POST BUDGET ANALYSIS FY11

Analyst

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Standard Capital
Securities (Pvt) Ltd
A venture of Naushad Haroon Chamdia, incorporated in 1997

WHAT IS FOR THE BOURSES

Imposition of capital gains tax on bourses – cat is out of the bag

Capital gains tax (CGT) of 10% is applied on sale of share before 6 months whereas a charge of 7.5% is applied if shares are sold after 6 months. No CGT shall be applied if shares are sold after the lapse of 1 year.

Mode of payment is a burden on investors

But quarterly filing of gains seems plausible solution

Advantages of CGT	Disadvantages
Contribution to national exchequer	Mode of collection to create confusion
Markets to gain stability after some time	less volumes
due to less spate of speculation	less liquidity to hit markets
Long term holding to be encouraged	negative for broker earnings
Trading from any benami accounts	contribution to national exchequer
to be unearthed	would be nominal

Advance tax to be filed on CGT -

GLARING
IMPACT ON SECTORS

Sectoral impact - mostly neutral

A) Federal Excise Duty (FED) Rs 10 increase per 5.1/mmbtu
Sectors to hurt include textile sector captive power plants and cement sector
Nishat Mills and Lucky Cement to be hit by FED increase

B) Less subsidy to sole DAP producer viz. Fauji Fertilizer Bin Qasim (FFBL)
i.e. Rs 185 mn as against Rs 439 mn
Positive for FFBL

C) govt. earmarked Rs 10 bn for refineries against last year disbursements
of Rs 11 bn
Neutral for ATRL

D) 0.3% WHT on withdrawal through DD, PO, TC may be inelastic on comm.
banks trade finance business. This may not have any impact on bank businesses
Neutral for NBP, MCB, HBL and UBL

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GST OR VAT
OUR ANALYSIS

General Sales Tax increased to 17%

Inflationary in nature

Status quo may change after Oct 1, 2010 when Value Added Tax may be enforced

Lack of will to impose VAT shall send negative signals to foreign lenders

GST shall not apply at the turnover of Rs 7.5 mn / year

FY11 BUDGET AT A GLANCE

BUDGET AT A GLANCE

Rs. Billion

Receipts		Expenditure	
(a) Tax Revenue*	1,778.7	CURRENT	1,997.9
(b) Non-Tax Revenue	623.3	General Public Service	1,387.7
Gross Revenue Receipts	2,411.0	Defence Affairs & Service	442.2
Less Provincial Share	1,033.6	Public order safety affairs	51.3
I. Net Revenue Receipts	1,377.4	Economic Affairs	66.9
II. Net Capital Receipts	325.4	Environmental Protection	0.4
III. External Receipts	386.6	Housing & Community	1.8
IV. Self Financing of PSDP		Health Affairs	7.3
by provinces	341.6	Culture Services	4.4
V. Change in Provincial		Education Protection	34.5
Cash Balance	166.9	Social Protection	1.5
VI. Bank borrowing	166.5	DEVELOPMENT	766.5
		PSDP	663.0
		Federal Govt	290.0
		Provincial Govt	373.0
		Other Dev. Expenditure	123.5
		Est. Shortfall	(20.0)
Total Resources	2,764.4	Total Expenditure	2,764.6

**Out of which FBR collection has been estimated at Rs.1667bn*

Source: Dawn

SALIENT FEATURES

Total outlay of the Federal Budget for FY11, is Rs 2764bn, which is 12.3% higher than the size of the budget estimates for outgoing FY10. Following are prime features of the budget

- The total outlay of budget 2010-11 is Rs 2764bn. The size is 12.3% higher than the size of budget estimates 2009-10.

- The resource availability during 2010-11, estimated at Rs 2598bn against Rs 2299bn in the budget estimates of the outgoing fiscal year.

Net revenue receipts for 2010-11, estimated at Rs 1377bn indicating an increase of 1.9% over the budget estimates for current fiscal year 2009-10

- The provincial share in federal revenue receipts is estimated at Rs 1034bn during 2010-11which is 57.9% higher than the budget estimates for 2009-10

- The capital receipts (net) for 2010-11 have been estimated at Rs 325bn against the budget estimates of Rs 191bn in 2009-10 indicating an increase of 70.2%

The external receipts in 2010-11 are estimated at Rs 387 bn. This shows a decrease of 24% over the budget estimates for 2009-10

SALIENT FEATURES

➢The overall expenditure during FY11 has been estimated at Rs 2764bn of which the current expenditure is Rs 1998bn and development expenditure at Rs787 bn.

➢Current expenditure shows decline of less than one % over the revised estimates of 2009-10, while development expenditure will increase by 25.3% in 2010-11 over the revised estimates of FY10.

➢The share of current expenditure in total budgetary outlay for 2010-11 is 72 % as compared to 78 % in revised estimates for 2009-10.

➢The expenditure on General Public Services (inclusive of debt servicing transfer payments and superannuation allowance) is estimated at Rs 1388bn which is 69.5 % of the current expenditure.

➢The size of Public Sector Development Program (PSDP) for 2010-11 is Rs 663 bn. While for Other Development Expenditure an amount of Rs 124bn has been allocated. The PSDP shows an increase of 30 % over the revised estimates.

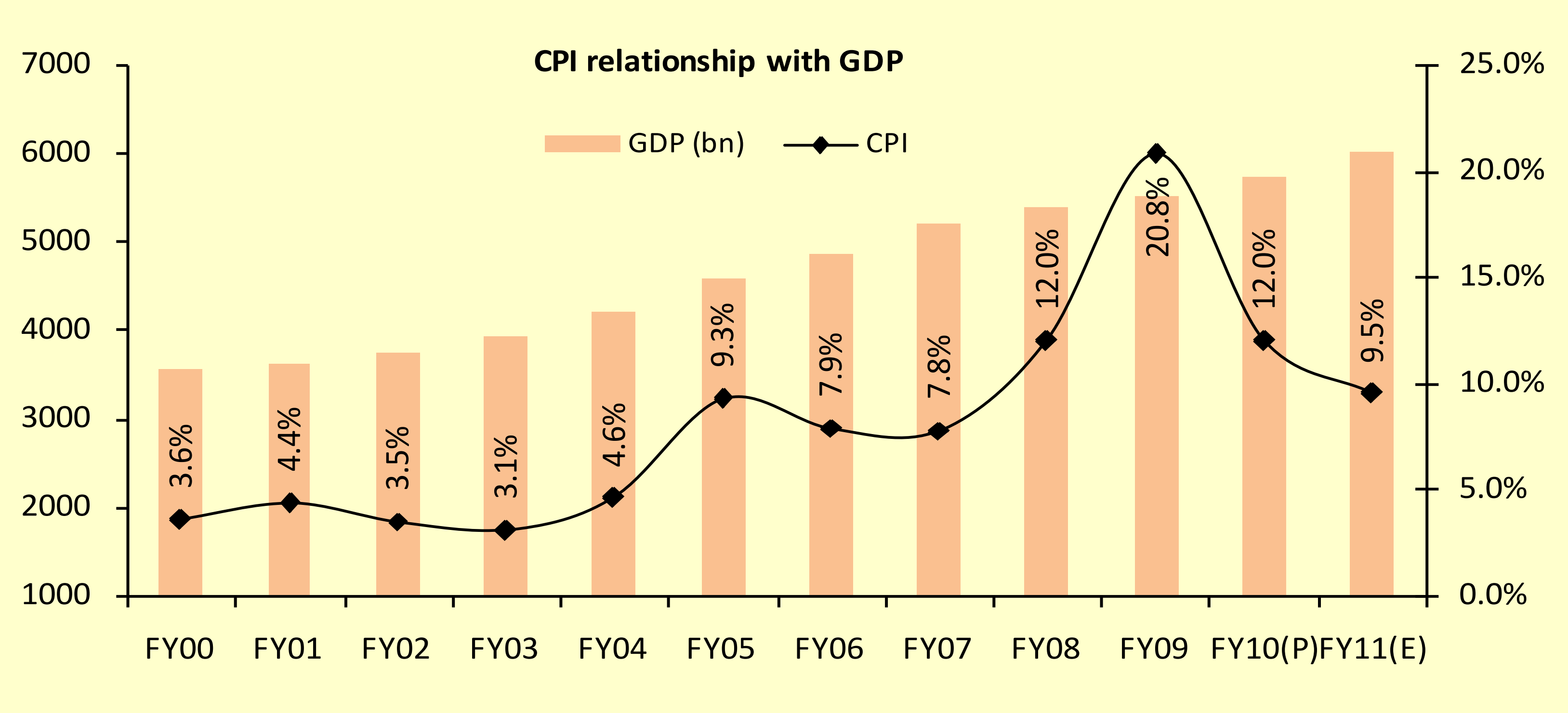
MAJOR TAX MEASURES

Existing system of General Sales Tax would be reformed to eliminate multiple tax rates and replace it with a single lower rate of 17%. The reformed GST will not apply on health, education and food items consumed by the poor. The GST will not apply to turnover less than Rs. 7.5 mn per year.

- The proposed GST reform is expected to be in place by October 1, 2010 in consultation with all the provinces and other stakeholders.
- As an interim measure the GST rates are proposed to be raised by 1% point. Once the reform GST is in place the proposed single lower rate of 15 % will become effective.
- The rate of FED on natural gas has been increased to Rs. 10 per 5.09 MMBTU, while intensive appliances, levy of FED @ 10% ad valorem on air conditioners and deep freezers is proposed.
- On income tax side, exemption limit for the salaried taxpayers has been enhanced from Rs. 200,000 to Rs.300,000, benefitting approximately 430,000 taxpayers.
- Rate of income tax collected along with monthly electricity bill from industrial and commercial consumers is proposed to be reduced from 10% to 5%. This will provide a relief of Rs.4.5bn to the 66,000 taxpayers.
- Tax free payments to non-residents on profits on debt will be allowed 10% tax credit for balancing, modernization and replacement to all companies.
- A 5% tax credit is proposed to be allowed to a company in the tax year of its enlistment

GDP OUTLOOK VIS-À-VIS CPI

GDP growth in relation with CPI



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PSDP SNAPSHOT

Public Sector Development Program (PSDP)

Total amount of Rs. 663bn has been allocated in PSDP-2010-11 for various ongoing and new schemes.

Rs.28423.8 mn for (Water Sector)	Rs.3618.7 mn for Cabinet
Rs.15227.5 mn for Pakistan Atomic Energy Comm.	Rs.4115.5 mn for Population Welfare Division
Rs.14565.7 mn for Finance	Rs.885.6 mn for Livestock and Dairy Dev.
Rs.13629.6 mn for Railways	Rs.1646.2 mn for Science and Tech. research
Rs.9395.7 mn for Planning and Development	Rs.1000 mn for Environment
Rs.15762.5 mn for Higher Education Commission	Rs.1000 mn for Special Initiatives Division
Rs.16944.5 mn for Health	Rs.1234.7 mn for Revenue
Rs.10873.7 mn for Food and Agriculture	Rs.623.4mn for Petroleum and Natural Resources
Rs.3220.1 mn for Industries and Production	Rs.718.3 mn for Information Tech and Telecom
Rs.5140.9 mn for Education Division	Rs.1229.7 mn for Defence Production
Rs.5584 mn for Interior Division	Rs.474.1 mn for Commerce
Rs.3887.1 mn for Defence Division	Rs.149.1 mn for Comm. (other than NHA)
Rs.3618.3 mn for Housing and Works	Rs.518.6 mn for Ports and Shipping
Rs.246.9 mn for PNRA	Rs.65.8 mn for Labor and Manpower
Rs.82.3 mn for Statistics	Rs.81.1 mn for Ministry of Postal Services
Rs.15 mn for Economic Affairs	Rs.12029.7 mn for WAPDA (Water)
Rs. 44637 mn for National Highway Authority	Rs.10523.5 mn for Azad Jammu and Kashmir
Rs.6584.9 mn for Gilgit-Baltistan	Rs.8642.6 mn for FATA
Rs. 5000 mn for People’s Works Program-I	Rs.25000 mn for People’s Works Program-II