



Al Meezan
Investment Management Ltd.

INVESTOR INSIGHTS 2024-25 FEDERAL BUDGET COMMENTARY



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Federal Budget Review FY24-25

Macroeconomic Outlook

For the upcoming fiscal year, the federal government has set a growth target of 3.6%. As Pakistan is aiming for a new larger and longer IMF program, preparing a budget in line with the guidelines provided by the IMF, is a pre-condition for a Staff Level Agreement for the new program.

Key Budget Indicators		FY19	FY20	FY21	FY22	FY23	FY24	FY24	FY25
		Actual	Actual	Actual	Actual	Actual	Revised Budget	Actual	Budget
Key macro indicators									
GDP	PKR bn	43,798	47,540	55,796	66,950	83,875	105,817	106,045	124,150
Real GDP growth	%	3.1%	-0.9%	5.8%	6.1%	0.29%	3.5%	2.4%	3.6%
Inflation	"	7.3%	10.7%	8.9%	12.2%	29.2%	21%	25%	12%
Fiscal Deficit	"	-7.8%	-7.3%	-6.1%	-7.9%	-7.8%	-6.5%	-7.4%	-5.9%
Primary deficit/surplus	"	-3.0%	-1.8%	-1.2%	-3.1%	-1.0%	0.4%	0.4%	2.0%
Revenue:									
Tax revenue		3,829	3,998	4,764	6,143	7,169	9,415	9,252	12,970
FBR taxes	PKR bn	3,829	3,998	4,764	6,143	7,169	9,415	9,252	12,970
Petroleum Levy	"	206	294	425	128	580	869	960	1,281
GIDC	"	21	9	19	19	11	40	3	3
Non-tax revenue	"	606	1,784	1,505	1,185	1,711	2,963	2,947	4,845
Gross Revenue	"	4,436	5,782	6,270	7,328	8,880	12,378	12,199	17,815
Transfer to Provinces	"	2,398	2,504	2,742	3,589	4,223	5,399	5,427	7,438
Net Revenue	"	2,038	3,278	3,528	3,739	4,656	6,979	6,772	10,377
		62.6%	62.6%	57.6%	58.4%	58.9%	57.34%	58.66%	57.35%
Expenditure:									
Total Expenditure	PKR bn	5,599	6,819	7,245	9,350	11,332	14,485	15,160	18,877
Current	"	4,804	6,093	6,349	8,452	10,732	13,344	14,232	17,203
Domestic	"	1,821	2,313	2,524	2,829	4,936	6,430	7,211	8,736
Foreign	"	270	307	226	354	760	872	1,040	1,039
Mark-up payments	"	2,091	2,620	2,750	3,182	5,696	7,303	8,251	9,775
Development	"	732	688	695	558	743	950	659	1,400
PSDP	"	562	622	667	558	743	950	659	1,400
Provincial Surplus/(Deficit)	PKR bn	139	77	314	351	155	600	539	1,217
Key Fiscal Accounts as % of GDP									
Gross Revenue	% GDP	10.1%	12.2%	11.2%	10.9%	10.6%	11.7%	11.5%	14.3%
Tax revenue	"	8.7%	8.4%	8.5%	9.2%	8.5%	8.9%	8.7%	10.4%
Non-Tax revenue	"	1.4%	3.8%	2.7%	1.8%	2.0%	2.8%	2.8%	3.9%
Total Expenditure	% GDP	12.8%	14.3%	13.0%	14.0%	13.5%	13.7%	14.3%	15.2%
Current Expenditure	"	11.0%	12.8%	11.4%	12.6%	12.8%	12.6%	13.4%	13.9%
Mark-up payments	"	4.8%	5.5%	4.9%	4.8%	6.8%	6.9%	7.8%	7.9%
Development Expenditure	"	1.7%	1.4%	1.2%	0.8%	0.9%	0.9%	0.6%	1.1%



Federal Budget Review FY24-25

Impact of Budget on key sectors of the economy

Capital Markets

- Contrary to expectations of change in treatment of income from capital gain and dividends to normal tax, affecting net returns of the investors; the budget FY25 is overall positive for the market as government has not changed treatment of Capital Gains Tax (CGT) to normal tax.
- The maximum rate of 15% tax on CGT has also remained unchanged. From July 1, 2024, a flat 15% tax rate will apply to capital gains on securities for filers regardless of holding period. Non-filers will however face regular slab-wise tax rates, ranging from 15% to 45%, on such gains.
- Bonus shares: There is no change in tax on bonus shares issuance

CGT on securities acquired on or after 01-Jul-2024	
Category	Proposed Rate
Filer	Flat rate of 15%
Non-Filer	
-For Individuals and AOP	15% or slab rates of income tax, whichever is higher
-For Company	Corporate tax rate

CGT on securities acquired between 01-Jul-2022 to 30-Jun-2024:	
Holding Period:	CGT:
< 1 year	15.0%
b/w 1-2 years	12.5%
b/w 2-3 years	10.0%
b/w 3-4 years	7.5%
b/w 4-5 years	5.0%
b/w 5-6 years	2.5%
> 6 years	0.0%
CGT on securities acquired between 01-Jul-2013 to 30-Jun-2022	12.50%
Shares purchased before 01-Jul-2013	0.0%



Federal Budget Review FY24-25

Mutual Funds

- Withholding tax on capital gains from mutual funds and collective investment schemes is enhanced from 10% to 15% for individuals. For companies, the rate for stock funds has been enhanced to 15% from 10% whereas for other funds it remains at 25%. In case of stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction is proposed to be at 20% as against the existing rate of 12.5%.
- Withholding tax on dividends: Dividend income from mutual funds, currently taxed at 15%, will be increased to 25% for funds deriving 50% or more of their income from profit on debt.
- Tax credit on investing in pension funds will continue.

Real Estate

- Progressive tax rates on purchases and sales of properties, classified into three categories, namely; filers, late-filers, and non-filers.

For Buyers

Currently: Flat 3 % (for both filers and non-filers)

Proposed:

- On purchase of property by filers, the rates of tax would be 3% for values of properties up to 50 million, 3.5% for values of properties between 50 million and 100 million, and 4% for value of properties above 100 million.
- Late-filers would face slightly higher rates: 6%, 7%, and 8% respectively for the same property value brackets.
- Non-filers would experience significantly higher rates, set at 12% for properties up to 50 million, 16% for 50-100 million, and 20% for properties exceeding 100 million.

For Sellers

Currently: Flat 3 % (for both filers and non-filers)

Proposed:

- The proposed progressive advance tax rates at source for filers on sale of immovable property are 3% for properties valued up to 50 million. For properties valued between 50 million and 100 million, the withholding tax rate is 4%, and for properties valued above 100 million, the rate is 5%.
- For non-filers, the rate is 10% for properties of any value.
- For late filers, the rate of tax will be 6%, 7% and 8% respectively depending on the value of property.
- **On properties acquired on or after 01st July 2024:**
 - A flat 15% rate of tax on gains from the disposal of immovable property by filers regardless of the holding period



Federal Budget Review FY24-25

- For non-filers, progressive tax rates based on the prescribed slab rates with a minimum tax rate of 15% is proposed.

Proposed Capital gain tax on property for FY25				
Rate of tax on properties acquired on or before 30th June, 2024			Rate of tax on properties acquired on or after 1st July, 2024	
Holding Period	Open Plot	Constructed Property	Flat	All Types
< 1 year	15.0%	15.0%	15.0%	15%
b/w 1-2 years	12.5%	10.0%	7.5%	
b/w 2-3 years	10.0%	7.5%	0.0%	
b/w 3-4 years	7.5%	5.0%	0.0%	
b/w 4-5 years	5.0%	0.0%	0.0%	
b/w 5-6 years	2.5%	0.0%	0.0%	
> 6 years	0.0%	0.0%	0.0%	

- FED on commercial properties and first sale of residential properties at 5%.

General

- Minimum salary increased from PKR 32,000 to 36,000
- The following changes have been proposed to the structure/rates of Income Tax applicable on salaried individuals:

Current:

Annual Taxable Income (PKR)					
From	To	Tax Rate	Tax Rate applicable on	Fixed Amount	
1	600,000	0.0%	-	-	-
600,001	1,200,000	2.5%	> 600000	-	-
1,200,001	2,400,000	12.5%	> 1200000	15,000	15,000
2,400,001	3,600,000	22.5%	> 2400000	165,000	165,000
3,600,001	6,000,000	27.5%	> 3600000	435,000	435,000
6,000,001	>	35.0%	> 6000000	1,095,000	1,095,000



Federal Budget Review FY24-25

Revised:

Annual Taxable Income (PKR)		Tax Rate	Tax Rate applicable on	Fixed Amount
From	To			
1	600,000	0.0%	-	-
600,001	1,200,000	5.0%	> 600000	-
1,200,001	2,200,000	15.0%	> 1200000	30,000
2,200,001	3,200,000	25.0%	> 2200000	180,000
3,200,001	4,100,000	30.0%	> 3200000	430,000
4,100,001	>	35.0%	> 4100000	700,000

Impact of revision:

Annual taxable income	Tax Year 2024		Tax Year 2025		Increase in Tax	
	PKR	Effective Tax Rate	PKR	Effective Tax Rate	PKR	Effective Tax Rate
600,000	-	-	-	-	-	-
1,200,000	15,000	1.25%	30,000	2.50%	15,000	1.25%
2,200,000	140,000	6.36%	180,000	8.18%	40,000	1.82%
2,400,000	165,000	6.88%	230,000	9.58%	65,000	2.71%
3,200,000	345,000	10.78%	430,000	13.44%	85,000	2.66%
3,600,000	435,000	12.08%	550,000	15.28%	115,000	3.19%
4,100,000	572,500	13.96%	700,000	17.07%	127,500	3.11%
6,000,000	1,095,000	18.25%	1,365,000	22.75%	270,000	4.50%
8,000,000	1,795,000	22.44%	2,065,000	25.81%	270,000	3.38%
10,000,000	2,495,000	24.95%	2,765,000	27.65%	270,000	2.70%
12,000,000	3,195,000	26.63%	3,465,000	28.88%	270,000	2.25%
15,000,000	4,245,000	28.30%	4,515,000	30.10%	270,000	1.80%

- Default surcharge rate to be increased to KIBOR+3% from current status of 12% fixed.
- BISP increased by 27% to PKR 593bn
- To promote remittances, PKR 86.9bn has been allotted for the reimbursement under various schemes.
- Advance tax rate on profit on debt for non-filers is being enhanced from 30% to 35%.
- The rate for non-filers for dealers, distributors, wholesalers is being enhanced from 0.2% to 2% and for retailer non-filers from 1% to 2.5%



Federal Budget Review FY24-25

- AOPs with turnovers of Rs. 300 million or more would need to submit audited financial statements to discourage misuse and promote transparency and non-compliance would render members' share income taxable.
- Levy / increase of RD on certain items to encourage local manufacturing.
- Incentives for manufacturing of Solar Panels and Allied Equipment.

Banks

Disallowance as expense

- **Currently:** The amount of 'Bad debts' which are classified as 'sub-standard' and 'doubtful' under the Prudential Regulations of SBP are not allowed until the same are reclassified as 'loss'.
- **Proposed:** In addition to the above, provisions for advances, off-balance sheet items or any other financial asset classified in stage I, II or III as performing, under-performing or non-performing under any applicable accounting standard including IFRS 09 shall also not be allowed as expense.
 - This can be negative for Banks as this would result in reduction in allowed deductions from taxable income, resulting in higher effective taxation. (Currently around 49%)
- Super tax @ 10% on banking companies for tax year 2023 and for subsequent years.

Cement

- PSDP budgeted for FY25 is at PKR 1500 Bn, 60% higher than FY24 Target (PKR 940 Bn), 196% higher than the authorized/dispensed amount during 10MFY24 (PKR 507 Bn).
- Exporters have been shifted from Final Tax Regime (1%) to Normal Tax Regime. Income from exports to be subjected to normal rates with one percent tax collection on their export proceeds be treated as minimum tax.
- Cement FED increased from PKR 2/kg to PKR 3/kg, translating into increase of PKR 50 from PKR 100/bag to PKR 150/bag.
- Introduction of Withholding regime for coal

Steel

- A phased withdrawal of sales tax exemption for ex-FATA/PATA.
- Continuation of income & withholding tax exemption for another 1 year for ex-FATA/PATA.



Federal Budget Review FY24-25

- Increase / levy of RD on flat rolled products of iron and non-alloy steel.
- Iron and steel scrap to be exempted from levy of sales tax.

Fertilizer

- At present, the GST on DAP stands at 5% on ad valorem. With DAP being moved to the third schedule, it indicates that GST will be imposed on retail price.

Oil Marketing Companies (OMCs)

- It has been proposed to increase the threshold for petroleum levy from PKR 60/litre to PKR 80/litre on MS and HSD.
- Rationalization of customs duties on import of HSD, LNG.
- Zero-rating of petroleum products is being converted into exemption.

Automobiles

- Rationalization of regulatory duty on import of new and used vehicles.
- Withdrawal of concessions of duties on import of Hybrid Vehicles.
- Reduction in concession of customs duties on import of Electric vehicles having value above USD 50,000.
- Levy of Additional Customs Duty on localized auto parts to incentivize local manufacturing sector.
- Basis of advance tax collection on registration of motor vehicles may be changed from engine capacity to percentage of value in cases of all motor vehicles.
- Percentage of tax collection to be increased in cases of vehicles having engine capacity of more than 2000cc.
- Sales tax imposed on tractors at 10% as compared to exempt status currently.

Textiles

- Exporters have been shifted from Final Tax Regime (1%) to Normal Tax Regime. Income from exports to be subjected to normal rates with one percent tax collection on their export proceeds be treated as minimum tax.



Federal Budget Review FY24-25

- Enhancement in reduced rate of sales tax from 15% to 18% on supplies made by the POS retailers dealing in textile products.

Pharmaceutical

- Exemption of Customs duties on Bovine lipid extract surfactant

Information Technology

- Although Exporters have been shifted from Final Tax Regime to Normal Tax Regime, IT sector (which falls under Section 154A) continues to remain under the FTR.

Mobile Phones

- Mobile phones to be taxed at standard rate of 18% (other than mobile phones valuing exceeding USD 500 which will remain chargeable to existing rate of 25%)

Power/IPPs

- Currently, the non-tax filers pay advance tax of 12% which is proposed to increase to 30% for domestic consumers with monthly electricity bills exceeding PKR 200,000.
- Incentives for manufacturing of Solar Panels and Allied Equipment.
- Subsidy amount allocated to KEL set at PKR 174 Bn (FY24: 228 Bn)
- Subsidy amount allocated to Inter-Disco Tariff Differential set at PKR 276 Bn (FY24: 150 Bn)

Food & Beverage

- Exemption from sales tax has been introduced for milk excluding that sold under a brand name.
- Withdrawal of exemption of RD on import of ground nuts and margarine imported by Food Confectionary.
- Withdrawal of concession of customs duties on import of fresh & dry fruits.
- Rationalization of Customs duties on import of Wheat, Sugar.



Federal Budget Review FY24-25

Others

- Enhancement in reduced rate of sales tax from 15% to 18% on supplies made by the POS retailers dealing in leather products.
- Review exemption of duties on import of inputs for Home Appliances.
- Extension in the period for adjusting unadjusted business losses from six to ten years for Pakistan International Airlines Corporation Limited (PIACL) to support its privatization.
- Price threshold for local manufactured cigarettes increased from Rs. 9,000 to Rs.12,500.
- Rationalization of Customs duty on import of parts of submersible pumps.
- Import duty on glass products is eliminated.



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