ICMAP

Institute of Cost and Management Accountants of Pakistan

Estd. 1951

Budget 2012-13 Proposals

ICMAP Research & Publications Committee

Budget 2012-13
ICMAP's Proposals

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Research & Publications Committee
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Head Office: ICMAP Building, ST-18/C, ICMAP Avenue, Block-6,
Gulshan-e-Iqbal, Karachi-75300, Pakistan.
Tel: 92-21-99243900 Fax: 92-21-99243342
Email: ed@icmap.com.pk, **Website:** www.icmap.com.pk

Submitted to:

Ministry of Finance, Government of Pakistan &
Federal Board of Revenue

Copy Endorsed to:

All Federal and Provincial Ministers
All Parliamentarians
Head of Chambers, Trade Bodies and Associations

Preface

The Institute of Cost & Management Accountants of Pakistan is actively involved in dealing with the matters of national and international importance by organising seminars, workshops and conferences. It has been the tradition of the Institute to take lead in addressing these issues by inviting experts and professionals to deliberate and formulate suggestions and proposals, for consideration by the concerned authorities and organisations.

ICMAP has always played an important role as neutral facilitator in the budget-making process. This year also we have organized several Pre-Budget seminars, and invited heads and representatives of FPCCI, LCCI, ICCI and trade associations, corporate leaders, senior executives and decision-makers, to make their proposals for consideration in the forthcoming budget for the financial year 2012-13.

It gives us great pleasure to submit consolidated industry wise summary and details of the proposals. The Institute has mobilized its members' resources serving in almost all industries to get budget and economic proposals.

Recent global financial crisis and extremely vulnerable security environment added risks to the economy. The nutshell of the budget proposal is summarized as follows:

- Friendly tax system;
- IT-enabled government departments;
- Corporatization of public sector organization;
- Development of two mega cities in Sindh and Punjab;
- Effective role of NFC to distribute funds to the provinces;
- Incentives for exports;
- Provincial / local autonomy;

It would be highly appreciated if Government of Pakistan gives serious consideration to the budget proposals and suggestions. We would also welcome an opportunity for further interaction with the Ministry of Finance and Federal Board of Revenue for further deliberations and clarifications of the proposals.

ICMAP remains committed to its mission to contribute to the economic and industrial growth of the country.

Shahzad Ahmed Awan, FCMA
Chairman Research & Publications Committee

A Proposal for Government – ICMAP Partnership Focusing on "Cost Efficiency for Economic Stability"

*How the "**Management Accountants"** can help the Government in Achieving Economic Stability, Cost Efficiency, Better Utilization of Public Funds, Revival of Inefficient Organizations, Checking Inflation and Unfair Business Practices*

The 'Management Accountants' can play a very significant and vital role in supplementing the efforts of the government in achieving economic stability and cost efficiency, better utilization of public funds and resources, reviving sick and inefficient organizations, checking the rising inflation and unfair business practices etc. Unfortunately, the Management Accountants have never been given the opportunity at the government level to show their mettle in delivering the above specified tasks. It is high time now that the Government must consider to associate the 'Management Accountants', not only in the budget making process, but also in the overall economic revival process, and utilize their professional skills and expertise to tackle a host of economic ills and malpractices that are prevailing in our society. The 'Management Accountants' can extend their professional expertise to the government in following major areas:

(1) Following the 'Zero-based Budgeting' Approach in Budget Making Process

The term, "zero-based budgeting," and the techniques for carrying out these budgeting processes was first introduced in an article written by Peter A. Pyhrr in the Harvard Business Review in 1970, Late the Mr. Jimmy Carter, the former President of USA adopted this method at the federal level. Since then this appoach has gained popurality in the government and private sectors in USA and many other countries.

In the budget making process in Pakistan, there is a tendency to use simple "Incremental Budgeting" approach, based on previous year's budget without any careful attention to the costing side. There are two major shortcomings of incremental budgeting:

(a) In incremental budgeting, each budgeted item is started at last year's level, and the next period's level is planned as an increment to that level.

(b) The Government Ministries / Departments ensure, when approaching the end of budget period, that they spend all funds budgeted to them, whether all such spending is necessary or not. They feel that if they do not spend all of this period's budget, they will receive less next year.

The zero-based budgeting system puts the burden of proof on the manager (whether he is in government or private sector), and demands that each manager justify the entire budget in detail and prove why the organization's money be spent in the manner proposed. A “decision package” must be developed by each manager for every project or activity, which includes an analysis of cost, purpose, alternative courses of action, performance measures, consequences of not performing the activity, and the benefits

There is need to introduce “Zero based budgeting” approach, which requires justification for every expenditure incurred. In this approach, each budget item starts with an assumed value of ‘zero’, with all changes above that having to be justified. There are following benefits of zero-based budgeting approach:

(a) Zero based budgeting is based on demonstrated needs and resources, not on historical spending levels, which arguably leads to more efficient allocation and utilization of resources.

(b) Zero based budgeting can be very effective in detecting and eliminating inflated budgets, or budgets that reflect wasteful operations.

The Management Accountants have the required expertise in ‘Zero-based budgeting’ and can assist the government in preparing and implementing budgets based on costed strategic plans.

(2) Introducing Cost Accounting Sub-Systems in Local Bodies

It is a fact that the public delivery system in Pakistan is not to the satisfactory standards and is declining with the passage of time. Moreover, there is also no control mechanism in place in local government for effective utilization of public funds and resources, which leads to wastage or misuse of public money. There is, therefore, need to strengthen local administration and delivery of basic services.

It should be made pre-requisite for the Local bodies to develop a ‘**Cost Accounting Sub-system’**, in addition to existing financial management system, as an instrument to support local government management. This would lead to better efficiency, effectiveness and economy in resource application, thereby allowing a more suitable mechanism for better use of tax payers money.

The professional expertise of Management accountants **could be utilized in developing and administering the ‘cost accounting sub-systems’ at the provincial and local bodies levels.**

(3) Performing Cost Audits of PSDP Projects for Performance Evaluation

The Planning Commission of Pakistan has observed in its Report titled **'Analysis/Review of the PSDP (Public Sector Development Programme)**' released in August 2011, that poor planning, unclear scope definition, unclear goals, procurement leakages, deficient planning and poor governance are some of the key reasons for the failure of PSDP projects. The Report has further pointed out that overall over Rs 50 billion, equivalent to 21 percent of the original Federal PSDP for 2010-11, was allocated for political programs which, considering the tight fiscal space, needs to be curtailed.

The Planning Commission has recommended in its Report that qualitative and social audits be carried out to evaluate the project success, especially for those projects that create a broad social impact.

The above observations and recommendation by the Planning Committees greatly necessitates the importance and urgent need for carrying out ‘cost audits’ of PSDP Projects. The Management Accountants, qualified from ICMAP, should be associated for effective ‘cost management and control’ of the Public Sector Development Programs (PSDPs) implemented in all the provinces.

(4) Putting a Check on Rising Inflation by Fixing Selling Price based on Cost Audit

The Management Accountants can help the government in putting a check on rising inflation, especially of essential commodities and materials of national importance such as steel, cement etc. This would be done through performing cost audit to arrive at the actual cost of production of these products, thereby bringing into limelight the cost – price margin. On the basis of correct costing data, the government would be in a position to fix reasonable selling prices of products and thus undue profiteering will be checked, and the consumers / general public would be saved from exploitation and unreasonable price hike. A healthy competition would be generated among the various units in an industry.

The above role of Management Accountants could only be possible if the government decides in principle to make a mandatory requirement for all the manufacturing units to obtain a cost audit report / certificate from a Cost Accountant, qualified from ICMAP, verifying therein the actual cost of product (s). This requirement need legal cover through an act of the Parliament.

(5) Assisting the CCP in identifying Predatory and Transfer Pricing Cases

The ‘Management Accountants’ can also extend their professional expertise to the Competition Commission of Pakistan (CCP) in identifying and filing cases against ‘Predatory Pricing’ and ‘Transfer Pricing’ transactions, thereby ensuring a competitive environment for all the market players.

Predatory pricing is the practice of selling a product or service at a very low price, intending to drive competitors out of the market, or create barriers to entry for potential new competitors.

Transfer pricing refers to the pricing of contributions (assets, tangible and intangible, services, and funds) transferred within an organization. The choice of the transfer price will affect the allocation of the total profit among the parts of the company. This is a major concern for fiscal authorities who worry that multi-national entities may set transfer prices on cross-border transactions to reduce taxable profits in their jurisdiction. This has led to the rise of transfer pricing regulations and enforcement, making transfer pricing a major tax compliance issue for multi-national companies.

The multinational companies have a prominent presence in Pakistan and they frequently transfer resources among associate concerns / units operating in different parts of globe. Such transactions have a great impact on their profitability vis-à-vis tax liability. Unfortunately, there is not any regulation or legislation that can check such transfer pricing transactions. The Cost Auditors can play a role in providing a system of check on such transfer pricing mechanisms.

(6) Assisting the NTC to help Industry in Anti-dumping Cases based on Cost information

The provisions relating to anti dumping laws are of special significance in the context of cost accounting. The determination of normal value, domestic price, quantum of injury etc. all requires cost information. Manufacturers in the developed world are so well equipped with data that they obtain speedy relief under WTO while benefiting from the lack of data available in developing countries.

In Anti-Dumping cases, the International Dispute Resolution Authority accepts the authenticated cost data from the Cost Audit records, maintained by the companies. Unfortunately, when a Pakistani company is facing such an anti-dumping duty from a foreign country, it does not make available cost data to persue their cases and finally they fail to convince the concerned authority.

The Management Accountants can work jointly with the National Tariff Commission (NTC) to assist the industry to make them aware of the anti-dumping/ counter vailing duties and convince them to put their cost data in order to face such a challenge in future in the international market.

An in-built cost accounting system could be a great support to the industry itself in order to check dumping as well as to provide inputs in cases of alleged dumping in legitimate exports. If our industries maintain cost accounting system, they can file and fight a large number of Anti Dumping cases against the foreign importers.

(7) Reviving the Inefficient Organizations – both in Public and Private Sector

The Management Accountants can also be helpful in developing rescue plans for the revival of inefficient organizations – both in public and private sector, and acting as Consultants to oversee their efficient operation. They can help such units in overcoming their problems, achieving efficiencies and operating upto production capacity. Irrespective of few textile units, which can be considered healthy, others are giving minimal production or are presently inoperative. The textile sector can utilize the services of ICMAP professionals as Consultants, in diagnosing the reasons of sickness or idleness of sick textile units and putting such units in operating condition with their consultation.

Pre-Budget Thinking

Pakistan Federal Budget 2012–13

Strategic Suggestions

PRELUDE

Presentation of Annual Federal Budget in the Parliament is an annual activity. All kind of expectations exist before the announcement of the budget. The salaried classes are hoping for substantial rise in their salaries to protect themselves against the rising cost of inflation and related cost of living expenditure. The working class of the country has a desire to get their monthly wages raised from a minimum of Rs. 7,000 per month to some appropriate and befitting level. Business Community expects a miracle from the democratic government after the lapse of four years of their being in command of economic affairs in Islamabad. The down-trodden and the under-privileged dream of meeting their basic necessities and have a wishful thinking of higher and higher standard of living. The government hopes that the stakeholders will join her in joining with budgetary exercise for meeting the rising expectations of the masses. There is no end of these challenges. We have mentioned a few.

CONSTITUENTS OF THE PAPER

The paper has been divided into the following parts:

Part	Focus
I	1973 Constitution of Pakistan.
II	Major Socio-Economic Issues.
III	Suggested Twelve Point Charter of Economy.
IV	Forecasted Federal Budget 2012-13

These aspects are now reviewed as under:

Part – I: 1973 Constitution of Pakistan

Present democratic government deserves congratulation for restoring the above Constitution of Pakistan in its original shape. This claim is being trumpeted times and again by all high-ups in the Government of Pakistan, especially by the honourable Prime Minister of Pakistan. However, our humble submission to the democratic government in general and the Finance Minister in particular is that everybody must read the above Constitution and ensure its implementation in toto with real spirit. Scope will not permit for an exhaustive discussion of relevant aspects of the above Constitution governing socio-economic aspects to which particular attention should be given for developing the above budget. However, we have selected four particular Articles and submit below a box to draw the attention of the Government of Pakistan for implementing the true spirit of the Articles mentioned in the box given below:

Some Articles of the 1973 Constitution of Pakistan governing socio-economic matters are yearning for implementation. Four of these are captured below:

Box No. 1 Socio-Economic Aspects	
Article No.	Focus
03	Elimination of Exploitation
18	Freedom of Trade, Business and Profession
37	Promotion of Social Justice and Eradication of Social Evils
38	Promotion of Social and Economic Well-being of the People

The budget makers are requested to carefully read the Constitutional provisions of above Articles and reflect these in the Budget 2012-13. In particular, it is respectfully submitted that priority No. 1 ought to be Well-being of the People.

Part-II: Major Socio-Economic Issues

The government functionaries including elected elements continue to talk about meeting the high expectations of the common man from the forthcoming Federal Budget for 2012-13. Common man has suffered a lot in the past because of rising inflation, particularly in food and energy prices. They still desire potable water to be provided. Industrial policy has yet to see the dawn of the day. The plight of running government educational institutions requires considerable improvement for providing quality education to the down-trodden and to the impoverished. What to talk of generating employment, unfortunately, people have lost their jobs due to electricity and gas shut-downs which has resulted in the closing down of factories and also reduction of their shifts. Water crisis is also cropping up and India is making so many dams to scuttle Pakistan's economy in general and that of agriculture in particular. Economic policy has yet to be released. Clarity does not exist regarding directions whether we are heading. To our misfortune expatriates living abroad are sending substantial remittances which are giving support to current account deficit. We are hoping that we may have remittances rising to $ 12.0 billion by end of June 2012. Despite constraints of logistics, particularly in energy sector, exports are likely to touch US$ 26 billion. As against low GDP growth, due mainly to floods and heavy rainfalls in the past, we are hoping to achieve GDP growth of 4% during 2011-12. These represent some positive signs in the economy of Pakistan.

The youth of Pakistan is aspiring for new jobs. Government alone cannot provide them the jobs. Government must come out with a socio-economic package for reviving the economy of the country to accelerate the pace of socio-economic development so that the private sector continues to play their positive and productive role and the SMEs ought to be given priority No. 1 to pave the way for Entrepreneurial Revolution through financial cushioning.

A congenial, attractive and motivational environment is the crying need of the hour as a challenge to the present democratic government so that they can incentivise our expatriates to divert their investment in Pakistan. They need to be given Constitutional guarantees that they will be greeted and will be given all facilities for profitable investment, without hidden cuts.

Time has come that Pakistan should make a final decision that we should not rely on loans for financing our budget. Self-financing efforts, particularly through a breakthrough approach of domestic sources mobilization is the key to all problems. Governance at all levels Union, Tehsil, District, Provincial and Federal levels ought to be substantially improved with transparent results to be achieved by announcement of a new **Charter of Economy** to usher in an era of growth, prosperity and happiness across the board.

Part-III: Suggested Twelve Point Charter of Economy

Allah has gifted Pakistan with all resources (on-shore, off-shore and hidden). The challenge is to translate these resources to the advantage of Pakistan as our positive response to the clarion call of the father of the Nation, Quaid-e-Azam Muhammad Ali Jinnah who has said that Pakistan has come into being and it is for us to exploit all resources for the benefit of the country in general and that of common man in particular. In this respect, the present democratic government is urged to help develop a Charter of Economy for the country so that a new era of socio-economic prosperity emerges for meeting the needs of the common man and also place Pakistan at a high pedestal in the comity of nations. In this respect, Twelve Point suggested guidelines are as under:

1) Domestic resources mobilization should be accelerated to ensure that we produce a surplus in the revenue budget for 2012-13. This ought to meet the three components of revenue expenditure namely; debt servicing, cost of running the government and defence.

2) The consequential surplus generated in the forthcoming budget should be made available for financing Annual Development Plan of Pakistan for 2012-13.

3) For accelerating domestic resources mobilization, the golden principle of Public Finance should be followed. This includes taxation of income for all above the threshold prescribed by the Parliament of Pakistan. At present the threshold for subjecting income to income tax is Rs. 350,000/- per annum. Irrespective of cast and creed or sources of income, everybody ought to be included in the taxable limit and subjected to income tax. In this respect, except for pensioners and widows, all exemptions relating to income tax should be withdrawn. This bold step can be taken by the democratic government.

4) ADP of Pakistan for 2012-13 should have most minimum reliance on external assistance and bank borrowing. It should be financed out of domestic resource mobilization which should be accelerated through single item agenda of quantum jump in domestic resource mobilization. A courageous step is the need of the hour and democratic government will be strengthened if this suggestion is accepted for implementation. This bold step will ensure financial defence of Pakistan.

5) All public enterprises and autonomous bodies may be vested with financial autonomy with no burden of their losses on the Federal Budget of Pakistan. This will off-load around Rs. 625 billion losses which at present, the budget is absorbing. It is interesting to note that the annual losses of only three Autonomous Bodies namely; Railways, PIA and Pakistan Steel Mills aggregate to a total amount equivalent to the amount allocated to the defence of Pakistan. This ought to be taken as a wake up and serious call.

6) Good Governance should be ruthlessly implemented and all unethical practices should be eradicated in all walks of life, irrespective of the status of the persons. Any deviation or departures should be brought to justice.

7) Provincial Governments have been given substantial amounts under the 7th NFC Award. In fact, a sum of Rs. 1.20 billion was projected for distribution in the Federal Budget 2011-12. The Provinces of Pakistan should be logistically helped in excellent fiscal management. They must raise new taxes within their provinces and must respond to the golden rule of public finance namely; generating revenue surplus to meet their ADP needs without asking the Federal Government for any allocation of grant or assistance.

8) Government employees and pensioners may be given appropriate rise in their emoluments to protect their wage basket against inflationary impact.

9) Projection for the employment generating activities may also be released. Instead of executing Collective Bargaining Agreement (CBA), the role may be redefined by switching to Productivity Sharing Agreements (PSAs) so that the raise in salaries / wages of the workers is self-financing and non-inflationary.

10) A serious note should be taken by the government and regulatory agencies for restructuring financial sector of Pakistan by substantially reducing non-performing loans. These ought to be restricted to 4% of loan portfolio to ensure a sound financial structure.

11) The role of Professional Accountants in general and that of Cost and Management Accountants in particular should be duly recognized and they should be associated in strengthening frontiers of Financial Management in Pakistan. Appropriate legal and other logistically supported actions be undertaken in this respect.

12) Economic strategy with a breakthrough approach in agriculture, industry (with special emphasis on mineral development) and services sector be developed for ensuring prosperity across the board in Pakistan through poverty alleviation, promotion of employment opportunities, ensuring high standard of living and going beyond meeting the basic needs of common man.

Part-IV: Forecasted Budget 2012-13

In the backdrop of foregoing suggested Charter of Economy, we expect the following forecasted budget to emerge for favourable consideration of the Federal Government.

Box No. 2
Suggested Federal Revenue Budget 2012-13

Current Revenue		Rs.	Rs. B
1)	Indirect Taxes:		1,800 *
	- Sales Tax	1,050	
	- Custom duty	300	
	- Federal Excise duty	250	
	- Others	200	
		1,800	
2)	Direct Taxes:		1,300
			3,100
3)	Non-Taxes Revenue		800
			3,900
4)	Less: Transfer to Provinces		1,400
			2,500
	Current Expenditure:		
	1) Debt Servicing		1,000
	2) Cost of Running the Government		605
	3) Defence Affairs and Services:		595
			2,200
	- Surplus		300
			2,500

The available surplus may be used for Annual Development Plan relating to Federal Budget with fair allocation to Federal Government development activities and for allocation to ADPs of Provinces. Detailed exercises may be carried out by the Government with her available machinery.

Reforms in Taxation & Corporate Laws

- Income Tax Ordinance, 2001
- Sales Tax Act, 1990
- Companies Ordinance 1984
- Federal Excise Act, 2005

Preface

Pakistan has been facing many economic challenges for the last couple of years. The business community has seen some of the hardest times due to the economic crunch, where business activities have slowed down due to energy shortages, lack of security, the rising costs of doing business and the lack of political stability. Many small business units have closed down, while many are on the verge of closing or are just barely surviving; whereas the larger units are flourishing. The gap between the haves and have-nots is increasing day by day.

The economic decision makers have very limited options, as there is limited fiscal space within the present system. Pakistan has looked toward the IMF & World Bank far too long and need to devise home grown and "out-of-box" solutions to overcome its current challenges.

The business community is willing to "step up to the plate" and fully willing to contribute towards development of the national economy. PAKISTAN FIRST.

There exists a total misconception in the minds of our policy makers that by merely reframing tax laws the entire tax system would be reformed automatically. This misconception in the past resulted in disastrous results. The Government of military regime promulgated a new income tax law, operative from July 01, 2002. After 10 years of experience there is a consensus in all circles (official & professionals) that the new law, aimed at simplifying income tax enactment, has been a total failure to achieve the much desired objectives of inducing foreign direct investment and rapid industrial growth. Here are suggestions to increase the tax revenues within the existing systems. No new systems needs to be introduced, the existing system, if applied properly, should suffice.

- The tax burden on the existing taxpayers, which are small in numbers, SHOULD NOT be increased. With the automation of the Tax collection/reporting system, it should not be difficult for the FBR to expand the tax base. FBR has obtained or may obtain data from different sources:
  - Commercial users of Electricity and Gas.
  - Vehicle purchase and registration data.
  - Record of properties transactions.

- Agriculture Income may also be taxed in true spirit according to level of income.

- The confidence between the existing tax payers and the tax collectors should improve. Harassment of existing tax payers should be eliminated, where new tax payers should not feel any hesitation incoming into the tax system.

- Public Representatives, MNAs and MPAs may become responsible tax payers, engaging citizens to contribute by paying taxes.

- There should be no discrimination between VIPs and non-VIPs. All the taxpayers should be treated equally.

- Amnesty Schemes should be discouraged

Income Tax Ordinance, 2001

The existing Tax to GDP ratio is substantially low. The FBR has put efforts to increase the ratio; but, all the efforts are being put to increase the tax collection from the existing tax payers, rather than to increase the tax base. The fact remains that the number of tax payers is very small, as evident from the number of tax returns being filed. Therefore, it is proposed that efforts should be made to increase the tax base and not to burden the existing tax payers. Some suggestions are as follows:

1. Holding of NTN: National Tax Number should be made compulsory for sale/purchase of the property and other assets. The NTN should also be mandatory for all new and existing electric and gas connections.

2. New NTN: The current procedure of getting NTN has been made a cumbersome process, and should be made easier in line with NADRA issuance of ID cards. Integration of data between NADRA, Registrar of Firms, SECP and the FBR is required for identification and registration of all tax payers i.e companies, Proprietorship or partnerships.

3. Tax on agricultural income: As the agricultural sector is Pakistan's largest sector, it is once again suggested that agricultural income should be taxed, either through the Federal or Provincial Governments in true spirit in all the provinces. According to 18th Constitutional amendment the agricultural tax is the domain of provincial governments .However, the tax rate should be nominal and uniform for all the provinces keeping in view the irrigation system and land conditions.

4. Tax on real estate business: In recent years, a large number of people have earned from the real estate business but without contributing to the National Exchequer. It is suggested that tax should be imposed on real estate business and the capital gain on such transactions.

Some specific issues that need to addressed:

a. **FBR Web portal:** FBR has almost successfully automated system for filing of returns etc., but at the same time some problems are being faced by the users. The changes in the tax laws are being made so frequently that the systems are not upgraded accordingly or if upgraded these systems are not tested with respect to practical problem of the users. It is proposed that system should be tested properly with the help of professional experts so that such problems may not arise.

b. **Wealth Statement, Section 116:** To keep track record of sources & disposals of individuals. It is proposed that the wealth statement with every income tax return should be made compulsory irrespective of quantum of income.

c. **Appeals to the Commissioner, Section 127:** Currently, Section 127 specifies the sections of orders against which an appeal can be filed before CIT (A), the scope of this section should be enhanced. Reference to section 123, 124, 152(5A) and 159 needs to be inserted in section 127 to make these orders appeasable before CIT (A).

d. **Amendment of Assessment, Section 122:** Currently as per sub-section 9 of section 122 no assessment shall be amended or further amended, under this section unless the taxpayer has been provided with an opportunity of being heard but time frame is not given for passing of an order by the concerned officer after hearing or issuance of notice or receipt of documents /information under this section. The time period must be specified within which officer is bound to issue amended order or further amended order or order for withdrawal of proceedings being satisfied with the information / documents provide by the taxpayer after hearing or issuance of notice or receipt of documents and information from taxpayer.

e. **Appeals to the Commissioner, Section 127:** Currently, Section 127 specifies the sections of orders against which an appeal can be filed before CIT (A), the scope of this section should be enhanced. Reference to section 123, 124, 152(5A) & 159 needs to be inserted in section 127 to make these orders appeasable before CIT (A).

    i. **Delay in Decision / Appeals:** Delay in ultimate decision by the appellate authorities and their quality is also a hurdle in the development of tax base. Therefore, the quality and capacity of the first stage of appeal needs to be improved.

f. **Withholding taxes & final taxation, Section 153:** FBR has been claiming to increase the corporate culture & documentation in the country, whereas on the other side, the FBR is increasing the preview of Presumptive Tax Regime (PTR) which discourages the corporatization and documentation. Under PTR the taxpayer is not required to assess their tax payable on the basis of what they have earned during the year but merely the tax deducted at source is considered as full and final tax liability. By definition the Income tax is a direct tax based on the quantum of income earned by a taxpayer during an income year. But PTR is clear contradiction to the basic principle of the income tax. Further, withholding of taxes on payments is creating in competitiveness among the corporate & non corporate tax payers. Therefore, it is proposed that

FBR should discourage the PTR regime and there should be harmony among the tax payers for deduction of tax at source irrespective of their registration status.

g. Exemption Certificate from withholding tax under Section 153: Currently, a taxpayer may obtain exemption certificate from tax withholding under Section 153. The exemption scope may be enhanced to other withholding tax provisions because in case of manufacturers whose major business activity is exports and tax on exports is final tax. But withholding tax charged under different provisions especially on electricity bills becomes refundable. The exemption will facilitate to such manufacturers cum exporters.

h. Rates of Taxes on Income From Property -Section 15 and Section 155: The rates on property income under section 15 and 155 have been amended through Finance Act 2008. Four tables have been inserted for income from property. It creates confusion between the taxpayers. It is recommended that only one table of rates should be introduced to avoid confusions which will not affect the tax revenues.

i. Withholding Tax on Cash Withdrawn Section 231A: The rate of withholding tax under section 231A on cash withdrawn was initially introduced @ 0.1%, which was gradually increased to 0.3% and through Finance Act. 2011 is was reduced to 0.20% It is proposed that in order to encourage the business activities it should be reinstated at 0.1%. and the threshold amount be enhanced from Rs.25,000 to Rs. 50,000/- .

j. Advance Tax on Transactions in Bank Section 231AA:
The rate of withholding tax under section 231AA on sales against cash & cash receipt upon cancellation of banking instruments like Demand Draft, Pay Order, CDR, STDR, SDR, RTC or any other instrument of bearer nature was initially introduced @ 0.3% through Finance Act. 2010. It is proposed that in order to encourage the business activities it should be reduced to 0.1%. and the threshold amount be enhanced from Rs.25, 000 to Rs.50, 000/- .

k. Withholding Tax on Electricity Consumption -Section 235(4): Presently, the tax collected on the electricity bills of tax payer other than a company is minimum tax. Up to bill amount of thirty thousand rupees per month on the income of a person and not refundable, which is against the principles of justice. Excess amount paid by the taxpayers should be refundable like companies.

l. Rate of Tax for Corporate Sector, Division II, Part I of the First Schedule: Presently rate of income tax for all companies except small company is 35 percent. The present rate of 35 percent is the highest as compared to other countries. China operates with the rate of tax of around 15 to 20 percent. India, Bangladesh, Malaysia and Thailand have brought down their rate of taxation for the corporate sector to around 30 percent. Therefore, the rate of corporate taxation in Pakistan should gradually be reduced to 25%.

m. Rate of Tax for AOP, Division IB, Part I of the First Schedule: Presently rate of income tax for AOP is 25 percent. The present rate of 25 percent was introduced vide Finance Act. 2010 giving retrospective effect. This is causing undue burden on AOPs as they are not allowed to deduct the salaries of the partners whereas in case of companies the salaries of the directors are deductible. Further this is discouraging the partnerships and corporatization of the businesses. Therefore, either the rate of tax for AOP should be progressive as were before amendment or the salaries of the partners be allowed as deductible.

n. Consolidation of all Labour levies: In addition to corporate tax rate which is 35 percent, an additional 2 per cent Workers Welfare Fund (WWF) and 5 per cent workers profit participation Fund (WPPF) is levied. This effectively makes the rate equal to 42 per cent which is one of the highest corporate tax rates in the world. We recommend consolidation of all labour levies with a rate of 2 to 3 per cent in line with regional standards.

o. Minimum Tax U/S 113 of the Income Tax Ordinance, 2001: Presently, under clause (b) of sub-section 2 of Section 113 minimum tax is one percent of the person's turnover except distributors of pharmaceutical products, Distributors of Cigarettes manufactured in Pakistan, fertilizers, consumer goods, SNGPL ,SSGCL, Oil marketing Companies, Oil Refineries ,Pakistan International Airlines Corporation & flour mills (0.2%—0.5%). This rate was raised to1.00%, through Finance act. 2010 and should be brought down at a uniform rate of 0.2%.

Sales Tax Act, 1990

In the current situation, it is strongly recommended that FBR should not experience new laws. As the existing laws are maturing and tax payers are getting familiar with the existing system, the new law will create confusions between the taxpayers which will result in loss of tax revenue. Under no circumstances, should RGST be implemented.

Broadening of Tax Base and Rate on Sales Tax

Tax base can be broadened by doing away the exemptions. However, the tax rate needs to be slashed to, practical and realistic level, so that people willingly pay the tax and do not take it as a burden. It is proposed that rate of sales tax be reduced to 5%, as the Government has recently seen in the removal of the Zero Rates facility on the five export oriented industries. Let the Government not take steps in any way that may require itself from "backing down." Step need to be well thought out prior to its implementation. Retaining the Sales Tax system will help the Government to document the economy and ultimately the tax revenue through direct taxes would increase.

Some specific issues that need to addressed:

a. Time and manner of payment of sales tax, Section 6

According to Section 6 of the Sales Tax Act, 1990, the tax in respect of taxable supplies made during the tax period shall be paid by the registered person at the time of filing the return in respect of that period.

Sometimes, due to delay in payments against the supplies, it becomes difficult to pay the sales tax during that period. Especially in case of payments from Govt. Organizations which sometimes get delayed for a longer period.

It is recommended that it should be allowed that the payments of sales tax may be made along with the return during which the payments have been received. At least for this should be allowed against supplies to Govt. /semi govt. organizations. This proposed amendment will give relief to tax payers which will increase the tax revenue.

Further the discrepancies of period differences which are common now a days will be reduced, resulting saving of time and cost of the department as well as of the taxpayers.

b. Joint and several liabilities of registered persons in supply chain where tax is unpaid Section 8A

The Finance Act 2006 introduced a proviso, whereby, a registered person receiving a taxable supply from another registered person, having knowledge or reasonable grounds to suspect that some or all of the tax payable in respect of that supply or any previous or subsequent supply of the goods supplied would remain unpaid, as well as the person making the taxable supply shall be jointly or severally liable for the payment of such unpaid tax.

This is a very harsh provision and has opened a wide window for disputes, audit observations, additional tax and penalties in future as it would be very difficult to establish the fact that the person receiving the supply was in the knowledge or had reasonable grounds to suspect that the sales tax would remain unpaid. In view of above, this proviso should be deleted or amended suitably allowing the inputs if provisions of section 73 of the Sales Tax Act.1990 complied with.

c. Adjustment of Sales tax/ FED against bad debts
Section 9

As per provisions of Section 9 the Sales Tax Act, 1990, a registered person may issue a debit or credit note in case of cancellation of supply or return of goods or a change in the nature of supply or change in the value of the supply etc etc.

But no provisions are available in case of Bad Debts. It is recommended where Sales Tax or FED has been charged and paid in the govt treasury and subsequently the receivables becomes bad, the Tax payer may be allowed to adjust such sales or the amount of sales tax should be refunded or allowed to be adjusted.

d. Refund of Input Tax /Expeditious Processing & payment of Refund Section 10 & Rule 26A

The processing of sales tax refund under the present system is difficult and taxpayers are facing problems especially when refund claim is required to be submitted on physical form.

Presently the system of expeditious refund processing is somehow better than submission of claims in physical forms.

Government is moving towards automation and with online filing of sales tax returns now all the information of sales and purchases is available online. So filing of sales tax refund claims in physical form is just wasting of time and resources of taxpayers as well as tax department. Government introduced expeditious refund processing & payment in 2010 for manufacturer-cum- exporters but this facility was not provided to commercial exporters and importer-cum- exporters. Therefore refunds of Commercial exporters and Importer - cum-exporters is delaying and taxpayers are suffering.

It is proposed that the facility of expeditions refund processing and online filing of refunds should be allowed to commercial exporters and importer -cum-exporters as available to manufacturer-cum-exporters.

e. Filing of Revised Returns -Section 26

Under section 26, the sales tax returns can be revised within 120 days of filing of sales tax return subject to approval from the department. Most of the time there are feeding errors in the returns and due to lengthy process of revision approval process taxpayers are facing problems. It is recommended that the period to revise the return be increased to at least 12 months without approval from the department to facilitate the tax payers.

f. Time Limitation of input adjustment, Section 66

As per section 66 of the Sales Tax 1990, refund on account of input adjustment not claimed within the relevant tax period, shall be allowed, unless the claim is made within one year of the date of payment. Since no loss of revenue is involve in claiming late input adjustment there should be no limitation of time in respect of claiming input adjustment.

The Supreme Court of Pakistan has also given many decisions in favor of Tax payer in respect of Sales Tax late claim of adjustment.

g. Transactions not admissible, Section 73

a. Under section 73(1) for admissible transactions under Sales Tax Law, the limit of amount of the Rs.50,000 for payments other than through banking channel may be enhanced to Rs.100,000/-

b. Under the provisions of section 73(2) of Sales Tax Act, 1990, claim of input tax is not allowed if the payment of the invoice is not made within one hundred and eighty days of the issuance of invoice.

Since the payments of invoices are made on the basis of agreed terms between the two parties, this provision is harsh.

It is recommended that time limit of payment of the invoice (other than Sales Tax) should be as per the agreed terms; there should no requirement to get approval from the Commissioner to condone the time limit.

h. Special Procedures for Importers -Value Addition Tax @2%.

Currently, a value addition tax @3% is being collected at import stage from importers except manufacturers and on POL products imported by Oil marketing companies for sale in the country. This is against the spirit of Sales Tax (Value Added Tax). It is recommended that

This value addition tax at import stage be abolished or the imports for self-consumption may be exempted from such value addition tax.

i. Special Procedures for Sales Tax Withholding

The registered persons falling in the jurisdiction of LTU are liable to act as withholding agent under the Special Procedures from those who are non LTU registered sales tax persons. Further, the sales tax registered persons as recipient of Advertisement Services are also liable to act as withholding agent irrespective of their jurisdiction status. This is still discriminatory and not workable.

It is recommended that private sector may be excluded from sales tax withholding as it will increase the cost of doing business. They are already working as withholding agent under different provisions of the Income tax Law.

j. Black listing and suspension of registration Rules 12 of the Sales Tax Rules, 2006

According to Sub Rules 5 of Rules 12 of Sales Tax Rules, 2006 once a person is black listed, the refund or input tax credit claimed against the Invoices issued by him, whether prior or after such blacklisting shall be rejected through self speaking order. This Sub Rules is harsh and needs to be modified.

k. Rate of Sales Tax

Presently the General Sales Tax rate is 16% and against some goods it is 19.5% and 22%. The tax rate to be slashed to practical and realistic level so that people willingly pay the tax and do not take it a burden. It is proposed that rate of Sales Tax be reduced to 10%.

Corporate Laws (Companies Ordinance 1984)

a. Section 196 (3a)

Under section 196 of the Companies ordinance 1984 shareholders approval is required for disposing off the sizeable undertaking/Sizeable Part of Undertaking, but this section does not specify what is sizeable undertaking/Sizeable part. It is proposed that Sizeable undertaking/ Sizeable part must be defined in the Ordinance.

b. Definition of Qualified Accountant

Under Companies ordinance 1984 there is no definition of qualified accountants. Qualified accountant should be defined as “Chartered Accountants with in the meaning of Chartered Accountants Ordinance 1961 (X of 1961) and Cost and Management Accountants with in the meaning of Cost & Management Accountants Act. 1966 (XIV of 1966)".

c. Section 254 (Qualification of Auditors)

Under section 254 of the Companies ordinance 1984, there is no prescribed qualification of Auditors for the companies having paid up capital less than 3 million. Moreover, the SBP vide his Circular No. 3 of 2009. Dated February 11, 2009 prescribed the qualifications of the auditors to audit the accounts for borrowers as required under prudential regulation and CMA are also authorized to audit the accounts of Borrowers being Private limited companies which are not the subsidiaries of the Public Limited Company and there is no limit of Paid up Capital.

Moreover, through Finance Act. 2011 ,Management Accountants are also eligible to conduct the audit of the Taxpayers as per section 177(8) of the Income Tax Ordinance 2001. It is necessary to amend the section 254 so that the qualifications of Auditors as per companies Ordinance & Prudential regulations and taxation laws must be the same.

d. Other Proposals

i. Concept of Cost Audit may broaden to all manufacturing sectors of the Pakistan with immediate effect.

ii. Only Cost and Management Accountants appointment should be Compulsory for Cost Audit. Industry will get the benefits of effective cost controls through establishing efficient cost departments to meet the global changing scenarios for cost reduction/ target pricing.

Federal Excise Act, 2005

Due to high inflation, the prices of consumer goods are increasing day by day. It is recommended that the excise duty on consumable goods which are necessities of life like ghee, edible oils, fuels, natural gas be reduced and duty rate may be enhanced on luxury items to increase the tax revenu.

KBC Proposals for the Federal Budget 2012 - 13

Income Tax:

Existing Situation	Proposed Change	Rational for Change
Section 59B(2)(b): "A company within the group engaged in the business of trading shall not be entitled to avail group relief"	Section 59B(2)(b) to read: "A company (not being a company operating trading houses as defined under clause 57 of Part IV of the 2nd Schedule of the Ordinance) engaged in the business of trading shall not be entitled to surrender the loss" Explanation: for the purpose of this paragraph, a company would not be considered to be engaged in the business of trading unless more than 30 percent of declared turnover is from business of trading. Provided that losses on speculation business as defined under Section 19(2) the Ordinance will not be available for surrender.	To make the legal provisions consistent with spirit of the concept and underlying understanding of the Taskforce formed for this purpose. Moreover trading activity up to the extent of 30 percent of the turnover is proposed not to disqualify the claim. As a Large Trading House entails a significant investment and creates real jobs in the economy, it is proposed to make it eligible to surrender its losses.
Section 59B	To be inserted after Section 59B: Explanation: The amendment in this Section by the Finance Act 2010 shall be deemed always to have been enacted and shall have effect accordingly.	In order to make the amendments applicable for pending cases.
Section 151 (read with Division 1 of Part III of First Schedule) of Income Tax Ordinance, 2001, withholding tax @ 10% is required to be deducted on payment of profit on debt which is adjustable against final tax.	Withholding tax on payment of profit on debt within Group Companies (between Holding and Subsidiary Companies and between two Subsidiary Companies) should be exempted.	To remove difficulties in implementing the Holding Company Concept
The insurance companies have been contesting that their receipt on account of premium do not fall in the ambit of "turnover" and therefore they are not liable to minimum tax on turnover.	It is proposed that a clause shall be inserted under section 113(3) to specifically exclude insurance premium from the definition of turnover. Alternatively, turnover for insurance companies should be taken as reduced by the re-insurance premium by incorporating appropriate amendment in Part III of Second Schedule.	This will help to avoid unnecessary litigation of cases and support insurance industry

63. Contribution to an Approved Pension Fund.— (1) An eligible person as defined in sub-section (19A) of section 2 deriving income chargeable to tax under the head Salary or the headIncome from Business shall be entitled to a tax credit for a tax year in respect of any contribution or premium paid in the year by the person in approved pension fund under the Voluntary Pension System Rules, 2005.	Tax rebate u/s 63: Life Insurance Premium be added to the list of eligible investment and the investment corridor be increased to 20% of taxable income or Rs.500,000 whichever is lower.	Support Life Insurance business and provide benefits to policy holders.
In some cases of assessment, tax department plead that of the maturity amount over and above paid to policy holders shall be treated as profit on debt and invoked provision of section 151.	An explanation be inserted at the end of sub-section (1) of section 151 providing that the provisions of this section shall not apply to insurance companies making payment to a policy holder at the time of maturity of insurance policy.	Support Life Insurance business and provide benefits to policy holders.

SEVENTH SCHEDULE

Provisions for Advances and off Balance Sheet items: [Rule 1(c)] Provisions for advances and off balance sheet items shall be allowed upto a maximum of 1% of total advances; 2[and provisions for advances and offbalance sheet items shall be allowed at 5% of total advances for consumers and small and medium enterprises (SMEs) (as defined under the State Bank Prudential Regulations)] provided a certificate from the external auditor is furnished by the banking company to the effect that such provisions are based upon and are in line with the Prudential Regulations. Provisioning in excess of 1% would be allowed to be carried over to succeeding years: Provided that if provisioning is less than 1% of the advances, then actual provisioning for the year shall be allowed.]	(1) Provisions for advances other than consumer and SMEs Proposals of earlier submitted by various associations was not properly entertained by the Government and again it is restricted upto 1% of advances merely exclusion of consumer and SMEs is insufficient. Furthermore, FBR in most cases misinterpreting the word of “total advances” as “net advances” which is un-justified. It is suggested to issue a clarification in this respect to interpret “total advances” as “gross advances” shown in the Balance sheet. (2) Provisions for Consumer and Small & Medium Enterprises’ (SME) advances The provisions for advances and off-balance sheet items will be allowed at 5 per cent of total advances for Consumers and SMEs (as defined under the State Bank Prudential Regulations). However, it is not provided as to how the provision for advances and off Balance sheet items relating to Consumer/SMEs shall be carried over if it exceeds the provided limit of 5%. It is therefore suggested to amend the provision accordingly.	This will help to avoid unnecessary litigation of cases and support Banking Industry

Treatment of substandard debts [Rule 1(d)] The amount of bad debts classified as sub-standard under the Prudential Regulations issued by the State Bank of Pakistan shall not be allowed as expense.]	(3) Treatment of substandard debts The amount of bad debts classified as substandard under the Prudential Regulations will not be allowed as expense, however, if the same is reclassified by the Banking Company under the Prudential Regulations as “doubtful” or “loss”, the same will be allowed in the above manner. It is proposed that “Substandard” class shall also be allowed in the same manner as it is a timing difference only.	This will help to avoid unnecessary litigation of cases and support Banking Industry
Transitory Provisions for bad & doubtful debts: [Rule 8(A)] (1) Prior years’ provisions Amounts provided for in the tax year 2008 and prior to the that for or against irrecoverable or doubtful advances, which were neither claimed nor allowed as a tax deductible in any tax year, shall be allowed in the tax year in which such advances are actually written off against such provisions, in accordance with the provisions of sections 29 and 29A.	Transitory Provisions for bad & doubtful debts: [Rule 8(A)] The aforesaid provision is not happily worded and provides room for misinterpretation, already faced by certain banks in their recent tax assessments when the tax authorities have tried to interpret the terms “neither claimed nor allowed” in a very restrictive and impracticable manner. Also, the reference to section 29A is misplaced as the same is no more applicable to Banking Companies.	This will help to avoid unnecessary litigation of cases and support Banking Industry
(2) Write back of past provisions Amounts provided for in the tax year 2008 and prior to the that for or against irrecoverable or doubtful advances, which were neither claimed nor allowed as a tax deductible in any tax year, which are written back in the tax year 2009 and thereafter in any tax year and credited to the Profit and Loss Account, shall be excluded in computing the total income of that tax year.	Rule 8A(2) safeguards against double taxation of amounts relating to provisions for bad debts, neither claimed nor allowed, when the same are written back later in accounts. The tax department misinterpreting rule 8A(2) and has added in some cases the amount written off against provisions though the same was not claimed earlier.	This will help to avoid unnecessary litigation of cases and support Banking Industry

Tax deduction on Banking transactions Section 231A & 231AA 231A. Cash withdrawal from a bank. — (1) Every banking company shall deduct tax at the rate specified in Division VI of Part IV of the First Schedule, if the payment for cash withdrawal, or the sum total of the payments for cash withdrawal in a day, exceeds twenty-five thousand rupees. (2) Advance tax under this section shall not be collected in the case of withdrawals made by,- (a) the Federal Government or a Provincial Government; (b) a foreign diplomat or a diplomatic mission in Pakistan; or (c) a person who produces a certificate from the Commissioner that his income during the tax year is exempt. 231AA. Advance tax on transactions in bank.— (1) Every banking company, non-banking financial institution, exchange company or any authorized dealer of foreign exchange shall collect advance tax at the time of sale against cash of any instrument, including Demand Draft, Pay Order, CDR, STDR, SDR, RTC, or any other instrument of bearer nature or on receipt of cash on cancellation of any of these instruments: Provided that this subsection shall not be applicable in case of inter-bank or intra-bank transfer and also where payment is made through a crossed cheque for purchase of a financial instrument as referred to in sub-section (1). (2) Every banking company, non-banking financial institution, exchange company or any authorized dealer of foreign exchange shall collect advance tax at the time of transfer of any sum against cash through online transfer, telegraphic transfer, mail transfer or any other mode of electronic transfer.	The above provision is contradictory to the government's aim to document the economy, it will encourage banking customers to use informal channels for their transactions. Therefore it is suggested to review the imposition of tax on banking transactions in line with the long term objectives. Furthermore, it is suggested to increase the threshold from Rs. 25,000/- to Rs. 50,000/-	It will discourage banking customers to use informal channels for their transactions.

(3) The advance tax under this section shall be collected at the rate specified in Division VIA of Part IV of the First Schedule, where the sum total of payments for transactions mentioned in sub-section (1) or subsection (2) as the case may be, exceed twentyfive thousand rupees in a day. (4) Advance tax under this section shall not be collected in the case of transactions made by,— (a) the Federal Government or a Provincial Government; (b) a foreign diplomat or a diplomatic mission in Pakistan; or (c) a person who produces a certificate from the Commissioner that its income during the tax year is exempt.		

Human Resource Capacity Building Existing Situation Proposed Change Rational for Change

The WWPF & the WWF (total 7%) have failed to contributed towards improving the quality of the human resource in the Country	Listed companies are allowed to spend up to 50% of their undistributed Workers Profit Participation Fund (WPPF) contribution on technical training programs to enhance the quality of their human resource. Similarly listed companies are allowed to spend 50% of their contributions to the Workers Welfare Fund (WWF). Alternatively the rate of WPFF & WWF be reduced by 50%	Industry driven technical training programs will lead to the development of a human resource pool which is in line with industry needs

FEDERAL EXCISE DUTY

Introduction: Excise duties are levied in order to reduce the consumption of luxurious items and this principle has been violated in Pakistan since the introduction of such levies. Currently there is very high evasion of taxes in sectors where both excise and sales tax is leviable.

Excise Duty on Personal Care Products:

Brief Background: Currently there are many daily used personal care products such as Shampoos and Skin Creams etc which are subject to excise duty on Retail Price. In addition sales tax is levied on these products on a total value which is inclusive of federal excise duty. This results in multiplicity of taxes and encourages tax evasions and inflow of substandard smuggled goods; and subsequent loss of revenue to the Government Exchequer.

Proposal:

Excise duty on Shampoos and Cosmetic items was originally imposed to discourage luxury products. As these have now become essential items for the Pakistani consumers, it is recommended that current 10% rate of duty be removed. This will encourage further investment, drive higher consumption of locally manufactured goods and restrict inflow of smuggled & substandard items. In the longer term, this will also enhance duty and tax contribution to the Exchequer.

Federal Excise on Royalty and Fee for Technical Services (Franchise Fee) Payments

Brief Background: Section 3 of the Federal Excise Act, 2005 defines the scope of the levy of Federal Excise. The section limits the application of the Act to the following activities:

- Goods produced and manufactured in Pakistan;
- Import of goods into Pakistan territory;
- Service provided or rendered in Pakistan.

Through the Finance Act, 2006 the Board introduced Rule 43 A to the Federal Excise Rule of 2005 whereby it arbitrarily levied excise duty on the payments of Royalty and Technical Services Fee. The payments are in the nature of expenses for local companies and hence making them pay FED on such expenses is unfair and ultra to the main statue.

Proposal:

This arbitrarily imposed Excise Duty should be immediately abolished as:

o This levy will hinder the inflow of foreign investment in the shape of know how and brands etc.

o Excise Duty on Royalty and Technical services fee is against the principal statute.

It is imperative to state that as per the general interpretation of statute, payment of Royalty or Technical Fee cannot be treated as service. Any levy should not be received from a person who is incurring expenditure and not earning any income. Removal of FED on royalty and technical service fee will help foreign brands / companies to enter into Pakistan market thereby increasing the investments in Pakistan and will further encourage existing foreign companies to invest more in Pakistan.

Special Excise Duty

Brief Background: With effect from Tax Year 2008 Special Excise Duty @1% is levied on all (with a few exceptions) local and the imported products.

Proposal:

o The goods which are already subject to (normal) Federal Excise Duty should be exempted from the levy of special excise duty;

- The goods which are subject to Sales Tax on the basis of retail price should also be exempted for the special excise duty.

The goods, which have already been subject to higher value and rate of tax/duty, are taxed again with the special excise duty then it will lead to inflationary impact on the economy and may also fuel undocumented trade practices and distort the overall competitive environment.

CUSTOM DUTY

Introduction: It has been seen over the past two decades that custom duty rates on raw materials, semi finished goods and finished goods have been reduced due to the reason being Pakistan a member of WTO and in order to avoid tax evasion / avoidance.

Now there is a strong need to review the custom duty structure once again to facilitate the local manufacturing industry because current structures support the promotion of trade in commodities rather than manufacturing industry.

Reduction in Import Customs Duty on Various Raw/Packaging Materials

Brief Background:

- Filter paper used to make tea bags is imported at 20% duty; whereas import duty for finished goods tea bags is 10%

- Skimmed Milk Powder (SMP) is a key raw material for ice cream production. Currently there is a 25% duty on SMP whilst the duty on finished product (ice cream) is also 25%.

Proposal

We suggest that the duty on raw material should be lower than the finished product to encourage local manufacturing. We recommend a duty of 10% on the above items imported as raw material.

Benefit:

The above will help create cost competitive environment in the country and attract more investment in manufacturing sector.

Regulatory Duty on Imported items.

Brief Back ground: In August 27, 2008 the government imposed the regulatory duty within the range of 15% to 50% on 350 items on imported goods through his SRO 1 of 2008. The objective of this duty was to collect higher tax revenue on luxury items.

Proposal:

The government has also levied the regulatory duty @ 15% on some of essential items, which include:

a. Tooth paste.
b. Shampoo.
c. Soap and Detergent

Please note that for the above items the FBR has already increased the custom duty from 25% to 35% in the budget 2008-09, resulting in cumulative levy of 40% to 85%.

Recommendation:

The regulatory duty should be withdraw from the above items in order to provide the necessary goods to the consumers with the reduce price.

General Proposals

1. Broadning Tax Base:

In order to broaden the desired tax base, to minimize the avenues to evade tax, to create a fairer society and to generate more employment opportunities following steps are suggested:

i) National Tax Number should be made mandatory for purchase / sale / transfer of immovable property (no exemption whatsoever,) Motor Vehicle, Club Membership, Credit Cards, Registration with CDC and Distribution of Profit/Markup exceeding statutory taxable limit.

ii) Submission of quarterly statements by the Registrars & Housing Societies for registration / transfer of Immovable Property (Industrial Commercial, Residential & Agricultural) Motor Vehicle Registration Authorities, Clubs (Private & Public), Credit Card issuing authorities, Central Depository Company and Financial Institutions distributing profit more than statutory taxable limited.

iii) The exemption under section 111 (4) of the Ordinance to the foreign exchange brought into Pakistan through proper banking channel should only be allowed to those remittances which are invested in the business undertaking.

vi) The concept of presumptive taxation be gradually reduced and only the real income be taxed; because such system distort the entire taxation system and affect the organized sector adversely. The taxes must be equitable and fair between different classes of society. All the segments of the society should be brought in the tax net.

Reduction in Tax Rate:

Corporate taxes are very high in Pakistan as compare to other developing and developed markets.

i) The rate of Income Tax for the corporate and non-corporate sectors be reduced by 5%;

ii) The present statutory limit of exemption under the Income Tax law be increased from Rs.100,000/-

These measures will not only promote investment in Pakistan but also encourage companies and investors to further broaden their business as their returns will increase which will ultimately benefit the economy to be competitive with its neighbors and at the same time augment the shareholders return.

Pre-Budget Proposals 2012-13

Introduction

The national economy is facing the most critical moments of its history. The on-going war on terror and military actions in the tribal areas including provincially administrated areas has dampened the growth of Trade and Industry in the country. The local investors in the NWFP have been shifting to safer places due to highly alarming law and order situation and recurring threats of lives and property. While the law and order situation is badly affecting the growth of trade and industry, the energy crisis in the country has further compounded the situation. There is a great need for attracting investment in the energy sector particularly in the hydropower generation.

Following are the recommendations for budget 2012-2013

Simplification of Tax Laws

Generally tax laws should be unambiguous, clear, easily comprehensible and free from intricate provisions which should not baffle the minds of the taxpayers. At present tax laws are prone to abuse and misinterpretation, thereby leading to corruption, tax evasion and unnecessary disputes. The tax law should therefore, be just, fair and honourable piece of legislation that makes a taxpayer feel honoured, proud and inclined fearlessly and voluntarily to make his full contribution, which otherwise, he obviously will not do it when he is looked upon as a suspect straight away. It should be so simplified, classified and compiled that any particular class of taxpayer is able to find most of the basic provisions relating to his class, at one place.

Broadening of Tax Base:

The major weakness in the tax structure includes narrow and punctured tax base because of vide ranging exemptions and concessions and rampant tax evasion. The Chamber, for a long time, has been pleading that the tax net be broadened and income be taxed wherever it is generated, but all the government's efforts to broaden the tax net, are always confined to trade and industry and agriculture sector, which contributes about one-fourth in GDP enjoys exemption from income tax.

Reduction of Tax Rates:

As a result of narrow tax base, tax rates have been pitched at high levels which have created a vicious circle of tax base erosion and higher tax rates. The higher rates provide temptation of tax evasion and lead to corruption.

Over Dependence on Indirect Taxes:

The indirect taxes which accounts for about 68 percent of tax revenues have also increased regressivity of tax system which imposed a higher burden of taxes on poor masses. Within indirect taxes, there has been over reliance on levies on international trade which had promoted inefficiencies, distorted the allocation of resources and encouraged smuggling.

Smuggling:

The items prone to smuggling must be subjected to nil or negligible duty. To contain smuggling through Afghan Transit Trade our Government may collect import levies under prevalent tariff rates on behalf of Afghan Government which would subsequently be passed on to Afghan Government.

Duty on Raw Materials and Capital Goods:

Duties and taxes on industrial machineries, not manufactured locally, be abolished and all primary raw materials not locally produced, be allowed to import at zero rate of duty to safeguard local industry.

Discrimination in Duties:

There should be no difference in rates of duties of raw materials, either imported by industry or commercial importers.

Refunds:

A two-way traffic for discharging financial liabilities should be adopted. As the government is keen and justified to recover its tax revenue from the people, justice and equity demands that in the same spirit, the various dues of the taxpayers in the form of refund, duty draw-back, rebates etc., are made to them well in time.

Turnover Tax Rate

It is proposed that the general rate of minimum tax should be reduced to 0.25% on the total turnover of the taxpayer.

Discretionary Powers

The discretionary powers of the tax collectors must be curtailed and ultimately be removed. The Federal Tax Ombudsman has mostly given verdicts against tax machinery which is evident of the excessive use of discretionary powers.

Rectification of Return

There is no provision in the Sales Tax Act, 1990, which allows a taxpayer to revise tax return in case an inadvertent omission is detected by him after filing the return. Provision should be inserted to enable a taxpayer to revise a return after giving proper reasons for such revision. In case where the return is revised wrongly the taxpayer may be subject to penalty.

Frequent Changes in Law/Rules

Since literacy rate in our country is low and specifically understanding law and rules is not a matter of days and months. The frequent changes in law/rules have opened flood gate of litigations which is not only detrimental to interest of the tax payers but also to the exchequer.

Tax on Dividend

In order to promote the process of consolidation and group formation, it is suggested that tax may not be charged on dividend received by companies as this results in dual taxation of dividend in the hands of the company and then in the hands of the ultimate shareholders.

However, if complete elimination of tax on dividend received by companies is not possible due to revenue consideration, it is suggested that dividends received by all residents companies may be taxed at 5% instead of the prevailing rate of 10%. It should be noted that in the past companies have been subjected to tax on dividend income at 5% of the gross amount of dividend and it is only since the adoption of Finance Act, 2007 when the reduced rate of dividend for companies at 5% was abolished and a uniform rate of 10% was introduced for all shareholders including companies.

It is therefore suggested that either the dividend received by companies may be exempted from tax or the rate of dividend received by companies be reduced to 5%.

Tax Payer Card

Tax payer card is proposed to be introduced to all tax payers who have filed and completed tax return for last 3 fiscal years and a mechanism may be established to monitor these taxpayers on annual basis to facilitate the process, with clear benefits such as 50% discount on government fees like passport fee, driving license fee, waiver on loan processing fee and any other one time charges taken by banks for loan/finance processing, reduced markup rates, exemption in withholding tax charged against other banking services etc.

Taxable Income

Keeping in view the accelerated rate of inflation, it is proposed that exemption limit for an individual male be raised to Rs.500,000/- and for women to Rs.600,000/-.

Tax for Listed Companies

It is suggested that in order to attract new companies for listing, the tax rates for the listed companies should be reduced to 28%. .

Reduction in Tax Rates and Relief for War Effected Areas:

Peshawar, the provincial capital, has been severely affected by the wave of terrorism. Peshawar is at the verge of industrial breakdown as many industrial units have been closed. A number of industrial workers lost the jobs In order to revive the industry, the government should take special measures to provide fiscal relief to businessmen and industrialists in the province.

Not only the industries sustained an irrecoverable loss, but the traders, businessmen, professionals, service providers, hotels i.e all businesses are badly affected due to the security crisis & terrorism.

Taking into consideration the said critical situation, a suitable relief package shall be given in addition to the measures taken recently by the government, to the war affected areas including the following and other such measures:

- Reduced rates of corporate tax should be introduced.
- Abolishing certain withholding taxes.
- Reduced rates of taxes for individuals.

These shall be given for a period of 3-4 years in order to revive economic activity in the areas otherwise the stoppage of industrial and business activity will lead to zero based tax.

Tax on Capital Gains for Non-Residents

To provide safety to foreign investment from sharp depreciation in Pakistani Rupee and to help attract foreign investment it is recommended that devaluation in Pakistani Rupee should be considered in the calculation of capital gains for non- residents.

Rates of Sales Tax

The prevalent high rates of sales tax invites for evasion of tax which not only paves way for smuggling but also inflicts a severe burden on the existing tax base. The rates of tax may be rationalized by reducing it to maximum extent of 50%. This will help to lessen financial burden upon the end consumer but also be helpful in broadening the tax base.

GST on Industrial Electricity Bills

The charges indicated in electricity bills are of two types firstly fixed charges secondly price of electricity. The Sales Tax is charged on aggregate of the above two charges. Section 30 of the Sales Tax Act clearly envisage that Sales Tax is leviable on value of supply. The value of supply is the price of electricity, therefore, fixed charges shall not be taken for assessment of Sales Tax.

Tax on Cash Withdrawal from Bank

The threshold for withholding tax on cash withdrawal should be increased to Rs 60,000 and exemption should be granted to the salaried class in order to provide relief to them and withholding tax should be reduced to 0.15%.

Alternative Dispute Resolution Committee (ADRC) Decisions

It is proposed that decisions of alternative dispute resolution committee (ADRC) should be made binding and accepted by the FBR.

Tax on Agricultural Sector

Agricultural sector is the largest sector of the national economy and agricultural sector should be taxed.

Tax Credit on Investment in Shares

A tax credit is available to a person other than a company for acquiring new shares offered to the public by a public company listed on a Stock Exchange in Pakistan. In this regard the present ceiling of maximum investment on which tax credit can be availed is Rs.300,000/-.

In order to promote listing of companies in Pakistan on the stock exchanges and create more and more incentives to attract initial public offering's the availability of tax credit is a major incentive for the individual investor to subscribe for shares of listed public companies.

In order to promote the listing of more companies on the stock exchange, it is suggested that persons' taxable income for the year on the cost of acquisition of shares be raised to Rs. 600,000/- and 25% of the persons' taxable income for the year.

Duplicating Provincial Taxes

Duplicating provincial taxes should be abolished otherwise these taxes have very negative impact on the tax payers.

Rebuild the Confidence of the Tax Payer

Consistency of fiscals laws in order to rebuild the confidence of the tax payer which is severely deteriorated in the recent past due to undue pressure our government has taken from International finance provider.

Amending Assessment Order

It is suggested that an assessment order should not be re-amended except under section 122(5) and period for amending assessment should be reduced to 3 years.

Procedural Mistakes

Procedural mistakes in maintaining record, filing returns should be once warned instead of using harsh sales tax law.

Clarity

Clarity needs to be introduced in the fiscal laws as far as the PATA & FATA areas are concerned. As current system is running on circulars and departmental letters. etc.

Private Practice of FBR Employees

The private practice of FBR employees should be monitored as currently some FBR officials are doing invisible private practice (e.g. inspectors). Codes of Ethics for FBR officials and Officers neither made nor implemented which has created a serious conflict of interest which is resulting in a huge loss of revenue.

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Research & Publications Committee
Institute of Cost and Management Accountants of Pakistan
Head Office: ICMAP Building, ST-18/C, ICMAP Avenue, Block-6,
Gulshan-e-Iqbal, Karachi-75300, Pakistan.
Tel: 92-21-99243900 Fax: 92-21-99243342 **Email:** rp@icmap.com.pk