

# Presentation of Federal Budget 2009-10

**Topic: Budget from  
Prospective of an  
industrialist**

**Presented by:**

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# PREAMBLE

The global meltdown that has seen the economies of the strong and mighty to totter and crumble has also seriously impacted the growth of the economies of the “developing countries”. The recession continues unabated and in Pakistan, the situation is compounded with deteriorating law and order situation, paucity of energy, high cost of doing business, negative travel advisory, etc. The exports from the country have taken a battering and our country had to approach IMF for a bail out.

While Governments all over the world offered incentives and packages to facilitate the economic recovery, our government, through the budgetary measures outlined in Federal Budget 2009-10, has only added further woes to an already ailing industrial sector. As a consequence, the exports from the country; more specifically the textile exports that form the major chunk (65%) of exports, will decline further.

The Advisor to the Prime Minister on Finance, Mr. Shaukat Tarin, had publicly stated, on a number of occasions, that rather than loading the manufacturing sector with new taxes, which is already overburdened, the need of the time was to broaden the tax base. The new budget, he had promised, would not squeeze the old taxpayers any more but they would be facilitated to revive the industry, particularly textiles, and encourage greater productivity and growth in exports. There is nothing substantial in the budget provisions to achieve this objective. In fact, reflects the opposite philosophy.

Tax on agriculture was drummed up so ceremoniously and then dumped unceremoniously, without a whimper! The philosophy of income tax: wherever and whenever there is income, it should be taxed. Agriculture Sector is sacrosanct in Pakistan.

# BUDGET 2009-10

The Federal Budget 2009-10 envisages a total outlay of Rs.2.48 trillion against Rs.2.01 trillion last year. Growth is targeted at 3.3% against less than 2% in 2008-09. With large scale manufacturing in the negative zone and no respite offered, one can only be skeptical of the figures.

In the outgoing year, inflation had reached 25% and the primary reason for such a state was said to be fiscal deficit of 7.75%. This year the budget targets a fiscal deficit at Rs.722.5bn or 4.9% of the GDP. However, budget exercise has a general tendency to overestimate receipts and underestimate the expenditure. This budget is also in these lines; it is highly dependent on external help and generous inflow of external resources, for instance the Friends of Pakistan and the USA. These assumptions and presumptions will leave us highly vulnerable to external influences, not to speak of the situation we will be driven in case these “External Helps” do not materialize!

Every Federal Budget carries a “Devil in the Detail” that is camouflaged in the heaps of SROs that are appended to the document. This budget is no different. Only detailed analysis reveals the true impact.

Ladies and gentlemen, I now come to the devil in the detail, some salient points and those related to textile industry:

1. Section 133, Income  
Tax Ordinance 2001

Resident Companies were required to pay minimum tax @ 0.5% of the turnover till tax year 2008 when it was abolished considering the low quantum of tax collected. The bill seeks to re-introduce the concept of minimum tax on resident companies where no tax or the tax payable is less than 0.5% of the total turnover. This is a step backward.

2. Section 154, sub-  
section 4, Income Tax  
Ordinance 2001:

The bill seeks to exclude exporters from the ambit of Final Tax Regime (FTR) by proposing an amendment: in words, “final” tax is substituted as “minimum tax”. Effectively, this means that such taxpayers will be required to furnish returns under normal tax regime and pay the tax whichever is higher of the two. This amendment will cause great hardship to the exporters and needs to be re-visited. The exporters should be given the option for either of the two regimes, FTR or Normal. On the assumption that government wanted to be facilitator for exporters, we had expected the tax percentage cut by half. This amendment is counter-productive and should be done away.

3. Section 176 1(b) and  
Section 210, Income Tax  
Ordinance 2001

The Bill seeks to empower the Commissioner to delegate chartered accountants to carry out audit under section 177 with powers as are vested under the code of Civil Procedures 1908 (seek any information, production of records or computer, to impound and retain such computers, etc.) Sounds like police state dealing with hardened criminals instead of those who have invested in this country.

4. Section 192 to 198,  
Income Tax Ordinance  
2001:

In offences that are convictable, the Bill proposes to quantify fines and imprisonment. These are harsh measures that will not be productive in enlarging the tax base.

5. Section 229A, Income  
Tax Ordinance 2001:

The bill seeks establishment of Director General (Intelligence & Investigation of Income Tax). The powers have not been defined it is only said “exercise such powers as may be assigned by the Board”. Creation of such offices is bound to increase the sense of insecurity a taxpayer may feel because of the element of harassment.

Over and above these amendments/additions proposed in the bill, the discretionary powers of the tax officials have been greatly enhanced that will lead to coercion and harassment of the existing tax payers. “Power corrupts and absolute power corrupts absolutely”.

6. Section 23 of Sales  
Act 1990:

The proposed amendment of this section seeks that where goods are sold to unregistered person, the Sales Tax Invoices should bear NTN or CNIC number. The purported objective behind this amendment is to “broaden the tax net”. The amendment is aimed at the business and industrial community to act as agents for the Board. It does not fall under the norms of business. It is not for the business to be carrying out the job of the Board. The Government must recognize the ground realities.

Subsidy in electricity has been reduced by 40% which would result into increase of approximately Rs. 3 per KW/hr. that would be another increase in the cost of doing business.

In the pre-budget session Advisor Prime Minister on Finance promised to remove the cross subsidy on gas tariff

Tariff of gas which is linked with world crude oil prices was supposed to be revised accordingly. The same has not been revised.

I wish to speak on other issues of relief to the textile industry that were deliberated, finalized and yet did not find any mention in the budget.

**Thank you...**