

# Survey Report

# Federal Budget 2018-19

By Research and Publications Directorate, ICMA Pakistan

**'CMAs at large think that most of the budgetary measures are likely to be re-visited by the newly elected Government. Further, CMAs seems highly in favor of more stringent measures for Non-filers'**

## Preamble

The Federal Budget 2018-19 was announced on 27th April 2018 by Dr. Miftah Ismail, the then Federal Finance Minister. The Research and Publications Directorate conducted this post-budget 2018-19 survey of members of ICMA Pakistan to elicit their general feedback and initial reaction on the budget speech and accompanied Finance Bill 2018. The questionnaire specifically sought members' opinion on various budgetary targets; super tax; corporate tax; tax on non-filers; highest beneficiaries of tax relief measures; lackings in budget and tax amnesty scheme. Most of the outcomes of members synchronized with the viewpoints expressed by other segments of society including traders and businessmen; industrialists; economists; tax experts and general public. This is reflective of

the fact that CMAs, being a part of the society, share identical feelings and sentiments and as such the survey outcomes should be taken in same general perspective.

## Methodology & Survey Statistics

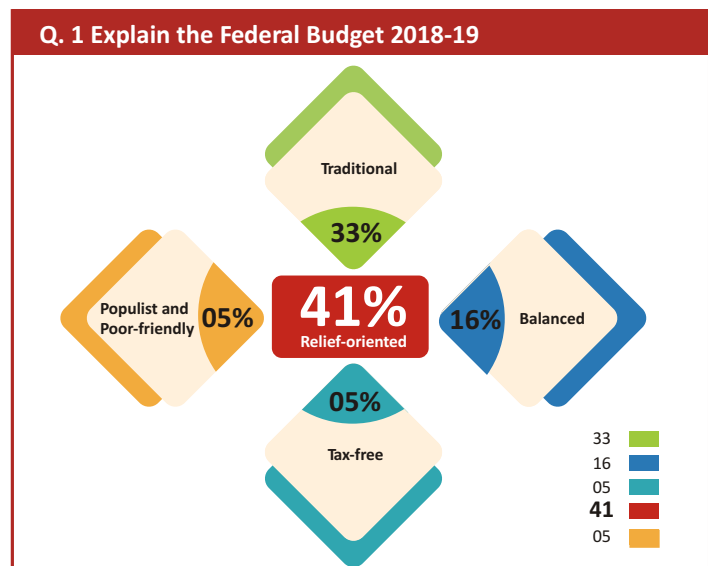
The survey questionnaire was uploaded on Institute's website on 7th May 2018 with connecting link to Google Drive to provide an opportunity to members to submit their responses online. The members were also sent emails and SMSs wherein short link of survey was provided so that the members could provide their input online from their mobile devices. The deadline for filling-up the survey questionnaire was 13th May 2018. In total 98 responses of members were received in 7 days, out of which three were found redundant for various reasons.

## Survey Results

The Survey comprised of 13 questions that aimed at seeking opinion of respondents on different aspects of proposed measures as announced in the Budget 2018-19. Let's have a brief look at the main results of the survey:

### **41%** terms Budget 2018-19 as 'Relief-oriented'

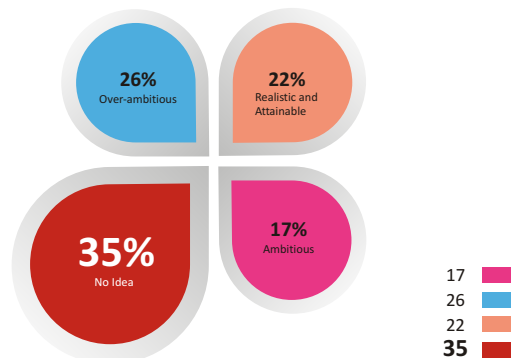
The budget speech proposed a number of relief-measures, never seen in the past, under the heads of income tax, sales tax and customs duty as well as focused on manufacturing, agriculture, dairy, poultry and other sectors. The salaried class got lucrative tax concessions in budget. Generally, in all the previous surveys conducted by ICMA Pakistan, the pre-dominant response from members had been that the budget was 'traditional' without any relief measures for the people and business. This time, it was presumed that the members' viewpoint would change. The outcome of the survey has substantiated this presumption. Around 41% of respondents said that the budget 2018-19 is 'relief-oriented' whereas 33% maintained their opinion that the budget is traditional. Around 16% survey respondents have termed the Budget as 'Balanced' while 5% have indicated that it is a 'tax-free budget'.



## 26% thinks Key budgetary targets are over-ambitious

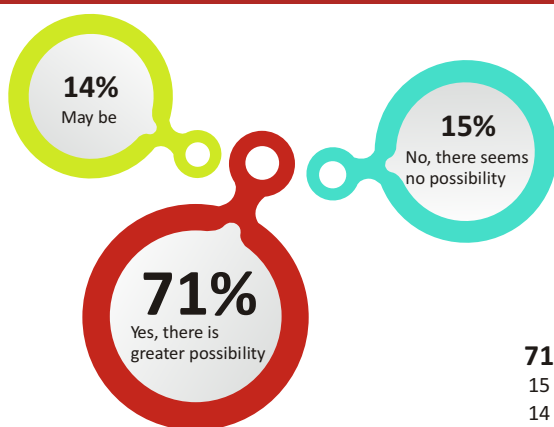
In the budget speech, the government announced key budgetary targets for FY 2018-19 which included GDP growth of 6.2 percent; Tax to GDP ratio of 13.8 percent; Budget deficit at 4.9 percent of GDP; Net Public Debt at 63.2 percent of GDP; Foreign exchange reserves of US\$ 15 billion and FBR tax revenue target of Rs. 4,435 billion. The survey participants were asked to comment on the overall targets set in the Budget 2018-19 on which 26% respondents have indicated that the targets are 'over-ambitious' and quite difficult to be achieved. However, 35% say that they have no idea as it is premature to comment on these targets. Around 22 percent respondent were of the view that budget is realistic and attainable.

### Q. 2 Overall targets set in the Budget 2018-19



## 71% predicts possibility of budget re-visit by newly-elected Government

### Q. 3 Do you think there is possibility that the new Government coming into power after general elections in 2018 will be revisiting the Budget 2018-19 announced by present government?



The previous government of PML (N) completed its five years and its tenure ended on 31st of May 2018. The last budget was presented by Dr. Miftah Ismail, Federal Finance Minister amid strong protest from the opposition benches that the outgoing government is not mandated to present the next year's fiscal budget. This viewpoint was supported by few economic experts as well. In this backdrop, one pertinent question for this survey was to seek the views of our members as to whether there is any likelihood that the new government that would be coming into power after the 2018 general elections would make any attempt to revisit different budgetary measures announced by previous government.

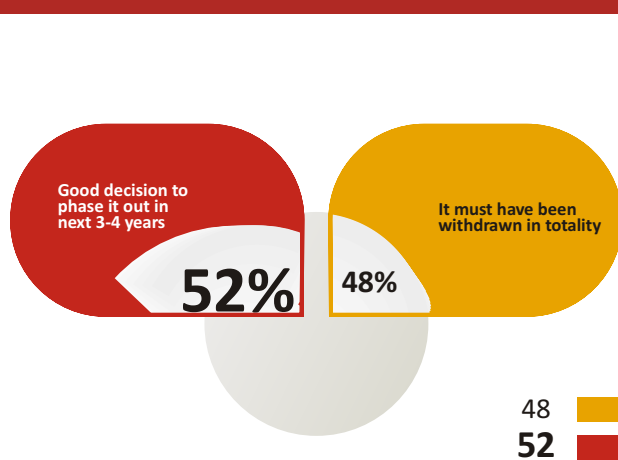
The outcome of this question suggests that majority of the management accountants (71%) are of the viewpoint that the budgetary measures are most likely to be re-examined or reviewed by the new elected government. Around 15 percent respondents do not agree and stated that it would continue, whereas 14 percent survey participants think there are chances but cannot be predicted now.

## 52% appreciates gradual phasing out of 'Super Tax'

In order to generate revenue for rehabilitation of temporarily displaced persons, the government through Finance Bill 2015-16 introduced a new tax under titled 'Super Tax' on rich individuals, association of persons (AOPs) and companies earning income above Rs 500 million in tax year 2015 at rate of 4 percent of income of banking companies and 3 percent on other categories. This tax was continued in 2016 and 2017. Various organizations demanded its abolition to reduce effective tax rate. In Budget 2018-19, the then Finance Minister announced that super tax may be continued for FY 2017-18 with reduction of 1 percent per year from FY 2018-19 for both banking and non-banking companies.

One survey question related to super tax and aimed at knowing about the responses of ICMA Pakistan's members on its proposed phasing out in next few years. The survey results indicate that around 52 percent participants have appreciated the government's initiative to phase out the 'super tax' in next 3 to 4 years whereas 48% are of the opinion that it should have been withdrawn in totality.

### Q. 4 Opinion about continuation of Super Tax in the Budget 2018-19

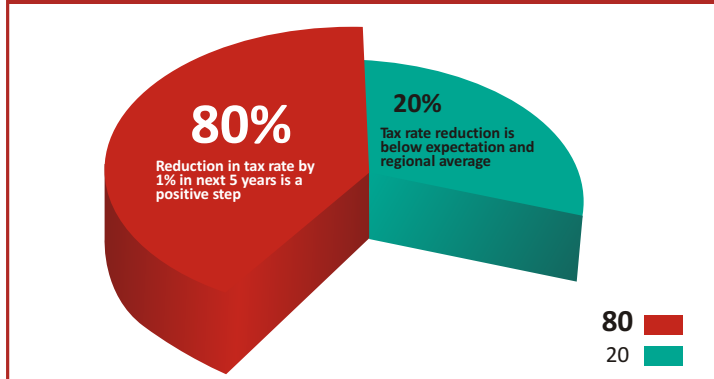


## 80% hails gradual reduction in corporate tax rate

In the Budget 2018-19, the then government announced to reduce the corporate tax rate from 30 percent in tax year 2018 to 25 percent in tax year 2023. The corporate tax rate will be 29 percent in tax year 2019 and will be reduced by 1 percent each year up to tax year 2023. The survey respondents were asked to share their opinion on proposed reduction in corporate tax rate.

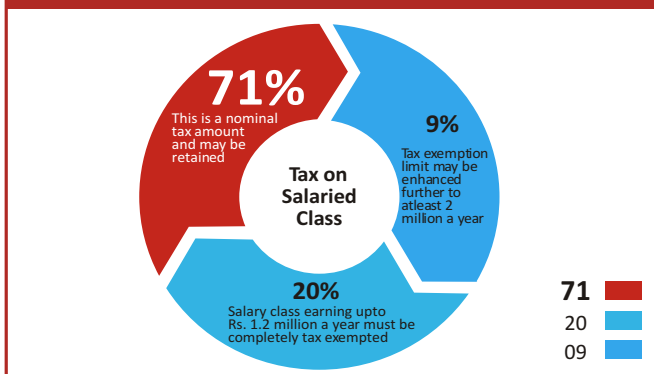
Majority of members (80%) have appreciated the reduction in corporate tax rate by 1% in next 5 years. However, 20 percent of survey participants think that the reduction is below expectation and regional.

### Q. 5 What is your opinion on proposed reduction in corporate tax rate?



## 71% says nominal tax on salaried class may be retained

### Q. 6 The salaried individuals earning Rs. 1.2 million a year were earlier given tax exemption but through budget Rs. 1000 has been imposed for income between 0.4 million to 0.8 million and Rs. 2000 for income between 0.8 million to Rs. 1.2 million a year. What is your opinion in this regard?



In the budget 2018-19, the government lowered tax rates on individuals, mostly salaried class and provided complete tax exemption on earning upto Rs. 1.2 million a year. This exemption limit was previously Rs. 0.4 million and has been increased three times to Rs.1.2 million per year. Subsequently, the government imposed Rs. 1000 for income between 0.4 million to 0.8 million a year; and Rs. 2000 on income group earning Rs. 0.8 million to 1.2 million a year.

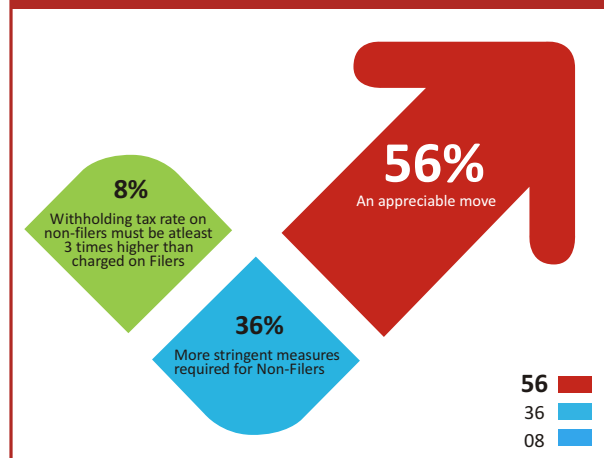
The survey participants were asked to comment on this nominal fixed income tax rate on salaried class and majority of them (71%) have maintained that this amount is quite nominal and should be retained. Around 20 percent respondents are of the viewpoint that there should not be any nominal tax of Rs. 1000 and Rs. 2000 as well on the salaried class earning upto Rs. 1.2 million a year. Only 9 percent of survey participants say that the tax exemption limit may be enhanced further to at least 2 million a year.

## 56% favors hard policy on 'Non-filers' and 36% wants more stringent measures

For the last few years, the government is widening the difference in rates for filers and non-filers of income tax returns. The non-filers are subjected to higher rates of withholding tax on different kind of transactions. In the Budget 2018-19, the government has further tighten screw on the 'non-filers' by barring them from purchase of property above Rs. 4 million and buying new and imported vehicles. Further, to increase cost of doing business higher for non-filers, the withholding tax rates on sale of goods for non-filers are proposed to be increased from existing 7% to 8% in the case of a company, and from existing 7.75% to 9% in non-corporate cases.

The survey participants were asked to provide their comments on the hard policy of the government on non-filers and the recent measures taken in the budget 2018-19. The responses indicated that a high proportion of management accountants are strongly in favor of these measures against non-filers. About 56% respondents have appreciated the government's proposed measures in budget 2018-19 while 36% have opined that there should have been more stringent measures on non-filers. Around 3 percent of respondents think that the tax on non-filers should be three times higher than on filers.

### Q. 7 What is your comment on measures proposed in budget to tighten screw on 'non-filers' such as prohibition on buying property valued over Rs. 4 million and purchasing new motor vehicles?

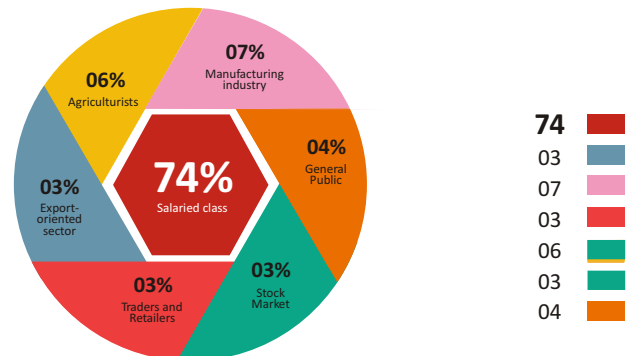


## 74% indicates 'salaried class' is highest beneficiary in Budget 2018-19

In the Budget 2018-19, the government has provided massive relief to the salaried class that includes drastic slash in the income tax rates as well as an adhoc relief of 10 per cent in salaries and pensions of civil and military employees. In addition, other sectors and segments also got tax concessions and reliefs.

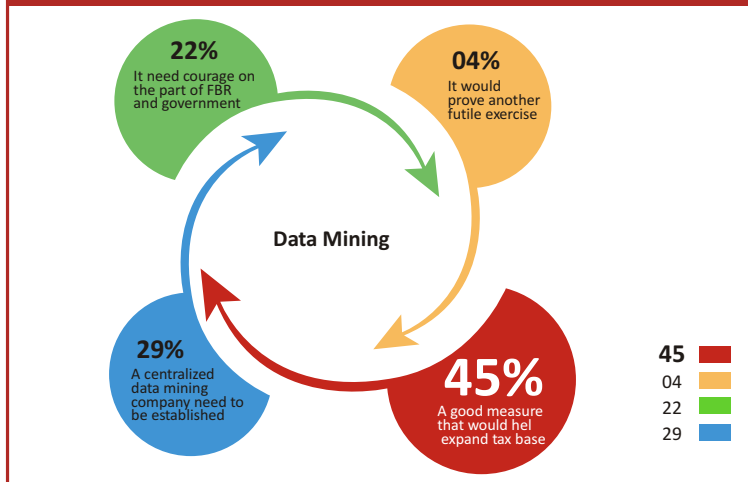
One question in the survey sought the opinion of members that who is the highest beneficiary in the budget 2018-19. The response to this question was quite expecting that the highest beneficiary is the individual salaried class of the society. Around 74 percent of respondents opted for salaried class.

### Q. 8 Which sector or segment will be the highest beneficiary of relief measures announced in budget 2018-19?



## 45% appreciates 'data mining' initiative to expand tax base

### Q. 9 What is your comment on use of 'data mining' as proposed in budget 2018-19 for tracking tax evaders?



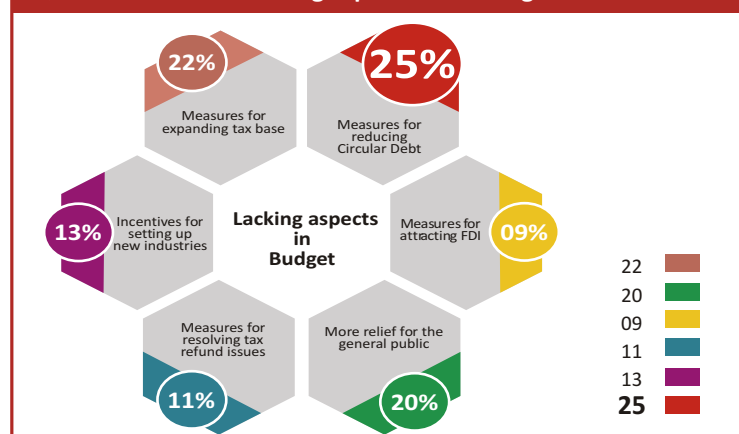
In the Budget 2018-19, a new initiative and concept on 'Data mining' has been introduced for new taxpayers search. The data mining will be undertaken to identify individuals who, despite earning taxable income, are not paying their due share in taxes. Government will now monitor potential taxpayers' financial records and issue notices on evidence of tax evasion.

The members participating in survey were enquired to comment on the new concept of 'data mining'. Almost 45 percent respondents termed it as a good measure that would help expand the tax base and in this context another 29 percent respondents suggested that a centralized data mining company may be established in this regard. Around 22 percent members indicated that expanding tax base through data mining would require courage on the part of FBR and government.

## 67% mentions Budget lacks measures to reduce circular debt; expand tax base and more relief for general public

The survey questionnaire directed a question to members that in their opinion what are the lackings or deficiencies in the Budget 2018-19. Some options were also provided to get quick responses from members. The survey outcome suggests that around 67 percent respondents think that budget lacks measures to reduce the 'circular debt'; expand the tax base and more relief for the general public. Others pointed towards measures to attract foreign direct investment (FDI); resolve tax refund issue and incentives for setting up new industries, as the lacking part in the budget 2018-19.

### Q. 10 What is most lacking aspect in the budget 2018-19?



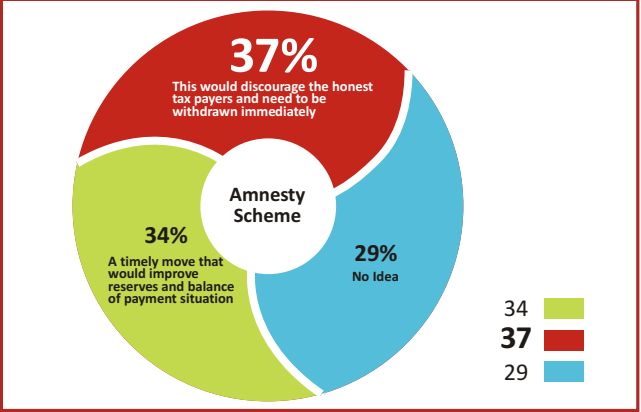
# Tax Amnesty Scheme

## 37% members think 'Tax Amnesty Scheme' discourages honest tax payers

On April 09, 2018, the then government promulgated four Presidential Ordinances to implement Economic Reforms Package (Amnesty Scheme) to legalize undisclosed assets and income of Pakistanis held abroad or at home; reduced rates of income tax slabs for individuals and AOPs and mandatory filing of foreign income and assets statement by resident taxpayers having foreign income or assets.

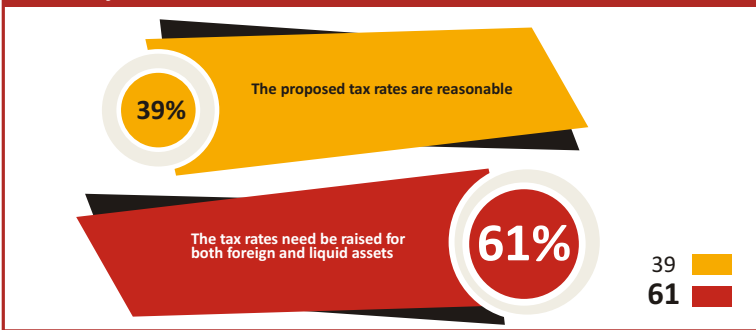
The survey participants were asked to share their opinion about offshore Amnesty Scheme announced by the Government. The survey results indicated that 37 percent members are of considered view that the tax amnesty scheme discourages honest tax payers and it must be withdrawn by the government. However, 34 percent of respondent members think that it is a timely move that would help improve the forex reserves and balance of payment situation. Around 29% have indicated that they have no idea.

**Q. 11 What is your opinion about the offshore Amnesty Scheme announced by the Government?**



## 61% suggests increasing tax rates under 'Tax Amnesty Scheme'

**Q. 12 Do you think 3% tax on declared foreign assets and 5% on liquid assets (foreign currency) under Amnesty Scheme is justified?**



Under the Tax Amnesty Scheme, the government has fixed 3 percent tax on declared foreign assets and 5 percent tax on liquid assets or foreign currency. The survey respondents were given two options to express their opinion in this regard viz. whether the proposed rates by government are reasonable or they think that the tax rates need any revision.

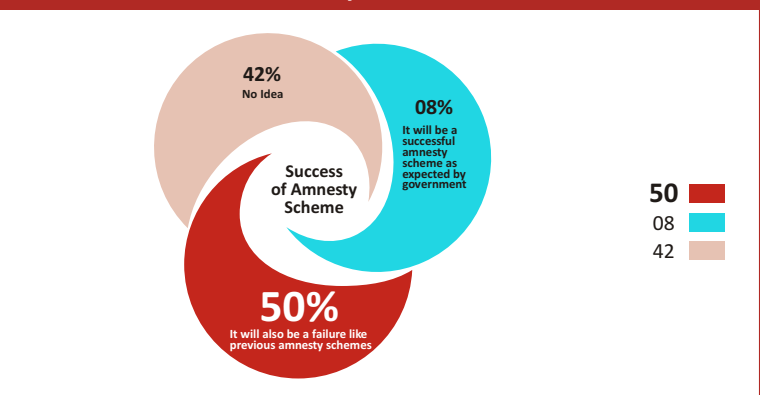
The responses to this question indicate that majority of members (61%) are strongly in favor of increasing the tax rates for both foreign and liquid assets, in case the tax amnesty scheme is continued. Around 39 percent respondents say that the proposed tax rates are reasonable.

## 50% expresses doubts on success of 'Tax Amnesty Scheme'

The deadline for availing the tax amnesty scheme is 30th June 2018. The survey respondents were asked as to what is the predication on the success of the tax amnesty scheme.

Almost half of the respondents (50%) have indicated that they doubt on the success of the scheme and it would also be a failure like other amnesty schemes announced by governments in the past. A large proportion of respondents (42%) have not commented on this question by opting for the option of 'No Idea', whereas only 8 percent have shown confident on the scheme that it would be successful.

**Q. 13 The deadline of availing amnesty scheme will be ending on 30th June 2018. What is your view on its success?**



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