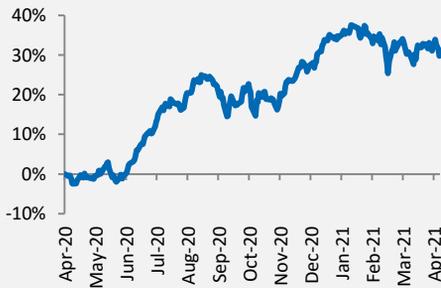
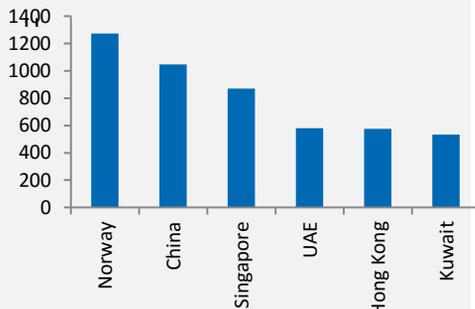


KSE-100 Index Performance



- PSX recently sent a draft of pre-budget proposals to FBR containing proposals on tax rationalization and to stimulate savings in the economy.
- Amongst a host of proposals made, rationalization of CGT and dividend taxation were also made, bringing them in line with regional markets.
- A proposal about setting up pension fund has also been made, with a view of easing the strain on GoP's resources in future, where a certain percentage of the pension scheme be invested in the capital markets.
- GoP is also being urged to introduce a mechanism and regulatory structure for the launch of registered savings and investment accounts (RSIAs) to help channel savings towards productive investments, subject to AML and money laundering checks.
- Equity investments locally are heavily taxed and are inhibiting meaningful capital formation. A rationalization of these taxes is unlikely to make a serious dent on GoP's revenue mobilization and will not only bring PSX at par with regional markets but will set the ground for long term development of local markets.

Largest sovereign wealth funds worldwide as of February 2021, by assets under management



Source: World Bank, BIPLS Research

Wide ranging reforms proposed: Keeping in mind major macro-economic challenges, low savings and investment rates, underdeveloped rural economy and a budding IT sector and a need to harness growth opportunities linked to it, PSX recently forwarded a draft of pre-budget proposals which it believed will greatly help in achieving the said targets while also bring back foreign investors and unlock long term growth prospects. The proposals outlined are primarily designed to remove the disincentives around savings and investments, rationalizing tax code inhibiting capital formation and increasing financial inclusion.

Rationalization of tax code: Amongst other recommendations, PSX proposed to eliminate/reduce CGT for next 24 months or at a minimum align rates of capital gains tax on disposal of securities with other regional markets like India and Bangladesh where the tax burden is significantly less. The FBR has been recommended to align the rates of capital gains tax on disposal of equity securities of non-residents with that of debt securities for non-resident companies. It also proposed that the government move away from short-term measures and frequent changes to tax treatment and adopt long-term vision in order to promote savings and investment and develop the local capital market.

Formation of pension scheme: The official GoP pension cost for FY21 stood at PKR480bn (1.0% of GDP) and the pension plan was completely unfunded, where the current expenditures are met through current contributions. PSX proposed that GoP should start funding its pension liabilities to avert future pension crisis and alleviate pressure on the fiscal account. A formation of a federal pension plan will invariably entail an allocation to local equities and therefore improve market depth and participation.

Investment perspective: The proposals that have been made are largely revenue neutral and will serve to increase the size and depth of capital markets. To note, the total collection made under CGT was only PKR1.3bn during FY20 and therefore is unlikely to make a significant dent on GoP's revenue collection. Conversely, lowering the tax rates will not only lift the sentiments on bourse but will also increase the market depth and bring back foreign investors into the market

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