

POST BUDGET SEMINAR

JUNE 3, 2017



FOSTERING ECONOMIC GROWTH

(A Company set up under Section 42 of the Companies Ordinance 1984)

PBC MEMBERS: THE MOST PROMINENT BUSINESSES IN PAKISTAN



...MEMBERS INCLUDE 24 OF THE LARGEST MNC'S FROM 12 COUNTRIES



.....*WHICH CONTRIBUTE*

every **9th** Rupee of GDP

every **5th** Rupee of Taxes

every **5th** Rupee of Exports

400,000 direct jobs +

2,000,000 indirect jobs

...FROM 13 KEY SECTORS OF MANUFACTURING AND SERVICES. NO TRADERS!

Large-Scale Manufacturing

1. Agro-industries
2. Cement
3. Chemicals/Fertilizer
4. Energy
5. Engineering
6. Fast Moving Consumer Goods
7. Packaging Material
8. Pharmaceuticals and Healthcare
9. Textiles

Services

10. Engineering services
11. Financial services
12. Utility
13. Logistics/courier

PBC'S AGENDA IS SHAPED BY THREE CRITICAL NATIONAL IMPERATIVES

Jobs

- Need to find jobs for c.2 Mn people that become of employable age each year
- Energy shortfall related underemployment over last 5 years needs to be addressed

Tax base

- Tax to GDP ratio has at least 6% more room to grow
- Much of the social and physical infrastructure is fractured due to low investment
 - Pakistan spends half per capita of Sri Lanka on Education
 - ... and a quarter per capita of Sri Lanka on Health

Exports

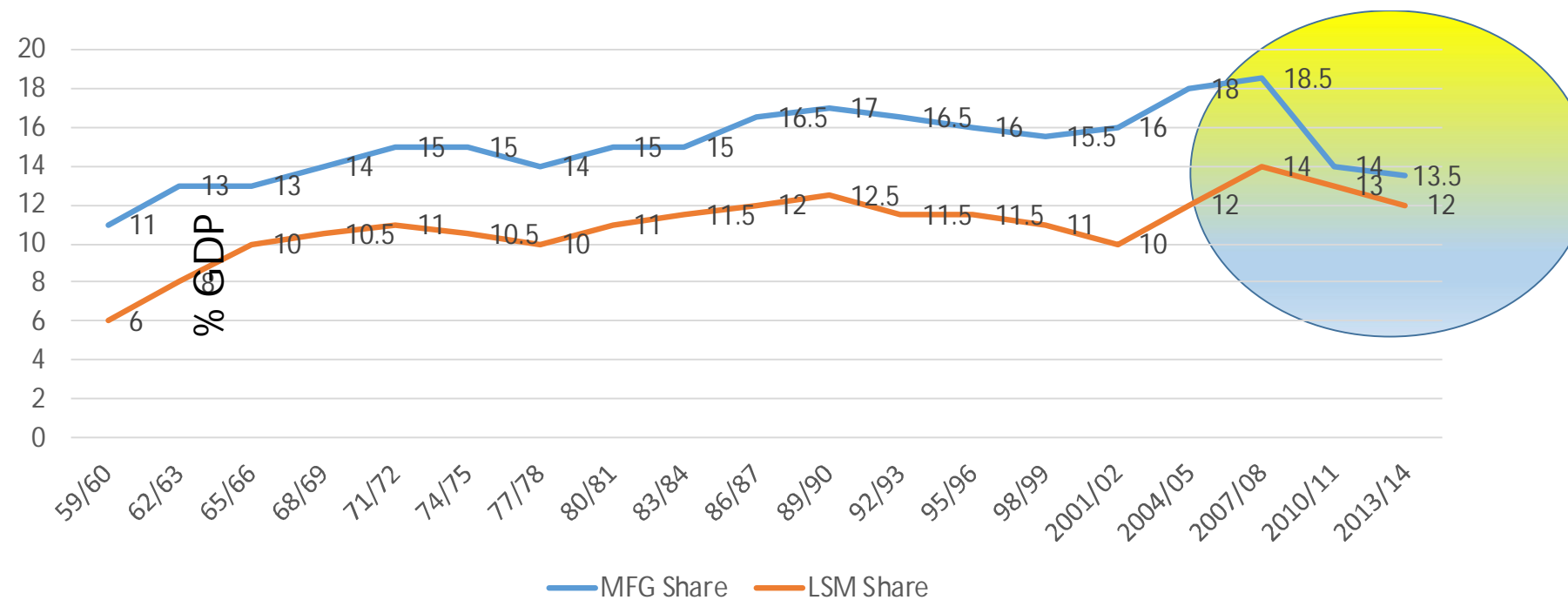
- Pakistan's share of world exports has declined over last 17 years
- Vietnam's share is up 7 folds; Bangladesh's has doubled over the same period
- 60%+ of our exports are low value-added textiles. Textiles represent 6% only of world trade. Hence need to diversify
- Rest of exports are primarily commodities which don't generate significant employment and are more vulnerable to volatility

BACKGROUND TO THE RECOMMENDATIONS



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SHARE OF MANUFACTURING IN GDP DECLINING



Is Pakistan becoming a nation of traders?

Can we afford to offshore our jobs?

Why do we export commodities and not add value?

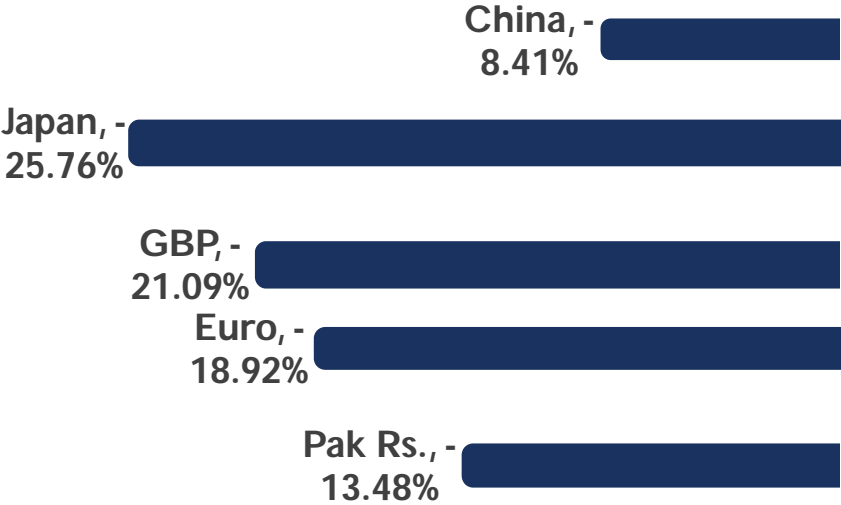
Are the policies conducive to Import substitution?

FTAS AND PTAS HAVE NOT RESULTED IN TRADE ADVANTAGE

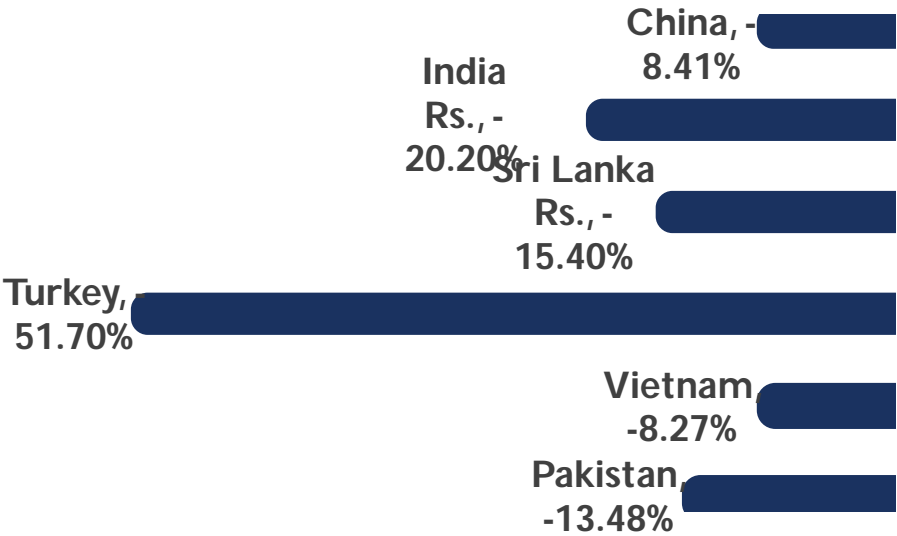
Country	Year Signed	Trade Balance Then	Trade Balance 2015
Sri Lanka	2005	\$0.094 Bn	\$0.187 Bn
China	2006	\$(3.2) Bn	\$(14 Bn)
Malaysia*	2008	\$(1.55) Bn	\$(0.72) Bn
Indonesia*	2013	\$(1.06) Bn	\$(1.9) Bn
Mauritius	2007	\$0.035 Bn	\$(0.038) Bn
* Malaysia & Indonesia comb.		\$ (2.6) Bn	\$(2.6) Bn

EXCHANGE RATE HAS NOT SUPPORTED EXPORT COMPETITIVENESS OR IMPORT SUBSTITUTION

Pak Rs.Vs. Destination
Market Currencies

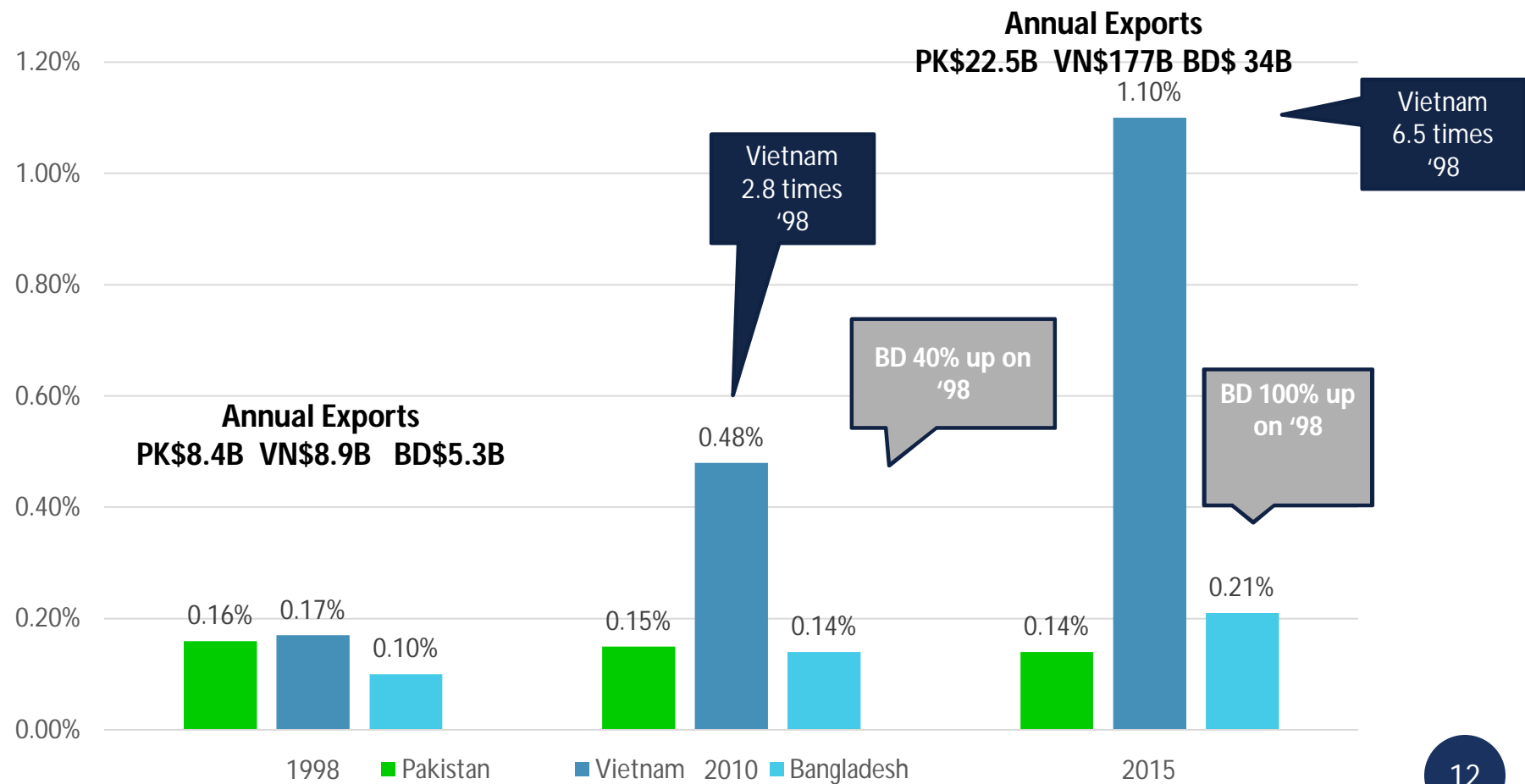


Pak Rs.Vs Key Textile
Competitor Sourcing Currencies

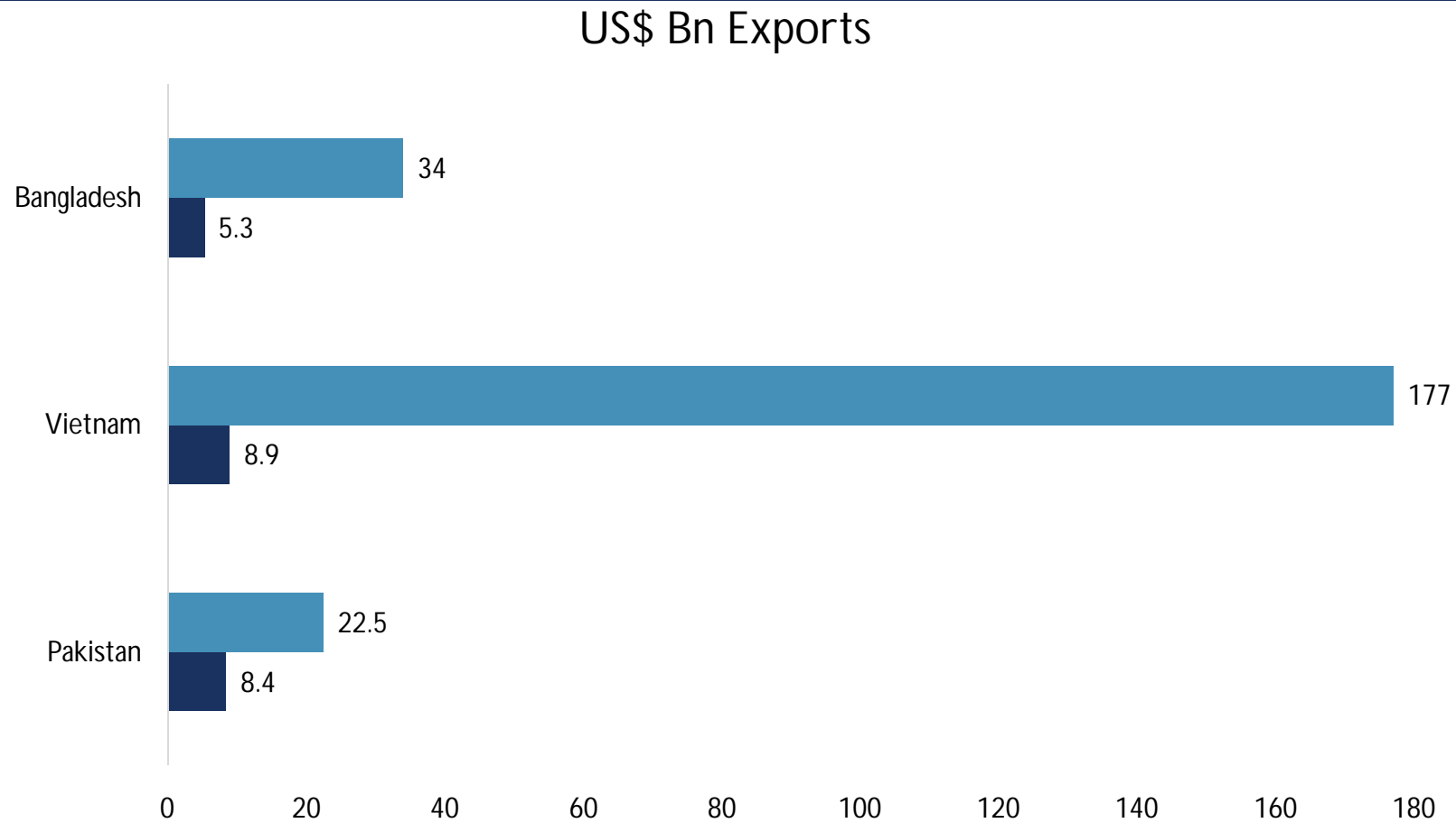




PAKISTAN'S SHARE IN WORLD EXPORTS DECLINING; VIETNAM'S UP 7 FOLD, BANGLADESH'S DOUBLED SINCE '98



VIETNAM'S EXPORTS UP 20 FOLD, BD'S 7 FOLD VS. PAKISTAN'S <3 TIMES (2015 VS 1998)



*....PAKISTAN'S TRADE DEFICIT CONTINUES TO GROW,WHILST
REMITTANCES ARE DOWN...*

TRADE US\$ Billion	July '16 to April '17	July '15 to April '16	Change %
Exports	16.9	17.3	Down 2.3%
Imports	43.4	36.2	Up 20%
Trade Deficit	-26.5	-18.9	Up 40.2%

REMITTANCES US\$ Billion	July '16 to April '17	July '15 to April '16	Change %
Remittances	15.6	16	Down 2.5%

PRIVATE SECTOR CREDIT (AS % OF GDP) LOWEST IN THE REGION

	2004	2010	2015
Pakistan	29	21	15
India	36	51	53
Bangladesh	28	41	44
China	119	126	153
UK	139	189	134
USA	112	187	189

SIGNIFICANT SCOPE TO IMPROVE EASE OF DOING BUSINESS: RANKED 156TH IN "PAYING TAXES"; 47 TYPES OF TAXES

	Rank of 190 countries	DTF*	Procedures	Time (days)
Overall Pakistan ranking	144	52		
Starting a business	141	78	12	18
Dealing with construction permits	150	59	15	264
Getting electricity	170	42	5	181
Registering property	169	41	8	155
Getting credit	82	50		
Protecting minority interests	27	67		
Paying taxes	156	53	47	311 hrs
Trading across borders	172	39		
Enforcing contracts	157	43		1071
Resolving insolvency	85	45		2.6 yrs

UNDERINVESTMENT IN SOCIAL DEVELOPMENT

- Pakistan lowest in South Asia on Social Development Indicator Ranking
- 40% of children do not go to school daily
- 43% stunted due to under-nourishment
- Per capita, Sri Lanka spends twice as much as Pakistan on SD
- Human capital weak in Pakistan
- Poor gender balance in workforce
- Scope to skill-up through vocational training
- Tax evasion is the main cause of fiscal constraint
- Tax to GDP ratio must grow by at least another 6%

TAX RATES OUT OF LINE WITH REGIONAL BEST

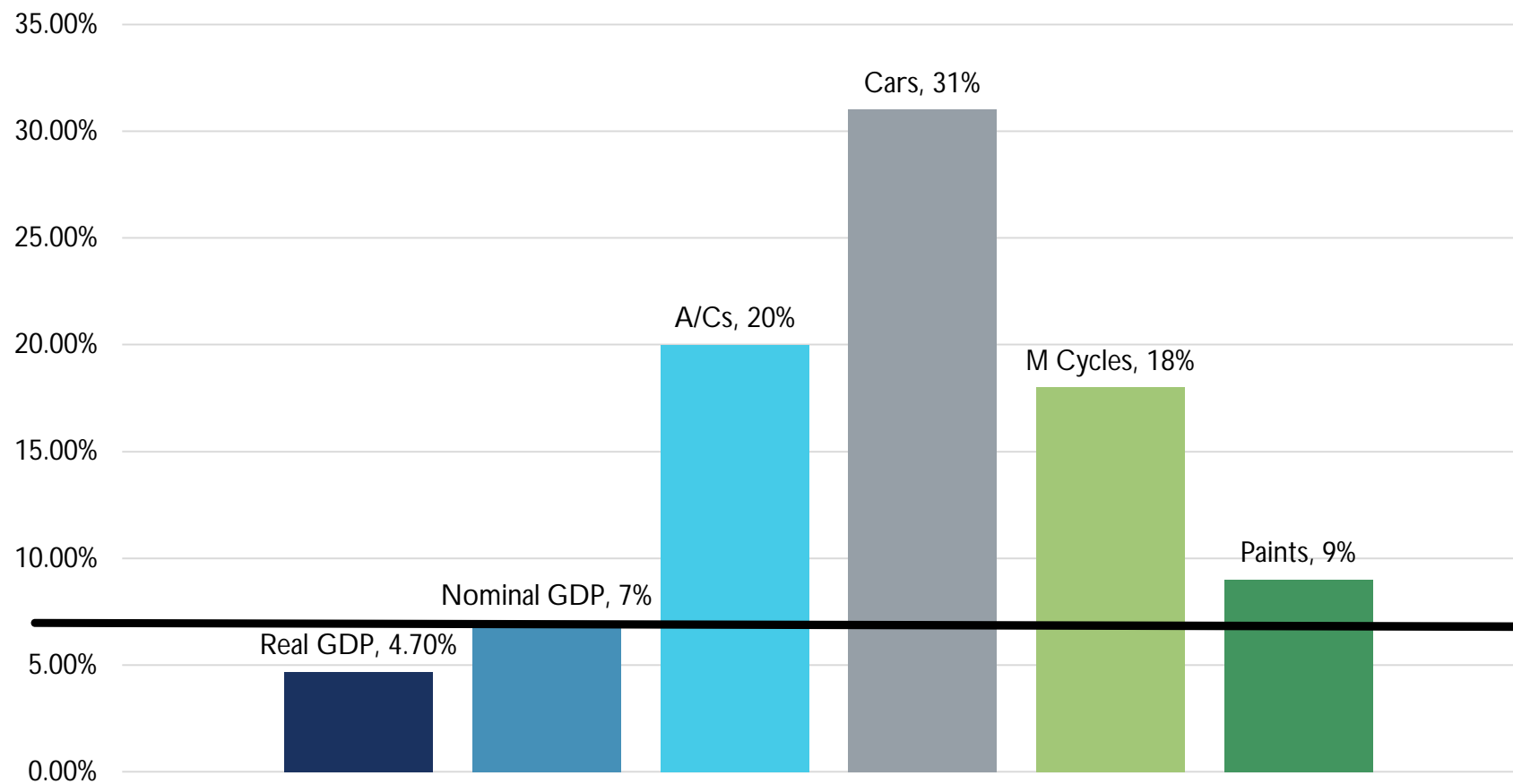
	Corporate Tax Rate	Sales/VAT Rate
Pakistan	31% + 5% WWF/WPPF+36% + Super Tax	17%
Singapore	17%	7%
Sri Lanka	15%	12%
Bangladesh	25%	15%
Vietnam	22%	10%

MANUFACTURING CARRIES A DISPROPORTIONATE TAX BURDEN

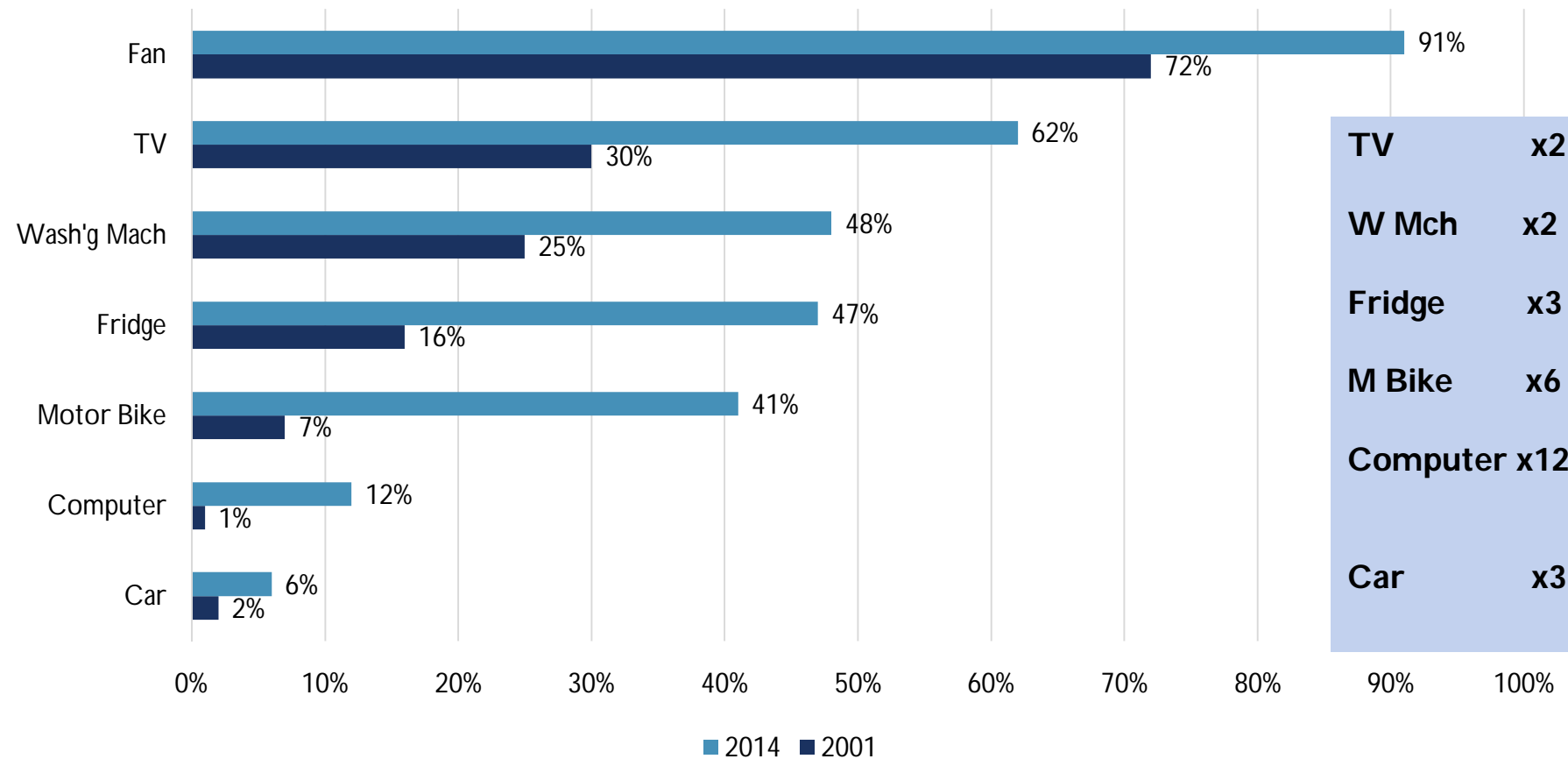
	Contribution to GDP	Contribution to Tax Revenue
Agriculture	21%	1%
Manufacturing	13%	52%
Services	58%	37%
- Wholesale/retail	18%	>1%
- Financial Services	3%	6%

LARGE AND GROWING INFORMAL ECONOMY

Growth of Durables outpaces GDP Growth 2016



GROWTH IN HOUSEHOLD PENETRATION OF DURABLES 2001-2014



PBC ADVOCATES A “PRIORITY PAKISTAN” APPROACH TO STRENGTHEN DOMESTIC INDUSTRY



CONCEPTUAL RECOMMENDATIONS



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CONCEPTUAL RECOMMENDATIONS ADDRESS:

- Promoting Investment via capital formation and competitiveness through scale and critical mass
- Levelling the playing field with the informal sector
- Harmonizing Interprovincial and Federal/Provincial Taxation
- Curbing FBR's powers that lead to harassment and discourage the widening of the tax base
- Helping meet the UN Sustainable Development Goals

PROMOTING INVESTMENT VIA CAPITAL FORMATION AND COMPETITIVENESS THROUGH SCALE

Recommendations	Outcome
Withdraw Super Tax, tax on bonus shares and tax on retained reserves	X
Restore FA 2007 basis for taxation of groups; withdraw cascading tax on inter-corporate dividends should we withdrawn	X
No company should be taxed at rates higher than individuals/AOPs	X
ACT negates objective of IAs to incentivize investment and should be withdrawn as should minimum tax on turnover	X
Import tariff should encourage local manufacturing	Some
CPEC concessions should not undermine existing industry	X
Renegotiate existing FTAs; ensure new FTAs don't undermine industry.	WIP
Advance tax ruling should be available to all, not just foreign investors	X

LEVELLING THE PLAYING FIELD WITH THE INFORMAL SECTOR

Recommendations	Outcome
Withdraw “full and final tax” regime for commercial importers.	X
Make WHT a real penalty rather than a revenue raising tool	X
Harvest data provided by the formal sector	X
Strengthen physical checks to prevent brazen sale of smuggled goods	X
Reform taxes to promote documentation of real estate via REITS	X
Enhance incentives to deal with the formal sector. Penalize transactions with the informal sector	X
Tax foreign remittances above a reasonable threshold	X
Withdraw bearer prize bonds	X
Harmonize min. tax on corporates engaged in manufacturing and services	X

HARMONIZING INTERPROVINCIAL AND FEDERAL/PROVINCIAL TAXATION

- Allow full offset of provincial input tax against federal output tax irrespective of rate of the former
- Resolve jurisdictional issues on sales tax
 - Initiation vs. consumption
 - WPPF/WWF/Zakat
- Simplify multiplicity of taxes/interfaces by unifying/digitizing
 - 47 different types of taxes. Pakistan 156th in global “Paying Tax” ranking
- Where provinces have levied sales tax on services, FED needs to be withdrawn

CURBING FBR'S POWERS THAT LEAD TO HARASSMENT AND DISCOURAGE WIDENING OF THE TAX BASE

- Separate tax collection from policy formulation. Latter to be responsibility of an independent body with business representation
- Make tax collected from new payers the primary KPI for FBR
- Exclude refunds due & advance tax from "Tax Collected"/Deficit measures
- Stop seeking payment of tax in advance of due dates, thus creating a "Circular Tax Debt"
- Desist from repeated audits of large tax payers; exempt salaried employees from audit
- Bank accounts should only be frozen with the authority of a Commissioner

FISCAL INCENTIVES TO HELP MEET THE UN SUSTAINABLE DEVELOPMENT GOALS

UN SDG GOAL	FISCAL INCENTIVE
Goal 3: Healthy lives; wellbeing for all	<ul style="list-style-type: none"> • WWF offset for hospitals/clinics within 100 km radius of workplace
Goal 5: Gender equality; women's empowerment	<ul style="list-style-type: none"> • 25% ETR rebate on salary income for full time working mothers
Goal 6: Sustainable water; sanitation for all	<ul style="list-style-type: none"> • WWF offset for investment in purification plants for drinking water
Goal 8: Sustained, inclusive and sustainable economic growth; full and productive employment; and decent work for all	<ul style="list-style-type: none"> • WWF offset for the investment in approved vocational training inst. • IA for investment for the specially challenged in the workplace • 0.5% lower tax rate for jobs to challenged persons (min. 5% of work force) • 1% lower tax for 50+ new jobs on existing company's own payroll
Goal 9: Inclusive/sustainable industry	<ul style="list-style-type: none"> • IA for inv. in renewable energy for factories, warehouses and offices • IA for investment in effluent treatment plants
Goal 12: Sustainable consumption & production	<ul style="list-style-type: none"> • 0.5% lower tax for reduction in waste, achieving/maintaining zero landfill • 15 year tax holiday for inv. in a standalone waste management business • 0.5 % lower tax for reduction in the material footprint of the supply chain

SOME OTHER POSITIVES AND SOME NOT

- ICT sector to benefit from lower taxes and 3 year start up relief
- Reduction of 1% in corporate tax rate
- 2 more years of relief for newly listed companies
- Duty exemption on premises to address malnutrition and stunting of children

AND

- NPOs - charitable and others to be treated alike
- Surplus over 25% to be taxed, discouraging endowments



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