicable for Tax Year 2023 and from thereon, only the Poverty Alleviation tax will be applied.

Revision in PDL targets does not come as a surprise: To little surprise, petroleum development levy targets were revised up to PKR 50/ltr from PKR 30/ltr earlier across the board for all petroleum products. Note that the FM had earlier highlighted increase in PDL by PKR 5/ltr per month up to a period of 10 months.

CGT on securities now on par with the real estate sector: The government has also addressed disparity between capital gains tax on securities and real estate by imposing the same tax slabs and holding period guidelines for both asset classes. To recall, previously CGT for filers was at a blanket rate of 12.5% irrespective of holding period but now it is 15% if holding period is less than 12 months and reduces by 2.5% each year to effectively become 0% at the end of Year 6.

Income tax concessions also rolled back: Initial relief given for income earners making up to PKR 100k/1.2Mn per month/annum respectively has been rolled back and now the exemption is only available to earners up to PKR 50k/600k per month/annum respectively. As per our understanding, income tax changes will be positive for earners of up to PKR 3Mn per year however, for the higher income segments the net impacts will likely range between 0.1% to 5% on a progressive basis.

The Staff level agreement with IMF seems in sight: We opine the recent budgetary measures alongside the reversal of energy subsidies to appease the IMF as major requirements have largely been fulfilled, thus staff level agreement should be reached in the upcoming weeks however, release of funds will likely take another month or so.

Market vantage point: We opine the said measures to materially impact Jun-22 profitability and we can expect pay-outs to be restricted however, IMF agreement and easing pressure on the PKR should cool nerves. Dips should be considered a buying opportunity in Banks, E&P's, Fertilizers and Technology sectors.

Finance Bill 2022-23: Key amendments

	Budgeted	Amended
Salary Income Tax exemption	1.2Mn/annum	0.6Mn/annum
Super Tax on 15 sectors (one-time)	0%	6%
Turnover tax on OMCs	0.75%	0.50%
PDL target	PKR 30/ltr	PKR 50/ltr
Reduction in ST on import of APIs	17%	1%
Sales tax on imported CBU (EV)	17%	12.50%
Corporate tax rate for Banks	45%	39%
CVT on motor vehicles	2% (over 1600cc)	1% (over 1300cc)

Source: Amendments to Finance Bill, BMA Research

Abdul Rehman Siddiqui
Deputy Head of Research
Tel: 111-262-111 ext. 2056
E-mail: abdul.rehman@bmacapital.com
BMA Capital Management Ltd.

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)