# Fiscal Budget Proposals 2018-19


ICMA Pakistan

Estd. 1951

**Institute of Cost and Management Accountants of Pakistan**

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# ICMA Pakistan's Fiscal Budget Proposals 2018-19

**Vision**

*To be the Preference in*
*Value Optimization for Business*

**Mission**

*To develop Business Leaders*
*through imparting quality education*
*and training in financial and non-financial*
*area to bring value-addition in the economy*

**Core Values**

*Competence*
*Innovation*
*Ethics*
*Transparency*
*Professionalism*

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*The facts and figures presented in this budget document has been thoroughly checked and verified from relevant sources. In case of any variance between what has been stated and that contained in relevant act and ordinance, rules and regulations etc., the latter shall prevail. While utmost care has been taken in the preparation of these proposals, it should not be relied upon as a substitute for legal advice.*

# About ICMA Pakistan

Institute of Cost and Management Accountants of Pakistan is one of the premier professional institutes of Accountants, established in 1951 by the name and title of Pakistan Institute of Industrial Accountants (PIIA). Later, it was renamed as Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) which gave it the mandate to regulate the profession of Management Accounting in Pakistan. The institute received its charter under the CMA Act, 1966 of Parliament which entrusted it the responsibility of coaching, examining and conferring internationally recognized postgraduate professional certifications of Associate Cost and Management Accountant (ACMA) and Fellow Cost and Management Accountant (FCMA). ICMA Pakistan is the founding member of International Federation of Accountants (IFAC) since 1977; Confederation of Asia and Pacific Accountants (CAPA) since 1980; and South Asia Federation of Accountants (SAFA) since 1984.

The Institute has over 5,000 members, out of which over 900 members are serving abroad. These members are serving at high-profile positions such as CEOs, CFOs, COOs, CIAs, Company Secretaries etc., thus making significant contributions towards business growth and economic development. The Institute has over 15,000 students, 200 faculty members, over 250 employees, 07 regional Branch Councils, 11 education campuses and 18 examination centres.

The Institute has strong ties both with the higher education institutions and corporate sector by way of Industry-Institution liaisons to utilize each other expertise for mutual benefit. It has four categories of collaboration viz. (i) Corporate Partnership Scheme; (ii) Practical Training Scheme; (iii) Partnership for Research, Development and Innovation; and (iv) Registered Education Provider.

The Institute is actively involved in providing professional and technical support to the Ministry of Finance, Ministry of Commerce, Planning Commission, SECP, SBP, FBR, AGP, and other regulators and policy making organizations. The public practice function of the Institute is supported by over 100 Cost and Management Accounting firms which are holding license to undertake national and international consulting assignments. The Institute also organizes SECP approved Directors Training Program (DTP) for the capacity building of Board of Directors of Listed companies.

The Management Accountants are today an integral part of any management team in business organizations and assist them in reducing cost of doing business and optimizing profits. They are also serving in services sector and contribute towards the noble cause of three Es, namely Efficiency, Effectiveness and Economy. A large number of management accountants are serving the nation by teaching in universities and academic institutions, whereas others are practicing as Management Consultants, Cost Auditors and as Tax Advisors.

# Contents

# From the Desk of President

I am pleased to present the ICMA Pakistan's Fiscal Budget Proposals 2018-19 which incorporates some valuable proposals and recommendations for bringing policy changes in taxation laws and making required amendments in the income tax, sales tax, federal excise and custom duty legislations so as to provide an enabling environment for the private sector and businesses to flourish and to promote industrial productivity, investment and economic growth in the country.

The budget document also presents industry-specific tax issues and proposals, prepared in consultation withindustry experts and representative bodies, intended to assist the government in developing industrial policy. We hope and expect that these proposals would merit attention of government and policy makers who would give some serious thought to these taxation proposals and make them part of Federal Budget 2018-19.

ICMA Pakistan is a leading professional accounting body that has always played its due role in supplementing the efforts of the government in achieving sustained economic growth through professional input on preparing policy documents and legislations related to trade, economic, corporate and financial policies.

ICMA Pakistan is committed to building a strong corporate culture to enable the Pakistan economy to achieve the desired growth. The Institute is supported by vast and diversified experience of its members and associates to fulfill its vision and mission. The management accountants as the members of this professional body are actively engaged in every sector of national economy to bring cost efficiency, professionalism and expertise so as to develop and prepare Pakistan's economy for the current and future needs.

ICMA Pakistan believes that government must take some urgent measures to minimize the increasing gap between the revenue and expenditure for which broadening of tax base is quite imperative. ICMA Pakistan has identified some areas in its budget document which may be considered by the government. At the same time, ICMA Pakistan has also proposed some measures for reducing the government expenditure which are worth consideration by policy makers.

The government must enhance the role of professional institutions like ICMA Pakistan in bringing efficiency in government delivery system by reviewing their key economic decision- making and corporate governance processes; revamping of the tax administration and machinery; strengthening audit and review procedures and suggesting actionable economic strategies. ICMA Pakistan would always welcome to be associated in these initiatives on the call of the government and regulators.

It is hoped that FBR will find our budget proposals useful and relevant.

**Zia ul Mustafa, FCMA**
**President, ICMA Pakistan**

# From the Desk of Chairman, Research & Publications Committee

The national budget is an important economic policy tool of the government which sets out the direction of economic policy. It translates government's policies, political commitments and goals into decisions on how to raise revenues and utilize these funds in priority areas.

ICMA Pakistan has always played its due role in budget making process by submitting its proposals in shape of a booklet that covers interalia, proposals for income tax, sales tax, customs and federal excise, in addition to sector/industry-wise proposals. The budget document also covers proposals for improvements in existing taxation laws and suggesting concrete measures for generating tax revenues and improving industrial productivity. The purpose of the budget proposals is to provide professional input to the government in preparing a business and investment friendly budget.

There is much expectation from the Federal Budget 2018-19 by all the stakeholders including the trade and industry, salaried class, general public and the professionals. ICMA Pakistan also expects that in the forthcoming budget the government would focus on areas of improving trade and fiscal deficit; spurring industrial growth; inducing foreign investment from countries other than China which is already investing under CPEC; resolving gas and power shortages for industry; reducing poverty and taxing the hitherto untaxed and under-taxed segments of the society. The last aspect needs courage on the part of the government and especially the tax authorities as halfhearted attempts have been made in the past in this regard which could not yield positive results. Needless to say that there are huge loopholes in tax collection system that is encouraging tax evasion.

ICMA Pakistan believes that all massive tax evasions should be plugged and unjustified tax exemptions given to highly privileged and protected segments of the society should be withdrawn. The taxes must be equitable and the tax structure should be rationalized. The tax registration process should be made simpler and user-friendly to promote private sector. The concept of presumptive taxation must be gradually reduced and only real income should be taxed.

ICMA Pakistan is of the viewpoint that the private sector has the potential to play a dynamic and vibrant role to fuel the engine of economic growth in Pakistan and to drive forward sustainable development. For this purpose, the government and the private sector in Pakistan should engage into a mutually supportive relationship so as to work collectively for industrialization leading to rapid economic growth.

The private sector should play a leading role in all economic activities whereas the government's primary role should be to provide a regulatory and supportive role to facilitate business and industry and remove impediments to industrialization. The professional institutions like ICMA Pakistan should also be associated in this regard.

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The management accountants can play a significant and vital role in supporting the government in achieving economic growth and stability; better utilization of public funds and resources; reviving sick and inefficient organizations; checking the rising inflation and unfair business practices etc. and above all in bringing cost efficiency in private and public sector organizations. Unfortunately, the management accountants have never been given a leading role at the macro-economic level to prove their mettle in delivering above tasks.

ICMA Pakistan would expect the government to associate the management accountants not only in budget making process but also in the overall economic revival process for utilizing their professional skills and expertise to tackle a host of economic ills and malpractices that are prevailing in our society.

**Muhammad Yasin, FCMA**
**Chairman, Research & Publications Committee**

# Chapter 1 | Policy changes in Tax laws & Notifications

## 1.1 Income tax laws need to be in accordance with IFRSs/IASs/Company Law

As per Rule 32(2) of Income Tax Rules, 2002, the books of accounts, documents and records are required to be maintained by a company in accordance with IASs /IFRS and Companies Ordinance 1984/2016. However, there exist conflict between the Income Tax Ordinance, 2001 and the Income Tax Rules 2002, especially in connection with the following accounting treatments:

(a) The **depreciation and carrying amount of fixed assets** being calculated in the Income Tax Ordinance, 2001 (hereinafter referred to as 'Ordinance') are quite different from what is being systematically and logically explained in IASs/IFRSs. It is, therefore, suggested that depreciation and carrying amount of fixed assets, as stated in audited financial statements, may be allowed in the Ordinance and instead of giving special depreciation like initial depreciation; first year allowance, etc., a tax allowance/tax credit may be allowed, or alternatively to make the working simple and straight; depreciation may be allowed on straight-line basis instead of reducing balance method which carry asset unnecessarily and immaterially for more than 22 years.

(b) As for **pre-commencement expenditure** under Section 25 of the Ordinance, the Sections 22, 23, 23A and 23B of Ordinance, IAS 16 and other related IASs, the computation formula of stock-in-trade/inventories is quite different from what is systematically and logically explained in the IASs/IFRSs. It is therefore suggested that inventories consumed and inventories carrying amount as stated in audited financial statements may be allowed in the Ordinance. (Section 35 of the Ordinance, IAS 2 and other related IASs/IFRSs, Companies Ordinance 1984/2016)

(c) The accounting treatment of **Long Term Contracts** in the Ordinance is different from what is being systematically and logically explained in IASs/IFRSs. It is proposed that the contracts' work in progress and other related items, as stated in audited financial statements, may be allowed in the Ordinance. (Section 36, IAS 11 and other related IASs/IFRSs and Companies Ordinance 1984/2016).

(d) The Ordinance has only allowed treatment of **operating lease** for lessors and lessees and has rejected more logical and systematic treatment of finance lease, which is allowed in IAS 17 and Companies Ordinance 1984/2016, while allowing few provisions of finance lease. It is, therefore, suggested to allow lease treatments, which is on finance lease basis, as stated in audited financial statements in the Ordinance. (Section 18(3), 22(12), 23(4) and 28(1)(b) of the Ordinance, IAS 17 and other related IASs/IFRSs and Companies Ordinance 1984/2016)

## 1.2 Tax structure need to be in line with national economic priorities

The basic structure of our Income Tax and Sales Tax Laws are not in line with the economic priorities of Pakistan as these have been totally distorted due to un-strategic exemptions, concessions, tax holidays, zero rating, additions and deletions to favor the near and dear. Fortunately or unfortunately, the issues which need to be considered in framing these laws have never been strategically focused and as a result the economy has not improved in a way it should have been and the economic issues still persists without any direction. It is therefore suggested that the taxation laws should be re-structured in line with our economic priorities and our needs; especially in areas of education, health, employment, industrialization, law and order, security, science and technology, production, investments and savings, governance, etc. This re-structuring should be just like Zero Budgeting that is from the scratch instead of add/back provisions in the Ordinance and Rules.

## 1.3 Conflicting provisions of tax laws on 'Certificate on Collection & Deduction of Tax'

The provisions of Section 164 of Income Tax Ordinance, 2001 and Rule 42 of Income Tax Rules, 2002, an 'online certificate' designed by and available at FBR website, relating to the issuance of certificate of collection or deduction of income tax are conflicting each other due to the following reasons:

(a) As per Section 164(1) of the Ordinance, every person collecting or deducting income tax shall at the time of collection or deduction furnish to the person from whom the tax has been collected or deducted, a certificate, while under Rule 42(1), a certificate is required to be issued within 15 days after the end of the financial year and on request under Rule 42(2) a certificate may be issued before the end of the financial year.

(b) Many particulars are missing in 'online certificate' designed by and available at FBR website, which are required as per format as set out in Part VII of the Second Schedule to these Rules, which includes (i) on (date of collection/deduction); or (ii) during the period; from/to (period of collection/deduction) and (iii) certification portion of the said form and its all particulars are missing.

## 1.4 Charging of Income Tax on Losses need to in line with Constitution of Pakistan

Income tax on losses charged under the Income Tax Ordinance and Income Tax Rules is a violation of the Constitution of the Islamic Republic of Pakistan which has allowed 'tax on income' and not 'tax on losses. The Income Tax Ordinance has also clearly mentioned under Section 4 that 'tax on taxable income' will be charged on a person 'who has a taxable income for the year'. However, in practical income tax is being charged even on losses under Section 113 and Section 169 of the Ordinance:

(a) **Minimum tax/turnover tax** (1% on gross turnover/sale) under Section 113 of the Ordinance was introduced to overcome emergency of government at that time, which should be for a transitional period of a year or two. However, minimum tax has become a permanent tax and it base is being continuously broadened. As a result, this tax is being charged on losses, which is again a violation of the Constitution of Pakistan and is against the fundamental rights of a citizen.

(b) **Income tax collected or deducted as a final tax** under Section 169 is also tantamount to charging of income tax on losses. For example, suppliers/contactors/customs authority/ bankers have deducted or collected income tax from the taxpayer @ Rs. 60 million and actual loss for said tax year of taxpayer after adjustment for add/back was Rs. 15 million. So, under the Constitution of the Pakistan, such taxpayer should not be subjected to income tax but the government charges income tax from the taxpayer @ Rs. 60 million under the final tax regime.

(c) **Income tax collected or deducted** from taxpayers are being treated as 'deemed income' and therefore accepted as final tax under Section 169 of the Ordinance, irrespective of the fact that the taxpayer is in loss, subject to Section 169(2)(e)&(f) of the Ordinance. This charge is against the principles of accounting, Companies Ordinance 1984/2016, International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) and even against some provisions of the Ordinance (refers Section 169, IAS 12 and other related IASs/IFRSs and Companies Ordinance 1984/2016).

## 1.5 Transitional advance tax provisions under Chapter XII [Section 231A to 236J]

The dictionary meaning of 'transitional' includes 'the period of time during which something changes from one state or stage to another,' and usually in business and laws, the word transitional refers to a temporary phase. However, the Income Tax Ordinance, 2001 has made transitional advance tax provisions as permanent by creating a new Chapter XII, which covers Sections from 231A to 236J. The base of transitional advance tax is also being broadened every year. This also signifies a major anomaly in our income tax law and therefore need to be rectified by the tax policy makers.

## 1.6 Taxation of capital gain on immoveable properties [Section 37(IA)]

The Constitution of the Islamic Republic of Pakistan has excluded federal authority to collect tax capital gains on immoveable properties, which is thus a provincial subject. However, the Income Tax Ordinance, 2001 is levying income tax on the gain arising on the disposal of immoveable properties under Section 37(1A), which is against the Constitution. This anomaly needs to be rectified.

## 1.7 Imbalanced treatment for Non-residents having permanent establishment [Section 105]

Non-resident taxpayers having permanent establishments in Pakistan are subjected to income tax as applicable to resident taxpayers subject to some restrictions as per Section 105 of the Income Tax Ordinance, 2001. However, it is not justified to keep them away from the benefit of final tax under Section 169 for collections and deductions of income tax under section 152(2A) of the Ordinance while maintenance of permanent establishment in Pakistan has mitigated the risk of loss of tax revenue to the government (Sections 152, 105 and 169 of the Ordinance). This tax anomaly needs to be corrected.

## 1.8 FBR allocation of revenue targets in 'Net Terms instead of 'Gross Terms'

FBR allocates revenue targets in "Net Term' as a consequence of which the FBR Tax offices are reluctant to process and sanction refunds as well as exemption certificates in fear of falling short of assigns targets. Before 2009, FBR used to allocate targets in 'Gross terms', hence sanctioning of refunds or any other concessionary certificate had no bearing on the set targets. Even otherwise, it makes sense that at times taxes are collected at Karachi, where bulk import takes place, whereas, refunds are to be paid by the upcountry field offices. This is one of stumbling block in payment of refunds by up-country Tax offices. It is therefore proposed that FBR should assign targets in gross terms, instead of net terms.

As per FBR accounting procedure, tax collection is credited to the tax office, where import takes place, whereas, tax payer is registered in other tax offices. This is anomalous situation as tax credit should be given to the tax office, where taxpayer is registered as is general accounting principle.

FBR vide letter C. No. 3(70) STM/99 dated 20th December 1999 had allowed through inter-tax refund/ adjustment; but the tax offices are not following this procedure. If this principle is followed in letter and spirit it will mitigate a lot of problems of tax payers for discharging their tax liabilities.

## 1.9 Adjustment of Sales Tax Refund with Income Tax Liability

It has been observed that on several occasions, the funds of registered persons are stuck up with the Sales Tax Department in the form of sales tax refund while he is required to pay income tax at the time of assessment of his income tax liability. Resultantly, the taxpayer has to bear the burden of making payment of income tax liability whereas his own money is lying idle with the Sales Tax department.

FBR vide letter C. No. 3(70) STM/99 dated: 20th December 1999 has already devised a procedure of inter-tax refund/ adjustment; but officers posted both at sales tax and income tax divisions are not following the above said procedure for the reason best known to them. It is, therefore, suggested that tax payers should be asked to make payment after giving him credit of receivables under any Heads. Income Tax and Sales Tax function have been combined and assigned to the same officer and it is very easily ascertainable by him that there is refunds under one tax and demand under the other tax. Both the relevant tax laws allow such adjustment but the procedure by the officer and the treasury (PRAL) is not well-defined. The procedure needs to be well-defined and notified by the FBR.

## 1.10 Need for simplifying procedure of income tax exemption on Imports

The procedure of income tax exemption on imports, made by exporters, is very complicated and lengthy due to which importers cannot get certificates on time from the FBR to apply for exemption in custom. Resultantly, shipments get delay and importers have to pay income tax to get shipments to avoid delays.

To remove this anomaly, it is proposed that a specific notification/SRO may be issued for income tax exemption to facilitate exporters in getting their import consignments cleared without undergoing lengthy process of payment/approval as well as to ensure expeditious refund settlement.

## 1.11 Unnecessary taxation on Industry [SRO # 509 /2013]

Through SRO 509(I)/201 dated 12$^{th}$ June 2013, the Federal Government levied extra tax @ 5 percent of the total billed amount excluding the amount of federal taxes in addition to tax paid on supplies of electric power and natural gas to persons having industrial or commercial connections, and whose bill in any month exceeds Rs. 15,000/- but who have either not obtained sales tax registration number or are not on Active Taxpayers List of FBR.

Since the industrial taxpayers are facing problems in paying this extra tax, it is proposed that this anomaly may be rectified by making necessary amendment in SRO 509 to provide relief to taxpayers.

## 1.12 Sales tax withholding at the time of purchase instead of payment [SRO # 485/2015]

Through SRO 485 dated 30$^{th}$ June 2015, the Federal Government made an amendment in sub-rule 5 of Sales Tax Special Procedure (Withholding) Rules, 2007 whereby in case of purchases, the withholding agent is now required to deposit the sales tax deducted at source in designated branches of NBP by 15$^{th}$ of the following month during which the 'the purchase has been made'. Earlier, the sales tax withholding was applicable on following month during which the 'payment has been made to the supplier'.

This is quite an illogical amendment made in the Sales Tax Special Procedure (Withholding) Rules, 2007 which has created much difficulty for the agent to record the transaction. It is therefore proposed that this SRO # 485 may be done away with to remove this anomaly .

## 1.13 Regulatory duty on import of basic raw materials of Industry [SRO # 1035 /2017]

Through SRO 1035 dated 16th October 2017, the Federal Government imposed Regulatory Duty (RD) on over 700 items in order to discourage import of luxurious and non-essential items. However, those items were also included which are being imported as basic raw materials by the industry and not produced locally. This imposition of RD has increased substantially the cost of production of various finished products. It is pertinent to mention that the duty on finished products is lower than the imported raw materials used to manufacture such products.

Through SRO # 6 dated 3rd January 2018, the Federal Government made amendment in SR) 1035 whereby the regulatory duty has been reduced on only few items, whereas major raw materials are still subject to RD. Hence, it is proposed that Regulatory Duty on such items may be abolished which are not locally produced and imported by the industry as basic raw materials.

# Chapter 2 | Direct Taxes

## 2.1 Withdrawing Super tax imposed on corporate sector [Section 4B of ITO 2001]

Through the Finance Act 2015, the government had imposed one-time Super tax on high net-worth individuals and corporate sector for the rehabilitation of temporarily displaced persons. This super tax is unjustified and tantamount to an additional burden on the existing liability of compliant taxpayers as well as a disincentive to new investments in Pakistan.

**It is proposed that this super tax should be withdrawn through Finance Bill 2018. Further, such adhoc and discriminatory levy may not be introduced in future as it puts additional burden on tax payers**

## 2.2 Abolishing withholding tax on Dividends of Private limited companies [Section5]

Since the corporate income is already taxable at the rate of 31 percent per annum, it is suggested that further tax on distribution of income may not be imposed. Presently, 2.5 percent withholding tax is being charged on dividends offered by private limited companies.

**It is proposed that this 2.5% withholding tax may be abolished as it tantamount to double taxation. This may, however, be made adjustable against the tax liability of payee.**

## 2.3 Tax on undistributed profits [Section 5A]

Tax on undistributed profits under Section 5A is unjustified as the undistributed profit is already taxed at company rates. Subject to certain exceptions, undistributed profit of listed companies is again subject to tax as per Section 5A of the Ordinance. Such tax tantamount to Double taxation as it is a tax on profit / income which has already suffered the incidence of tax.

**It is therefore requested that the provisions of Section 5A shall only be treated.**

## 2.4 Tax on Sukuk profits [Section 5AA]

In terms of Section 5AA of ITO 2001, the return on investment in Sukuk derived by a taxpayer, being a company is subject to tax at 25%. As against this charge of tax, the provision of withholding tax in relation to return on investment in Sukuk is provided at 15% pursuant to Section 150A of ITO 2001.

**It is proposed that the charging rate in relation to return on investment in Sukuk may be harmonized with the rate of tax on dividend i.e. 15%. Such harmonization would also then synchronize with the rate of withholding tax on such Return on Investment in Sukuk.**

## 2.5 Reducing the corporate tax rate to 25 percent [Section 18 – First Schedule]

The average rate of tax in the region is less than 23 percent on corporate incomes whereas in Pakistan due to multiplicity of taxes it goes upto 38 percent (30% normal tax + 2% Workers'

Welfare Fund + 5% Workers' Participation Fund). In the neighboring countries, including China the corporate tax rate has been brought down to attract more investment and manufacturing. Pakistan should also revise its high corporate tax rate in order to bring it at par with the rate of our competitors.

**It is proposed that income tax rate on taxable income of companies may be reduced to 25 percent in the budget 2018-19 so as to encourage investment, especially in the context of CPEC.** This would also lead to corporate sector growth and promote documentation.

**Alternatively or simultaneously sector-specific corporate tax rates may be introduced as in case of banking companies. For export sectors, corporate tax rates may be kept lower than the standard rate.**

## 2.6 Deductions not allowed on Salary Paid or Payable [Section 21 (M)]

According to Section 21(M) of ITO 2001, deduction is not allowed in computing the income of a person under the head 'Income from Business' for any salary paid or payable exceeding Rs. 15,000/- per month, other than by a crossed cheque or direct transfer of funds to the employee's bank account.

**It is proposed that the limit under Section 21(M) may be raised to Rs. 30,000/- per month other than by crossed cheque or direct transfer of funds. This would facilitate the employees engaged in industrial units located in areas which are lacking immediate access to banking facilities.**

## 2.7 No limit on depreciable asset being a passenger transport vehicle [Section 22 (13) (a)]

Section 22 of ITO 2001 allows a person deduction for the depreciation of his depreciable assets used in business in the tax year. As per sub-section 13(a) of Section 22 the cost of a depreciable assets, being a passenger transport vehicle not plying for hire, shall not exceed two and a half million rupees. The government is getting huge taxes from the purchase of this asset i.e. sales tax, luxury tax, income tax u/s 23B, 234, toke etc. despite the fact that even initial depreciation is not available for this asset.

**It is therefore proposed that there should not be any prescribed limit for this depreciable asset.**

## 2.8 Restoring initial depreciation allowance on plants and machinery [Section 23]

Through the Finance Act 2014, the rate of initial depreciation allowance on Plant and machinery, as prescribed under the Third Schedule of Income Tax Ordinance, 2001 has been reduced from 50 percent to 25 percent, whereas for building, it has been reduced from 25 percent to 15 percent.

As the export proceeds in the textile export sector are assessed under the Final Tax Regime (FTR) hence the benefit of initial depreciation allowance is not available to the sector.

**It is proposed that the initial depreciation allowance rate may be restored to 50 percent for plants and machinery and to 25 percent for building - as was the case prior to the Finance Act 2014. This would gear up investment in BMR and capacity enhancement of existing industries. This would also generate tax revenues for the government once the unit making the investment starts earning profits**.

Further, for export sector, the tax credit under Section 65B may be doubled in cases where exports exceed 80% of total turnover. This would benefit textile exporters in getting higher tax credits instead of initial depreciation allowance. Moreover, the taxpayer falling under the presumptive tax regime ought to be compensated for not claiming initial depreciation allowance on additions in fixed assets.

## 2.9 Restoring initial tax rebate for researchers and full time teachers [Section 53]

Through the Finance Act 2013, the Federal Government reduced the tax exemption or rebate for full time teachers and researchers, employed in non-profit education or research institution, Board of Education or a HEC-recognized University, including government training and research institution, from 75 percent to 40 percent [Section 53 read with Part 3 of Second Schedule of ITO 2001].

**It is proposed that tax rebate to teachers and researchers may be brought to previous level of 75 percent in consonance with government' policy to promote education and research.**

## 2.10 Enhancing the time period for carry forward of business losses [Section 57 (2)]

As per sub-section 2 of Section 57 of ITO 2001, If a loss sustained by a person for a tax year under the head 'Income from Business' is not wholly set off then this loss amount can be carried forward to the following tax year and applied in that year, and so on, but no loss can be carried forward to more than **six tax years** immediately succeeding the tax year for which the loss was first computed.

**It is proposed that that the time period for carrying forward the loss not set off be enhanced from six tax year to ten tax years immediately succeeding the tax year for which the loss was first computed.** This would be similar to the concession provided to stated-owned banks that carried forward losses up to a period of ten years in respect of losses incurred in relation to A/Y 1995-96 to 2000-2001.

## 2.11 Replacing words 'deductible allowance' with 'deduction' [Sections 60A and 60B]

The Workers' Welfare Fund (WWF) and Workers' Participation Fund (WPF) are admissible as 'deductible allowance' under Section 60! and Section 60B, respectively, which cannot be allowed in case total income is less than zero in terms of Section 9 of ITO. As a result, business suffers non-admissibility of a statutory liability paid by it in case its income results in a loss even on account of accelerated depreciation.

**It is proposed that the wording of "deductible allowance" used in Section 60A and 60B may be replaced with the word 'deduction' and content of these be placed after Section 29 as Section 29A & 29B. As WPPF & WWF are levies on business, hence deductions should be allowed in any case.**

## 2.12 Tax Credit on Investment [Sections 65B]

Under Section 65B (1) of ITO 2001, a tax credit @ 10 percent is admissible on amount invested in purchase of plant and machinery for BMR, extension and expansion. This credit is applicable on purchase and installation of plant and machinery during the period from 1st July 2010 to 30th June 2019. It is pertinent to mention that under Section 65B (4) the tax credit has expired on 30th June 2016.

**It is proposed that both the above tax credits may be made open-ended as any cut-off date has no rationale. This would promote investment in new projects and expansion of existing industry.**

## 2.13 Allowing tax credit on Investment in factory building and Infrastructure [Section 65E]

Under Section 65E, tax credit has been allowed to a company which invests any amount with atleast 70% new equity raised through issuance of shares in the purchase and installation of plant and machinery for an industrial undertaking, for the purposes of expansion of plant and machinery already installed therein or undertaking a new project.

**It is proposed that tax credit facility under Section 65E may be extended to investment in factory building and manufacturing related infrastructure as addition in fixed assets.** Expansion of plant or undertaking a new project involves investment in factory building and manufacturing related infrastructure and as such these types of investments may be made eligible for tax relief.

## 2.14 Increasing turnover limit and reducing minimum tax rate [Section 113]

Section 113 is related to minimum tax on the income of an individual and associations of persons having turnover of Rs.10 million or above in the tax year. This turnover limit is quiet low and need revision.

**It is therefore proposed that the minimum tax under section 113 may be to 0.75 percent.**

## 2.15 Eliminating the requirement for approval of Commissioner [Section 114(6)]

Under Section 114 (6), the approval of Commissioner IR is required for revision of annual income tax return in case the return is revised after the lapse of 60 days from the filing of original return.

**It is proposed that requirement for approval to revise the return prior to any notice of the department for adjudication up to the period of six years may be done away with to facilitate tax payers. Only in case of decrease in tax liability, the approval should be made mandatory.**

**Further, the requirement for Commissioner's approval for revision of tax return prior to any departmental notice for adjudication may also be eliminated.**

## 2.16 Further amendment in Assessment Order be not allowed [Section 122 (4) & (5A)]

Under Section 122 (4), the Commissioner has been authorized to make further amendments (as many times as may be necessary) in the original amended assessment order, within prescribed time limit/ This creates uncertainty in taxpayers' affairs.

**It is proposed that once an assessment order has been passed by the Commissioner, further amendment should not be allowed, unless there is some genuine concern of the tax payer.**

Under Section 122 (5A), stereo-type proceedings are undertaken by the Additional Commissioner for each tax year which nullifying the provisions of Section 120 of Universal Self-Assessment.

**It is proposed that Section 122 (5A) may be amended on account of definite information acquired from audit or otherwise to remove taxpayers' difficulty in going through stereo-typed proceedings.**

Further, it has been observed that tax authorities, while finalizing audit proceedings or amendments, make unjustified additions to the income of a taxpayer enhancing his tax liability. However, such additions are reversed after going through appellate process. This exercise creates problems both for the taxpayers and the department.

**It is proposed that such action should be avoided by adopting proper audit procedures and conducting the proceedings by expert staff. This would facilitate the tax payers**.

## 2.17 Assessment giving effect to an order [Section 124(1)]

Under Section 124(1), the Commissioner has been authorized to issue the order **within two years** from the end of the financial year in which the order of the Commissioner (Appeal), Appellate Tribunal, High Court or Supreme Court, as the case may be, was served on the Commissioner.

**It is proposed that the time limit for issuance of order by the Commissioner under Section 124(1) may be reduced to one year as this period is more than enough to give effect after serving of court order on the Commissioner. Further, proper staff be given to the concerned officer to expedite the process.**

## 2.18 Issuance of new order by the Commissioner [Section 124(2)]

Under Section 124 (2), in those cases where the assessment order has been set aside, either wholly or partly, by the Appellate Tribunal, High Court or Supreme Court, the Commissioner or Commissioner (Appeals) has been authorized to pass the new order **within one year** from the end of the financial year in which the Commissioner or Commissioner (Appeals) has been served with the order.

**It is proposed that the time limit for issuance of new order by the Commissioner under Section 124 (2) may be reduced to six (6) months as this period is more than enough to give effect after court set asides the order served on the Commissioner.**

## 2.19 Enhancing period for grant of stay order by Commissioner [Section 128(IA)]

Under Section 128 (1A), the Commissioner (Appeals) has the empowered to grant stay against recovery of tax for a period not exceeding 30 days in aggregate.

**As thirty day is quite a short period of time, it is proposed that this period may be enhanced to 180 days in line with time line to decide the case.**

## 2.20 Collection and Recovery of Tax [Sections 137 & 138]

Under Section 137, the period of 30 days is often curtailed while issuing the demand notice. Moreover, under Section 138, attachment notices to the banks are issued on the very next day of the expiry of date mentioned in the demand notice without issuing any prior recovery notice, even in those cases where huge refunds are due from the Department and appeals are pending.

The higher courts have repeatedly held that recovery of tax is not justified unless the levied tax has undergone a test of appeal by an independent forum which is Appellate Tribunal. Non-adherence to the aforesaid binding judgments results into multiplicity of litigation and wastage of time and energy of the department as well as of the taxpayer.

**It is proposed that a notification be issued whereby it is expressly forbidden to curtail the prescribed period of 30 days provided in the statute and no issuance of attachment notices to the bank without a prior recovery notice and ensuring that no income tax and sales tax refund applications are pending**.

**Further, inter-tax refund/adjustment procedure issued by FRB vide C.No.3(70)STM/99 dated 20.12.1999 ought to be followed in letter and spirit and accordingly income tax refund be adjusted towards sales tax demand and vice versa with consent of taxpayer after issuance of recovery notice.**

## 2.21 Making tax recovery procedure lenient [Section 138 (2)]

Under Section 138(2), the Commissioner has been authorized that in case of non-recovery of taxes within specified time, he may proceed to recover the said amount either by attachment and sale of any movable or immovable property of taxpayer or appointment of a receiver for property management or arrest the tax payer and detain him in prison for a period not exceeding six months. This procedure seems quite authoritative and gives unlimited powers to tax authorities with possibility of misuse. Through Finance Act 2016, it was announced that if the case is pending before Commissioner (Appeals) and the tax payer pays 25% of the amount due, the recovery proceedings will not be initiated..

**It is proposed that Section 138 should be suitably amended to make the tax recovery procedure lenient and free from any possibility of harassment or misuse by tax authorities. Furthermore, the recovery proceeding should not be initiated against a tax payer in case he**

**has filed an appeal before the Commissioner Appeal and paid 10% of the tax demand. In case appeal is pending before Appellate Tribunal and the tax payer has paid 25% of the tax amount due, the recovery proceedings may not be initiated against him. Once the audit is conducted of any tax payer, he may be excluded from selection of audit for next at least 3 years if tax paid is higher than last assessed tax.**

## 2.22 Invoking Section 140 may be stopped till decision of first appeal [Section 140]

Section 140 of ITO 2001 relates to the recovery of tax from persons holding money on behalf of a taxpayer. The Commissioner has been authorized under this section to serve a written notice to recover the money as set out in the notice.

**It is proposed that invoking of Section 140 of Recovery of tax may be stopped till the decision of the First appeal as it could lead to harassment and may cause adverse effect on working capital and production capacity of taxpayer. The availability of bank details at the disposal of FBR employees may also result in misuse of information.**

## 2.23 Rationalizing the formula of advance tax payment for individual [Section 147]

Under Section 147, Advance tax is applicable on business entities and individuals having last assessed income of Rs. one million according to the formula [A/4-B] where 'A' is the latest tax assessed and 'B' is the tax paid during the quarter. The advance tax is payable on quarterly installment basis. This formula is not rational as the tax assessed during the latest assessed tax year may be less or more.

**It is proposed that the formula may be changed to the formula applicable for corporate entities where advance tax is computed on quarterly turnover basis as provided under subsection (4) of Section 147 of the Income Tax Ordinance 2001.**

**Further Advance tax u/s 147 recovered from sales tax refunds through RPOs are not being converted into CPRs, even after the window for CPRs u/s 147 for the year is closed, and this way funds are blocked for years. It is proposed that this problem may be resolve on priority.**

## 2.24 Amendment to allow accurate estimation of tax liability [Section 147 (4A)]

Section 147(4A) was substituted through the Finance Act 2015 under which the taxpayer is required to furnish to the commissioner, on or before the due date of second quarter, an estimate of the amount of tax payable by taxpayer and there after pay 50% of such amount by the due date of the second quarter of the tax year after making adjustments for the amount, if any, already paid. The remaining 50% of the estimate is to be paid after the second quarter in two equal installments payable by the due date of the third and fourth quarter of the tax year. In the event in the tax liability become more than the estimate field with second quarter, penalty of Rs. 5000/- or 3% of amount of tax involved, whichever is higher, along with default surcharge of 12% per annum is imposed. This penalty is negative on the part of corporate sector, which is already paying huge amount in the form of advance tax.

**It is proposed that necessary amendments be made in section 147 (4A) by changing the date of filing of an estimate to any date on or before the due date of last installment of tax year. The**

**unjustified penal clause may also be deleted. This would result in more accurate estim ation of tax liability on the part of the taxpayers and reduce tax litigation between taxpayers and the tax collecting authority.**

## 2.25 Exemption Certificate for import of machinery [Section 148 & 159]

Under Section 148 and 159, the exemption certificate is issued to loss declaring companies. There is no issuance of exemption certificate to exporters under Section 148. Moreover in SRO 947(I)/2008 dated 05.09.2008 the condition (v) is not properly worded regarding payment of no tax on income.

**It is proposed that rules relating to issuance of exemption certificate on imports by Commissioner may be revised / revisited as presently exemptions are not being granted which cause hardships in the form of income tax refunds.**

Further, the condition (v)(a) and (b) state that no tax is likely to be payable on income. At times , officer refuse the certificate that minimum tax under section 111 is payable and the condition is not satisfied, whereas the condition is actually tax on income and not the minimum tax.

**It is suggested that the language of condition (v) be made explicit to clarify that only minimum tax is to be paid. Further, to encourage capital investment exemption certificate under section 148/159 for Import of Machinery by Industrial Undertaking may be allowed. Moreover for issuance of exemption certificate a prescribed time limit may be decided to avoid delay in refunds**.

## 2.26 Adjusting excess tax paid from Individual Tax Returns [Section 149]

Section 149 refers to deduction of tax at source under the head of salary. Normally, any excess tax withheld of Individuals can get adjusted from the primary withholding agent of the salaried tax payer. However, this facility is only available within the year. If there is excess tax deduction of a salaried tax payer, the procedure is to get a tax refund which is quite an impossible task for an individual.

**It is proposed that after the predetermined period of filing of tax return, a tax adjustable challan may be generated from IRIS that can be used to adjust tax from tax payer's primary tax withholding agent**.

## 2.27 Explaining non-taxability of amount paid on insurance policy [Section 151 (1)(d)]

The amount paid to policy holder on maturity of termination of life insurance contracts have always been considered as non-taxable, being a capital receipt. However, the tax authorities contend that withholding of tax is required under section 151(1) (d) [applicable to profit in debt in financial instrument] on payment made on maturity or termination of life insurance cont racts.

**It is proposed that appropriate explanation may be inserted to clarify that section 151(1)(d) does not apply to any amount paid under a contract of life insurance.**

## 2.28 Defining the term 'Execution of contract' [Section 153 (1)(c)]

The term 'execution of contract' is open ended as every transaction is an execution of a contract under the contract Act. Both the tax payers and the tax department have interpreted this term differently in different situations and this has resulted in lit igation.

**It is proposed that the term 'execution of contract' used in Section 153 may be defined so as to avoid further litigation due to different interpretations by the department and taxpayer .**

## 2.29 Including professional services in Fixed Tax Regime (FTR) [Section 153 (7) (ii)]

Under sub-section 7 (ii) of Section 153 on payments for goods, services and contracts, the services of professional like accountants, architects, dentists, doctors, engineers, interior decorators and lawyers, otherwise than as an employee have been mentioned.

**It is proposed that professional service providers, who by their governing statutes, are not allowed to get themselves incorporated, may be excluded from the ambit of minimum tax under Section 153 and they may be included in the Fixed Tax Regime (FTR) with applicable income tax rate at 6 percent.**

## 2.30 Persons registered under Sales Tax Act , 1990 [Section 153 (7) (i) (j)]

Through Finance Act, 2013, a new Clause (j) was inserted in sub-section 7 (i) of Section 153 of ITO 2001 whereby under definition of the 'Prescribed Person', a person registered under the Sales Tax Act, 1990' making payment for goods, services and contracts, including advance payment to a resident person or for sale of goods, rendering or providing services or on execution of contract has been included.

**It is proposed that sales tax registered persons may be removed from the definition of 'prescribed person'. Similarly, the small traders and companies may also be excluded from the list of prescribed persons as withholding agents, being low turnover**.

## 2.31 Exempting withholding tax on Distributors and Retailers [Section 156]

Many businesses and manufacturing concerns provide free of cost goods to distributors, wholesalers and retailers on achieving sales targets, as an incentive to promote sales of their products. Such incentives or benefits falls in sub-section 1(d) of Section 18 of ITO 2001 and is chargeable to tax under the head 'Prizes and winnings' [Section 156] FBR treat post sales free issue and incentives as prize and accordingly demand 20% withholding tax by invoking section 156 of IT Ordinance, 2001.

**It is proposed that appropriate amendment may be made in Section 156 to protect against un-warranted dispute being raised.**

## 2.32 E-Filing of Statements on quarterly basis instead of monthly [Section 165]

Under sub-section (1) of Section 165, every person collecting tax or deducting tax from a payment is required to furnish to the Commissioner a monthly statement in a prescribed form; and as per sub-section (2) every prescribed person is required to furnish or e-file statements by the 15th day of the month following month to which withholding tax pertains.

**It is proposed that e-filing of statements by the prescribed person should be on quarterly basis due to the fact that e-filing of monthly statements are duplication of work as all the details of taxpayers are already available on e-FBR servers.**

## 2.33 Credit for Tax collected or deducted [Section 168 (3) & 169 (2) (e)]

Tax credits under Sections 65B, 65D and 65E are available, inter-alia, against final taxes. Section 168(3) and Section 169(2)(e) respectively, restrict the admissibility of tax credit/refund of tax credit that is covered under Fixed Tax Regime (FTR). Consequent upon the insertion of Sections 65B/ 65D/ 65E, there has not been any corresponding amendments in Sections 168(3) & 169(2)(e).

**It is proposed that necessary amendments be made to rectify the anomaly as this gives doubt to the availability of tax credits under Sections 148 and 154 etc. Further, in the opening sentence of Section 168 (3)'s after the word "credit" the words *"other than cases where liability is adjusted against tax credits under sections 65B, 65D or 65E*" be inserted. Such wording may also be placed in Section 169(2) (e) after the words "refund" used therein. A clear message free from any doubt should be sent across about availability of tax credit to attract investments for industrialization.**

## 2.34 Allowing automatic refund to salaried individuals [Section 170 (4)]

Under Section 170 (4), the Commissioner has been authorized to make refund of tax paid in excess to amount chargeable to tax within 60 days of receipt of a refund application.

**It is proposed that Section 170 (4) may be amended so as to allow automatic income tax refund in order to facilitate the salaried individuals.**

## 2.35 Abolishing discretionary powers of Commissioner [Section 177]

Presently a taxpayer can be subject to audit selection under two Sections i.e. Section 214C and Section 177 while section 122(5A) is also used by tax machinery for full-fledged audit which puts additional burden on taxpayers by maintaining large records of books of accounts.

**It is proposed that discretionary power u/s 177 may be abolished and Section 122(5A) may be invoked subject to audit or some obvious information and the taxpayer selected for audit in any tax year must not be selected for next year to compensate and provide relief to taxpayer. FBR should focus more on modernization of audit techniques and base audit on risk areas as evaluated by team of FBR.**

## 2.36 Limitation on Audit in a tax year [Section 177 (1)]

Section 177 (1) empowers the Commissioner to call records or documents including books of accounts to conduct audit of income tax affairs of a person. However, it has been observed that the tax authorities normally open many audits in a tax year.

**It is proposed that there should be limitation on audit by the commissioner during a tax year.**

## 2.37 Adopting proper audit procedure [Section 177 (6)]

Section 177(6) gives powers to the Commissioner to amend the assessment order under sub-section (1) and sub-section (4) of Section 122 related to 'Amendment of Assessments's. This discretionary power is reported to be misused by Commissioner to make unjustified additions to income of taxpayers which enhances their tax liability. Some additions are however reversed in post-appellate process.

**It is proposed that proper audit procedure may be adopted and audit proceedings should be conducted by expert staff, hired by FBR. This would facilitate the tax payers.**

## 2.38 Special Audit [Section 177 (11, 12 & 13)]

At present the RTOs/ LTUs and the Intelligence & Investigators (I&P) have initiated proceedings against taxpayers on one pretext of or the other. The FBR agreed with the Superior Judiciary to select persons for audit through random balloting but the Commissioners invoke their authorities to select any person for the audit for reasons best known to them. There is sense to start scrutiny, if initially the tax payer is confronted in writing with the specific information.

**It is proposed that the Commissioner should be allowed to proceed with the scrutiny once the specific information is established. Further, FBR need to streamline procedure to avoid duplicity of audits**.

## 2.39 Enhancing the exemption limit to Rs. 100,000/- for filers [Section 231 A]

Under Section 231A, every banking company deducts tax @ 0.3 percent for filers and 0.6 percent for non-filers on cash withdrawal in a day exceeding Rs. 50,000/-.

**It is proposed that for filers the exemption limit may be enhanced to Rs. 100,000 and the rate of withholding tax on cash withdrawal be brought down to 0.2 percent. This would promote growth of bank deposits and discourage cash transactions in the economy. The exemption limit and rate for non-filers should remain the same at 0.6 percent to encourage tax culture.**

## 2.40 Withdrawing Advance Tax on Domestic Air Ticket [Section 236 B]

Under Section 236B advanced rate@ 5 percent is deducted on the purchase of domestic air ticket

**It is proposed that this advance tax on domestic air ticket may be withdrawn as this is not only adjustable but the airlines also do not provide CPR(s) to companies as well as to travel agents. The FBR system also fails to verify this tax, which causes additional burden on companies.**

## 2.41 Relaxing time limit for Filers on advance tax payment for functions [Section 236 D]

Under Section 36D, tax is charged to the customers in advance and deposited in the Government treasury within seven days of the date of event. The issue arises in case the events are held on credit terms in which case the withholding agents deposit the tax prior to collection of payment from their customers. This is an extra burden on the withholding agent to extend credit as well as pay advance tax on behalf of customer prior to the collections.

**It is proposed that for income tax filers, the time limit for payment of advance tax charged on banquet functions, events and gatherings may be relaxed.**

## 2.42 Withholding tax exemption on Bonus Shares [Section 236 M]

Income derived by Collective Investment Schemes (CISs)/ Voluntary Pension Schemes (VPS) etc. are exempt from tax, if not less than 90% of its accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit holders. Accordingly income derived by these CISs is also exempt from withholding tax under Clause 47B of Part IV of 2nd Schedule of ITO 2001. Vide Finance Act 2014, the bonus shares issued by companies quoted on a stock exchange were also subjected to withholding tax as per Section 236M of ITO. The corresponding exemption from levy of withholding tax on bonus shares received by CIS/ VPS etc. was not provided in Clause 47B.

**It is proposed that clause 47B may be amended by providing reference of Section 236M in the relevant clause. This omission is un-necessarily creating hurdles for CIS as bonus shares received by them are being subject to withholding tax.**

## 2.43 Allowing WH Agents to Retain 2% of tax collection as Service Charges

As the withholding regime imposed under the law extends with each passing year, it has increased responsibilities as well as cost of withholding agents in term of workload, compliances and allocation of resources. Thus, withholding agents are already contributing their resources towards the cause of tax base broadening and improving and cash flow for the government exchequer. It is highly unjustified to penalize withholding agents on any inadvertent omission in their responsibilities.

It is proposed that reliance on income tax withholding be decreased and Income tax withholding agents may be incentivized in shape of tax credits or they may be allowed to retain atleast two (2) percent of tax collection amount as service charges on principle of natural justice to maintain cost of organization.

## 2.44 Increasing minimum value added tax on import of luxuries items

The government is charging minimum value added tax @ 3 percent at import stage on import of all commercial items.

**It is proposed that the minimum value added tax on import of luxuries may be increased to discourage unnecessary import that puts burden on the balance of payment.**

## 2.45 Rationalizing Tax Slabs of salaried class individuals [Part 1 (Rates of Tax) – First Schedule

The salaried people represent the only class in this country who pay their income tax honestly. The current minimum taxable threshold for salaried class is Rs. 400,000 whereas highest income tax rate for salaried class is 35 percent which is too high.

**It is proposed that minimum taxable threshold for salaried class may be increased from Rs. 400,000 to Rs. 600,000 and their tax slabs may also be rationalized. Further, maximum tax rate for salaried tax payers may also be reduced to 20 percent. This would provide them some relief and reduce their hardships resulting from the current high inflation.**

**It is further proposed that all professionals working on salary basis may also be allowed to claim cost of buying books and manuals spent to keep their knowledge up to date. This would encourage growth in the commercial, financial, industrial and service sectors where specialization is the call of the hour.**

## 2.46 Removing Clause 3(a) of Part I of Sixth Schedule of IT Ordinance, 2001

**Presently, the employer contribution of Provident Fund, exceeding Rs 100,000 annually is included in the income of employee. Since employees are already paying high rate of taxes and this benefit is also related to retirement, hence it is proposed that this should be abolished by eliminating clause 3(a) of Part I of Sixth Schedule of IT Ordinance, 2001.**

## 2.47 Inserting new 'Tenth Schedule' on Mutual funds & collective Investment Schemes

**It is proposed that Section 100 D may be inserted through Finance Bill 2018 to incorporate the 'Tenth Schedule' relating to mutual funds and collective investment schemes.**

The new schedule may be read as 'rules for the computation of the income, profits and gains of mutual fund and collective investment scheme and related matters'. The tax provisions in respect of taxation of both mutual funds and investors may be consolidated in this new schedule. Existing frame work will not change and mutual funds will be required to distribute in the form of cash dividend 90% of its income excluding capital gains realized and unrealized.

## 2.48 Inserting a new 'Eleven Schedule' on REIT Schemes

**It is proposed that a new section 100E may be inserted through Finance Bill 2018 to incorporate the 'Eleventh schedule' of REIT Schemes which may be read as 'rules for the computation of the income, profits and gains of REIT schemes and related matters'.**

## 2.49 Inserting a new 'Twelve Schedule' on approved Pension Funds

**It is proposed that a new section 100F may be inserted through Finance Bill 2018 to incorporate the 'Twelfth Schedule' which may be read as 'rules for the computation of the income of participants of approved pension fund and related matter'**

The tax provisions in respect of taxation of Voluntary Pension Schemes will be consolidated in schedule 12. The existing framework shall remain unchanged.

## 2.50 Tax proceedings should be on basis of tax profile of company

The FBR often initiate tax proceedings against companies who are tax-compliant and their tax profiles are already available in FBR Web portal. Due to these undue proceedings, the tax-compliant companies have to face problems in meeting the tax demands of the authorities.

**It is proposed that the tax proceedings may be initiated by FBR on the basis of tax profile of companies**.

## 2.51 Enhancing cash salaries payment limit from Rs. 15,000/ to Rs. 25,000/-

The minimum wages is Rs. 15,000/- whereas the cash salaries payment limit is also Rs. 15,000/-. This is creating extra burden on taxpayers and laborers are facing difficulty to encash salaries.

**It is proposed that the cash salary limit may be increased to Rs. 25,000/- to facilitate salaried class. Similarly, the cash payment limit may be enhanced from present Rs. 10,000/- to Rs. 25,000/-**

## 2.52 Expediting payment of pending Income Tax Refunds / Exemption Certificates

The Income Tax refunds are pending for a very long time. The companies who refunds are held up with tax authorities are using bank loan facility for which they have to pay heavy mark-up. On the other hand, the value of income tax refund is increasing year by year. It is pertinent to mention that the Tax department is bound to pay refund within 3 months when it becomes due.

**It is proposed that the government should announce in Finance Bill 2018 a clear deadline for clearing all the outstanding income tax refunds.**

**Further, the government should also ensure expeditious processing of income tax exemption certificates as the process is so slow and applications are pending from last six months.**

## 2.53 Expediting payment of duty drawback claims

There is inordinate delay in payment of duty drawback claims of exporters by the banks.

**It is proposed that the government should give clear instructions to SBP to expedite the process of duty drawback claims made by exporters. The SBP and banks may be asked to establish facilitation desks for duty drawback claims and the facilitation desks budgets can be reimbursed through budgetary allocation of STPF. This would speed up the claim payments.**

# Chapter 3 | Indirect Taxes

## 3.1 Sales Tax

### 3.1.1 Defining the term 'Supply' [Section 2(33)]

The term supply does not include the term 'Other Disposition' whereas in Sales Tax General Order [STGO] No.2/2004 dated 12th June 2004 the FBR has opined that return of goods by the vendor to the principle tantamount to 'Other Disposition' and accordingly liable to sales tax.

**It is proposed that the Sales Tax General Order may be amended in line with the definition of term supply given in the Sales Tax Act, 1990.**

### 3.1.2 Altering the Definition of Tax Fraud [Section 2 (37)]

The definition of 'tax fraud' is very harsh which states that 'tax fraud' means knowingly, dishonestly or fraudulently and without any lawful excuse ('burden of proof of which excuse shall be upon the accused'). In case the tax authority alleges any person for committing tax fraud then the burden of proof shall rest on the person who has made the allegation and not the tax payer who has been accused.

**It is therefore proposed that the definition of 'tax fraud' may be amended so as to put the burden of proof upon the tax authorities.**

Further, under section 2(37) of Sales Tax Act, 1990, underpaying tax liability for two consecutive periods was considered tax fraud, however, SRB under section 2(94) of Sindh Sales Tax on Services Act, 2011 deems underpayment even once as tax fraud. The provincial law is more restrictive whereby erroneous entry for the first time would be considered fraud and taxpayers would be needlessly harassed.

**It is therefore proposed that Section 2(94) of Sindh Sales Tax on Services Act, 2011 may be harmonized with the Sales Tax Act, 1990.**

### 3.1.3 'Further Tax' [Section 3(1A) read with Section 7]

Further Tax was earlier adjustable against output tax. However, now the tax is not considered part of input tax. This is anomalous.

**It is proposed that 'Further Tax' may qualify for adjustment as input tax.**

### 3.1.4 Reducing standard Sales tax rate to 10 percent [Section 3 (2A)]

Under section 3(2A) of Sales Tax Act, 1990, the current rate of sales tax on all taxable supplies is seventeen (17) percent which is comparatively higher in the region. This needs to be brought down to single digit. Since more than 70% sales tax is collected from specified industrial segments like POL, power, natural gas, cement, processed food items; as such the reduction in sales tax rate may not have significant negative impact on revenue collection of the government.

**It is proposed that the standard sales tax rate may be reduced to 10 percent on all types of services with input tax credit facility and it should be non-adjustable and non-refundable. This would help in improving tax collection and doing away with corruption. Further, there should be a comprehensive list of inadmissible goods and service in the Sales Tax Act, 1990.**

### 3.1.5 Introducing single-stage sales tax instead of on value-addition [Section 7A]

Under Section 7A, the sales tax is levied and collected on the difference between the value of supply for which the goods are acquired and the value of supply for which the goods, either in the same state or on further manufacture (value addition) are supplied.

**It is proposed that in replacement to present sales tax system, a single-stage system be introduced under which sales tax may be levied on the total value of good instead of on value addition. The tax so collected shall be full and final liability and refunds would not be allowed. If this new single-stage tax is implemented, sales tax rate would be in range of 7% to 8% due to absence of input adjustment.**

### 3.1.6 Liability of Registered persons in supply chain where tax unpaid [Section 8A]

Under Section 8A, it is mentioned that where a registered person receiving a taxable supply from another registered person, is in the knowledge or has 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 has or would go unpaid, such person as well as the person making the taxable supply is jointly and severally liable for payment of such unpaid amount of tax.

**It is proposed that the person making the payment in good faith may not be made responsible for non-compliance by the supplier. Accordingly, deletion of section 8A may be considered.**

### 3.1.7 Adjustable Input Tax [Section 8B]

Section 8B restricts claim of input tax to 90 percent of output tax besides mandating forfeiture of 10 percent of input tax right. A provision seeking to defer the claim of legitimate input tax/ refunds of a registered person is not in keeping with the philosophy of Sales Tax Act or any other and the cited forfeiture of a valid fiscal law.

**It is therefore proposed that Section 8B may be removed from the statute.**

### 3.1.8 De-registration, blacklisting and suspension of registration [Section 21]

Under Section 21, the Board or **any officer**, authorized in this behalf, has been authorized to de-register a registered person or such class of registered persons not required to be registered under this Act. This delegation of authority to sub-ordinate officers can be misused to harass the tax payers.

**It is proposed that the authority to block bank accounts or suspend or block sales tax registration or NTN numbers should only be vested in the Regional Commissioners or Director General LTU and this authority should not be allowed to be delegated by them to any sub-ordinate officer.**

The blocked bank account or STR/NTN should be restored by competent authority once the tax payer to explain reason(s) for action. The restoration should be made within 48 hours directly and may not be lingered on moving files from one department to another.

### 3.1.9 Blacklisting or suspending registration of person on tax fraud [Section 21(2)]

Under Section 21(2), the Commissioner has been empowered to blacklist a registered person or suspend his registration in case he is satisfied that such person has issued fake invoices or has otherwise committed tax fraud.

**It is proposed that this Section may be amended appropriately so as to avoid misuse of powers by the Commissioner.**

### 3.1.10 Retention of record and documents for six years [Section 24]

Under Section 24 of Sales Tax Act, 1990, the registered persons are required to retain and maintain records and documents for a period of six years. This increases cost of compliance, especially for small and medium sized businesses that are unable to afford sales tax registration or its compliance.

**It is proposed that condition for retaining records and documents by the registered persons may be reduced from six years to three years. This would help in reducing the compliance cost.**

### 3.1.11 Multiple Audits [Section 25 (2) & Section 38]

Under Section 25, the tax department may conduct audit of registered person only once a year whereas under Section 38, specific and subjective criteria and mechanism has been defined for conducting investigative audits. Quite often, the tax authorities conduct multiple audits of same tax period under different nomenclatures i.e. annual audit, investigative audit, desk audit, audit for abnormal profile etc.

**It is proposed that the definitions of terms 'Desk Audit', 'Investigative Audit' and 'Abnormal Tax Profile' may be provided in Sales Tax Act, 1990. Further, these audits should not be used as a tool for harassment and revenue generation.**

### 3.1.12 Revision of Sales Tax Return [Section 26(3)]

Under Section 26(3) in case of any omission or wrong declaration, a registered person may file the revised return after approval of the concerned Commissioner. This provision creates hardship for tax payers as even in case of a small clerical mistake in the return, he has to go through the whole process of not less than audit to get the permission for revision. The time period for such revision is 120 days.

**It is proposed that the requirement for Commissioner's approval for revised return may be made easy in cases where no refund is enhanced or no liability is decreased to avoid hardship faced by the registered person. Further, there should not be any restriction of revision of tax return if adjudication proceedings are not initiated against the tax payers. As far as time period is concerned, it should be made within the period of six months of filing of original return and after that six months approval may be required from the concerned commissioner. This will also correspond with Section 7(1) which states that input tax can be claimed for any of the six succeeding tax periods**

### 3.1.13 Curtailing discretionary powers of tax officers [Section 37 & Section 38]

Under Section 37, any officer of Inland Revenue shall have powers to summon any person whose attendance he considers necessary either to tender evidence or to produce documents or any other thing in any inquiry which such officer is making for any of the purposes of this Act.

Similarly, under Section 38, the authorized tax officers also have access to premises, stock, accounts and records of any business or manufacturing unit.

**It is proposed that Section 37 and Section 38 may be suitably amended and prior approval of the Board be provided for initiating proceedings against registered persons who are on the Active Tax Payers List. This would check misuse of discretionary powers by IR officers under these Sections.**

### 3.1.14 Power to arrest and prosecute [Section 37A]

Inland Revenue officers are authorized to arrest any person if the officer has reason to believe that such person had committed a tax fraud or an offence warranting prosecution under Sales Tax Act, 1990.

**It is proposed that this Section may only be made applicable where the case of tax fraud has already been established at the stage of Order-in-Appeal.**

### 3.1.15 Power to post officer or monitor business activities [Section 40B & Section 40C]

Under Sections 40B and 40C of Sales Tax Act, 1990, a Sales Tax Officer can be posted at the premises of a registered person or monitor his business activities through electronic tracking system. This is contrary to the policy of the government to minimize direct contact between a tax collector and taxpayer that could lead to corruption and tax evasion. Further, grant of such discretionary powers to tax officials negates the concept of self-assessment, which forms the basis of whole sales tax scheme.

**It is proposed that Section 40B and 40C may either be eliminated to minimize chances of corruption and direct contact between tax payer and tax collector; or else it should be implemented after completion of due process of law, including issuance of show cause notice. Normal mechanism should be adopted if tax department realizes that proper tax is not paid by the registered person.**

### 3.1.16 Liability for Payment of Tax [Section 58]

Section 58 deals with tax liability, both in the cases of a company and an association of persons. Under the existing provision, a person who is a shareholder, holding even one share, can be held liable for liability of the company. A person who is a nominee director or employee director can also be held responsible for liability of company. ITO 2001 caters such issues under section 139.

**It is therefore proposed that provision analogue to Section 139 of ITO 2001 may be introduced in the Sales Tax Act with respect to tax liability.**

### 3.1.17 Certain transactions not admissible [Section 73]

Under Section 73, payment of the amount for a transaction exceeding value of Rs. 50,000/- excluding payment against a utility bill, shall be made by a crossed cheque or bank draft or pay order or any other crossed banking instrument showing transfer of amount of sales tax invoice in favor of the supplier from the business bank account of buyer.

:

**The following amendments in Section 73 are proposed**

(a) In case of payment not made by buyer within 180 days of issuance of tax invoice, his corresponding input tax becomes inadmissible which appears to be an irrational proposition. As consequent upon issuing a tax invoice, sales tax paid by supplier at sales stage is already deposited into the government treasury, hence imposition of such condition appears anomalous. The gas, electricity and petroleum sectors mostly suffer due to delay in payment of invoices leading to circular debt.

(b) Section 73 does not take into account transactions where payments are made by other person/ guarantor on behalf of buyer, which terms of contract between the buyer and seller may call for.

(d) Section 73 need to be revised in order to accommodate payment terms and conditions based on industry practices and business norms.

## 3.1.18 Allowing adjustment of sales tax withholding from Input tax credit

The Sales Tax Withholding Tax Rules, 2007 have been amended by FBR to declare all taxpayers, registered as companies in Income Tax Ordinance, 2001 and exporters as withholding tax agents. The intention of this amendment seems to be to utilize extended role of sales tax withholding without realizing its implications in certain situations. The sales tax withholding amount is required to be paid without adjustment with the available tax credit which is against the basic spirit of the law.

**It is proposed that all taxpayers may be allowed to make adjustment of sales tax withholding payment from available amount of input tax credit in their sales tax return**

## 3.1.19 Excluding Commercial importers from payment of Further Sales Tax

Through the Finance Act 2014, a Further Tax @ 1% was introduced on supplies made to unregistered persons whereas under Third Schedule of Sales Tax Act, exclusion in certain conditions have been provided such as sales tax on retail price items. However, certain categories of persons who are paying value addition of sales tax in advance like commercial importers or persons who pay extra sales tax under Special Procedure Rules are not excluded from the purview of Further Sales Tax.

**It is proposed that commercial exporters and persons paying extra and fixed rate of sales tax may be excluded from application of Further Sales Tax to bring consistency within sales tax regime.**

## 3.1.20 Allowing adjustment of Sales tax on bad debts

The Sales Tax Act does not contain any provision which allow tax adjustment in respect of bad debts after the deposit of sales tax.

**It is proposed that either special provisions be inserted to allow adjustment of sales tax on bad debts whenever it occurs or the time limits for issuing of credit or debit note be extended up to 365 days.**

### 3.1.21 Amending Rule 71 to provide commencement of recovery Proceedings after 30 days

A registered person aggrieved by any decision, may file an appeal within 30 days from the date of receipt of such order. On the contrary, under Rule 71 of Sales Tax Rules 2006, the proceeding for recovering of impugned tax can be initiated after 30 days from the date of order [Section 45B].

**It is proposed that the Rule 71 may be amended to provide commencement of recovery proceeding after 30 days from the receipt of order.**

### 3.1.22 Doing away with requirement of Sales Tax Refund Rules

As per Clause 33 of Sales Tax Refund Rules, 2006, refund to claimants shall be paid to the extent of the input tax paid on purchases of imports that are actually consumed in the manufacture of goods which have been exported or supplied at the rate of zero percent.

**It is proposed that requirement under clause 33 of Sales Tax Refund Rules may be done away with as it is quite difficult and cumbersome for the claimants to provide proof of the extent of input goods consumed in manufacturing of goods exported or supplied at zero rate.**

### 3.1.23 Increasing minimum threshold for tax withholding for services and supplies

The minimum threshold for tax withholding for Services and Supplies were fixed in 1990s at Rs 10,000 and Rs 50,000, respectively.

**It is proposed that this threshold may be increased to Rs 25,000 and Rs 100,000 respectively, in cases where both the withholder and deductee are on the Active Taxpayers List (ATL). The withholding Sales tax on payments to registered persons falling under LTUs may also be exempted.**

### 3.1.24 Sales tax input / output adjustment

Under Section 8(1)(b), the tax official disallow input on items having direct nexus with output of a registered person. This defies the spirit of VAT mode of tax. The spirit of legislation should prevail and items having direct nexus with taxable activity should not be brought under the preview of this Section.

**It is proposed that a clarification should be issued by FBR to its officials in order that they may not stretch this section beyond its legal boundaries. It would not only ensure required compliance of the law but would also support in the reduction of cost of doing business.**

### 3.1.25 Doing away with SRO 485 (I) 2015

Under SRO 485 (I) 2015, the sales tax withholding is now applicable at the time of purchase instead of at the time of payment. This is a unique sort of amendment with reference to withholding and has created lot of operational and recording issues for tax payers.

**It is proposed that SRO may be withdrawn by the Federal Government to remove the anomaly .**

### 3.1.26 Allowing sales tax refund against services

Sales Tax Refund is not being allowed against services such as Courier companies, Logistics, Clearing and forwarding agents and Insurance despite the fact that the issue of input tax between provinces and Federal Government has been resolved.

**It is proposed that necessary provisions may be added in the Sales Tax Act to also allow sales tax refund against above-mentioned services.**

### 3.1.27 Withdrawing 1% Sales tax withholding on Purchases from unregistered persons

The registered person and withholding agents are faced with additional burden of sales tax withholding payment of 1 percent on purchases from unregistered persons, which is not adjustable as input tax. Consequently, this amount of payment is a double taxation for registered sales tax persons.

**It is proposed that Sales Tax Withholding @ 1 percent on purchases from unregistered persons may either be withdrawn or given treatment of input tax in line with the analogy of VAT to set-off burden of addition sales tax.**

### 3.1.28 Providing separate sales tax registrations to two or more businesses of sameentity

In case a proprietorship firm operates two or more different entities, there is no provision in FBR's electronic system to distinguish transactions of both these entities or to reflect data/ particulars separately. As a result, the buyers are unable to trace and verify the second or other entity of a proprietorship firm having combined single sales tax registration number.

**It is proposed that separate sales tax registration may be allotted to every separate entity or business of a proprietorship concern or else the electronic system be amended to resolve this issue. This would help in documentation of economy and better maintenance of taxpayers' records.**

### 3.1.29 Withdrawing Sales Tax Withholding Rules, 2007

The Sales Tax Withholding Rules, 2007 were introduced with the intention of documentation of economy and are applicable when a registered person makes payment to registered as well as unregistered person. However, these rules are not applicable for unregistered person as a payer hence it is discouraging registration. The withholding tax from unregistered persons is shown in bulk in the return which negates the very purpose of broadening tax base. In addition, it has increased the workload of registered persons, as on one hand they have to issue certificate as a deducting authority and on the other hand, they have to follow-up for certificate.

**It is proposed that the Sales Tax Withholding Rules, 2007 may be withdrawn for all registe red taxpayers while making payment to registered persons.**

### 3.1.30 Centralizing the task of sales tax revenue collections

Due to creation of separate bodies for recovery of sales tax for the persons carrying on business in the province of Sindh, i.e. Sindh Revenue Board (SRB) by virtue of "The Sindh Sales Tax on Services Act, 2011", the tax payers having business units across Pakistan and Azad Jammu & Kashmir (AJ&K) have also been trapped by FBR, Punjab Revenue Authority (PRA), Khyber Pakhtunkhwa Revenue Authority (KPRA) and the Council of AJ&K regarding payment of GST and related filing with different revenue collection bodies. Besides, these tax payers also have to confront various notices/ audit proceedings initiated by these three bodies, individually. This task has become quite hectic given the fact that provisions of Sales Tax Act 1990, Sindh Sales Tax on Services Act 2011, and Punjab Sales Tax on Services Act 2012 and Khyber Pakhtunkhwa Finance Act, 2013 have not been harmonized post creation of SRB, PRA and KPRA.

**It is proposed that revenue collections be made only by FBR under provisions of Sales Tax Act, 1990 across Pakistan. FBR may allocate the recovered amount of taxes among concerned authorities. This would help the tax payers in running their businesses in Pakistan while dealing with only one revenue collection authority i.e. FBR.**

### 3.1.31 Separate Annexure in Sales Tax Return to declare indirect exports

At present, the Sales Tax Return form does not contain any annexure for declaring indirect exports. Due to this problem, the companies have no option except to declare indirect export in '**Annex C'** which is for local Sales. This also leads to the problems of tax proceedings and undue tax demand.

**It is proposed that a separate annexure may be added in Sales Tax Return to declare indirect export.**

### 3.1.32 Uniformity of sales tax on locally purchased waste paper and imported raw material

It is normal practice that commercial importers import raw material of waste paper using the name of manufacturer and in this way commercial importers save Income Tax & Sales tax and eventual they share the benefit of saving among both the parties in an agreed manner.

**It is therefore proposed that the sales tax rate on local supply of waste paper may be revised from 5 % to 17% or else proper mechanism should be formulated to discourage this illegal practice, which results in huge loss to the government exchequer.**

### 3.1.33 Amendments in Sindh Sales Tax on Services Rules, 2011

**a)** The concept of tax withholding on sales tax has been adopted by the Sindh Revenue Board (SRB) with some variations from the "Sales Tax Special Procedure (Withholding) Rules, 2007". This has created complications as to how to deduct tax when dealing with persons registered in different tax territories. **It is proposed that this complication may be removed.**

**b)** Is per Rule 22(1) of 'Sindh Sales Tax on Services Rules, 2011', sales tax input could not be claimed in the relevant period, rather it is claimed in the return for succeeding four months. **It is proposed that the limit may be enhanced to one year, keeping in view the overall economic environment in which companies are mostly slow pay masters and payments are substantially delayed.**

**c)** Under Rule 22A(viii) of the Sindh Sales Tax on Services Rules, 2011, input tax adjustment is not allowed "on goods and services used or consumed in a service liable to a rate of tax lesser than the 15% of the charges or to a specific rate of tax not based on value". **It is proposed that this clause may be omitted and taxpayers be allowed to input adjustment.**

**d)** Under Sindh Revenue Board (SRB) Rules, sales tax paid on capital goods, not exclusively useable or used in providing taxable services in Punjab, is considered inadmissible. **It is proposed that this clause may be removed to facilitate the taxpayers.**

## 3.1.34 Amendments Islamabad Capital Territory (Tax on Services) Ordinance 2001

**a)** Under Section 2 of ICT Ordinance 2001, it is provided that unless there is anything repugnant in the subject or context the words and expressions used but not defined shall have same meaning as defined in Sales Tax Act, 1990. The Sales Tax Act, 1990 deals with 'Goods' **hence certain terms such as 'service' needs to be defined under the ICT Ordinance for more clarity on the subject**.

**b)** As per schedule to ICT Ordinance 2001, there is list of 42 services which are taxable. There are certain services which are mixed up with each other. Even some of the services do not contain PCT codes; hence, there remains confusion in the field with respect to taxability under different serial numbers of the schedule. **It is proposed to define each taxable service separately, category wise and with true spirit to avoid unnecessary litigations and confusions. (May take guidance from The Sindh Sales Tax Act on Services 2011 and The Punjab Sales Tax on Services Act, 2012)**

**c)** There is list of 42 services which are taxable under the Schedule to ICT Ordinance 2001. There is no minimum threshold for registration and payment of sales tax on services except services mentioned at Sr.#5 (construction services); Sr.#7 (contractual execution) and Sr. #8 (beauty parlors etc.). Under the current law, every services provider is required to be registered even the person is individual (electrician, plumber, free launcher) or small service providing workshops. But practically it is not feasible to implement the law on small services providers. Under the Sales Tax Act, 1990 there is threshold limit Rs. 10 million for manufacturers (as cottage industry) but for services providers there is not threshold limit. **It is proposed that minimum threshold of Rs.10 million per annum for registration may be defined for all the services. However the provision for voluntary registration may also be provided for the persons having turnover less than 10 million.**

**d)** The rate of sales tax on services is 16 percent whereas certain services are at reduced rates of five (5) percent without input tax claim. In most cases, there is hardly any input for provision of services or if there is input that is very minimum. Hence, in case of services the rate of 16% which may be one of the cause of tax evasion. **It is proposed that the rate of sales tax on all services be reduced to 5% without input tax claim as provided through SRO 495(1) 2016 dated 4th July 2016.**

# 3.2 Federal Excise

## 3.2.1 Eliminating Excise duty on Services

Under the Federal Excise Act, 2005 the schedule of Excisable Services contain several types of services which are otherwise taxable through the Provincial. Under the legislation, there are implications of double taxation on the same services except Islamabad Capital Territory.

**It is proposed that Excise Duty on services may be eliminated to align it with the provincial laws of sales tax on services. In Islamabad Capital Territory , the services may be included in the First Schedule to the Islamabad Capital Territory (Tax on Services) Ordinance 2001**

## 3.2.3 Removing list of excisable services from federal excise law

After the promulgation of Provincial Sales Tax Laws, the list of se rvices subject to excise duty has been reduced. However, there still exist certain services which are taxable under the Federal Excise Act 2005. Due to existence of provincial Sales Tax Laws it has become redundant and creates confusion.

**It is proposed that list of excisable services may be removed from the Federal Excise Law.**

## 3.2.2 Reducing FED on Cement Industry to encourage infrastructure

Cement industry is subject to FED @ Rs. 1,000/- per ton and GST@ 17% of maximum retail price. These taxes come to Rs. 130 per bag. This high incidence of tax negatively impacts domestic consumption.

**It is proposed that the government may consider reduction in Federal Excise stepwise to "Zero" to encourage cement offtake as this would support housing and infrastructural development of the Country especially in the context of CPEC. Abolishment of excise duty will not only eliminate tax evasion but also enhance cement consumption at reduced price.**

# 3.3 Custom Duty

## 3.3.1 Charging of Custom duty on Net Value of Product instead of CFR Price

The Customs authorities are charging the custom duty and taxes on CFR (Product price + Freight) value of invoice despite the fact that freight cost is not the part of product price.

It is proposed that custom duty may be charged at net value of product. This would help in reducing per SF price of imported goods such as finished leather and getting export orders.

## 3.3.2. Zero-rated duty on industrial raw materials not produced locally

The rate of custom duty on industrial raw materials not produced locally need to be brought down to zero percent gradually in order to facilitate the manufacturing sector. The list of such industrial raw materials needs to be identified and concessional custom duty prescribed in Finance Bill 2018.

### 3.3.3 Non-inspection of shipments of industrial imports

The Anti-Narcotics Force can hold any shipment at the Port for inspection. The inspection takes around five days to complete the necessary procedure during which the importer has to pay for different expenses and storage charges. Due to this inordinate delay in clearance, the industry suffers in shape of production loss and increased cost of finished product.

**It is proposed that the shipments of industrial imports should not be retained for inspection.**

### 3.3.4 Waiving of 1% additional custom duty for Tanning industry

Under SRO 1178 (I) 2015 dated 30th November 2015, levy of 1% additional custom duty has been made on import of goods as specified in the First Schedule to the Customs Act, 1969.

It is proposed that this 1% additional custom duty may be waived for the tanning industry in order to help reduce per SF price of finished leather and in getting export orders.

### 3.3.5 Waiving of requirement of packing list and invoice for industrial importers

Under the Customs Rules, 2001 there is requirement for packing list and invoice in the imported cargo. The industrial importers are facing difficulties in clearing their consignment due to this requirement.

**It is proposed that Industrial importers may be exempted from the requirement of packing list and invoice for expeditious clearance of products to meet export orders. This would also avoid penalties that would ultimately reduce the manufacturing cost of products.**

### 3.3.6 Reducing Cargo throughput charges on imported Cargo

At present there is around 2 percent to 5 percent 'Cargo throughput charges' on airfreight (IATA rate) of imported cargo which is chargeable at airports.

**It is proposed that this rate should be maximum 0.50 percent and it should be charged on actual amount of air freight paid for the cargo.**

### 3.3.7 Reduction in Custom Duty on Imported Coal for Textile Industry

The country is presently facing severe energy shortage of energy of both gas and electricity. Due to this shortage, many textile mills have shifted from gas and electricity to coal for generation of energy. The textile processing industry is using coal as fuel for boilers. There is 5% Custom Duty on import of Coal [HS Code 2701.1900]. The import price of coal at the end of FY 2016-17 was US$90/MT which is now being imported @US$103 MT i.e. more than 14% increase in price of imported coal. In addition to increase in price in the international market, Pakistani Rupee has been devalued by about 10 percent. As a result, the cost of energy generation by coal has also soared by 25% as compared to last year.

**It is proposed that custom duty on import of coal may be abolished for use in generation of energy as well as for use in boilers by the textile processing industry. This would reduce the cost of doing business and help textile units to become operative which had shut down their production activity.**

# Chapter 4 | Industry-specific Tax Issues

## 4.1 Textile Industry

### 4.1.1 Policy measures for encouraging establishment of new Garment Plants

Pakistan has only 200 garment factories and thus lagged behind in export of clothing and made-ups. If the enabling environment is provided, industry has potential to flourish by setting up 1000 garmenting plants (of capacity 10000pc/day) which can fetch US$ 20 billion exports at current prices.

**It is proposed that a long-term policy may be announced to attract investment in clothing and made-ups of textile value chain Industry and LTF facility may be allowed for building of infrastructure for garment plants. These industries may be provided incentives of Rs. 0.1 million each per annum for skill development for workforce under skilled development program.**

**Further, the existing duty drawback scheme may be extended for 5 years and drawbacks be increased every year by 1% for garments (upto 12%) and made-ups (upto 10%).**

**It is also proposed to establish commercial enclaves in major cities including Lahore, Faisalabad, Karachi and Sialkot to encourage foreign brands to setup buying houses. These brand/ buying houses may be provided may be provided with rent-free space with all facilities, if they fetch a minimum of US$100 million per annum.**

### 4.1.2 Abolishing custom duty on import of Polyester Staple & other manmade Fibers

There is seven percent customs duty on import of polyester staple fiber with total import expenses in the range of 20 percent including anti-dumping duty. So even if import duty is finished, protection in excess of 10 percent will still remain. World trade is rapidly shifting to manmade fiber from cotton. Pakistan will lose textile export market share unless polyester prices are not rationalized.

**It is therefore proposed that the government may differentiate between taxing raw materials and finished products and abolish customs duty on import of Polyester stable fiber to encourage product and market diversification for the textile industry.**

**It is further proposed that custom duty on import of other manmade fibers like Viscose, Acrylic, and Nylon may also be reduced to zero percent, so that domestic yarn producers can compete with Indian, Indonesian and Chinese producers having their own manufacturing to produce these raw materials.**

### 4.1.3 Allowing indirect exports under LTTF Scheme

Indirect exports should be eligible under the LTFF scheme in order to boost supply of basic textiles to the value added sector. This facility was earlier available in the LTF-EOP scheme.

**It is proposed that SBP may issue circular enabling new investment initiatives. Further, LTF facility may also be allowed for building of infrastructure for garment plants to encourage investment.**

### 4.1.4 Zero-rating of Minimum Turnover tax on Local Sales of textile sector

Through Finance Act 2013, the rate of Minimum Turnover Tax was raised to 1% from 0.5 % under Section 113 of ITO 2001. This rate was further increased to 1.25% through Finance Act, 2017. Since taxpayers of textile sector have been incurring losses they are paying this 1.25% tax on their local turnover. Though this minimum tax is adjustable towards normal tax liability in the five subsequent years but that eventuality is hypothetical and also not available in case the taxpayer has suffered loss.

**It is suggested that turnover tax may be made zero percent for textile Sector as was done in Budget 2016 for Rice mills suffering from global recession. This will help the textile taxpayers to better manage their cash liquidity. This would not materially affect Govt. revenues as excess turnover tax payments are adjustable against future corporate tax liability.**

### 4.1.5 Supplies of Yarn outside the textile Sector

As per Sr.No.1(iv) of Table II of SRO 1125(I)/2011, supply of goods usable as industrial input including fabric to persons outside the five sectors is chargeable to tax at standard rate of 17% instead of zero-rating of supplies provided within the five sectors.

Yarn is made for Sizing, weaving, Knitting hence technically there is no demand other than the Sizing, weaving, Knitting industry. Based on registration profile of the buyer unwarranted show cause notices are issued inspite of a clarification by FBR that yarn has no market outside the sector.

**It is suggested that either the Sr.No.1 (iv) is deleted or exclusion is provided to the yarn. Since yarn has no use whatsoever outside the textile sector therefore its exclusion by appropriate amendment in SRO 1125(I)/2011 would safeguard from any such frivolous allegation and proceedings in the future.**

### 4.1.6 Exemption of advance tax on coal import by textile exporting units

The manufacturer-cum-exporters of textile sectors have been allowed zero-rated Sales Tax on Electricity and Sui Gas Bill vide STGO of Sale Tax and Income Tax circulars. Coal is a kin energy to both above referred energies having similar nature and component in production process.

**It is proposed that import of coal by textile manufacturer-exporters for their in-house consumption should be exempted from tax under the ambit of section 148 of the Income Tax Ordinance, 2001 and 'coal' should be included under the definition of raw material.**

### 4.1.7 Withdrawing taxes on cotton growers for boosting textile industry

There has been an unprecedented decline in cotton production during last few years which has impacted the textile value chain. The spinning sector is facing high cost of doing business as it is unable to procure cotton at import parity. It has been observed that sugar mills are being established in strictly protected cotton cultivation areas in Southern Punjab and Sindh which are discouraging cotton growers.

**It is proposed that the government may announce a policy in Finance Bill 2018 whereby cotton growers may be provided tax concessions on water, electricity, seed, pesticides and fertilizers so that they can harvest cotton for provision of more cotton to textile spinning sector. This would help decrease the input cost for the entire textile value chain industry.**

### 4.1.8 Announcing special package to revive Closed Spinning Mills

Around 30 percent production capacity of textile spinning mills is stated to be impaired. The potential idle capacity of textile value chain is mainly in Punjab. Consequently, the textile exports are suffering.

**It is proposed that the government may announce a special package to revive and stimulate the textile spinning sector to give boost to textile production and exports.**

### 4.1.9 Removing Gas Infrastructure Development Cess (GIDC)

The imposition of Gas Infrastructure Development Cess (GIDC) has crippled the textile industry which is already burdened and facing liquidity flow problem. In view of declining oil and natural gas prices in the international market, there is no justification for imposition of GIDC.

**It is proposed that GIDC should be completely withdrawn from the textile value chain industry to reduce the cost of doing business and enhance textile exports.**

### 4.1.10 Ensuring Long-term Supply of RLNG to textile units

There is a broad agreement between the government and textile industry over the diversion of Re-gasified Liquefied Natural Gas (RLNG), originally allocated for power generation, to the textile units to minimize the gas shortage faced by the export sector.

**It is proposed that the government should ensure long term supply of RLNG to textile units for boosting exports. The RLNG should also be provided to the new applicant textile mills.**

### 4.1.11 Non-imposition of Custom duty and sales tax on cotton import

The government introduces intervention by imposing custom duty and sales tax on the import of cotton which is short for industry consumption since last many years to manufacturing goods meant for export.

**It is proposed that instead of introducing intervention in Free Market Mechanism, the government may consider to reduce input cost of farmers and increase their cotton output by providing quality seed and extension of services at regionally competitive prices. No Custom Duty and Sales Tax should be imposed during any time of the year.**

### 4.1.12 Other Proposals – Textile Sector

a) Zero rating of all taxes may be allowed on textile exports and rebate be provided in form of Drawback of Local Taxes and Levies (DLTL) @ 5% against export of yarns, fabrics, made-ups and garments to compensate for different levies, surcharges and taxes imposed on textile industry.

b) Zero-rated duty on import of latest equipment and machinery to replace and upgrade obsolete machineries to achieve product competitiveness.

c) To improve liquidity constraints faced by textile exporters, all items listed in Table -1 of SRO 1125(i)/2011 be chargeable to Sales Tax @ zero -percent within registered supply chain of five export sectors. However, Sales Tax @ two percent may be charged on supplies made to unregistered person of the same sector.

d) The textile units located in the Province of Sindh are facing problems of low gas pressure which is badly affecting their production and resulting in delay in shipments of export order. The government should lift the ban on new gas connections and allow enhancement in gas load to the Sindh-based textile in the wake of smooth induction of RLNG into the system.

# 4.2 Construction and Real Estate Industries

## 4.2.1 Zero-rated advance income tax on import of construction equipment

The construction companies fall under the Presumptive Tax Regime where deduction of income tax at source is the final discharge of tax liability. Any other income tax deduction cannot be adjusted in the Tax Return and normally results in a refund, the payment of which is a cumbersome process giving rise to corrupt practices.

**It is proposed that advance income tax on import of construction equipment and machinery may be reduced to zero only for those constructors who holds a valid contractor's license from Pakistan Engineering Council (PEC) and able to provide a Certificate from Constructors Association of Pakistan, confirming the genuine project specific requirements of constructor considering works awarded to the company. The collection of advance tax from utility bills, banking transactions, vehicle purchases and registration may also be zero-rated for construction companies having valid PEC construction License.**

## 4.2.2 Exempting advance & additional sales tax on import of construction equipment

At present there is advance Sales tax @ 17% and additional sales tax @ 3% on import of construction equipment, machinery and formwork systems including plywood for formwork (see below table):

| Sr. | Name of Equipment / Machinery | PCT. Code | Advance Sales Tax | Additional Sales Tax |
|---|---|---|---|---|
| 1 | Concrete bathing plant | 8474.3120 | 17% | 03% |
| 2 | Concrete stationary pump | 8413.4000 | 17% | 03% |
| 3 | Truck mounted concrete pump | 8705.9000 | 17% | 03% |
| 4 | Concrete transit mixer truck | 8705.4000 | 17% | 03% |
| 5 | Wheel loader, shovels, excavators, shovel loaders, bulldozers & | 8429 | 17% | 03% |
| 6 | Forming material scaffolding, shuttering, propping, sections, roofing frame, shutters, balustrades, pillars & columns | 7308 | 17% | 03% |
| 7 | Film faced plywood for form work | 4412.3200 | 17% | 03% |

**It is proposed that advance sales tax and additional sales tax on import of above construction equipment and machinery may be exempted for an initial period of 3 years to enable the capacity enhancement of local construction industry.**

To avoid misuse of this facility, the exe mption may only be allowed to constructors who hold a valid Contractors License from Pakistan Engineering Council (PEC) and who provide a certificate from Constructors Association of Pakistan, confirming the genuine project specific requirements keeping in view the works awarded to the company. Further, it is proposed that the vehicle mounted machinery may be non-transferable for a period of 10 years.

### 4.2.3 Reduction in import duty on construction equipment and machinery

Total duties and taxes on construction machinery range from 31% to 46% which adds to the already high priced items, especially vehicle mounted machinery and excavators, bulldozers etc. (see below table)

| Sr | Name of Equipment / Machinery | PCT. Code | Import Duty | Advance Sales Tax | Additional Sales Tax | Advance Income Tax | Total Aggregate Duties |
|---|---|---|---|---|---|---|---|
| 1 | Concrete Bathing Plant | 8474.3120 | 05% | 17% | 03% | 06% | 31% |
| 2 | Concrete Stationary Pump | 8413.4000 | 05% | 17% | 03% | 06% | 31% |
| 3 | Truck Mounted Concrete Pump | 8705.9000 | 20% | 17% | 03% | 06% | 46% |
| 4 | Concrete Transit Mixer Truck | 8705.4000 | 20% | 17% | 03% | 06% | 46% |
| 5 | Wheel Loader, Shovels, Excavators, Shovel Loaders, Bulldozers, Road Rollers | 8429 | 05% | 17% | 03% | 06% | 31% |
| 6 | Forming Material, Scaffolding, Shuttering, Propping, Sections, Roofing Frame, Shutters, Balustrades, Pillars & Columns | 7308 | 20% | 17% | 03% | 06% | 46% |
| 7 | Film Faced Plywood for Form Work | 4412.3200 | 20% | 17% | 03% | 06% | 46% |

It is pertinent to mention that the construction companies in Pakistan (especially the SME's) are unable to afford import of even second hand equipment and machinery which are auctioned in UAE. This not only hinders them in increasing capacity and mechanizing operations but also in adopting new technology and innovations, thus limiting the local companies to deliver large projects for which the country becomes dependent on foreign contractors who charge much higher rates.

**It is suggested that policy measures may be taken to enable the local construction companies to import construction equipment and machinery at affordable prices thus enhancing their capacity and eventually saving government expenditure through import substitution of foreign contractors. It is further proposed that import duty on major off high way construction machinery and equipment as given in above table may be reduced to 2 percent (as allowed to the Agriculture Sector).**

To avoid misuse of this facility, the exemption may only be allowed to constructors who hold a valid Contractors License from PEC and provide a certificate from Constructors Association of Pakistan, confirming the genuine project specific requirements keeping in view works awarded to the company.

### 4.2.4 Allowing FTR option for Housing projects approved before 1st July 2016

The Fixed Tax Regime (FTR) for Builders and Developers has been made mandatory on projects approved after 1st July, 2016. **It is proposed that projects approved earlier may also be given option either to opt for the prevailing system of assessment or go for fixed tax on their already ongoing projects.** This may encourage the tax payers to avail benefits under Fixed Tax Regime (FTR).This would also boost the construction industry.

### 4.2.5 Allowing Tax Exemption to first time buyer of Real Estate in Pakistan

**In order to achieve maximum growth and investment in Pakistan Real Estate sector by Pakistani expatriate and local population, it is proposed that tax exemption may be provided to anyone who buys his first unit in Pakistan (first time buyer)**. This incentive should be available for at least 3 years in the same way it was available for investment in share through stock exchange.

### 4.2.6 Enhancing the exemption limit of Withholding Tax on low cost properties

The exemption for Withholding Tax on low cost properties is currently Rs. 4 million.

**It is proposed that this exemption limit for Withholding Ta x may be enhanced to Rs.8 million in view of exponential increase in property valuation by FBR.**

### 4.2.7 Rationalizing Regulatory Duty on Steel Re-Bar imports

Steel Re-Bar is an essential raw-material component of construction and real estate sector. Due to its price fluctuation in international market and to safeguard local steel industry, FBR imposed RD & ARD on Steel Imports. However, the steel prices have recovered internationally while the local industry has created a cartel, leading to artificial hike in steel prices; exorbitant profits for steel manufacturing units and increased cost of construction for the real estate sector.

**It is proposed that the Regulatory duty and additional regulatory duty on steel Re-Bar be reviewed and rationalized to safeguard the construction and real estate sector.**

### 4.2.8 Real Estate Valuation and Taxation

Undervaluation and Rationalization of Property Valuation Tables and transfer taxes at the provincial and federal level have created difficulties for Builders and Developers.

**It is proposed that 'a single valuation table' may be developed in consultation between the federal and provincial governments, in addition to reducing the federal and provincial taxes for transfer of property at actual value.** This would lead to better documentation of economy; corporatization of real estate developers and builders and encouraging Banks, DFI's, Private Equity and other capital raising institutions to invest and finance real estate development.

### 4.2.9 Removing Anomalies in property transfer to encourage real estate investment

There are many anomalies in the property transfer and valuation sector. The following measures are proposed to encourage real estate investment in the country:

a) The areas where valuation has been wrongly done may be rectified or else the seller may be allowed to sell his property to FBR as per valuation table on payment within 60 days. Further, FBR may rectify valuation distortions by meeting the stakeholders of all areas.

b) The Government may charge 1% in total for withholding tax, Advance Income Tax and Capital Gain Tax from buyers and sellers (0.5% each). Prevailing Federal Government Taxes charged by FBR on property transactions are approximately 3% to 6% of FBR Valuation Table excluding

Capital Gain Tax. The Federal Government will charge 3% to 6% of FBR Value as per today's valuation or 1% of Fair Market Value whichever (total taxes) is higher. This may result in increasing the revenue many folds.

c) The total Provincial & Local Government Taxes i.e. Stamp Duty, Registration Charges, Capital Value Tax, Town Tax must not exceed 1% of Sale Deed. The prevailing charges are 7.5% of sale deed amount as per D.C. rate which is inclusive of Registration Charges, Capital Value Tax, Town Tax and will be brought down to 1% proportionally. The Provincial Government may charge 7.5 of D.C. Value or 1% of fair market value whichever is higher. The same practice is being done for properties in Real Estate Investment Trust (REIT).

d) As the property valuations have increased many times, the Withholding tax on property transfer may be fixed at 1% for Filers and 2% for Non -Filers. As this tax is adjustable, actual receipts will not suffer and burden on tax payer will be reduced.

e) Withholding Tax (236 W) on property transfer may be reduced from 3% to 2%. As this tax is not adjustable, actual receipts will not suffer due to higher valuations. This will reduce burden on tax payer.

f) Taxation under provision of 236W (3%) be made optional for those who under normal circumstances are able to reconcile new values in wealth statement without taking advantage of 236W provision

### 4.2.10 Extending credit facilities for BMR of construction machinery

Banks and DFIs should extend credit facilities for Balancing, Modernization and Replacement (BMR) of machineries used in housing and construction industry. The State Bank may direct the Commercial Banks to allocate certain percentage of credit to housing and construction sector.

### 4.2.11 Enhancing the Annual Disbursement limit of HBFC Loans

The annual disbursement of HBFCL loans may be substantially enhanced to Rs. 20 billion to overcome housing shortage. HBFC should offer packages at preferential mark up to provide affordable credit to low income groups. The government may advise HBFC to invest minimum Rs. 10 billion on annual basis in small housing i.e. apartments smaller than 1500 sq. ft. and 120 sq. yards bungalows.

### 4.2.12 Easy financing of large construction Projects

Due to slow disbursement of loans by HBFC, many projects are not completed in time and delayed. The government and State Bank should come forward to finance projects, requiring large money, on easy terms. This could facilitate in development and expansion of the construction industry in the country.

### 4.2.13 Establishing an 'Infrastructure Construction Development Bank'

An'Infrastructure Construction Development Bank' may be established to deal with financing Issues of construction sector. This proposed bank may provide required bonds/guarantees and debt financing opportunities through allowing non-asset based securitization like cash flow etc. and financing of Infrastructure Construction Public-Private Projects.

# 4.3 Cement and Coal-producing Industries

## 4.3.1 Zero-rated duty on import of cement plants and machineries

The Cement industry is importing plants and machineries for capacity enhancement in view of growing demand of cement in the context of CPEC projects. At present, there is 3 percent custom duty on import of plant and machinery by the cement industry.

**It is proposed that custom duty on import of plant and machinery for cement industry may be made zero-rated in order to reduce capital cost for capacity enhancement in cement industry.**

## 4.3.2 Reducing minimum tax on turnover

Through Finance Act 2014, FBR introduced lower minimum tax rate @ 0.20% for dealers and distributors of fertilizers, pharmaceutical, fast moving consumer goods, cigarettes, rice flour mills; and @ 0.25% for motor cycle dealers. Cement is also a bulk commodity and sold throughout Pakistan through dealer's network like any other bulk commodity.

**It is proposed that minimum tax rate as required by Section 113 may be reduced to 0.20% for cement dealers/ distributors/ wholesaler as done for above mentioned sectors as per Division IX of First Schedule of ITO 2001. This would reduce tax burden on cement dealer's /distributors/ wholesaler.**

## 4.3.3 Increasing custom duty on import of clinker and cement

Clinker and Cement are manufactured locally and abundantly available in Pakistan. The existing custom duties on import of clinker and cement are 10% and 20% respectively. Due to cheap energy cost in neighboring countries: low-grade quality cement is dumped into Pakistani market.

**It is proposed that customs duty on import of both clinker and cement may be enhanced to 35% in order to support the local cement industry. Further, additional regulatory duty may be imposed on import of cement from Iran which is being smuggled in Baluchistan. For import of cheaper cement from Iran a proper mechanism may be approved by the government.**

Further, cement import may be allowed only after quality certification by Pakistan Standards and Quality Control Authority. This will discourage dumping of low-grade quality cement by regional players.

## 4.3.4 Zero-rated duty on import of coal and pet coke

Presently, coal and pet coke is being used as fuel for various manufacturing concerns and it attracts custom duty on import @ 5% & 6% respectively, which has increased the cost of doing business.

**It is proposed that custom duty on coal and pet coke may be zero-rated to support the option of using coal/ pet coke as alternate source of energy for Industry. This would reduce load on the national grid.**

### 4.3.5 Withdrawing 17% sales tax ad-valorem on locally produced Coal

As per Sr. No. 47 [Table 1] of Eighth Schedule of Sales Tax Act, 1990 , the value of sales tax on locally produced coal is fixed at Rs. 425 per metric ton or 17% ad-valorem whichever is higher.

**It is proposed that sales tax ad-valorem may be withdrawn as due to imported coal, sale of indigenous coal has dropped significantly.** As a result, the private sector is under-invoicing the value of coal whereas public sector is facing problem of sale issues and stock of coal is piling-up which can catch fire.

### 4.3.6 Input Tax Adjustment on supply of locally produced coal

As per SRO 549(I)/2006 dated 05-06.2006 and SRO 592(I)/2017 dated 01.07.2017 input tax adjustment is allowed for registered persons making taxable supply of locally produced coal at the value of more than Rs. 5,000 per metric ton.

**It is proposed that Input tax adjustment may be allowed irrespective of sales value to increase the number of transactions from registered persons.**

### 4.3.7 Fixation of General Sales Tax (GST) on Coal on provincial basis

As per SRO 491(I)/2015 dated 30-06-2015 minimum value of locally produced coal was fixed at Rs. 2,500 per metric ton or fixed GST @Rs. 425 per metric ton and later amended through Finance Act, 2017 as fixed GST @ Rs. 425 per metric ton or 17% ad-valorem whichever is higher with input tax adjustment.

**It is proposed that the minimum value of coal for the purpose of GST may be fixed province-wise as coal price in Sindh is less than Rs. 5,000 per metric ton due to its low/ poor quality and hot weather conditions due to which coal catches fire during stocking and transit, whereas the coal price in Balochistan is higher than Rs. 5,000 and its quality is good with low Sulphur contents. The imposition of GST on province-wise basis would eventually increase revenue generation for the government.**

# 4.4 Edible Oil and Sugar Industries

## 4.4.1 Incentive package for domestic farming of oil seeds and establishing joint ventures

Import of edible oil is a heavy drain on our foreign exchange. Pakistan can save sufficient foreign exchange annually by encouraging domestic production of edible oil sector.

**It is proposed that in Finance Bill 2018, the government may announce a special package of incentive to encourage proper farming, production, processing and marketing of oil seeds as well as joint ventures with foreign entrepreneurs to set -up oil refineries in Pakistan.**

Due to water scarcity and non-utilization of latest farming techniques, the yield per acre of all oil seed crops (i.e. cottonseed, sunflower, canola, rapeseed, mustard etc.) is in range of 15% to 45% of potential.

**It is proposed that in the incentive package, the government may announce measures to increase output. Further, the price of locally produced edible oil may be fixed on basis of cost of imported oil.**

## 4.4.2 Encouraging commercial production of olive oil by Private Sector

There is good potential for olive oil cultivation in Potohar region and Balochistan.

It is proposed that the government may provide incentives for setting up projects in collaboration with private sector to start commercial production of olive oil in bulk.

## 4.4.3 Special tax incentives to sugar mills cogenerating energy from Bagasse

Special incentives may be provided to those sugar mills which cogenerate energy from Bagasse during off-season. This would create additional revenue for the sugar mills and help the country in meeting the shortfall of electricity. The government may also provide some tax incentives to sugar mills which produce ethanol fuel used in automobiles.

## 4.4.4 Determining sugarcane support price on basis of increase in input price

The government should determine the 'support price' of sugarcane crop on basis of economic factors like increase in prices of inputs and sucrose recovery, etc. to equally protect interest of all stakeholders. For this purpose, government and sugar mills may jointly assist farmers, through Agricultural Research Institutes, in planting high sucrose recovery varieties of sugarcane and in combating plant diseases through use of better pesticides. This would help improve yield per hectare of sugarcane, resulting increased sugar production. The government should encourage formation of 'Supervisory Committees', consisting of representatives of growers, sugar mills, agricultural department and local administration, to deal with price, supply and other related issues between growers and sugar mill management.

### 4.4.5 Processing of sugar export quota be subject to provision of Irrevocable L/C

The Ministry of Commerce, Government of Pakistan allowed export of sugar vide public notice dated December 14, 2012. Accordingly, the State Bank of Pakistan (SBP) vide its Circular # 11 dated December 18, 2012 notified the mechanism for processing of such cases, whereby contracts for sugar export shall have to be registered against irrevocable letters of credit and advance payments. However, it has been observed that SBP also entertain paper contracts which resulted in early exhaust of quota.

**It is proposed that above SBP circular may be complied with strictly and contracts, to be registered with SBP, be made contingent with irrevocable L/Cs and advance payment .**

## 4.5 Automobile Industry

### 4.5.1 Reducing the Regulatory Duty on auto part imports not manufactured locally

Almost 70% raw material for automobile industry is being produced locally. However, there are many parts which are sub-standard for which auto assemblers rely on imports. As there is 10% regulatory duty on import of auto parts, the auto assemblers have to bear undue cost which adds to production cost.

**It is therefore proposed that regulatory duty on import of those auto parts may be reduced which are not manufactured locally.**

### 4.5.2 Incentives for localization of high-tech auto parts and encourage global brands

The Auto Policy 2016-2021 announced by the Government does not provide any incentive for auto parts manufacturers/vendors to encourage localization of Hi-Tech parts in the country.

**It is proposed that the status of Special of Economic Zones (SEZ) may be granted for setting up plants to manufacture auto parts, not locally produced, such as parts for Engines, Transmission, Suspension, Body etc. This would reduce input cost for domestic auto assemblers and increase car production.**

**At the same time, the government may also provide incentives including tax or subsidy to attract global brands and promote investments in the manufacturing of critical components.**

### 4.5.3 Reversing 2% extra Sales tax on Non-Retail Sale of Auto parts

The auto parts industry is facing uncertainty and loss of sales as they continue to receive notices and threats from tax collectors for immediate payment of 2% extra sales tax. This tax was imposed on several items as majority of wholesalers, distributors, dealers and retailers in downstream supply chain were not paying any sales tax in respect of value addition. However, in case of auto parts and automobile manufacturers, the supply chain is fully documented and supplies made to them cannot be termed as “retail sales”. It is not adjustable as input tax and adds to cost of production.

**It is proposed that FBR may issue an SRO to exempt the non-retail sales of auto parts from the levy of 2% extra sales tax.**

### 4.5.4 Developing Policy for dealerships / supply chain in auto industry

The government should develop a policy for dealership/supply chain structure in auto industry as these do not have any significant role and are merely acting as agents of car manufacturers. Due to delay in deliveries, premiums are charged in secondary markets. There is need to create a meaningful competition for car dealers to ensure perfect competition in auto industry.

### 4.5.5 Reducing minimum tax on turnover of authorized auto dealers

Under Section 113 of ITO 2001, there is a minimum tax @ 1% being charged on turnover of authorized dealers of vehicle manufacturers.

**It is proposed that minimum tax rate may be reduced to 0.25% on turnover as being allowed to Motorcycle dealers, FMCG distributors, Pharmaceutical, Fertilizers, etc. Further, withholding Income Tax under Section 231B may be exempted on sale of vehicles by manufacturers to authorized dealers**.

## 4.6 Leather Industry

### 4.6.1 Providing 75% subsidy on mandatory lab test for exports of leather goods

The government had announced a 75% subsidy on mandatory lab test from international laboratories for leather exports; however, official notification to this effect has not been issued by the Government.

**It is proposed that the notification may be issued for promoting exports of leather goods.**

### 4.6.2 Stabilizing livestock population used as raw material input

The raw hides and skins from livestock sector constitute the fundamental raw material input for value-addition of finished leather, leather footwear and garments. However, livestock population in Pakistan is depleting rapidly resulting in reduced input of raw hides and skins to the industry.

**It is proposed that immediate measures be taken to stabilize livestock population in Pakistan in order to save the dying leather sector which is the second biggest export oriented industry of the country.**

### 4.6.3 Incentive on enhanced exports of finished Leather

The government is providing incentive of 4 percent on FOB value on enhanced exports of value-added products. Since 'Finished Leather' is also a highly valued item, the government may consider allowing similar incentive on export of finished leather products as well.

### 4.6.4 Increasing duty drawback on export of finished Leather

The government may consider realistic increase in duty drawback rates on export of finished leather for goat/ sheep skins and cow/buffalo hides and leather as the existing rates on these items are very low. Similarly, withholding tax on leather exports may be reduced from present 1 percent to 0.5 percent.

### 4.6.5 Imposing ban on export of wet blue Leather

It is proposed to impose complete ban on export of wet blue leather of all kinds of raw hide/skin and pickled leather to meet local shortage of essential raw materials for leather industry.

Further, the government should ensure stringent measures to discourage massive smuggling of live animals from borders to avoid shortage of hides and skins.

### 4.6.6 Duty-free import of essential items used by leather industry

The government may consider allowing duty free import of essential accessories used by leather industry for value addition in leather products e.g. leather shoes, bags, garments etc.

### 4.6.7 Framing a 'Leather Development Plan'

The government should study incentives provided to leather industry in India, Bangladesh and China by their respective governments such as support for technology up gradation, setting up of leather development centers, leather and footwear parks, combined treatment plants etc. It should also consider framing a 'leather development plan' like in India.

# 4.7 Pharmaceutical Industry

## 4.7.1 Product pricing to be based on input cost determination

The pharma industry has a long standing demand for allowing a reasonable price increase against inflation and heavy increase in input costs. The government must consider their legitimate demand after carrying out input cost determination of each product so that prices and profits are not so excessive that put burden on common man.

**It is proposed that Management Accountants may be associated by DRAP to determine the input cost of each pharma product in order to fix drug prices in the country.**

## 4.7.2 Deleting Section 21(o) of ITO 2001 being detrimental to pharmaceutical business

Under Section 21(o) of ITO 2001, deduction of expenditure in respect of sales promotion, advertisement and publicity is not allowed in excess of 10% of turnover incurred by pharmaceutical manufacturers. This Section is highly discriminatory and also violates the judgment of superior court in this regard. It also contradicts Section 20(1) of ITO 2001 which allows deduction for any expenditure incurred by the person (including company) wholly and exclusively for the purpose of business.

**It is therefore proposed that section 21(o) may be deleted through Finance Act 2018.**

## 4.7.3 Allowing adjustment of 1% R&D expenditure of pharma companies

The local pharmaceutical companies in Pakistan are paying 1 percent of their pre-tax profit to Drug Regulatory Authority of Pakistan (DRAP) towards 'Central Research Fund' as per the Drug Act, 1976.

**It is proposed that any legitimate expenditure by pharma industry on R&D as communicated to DRAP with evidence should be adjustable against 1% payment. This would facilitate R&D expenditure by local industry and make their products more competitive both for domestic and export markets.**

## 4.7.4 Reducing duty and abolishing Sales Tax on packing materials of pharma industry

The pharma industry played a good role for raising standard and provide best product at affordable prices. However, the cost of doing business and exchange rates are continuously increasing. The finished products of pharmaceutical industry are exempted from Sales tax.

**It is proposed that to provide some relief to the pharma industry, duty on raw and packing materials may be reduced on different pharma products in consultation with industry. Further, sales tax on packing materials of pharma industry such as PVDC, PVC Aluminum foil, and cold formable may also be abolished to save extra cost of the industry.**

## 4.7.5 Duty drawback rates and retention on export realization for pharma products

The present pharma industry duty drawback rates are 1.32% on Tablets and Capsules; 1.15% on Liquids/Powders/Syrups/Drops/ Suspension/ Granules; 1.2% on Creams and Ointments; 1.29% on Injections and 1.05 % on Intravenous solution.

**It is proposed that duty draw back rates for pharmaceutical products may be increased to 10 percent on all pharma presentation by making amendment in Schedule LXVI of SRO 212 dated 05-03-2009.**

**To promote exports of pharmaceutical products, it is proposed that retention on export realization may also be increased to 25% from existing 15% vide circular FE circular # 9 of 2008.**

### 4.7.6 Tax Incentives to attract investment in producing quality medicine

The government should offer tax incentives to attract investment from foreign pharmaceutical companies and to encourage local pharma industry to produce quality medicine.

The government should also support R&D initiatives in pharma sector, like in other countries, to ensure availability of quality drugs in the country. In this connection, the government may also consider release of grants to pharma companies on meeting set criteria.

### 4.7.7 Making mandatory to produce one essential pharma raw material in Pakistan

The government may make it mandatory through legislation on pharma companies to produce at least one essential raw material in Pakistan so as to reduce heavy dependence on imports of costly raw material from other countries. This would not only save foreign exchange but also help bring down prices of medicines in Pakistan which would ultimately benefit the people.

### 4.7.8 Revamping Drugs Regulatory Authority of Pakistan (DRAP)

The government should consider revamping and restructuring the Drugs Regulatory Authority (DRAP) in order to transform it into a dynamic and professional body that may develop effective policies for the pharmaceutical industry.

**The services of management accountants qualified from ICMA Pakistan may be utilized in the re-structuring process, especially in acquiring expertise in determining input cost of pharma products.**

# 4.8 Fertilizer Industry

## 4.8.1 Gas supply to SNGPL based fertilizer plants

Natural gas contributes about 80% to total production cost of fertilizer. However, continuous shortage of gas supply by SNGPL has resulted in deep crisis for this industry.

**The government should direct the SNGPL to resume full and immediate gas to the deprived SNGPL based fertilizer plants and also resume gas supply to all plants on permanent basis.**

## 4.8.2 Import of LNG by Fertilizer plants

To ensure economic sustainability of fertilizer plants, the fertilizer sector may be allowed to import LNG from own sources. Under the present arrangement, PSO is allowed to import one commissioning cargo through FSRU on FOB basis or LNG carrier on DES basis under LNG SPA.

In case PSO is unable to bring the commissioning cargo, it is proposed that the fertilizer plants may be allowed to import the commissioning cargo subject to payment of incremental charges over and above the charges to be incurred by PSO.

## 4.8.3 GST on fertilizer produced by idle plants from imported LNG

The fertilizer plants currently idle and not contributing any revenue in form of GST may be charged GST @ 5% on fertilizer produced by using imported LNG (as was allowed by ECC to the CNG sector on October 29, 2014),. This will help increase the affordability of fertilizer produced from expensive LNG. In addition, GIDC should not be levied on imported LNG to be utilized by the above fertilizer plants.

## 4.8.4 Charging transmission losses of fertilizer plants on actual

Since the fertilizer plants are bulk users on high pressure transmission network with minimum or no transmission losses, the transmission losses, if any, may be charged at actual.

## 4.8.5 Restricting import of sub-standard fertilizer products

The government should ensure strict quality control and monitoring in order to prevent import of sub-standard fertilizer products and to curb adulteration and malpractices in this sector.

## 4.8.6 Discouraging import of Urea that could lead to high prices

Urea is one of the most consumed fertilizer in agriculture sector. Recently, the Finance Division and the Ministry of Petroleum have given go-ahead to the Ministry of National Food Security and Research to frame policy that will allow urea import by the private sector. This move will open a new window of middlemen who will charge un-due commissioning before it will reach to the farming community. The private companies do not have acity to enforce a strict mechanism.

**It is proposed that government should provide more gas to fertilizer industry at reasonable rates than to approve import policy of fertilizers.**

# 4.9 Oil & Gas Industry

## 4.9.1 Rationalizing corporate tax rate for Oil Exploration and Production Companies

The applicable tax rate for the Oil and Gas Exploration and Production sector is 40 percent. Before the promulgation of Income Tax Ordinance, 2001, the tax rate was 50 percent to 55 percent; however, the royalty payment to the government was adjusted against the tax liability, resulting in effective tax rate of approximately 35 percent or less.

The applicability of effective 40 percent tax rate has in fact increased the tax expense of Oil and Gas Exploration and Production Companies, as against the incentives given to other sectors of the economy, whereby the tax rate will be gradually reduced to 30 percent.

**It is proposed that to incentivize oil and gas exploration in the country, especially after the massive reduction in international oil prices, the corporate tax rate on E&P sector may be reduced from the current 40 percent to the rate applicable to other corporate sector** .

## 4.9.2 Charging of sales tax on supplies of Distributors of Lubricating Oils

The industrial consumers are reluctant to buy goods directly from distributors as they are unable to issue sales tax invoice, thus resulting in a significant setback to business carried out by the distributors.

**It is proposed that in addition to manufacturers, registered distributors of lubricating oils may be allowed to charge sales tax on their supplies.**

## 4.9.3 Incentive to attract new investments in Oil and Gas Sector

There are abundant untapped reserves of oil and gas available in Sindh, Baluchistan and other parts of the country which need to be explored to narrow down the gap between supply and demand and end the existing energy crisis.

**It is proposed that special incentives may be offered by the government in Finance Bill 2018 to attract new investments in oil and gas sector to explore develop and exploit petroleum resources to achieve greater self-reliance in energy supplies.**

## 4.9.4 Exploring new oil and gas fields

The production from existing oil and gas reserves is rapidly declining and according to an estimate, we are left with oil reserves for only 10 years and gas reserves for about 15 to 20 years.

**It is proposed that the government may facilitate the oil and gas exploration companies to discover new oil and gas fields and address all their grievances of priority.**

## 4.9.5 Impart training in latest petroleum exploration techniques

The government should provide training to geo-scientists and engineers on latest exploration and production techniques and in promoting intra industry and intra-academia synergies.

# 4.10 IT & Software Industry

## 4.10.1 Incentive Package for promoting Software Industry

In the Finance Bill 2018, the government must come up with a lucrative package of incentives for the IT and software industry. The package may include support in marketing software internationally to get projects and investments in research projects; tax relief to business units on amounts spent on software applications and related equipment; and bank loans on soft and easy terms to promote the IT industry.

## 4.10.2 Zero-rating of sales tax on component parts for IT Industry

The government has imposed 17% sales tax on component parts, assembled inside the computers, which neutralizes the government's budgetary announcement under which computer/laptop bearing same component parts were placed under the zero-sale tax regime.

**In order to remove this anomaly, it is proposed that the following IT products, used in assembling computers may also be made zero-rated:**

a) USB Flash RAM (H.S. CODE8523.519);
b) Memory Card (HSC 8523.511);
c) Computer RAM (HSC 8473.309);
d) SSD Hard Drive (HSC 8471.703);
e) Hard Drive / Portable Hard Drive (HSC 8471.702);
f) Keyboard (HSC 8471.601);
g) Mouse (HSC 8471.602);
h) Computer Case (HSC 8529.9090);
i) Power Supply (HSC 8504.4029);
j) Graphic Card (HSC 8473.3092);
k) DVD Drive (HSC 8471.704);
l) Computer Processor (HSC 8542.31);
m) LCD/LED (HSC 8528.721)
n) Motherboard / Printed Circuit Board (HSC 8473.309)

## 4.10.3 Reducing exemption from Sales Tax on IT Products

On 4th June 2011, FBR imposed sales tax on major IT products which converted into a blanket sales tax on all IT products on 14 May 2013.

From 1st July 2013, provincial tax collection authorities also imposed a blanket services sales tax on IT & ITES industry. This has adversely impacted growth of Pakistan's IT & ITES industry.

**It is proposed that IT industry may be exempted from payment of sales tax on IT products.**

## 4.10.4 Extending Income Tax Exemption on IT/ITES exports till 2026

With the 2016 income tax exemption on IT/ITES exports window expiring soon, the IT industry is yet on the brink of facing another challenge. There is a lack of clarity on the way forward beyond especially for SMEs who do not have financial resources to compete globally and to grow.

**It is proposed that FBR may consider extending income tax exemption beyond 2016, preferably till 2026 by which time IT industry would be significant enough to survive additional taxation.**

# 4.11 Telecommunication Sector

## 4.11.1 Rationalizing Tax structure of telecom industry

The Telecom companies are facing five major challenges in the taxation regime which include very high tax rates and detrimental tax regime for telecom sector as well as consumers. To develop the telecom sector and to encourage inflow of more investments, the government needs to rationalize the taxation structure in telecommunication sector.

**It is proposed that telecom companies may have simplified tax rates and policy in the interest of the people of Pakistan and for conductive business environment. For instance, the excise duty on telecom services which is quite high may be revised downward so as to bring the telecom services at par with other services subjected to FED. This would provide some relief to public at large.**

**It is further proposed that tax paid by the telecom companies under Section 148 of Income Tax Ordinance, 2001, may be considered as advance income tax instead of Final tax.**

## 4.11.2 Declaring telecom companies as industrial undertaking

The government may consider to declare the telecom companies as 'industrial undertaking' in view of the fact that telecom companies are not commercial importers for sale in market, rather they import telecom equipment for use in network to provide telecom services to people and businesses.

## 4.11.3 Reducing Withholding tax on telecom customers

The withholding tax paid by the telecom customers is much higher as compared to WHT in other sectors. Majority of customers are poor and non- tax filers, hence this higher WHT is unjustified.

**It is proposed that tax imposition on telecom customers may be reduced considerably in order to save the poor people of Pakistan from undue taxation**.

## 4.11.4 Incentives for outreaching rural areas to provide telecom services

The telecom companies need to expand their service network to rural areas for which the government needs to provide some incentives to encourage the telecom companies.

**It is proposed that tax and other incentives may be provided by government to telecom industry on issues like unverified SIMs, illegal international incoming traffic and same International Mobile Station Equipment Identity (IMEI) number for cell phones. The government should play an active role to stop this destructive competition environment.**

## 4.11.5 Stopping issuance of further licenses in telecom sector

The government should not allow or grant more licenses until the maturity of present telecom sector, which is already going through astronomical survival pressures.

# 4.12 Mutual Fund Sector

## 4.12.1 Exempting Mutual Fund and Pension Fund from Withholding tax

Under Sections 236M and 236N of Income Tax Ordinance 2001, the Bonus shares issued to shareholders are taxable @ 5% of specified value under FTR and the company issuing bonus shares is obliged to withhold tax from the shareholders.

**It is proposed that as Mutual Funds and Pension Funds are already exempt from withholding from Dividend, Profit on Debt, Brokerage and Commission under Clause 47B as such they may also be given exemption from withholding tax under Sections 236M and 236N. Accordingly, Sections 236M and 236N should be added to Clause 47B, Part IV of Second Schedule of Income Tax Ordinance, 2001.**

## 4.12.2 Amending Section 62 to include open-end Collective Investment Schemes

Under section 62 of ITO 2001, a resident person other than a company has been entitled to a tax credit for a tax year on investment in shares and insurance.

**It is proposed that open-end collective investment schemes may be included separately in Section 62 so that the requirement for obtaining listing can be removed as that only adds to the cost of the fund without any value addition.**

## 4.12.3 Misinterpretation of Amnesty scheme on purchase of property

The Amnesty scheme on purchase of property has been introduced through the Income Tax (Fourth Amendment) Act, 2016 dated December 2, 2016 by inserting Clause (c) of Sub-Section (4) of Section 111 read with explanatory Circular#18 of 2016 dated 7th December, 2016.

This scheme is being widely misinterpreted by provincial property registration authorities who are forcing every transferee or buyer of property to produce tax payment challan (CPRs) under Section 236W of ITO 2001, no matter whether he/she wants to avail this amnesty scheme or not. This misinterpretation is causing hardship to those honest taxpayers who want to purchase property out of their legitimate tax paid income / wealth (already declared in tax returns).

**To remove the ambiguity and provide more clarity on this amnesty scheme, it is proposed to insert Sub Section (3) in Section 236W as under:**

**"Collection of tax under sub-section (1) shall be optional and applicable only to those persons who want to avail amnesty under clause (c) of sub-section (4) of section 111".**

## 4.12.4 Withdrawing tax levy on principle component of cash dividend

The Finance Act 2014 introduced requirement for mandatory cash dividend by open-end mutual funds, which adversely affects taxability of unit holders who invest closer to dividend distribution time or any time after first day of start of the year (ex-dividend date).

**It is proposed that this tax anomaly may be removed so that principal component of investment is not taxed. This is an international practice. The UK laws do not consider this**

**portion as income and hence is not taxed. It is further proposed that for levy of tax on dividend in case of open-end mutual funds, the portion of dividend related to equalization element may not be subjected to tax.**

### 4.12.5 Imposing uniform tax rate of 10% on dividends of stock funds

The income of a stock fund comprises of capital gains as well as dividends received from stocks. Dividend payable by stock funds is subject to tax @12.5% when their capital gain is greater than dividend income. In case of direct investment through capital market, tax rate on dividend is 10% while capital gain is taxable subject to holding period of security. This differentiation, based on degree of contribution of capital gains to income of a Stock Fund, is not fair as the main focus of stock fund is not merely speculative “buy and sell” activity, but positioning of stock investment to benefit the small investors through earning dividend income and through appreciation in asset value of investment.

**It is proposed that the dividend of Stock Funds may be made liable to tax at the uniform rate of 10%, irrespective of the share of capital gains in such taxable income. This would bring equity funds pari passu with direct investment in Capital Markets.**

### 4.12.6 Withdrawing FED on services rendered by Asset Management Companies (AMC)

A 16% Federal Excise Duty (FED) is levied on services rendered by Asset Management Companies (AMCs) which manage investments in Mutual Funds and Pension Funds. These services are also being charged to the provincial Sales Tax by the provinces, which results in double taxation.

**It is proposed that the Federal Excise Duty (FED) on Asset Management Services be withdrawn by making necessary amendments in the Federal Excise Act, 2005.**

### 4.12.7 Reducing tax rate on Dividends from Banks Investment in AMC

Banks have to make investments out of the deposits/assets they hold at any time during the course of business including setting up subsidiaries. If the investment is made in its own Asset Management Company (AMC), the tax rate on dividend received is 20% as per proviso to clause (6) of Seventh Schedule to the Income Tax Ordinance, 2001. This differentiation is glaringly discriminatory.

**It is proposed that tax rate on dividend, accruing from investment of Banks in their Asset Management Companies (AMCs) may be reduced from 20% to 10 percent. This will bring uniformity in tax rates, remove the discrimination and rectify fiscal anomaly as well as legal distortion/aberration in respect of investment made by a bank in its own Asset Management Company (AMC).**

### 4.12.8 Withdrawing notices issued by LTUs and RTOs to collect WWF

Mutual funds do not come under the definition of ‘establishment’ as it do not employ workers and it is only engaged in collecting savings from institutional and individual investors. However, LTUs and RTOs are issuing notices to each mutual fund and pension fund, considering them as establishments under ‘West Pakistan Shops & Establishments Ordinance, 1971’ for collecting Workers Welfare Fund (WWF).

**Since WWF levy is not applicable on mutual funds, it is proposed that FBR may direct its LTUs and RTOs to withdraw all notices issued to mutual fund and pension fund companies and issue necessary clarification that WWF tax shall not be charged from the mutual funds and pension funds.**

# 4.13 Insurance & Takaful Sector

## 4.13.1 Amending Rule 6 (B) of ITO 2001

The government has created hardships for insurance companies by amending Rule 6B of Fourth schedule of the Income Tax Ordinance, 2001. The treatment of insurance and banking companies on the same line is irrational. Insurance companies cover risk of loss of insured for a nominal premium. To cover risk, they have to diversify deployment of their assets into various categories of investments avenues, all of which have different risk appetites. Such diversification enables coverage of liquidity risk. This change has adversely impacted income of life and non-life insurance companies in FY 2017.

It is proposed that Rule 6 B of the Fourth Schedule may be amended accordingly and the following tax rates may be charged on holding of security by the insurance companies:

| Sr. | Holding period of Security | TY 2018 & onwards |
|---|---|---|
| 1 | Less than twelve months | 15% |
| 2 | More than twelvemonths but less than twenty four months. | 12.5% |
| 3 | More than twenty four months but less than four years. | 7.5% |
| 4 | More than four years. | Nil |

## 4.13.2 Withdrawal of Federal Insurance Fee on Insurance premium

In 1989 through Finance Act, the government imposed Federal Insurance Fee @1% on the general insurance policies. The understanding given at that time was that the amount generated shall be utilized for promotion and development of insurance in the country, but there was no outcome.

**It is proposed that the Federal insurance fee @ 1 % may be withdrawn till such time that a road map for the development and promotion of the insurance sector is in place.**

## 4.13.3 Allowing tax credit to individuals on personal lines /micro insurance products

Under Section 62A of ITO 2001, a resident person being a filer other than company has been entitled to a tax credit for a tax year in respect of any health insurance premium or contribution paid to any Insurance company/ takaful operator registered by SECP under Insurance Ordinance, 2000 provided he as a filer is deriving income chargeable to tax under the head “salary” or “Income from Business”.

**It is proposed that tax credit should also be allowed to individuals on Personal lines / Micro insurance products (i.e. Personal Accident, Travel, Householders, and Private Motors etc.) premium payments. This would help the growth of micro insurance sector in the country.**

### 4.13.4 Exempting individual policy holders from payment of advance tax under section 236U

Due to applicability of additional advance tax on individuals who are not subject to tax, the cost of insurance policy for an individual has increased. As a result, individuals are reluctant to obtain insurance policies. As the penetration of insurance in Pakistan is very low and Micro insurance is underdeveloped , hence advance tax should not be applicable on individual policy holders in order to encourage them to get the benefits of various life and general insurance products.

Moreover, in various cases of life insurance, policy holders are housewives or minor children, whose policy premium is paid by husband/father/brother etc. In such cases as the policy holders' name is not appearing in the !ctive Tax Payers' List (ATL) of the FBR, they will be subject to such tax collection.

**It is proposed that the individual policy holders may be exempted from the applicability of advance tax under Section 236 U of Income Tax Ordinance, 2001.**

### 4.13.5 Enhancing thresholds for tax rebate and advance tax collection on premium

It is proposed that threshold limit for rebate on investment in shares and insurance premiums/ takaful contributions under Section 62 of ITO 2001 may be e enhanced from 20% to 25% of taxable income.

It is also proposed that the threshold for collection of advance tax by Insurance/Takaful Companies on Premium/Contribution paid by non-filers in respect of Life insurance/Family Takaful may be enhanced to Rs.500,000/- per annum.

### 4.13.6 Recognition of Takaful Waqf Model in the Tax Regime

Takaful business is very similar to Modaraba business Model. All Companies are following Waqf Wakala model based on Modaraba transactions. All Modaraba businesses in Pakistan are tax exempted subject to 90% distribution of dividend. However, in Takaful business 100% surplus is distributable among the certificate-holders but no tax benefit to the company

As per the Takaful Waqf Model, the risk contributions for life and non-life coverage are paid to Waqf Fund, which are in nature of donation of permanent nature. All benefits consequent to such coverage are paid out to policyholders (in Takaful they are called "Participants") from such Fund. Any surplus or deficit cannot arise to company; instead such surplus/deficit is entitled to policyholders. Such surplus arising in Waqf Fund (PTF) should not be subject to tax against the company.

**It is proposed that Takaful Waqf Fund should be recognized in the direct and indirect taxation laws of the Country and Takaful business may be exempt from tax.**

# 4.14 SME Sector

## 4.14.1 Allocation of sufficient funds in Budget for SME development

The government should allocate sufficient budget for developing SMEs network throughout the country.

**It is proposed that SMEDA may be strengthened to provide funds and resources to reach out to SMEs and work for their promotion. The funds would also be helpful in completing the ongoing projects of SMEDA such as establishment of SME Export House, SME Institute, SME Ombudsman, Joint Venture Capital, SME Fund, Credit Guarantee Insurance and other promis es made in the SME Policy which got approval of the National Assembly and the cabinet.**

## 4.14.2 Financing Scheme for SMEs with equal risk-sharing by SBP and Banks

The State Bank of Pakistan (SBP) has introduced several financing schemes for SMEs but the commercial banks are reluctant to take the risk.

**It is proposed that SBP may come up with such a financing scheme in which the risk is shared equally by the SBP and commercial banks by virtue of credit insurance. There is a scheme at present in which SBP shares 40% risk and banks consider 60% sharing as higher.**

## 4.14.3 Increasing Credit limit for Micro-enterprises

The credit limit to micro enterprises may be increased to one million rupees as commercial banks are not inclined to finance the small sector. This would facilitate the micro finance banks to also accommodate small entrepreneurs along with the micro sector.

## 4.14.4 Enhancing exemption limit for Cottage industries to Rs. 10 million

The existing limit of turnover for cottage industry is Rs. 5 mill ion or for utility consumption of Rs. 0.7 million. Keeping in view high market inflation and utility tariff, these limits have become outdated.

To promote the SME and cottage industry, it is proposed that the exemption limit for cottage industry be increased from Rs. 5 million to Rs. 10 million and the utility limit be raised to Rs. 1.2 million.

## 4.14.5 One-window Facility for SMEs

The government should consider providing one-window facility for SMEs where all basic amenities such as land, building, utilities, security should be provided in industrial parks.

# Chapter 5 | Tax issues of zero-rated export sector

## 5.1.1 Input Tax on packing materials of export sector

The zero-rating of local supplies of five export sectors was re-introduced in 2016 by making amendment in SRO 1125(I)/2011. However, vide SRO 491(i)/2016 dated 30.01.2016 condition (x) of SRO was substituted providing that input tax credit or refund shall not be admissible on packing material of all sorts.

The packing material of value added textile goods is a commercial requirement of business and reasonable expenses have to be incurred on the packing material. The disallowance was made only in the context that the reduced rate local supplies was being zero-rated once again and concession was intended to be compensated somewhat through this disallowance for which there is no legal rationale.

**It is therefore suggested that the proviso in condition (x) of SRO 1125 regarding disallowance of input tax on packing material may be deleted.**

## 5.1.2 Presumptive Tax Regime for Exporters

Presently, there is presumptive tax regime for exports as prescribed under Section 154 as well as for manufacturers of textile sector who provide specified services to the exporters as prescribed under section 153(2) of ITO 2001. Income Tax at the rate of 1% has been prescribed under Division IV of Part III of First Schedule on a bove transaction which is a final discharge of liability.

**It is suggested that either the General Rate of 1% for deduction on realization of import proceeds etc. is reduced to 0.5% or slabs are introduced wherein value addition and higher export proceeds are subjected to reduced rate. The uniform rate of 1% is not only excessive but also against the principle of taxation based on various slabs.**

## 5.1.3 Tax Treatment of Local Sales of Exporters

Presently, if the local sales of exporters of the goods manufactured for export are upto 20% of the total sales they have the option of taxation under the p resumptive tax regime for the local sales as well. This is being governed through a Circular (No.2 of 2002) issued way back.

Since ITO 2001 does not cater for the concession hence it would be better to incorporate the same in the main law and also to remove the unreasonable condition of Local Sale of only those goods which are manufactured for export. This condition is an irritant which leads to avoidable investigation and litigation which hampers the smooth business operation of export oriented units.

**It is suggested that instead of Circular, the regime is formalized through Finance Bill / Act and the stipulation of local sales of only those goods which are manufactured for export is done away with.**

## 5.1.4 Reduced rate of corporate t ax for export sector on their non-business income

The corporate tax payers are also deriving non-business income such as bank profit, dividend, capital gain on sale of shares and property income. Presently, there are standard rate of taxation of these sources of income for the corporate sector and there are no sector-specific concessional rate though the policymaker in case of business income has envisaged concessional tax treatment. Rather set off of business losses towards the property income is not allowed under section 56(2).

**It is suggested that reduced rate of corporate tax may be introduced for export sector in respect of their non-business income such as bank profit, dividend, capital gain and rental income. This other income is best use of available fund that would ultimately be used in export business and standard taxation of this casual income would reduce available funds for business growth and diversification.**

### 5.1.5 Harmonizing various provisions of ITO 2001 pertaining to exporters

The various provisions pertaining to exporters need to be harmonized. One provision gives option for taxation under the presumptive tax regime of local sales of up to 20% of export sales as export sales, whereas, the other provision raises the benchmark of export sales to 95 percent%. Hence both the provisions need to be harmonized. Further, exporters are withholding agents under Section 153 on purchase of goods and services being prescribed person. Clause (45) of Part IV of Second Schedule provides that the provisions of section 153(1) shall not apply to any manufacturer-cum-exporter provided certain conditions are fulfilled.

**It is therefore suggested that the condition (a) and (b) regarding payments made in respect of goods sold in Pakistan are rationalized and the benchmark of Export Sales of 95% is reduced to 80 percent.**

### 5.1.6 Permission to procure Gas under Zero-rate facility from SSGCL

As per Sales Tax General Order No.18 of 2007 dated 13-09-2007 (STGO No. 18) wherein Board specified that the natural gas falling under HS Code 2711.2100 of the First Schedule to the Customs Act, 1960 supplied by the Sui Southern Gas Company Limited (SSGCL) to generate electricity by the relevant manufacturing units of the registered persons mentioned therein as the goods on which sales tax shall be charged at the rate of zero percent. The zero rating facility has been allowed by the Board to nine (9) registered persons vide the above said STGO No.18. Companies other than above said nine registered persons mentioned in STGO 18 of 2007 who are generating power for exclusive use of their associated company/sister concern for manufacturing and supply of textile products subject to zero rate of sales tax are also entitled for procurement of natural gas at the rate of zero percent.

**It is suggested that all those units who are generating power for exclusive use of their associated company/sister concern for manufacturing and supply of textile yarn/products subject to zero rate of sales tax may kindly be extended the same benefits as available to the Registered Persons mentioned in the STGO No.18 of 2007.**

A number of taxpayers have applied for zero rating of supply of natural gas under the STGO No. 18 of 2007. It is suggested that their application may kindly be processed on priority and may be included in STGO 18 of 2007 without any further delay. It will bring those units at par with the above said nine textile products manufacturers and provide them fair playing field to survive the extreme liquidity crunch being faced by them on account of refund of sales tax.

### 5.1.7 Zero Rating of Coal, HFO, and Diesel under STGO 107/2016

The Government announced zero rating of fuel through amendment in SRO 1125(I)/2011 by inserting condition (xiii) therein. The procedure envisaged in the condition was notified under Sales Tax General Order No. 107/2016 dated 22.09.2016. In spite of lengthy records and statements provided to the FBR offices LTU/RTOs, applications are pending for want of verification by the concerned IR AC/DC.

**It is proposed that the availing of facility should be through e-portal on the pattern of electronic processing of refunds since 2010. The existing facility of e-portal for electronic processing of refund, with due changes, can be used for zero-rating for fuel especially in cases where Registered Persons already are enjoying zero-rating on utilities in pilot project.**

This will provide lot of relief to manufacturers who are struggling hard to be competitive to some extent with counties in the region. It will lesson burden on Field offices which was purpose of FBR reforms besides providing lot of timely relief for exports.

### 5.1.8 Inclusion of left out HS codes in SRO no. 62 (1)/2017

In pursuance of PM's incentive package for exporters, the Ministry of Commerce issued a notification vide SRO no. 62 (1)/2017 dated February 02, 2017, allowing drawback of local taxes and levies on non-textile exports. This SRO has become altogether ineffective due to non-inclusion of all relevant HS Codes. Due to this serious omission, almost 95% of manufacturer-cum-exporters are unable to avail maximum benefit of the incentive package.

**It is proposed that the flaw in the above notification i.e. SRO no. 62 (1)/2017 may be rectified through inclusion of remaining HS Codes.**

### 5.1.9 Expediting Income Tax refunds of Exporters

Billions of Rupees of income tax refunds are pending with the FBR and their delay has triggered serious liquidity crunch for the exporters and manufacturers and they are bearing huge financial cost on their own hard earned stuck-up money.

**The concerned authorities should therefore take realistic view of the matter and expedite the release of refunds of income tax to exporters and manufacturers at the earliest.**

### 5.1.10 Zero-rating of give export sector from tariff equalization charges

Energy is an important element of cost of production particularly for the spinning, weaving and processing industry. Its availability at regionally competitive price is important. Presently, the electricity tariff is Rs. 11/kWh in addition to tariff equalization charges of worth Rs. 3.63/kWh on five exporting sector.

**It is proposed that that the five exporting sectors which were zero-rated by FBR be also zero rated from different tariff equalization surcharges to bring the tariff in line with regional competitors. Further, the electricity tariff may also be reduced to Rs. 7/kWh to make industry competitive.**

### 5.1.11 Uniform gas price across the country

In the three provinces, gas is being provided at Rs.600/mm BTU whereas in Punjab, the industry is being given gas at Rs. 1300/mm BTU.

**It is proposed that gas price in all fairness should be uniform throughout the country at Rs.600/mm BTU inclusive of GIDC. Differential for gas price for exporting industry be met from budgetary support.**

### 5.1.12 Allocating funds in Budget for payment of Duty Drawbacks

In pursuance to announcement of export-led growth package on 10th January 2017 for the restoration of viability of industry and exports, the government has so far been able to provide Rs. 6 billion of duty drawbacks to manufacturer-cum-exporters.

**It is proposed that the government may immediately allocate funds in the budget through Finance Bill 2018 for the payment of duty drawbacks to claimants against exports to the State Bank for immediate disbursement to claimants.**

Furthermore, the Ministry of Textile Industry has notified procedure for applying claims of shipments made during 2017-18. **To encourage exports, it is proposed that payment of drawbacks be made on the realization of export proceeds against an undertaking for increase in exports on six monthly basis.**

### 5.1.13 Rationalizing utilities input cost for five exporting sectors

There is need for rationalizing the input cost including power and gas prices for the exporters of five value added sectors. The electricity tariff for textile industry comprises of various types of surcharges alongside system inefficiencies and recovery losses that leads to additional cost for the consumer.

**It is proposed that to bring down the input cost for the exporters, Rs. 6.63 per unit surcharge may be waived of immediately for the five exporting sector and a one energy price mechanism may be introduced throughout the country @ of Rs.7 per unit to ensure a level playing field.**

Further, the exporting sector is getting gas supply from the government from both domestic and imported sources with two different tariff, The Domestic supply is available at Rs. 600 per MMBTU plus Rs. 200 per MMBTU against GIDC where the imported supply at Rs. 950 per MMBTU the textile sector is heavily depended on gas supply which do not provides them a level playing field with in the country.

**It is proposed that the government should introduce weighted average price of gas both gas (WACOG) domestic and imported supplies to encourage new investment in the textile industry.**

**It is proposed that gas supply to textile mills, particularly located in Punjab may be made available by the government at Rs. 600 per MMBTU in order to bring down the cost of doing business in real term.**

### 5.1.14 Imposition of Regulatory Duty on Import of Synthetic Yarns

The import of synthetic yarns in particular PP and PV has surged to more than 50,000 tons annually under various HS codes of chapter 55, which has adversely affected the domestic commerce of Pakistan resultantly many spinning units have ceased their operations.

**It is proposed to impose 15 percent regulatory duty on the import of synthetic yarns entering into the domestic commerce of Pakistan.**

### 5.1.15 Extending incentive scheme to commercial exporters

The current incentive package for five value-added sectors is only for manufacturer-cum-exporters. This excludes an important portion of our export-oriented textile industry.

**It is proposed that the incentive package may also be extended to commercial exporters** .

### 5.1.16 Proper implementation of SRO 1125

Currently there is misuse of SRO 1125. The business falling outside the five sectors are also indirectly getting benefit from SRO 1125. There should be some check on undue powers available to custom authorities, so that the importer & custom authorities may not misuse this SRO.

**It is proposed that the benefit of SRO 1125 should be available to only registered manufacturers of five sectors. The commercial imports, importing raw material for five rated sectors, must provide a proof that sales were made to registered persons of these five sectors.**

A postdated cheque from the commercial importer may be kept in custody and these cheques should be released after due satisfaction and online verification that the sales were made to sales tax registered tax payer. An online system should be developed for smooth functioning and handling of postdated cheques, in such a way that manual interaction should be minimized.

# Chapter 6 | Policy Issues – Some Recommendations

## 6.1 How to enhance Tax Revenues?

**The fiscal space that government is looking for to implement its ambitious socio-economic agenda will not, and cannot be provided by continuing to increase taxation on already taxed sectors of economy. The taxation base needs to be widened through better documentation by bringing the under-taxed and all sectors currently out of tax ambit into tax net. Some new areas are suggested below:**

### 6.1.1 Tax incentive Scheme for regular taxpayers

The government announces tax incentive schemes for non-taxpayers as well as Tax Amnesty Schemes. However, there is hardly any tax incentive scheme for the regular taxpayers, rather they are harassed on old pending tax issues which remain shuffling between appeal courts, high courts etc. It is proposed that by offering some tax incentive scheme to regular tax payers for settlement of old and pending tax issues, the government can generate substantial tax revenues.

### 6.1.2 Targeting new tax payers having commercial electricity connections

There are around four million commercial electricity connections in the country which points towards increased commercial activities. It is proposed that FBR may target new tax payers on the basis of commercial electricity connections in order to broaden the tax net.

### 6.1.3 Imposing Taxes on Soft drinks and Energy drinks

The Government can generate revenue by imposing Tax on soft drinks and energy drinks, as being levied in other countries of the world, in view of its detrimental effect on human health. The Governments of UAE and Saudi Arabia are also contemplating to impose such kind of tax on soft drinks considering rising rates of diabetes and obesity across the Gulf region.

### 6.1.4 Renewal of registration of businesses subject to tax compliance

At present businesses are registered with different authorities such as SECP, FBR etc. All of them are not active tax payers. It is proposed that registration of all businesses in Pakistan should be made under a single 'Business Registration Authority' and all renewals of businesses should be subject to tax compliance like filing of annual Income Tax Return. NADRA is the best option as it has comprehensive national data base. This would help broaden tax base and increase revenues.

### 6.1.5 Taxing the Retail sector by offering incentives

The Retail sector contributes a nominal share in tax collection though it is a lucrative sector from where FBR can generate maximum revenue. According to estimate, around 70% to 80% retailers, comprising of small traders and shopkeepers earn more than exem ption limit. It is proposed that retail sector be taxed on income for which it should be made mandatory upon them to maintain electric cash registers linked with FBR server. They may be required to update stock daily and pay 1% tax on all kinds of purchases.

### 6.1.6 Taxing the Transport Sector by imposing a Fixed Tax

The transport sector also contribute a lesser share in national tax revenues despite the fact that medium transporters earn around Rs. 3000/- per day whereas heavy transporters like buses, trucks and trailers earn up to Rs. 10,000/-. This accumulates into taxable income. It is proposed that FBR may impose a fixed tax i.e. Rs. 10,000/ - for medium transporters and Rs. 15,000/ - to 25,000/- for heavy transporters.

### 6.1.7 Increasing income tax rate on Agriculture

The agricultural sector is the largest sector of national economy, contributing almost 24 percent share in overall GDP, but its share in total tax collection comes to only one percent. It is proposed that income tax rate on agriculture may be increased and agricultural income should be brought under tax net. This is the neglected area from which tax revenue can be generated by the FBR.

### 6.1.8 Tax credit to new taxpayers as incentive for filing tax returns

FBR provides low tax rate to traders and industrialists who discloses their hidden income. On the same line, the FBR may also consider offering some tax credit to new taxpayers for the first two years as an incentive for filing income tax returns. This may also include such persons who have NTN numbers but did not file income tax returns for one reason or other. This would help in generating revenue.

### 6.1.9 Expanding Scope of Taxpayer Privilege and Honor Card Scheme

In 2014, a 'Taxpayer Privileges and honor Card Scheme' was introduced for extending privileges/VIP facilities to 100 top taxpayers. This initiative was quite encouraging. It is proposed that scope of this Scheme may be broaden through Finance Bill 2018 to cover individuals paying income tax of Rs. 100,000/-. In this connection, various categories like Gold, Silver and Platinum Cards may be introduced with varied benefits as per the amount of tax paid.

### 6.1.10 Taxing the Private Schools and Universities

Under Clause 58 A, Part 1 of Second Schedule of Income Tax Ordinance, 2001 exemption from total income has been given to many organizations specially Universities being run by government or Non Profit Organizations. It is a fact that universities charge heavy fee from students and are able to pay income tax. It is proposed that through Finance Bill 2018, the government may charge some amount of tax from private schools and Universities which are running on commercial basis and minting money. This would open new avenue for tax revenue for the government.

# 6.2 How to reduce Government spending?

### 6.2.1 Cutting down Non-development expenditures

Non-development expenditures constitute a big portion of the government spending and include expenditures of the President House, Prime Minister' Secretariat- Federal Ministers, etc. It is suggested to cut down non-development spending so that money saved is utilized on productive developmental avenues which would eventually spur economic growth.

### 6.2.2 Closing down Projects incurring heavy losses or offering them to Private Sector

There are various government projects which are incurring continuous heavy losses to the treasury. Such projects need to be identified and closed down to save precious money running in millions of Rupees being incurred on them for keeping them in operation. The other alternative is to offer them to the private sector for taking over the loss -making entity at reduced price offer like PIA and Steel Mill.

### 6.2.3 Curtailing expenditures on General Public Service head

The Current expenditures have shown an increasing trend over the years. In current expenditures, General Public Service (GPS) constitutes the largest head of expenses. Under GPS, huge amount of revenue is spent on Executive and Legislative Organs, Financial an d Fiscal Affairs and External Affairs which includes parliamentarian expenses, ministerial departments, local government offices and inter-departmental committees not concerned with a specific function, such as certain expenses of the Department of the Pri me Minister and Cabinet, departmental monitoring and control of monetary and fiscal policy etc. It is suggested that the government should cut down these extra expenditures on GPS.

### 6.2.4 Cutting down expenditure on Energy Subsidies

The subsidies given by the government to energy sector lead to widening of fiscal deficit. The subsidy amount is generated through banks borrowings which results in higher expenditures for the government. Recently, the government has even reduced the development budget as a result of subsidy reduction target as demanded by the IMF. This need s to be implemented to bring down expenditures.

### 6.2.5 Conducting Expenditures Reforms Analysis

The government should conduct 'Expenditure Reforms !nalysis' to determine direction and deployment of revenues raised as a result of various tax and tariff reforms. An 'Expenditure Reform Curriculum' may be developed that cover a detailed cost benefit analysis of government expenditures as well as analysis of adopting optimal approach for gradual shifting and reformation. Once the optimal expenditures are identified, it will be economically efficient to set targets for tax collections and revenue utilization.

### 6.2.6 Tracking current and development expenses

The current expenditures digest a major portion of financial plan. It is proposed that the government spending on current and development expenditures may be explored to investigate whether this spending is being utilized in line with the changing economic conditions.

### 6.2.7 Releasing next quarter PSDP funds after Audit of Utilized Funds

The government releases funds for PSDP projects on the basis of formula which is 20% in first quarter; 30% each in second and third quarters; and 20% in fourth quarter. It is observed that actual utilization of previous PSPD funds is less than 50 percent, which means the projects are not completed in time. It is proposed to conduct a a detailed audit to assess the actual utilization of funds on the project, prior to releasing the next installment of funds. This would lead to lesser expenditures and bring transparency

### 6.2.8 Reducing dependence on bank borrowings

A major dilemma associated with government spending is dependency on borrowings from banks. It is suggested that the government should reduce its dependence on bank borrowings which would eventually bring down its spending.

# 6.3 How to bring improvement in tax collection system?

## 6.3.1 Doing away with multiplicity of taxes and departments

Multiplicity of taxes and departments should be abolished and different investigative departments under FBR may be merged into one Department. Sales Tax on Services may be collected by FBR as previously in practice. Presently, a host of officers under Inland Revenue Service (IRS) are issuing notices to tax payers for compliance/explanation on different issues on one pretext or the other. The issuance of such notices may be made by only one officer for all matters regarding any deficiency/explanation.

## 6.3.2 Curtailing powers of Director General Intelligence

A Directorate General Intelligence has been established by FBR which has unlimited powers including raids. This has led to undue harassment of tax payers and trust deficit. It is proposed that the discretionary powers of DG Intelligence may be curtailed and confined only to highlighting tax evasions and not adjudicating matters of taxpayers. The taxpayers found guilty may be served proper show cause notices and their cases may be referred to the concerned RTO/LTU and further proceedings may be initiated by the concerned Commissioners so as to discourage harassment of taxpayers.

## 6.3.3 Punitive provisions for tax officials on misuse of discretionary powers

As there are many punitive provisions for tax payers on non-compliance with different rules and regulations, some punitive provision may be introduced for both Income Tax and Sales tax officials who are not acting in accordance with their obligations, and use their discretionary powers to harass tax payers or delay in passing on the relief to tax payers promptly. These provisions would improve efficiency of tax officials and remove the reservations of the trade and industry.

## 6.3.4 Simplifying Tax procedures for SME's and individual taxpayers

The composition of tax payers reveals that very few tax payers are multinationals or large corporate tax payers. Almost 90% of tax payers are AOPs, INDIVIDUALS, and SMEs. It is proposed that procedures, rules and regulations for these assesses should be simplified. Also, any rule or regulation, when amended, altered, or reissued with new wordings, should be simple, clear, and provide complete text with amendment instead of referring to old notification and only mentioning amendment made.

## 6.3.5 Simplifying Tax compliance procedures

The tax payers are burdened with a host of formalities, requirements and forms to be filled in and submitted within fixed deadlines and on any delay or non-submission, huge penalties are being imposed. An average individual/AOP/SME does not have resources or finances to comply with such requirements. As such, the tax compliance procedures should be made simple.

### 6.3.6 Applicability of Tax laws and notifications

All taxation laws and regulations should be made effective from the date of notifications and not from the retrospective date. This would avoid complexity and facilitate taxpayers.

### 6.3.7 Intimidating language of FBR Notices

The language of FBR notices is very pinching and intimidating which de-motivates the tax payers and eventually creates hindrance to provide relevant information to FBR. A soft and encouraging language may be used to get any information from the taxpayer.

### 6.3.8 Authoritative behaviors of FBR Officials

Tax collecting officials of FBR demonstrate an authoritative and bureaucratic style which needs to be changed. The FBR staff should be trained and groomed in a professional way.

### 6.3.9 Provide guidance to salaried tax payers on claiming tax refunds

Majority of salaried class are unaware of procedure for claiming income tax refunds of deducted amount of tax. FBR Taxpayer Education and Facilitation Wing should start an awareness campaign for salaried taxpayers on how to claim refunds of the deducted amount from salary. A detailed brochure for available tax credits should be displayed on FBR's website after every change in Finance Act along with examples.

### 6.3.10 Adjustment of Deductions at Source from Quarterly Advance Tax

Presently, the Withholding Agents deposit withholding tax to FBR on weekly or monthly basis. It is proposed that FBR may devise a mechanism of adjustment of deduction at source from quarterly advance tax so that when a taxpayer claims tax deduction at source, his data is taken from FBR records by clicking that deposits which the WH Agents have deposited earlier on their NTN number. This would help in resolving discrepancies and ultimately both the FBR and taxpayers would be comfortable enough to justify deduction at source.

### 6.3.11 Allowing Withholding tax within seven days

Previously Withholding Agents were required to deposit withholding tax within seven days from the end of each fortnight which is now required to be paid within seven days from the end of each week, which is very time consuming and increases the cost of compliance. It is suggested that Rule 43 be amended so that withholding amount may be deposited within 7 days of end of month on monthly basis.

### 6.3.12 Removing deficiencies in the Crest System

Deficiencies in the design of CREST are causing great hardships for the concerned taxpayers. The "Tariff Information" is not updated in STRNs of taxpayers due to which such units which are known to exist by in textile sector by dozens of government agencies are not regarded a textile unit by the CREST and, resultantly, its associates are put to question regarding the supplies involving such units. It is proposed that CREST should be for data matching purpose and registered person's liability to be limited to own affairs instead of it being questioned for customer affairs esp. pertaining to various customer discrepancies as per CREST manual like Non-Filing of return, Sales not shown etc.

## 6.4 General Proposals

### 6.4.1 Setting up a Policy-making statutory Body separate from FBR

It is proposed that a policy-making body, separate from the Federal Board of Revenue (FBR) may be established having representatives from the Planning Commission, Ministry of Finance, Ministry of Law, FBR, Professional Bodies like ICMAP and ICAP, Tax Bar Association, chamber of Commerce and Stock Exchange. This body should make amendments in tax laws and finalize the Finance Bill well before the announcement of budget in Parliament.

### 6.4.2 Making the Appellate forums Independent from influence of FBR

The Appellate Forums should be made independent from the influence of FBR. The tax adjudication system must rest on fundamental of independence, insulation and isolation from tax collection. The prosecution must be separated from adjudication with gradual shift towards independence by transferring adjudication system under the command and control of independent office or Ministry of Law or most preferable under respective high courts in conformity with section 10A of the constitution.

### 6.4.3 Withdrawing amendments made in WWF Law

Amendments made in Workers Welfare Fund (WWF) law through Finance Act 2006 and 2008 should be withdrawn as it has enhanced the burden of taxpayers and has triggered litigation. Further, the levy is not being utilized for workers welfare and as such it is unjust to enhance the scope of this levy when it is not utilized for the purpose declared in the relevant law.

### 6.4.5 Ending weekly holiday on Saturday in Government

It is proposed that the weekly holiday on Saturday's in government organizations may be done away with in order to save the country from economic loss. Prior to 2011, the government organizations worked six days a week which was later changed by the previous government.

### 6.4.6 Fixing number of gazette holidays for export -oriented industries

There are 14 gazette Holidays and 52 Sundays which total up 66 holidays in a year. Apart from casual and privilege leaves, the frequent holidays (such as Holi religious event of Hindus) declared by the Provincial Government hurts the production schedules of export units. It is proposed that the government may fix number of gazette holidays for the export oriented Industries in the year and the workers may not be entitled for provincial government's holidays. The fixed gazette holidays can be adjusted by the employer and employee with mutual consent.

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