Prime Minister Office

Board of Investment

SEZ Wing

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BUDGET BRIEF FY 2020-21

Budget Proposals for SEZs

1. Concession and exemptions available to the developers of SEZs may be extended to co-developers.
2. Expansion in scope of items exempt from customs duty, that are imported for setting up of a Special Economic Zone (SEZ) by zone developers and for installation in that zone by Zone Enterprises has been proposed. In the PCT Code 9917, Para (2), the words 'plant and machinery' are proposed to be replaced with 'capital goods'. Whereas the definition of 'capital goods' in Part-1 of the Fifth Schedule to the Customs Act, 1969, has been expanded to include IT sector, storage, communication and infrastructure development of SEZs by Zone Developer.
3. Rs. 100 million have been allocated for the establishment of Hub Special Economic Zone.
4. In PSDP 2020-21 —
    a. under on-going schemes,
        i. Power Division has been allocated Rs. 946.8 million for supply of power to Rashakai pSEZ, and Rs. 300 million for the supply of power to Hattar SEZ; and
        ii. Petroleum Division has been allocated Rs. 1.153 billion for supply of 20 MMCFD gas to Rashakai pSEZ, and Rs. 303.16 million for the supply of 13.5 MMCFD gas to Dhabeji pSEZ.
    b. under new-schemes, Power Division has been allocated Rs. 1 billion for 250 MW supply of electricity to Dhabeji pSEZ, and Rs. 300 million for establishment of 132 KV grid station at BQIP.

Industrial Relief Measures

1. Exemption of additional custom duties (CD) on those tariff lines which are now @ 0% CD in tariff.
2. Reduction of custom duty on 40 raw materials of various industries.
3. Raw materials for the following industries have been exempted from CD, which will make them completely duty free. The industries include chemicals, leathers, textile, rubble and fertilisers. This exemption will apply to around 20,000 items used as raw materials in the aforesaid industries, which make up 20pc of all imports.

4. Tariff rationalization under National Tariff Policy 2019, by reducing CD on 90 tariff lines from 11% to 3% and 0%.
5. Reduction in regulatory duty from 12.5% and 17.5% to 6% and 11%, respectively on Hot Rolled Coils (HRC) of Iron and steel falling under PCT codes 7208 and 7225 & 7226, respectively.
6. Tariff protection for domestic industry by increasing/levy of regulatory duty on import of those items which are also locally manufactured.
7. On the request of various local industries, a number of their inputs/intermediary raw materials are being allowed concessional import under new serial number of the Fifth schedule through IOCO quota determination.
    a. Exemption of CD on import of raw materials by manufacturers of Butyl Acetate.
    b. Exemption of CD on import of raw material by manufacturer of syringes and saline infusion sets.
    c. Exemption of CD on import of raw material by manufacturers of buttons.
    d. Reduction in CD on import of raw material by manufacturers of interlining/buckram.
    e. Reduction of CD and exemption of additional custom duty and regulatory duty on import of raw materials by manufacturers of Wire rod.
    f. Exemption of CD and regulatory duty on import of machinery, equipment and other project related items for setting up of internet cable landing stations.
    g. Exemption of CD on import of raw material by beverage can manufacturers.
    h. Reduction in CD and exemption from Additional custom duty on import of raw material by food packaging industry.
8. The exemption of custom duty, regulatory duty and additional custom duty granted on import of 61 COVID-19 related medical items by virtue of SRO 235(I)/ 2020 which is due to expire on June 20, 2020, is proposed to be extended as per salient features due to the continuation of pandemic.
9. Collection of advance tax at import stage will be at the rate of 1% for capital goods, 2% for raw materials and 5.5% for finished goods irrespective of status of the importer. Twelfth Schedule to the Ordinance is introduced providing for the list of goods under each category.
10. The Twelfth schedule provides for the collection of Value Added Tax (VAT) @ 3% at the time of import. However, in the case of raw materials and intermediary goods exclusion from the purview of the VAT is only available in case the Customs duty involved is less than 16%. This provision has created hardship for the manufacturers, hence it is proposed that the language be made simple and raw materials and intermediary goods be excluded if imported by the manufacturers for in house consumption.

11. Minimum tax is abolished for goods on which tax is required to be collected at the rate of 1% or 2% at Customs stage and are imported by an industrial undertaking for its own use. Tax collected at import stage for these goods will be adjustable.
12. The rate of withholding tax will be 5.5% on finished goods irrespective of the status of importers. However, the prevailing concessional rates on certain items that were importable by manufacturers under various SROs are being maintained.
13. The current withholding tax rate of 30% on non-residents is too high as it presupposes attribution of 30% income of the plant and equipment manufactured outside Pakistan. Therefore, it is proposed to be rationalized which is also in line with the international best practices. Such measure shall aid in facilitating CPEC projects and rationalizing the incidence of tax upon them.
14. For the **ease of doing business**, and to facilitate public listed companies and point-of-sale (POS) Integrated Enterprises, it is proposed that facility may be provided to such entities of obtaining exemption certificate within fifteen days of filing of application failing which the certificate will be automatically issued through the system.
15. Decrease in sales tax rate from 14% to 12% for business registered with POS.
16. At present, the rate of tax on toll manufacturing is 8%. It is proposed that the rate may be specified at 4% for companies and 4.5% in other cases. This measure would ensure that effective tax rate is not unreasonably higher than the normal tax rates.
17. The scope of levy of minimum tax be extended to persons other than resident individuals, AOPs and companies.
18. The government has given the proposal to reduce the minimum tax for the hotel industry to 0.5% from 1.5% for the six months i.e. from April to September 2020.
19. Half-year rule for depreciation deduction be introduced.
20. Tonnage tax for a Pakistan resident ship owning company registered with Securities and Exchange Commission of Pakistan after November 15, 2019 is introduced.
21. Any expenditure attributable to sales made to persons required to be registered but not registered under Sales Tax Act, 1990 by an industrial undertaking, will now be disallowed subject to certain limits.
22. Minimum tax under section 113 will now be applicable for a permanent establishment of a non-resident person.
23. Reduction in the tax rates by 50% on capital gains arising on disposal of immovable property. This is in line with the Government’s vision to promote construction industry and to provide stimulus for the growth in economy as construction sector provide employment to a number of sub-sectors.
24. Exclusion of ‘engineering services’ from the list of specified services attracting withholding tax at the rate of 3% in the case of a resident person providing such services.

25. The Bill proposes to withdraw the collection of advance tax from steel melters and composite steel units. This tax is non-adjustable and its withdrawal would provide relief to this sector and help achieve Government the revival of construction industry.
26. Zero-rating of goods imported by the foreign airlines under Air Services Agreement.
27. Reduction in sales tax on mobile phones manufactured in the country, in accordance with the Mobile Manufacturing Policy. The smart phones are being excluded from the slab given for phones up to the value of US $30. While the importers importing the smart phones up to the value of US $30 will pay tax in the upper slab i.e. @ Rs 200 per set.
28. In PSDP 2020-21, the Federal government is expected to spend among others —
    a. Rs. 4 billion for provision of utilities to Special Economic Zones for which Rs. 3.4 billion have been earmarked for CPEC SEZs;
    b. Rs. 24 billion for SDGs Achievement Programme;
    c. Rs. 167 million on national strategic program for acquisition of industrial technology including feasibility (knowledge economy initiatives);
    d. Rs. 500 million on construction of 100 dams in Balochistan;
    e. Rs. 30 billion for the Naya Pakistan Housing Scheme which aims to build 10 million houses for the poor in Pakistan;
    f. Rs. 103 million for 1000 Industrial Stitching Units throughout Pakistan; and
    g. Rs. 80 million for promoting Industrial Cooperation under CPEC.

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