Dear Client,

With the announcement of the FY2022-23 budget on Friday, 10th June 2022, we would like to bring to your attention some relevant updates from the perspective of your investments.

Firstly, please find below the proposed changes in the budget which are relevant in this regard:

- To incentivize long-term investments, a slab-based Capital Gains Tax (CGT) on the disposal of listed securities linked to the holding period has been introduced. Starting at 15% for a holding period of less than one (01) year, the CGT will drop by 2.5% for each additional year the security is held eventually reaching 0% for a holding period of more than six (06) years. Earlier there was a flat tax rate of 12.5%, irrespective of the holding period.

- Concessionary tax rate of 15% on profit on debt from investment in Federal Government Securities for persons other than banking and insurance companies is proposed to be withdrawn. It is important to note that since the profit on these debt instruments will be taxed at their normal rate from now onwards, investors should ideally opt for investing through mutual funds, which will provide the most competitive after-tax returns in this space.

- Collective Investment Schemes and REIT Schemes are proposed to be allowed for adjustment of accumulated losses from accounting income for the purpose of 90% distribution in order to avail exemption from total income.

- Withdrawal of accumulated balance out of Voluntary Pension System (VPS) under Voluntary Pension System Rules, 2005 is proposed to be tax-exempt unconditionally and irrespective of the amount of withdrawal.

- The Finance Bill proposes to withdraw tax credit available to individuals and AOPs on investment in listed companies, mutual funds, life insurance, health insurance, and approved pension funds. We, as part of the broader mutual fund industry, are dedicated to furthering the savings culture within Pakistan and believe that such tax credits play a crucial role in our endeavors. MUFAP is discussing this with the relevant authorities and we are hopeful of a positive outcome.

Despite the need for tax incentives for the Private Equity & Venture Capital space, there have been no developments on this front in the budget.

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In addition, a 2% poverty alleviation tax has been introduced for individuals and entities earning in excess of Rs. 300 million per annum.

Having covered the above, it may be fair to say that the stage for the budget had already been set by the unprecedented hike in domestic petroleum prices and the IMF conditionalities that had been common knowledge for a while. Given so, the federal budget should not come as a surprise. As always, universal satisfaction is an unattainable feat for any budget; some would naturally be burdened more than others. Take for instance the taxes imposed on Commercial Banks. It may have not been possible for the government to raise such a high quantum of taxes from any other sector with such ease. Moreover, budgetary measures in real estate were perhaps long overdue. However, we keep our fingers crossed on the 'deemed income' assumption which could become a limiting factor for collection despite the best intentions of the taxpayers. Also, we fear that general expectations of funds flowing from the real estate sector to the stock market are grossly optimistic.

In the backdrop of the dark ground realities of our economic conditions, a holistic view of the budget does reflect the government's intent to strike a chord that appeases both, the IMF and the general masses. It is pertinent to note that political parties are generally associated with expansionary fiscal policies, rather than the extreme austerity measures needed at this time. The situation has further been exacerbated by the fiscal stimuli granted in recent times.

From the financial markets standpoint, uncertainty on the macroeconomic policy front has finally waned off as the government, through this budget, has chosen to continue with the IMF Extended Fund Facility. Though what remains a fact is that fiscal consolidation is a euphemism for choking off growth, which in reality is always a difficult pill to swallow. This, read with the 5% targeted GDP growth, could confuse the markets; a lower expectation may have been a better signal as a relatively lower economic growth rate resonates well with the IMF program. We, as active fund managers, will remain vigilant as we enter this uncharted territory where a coalition government is underwriting one of the toughest economic plans in our history. It remains to be seen where interest rates peak and the equity market bottoms out. Regardless, these will be rare opportunities that we certainly look forward to exploiting to the fullest.

Please feel free to reach us if you have any queries on the aforementioned developments.

Sincerely,

JS Investments

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