

Federal Budget FY23

Super tax is the new stopgap measure in Finance Bill FY23

Pakistan's government announced stopgap measure of 10% super-tax to enhance revenue collection and achieve the fiscal deficit target for FY23. The move puts one-off super tax on corporate earnings but also brings Pakistan closer to IMF Programme resumption and avoid default. This move tops-up the budgetary proposition of poverty alleviation tax of 4% on companies, earning more than PKR300mn, in nearly 13 sectors.

- **Industries** belonging to Cement, Steel, Sugar, Oil & Gas, Oil Refining, OMCs, Fertilizer, Textile, Automobiles, Tobacco, Beverages, Packaged Milk, Juices, Chemical, Airline and LNG Terminals will be subject to this one-off super tax.
- **Exempted** sectors from the super tax are Construction, IT and Media as the government feels such sectors are not making windfall earnings and/or largely impact people belonging to the low-income segment.
- Other amendments in the recently proposed Finance Bill 2023 suggest a lower turnover tax of 0.5% on **OMCs** (previously: 0.75%) and an efficient taxation mechanism to bring retailers, realtors and restaurant owners into the tax net.
- **Non-bank** corporates will face a 39% taxation for Tax Year 2022. We await clarity from the revised Finance Bill particularly for **Banks** which see much higher taxation.

As per the revised budgetary changes, the FBR taxation target has been revised upwards by 6% to PKR 7.4tn by increasing the contribution from direct taxes.

Simultaneously, some news flows have quoted a higher aim of petroleum levy (PDL) on fuel prices to PKR50/litre, which will effectively enable achievement of PDL collection target of PKR750bn for FY23. We believe, that this stopgap measure of super tax will fill a lot of gaps in the fiscal targets, revealed in Budget FY23. We await the revised Finance Bill 2023 to reflect better on the proposed changes, however, this move solidifies government's efforts in resuming the IMF Programme.

Budget FY23 after recent makeshift changes

Receipts (PKR bn)	FY22B	FY22R	FY23B	yoy	FY23R (IMF)
FBR Tax Revenue	5,829	6,000	7,004	17%	7,426
Direct Taxes	5,829	6,000	7,004	17%	7,426
Non Tax Revenue	2,080	1,315	2,000	52%	1,825
Gross Revenue	7,909	7,315	9,004	23%	9,251
less: Provincial Share	3,412	3,512	4,100	17%	4,100
Net Revenue	4,497	3,803	4,904	29%	5,151
Capital Receipts	1,241	2,508	1,996	-20%	1,996
External Receipts	1,246	1,383	533	-61%	685
Provincial Surplus	570	682	800	17%	800
Bank Borrowing	681	743	1,172	58%	1,172
Privatization Proceeds	252	-	96	nm	96
Total Receipts	8,487	9,118	9,502	4%	9,900
Federal budget deficit	-3,990	-5,315	-4,598		-4,749
Fiscal deficit	-3,420	-4,633	-3,798		-3,949
Primary deficit	-360	-1,489	152		152
Nominal GDP (PKRbn)	66,950	66,950	78,197		78,197

Source: Budget FY23, IMS Research

Expenditure (PKR bn)	FY22B	FY22R	FY23B	yoy	FY23R (IMF)
Interest Payments	3,060	3,144	3,950	26%	3,950
Pension	480	525	530	1%	609
Defence Affairs & Services	1,370	1,480	1,523	3%	1,523
Grants and Transfers	1,168	1,090	1,242	14%	1,242
Subsidies	682	1,515	699	-54%	699
Running of Civil Govt.	479	530	550	4%	600
Provision for Pay & Pension	160	-	100	nm	100
Provision for contingencies	25	-	-	nm	269
Provision for Disaster/Emergency	100	232	100	-57%	100
Current Expenditure	7,523	8,516	8,694	2%	9,092
Federal PSDP	900	550	727	32%	727
Net Lending	64	52	81	nm	81
Other Dev. Expenditure	-	na	-	nm	-
Development Expenditure	964	602	808	34%	808
Total Expenditure	8,487	9,118	9,502	4%	9,900
- budget deficit % of GDP	-6.00%	-7.90%	-5.90%		-6.10%
- fiscal deficit % of GDP	-5.10%	-6.90%	-4.90%		-5.10%
- primary deficit % of GDP	-0.50%	-2.20%	0.20%		0.20%

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We present earnings impact from the recently proposed super tax on IMS coverage:

FY22e	Base EPS (PKR)	After Supertax	Impact	FY22e	Base EPS (PKR)	After Supertax	Impact
Textile				OMC			
GATM	11.88	10.43	-12.2%	PSO	182.95	162.23	-11.3%
ILP	12.45	11.11	-10.8%	Fertilizer			
NML	24.15	21.30	-11.8%	FFC	19.65	16.88	-14.1%
NCL	36.16	32.26	-10.8%	EFERT	15.81	13.55	-14.3%
KTML	17.95	15.74	-12.3%	FFBL	5.89	5.08	-13.8%
Automobiles				FATIMA	9.75	8.23	-15.6%
INDU	203.32	174.68	-14.1%	ENGRO	51.88	44.62	-14.0%
HCAR	17.46	14.70	-15.8%	Cement			
PSMC	26.38	22.67	-14.1%	CHCC	24.09	20.94	-13.1%
MTL	66.31	56.97	-14.1%	KOHC	22.62	19.13	-15.4%
AGTL	42.49	36.51	-14.1%	FCCL	3.30	2.82	-14.7%
E&P				MLCF	5.51	4.91	-10.8%
OGDC	28.77	24.72	-14.1%	DGKC	10.18	9.38	-7.8%
PPL	26.68	22.93	-14.1%	LUCK	42.38	39.12	-7.7%
POL	82.36	70.77	-14.1%	PIOC	9.02	7.63	-15.5%

PKR	Base EPS: CY21	After 10% Super tax	Impact	After 4% Super tax	Impact
Banks					
BAFL	8.00	6.68	-16.5%	7.47	-6.6%
BAHL	16.83	14.10	-16.2%	15.74	-6.5%
HBL	23.36	19.34	-17.2%	21.76	-6.8%
MCB	26.00	21.61	-16.9%	24.24	-6.8%
MEBL	17.43	14.51	-16.8%	16.26	-6.7%
UBL	25.23	20.97	-16.9%	23.52	-6.8%

Source: IMS Research

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*Based on 12 month horizon unless stated otherwise in the report.

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