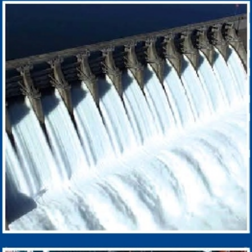
ICMA Pakistan's

Fiscal Budget Proposals 2019-20



ICMA Pakistan

Estd. 1951

Institute of Cost and Management Accountants of Pakistan

Vision Mission & Core Values

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

Published by:
Research and Publications Directorate
ICMA Pakistan
Tel: 021-99243900 Ext 117
Email: rp@icmap.com.pk
Web: www.icmap.com.pk

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 post graduate 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.

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Foreword

ICMA Pakistan has been playing its due role in extending professional support to the Government in the formulation of financial and economic policies, including suggesting amendments in the existing laws so as to provide an enabling environment to the business and industry to operate with ease for the economic growth and prosperity of the country. To continue with this legacy of ICMA Pakistan, I am pleased to present the Fiscal Budget Proposals 2019-20, suggesting some vital changes in taxation laws i.e. Income Tax, Sales Tax, Federal Excise, Custom Duty, which aim to creation of conducive environment for the flourishment of business, industry, investment, exports and improving the ease of doing business.

Pakistan is presently passing through a difficult phase of history. The immediate economic concerns faced by the Government are sliding down GDP growth, rising fiscal deficit, low collection of tax revenues; stagnant exports; depleting foreign investment and spiraling inflation which is directly hitting the common man. The government is taking some hard decisions to put the economy in the right direction. Recently, the agreement with IMF has also been concluded under which Pakistan will be receiving US$6 billion bailout package, to be disbursed over a span of more than three years. ICMA Pakistan is hopeful that these hurdles would soon be surmounted provided right decisions are taken at the right time.

The Government, through the Finance Supplementary (Second Amendment) Act, 2019 has endeavored to broaden the tax base by making various amendments in the laws, the results of which are yet to come. However, still some areas are untaxed or under tax which need to be covered in the coming budget. More drastic steps are also needed to curb imports; control non-development expenditures and improve governance and efficiencies in Public Sector Enterprises.

I must acknowledge the members of ICMA Pakistan and various trade bodies for their inputs which made these proposals possible. The members of ICMA Pakistan are having decades-long diversified experience and are engaged in every sector of economy and playing vital roles in bringing cost efficiency, professionalism and development of national economy not only for now but for years ahead. It is urged that these competencies of members of ICMA Pakistan may be utilized for revamping taxation system and machinery; bring efficiency in the government delivery system by reviewing their decision making and corporate governance, augmentative audit and review of procedure and appropriate economy strategy. Any call from the government and regulators to play role in national cause in these areas will always be welcomed.

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

Zia ul Mustafa, FCMA

President, ICMA Pakistan

From the Desk of Chairman, Research & Publications Committee

The National Budget, being an economic policy tool of government, primarily aims to use the financial resources of the country towards undertaking development and welfare projects; provision of education and health facilities; upgrading defence capabilities; supporting trade and industry for growth and uplifting of under-privileged sections of society.

Being a professional body, ICMA Pakistan, has the legacy of participation in national issues related to economy and corporate sector. We feel pleasure in submitting fiscal budget proposals covering interalia income tax, sales tax, custom duty and federal excise as well specific sector/industry proposals. Additionally, some ideas have been provided on how to generate revenues and curtail expenditures which merit the attention of the Government.

The twin deficits our economy is experiencing at this juncture, coupled with rising inflation and downslide in investment and exports have posed serious threats to our country. All stakeholders, inclusive of ICMA Pakistan expect that upcoming budget 2019-2020 will be centric to these issues specifically to widen the tax base instead of increasing tax burden on already taxed people. New tax avenues need to be explored which is a dire need of the time. Effective measures need to be taken to boost exports and curb imports of luxury goods. Serious steps are also required from the Government to provide relief to the general public who are faced with high inflation. Also important is to tackle the issue of tax evasion by revamping the tax machinery and providing incentives for setting up new industries.

The management accountants can play a pivotal role in pragmatic and cost-effective solutions to the Government in taking the right decisions for the benefit of the economy and the general public.

It is hoped that proposals put forward by ICMA Pakistan will meet due consideration of regulators and the Federal Board of Revenue.

Muhammad Yasin, FCMA

Chairman, Research and Publications Committee

Chapter 1

Policy changes in Tax laws

1.1 Re-structuring Tax laws in line with 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. 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.

It is proposed that taxation laws should be re-structured in line with our economic priorities; 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. This alignment of fiscal policies with economic framework will help Pakistan to meet the medium to long-term economic goals.

1.2 Bringing Income tax laws in line with IFRss/IAss/Company Act

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 prevailing Companies Act 2017. However, there exists conflict between the Income Tax Ordinance (ITO), 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 ITO 2001 are quite differ- ent from what is being systematically and logically explained in IASs/IFRSs.

It is suggested that depreciation and carrying amount of fixed assets, as stated in audited financial statements, may be allowed in ITO 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 ITO, it may be noted that Sections 22, 23, 23A and 23B of ITO; 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 IASs/IFRSs.

It is proposed that inventories consumed and inventories carrying amount as stated in audited financial statements may be allowed in section 35 of ITO, 2001; Companies Act 2017; IAs 2 and other related IAss/IFRss.

(c) The accounting treatment of **Long-Term Contracts** in the ITO is different from what is being systematically and logically explained in IASs/IFRSs.

It is proposed that contracts' work in progress and related items, as stated in audited financial statements, may be allowed in section 36 of ITO, 2001; Companies Act 2017; IAs 11 and related IAss/IFRss.

(d) The ITO 2001 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 Act 2017, while allowing few provisions of finance lease.

It is proposed that lease treatments, which is on finance lease basis, as stated in audited financial statements may be allowed under section 18(3), section 22(12), section 23(4) and section 28(1)(b) of the ITO 2001;Companies Act, 2017; IAs 17 and other related IAss/IFRss.

1.3 Simplifying Direct and Indirect tax structure

According to the World Bank Report on 'Ease of Doing Business 2019', the process of paying taxes in Pakistan is complicated and cumbersome. There is, therefore, need to simplify the tax structure of Pakistan which is a major impediment in ease of doing business reforms.

It is proposed that the following initiatives may be taken to improve the Direct and Indirect tax structure;

Direct Taxes: There should be a single mode for determining income tax liability i.e. net income basis instead of several modes which are presently applicable viz. net income basis; final tax regime, minimum turnover tax; alternate corporate tax, minimum tax on services etc. Further, the Return filing process for all taxpayers should be simplified and the number of tax payments required to be made during the year should be reduced.

Indirect Taxes: The sales tax laws may be simplified, for instance, deletion of provisions of section 8B which is against the basic principle of value added tax and has resulted in interpretational issues. Further, the filing of sales tax return should be made on quarterly basis instead of existing monthly filings.

1.4 Removing anomaly of deducting Income Tax on Losses

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 one or two years. However, minimum tax has become a permanent tax and its 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 deduct or collects income tax from a taxpayer @ Rs. 60 million whereas his actual loss for said tax year after adjustment for add/back is Rs. 15 million. So, under the Constitution of the Pakistan, such taxpayer should not be subject to income tax but the government charges income tax from the taxpayer on Rs. 60 million under the final tax regime.

1.5 Removing anomaly of Transitional advance tax

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 under chapter XII. 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 Removing anomaly of capital gain tax on immoveable properties

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 Removing anomaly of imbalanced treatment for non-residents taxpayers

Non-resident taxpayers having permanent establishments in Pakistan are subjected to income tax as to resident taxpayers' subject to some restrictions as per Section 105 of ITO 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 ITO 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 ITO). This tax anomaly needs to be corrected.

1.8 Setting FBR revenue targets in 'Gross terms' instead of 'net Terms'

FBR allocates revenue targets in “Net Term' as a consequence of which FBR Tax offices are reluctant to process and sanction refunds as well as exemption certificates in fear of falling short of assigned 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 the stumblings 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 proposed that tax payers should be asked to make payment after giving him credit of receivables under any Heads. If Income Tax and Sales Tax functions 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 treasury (PRAL) is not well-defined. The procedure needs to be well-defined and notified by FBR.

1.10 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 Group Taxation in sales Tax

At present, there is no concept of group taxation in the sales tax law on the pattern allowed under the income tax law.

It is proposed that group taxation may be allowed by incorporating its provision in the sales tax law. This would give taxpayer an option to be taxed as a single fiscal unit for sales tax purposes which means that sales tax refundable of one group company could be adjustable against the sales tax payable of another group company. This would eventually ease the financial burden on the group of companies.

1.12 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.

1.13 Requirement of NTN number for Gas connection

Presently there is no hard and fast rule for gas connection / electric connection like NTN number.

It is proposed that to bring the small shopkeepers/ retailers/ AOPs into the tax net, NTN should be made compulsory for obtaining a commercial meter. Initially, the small shopkeepers/ retailers/ AOPs should be exempted from any tax and audit for first 5 years in order to encourage them to come into main tax stream.

1.14 Appeals [Section 127-129]

Section 127 to Section 129 of ITO 2001 deals with appeals to Commissioner Appeal who happens to be the person of the department and usually takes side of the department and being an internal authority exercises undue pressures on the assesses and creates undue hassle in obtaining Stay Orders and Decisions on Appeals. Ample opportunities for corruption are there under current appeal regime.

It is proposed that the appeals procedure should be changed and instead there should be Appeal Committees in every regional Tax Office comprising of (1) an officer of the level of Commissioner; (2) a representative of the business community; (3) a professional accountant of good standing; and (4) a lawyer of good standing. The proposed Committee may be bound to make a decision within 60 days of filing of appeal before it. Automatic stay till the decision on appeal plus 30 days should be available upon filing of appeal with the Appeal Committee and any officer violating the automatic stay by initiating any recovery proceedings should be removed from the employment and punished by imprisonment between 3-5 years.

1.15 Setting up a separate Commission to deal with NPOs/Charities

From granting the status of NPOs to granting of exemption and audits, the FBR officials exercise undue discretionary powers which discourages fair working by the NPOs.

It is proposed that charities to be taken out of the ambit of FBR and a Charities Commission may be established and a Charities Act be promulgated. All NPOS/charities should be required to be registered with Charities Commission under Charities Act. Powers of FBR related to NPOs should be done away with and given to Charities Commission for granting the status of NPO and exemptions. All types of statutory reporting will then be to one single institution which will effectively help the government in monitoring and policy making.

1.16 Privileges for Compliant Tax Filers

Presently honest and compliant taxpayers are not extended any priorities for various facilities available in the society like it is done in advance countries to encourage enrollment of citizens in tax base.

To motivate compliant filers /existing tax payers and enticing non-taxpayers to come under the tax net, it is proposed that the government should consider to provide lucrative incentives to them such as life insurance, health insurance, priority treatment in government hospitals; priority in admission of their children in government schools and universities; priority for entry to VIP places etc.

1.17 Allowing access to tax reduction certificates

Presently there is no access available to taxpayers to extract their certificates, reports of tax deduction at source under Section 164 of Income Tax Ordinance, 2001 and Rule 42 of Income Tax Rules, 2002

It is proposed that access should be allowed to certificates for reduction to taxpayers and others and further it should automatically adjustable while filing the tax returns by the tax payers. It will also ensure that withholding agents are depositing due tax to the Govt. exchequer

1.18 Deposit of 10% of tax demand against cases under appeal

Currently, in case appeal is pending at Commissioner Appeal level and taxpayer deposit 10% of the tax demand, then recovery proceedings are not initiated. Mostly heavy undue demands are created and recovery proceeding are initiated by the Tax Department including attachment of Bank Accounts.

It is proposed that Recovery proceedings may not be initiated on deposit of 5% of the tax demand if any appeal is pending with before the Commissioner Appeal IR or before Appellate Tribunal. Recovery Procedure may be made lenient. The element of harassment in taxpayers should be removed.

1.19 Filing of tax returns [section 114 (1)(b)(vii)]

It is proposed that every person who has obtained NTN be replaced with the words "registered with the FBR" to remove the anomaly because CNIC is declared as NTN.

Chapter 2 Direct Taxes

2.1 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 25% tax whereas 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.

2.2 Depreciable Cost on Vehicle [Section 22 (13)]

As per Sub-Section (13) of Section 22 of ITO 2001, the admissible cost for calculating depreciation on vehicle [not plying for hire] is Rs.2.5 million that was substituted through Finance Act, 2012.

Keeping in view the currency devaluation and multi-fold increase in the value of vehicle, it is proposed that cost of value under this section to calculate depreciation may be raised from Rs. 2.5 million to Rs. 5 million.

2.3 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, token 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.

2.4 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.

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.

2.5 Small Company as Withholding Agent [Section 25]

The Finance Act 2005 introduced the concept of 'Small Company' with the intention to reduce tax rate to 25% and exempting it from being a withholding agent, enabling 'individuals' and 'association of persons' to conduct business in corporate structure and be a part of organized and documented sector. Subsequently, the exemption from being a withholding agent in case of small company was withdrawn and associations of persons/individual with turnover exceeding fifty million rupees were also made a withholding agent under Section 153 of the Ordinance. As such now the small companies are in a dis- advantageous position.

It is proposed that a 'small Company' including company having similar business and turnover should be brought at par with an Individual or AOP having turnover up to Rs.50 million.

2.6 Allowing bad debts on financial statements basis [Section 29]

Currently, provision for bad debts is not an allowable expenditure in the Income Tax Ordinance 2001 till the time the bad debt is actually written off in the accounts. This rule is very stringent as the companies do not write off their bad debts and recovery procedures are ongoing for many years. Companies lose legal standing of the case once the debt is written off in the accounts (especially for major amounts that are visible). Further, working capital of the company suffers as the company pays the tax for the amounts not received for years.

It is proposed that provisioning of bad debts at admissible expenses may be allowed in that year, whereas recovery of amount to be credited to profit and loss account and to be taxed in the year of recovery.

2.7 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 in the country.

2.8 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 the time period for carrying forward the loss, not set off, be enhanced from six tax years 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.

2.9 Exemption of Income of WPF [Section 60B]

Background Income of the Workers' Participation Fund is exempt under the WP Fund Act, 1968, which was accepted under the Ordinance by virtue of a proviso to Section 54 of ITO 2001. However, through the Finance Act, 2008, the proviso to Section 54 of the Ordinance was omitted. As a result exemption provided to the income of the WP Fund under the WPP Act lost its applicability, which appears contrary to the purpose of entire Scheme.

It is proposed that since the WP Fund is not a profit earning activity and paid to workers or deposited with the Government, a proviso may be added in the Income Tax Laws thereby providing exemption to a WP Fund.

2.10 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 60A 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.

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

Under Section 65E, tax credit has been allowed to a company investing any amount with atleast 70% new equity raised through issuance of shares, in purchase and installation of plant and machinery for an industrial undertaking, for purposes of expansion 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 should also be made eligible for tax relief.

2.12 Omission of sub-section 7 on Foreign Tax credit [Section 103]

As per sub-section 7 of Section 103, a foreign tax credit has been allowed only if the foreign income tax is paid within two years after the end of the tax year in which the foreign income to which the tax relates was derived by the resident taxpayer. In many countries, assessment of income and tax liability takes a long time and the tax paid on completion of such assessments cannot be claimed due to the limitation of two years.

It is proposed that the provision of sub-section (7) may be omitted.

2.13 Eliminating the requirement for approval of Commissioner [Section114 (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 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.

2.14 Non-allowing further amendment in Assessment Order [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.

Furthermore, under Section 122 (5A) of ITO 2001, 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.

It has also 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 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.

2.15 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.

2.16 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.

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

Under Section 128 (1A), the Commissioner (Appeals) has been 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.

2.18 Recovery of Tax through Attachment of Property [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.

2.19 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 tax-payer. 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.

2.20 Direct recovery of Tax [Section 140(1)(b)]

It has become practice of tax authorities of visiting the taxpayers' bank and requiring the bank manager to immediately pay the amount from the taxpayers' account. In some cases, recoveries have been made in haste even where the matter has already been decided by the judicial forum in favour of taxpayer or even where huge amount of refund is pending to the taxpayer exceeding the amount of demand raised.

It is proposed to require the taxpayers' bank, by a notice in writing, to freeze the bank account(s) and set-aside the amount sought to be recovered, in the first instance, till the end of 15 days from the date of receipt of notice served on the bank. In the second instance, requiring the bank to make payment of the default amount after end of 15 days unless the recovery notice is withdrawn. necessary amendment is suggested in the law to incorporate the above proposal.

2.21 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 that applicable for corporate entities where advance tax is computed on quarterly turnover basis as provided under subsection (4) of section 147 of ITO 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 therefore proposed that this problem should be resolved on priority.

2.22 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 tax payable amount and thereafter pay 50% of such amount by the due date of 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 filed 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 estimation of tax liability on the part of the taxpayers and reduce tax litigation between taxpayers and the tax collecting authority.

2.23 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, there is procedure 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.

2.24 Limit of taxable amount [Section 153]

In terms of recent amendments made through Finance Act 2018, FBR has allowed to make payments to vendors without applying income tax withholding rules under section 153 in case of persons receiving payments:

a) not exceeding Rs 75,000 in aggregate on account of supply of goods, in a financial year, and

b) not exceeding Rs 30,000 in aggregate on account of services rendered in a financial year.

These enhanced limits are still low and need revision. Further, in terms of SRO 586(I)/91 dated June 30, 1991, FBR has allowed to make payments to vendors without applying income tax withholding rules in case of persons receiving payments:

not exceeding Rs 10,000 on account of execution of contracts, in a financial year.

Provided that where total payments in a financial year exceed Rs 10,000, the payer shall deduct income tax from payments including the tax on payments made earlier without deduction of tax during the same financial year.

This limit was prescribed more than 25 years ago. Significant time has lapsed and due to inflation in the economy, needs to be revised.

It is proposed that these limits may be revised upward so as to make these provision compliance-friendly.

2.25 Compensation to Withholding Agents [Section 153]

FBR has been availing the services of withholding agents free of charge.

It is proposed that the withholding agents should be allowed 2.5% of the amount of tax collected as service charges on the principle of natural justice or alternatively be allowed to reduce the amount of tax payable equivalent to the amount of 2.5% of tax collected / deducted, as it is observed that agents are incurring heavy operational expenses in this respect as well as are imposed penalties for errors deducted in audit.

2.26 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 litigation.

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.

2.27 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.

2.28 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.

2.29 WHT @ 5% on export Agent Commission [Section 154(2)]

As per Sections 154(1), (3), (3A), (3B) and (3C) of the Ordinance tax on realization of export proceeds is collected @1%, similarly the services provided in textile industries are also subject to withholding of tax @ 1% as envisaged in Section 153(2) of the Ordinance, whereas rate of WHT tax on commission of export agent is 5%,which puts an additional burden on such commission agent.

It is proposed that rate of withholding of tax on commission of export agent may be reduced to 1 percent.

2.30 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 be made in section 156 to protect against un-warranted dispute being raised.

2.31 Withholding Tax on Promotional Material [Section 156]

It is general trend in the market that in some businesses, particularly consumer items', free promotional items and prizes are given to distributors, wholesalers and retailers on achieving sales target. Such incentives are already covered under Section 18(1)(d) of the Ordinance and chargeable to tax as business income and not income from prizes and winning as envisaged under Section 156 of the Ordinance.

Under Section 156 of the Ordinance tax is deducted @ 20% by the payer on prizes given to the customers and tax is recoverable by the tax authorities from the payers, even on the value of free goods given to their customers, which is unjustified and impracticable.

It is proposed that necessary amendment may be made in section 156 by inserting following explanation:

"The Prize means winning by chance and does not include payments either in cash or in kind to any person on achieving sales target or promotion of business"

2.32 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.

2.33 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.

2.34 Rate of additional payment for delayed refunds [Section 171]

In terms of section 171 of ITO 2001, where a refund due to a taxpayer is not paid within three months of the date on which it becomes due, the Commissioner shall pay to the taxpayer a further amount by way of compensation at the rate of KIBOR plus 0.5 percent per annum of the amount of the refund. However, in terms of section 205 of the Income Tax Ordinance 2001, where a person who fails to pay any tax, default surcharge or penalty shall be liable for default surcharge at a rate equal to 12 percent per annum. This is against the law of equality and justice. Both tax department and tax payer should bear the consequence of late payment at the same rate.

It is proposed that an amendment be made in section 205 of the Ordinance and same rate should be applied @ KIBOR plus 0.5 percent per annum for taxpayer in case of delayed payments of tax and tax department in case of delayed payment of refunds.

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

Under Section 236D, 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 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.

2.37 Increasing basic exemption limit for salaried 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 be reduced to 20 percent to provide them relief 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.

2.38 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, it tantamount to an additional burden on salaried individuals.

It is proposed that this should be abolished by eliminating clause 3(a) of Part I of Sixth Schedule of IT Ordinance, 2001.

2.39 Inserting a new 'Tenth Schedule' on Mutual funds and collective Investment schemes

It is proposed that section 100D may be inserted through Finance Bill 2019 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 percent of its income excluding capital gains realized and unrealized.

2.40 Inserting a new 'Twelve Schedule' on approved Pension Funds

It is proposed that a new section 100F may be inserted through Finance Bill 2019 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.

2.41 Deposit of Withholding Tax

Previously withholding agents were required to deposit withholding tax within 7 days from the end of each fortnight. However, it is now required to be paid within 7 days from the end of each week. The said change has increased both the compliance time and cost.

It is proposed to make suitable amendment allowing deposit of tax within 7 days from the end of each month(monthly basis).

2.42 Admissibility of exploration expenditure

Petroleum exploration companies are not allowed to claim exploration expenditure unless the commercial discovery is made or the well is dry or area is surrendered. Even after commercial production, intangible exploration expenditure is allowed as deductible expenditure over a period of 10 years. Further, tax depreciation of tangible assets is allowed after commencement of commercial production.

It is proposed that all intangible exploration expenditure may be allowed as tax deductible in the year of the expenditure and tax depreciation should be allowed from the year of purchase of assets. It is further proposed that suitable amendment may be made in ITO, 2001 allowing intangible exploration expenses on accrual basis as and when incurred and tax depreciation of related tangible assets should be allowed from the year of purchase; at least for those companies which are in tax paying position.

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 [ST- GO] 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 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, under paying 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 under-payment 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 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 Time of supply [Section 2(44)]

The sales tax liability is required to be discharged on accrual basis irrespective of whether or not the amount of sales tax is received from customers.

It is proposed that sales tax from Power sector may be allowed to be deposited after receipt/collection of amounts instead of on accrual basis as consider an amount is usually stuck up in circular date and payment of sales tax before receipt is heavy burden on industry.

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 Time Period for Input Tax Adjustment [Section 7]

Section 7(1) of the Sales Tax Act, 1990 allows input tax adjustment up to six months (from the month in which the invoice was issued). This limit was previously up to twelve months.

It is proposed that time limit for claiming input tax is extended up to 12 month as delayed receipt of invoices etc. result in deprivation of legitimate right of input tax claimant.

3.1.6 Introducing pure sales tax system [Section 7A]

The present sales tax system in Pakistan is quite cumbersome and signify a blend of several kind of taxes such as VAT, Turnover tax, Presumptive tax.

It is proposed that a pure sales tax system may be introduced under which the government may charge sales tax @ 10% at import and manufacturing stage and @2% on all traders at all stages in the supply chain i.e. distributors, wholesalers and retailers.

Every trader having NTN and filing tax return may automatically be considered registered for sales tax and may be liable to submit sales tax return every month showing purchases, sales and closing stock. The traders would be willing to pay this small amount of sales tax instead of present 17 percent sales tax. This would also help in documentation of economy and provide ease of doing business as well as minimize the refund problems.

3.1.7 Tax Credit not Allowed Claim of Input Tax [Section 8(1) (ca)]

In terms of section 8(1) (ca) of the Sales Tax Act, input tax credit is not allowable in respect of goods on which sales tax has not been deposited by the supplier into the Government Treasury. Further, in terms of section 7(2)(i) of the Act, input tax is not allowed to a registered person if the supplier has not declared such supply in his return or he has not paid amount of tax due as indicated in his return

It is proposed that Clause (ca) of sub-section (1) of section 8 be deleted as the compliant taxpayer making the payment in good faith should not be made responsible for non-compliance by the supplier.

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

Under Section 8A, it is stated 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 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.

3.1.9 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 proposed that section 8B may be removed from the statute.

3.1.10 Sales tax input / output adjustment [Section 8(1)(b)]

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.

3.1.11 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.

3.1.12 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 to amend this section appropriately to avoid misuse of powers by the Commissioner.

3.1.13 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.

3.1.14 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.

3.1.15 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 120days.

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.

3.1.16 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.

3.1.17 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.

3.1.18 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.

3.1.19 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 the company. The ITO 2001 caters such issues under section 139.

It is proposed that provision analogue to section 139 of ITO 2001 may be introduced in the sales Tax Act with respect to tax liability.

3.1.20 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.

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

3.1.21 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 agent 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

3.1.22 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.

3.1.23 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.

3.1.24 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.

3.1.25 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.

3.1.26 Doing away with U485 (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 this SRO may be withdrawn by the Federal Government to remove the anomaly.

3.1.27 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.

3.1.28 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.

3.1.29 Providing separate sales tax registrations to two or more businesses of same entity

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.

3.1.30 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 registered taxpayers while making payment to registered persons.

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 / 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 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 Certain Transactions not Admissible U/s 73 & sale to Unregistered Person U/s 73

The Finance Act, 2013 states that only such bank accounts of the registered persons will be treated as business accounts which are duly incorporated in their registration profile through proper insertion of changes in their particulars as given in application of registration by STR-I Form.

Since this provision is against the principle of simplification of law, it requires taxpayers to incorporate all their business bank accounts within their sales tax registration profile to claim input and compliance as per law within the ambit of section 73.

3.1.34 Issues Related to SRO 1125/2011-Verification of sales to Unregistered Person Under SRO 1125/2011 Read with SRO 491(I)/2016 Dated 30-06-2016

Field staff asks the registered person to verify the sales / supply made by him, under SRO 1125/2011, to an unregistered person. In the absence of any legal requirement to force buyer to provide their particulars, it is practically not possible for a supplier or tax officials to prove verification of unregistered person. it is also important to note the items listed in SRO 1125(i)/2011 are in majority used within these five export oriented sectors. However, the condition is abused by the field staff and encourage corruption and tax evasion.

It is proposed that the words, “REGISTERED” may be added at sub clause “IV” of condition 1 in SRO 1125, so that the supplies to Registered persons other than 5-sectors, is not bound to verify his sales to registered or unregistered person.

3.1.35 Registration and Deregistration U/s 14 & 21 Issue:

It is observe that despite high importance of registration & deregistration of Sales Tax so many lapses and immunities are found an smooth an hassle free entry and exit with in sales tax regime which create inefficiency and delays.

It is proposed that expeditious system be introduce resulting in registration within 7 days of filling application. However temporary sales tax registration may be issue to be followed by further verification process, which should idea liable completed within 60days.

3.1.36 Items subjected to GST On Retail Price Under Third schedule to The sales Tax Act, 1990 U/s 3(2)(A) Versus Imported Products

The items given in Third Schedule to the S.T Act 1990 are subject to GST on the basis of their retail prices. However, the imported products are subjected to sales tax on the basis of import prices due to which the price lower than the actual prices is declared to pay lesser GST.

It is proposed that the retail price of the imported good should be mentioned on the product and the GST be levied on the basis of retail prices.

3.1.37 Registration of Sales Tax at Federal & Provincial

Currently, the taxpayers doing business in Federal Capital as well as the provinces have to get themselves registered in Federal Board of Revenue as well as all provincial Revenue Authorities and file separate returns (generally 5 returns). This is a cumbersome job.

It is proposed that a single online integrated sales Tax Returns filing procedure may be introduced for Federal and Provincial sales Tax declaration instead of current separate filing requirements for federal and each province

3.1.38 Reduction in sales tax [Sales Tax Act 1990]

It is proposed that rate of sales Tax for incorporate businesses may be slightly reduced (like by 1%) as compared to for firms and sole proprietorships.

3.1.39 Tax holiday [ITO, 2001, Sales Tax Act, 1990]

Presently there is no tax holiday for those taxpayers who incorporate there business as LLP/companies.

It is proposed that tax holidays may be introduced for new business ventures for at least first five years from the date of incorporation.

3.1.40 Ambiguity in respect of list of services [Islamabad Capital Territory (Tax on Services) Ordinance 2001]

As per schedule to the 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, therefore there remains confusion in the field with respect to taxability under different serial numbers of the schedule.

It is proposed that 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.

3.1.41 Minimum threshold for registration under Islamabad Capital Territory (Tax on services) Ordinance 2001

There is list of 42 services which are taxable under the Schedule to the Ordinance 2001. There is no minimum threshold for registration and payment of sales tax on services except services mentioned at Sr. No. 5 (construction services), Sr. No. 7 (contractual execution) and Sr. No. 8 (beauty parlours etc). Under the current law, every services provider is required to be registered even if 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 .10million for manufacturers (as cottage industry) but for services providers there is not thresh- old limit. Further currently the rate of sales on services is 16%. Certain services are at reduced rates of 5% without input tax claim vide SRO 495(1) 2016 dated 4th July 2016. In most of the cases, there is hardly any input for provision of services except few services of telecom and banking. Therefore, the higher rate of tax on may be one of the causes of tax evasion.

It is proposed that minimum threshold of Rs.10 million per annum for registration may be fixed for all the service providers. However the provision for voluntary registration may also be provided for the persons having turnover less than 10 million. It is also proposed that the rate of sales tax on all services be reduced to 5% from existing 16%.

3.2 Custom Duty

3.2.1 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.

3.2.2 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.

3.2.3 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.

3.2.4 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.

3.2.5 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 Federal Excise

3.3.1 Eliminating Excise duty on services

Under the Federal Excise Act, 2005 the schedule of Excisable Services contains 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.

3.3.2 Removing list of excisable services from federal excise law

After the promulgation of Provincial Sales Tax Laws, the list of services 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.

3.3.3 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 off take 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.

3.3.4 FED on Retail Products

As per Section 12(4) of Federal Excise Act, 2005 where any good is chargeable to a duty on the basis of retail price, duty thereon shall be paid on the retail price fixed by the manufacturer, inclusive of all duties, charges and taxes, other than sales tax. This means the FED is also charged on S.T, hence, raising cost for manufactures.

It is proposed that section 12(4) may be amended to avoid tax on tax.

Chapter 4

Industry-specific Tax Issues

4.1 Tanning and Leather Industry

4.1.1 Inclusion of Dyed/Finished Leather in new DLTL scheme

The government has issued the Local taxes and Levies Drawback (Non-Textile) Order 2018 vide SRO # 711(I)/2018 dated 08.06.2018 with regard to provision of Drawback for shipments made from 1st July 2018 till 30th June 2021. However, the dyed finished leather has not been included in the list of eligible products (Non-Textile)

It is proposed that dyed finished leather with H.S. codes # 4107.1200 / 4107.9200 / 4107.9100 / 4112.000 / 4113.9000 & 4113.1000 may be included in the new DLTL scheme announced vide above notification.

4.1.2 Removing Custom Duty on import of Stamping Foils

Through the Finance Supplementary (Second Amendment) Act, 2019, 11% custom duty has been levied on stamping foils under H.S. codes # 3212.1000. The import of this item was earlier allowed under zero rated schemes as per Finance bill 2017.

It is proposed that 11% custom duty may be done away with in the forthcoming Budget.

4.1.3 Revision of Duty Drawback rates on export of Finished Leather

Duty Drawback rates were slashed down for export of finished leather vide SRO 923(I)/2015 dated 08.09.2015.

It is proposed to revise the rates of Duty Drawback as per the recommendation of IOCO after detailed survey and scrutiny made by it in association with Pakistan Tanners Association.

4.1.4 Removal of Quarantine requirement on import of raw hides & skins

Through SRO 1067(I)/2017 dated 20th October'2017, the government had introduced Safety Health and Procedural Requirements by making amendments in Import Policy Order, 2016. A number of items were required to be placed in quarantine including basic raw materials (raw hides & skins) for the Leather Industry.

It is proposed that the Quarantine requirement/condition on import of raw hides & skins may be removed.

4.1.5 Reduction in withholding tax and EDS

There is a withholding tax @1% and Export Development Surcharge (EDS) @0.25% on exports by the leather industries which is an additional burden.

It is proposed that the withholding tax may be reduced to 0.50% whereas EDS may be completely withdrawn.

4.1.6 Duty Free Import of Finished Leather

It is proposed that Duty Free Import of Finished Leather may be allowed under SRO # 492(I)/2009 dated 13.06.2017 with inclusion of related H.S. Code # 4113.9000.

4.1.7 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.

4.1.8 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.

4.1.9 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 upgradation, 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.

4.2 Hospitality and Tourism Industry

4.2.1 Clubbing of Taxes

The hotel industry is paying numerous taxes to the Federal and Provincial Government.

It is proposed that all these taxes may be clubbed into one Federal Tax and the other taxes charged by city or province may be withdrawn in order to provide relief to the hotel industry.

4.2.2 Reducing Minimum Tax on hotel industry sales

Under Section 153(1)(b) of ITO, 2001 the hotel industry is paying 8% minimum tax on corporate sales which results in tax rate of around 40% (with 29% tax on taxable income) which negates objectives of law to lower taxes on corporate entities.

It is proposed to reduce minimum tax on hotel industry sales from 8% to 1.25% to bring in line with Section 113 of ITO, 2001. Furthermore, new hotels should be exempted from minimum tax as they are unable to take credit of depreciation due to losses before reaching at breakeven period.

4.2.3 Advance Tax under Section 236-D

Through the Finance Act, 2018 an amendment was made in Section 236-D of ITO, 2001 whereby the advance tax on marriage functions has been enhanced from 5% of the bill amount to minimum Rs: 20,000 or 5% of bill amount, whichever is higher. This amendment has affected the business of the hotel industry in the country.

It is proposed that the advance tax may be withdrawn.

4.2.4 Duty free imports for hotel Industry

In the past, the hotel industry enjoyed duty free import of machinery and equipment which was later withdrawn.

It is proposed that hotels may be allowed duty free import of machinery, equipment, pre-fabricated structures and other items for construction of new hotels and to promote tourism in the country.

4.2.5 Tax Holiday for new Hotels

The Government is giving especial priority to the tourism sector and recently it has announced lucrative incentives to attract tourists and new investment in the sector in the wake of developments under CPEC. The upcoming budget may include further incentives in this regard.

It is proposed that Pakistani companies which intends to set-up new hotels in Pakistan, Azad Jammu & Kashmir and Gilgit and Baltistan, may be granted tax holiday for a period of at least 10 years, as this incentive will result in development of under privileged areas and creation of new job opportunities. Further, 50% initial tax depreciation may be allowed on new tourism project.

Other incentives like credit for Investment on the capital expenditure incurred and on Balancing, Modernization, Replacement and Extension of existing hotels, should also be considered.

4.2.6 Incentives for foreign tourists

To promote tourism and attract large number of foreign tourists, it is proposed that a sales tax (VAT) refund claim counter may be opened at major airports in the country to provide sales tax refunds to foreigners upon showing of sales tax registered purchase invoices on the lines of VAT as seen in other foreign countries.

It is further proposed that sales tax on any reservations made by foreign tourists and visitors through online bookings may be charged at reduced rates.

Since tourism industry is expected to bring foreign exchange, hotel and tourism sector may be declared as export-oriented industry.

4.3 Insurance & Takaful Sector

4.3.1 Capital gains on sale of securities

The Supplementary Bill, 2019 has proposed that the losses sustained during the year 2019 on disposal of securities can be set off during the year and subsequent two years the above amendment of supplementary bill does not stipulate that it will be effective for insurance companies.

It is proposed that suitable amendment in the fourth schedule of ITO 2001 may be made for applicability of this concession to insurance companies also.

4.3.2 Tax credit to individuals on personal lines /micro insurance products

Filers are entitled to tax credit on personal lines /micro insurance products/ health insurance premium under Section 62A of ITO 2001.

It is proposed that tax credit may be allowed in respect of Personal Accident, Travel, Householders, and Private Motors policies, so that insurance sector growth is enlarged at a minimum cost. Considering high inflation, thresholds may be enhanced from existing 20% to 25% of taxable income in respect of premium paid.

4.3.3 Withdrawal of Federal Insurance Fee on Insurance premium

In 1989, through the Finance Act, the government imposed Federal Insurance Fee @1% on general insurance policies with the aim to utilize the fee for promotion and development of insurance in the country.

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, as the levy has not shown any notable results.

4.3.4 Reduction of Advance Tax on Premium under Section 236 U

Non-filers policy holders are charged 1% on life insurance premium.

It is proposed that individual policy holders may be exempted from the applicability of advance tax under Section 236 U of ITO 2001 because it increases cost of insurance policy. It is further proposed that filers paying insurance premium for polices of their family members may be exempted as the premium paying head of family is already paying tax on his income. Rate of advance tax reduction may be brought down to 0.4% to popularize insurance culture as Pakistan is far behind regional countries in this respect.

4.3.5 Treatment of maturity payment

Maturity payments are treated as Profit on debt instruments. Life insurance does not fall under the debt definition under Section 151(I)(d) of ITO 2001.

It is proposed that maturity payments may not be charged as these payments do not fall in debt category.

4.3.6 Taxation on investment/ sales of securities [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 twelve months 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

4.3.7 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 policy holders (in Takaful they are called "Participants") from such Fund. Any surplus or deficit cannot arise to company; instead such surplus/deficit is entitled to policy holders. 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 exempted from tax.

4.4 Edible Oil Industry

4.4.1 Reduction in Custom Duty on Imported Tinplate

Tinplate importers are paying Custom Duty @ 20% on C&F price of the imported Tinplate. Major manufacturer of tin plate have increased packing price of container of 16kg packing which is comparatively higher than increase in the price of imported tin plate. Due to increase in the imported price of tin- plate used for fabrication of containers for packing Vegetable Ghee/ Cooking Oil, the packing cost of 16 kg container now stands at around Rs.165, meaning thereby per kg packing cost of Vegetable Ghee/ Cooking Oil is about Rs.10/- which also result in increase the sale price of Vegetable Ghee/ Cooking Oil to that extent.

It is proposed that the Customs Duty on imported Tinplate may be reduced to 5 % and sales Tax may be retained @ 17% for manufacturers of Vegetable Ghee/Cooking Oil. This would help reduce the packing cost of the product as well as the selling price of Oil & Ghee in the market.

4.4.2 Reduction in FED on import of raw material

The vegetable ghee/cooking oil Sector is paying excise duty @ 16% at the import stage under Sales Tax Mode and Rs.1 per kg Fixed Value Addition which is final. Being an essential food item of daily use, it should also be granted exemption from FED like other commodities such as wheat flour (atta), rice, pulses etc.

It is proposed that excise duty on import stage for vegetable ghee/ cooking oil sector may either be withdrawn or reduced to half to bring down the price of these products in the market for the relief of end consumers.

4.4.3 Enhancement in Warehousing period on importers of Edible Oil

The vegetable ghee manufactures are paying warehousing surcharge @0.25% up to 30 days and 0.75% exceeding 30 days on imported edible oils. This is in addition to the warehousing cost paid by the importers to the terminals for handling of imported edible oils.

It is proposed that the warehousing period limitation may be enhanced from existing 30 days to 60 days with warehousing surcharge @0.25% whereas for period exceeding 60 days up to 90 days, 0.75% warehousing surcharge may be imposed. This would help mitigate the negative impact of fluctuating international prices.

4.4.4 Reduction in Custom Duty on Imported edible oil

The vegetable ghee & cooking oil industry is paying custom duty on imported edible oil, including RBD Palm Oil/Palm Olein and Soyabean Oil, from Rs.8000/MT to 10,500/MT on different H.S. codes. The total duties/taxes paid by vanaspati manufacturers come to around Rs.30,705/M. Ton which is quite high and leads to increased retail price of the products.

It is proposed that a reduction of Rs. 3000/- per ton in the customs duty on the RBD Palm Oil/Palm Olein and soya bean Oil may be considered by the government in the budget.

4.4.5 Encouraging commercial production of Olive Oil by Private Sector

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

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.

4.5 Sugar Industry

4.5.1 Special tax incentives to sugar mills cogenerating energy from Bagasse

Some sugar mills are cogenerating energy from Bagasse during off-season which creates additional revenue for sugar mills and help the country in meeting the shortfall of electricity. Additionally, few sugar mills are producing ethanol from molasses and exporting molasses and ethanol, earning considerable amount of foreign exchange.

It is proposed that some tax incentives may be provided to those sugar mills which generate power from bagasse and produce ethanol fuel used in automobile. Recently ban on sale of molasses to unregistered sales taxpayer has been introduced, which may impact sale of molasses. As such, it is proposed to withdraw sales tax to encourage sugar industries which is already under pressure due to sharp reduction in international prices.

4.5.2 Determining sugarcane support price on basis of increase in input price

Sugar industry is highly regulated where cost of raw material (Sugarcane) is determined by provincial government to protect interest of growers. Falling international prices have made it unfeasible for sugar mills to export surplus stock resulted by converting cotton cultivation areas to sugar cultivation areas due to high side of sugarcane prices. The hardship of sugar mills has increased further due to rising prices of input like power, chemicals and transport cost.

It is proposed that support price may be reduced to make sugar production viable for sugar mills for domestic as well as for international market. 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 mills management.

4.5.3 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.

4.5.4 Sales Tax on Sugar

During the year 2018, sugar mills were required to pay sales tax on the basis of Rs. 60 whereas in that year average sugar price remained about Rs. 45 to 50 which was against basic principle of sales tax. It is known that Sindh Government is considering to stop export subsidies to sugar mills in future.

It is proposed to levy sales tax on actual market price to make justice to sugar mills. It is further proposed that to enhance subsidies to increase export, duty draw back not paid for last couple of years is required to be released to ease payments to growers.

4.6 Dairy Industry

4.6.1 Regulatory Duty (RD) on skimmed Milk Powder

Custom Duty is being charged @20% whereas regulatory duty @25% with additional customs duty @2 percent.

It is proposed that regulatory duty may be removed with reduction in custom duty as skimmed milk powder is used for specialized category like infant milk which is of daily use.

4.6.2 Zero Rating of Dairy Products

Through Finance Act, 2015-16, and 2016-17 yogurt, butter, milk and cream concentrated or containing sugar have been taxed @10 percent.

It is proposed that this duty may be abolished to boost the growth of dairy industry. It may be noted that Pakistan is on of the milk producing nations, where as only 5% of it is processed and packed.

4.6.3 Packaging Raw Material for Liquid Food Processing Industry

The current tariff on the raw materials imported for use by domestic liquid food packaging industry is anomalous as basic raw materials are being charged to duty at the highest duty rate.

It is proposed that all categories of raw materials namely impregnated paper & paper board, Polymers, Coated Paper/Paper Board and Aluminum Foil (Respective PCT Headings) may be exempted from levy of customs duty. Moreover, the regulatory duty imposed on such items should be abolished.

4.6.4 Input costs for dairy products

The Fifth Schedule of Sales Tax Act 1990 allows for zero rating of raw materials sub-components, components and assemblies for manufactures of goods specified for zero rating subject to various conditions.

It is proposed that such zero rating of inputs be extended to other direct & indirect materials, capital goods dairy farm machinery for which input tax is claimed so as to avoid accumulation of refunds at source.

4.6.5 Import of Milk Powder

Regulatory duty (RD) imposed at the rate of 25% on milk powder (0402.1000) and whey (0404.1010) which are basic raw material for dairy sector in general and infant formulae in particular. The input is made to manage seasonality of milk supply which falls by 30% in summer.

It is proposed that Regulatory duty on 'Whey (PCT0404.1010) & Milk (PCT0402.1000)' powders for dairy industry be removed, for those producers who are investing heavily in local milk development and have infrastructure and cool chain available to procure milk directly from the dairy farms. However, introduction of regulatory duties for non-dairy traders may only be considered. It is also proposed Custom Duty on dairy sector may be reduced from 20% to 10% and additional Custom Duty may be done away with in order to reduce price of finished goods of various dairy, sweets and confectionary Companies.

4.7 Petroleum exploration & Production Industry

4.7.1 Reduction in tax rates for E&P sector

As per Fifth Schedule to ITO 2001, the applicable tax rate for the Exploration & Production (E&P) sector is high i.e. 40% for companies opting for change in tax rate and it is 50% to 55% for other companies. This is against the incentives given to other sectors of the economy, whereby the tax rate has been significantly reduced from 35% to 29% (for Tax year 2019) and will be further reduced to 25% (for 2023 and onwards).

It is proposed that the tax rate on E&P companies may also be brought down in line with other sectors.

4.7.2 Re-instatement of Initial depreciation allowance

Under Section 23 of ITO 2001, the initial depreciation allowance available on addition to certain depreciable assets, has been reduced from 50% (plant and machinery) and 25% (buildings) to 25% (plant and machinery) and 15% (buildings). This change greatly impacts the E&P industry which invests heavily in the form of machinery and equipment.

It is proposed that the rate of initial depreciation allowance may be re-instated to 50% (plant and machinery) and 25% (buildings) in order to provide incentive to the E&P Industry, in particular, and other companies in general to invest in the country.

4.7.3 Unabsorbed Depreciation

The E&P companies having offshore fields are allowed to carry forward unabsorbed depreciation indefinitely as part of business loss. However, E&P companies having onshore fields are restricted to adjust unabsorbed depreciation in following six years.

It is proposed to give equal treatment to both offshore and onshore fields.

4.7.4 Unabsorbed Royalty

Under Rule 4(4) of Part 1 of the Fifth Schedule to ITO 2001, any amount of unabsorbed royalty is allowed to be carried forward in respect of those PCAs which are signed before the first day of 1970.

It is proposed to make appropriate amendment in the said rule allowing carry forward of unabsorbed royalty in respect of all the PCAs before the first day of July 2002.

4.7.5 Allowing Tax Credits to E&P sector

A tax credit under section 65A @ 3% was allowed to taxpayers making 90% sales to the persons registered under the Sales Tax Act, 1990. However, the said provisions were deleted through Finance Act, 2017. Further, tax credits under Sections 65A, 65B (tax credit for investment) and 65E (tax credit for industrial undertakings established before July 1, 2011) are not currently being allowed to E&P Companies even though the Appellate Tribunal has decided this issue in favor of certain E&P Companies.

It is proposed that the provisions of section 65A should be reintroduced to promote investment in the country including in E&P sector. In view of the current energy deficit in the country and recent decision of Appellate Tribunal, these credits should be allowed to the E&P companies to promote further investment in this sector.

4.7.6 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.

4.7.7 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 2019 to attract new investments in oil and gas sector to explore develop and exploit petroleum resources to achieve greater self-reliance in energy supplies.

4.7.8 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.

4.8 Cement, Construction and Real estate sectors

4.8.1 Capital gain tax on transfer of immovable property to REIT scheme

Under Clause (99 A), Second Schedule Part 1 to ITO, 2001, tax exemption was available on profits and gains accruing to a person on sale of immovable property to all types of REIT Scheme up to June 2015. However, currently this exemption is available only to developmental REIT up to June 2020.

It is proposed that exemption available to REIT scheme as per Clause 99A of second schedule of Part I of ITO, 2001 up to June 2015 may be extended at least for another period of five (5) years. Furthermore, exemption on sale of Property to REITs should be available to all types of REIT schemes.

4.8.2 Tax on dividend to REIT- [Clause (c) of Part I - Division III of First Schedule, ITO, 2001]

As per the second proviso to Clause (c) of Part I - Division III of First Schedule, ITO, 2001, dividend from REIT Scheme in the hand of a company is taxable at the rate of 15% whereas income from stock fund is charged at the rate of 12.5% only.

It is proposed that dividend for a REIT scheme in the hand of a company may be charged to tax at a lower rate than (10%) the tax rate on other form of investments i.e. stock fund to promote REIT sector, up to tax year 2020.

4.8.3 Tax on Income from Property [Section 15 and 15A of Income Tax Ordinance, 2001]

As per Section 15, “Income from Property” is chargeable to corporate tax rate i.e. 29% in line with “Income from Business”, however deductions are being allowed in limited form.

It is proposed that in computing the income of a [company] chargeable to tax under the head “Income from Property” for a tax year, a deduction may be allowed for any expenditure incurred by the person in the year wholly and exclusively for the purposes of income from property.

4.8.4 Advance tax on sale / purchase of immovable property - [Section 236(C) and Section 236 (K)]

Advance tax is charged under Section 236 (c) and 236 (k) on sale and purchase of immovable property.

It is proposed that this clause may not be applicable to as advance tax is adjustable at the year end and is merely book entry.

4.8.5 Set off of Losses - [Section 56 of ITO, 2001]

In terms of Section 56 of ITO, 2001, if a taxpayer sustains a loss for any tax year under any head of income specified in Section 11, the taxpayer shall be entitled for set off of loss against the income, except income under the head salary or income from property.

It is proposed that setting off losses may be allowed against income from property under REIT scheme/REIT Management Company.

4.8.6 Zero-rated advance income tax on import of construction equipment and machinery

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, vehicle purchases and registration may also be zero-rated for construction companies having valid PEC construction License.

4.8.7 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 & road rollers	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 subject to contractors having license from PEC and presentation of genuineness certificate from construction association of Pakistan

To avoid misuse of this facility, the exemption 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. It is proposed that vehicle mounted machinery may be non-transferable for a period of 10 years.

4.8.8 Reduction in import duty for construction equipment and machinery

Total duties and taxes on construction machinery range from 31% to 46% which adds to high priced items.

It is proposed that custom duty and other taxes may be reduced by 5% to encourage construction industry and discourage import through foreign contractors whose charges are on higher side.

4.8.9 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.

4.8.10 Real Estate Valuation and Taxation

Under-valuation 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 will result in 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.

4.8.11 Extending credit facilities for BMR of construction industry

State bank of Pakistan is extending credit facilities for Balancing, Modernization and Replacement (BMR) of machineries used in various industries. These credits are extended under refinance scheme through banks at concessional rates.

It is proposed that BMR facilities may be provided at concessional rate to cover BMR of construction industry as it is vital sector of economy.

4.8.12 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.

4.8.13 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 and resultant boost to construction.

4.8.14 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.

4.8.15 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 cus- tom 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.

4.8.16 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 over 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.

4.9 Conventional & Islamic Banking

4.9.1 Treatment of penalty received by Islamic Banks (Rule 1 & Rule 3 of the Seventh Schedule to the ITO, 2001)

In the case of conventional banks, penalty paid by customers is accounted for as income which increases shareholders equity. In the contrary, penalty for late re-payment in Islamic Banking is paid as charity; as such there is no addition to shareholders equity.

It is proposed that a specific clause may be inserted in the relevant Rule so that receipt by Islamic Bank is not treated as income and accordingly not to be taxed.

4.9.2 Extra tax on supplies of electric power to unregistered/ inactive persons (Chapter IV A of the sales Tax Rules, 2006)

Unregistered / inactive persons owning branch premises are charged extra tax on electric consumption as owner of the premises. Since the owner passes extra charges to banks where as banks are registered for sales tax purpose.

It is proposed that a mechanism may be devised through which an actual person using power and registered for sales tax purpose is not charged with extra tax.

4.9.3 Registration of sale/ purchase of immovable property by Islamic Banks (Section 9A and section 14(2) of Stamp Act 1899)

Islamic Banks or financial institutions purchase immovable property and special purpose vehicle while financing to customer and sale and lease back properties on repayment of financing. Both the transactions attract stamp duty, registration fee and other taxes.

It is proposed that stamp duty, registration fee and other taxes to be levied once and not twice, to reduce burden on person availing financing.

4.10 Auto Parts Industry

4.10.1 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 proposed that regulatory duty on import of those auto parts may be reduced which are not manufactured locally. Furthermore, Duty on raw material used in localize parts manufacturing may be reduced to 10% from present 32.5% to boost the local parts manufacturing sector.

4.10.2 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 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.

4.10.3 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 to exempt the non-retail sales of auto parts from the levy of 2% extra sales tax.

4.10.4 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.

4.10.5 Import of Plant and Machinery of Assembling and Manufacturing

Auto development policy 2016-21 has offered many incentives for automobile industries especially for green field automobiles.

It is proposed one off duty free import of plant & machinery for assembling and manufacturing automobiles be allowed to boost investment in Pakistan.

4.10.6 Facilities to sick Automobile Industry

Many parts manufacturing units are running in continuous losses for one or other reason.

It is proposed that import of non- localized parts and CBU category vehicles may be allowed for three years at concessional duty for revival of these industries.

4.11 Pharmaceutical Industry

4.11.1 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 pharma industry as well as ensure proper and effective monitoring system to control prices of medicine in the market.

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.

4.11.2 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 proposed that section 21(o) may be deleted through Finance Act 2018.

4.11.3 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.

4.11.4 Reducing duty and abolishing sales Tax on packing materials of pharma industry

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 as well as general public, the 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.

4.11.5 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 # 9 of 2008.

4.11.6 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.

4.11.7 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

4.12 IT & Telecommunication Sector

4.12.1 Incentive Package for promoting software Industry

In the Finance Bill 2019, 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.

4.12.2 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.

It is proposed that remove this anomaly all vital components used in assembling computers may be made zero-rated to encourage IT industry some of the parts are suggested here under:

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)

4.12.3 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.

4.12.4 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 2016, 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 further few years to come by which IT industry would be significant enough to survive additional taxation.

4.12.5 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.

4.12.6 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.

4.12.7 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 Equipment Identity (IMEI) number for cell phones. The government should play an active role to stop this destructive competition environment.

4.12.8 Renewal of Telecom license

It is known renewal of telecom license is under consideration by the government. At present fees for renewal is US$ 291 million.

It is proposed that fee may be reduce to allow the industry further which is in infantry status compared to regional industry.

4.13 SME Sector

4.13.1 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 promises made in the SME Policy which got approval of the National Assembly and the cabinet.

4.13.2 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. However as per Finance Bill 2019 (Seventh Schedule Rules 7c, 7d, 7e & 7f) banks have been allowed rebate of reduction in tax rate on income of bank arising from additional financing to SME sector, low cost housing and farm credit, which is boosting step in this respect.

4.13.3 Enhancing exemption limit for Cottage industries to Rs. 10 million

The existing limit of turnover for cottage industry is Rs. 5 million 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.

4.13.4 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.

4.14 Textile Industry

4.14.1 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.

4.14.2 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.

4.14.3 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.

4.14.4 Formation of special task force to monitor textile sector growth

In pursuance of the special incentive package for the textile sector including supply of gas and electricity on fixed rates, the textile sector is all set to operate at its full potential and capacity, thereby leading to increased export of textile export.

It is proposed that the government may consider to form a special task force to ensure close monitoring on quarterly basis of the performance, growth and issues of textile manufacturing and exports sectors.

Chapter 5

General Proposals

5.1 Establishing more Expo Centres to generate economic activity

To stimulate the growth of SMEs, ICMA Pakistan is of the viewpoint that more Expo Centres may be established in the country, as already set up at Karachi and Lahore, where the local companies can display their products and attract buyers of their products and services. This would generate economic activity within the country that may lead to more money circulation which is so vital for the economic growth. In this context, ICMA Pakistan also calls for upgrading the Karachi Expo Centre with state-of the-art facilities so that more international exhibitions can be organized in this mega city which would attract large number of participations from people and local businesses. The holding of international events would also help project abroad the soft and bright picture of the country.

5.2 Increasing PSPD allocations for establishing Technical training Institutes

ICMA Pakistan proposes that the government should increase its PSDP allocation for setting up more technical and vocational training institutes to enlarge skilled labour base as per the requirement of the manufacturing sector. These training institutes may be opened on Public-Private-Partnership (PPP) basis, preferably under agreements with EU and Chinese companies.

5.3 Increasing PSPD allocations for IT sector and Green Revolution Initiatives

It is one of the emerging export sectors which can fetch invaluable foreign exchange for the country. ICMA Pakistan suggests that the Government may consider providing financial incentives through PSDP on enhancing IT exports through industry support programs. Similarly, under PSDP, allocations be also made for Climate Change and Green revolution in Pakistan so that Pakistan can meet the global standards.

5.4 Forming a Regulatory Reforms Committee to improve Ease of Doing Business

ICMA Pakistan proposes that the Government may consider to form a 'Regulatory Reforms Committee or Commission' to coordinate all the initiatives taken by different Government Ministries/ Division in developing and implementing regulatory, economic, financial, capital market, governance and other reforms. The proposed Regulatory Reforms Commission may carefully re-examine all the laws and regulations, having an impact on the ease of doing business and suggest necessary changes and improvements to improve ranking in the Doing Business Report of the World Bank.

5.5 Building Dams on Public Private Partnership

Water is a big challenge for new Government that need to be tackled on 'war-footing basis'. Pakistan is likely to face a major water crisis by 2025 which may slow down our agriculture growth. It is proposed that the government should take immediate steps to build dams preferably on public private partnership basis.

5.6 Forming a special Task Force to crack down on 'Power thefts'

ICMA Pakistan proposes that Special Task Force may be formed to take immediate crack down on 'energy thefts' throughout the country to reduce losses in electricity transmission and distribution. It is estimated that 40% of IPPs are non-operational due to circular debt, which is presently around Rs. 600 billion. It is proposed that in those parts of country where national grids do not exist, business community may be allowed to set up their own power projects (solar and wind based) without the prior permission of NEPRA. It is proposed that a Committee may be formed immediately to finalize a national plan to generate electricity through use of waste materials of crops like sugarcane bagasse, cotton waste, rice husk etc.

5.7 Making the Appellate forums Independent from influence of FBR

ICMA Pakistan suggests that 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.

5.8 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.

5.9 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.

5.10 Using available databases to expand tax base

It has been observed that databases already available with NADRA and other regulatory authorities are not being fully utilized by FBR to crack down on tax evaders. It is proposed that FBR may take the best use of IT technology to explore the huge data base, especially available with NADRA in order to expand the tax base.

5.11 Gender equality

At present, the working women and ladies are being charged taxes at the rates which are equivalent to those charged to male members of society. To achieve women's full and effective participation and providing equal opportunities for leadership, charging of a concessional rate is recommended for working ladies of the society.

5.12 Waste generation and taxes

Reduction of waste generation has been targeted @12.5% by 2030. A reduced rate is proposed to be charged to industries working towards reduction of waste so as to move forward towards clean and pollution free environment as per the global requirements of climate change.

Chapter 6

Other 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 tax payers

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 exemption 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 and 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 Prime 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 needs to be implemented to bring down expenditures.

6.2.5 Conducting Expenditures Reforms Analysis

The government should conduct 'Expenditure Reforms Analysis' 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 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 improve Tax Administration?

6.3.1 Review of Performance Appraisal System and Capacity Building of FBR

There is a need to review the appraisal and promotion system of the tax administrators. Further, the capacity building is also required including the introduction of technology for assessment / audit proceedings.

Appraisal / promotions should be done on performance instead of seniority. Capacity building of tax administrators through training in tax laws, risk assessments etc.

6.3.2 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.

6.3.3 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.

6.3.4 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. These provisions would improve efficiency of tax officials and remove the reservations of the trade and industry.

6.3.5 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.

6.3.6 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.

6.3.7 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.

6.3.8 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.

6.3.9 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.

6.3.10 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.

6.3.11 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.

6.3.12 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.

6.3.13 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.

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Estd. 1951

Institute of Cost and Management Accountants of Pakistan

Research and Publications Directorate

Head Office: ST-18/C, ICMAP Avenue, Block 6, Gulshan-e-Iqbal, Karachi.

Email: rp@icmap.com.pk | **Phone:** +92 21 99243900 | **Ext:** 117

icmapdotpk | company/icmap | icmapak | www.icmap.com.pk