

# Making Automobiles Affordable for the Middle Class

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In March, 2019, the government introduced the Finance Supplementary Second Amendment Act, 2019. Among other things, through the act government introduced a 10% Federal Excise Duty (FED) on cars with engine capacity of 1,700cc and

above. Later on, in the annual budget for fiscal year 2019-2020, the government decided to further expand the FED regime in the automobile sector. As a result, multiple tax slabs were introduced as listed in Table 1.

Table 1: FED on vehicles imposed from July 1, 2019.

| Engine Capacity (cc) | FED  |
|----------------------|------|
| 0-1,000              | 2.5% |
| 1,001-2,000          | 5%   |
| 2,001 and above      | 7.5% |

In addition to this, a 17% sales tax on the value of vehicles was also collected from the owners. As a result, from July 2019 owners had to pay a minimum of 19.5% of the vehicle's value as a tax to the government which went up to 24.5% depending upon engine

capacity as mentioned above. This resulted in a significant increase in the total price of the vehicles, making it even more difficult for people to buy a new car, especially the middle class.

## Proposed Change in Budget 2021-2022

The financial budget for the year 2021-2022 has recently been presented in the parliament. As per the budget proposal, locally assembled vehicles up to engine capacity of 850cc were exempted from Federal Excise Duty, while the sales tax on the same was reduced from 17% to 12.5%. This will directly impact

the prices of small vehicles, and has been termed as a welcome move by the automobile industry as well. Table 2 shows the vehicles that will now become slightly cheaper once the finance bill is approved by the parliament.

Table 2: Vehicles current assembled in Pakistan with engine capacity up to 850cc

| Manufacturer | Vehicle | Engine Capacity (cc) | Category          |
|--------------|---------|----------------------|-------------------|
| Suzuki       | Alto    | 658                  | Passenger Vehicle |
|              | Bolan   | 796                  | MPV               |
|              | Ravi    | 796                  | LCV               |
| United       | Bravo   | 796                  | Passenger Vehicle |
| Prince       | Pearl   | 796                  | Passenger Vehicle |

While reducing the taxes on smaller vehicles to make them more affordable for the general public is a welcome move, the data shows that limiting the relief to vehicles up to 850cc provides a very small range of

option to choose from to the general public. Out of the above 5 vehicles mentioned, only 3 are passenger cars that could be used primarily for family use. Among the other two, one (Suzuki Ravi) is a light commercial

vehicle while Suzuki Bolan is a mini Multi-Purpose Vehicle that can and is often also used for commercial use, including transport services. In addition to the small range of passenger vehicles

available in the range to consumers, this also provides an unfair advantage to one manufacturer with three vehicles in the under 850cc category.

## Policy Recommendation

Instead of limiting the recently awarded tax relief for vehicles up to engine capacity of 850cc, the government should expand the scope of this relief for vehicles up till the engine capacity of 1050cc. This will help bring down prices of all small vehicles being locally assembled, while also extending benefit to multiple manufacturers. This will therefore, increase the competition in small vehicles manufacturers as consumers will have a greater range of vehicles to choose from as per their budget.

Moreover, consumers whether for family or commercial use, will have more than one options in all vehicle categories i.e. passenger vehicles, light commercial vehicles (LCVs) and Multi-Purpose Vehicles (MPV). If the government extend the limit to vehicles with engine size up to 1050cc for reduction of sales tax to 12.5% and removal of FED, the vehicles that will become less expensive for the general public are listed in the table 3 below

Table 3: Vehicles current assembled in Pakistan with engine capacity up to 1050cc

| Manufacturer | Vehicle | Engine Capacity (cc) | Category          |
|--------------|---------|----------------------|-------------------|
| Suzuki       | Alto    | 658                  | Passenger Vehicle |
|              | WagonR  | 998                  | Passenger Vehicle |
|              | Cultus  | 998                  | Passenger Vehicle |
|              | Ravi    | 796                  | LCV               |
|              | Bolan   | 796                  | MPV               |
| United       | Alpha   | 993                  | Passenger Vehicle |
|              | Bravo   | 796                  | Passenger Vehicle |
| Prince       | Pearl   | 796                  | Passenger Vehicle |
| FAW          | X-PV    | 970                  | MPV               |
|              | Carrier | 970                  | LCV               |
| Changan      | M8      | 999                  | LCV               |
|              | M9      | 999                  | LCV               |
|              | Karavan | 999                  | MPV               |
| Kia          | Picanto | 998                  | Passenger Vehicle |

## Conclusion

As evident, making this change will extend a fairer benefit to the manufacturers while also giving the consumers a wider range of vehicles to choose from. This increased competition will eventually benefit the automobile industry as well as the general public as well. The government, therefore, shall make

this amendment in the finance bill to extend the same policy for vehicles with engine capacity up to 1050cc, in light of its vision to promote the automobile sector as well as making vehicles more affordable for the general public, especially the middle class.