

PRESS RELEASE



PSX Presents Federal Budget 2024-25 Proposals for Economic Growth and Employment Generation in Pakistan

Karachi, June 5, 2024: Pakistan Stock Exchange (PSX) has submitted a series of important tax proposals to the Ministry of Finance (MoF) and the Federal Board of Revenue (FBR) for consideration in the federal budget for the fiscal year 2024-25. The measures recommended are revenue positive and will encourage resource allocation towards productive and documented sectors of the economy. This is important for economic growth and employment generation in Pakistan.

Pakistan Stock Exchange has recently seen an upsurge in its performance in response to the stability measures introduced in the macro economy. The market capitalisation has increased by almost Rs. 4 trillion in the outgoing year, creating a significant wealth impact in the economy. Foreign inflows amounting to approximately USD 132 million have been invested into the country through the stock market from July 2023. It is imperative that the Ministry of Finance and the FBR consider the proposals presented by PSX to ensure that the stock market continues to contribute towards economic growth, taxes, foreign investor inflows and documentation of the economy. This is a crucial step to ensuring the continuity of the positive momentum of the capital market and economic recovery.

PSX emphasizes that the government prioritise the comprehensive documentation of all economic activities. Capital markets are among the most documented sectors of the economy. A broad-based capital market supports key economic and social objectives, such as increasing the number of taxpayers, boosting savings and investment rates, and reducing wealth inequality. To meet these objectives, investors need favourable and stable tax treatment. Pakistan Stock Exchange has presented several proposals to the Ministry of Finance and the Federal Board of Revenue for the federal budget FY 2024-25. The most important proposals, which aim to positively impact Government revenues, include the following:

- **Align rates of Capital Gains Tax (CGT) on disposal of listed securities with the rates of CGT on sale of immovable property:** It is important to remove the tax driven distortions amongst different asset classes to create a level playing field. Essentially, tax on capital gains on listed securities should be uniform with that on real estate and other classes of assets. Therefore, PSX proposes that CGT rates on listed securities be brought in line with CGT on sale of immovable property.
- **Align rates of Capital Gains Tax on all Derivatives and Future Contracts traded on PSX with Future Commodity Contracts traded on PMEX:** CGT on all derivatives and future contracts traded on PSX be taxed in line with future commodity contracts traded at PMEX. Review of local and international markets revealed that Cash Settled Derivative Contracts available on exchanges have a lower taxation rate. Currently, all derivatives and future contracts traded on PSX are subject to higher CGT that should be aligned with future commodity contracts traded at PMEX.

Exchange traded derivatives are also viewed as better alternatives to leveraged trading platforms. Hence, it is crucial to have a favourable treatment for all derivatives and futures, including Cash Settled Derivative Contracts traded on PSX to establish a robust and efficient Derivative Market.

- **Rationalise the current tax rate on Dividend:** Tax rate on dividends be rationalised as it would generate more investment in stocks and thus more revenue for the Government. As it is, corporate business profits are already taxed twice. Once at company level @ 29% and on dividend distribution @ 15%. This is in addition to the Super Tax up to 10% for the year 2023 and onwards based on income brackets imposed through the Finance Act 2023 on high earning persons and corporates. Any possibility of further increase in the said tax rate will be confiscatory in nature and will discourage

PRESS RELEASE



investment in stocks which in turn will slow down business growth and industrialisation in the country.

- **Treatment of Bonus Shares as an income of shareholders:** Bonus shares are capitalisation of a company's reserves and not a profit distribution to shareholders. Hence no tax is due on such issuances. Moreover, the bonus shares issued do not increase the resources of the recipient against any payment consideration. Thus it cannot be termed as income in the hand of recipient and distribution by the issuer resultantly applying a tax on such issue does not fall under the ambit of the Ordinance as it is merely an accounting treatment of reclassification of reserves of the issuing company resulting in diluted earnings per share. Therefore, PSX proposed that the amendment made in clause (29) of Section 2 and newly inserted section 236Z of the Ordinance through Finance Act 2023 may be withdrawn. It is pertinent to mention that in the period July 01, 2022 to June 30, 2023, 53 companies announced bonus shares amounting (at Face Value) to over Rs 31.4 billion; whereas for the period July 01, 2023 to February 29, 2024, only 04 companies announced bonus shares amounting (at Face Value) to Rs 446 million. Resultantly, the Government has not fetched any significant revenue under this head; rather, the Government has lost CGT which could have been earned on trading of such increased number of shares has the same quantum of bonus shares also been issued this year.
- **Documenting real estate sector & promoting REITS structures:** REITS are an ideal instrument to document and help develop the real estate sector, a priority of the Government. They also allow smaller investors to gain exposure to the real estate sector. Real estate sector is a major investment avenue in Pakistan albeit undocumented. REITs can prove to be an effective tool in bringing this sector in the tax net and encourage documentation. It is, therefore, important to incentivise REITs. This will attract more investments particularly by companies with disclosure of actual prices and income. It will generate indirect and additional revenues from allied businesses and is revenue positive. Moreover, speculative pressure on real estate property prices will also ease. It is proposed to exempt advance tax on property transfers to/ from a REIT Scheme and to remove sunset clause, i.e. June 2023 for all categories of REIT.
- **Reinstatement of exemption on Inter-Corporate Dividend:** Until June 2020, under clause 103C of Second Schedule, the dividend income derived by a company was exempt if recipient of the dividend for the tax year was eligible for Group Relief u/s 59B. The said clause was omitted by Finance Act 2021. This discourages formation of efficient group structures and large scale companies that can compete regionally and globally. Therefore, PSX proposes to restore such exemption on inter-corporate dividend between companies eligible for group taxation.
- **Tax Credit:**
 - **Tax credit for all companies doing an IPO:** In order to encourage companies to engage in an IPO and list on the Exchange, tax rates be rationalised vis a vis unlisted companies. Companies in the Asian region are taxed at 19.8% whereas in Pakistan the corporate tax rate is 39% including super tax. In this context, it is proposed that the rate of tax for all listed companies be permanently lowered by giving tax credit of 20% that meet the prescribed requirements including a minimum free float of 25%. This will result in higher tax revenue from listed companies along with increased documentation and transparency once listed, as well as higher revenue from CGT.
 - **Reinstatement of tax credit on investment in shares:** Tax credits are essential for small savers, specially salaried class, to promote long term savings for their retirement and other life goals. These savings are channelised towards the stock market and government securities.

PRESS RELEASE



PAKISTAN
STOCK EXCHANGE
LIMITED

Withdrawal under Finance Act 2022 of tax credits available to individual investors for investment in new shares, mutual funds, sukuks, and life insurance policies has diverted public funds towards undocumented sectors. In order to counter this situation, PSX proposes to reinstate Section 62 of the Income Tax Ordinance that was removed in the Federal Budget 2022-23. This step will promote savings for the taxpayers with no major impact on revenue.

The detailed Budget proposals from PSX are available at the following link on PSX website:

https://www.psx.com.pk/psx/themes/psx/uploads/PSX-Federal-Budget-Proposal-24-25_19-3-24.pdf