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Karachi Chamber Of Commerce & Industry.
Research & Development Department.

Contents

Sindh Budget – The Story Continues.....	1
Budget at a Glance	2
Sindh Sales Tax on Services.....	2
New taxes added to shore up tax collection.....	3
Omission from 1 st Schedule	4
Withdrawal of tax exemption from the following services	4
Capital Value Tax.....	5
Professional Tax	5
Motor Vehicle Tax.....	6
Penalties.....	6
Reduction of SST on various services.....	7
Growing Illiteracy in spite of high allocation to education sector	7
Rising Deaths despite high allocation to health and safety	8
Development in Karachi – Big on announcements, short on delivery.....	8
Karachi’s Drop in Ocean Share in Sindh’s Budget.....	9
3 World Bank Projects.....	10
Notable Announcements for Karachi.....	11
Disclaimer.....	13

Sindh Budget – The Story Continues

The Sindh assembly has adopted a zero deficit budget PKR 1.22Tn deficit-free budget for 2019-20. The budget has been developed on a tight-pocketed theme, with PKR 284.5Bn development outlay for FY20, 17.27% less than the budgeted estimates of PKR 343.9Bn and 64.55% more than the revised estimates of PKR 172.9Bn for current FY19. First priority in terms of budgetary allocations has been given to education followed by health and law and order. Sindh will spend PKR 24.92Bn in the next year on energy-related schemes, most of it going to build infrastructure in Tharparkar district and the Jhimpur Wind corridor. The provincial govt. has earmarked a 15% increase in salaries and pensions and the minimum wage has also been increased to PKR 17,500 per month.

On the revenue side, the onus is again on the federal govt. which is expected to provide PKR 835.38Bn or 74% of the revenue, while provincial tax receipts are expected to rake in PKR 288Bn. SRB, the consistent star performer has been given a challenging target of PKR 145Bn for the year, up from PKR 120Bn for the current year. Many services sectors that were hitherto out of the tax net (including ride hailing services) have brought into it while rates of CVT applicable on immovable properties has been increased. In line with the federal govt. the provincial govt. has also sought to make businesses responsible for data collection from dealers and withholding agents have been liable for short collection. Rates of stamp duty have been increased while definitions of some services have been changed.

Unfortunately, the budget has again ignored infrastructural development in Karachi as only a small number of development projects have been announced while many incomplete projects or projects approved yet unimplemented projects from many years have again been given space in the documents. The Karachi Circular Railway, against tall claims of the govt., has been allocated a meager amount indicating that it would not be completed any time soon and all talks of completing the project in the near term are, well just talks. BRT projects like Yellow, Orange and Red Line have again been mentioned like in the past budgets with minimal hopes that any of them would hope to see the light of the day any time soon. Projects having great importance for Karachi like the sewerage project S-III and the water project K-IV have again received less than desired attention.

Karachi is again witness to heaps of garbage lying around and all main thoroughfares being inundated with sewerage water. This is indicative that post elections, the provincial govt. is least interested in cleanliness and maintenance of the city, leading the Supreme Court of Pakistan to note that Karachi has become the worst city in Pakistan, and that that the Sindh govt. does not have a solution to any problem. On the other hand, Mayor Karachi continues to decry paucity of funds and apathy of the Sindh govt. as regards provision of basic facilities.

Budget at a Glance

(Figures in PKR Bn)	2018-19		2019-20
	Budgeted	Revised	Budgeted
Federal Transfers	665.1	631.5	835.4
Provincial Tax Receipts	243.1	240.7	288.7
Total Revenue	908.2	872.3	1,124.1
Capital Receipts	75.8	12.3	11.2
Other Receipts	61.9	42.9	56.0
Carryover Cash Balance	55.0	8.3	5.0
Public Accounts	23.1	5.0	21.6
Total Receipts of the Province	1,124.0	940.8	1,217.9
Provincial Development Expenditure (ADP)	343.9	172.9	284.0
Total Expenditures	1,144.4	956.8	1,217.9
Surplus / Deficit	-20.5	-16.0	0.0

Sindh Sales Tax on Services

A no. of services have been added to the list of taxable services, exemptions have been removed from some, a handful of services have been removed from the 1st schedule, while tax rates have been reduced from 6 services.

Withholding agent to be personally liable

The Bill makes the withholding agent personally liable if he either fails to deduct tax or having deducted tax fails to deposit the tax in Govt. Treasury, which is recoverable along with default surcharge.

Infrastructure Cess

Infrastructure cess is presently charged on a composite basis having relation with the value assessed by the Customs authorities and a cess based on the weight of the goods. Now, the rate in relation to the value of goods is to be revised for each category by 0.1%.

Audit proceedings to be conducted by SRB auditor

An SRB Auditor may also now conduct audit of a registered person.

Increase in power of Commissioner (Appeals) to grant stay

The power of Commissioner (Appeals) to grant stay is to be increased from 60 days to 120 days in aggregate. Moreover, the Commissioner (Appeals) is now empowered to grant conditional stay.

Recovery of tax arrears

A tax demand shall not be recovered for a period of 30 days from the date of order. It is to be noted that the period of 30 days would start from the date of order and not from the date of communication of order.

Special procedures and tax withholding provisions [Section 13]

Withholding agents have now been made liable to pay the amount of Sindh Sales Tax and the default surcharge in case withholding agent fails to withhold, or having withheld fails to deposit the tax in the govt. treasury.

New taxes added to shore up tax collection

The govt. has set an optimistic tax collection target at PKR 288.709Bn for FY20. For this purpose, the scope of Sales Tax has been expanded to more services effective from 1stJul'19, which had been previously out of the Sindh Sales Tax (SST) net, to be taxed at a rate ranging from 13% - 19.5%.

Tariff	Taxable Services	Rate
9806.6000	Renting of machinery, equipment, appliances and other tangible goods	13%
9812.7000	Other specified telecommunication services	19.5%
9812.7100	Audio text services	19.5%
9812.7200	Teletext service	19.5%
9812.7300	Trunk radio services	19.5%
9812.7400	Paging services including voice paging services and radio paging services	19.5%
9812.7900	Others	19.5%
9812.8000	Tracking and alarm services	19.5%
9812.8100	Vehicle tracking and other tracking services	19.5%
9812.8200	Burglar and security alarm services	19.5%
9812.8900	Others	19.5%
9812.9000	Telecommunication services not elsewhere specified	19.5%
9813.4700	Commission, including bill discounting commission	13%
9813.4800	Safe deposit lockers and safe vaults	13%
9813.4900	Other services, not elsewhere specified	13%
9821.2000	Indoor sports and game center	13%
9846.0000	Services provided or rendered by cab aggregator and the services provided or rendered by the owners or drivers of the motor vehicles using the cab aggregator services	5%
9847.0000	Warehouses or depots for storage or cold storage	13%
9848.0000	Training services	13%
9849.0000	Actuarial services	13%

9850.0000	Services of mining of minerals and allied and ancillary services in relation thereto	13%
9851.0000	Site preparation and clearance, excavation and earth moving and demolition services	13%
9852.0000	Waste collection, transportation, processing and management services	13%
9853.0000	Vehicle parking and valet services	13%
9854.0000	Electric power transmission services	13%
9855.0000	Insurance agents	13%

Omission from 1st Schedule

- Data Processing and Provision of information, services of Engineers, handling and storage of goods
- Packaging services
- Coaching centers
- Vocational centers
- Film and drama studios

While the expansion of the SST to incorporate more services is aimed at broadening the tax base, the govt. should realize that there are many services which are already struggling to remain profitable or operate at very low profit margins or are in infancy stages (e.g. online market places). High taxation on a nascent industry such as Ecommerce platforms will discourage the consumers to shift to digital economy leading to a stalling of growth of the digital economy in Pakistan. Furthermore, cab aggregators such as Uber, Bykea and Careem that are being used by people as a safe and convenient means of transport will become expensive and discourage women and people from using these services. These services will become uncompetitive and may well result in closure of business which will be detrimental to the economy. Also the imposition of taxes on vehicle tracking and security alarm services will push the cost of human safety.

Withdrawal of tax exemption from the following services

- Services for the development schemes and projects included in Sindh Govt.'s ADP and Federal Govt.'s PSDP for Sindh
- Internet services
- Advertisements in Newspapers & Periodicals
- Beauty parlors and beauty clinics
- Life insurance services : Levy of SST @ 13% on group life insurance (Input tax credit will be admissible to the taxpaying corporate sector) and @ 3% on individual life insurance. However, govt. sponsored group life insurance for the general public, and individual life insurance covering risk not exceeding PKR 5 lac shall remain exempt]

Capital Value Tax

Description	CVT
A. Residential immovable property (other than flats)	
Where the value of immovable property is recorded For all categories of valuation table; provided that category II and lower categories of valuation table shall be exempted up to 240 sq. yds.	1.5% of the value in the valuation table or at the floating rate charged on the actual value
B. Residential flats	
Where value of immovable property is recorded: From 1000 sq. ft. areas in category A-1 and I of the valuation table; From 1501 sq. ft. and above in all categories of the valuation table.	At the rate of 1.5% of the value in the valuation table or at the floating rate charged on the actual value.
C. Commercial and industrial immovable property	
Where value of immovable property is recorded	At the rate of 1.5% of the value in the valuation table or at the floating rate charged on the actual value.

Professional Tax

Categories	Rates of tax per annum (PKR)
All persons assessed to income tax – all persons engaged in any professional, trade calling or employment, other than those mentioned below, who are assessed in preceding financial year	500
All Companies, Modarbas, Mutual Fund, and any other body corporate with paid-up capital and reserves in the preceding year	
Upto PKR 25Mn	20,000
Exceeding PKR 25Mn but not exceeding PKR 50Mn	40,000
Exceeding PKR 50Mn but not exceeding PKR 75Mn	60,000
Capital exceeding PKR 75Mn but not exceeding PKR 100Mn	80,000

Capital exceeding PKR 100Mn	100,000
Employees not exceeding 10	1,000
All establishments other than limited companies with annual turnover assessed to income tax in preceding financial year	
Upto PKR 1Mn	1,500
PKR 1Mn - PKR 10Mn	3,000
PKR 10Mn - PKR 100Mn	10,000
PKR 100Mn - PKR 200Mn	15,000
PKR 200Mn - PKR 500Mn	30,000
Exceeding PKR 500Mn	100,000
All factories, shops etc establishments, including video shops, real estate, shops / agencies and car dealer not assessed to income tax in the preceding financial year	1,000
All petrol pumps and CNG stations	5,000

Taxation on the salaried class, corporate citizens and fuel pumps would amount to multiple taxation as the federal govt. is already heavily taxing them. Heaping multiple taxes on the already taxed is a step away from the Sindh govt's commitment towards providing Ease of Doing Business, and would serve no worthwhile purpose other than shooing away investments and reduce disposable income. At the same time, this tax would increase documentation requirements on part of the individual, which is not desirable.

Motor Vehicle Tax

Category	Existing (PKR)	New (PKR)
Imported motor cars with engine capacity from 3000 cc and above	100,000	150,000
Imported motor cars with engine capacity from 2000 cc to 2999 cc	50,000	75,000

Penalties

Offence	Penalty (PKR)
Failure or refusal to issue Sindh sales tax invoice	20,000 for first default and 50,000 for each subsequent default. In case of three acts of default the business premises is liable to be sealed.

Avoidance, defies, failure to comply with e-invoicing system or issuance of invoices outside e-invoicing system	Up to 100,000 but not less than 25,000. In case of continuous default, the business premises would be liable to be sealed.
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Reduction of SST on various services

Services	Existing	New
Fashion Designers	10%	5%
Travel Agents	8%	5%
Toll manufacturing of Textile and Leather	13%	3%
Inter city transportation or carriage of goods booked through Truck Addas or through Bus/Wagon stands	13%	5%
Standalone laundries and dry cleaners	13%	5%
Indenting services for the period from July 1, 2015 to June 30, 2018	13%	3%

Reduction in taxes on travel agents and dry cleaners was a demand of KCCI which has been graciously accepted by the govt. Yet, indenting services should be totally tax exempted, as proceeds received through indenting is similar to exports, and is hence a service to the nation as it brings in precious foreign exchange into the country.

Growing Illiteracy in spite of high allocation to education sector

The Sindh govt. allocates the highest proportion of the budget to the education sector in relation to other provinces. For FY20, PKR 241Bn have been allocated to the sector as against PKR 190 in FY19, a growth of a whopping 27%. However, the irony of the matter is that despite the highest allocation to the sector, Sindh has a sizable number of ghost schools in the country and it is alleged that most of this budgeted money gets syphoned off due to corruption. Hence, illiteracy continues to be rampant in many areas of Sindh, specially the rural and the small cities.

Rising Deaths despite high allocation to health and safety

The health sector has been allocated an amount of PKR 132Bn in FY20 as against PKR 112Bn, an increase of 18%. Despite this large allocation, 1,327 children have lost their lives in Tharparkar alone in the last two years. These deaths occurred because of malnutrition or low birth weight. While malnutrition in children is a growing concern in the country as a whole, Tharparkar faces the most number of deaths of children owing to this menace. Sindh has less population than Punjab, but the number of AIDS cases is more than Punjab where in past few months an outbreak unleashed in the rural areas of Sindh, with the blame being put on quacks using used syringes.

The Sindh govt. has also allocated 9.02% of the budget i.e. PKR 109.788Bn for improving law and order situation of the province. To improve the efficiency of the law and order situation in the province, it has been planned that around 3,000 new vacancies would be generated in Sindh Police.

Development in Karachi – Big on announcements, short on delivery

Karachi is listed among the 5 least livable cities in the world, ranked 137 out of 140. Three of the biggest problems of Karachi are water, sewerage and transportation. The Sindh govt. has allocated PKR 5Bn in the budget for Karachi's long dragging sewerage plan S-III but only PKR 800Mn for the equally delayed mega project K-IV to meet the city's demand for water. Both the S-III Greater Karachi Sewerage Plan and the K-IV Karachi Water Supply project have been delayed for more than 10 years. The K-IV delay means that people of Karachi will continue to cry for water for years to come while incompleteness of S-III will continue to destroy Pakistan's marine life and coastal environment as the polluted waters of the Lyari and Malir Rivers continue to flow to the sea without treatment.

The Federal govt. is only willing to pay PKR 3.9Bn for S-III even though the current cost estimates stand at PKR 36Bn. Unless the center provides money to cover half of S-III's actual cost, it would be impossible to comply with Supreme Court's instructions to finish the project by 2020. Negligence of both the federal and Sindh govt.s, and the KWSB has resulted in the cost of K-IV inflating from the original PKR 25.5Bn to more than PKR 75Bn. It's next to nothing allocation of PKR 800Mn allocation shows that Karachi will continue to stay thirsty for a number of years probably at the behest of the water tanker mafia

On the transport front, judging by the track record of delivering projects by the Sindh govt., Karachi will be unable to have an effective mass transit system for an extended period in the future and the people will continue to suffer at the behest of the private transport mafia.

The Sindh govt. has earmarked PKR 5.2Bn to improve public transport infrastructure in the budget. The reserved budget among other things will be allocated for the Red Line Bus (BRT) and the Yellow Line Projects to be built with the support of international financial institutions. Redline BRTS would be completed through the financial assistance of the Asian Development Bank (ADB). The overall cost of the project is estimated to be PKR 74.68Bn, out of which the ADB will provide PKR 28.3Bn in the form of a

loan, while PKR 6.76Bn will come from the Green Climate Fund reserved by the French Development Agency. The Sindh govt. will spend PKR 12Bn on the project.

Similarly, the provincial govt. has also kept initial funds for the Yellow Line BRTS project. The project will be constructed through the financial assistance of the World Bank, while the Sindh govt. will contribute a share of PKR 5.25Bn. The overall cost of the Yellow Line BRTS project is estimated at 61.43Bn. KCR has once again been put on the backburner. Terming it as a CPEC project, the Sindh govt. has only allocated a meager amount of PKR 124Mn in FY20. The BRT lines and the implementation of the KCR if completed within a certain time frame will certainly help ease the transport problems of this gigantic city. If they also get delayed further than they will become more obsolete as the population of the city balloons further.

Karachi has also received announcements of initiation of work on first phase of the Marble City project, which will be initiated in FY20 and will be completed in five years at cost of PKR 2.4Bn. This project was first announced in 2011 and land allocation of 300 acres was made, but no development has taken place since the last 8 years.

Plans have long been on the anvil of development of Technology Park in Karachi. While such IT projects are flourishing in other parts of the country including Islamabad, it has yet to see the light of day in Karachi. The budget has mentioned allocation of 1,530 acres of land to be developed as Dhabeji Special Economic Zone (DSEZ) in Thatta, a priority project under CPEC, to facilitate the potential investors of China and other countries either start new enterprises or transfer their facilities to Pakistan. The govt. has signed big investments worth \$ 1.5Bn (PKR 226Bn) over a period of five years with international development partners for high-priority sectors.

Karachi's Drop in Ocean Share in Sindh's Budget

Lamentably, budget allocation for Karachi has always remained insufficient to its needs, and FY20 is no different. Rate of urbanization has been highest in Karachi where hordes of people from all four provinces have migrated to settle and for earning, leading lives in cramped shelters and under unhygienic conditions. Umpteen colonies have sprung in the city comprising of people coming from different areas of the country including interior Sindh, Punjab (mainly southern part), KPK and Baluchistan and foreign illegal migrants.

Sindh govt. has announced PKR 41Bn for the development of Karachi. Out of this, PKR 36Bn has been set aside for Karachi in the yearly development programme, while, PKR 6.52Bn will be spent on 13 old and 7 new schemes under the special Karachi package. Other development schemes in the city would be completed with a sum of PKR 12.6Bn, which would be arranged through foreign funding.

However, it is an irony that the Sindh govt. has cut KMC's budget under development programs to PKR 3.33Bn from PKR 5Bn. In line with the cut, KMC has planned to take up on priority the most crucial projects of Karachi owing to its deplorable condition. The largest number of projects relate to roads and infrastructure.

3 World Bank Projects

The World Bank will extend PKR 32.2Bn for Competitive & Livable City of Karachi (CLICK) project to transform the city into a livable and competitive mega city. The total cost of the project comes to around PKR 33.6Bn, in which govt. of Sindh will contribute PKR 1.4Bn, 5% of the cost of the project. The goals of the project are to enhance the performance of Karachi Local Councils and agencies in urban management, financing and service delivery and to improve the business environment for private sector development in Karachi. The project will be implemented in 5 years' time June, 2024.

Another scheme is the Karachi Neighborhood Improvement Project which is a \$ 98Mn project aiming to improve urban roads infrastructure, improve Ease of Doing Business and enhance public spaces in targeted neighborhoods. The project is already under execution.

The 3rd Project is the Karachi Water and Sewerage Services Improvement Project worth \$ 40Mn, a part of larger and longer-term \$ 1.6Bn program. The ambitious reforms program aims to improve KW&SB's performance and sustainability to provide clean drinking water and sanitation services to the people of Karachi.

Notable Announcements for Karachi



PKR 5.8Bn for S-III (Sewerage) and K-IV project (Water Supply).

The Sindh gov. has also allocated a sum of PKR 2Bn for the establishment of 5 combined effluent treatment plants for the industrial areas of Karachi.

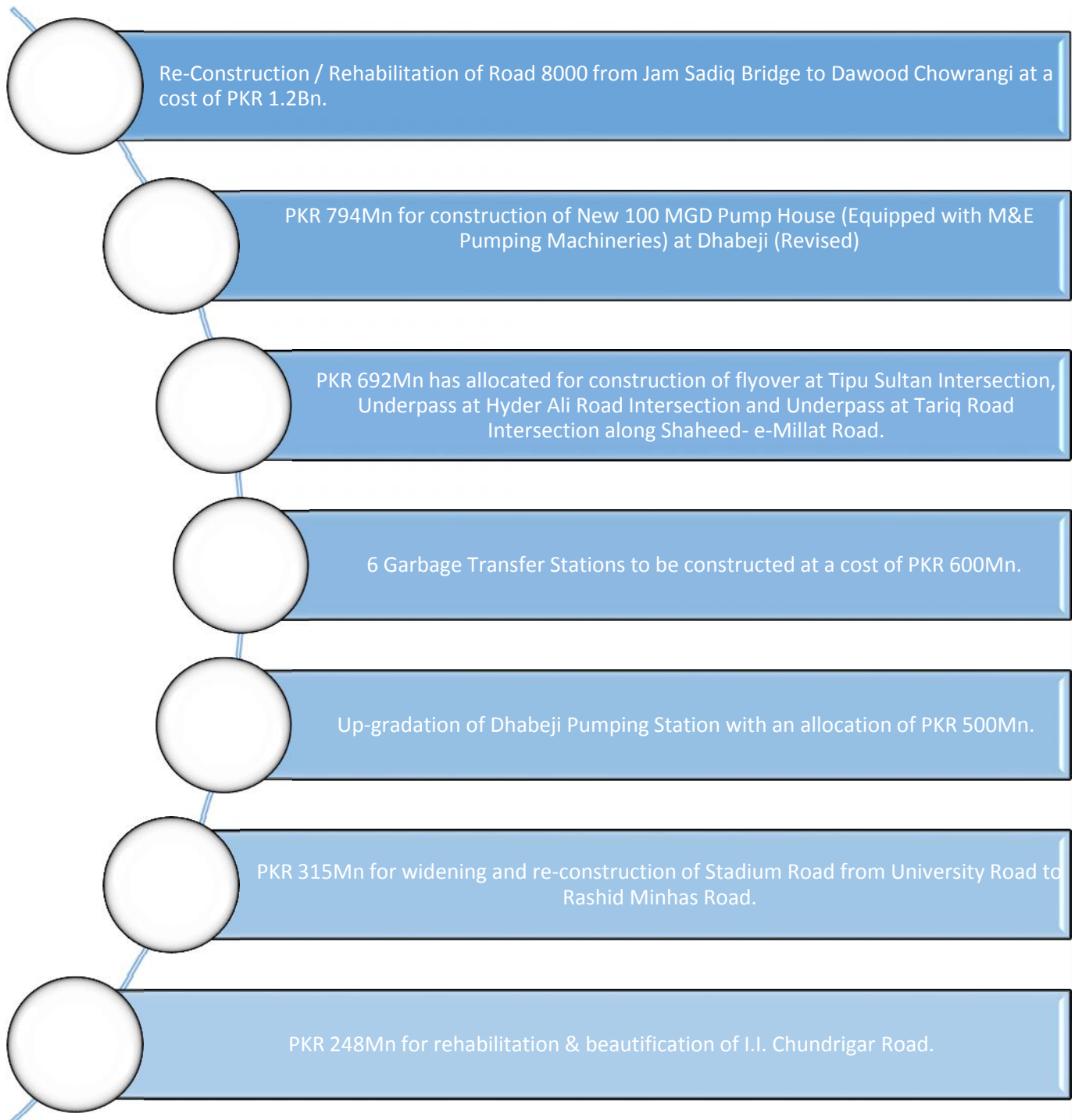
Allocation of PKR 690Mn for the Red Line, PKR 275Mn for the Yellow Line and PKR 934Mn for Orange Line Project.

PKR 500Mn for construction of 200-foot-wide Road from Manghopir Road to Shahrah-i-Qaddafi Orangi-Surjani Link.

Construction of two dams in Karachi at the cost of PKR 294.2Mn

Rehabilitation and beautification work of Shahrah-i-Pakistan from Sohrab Goth to Gurumandir Chowrangi will cost PKR 180Mn.

PKR 176Mn allocated for rehabilitation and beautification of Mai Kolachi Road from M.T. Khan Road to Punjab Chowrangi and PIDC to Jinnah Bridge.



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