

# **Pre-Budget Proposals** **2016-17**



**ICMA**  
**Pakistan**

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Chartered under Cost and Management Accountants Act, 1966 to regulate  
and promote the profession of Management Accounting in Pakistan



## 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



## Institute of Cost and Management Accountants of Pakistan - A Profile

Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) is one of the premier professional institutes of Accountants, established in 1951 as the Institute of Industrial Accountants. It has over 64 years prestigious history of serving the business community. The institute received its charter under the Cost and Management Act, 1966 of the Parliament. Later, it was renamed as the Institute of Cost and Management Accountants of Pakistan which gave it the mandate to regulate the profession of Management Accounting in Pakistan.

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. Presently, the Institute has over 5,000 members, out of which more than 900 members are serving abroad.

The Management Accountants produced by the Institute have met the requirements of industry and business over the years as they are trained to turn knowledge into value addition. The role of Cost and Management Accountants is very unique and commendable. Almost every sector demands their services and contribution; whether it be agriculture, manufacturing or service. However, they can most effectively contribute to Industrial and mining sectors in producing goods at economic costs.

The Management Accountants are today an integral part of the management team in business organizations as they possess varied and versatile scope to serve Pakistan's economy. They help in increasing productivity, avoid wastages, rationalize cost structure and help in adding or dropping products or market outlets, machines and money. They also serve in service sector and richly contribute towards the noble cause of three Es, namely Efficiency, Effectiveness and Economy. Some of the Cost and 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. The secret of doing all such contribution, professional help and demonstration of excellence and competency of Cost and Management Accountants is because; they are fully equipped with proper quality education of the profession and rigorous field exposure of real life to their credit.

## PREFACE



ICMA Pakistan has always played its due role in budget making process by highlighting improvements in existing taxation laws and suggesting concrete measures for generating tax revenues. Well before the presentation of the Federal Budget, ICMA Pakistan organizes a series of pre-budget seminars and sessions where heads and representatives of Chambers of Commerce and Industry Associations as well as economists, tax experts, professionals and other stakeholders are invited to

present their proposals.

It is satisfying that last year ICMA Pakistan took the lead in launching its printed pre-budget proposals which was widely appreciated and acknowledged. This year also the Research and Publications Directorate of the Institute commenced preparatory work in January and initiated contacts with CMAs employed in industry as well as corporate sector to know their business and tax-related concerns and their possible solutions. Simultaneously, in-house research continued to study the problems of different industry sectors and analyzing their performance. Another exercise undertaken was holding Roundtable Sessions on selected industry/ sectors as well as exclusive meetings with practicing members of the Institute who are mostly involved in tax consultancy. The outcomes of these sessions have been duly incorporated in the pre-budget proposals booklet.

The Institutes' budget recommendations, interalia, covers major issues facing the national economy and their possible solutions, such as issues pertaining to sales tax refunds, which has resulted in blockage of huge funds of businessmen, especially textile exporters which resulted in limiting working capital requirement. Presently, a hefty amount is pending with the FBR on account even after the issuance of Refund Payment Order (RPO).

ICMA Pakistan has proposed to declare RPO as a negotiable document to ease working capital of exporters in order to promote growth. In addition, these

recommendations also cover income tax, sales tax, federal excise and custom duty measures, in addition to sector specific proposals.

A comprehensive restructuring, revamping and legislation is required to make FBR a revenue oriented organization. Presently, they remain stuck up in refunds processing and litigation, even with Public sector enterprises. The refund processing shall be done from any other independent organization to maintain transparency and to avoid unnecessary litigation.

We will focus on compiling comprehensive budget proposals in order to create an enabling environment for the business community, as we strongly believe that only a pro-business budget can pave the way for a prosperous economy. A consolidated budget document, including sector / industry-specific proposals, would be submitted to the government with the hope that it would be given adequate representation in the forthcoming budget.

Mohammad Iqbal Ghori, FCMA

**Vice President, ICMA Pakistan and  
Chairman Research and Publications Committee**



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## PAKISTAN IS RISING



Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) is a leading professional institution of international repute and a regulator of management accounting profession in Pakistan. The Institute is committed to build a strong corporate culture to achieve sustained national economic growth and market competitiveness.

The management accountants with their vast and diversified professional experience are contributing towards the economic uplift of Pakistan. They are actively engaged in every sector of economy to bring efficiency, professionalism and expertise so as to develop and prepare Pakistan's economy to meet the current and future needs.

I can say that Pakistan is rising as its economy is showing signs of revival as a result of prudent policies pursued by the present government. The GDP growth rate of 4.24% in 2015 was the highest achieved during the last seven years. The budget deficit has been brought down to 1.8% from 2.3% last year. The LSM sector recorded growth of 4.12% during first seven months of FY 2016-17 as against only 2.15% growth during same period last year. The tax revenue collections during this fiscal year has also increased to Rs. 1.67 trillion upto February 2016 as compared to Rs. 1.40 trillion during same period of last fiscal year. This indicates 18% growth in tax revenues. It is hoped that this year we would be able to achieve the tax revenue target.

The development of national economy is one of the top priorities of the present government and the national budget set out the vision of the government in this regard. It has a great significance as it charts out the path to economic reform and development agenda of the government. We hope that the government is cognizant of the need to minimize gap between revenue and expenditure, as this would require, among other things, to enhance the tax-to-GDP ratio by undertaking various measures such as broadening the tax net. To encourage business activities and investment, it is imperative that the government should



provide a conducive policy environment for corporate sector so that it can supplement the efforts of the government in achieving the economic targets.

In the forthcoming budget, the government must come out with measures to document the informal sector of the economy which would help enhance tax revenues. However, there are some reservations of the undocumented sector which need to be addressed such as the cumbersome processes of tax collection and reporting requirements that need to be simplified. Moreover, the role of the professional institutions like ICMA, should be enhanced so that they can provide the professional backbone for the processes of good governance, audit and review.

It is important that the government must keep the right priority while making allocations to give importance to the sectors that affect the plight of the common man including health and education. Creating an environment of austerity without jeopardizing the goals of economic growth should be the guiding principle to control the non-development expenditures.

I must acknowledge the efforts of our Research and Publications Directorate in compiling the pre-budget recommendations through different sources as well as developing in-house research on the economy and different industry sectors. The proposals received from the members of the Institute have also been duly incorporated.

We hope that these recommendations will assist the government in minimizing budget deficit, enhancing the economic growth and setting the right priorities. ICMA Pakistan will continue to play its advisory role to the government so that together we can make this country economically sound and prosperous.

Kashif Mateen Ansari, FCMA  
**President, ICMA Pakistan**

## Current Economic Overview

## Chapter 1: Current Economic Overview

### 1.1. Macro Economic Indicators

- 1.1.1. **Real GDP:** The real GDP increased from 4 percent in 2014 to 4.2 percent in 2015, however it fell short of the benchmark target of 5.2 percent. As per SBP Report, out of 4.2 percent real GDP, 2.9 percent came from agriculture; 3.6 percent from industry and 5 percent from services. The government targets real GDP to reach 4.5 percent in 2016.
- 1.1.2. **Per Capita Income:** Per Capita Income in dollar terms registered a significant growth of 9.25 percent in 2014-15 as compared to 3.83 percent last year.
- 1.1.3. **Price Level:** The Consumer Price Index (CPI) inflation during July-Feb 2015-16 was recorded at 2.48 percent as against 5.45 percent during same period last year. This decrease in CPI inflation was due mainly to low oil prices in international market; lowering of interest rate; increase in money supply position; and better supply of commodities in market despite rains. The Sensitive Price Index (SPI) stood at 1.02 percent whereas the Wholesale Price Index (WPI) remained negative at 1.07 percent.
- 1.1.4. **Current Account Balance:** Current account posted surplus of around Rs. 16. 44 billion in February 2016. During first 8 months of FY2015-16, the current account deficit narrowed to Rs. 194.65 billion as against Rs. 203.86 billion last year on account of stable exchange rate.
- 1.1.5. **Unemployment Rate:** The unemployment rate in 2014 was 6.7 percent which dropped slightly to 6.5 percent in 2015. It is projected to drop further to 6 percent in 2016.
- 1.1.6. **Foreign Exchange Reserves:** The foreign exchange reserves which stood at around US\$14.14 billion in FY2013-14 showed a

remarkable growth to US\$20.51 billion as on March 21, 2016. This phenomenal growth was due mainly to increase in borrowings from lending agencies and sale of Euro Bonds and Ijara Sukuk (Islamic bonds). According to Finance Minister, the forex reserves are expected to increase further to US\$22 billion in the coming days.

## 1.2. Industry Sector Growth

1.2.1. **Large Scale Manufacturing (LSM):** The LSM sector recorded 4.12 percent growth during first seven months (July-Jan) of FY2015-16 as against same period of last year.

1.2.2. **Sector-wise Growth:** As per Pakistan Bureau of Statistics, sector-wise industrial growth during July-Jan FY 2015-16 was as under:

Sr.	Sector	Growth in FY 2015-16 (July-Jan)
1	Automobiles	31.4%
2	Fertilizer	14.6%
3	Chemicals	11.44%
4	Rubber products	9.83%
5	Non-Metallic Mineral Products	7.65%
6	Cement	7.63%
7	Pharmaceuticals	6.65%
8	Coke and Petroleum	4.85%
9	Textiles	0.95%

There were other sectors which recorded negative growth e.g. wood production plunged by 47.65 percent in July-Jan FY 2015-16; Paper and paperboard declined by 12.51 percent; Engineering sector dropped by 19.76 percent and leather products by 2.64 percent.

## 1.3. External Sector

1.3.1. **Foreign Portfolio Investment (FPI):** According to State Bank of Pakistan (SBP), the overall Foreign Private Investment (FPI) nosed



dived by 55 percent to Rs. 42.47 percent during July-Feb 2015-16 from Rs. 94 billion of corresponding period of last year. This drastic decline in FPI was due mainly to massive outflow of Rs. 36.13 billion from the equity market during the period.

1.3.2. **Foreign Direct Investment (FDI):** According to SBP, Foreign Director Investment (FDI) into Pakistan increased by 4.8 percent to Rs. 78.64 billion during July-Feb 2015-16 as against Rs. 75 billion during same period last year.

1.3.3. **Exports:** Country's exports have declined by 14.4 percent to Rs. 1080.97 billion during July-Dec 2015-16 as compared to Rs. 1262.77 billion of corresponding period last year. The main reasons behind the falling exports are international recession as exports of most of the countries in the world have shrunk in the last six months.

1.3.4. **Imports:** The country's imports fell by 7.86 percent to Rs. 2329.71 billion during July-Dec 2015-16 as compared to Rs. 2528.58 billion during the same period last year.

1.3.5. **External Debt and Liabilities:** Pakistan's external debt and liabilities reached the level of Rs.7184.13 billion by end of December 2015.

1.3.6. **Balance of Payments:** Balance of Payments deficit further shrank by 94 percent to negative Rs.132.69 billion in the first six months of current fiscal year (2015-16) as compared to negative Rs. 247.47 billion during the same period of last year

#### 1.4. Fiscal Development

1.4.1. **Fiscal Deficit:** With a substantial provincial surplus, fiscal deficit for the period July-December 2015 was 1.7 percent

- 1.4.2. **Tax Collections:** During the first 9 months (July-March) of FY 2015-16, FBR collected Rs. 2,103 billion as against Rs. 1,753 billion during same period last year i.e. 19.7% growth. The quarter-wise growth in taxes in FY 2015-16 are Rs. 600 billion in July-Sept (Rs. 538 billion in FY 2014-15); Rs. 785 billion in Oct-Dec (Rs. 627 billion in FY 2014-15) and Rs. 718 billion in Jan-Mar (Rs. 588 billion in FY 2014-15).
- 1.4.3. **Total Expenditures:** Total Current expenditure and Development expenditure seem to be on track to remain within budget. The Development expenditure for July-Dec 2015 was 15% over the same period of last year. Federal development budget for fiscal 2015-16 (including Other Development expenditure) was 33% over actual for 2014-15.
- 1.4.4. **Tax to GDP Ratio:** Despite increase in tax revenue collections in absolute term, the tax to GDP ratio varied between 8.5 to 9.7 percent in 2015.

*(Source: IMF World Economic Outlook, statistics released by FBS, FBR, SBP and TDAP and newspapers)*

## Chapter 2



### **Proposals for achieving Economic Efficiency through Cost and Management Accountants**

## Chapter 2: Proposals for achieving Economic Efficiency through Cost and Management Accountants

### 2.1 Controlling Inflation through Cost Audit

Cost audit reduces the cost of production and eventually the benefit passes on to the general public in the shape of reduction in prices of commodities. One can argue that reduction in sales price would reduce the government revenues due to reduction in amount of sales tax. This argument is not based on actual facts as any reduction in sales tax would automatically be compensated by increase in amount of Income tax due to increase in profits (if half of the benefit arises due to reduction in cost is transferred to general public). The reduction in prices will lessen inflation; speed up economic activities and increase government revenues.

It is strongly recommended that the government may consider enhancing the scope of cost audit regime in Pakistan to achieve economic efficiency and control general market inflation.

### 2.2 Developing Rescue Plans for Inefficient PSEs

Management Accountants may be engaged by the government to develop rescue plans for revival of inefficient Public Sector Entities (PSEs) like Pakistan Railways, PIA, Pakistan Steel, etc. They can help such loss-making units in overcoming management-related problems and achieving economic efficiencies and maximum productivity.

### 2.3 Cost Control and Financial Management in PSDP Projects

The Management Accountants may be associated for effective 'cost management and control' and 'financial management' of the Public Sector Development Programs (PSDPs) implemented by Provincial governments. This would help bring down the cost of projects.



## **2.4 Representation in Anti-Dumping Tribunal**

The Management Accountants may be given representation at the Anti-Dumping Appellate Tribunal and any other Tribunals where the professional services of accountants are required.

## **2.5 Assisting NTC for Industry Awareness on Anti-Dumping**

The Cost and Management Accountants can work jointly with the National Tariff Commission (NTC) to make the industry aware about the anti-dumping/ countervailing duties required for competing in the international markets.

## **2.6 Drug Pricing, Control and Vigilance**

In order to adopt global good practices in pharma industry and to stabilize and rationalize drug prices in the country, the Cost and Management Accountants must be given a professional role in drug price-setting and cost calculations. The following proposals be considered by government:

- 2.6.1 CMAs may be nominated as members on the Drug Advisory Board or their professional services be engaged. The determination of actual cost of medicine /drugs would help in cost-plus pricing.
- 2.6.2 The Government in coordination with Management Accountants, Pharma Industry and Consumers' Society shall come up with legislation to prevent sale of fake, sub-standard and non-registered drugs.
- 2.6.3 To ensure transparency and cost effectiveness, Cost Audit shall be made compulsory in the Pharmaceutical industry as soon as possible.

## **2.7 Forming a 'Financial Reporting Council' to safeguard interest of Investors**

There is no regulatory body in Pakistan to regulate financial reporting. Presently, this function is being dealt by SECP and ICAP which are just focusing on compliance rather than corporate reporting. This has not only created monopoly of these two authorities but also conflict of interest, which signifies compromising on the growth of audit profession.

To strengthen and regulate financial reporting in Pakistan and to safeguard the interest of all stakeholders, including shareholders and investors, it is strongly recommended that the government should establish an independent 'Financial Reporting Council (FRC)' having representation of accountancy bodies, management accountants, auditors, finance professionals, professional advisers, public sector finance leaders, entrepreneurs, economists, tax experts and business leaders from the industry. This would help attract foreign and domestic investment and nurture corporate culture in Pakistan. FRC as a statutory regulatory body are already in place in UK, Australia, Singapore and many other countries.

ICMA Pakistan can provide all support to develop framework, objectives and detail working to make FRC operational in the best interest of economy in particular and the country in general.

## **2.8 Forming a 'Pakistan Accountants' Council' for professional accountants in Pakistan**

It is suggested that the government may consider to form a common platform for the professional accountants in Pakistan with name and title of 'Pakistan Accountants' Council' (PAC) similar to that of Pakistan Engineering Council (PEC). The PAC may be chaired by the sitting Federal Finance Minister and have representations as members from the Ministry of Finance, Planning Commission, SECP, FBR, SBP, AGPR, ICAP and ICMA Pakistan. The proposed Council shall provide professional support and guidance to the regulatory authorities in enhancing the overall performance of corporate sector and to make them globally competitive in order to ensure sustainable growth of national economy. The PAC may devise policies and ensure implementation in the areas of Accounting Systems, Financial Reporting, Tariff and Pricing, Cost Management, Risk Management and Audit, Business Planning, Organizational Development, Capacity Building, Resource Optimization and Management Reporting and improvement in Business and Commercial Laws.

ICMA Pakistan can provide all support to develop framework, objectives and detail working to make PAC operational in the best interest of economy in particular and country in general.

## **2.9 Exclusive Rights for CMAs under Section 252 of Companies Act, 2015**

Section 252 of Companies Act, 2015 (replacing Section 258 of Companies Ordinance, 1984) is related to Cost Audit and based on Management Accountants' expertise and specialization. The cost audit rights should be exclusive with CMAs. The Chartered Accountants may be permitted to conduct cost audit in only those areas where practicing cost and management accountants are not available. This Section may be revised accordingly. This argument of allowing cost audit exclusively to CMAs is based on following grounds:

- 2.9.1 That objective of 'CMA Act 1966' is to regulate the profession of Cost and Management Accounting in Pakistan, that is specifically concerned with 'manufacturing industries', whereas objective of 'CA Ordinance, 1961' is to regulate the Auditing and Accounting profession in Pakistan, which is particularly concerned with the financial aspects only.
- 2.9.2 That the quality of audit will hamper if CAs are allowed for cost audit in addition to financial audit, because CA firms are already in shortage of qualified CAs to adequately address issues pertaining to statutory financial audit.
- 2.9.3 Under the CMA Act, 1966, cost audit regulation is the exclusive domain of ICMAP
- 2.9.4 CMAs have specialized education and training in cost and management accounting
- 2.9.5 CMAs are specialists in costing whereas CAs lack knowledge about cost accounting
- 2.9.6 Cost audit needs specialized skills and knowledge which is delicately covered in ICMAP Syllabus and practice
- 2.9.7 In India, only Cost Accountants are authorised under the law to act as sole cost auditors of companies

- 2.9.8 Chartered Accountants solely enjoy perquisites of statutory financial audit, hence costing audit privileges be awarded to CMAs only
- 2.9.9 CMAs can conduct cost audit more independently as they have no role in financial audit.

## **2.10 Audit Rights for CMAs under Section 248 of Companies Act, 2015**

Sub-section 1 of Section 248 of draft Companies Act, 2015 may be amended to open provision for Cost and Management Accountants to qualify as auditors for audit of all types of companies or enabling provision be provided for qualification of auditors and threshold for empowering CAs/ CMAs and member of any other recognized professional body may be provided through notification.

## **2.11 Audit Rights for CMAs under Section 261 of Companies Act, 2015**

Sub-section 1 of Section 261 of draft Companies Act, 2015 gives authority to the Commission (SECP) to appoint professionals as inspectors to investigate serious nature of frauds relating to a company. The Cost and Management Accountants should also be made eligible to be appointed as Inspector in serious fraud investigation under this Section.

## **2.12 Special Audit Rights for CMAs under Section 286 of Companies Act, 2015**

Sub-section 1 of Section 286 of draft Companies Act, 2015 gives authority to the Commission (SECP) to appoint an auditor to carry out special audit of the affairs of an NBFC or a notified entity. The practicing Cost and Management Accountants may also be considered for appointment as Special Auditors under this specific Section of Companies Act, 2015.

## **2.13 Audit Rights for CMAs under Foreign Contributions Act, 2014**

The Management Accountants should be given entitlement for audit rights under the Foreign Contribution Act, 2014 and allowed to carry out special audit of accounts of International NGOs. For this purpose, Clause 16 (a) of draft Foreign Contributions Act, 2014 be amended.



## Chapter 3



### Proposals for Removing Flaws in Tax Refund System

## Chapter 3: Proposals for Removing Flaws in Tax Refund System

### 3.1 Making the refund process expeditious after removing existing procedural flaws

Sales tax refund process after CREST based matching of input and output sales tax is very complicated and time consuming. The claimed refund are pending for years and years unless the audit of those respective years or months is completed. Moreover, if there is a mismatch of input vs. output sales tax in CREST then that amount is also excluded from refund claim and is set aside till such time it finally matches up upon declaration of sale by the seller for his stores and spares, consumables or packing material. It also happened that Refund Payment Orders (RPOs) of refund claims, processed by RTOs, were rolled back without intimation to claimants and during reprocessing, the status of these claims is also changed to “deferred” or “withheld”. The payments are deferred up to 50% of sales tax and there is huge accumulation of sales tax with government causing acute liquidity problem for exporters.

To make refund process expeditious, following measures are suggested for consideration:

- 3.1.1 The time frame for scrutiny of refunds should be reduced to 15 days.
- 3.1.2 The refund verification and sanctioning process, which is full of logical error, should be completely streamlined to save time of taxpayers.
- 3.1.3 PRAL networking systems, which frequently breakdowns, should be improved by FBR.
- 3.1.4 PRAL's software viz. CREST should be linked to networks of textile-related associations so that their members could find out

‘breaking of supply chain’ on the spot. This is important to resolve supply chain issue of textile exporters.

- 3.1.5 Errors in STARR software system should be removed. A completely harmonized system should be introduced or else manual over-ruling may be allowed in current setup, in case of system related issues. Specific reasons of any objection should be identified, allowing overruling of objections raised by tax departments against refund claims.
- 3.1.6 STARR system is still raising objection against Export GD on the basis that ‘MR number and date not available’ this needs to be looked into as GD’ are now automatically being picked up by the system.
- 3.1.7 Under Sales Tax Act, 1990 where refund due is not paid within the time specified from the date of filing refund claim; a further sum equal to KIBOR per annum of outstanding amount of refund, shall be paid to the claimant in addition to the due amount of refund.
- 3.1.8 Tax officials found responsible in delay of payment of refund and compensations may be taken to task by FBR to put in place a check and balance mechanism in tax department.

### **3.2 Setting up a ‘Permanent Review Committee’ to monitor and implement a Speedy Refund System for Export-oriented sector**

It has been reported in the press that FBR officials have assured to constitute Committees at Regional Tax Office levels to prescribe a standardize procedure for processing of deferred refund claims. However, ICMA Pakistan strongly recommends that a permanent ‘Review Committee’ may be formed by the government to monitor and implement a speedy refund mechanism which would help redress the grievances of the exporters.

The proposed Review Committee may comprise representatives from the FBR, Chairmen of concerned Associations of five export oriented industries and the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan). A notification to this effect may be issued by the FBR and also given legal cover in the Finance Bill 2015-16.

The following time-frame is proposed for expeditious refund of sales tax to exporters:

- i. Automated Filing of Sales Tax Return by exporters = 15 days
- ii. Submission of Files to FBR for Refund = 30 days
- iii. Processing of Files by FBR (automation) = 30 days
- iv. Refund of Payments to exporters = 30 days

### **3.3 Declare RPO as Negotiable Instrument**

The Refund Payment Order (RPO) is issued after a hectic due diligence process. The stuck-up refunds of exporters with the FBR should be declared a 'negotiable instrument' by the government so that it may be discounted and negotiated with the bank. The relevant data available on FBR website should be timely updated so that the banks can immediately check/ verify the outstanding refunds of exporters for release of working capital.



## Chapter 4



### Proposals for Resolving Issues of Export-oriented Sector

## Chapter 4: Proposals for Resolving Issues of Export-oriented Sector

### 4.1 No Sales Tax – No Refund Regime for five Export-oriented sectors

At present there is a special regime for five export oriented industries viz. textiles, leather, carpets, sports goods and surgical items, applicable under SRO 1125 dated 31st December 2011. This notification has been modified several times since then through issuance of SROs 154, 505, 682 & 898. The exporters are facing acute liquidity problem due to stuck up of money in refund claims.

There is also ambiguity as to how unregistered persons can be verified as person dealing in above five sectors. "No Payment No Refund System" may be restored by FBR as collection and refund of two percent sales tax is only an exercise in futility. It also involves time and efforts of FBR.

It is proposed that all items listed in Table-1 of SRO 1125(i)/2011 be chargeable to Sales Tax @ zero percent within registered supply chain of five export sectors. Sales Tax @ 2 percent be charged on supplies made to unregistered person of the same sector.

The Zero-rating would help ensure cash flow for textile industry and remove irregularities and delay in refunds.

### 4.2 Expediting Income Tax refund of Exporters for FY 2014 & 2015

The billion of Rupees of income tax refunds for the FY 2014 and FY 2015 are pending with the FBR and their delay has triggered serious liquidity crunch for the exporters and manufacturers that might lead to closure of several industrial units. The exporters and manufacturers are bearing huge financial cost on their own hard earned stuck-up money.

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

#### **4.3 Exemption of Income Tax at Import Stage for Export-oriented Sectors**

Advance tax at import stage is being collected under Section 148 of Income Tax Ordinance, 2001 at the rate specified in Part-II of the First Schedule to the Ordinance.

#### **4.4 Zero Sales Tax Regime for Textile Industry**

It is proposed that all items listed in Table-1 of SRO 1125(i)/2011 be chargeable to Sales Tax @ zero-percent within registered supply chain of five export sectors. However, Sales Tax @ two percent may be charged on supplies made to unregistered person of the same sector.

The Zero-rating would not only help ensure cash flow for the textile industry, but would also remove irregularities and complaints with regard to refund claims.

#### **4.5 Exemption of Custom Duty on Import of Coal by Export-oriented industries**

Almost all cement manufacturers have switched over to coal during past decade and recently many export-oriented industries in sectors of edible oil, textile, sugar and chemicals have also moved to coal, which is comparatively cheaper for them than furnace oil and gas. Many textile factories have converted their boilers on coal burning in place of sui gas for which they import coal as burning ingredient. It may be mentioned here that there is not duty on any other fuel and coal is the only fuel which has been brought under custom duty regime.

It is therefore, proposed that custom duty on import of coal may be withdrawn for all export-oriented industries so as to reduce their cost of production.

#### **4.6 Exemption of Advance Tax on Coal Import by Export-oriented industries**

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 therefore recommended that import of coal by 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.

#### **4.7 Allowing Refund against Income Tax Credit to Exporters falling under FTR**

Section 65 of Income Tax Ordinance, 2001 refers to provision relating to tax credit. Under sub-section 3 of Section 65, it is mentioned that any tax credit or part of a tax credit allowed to a person under this Part for a tax year that is not able to be credited under sub-section (3) of section 4 for the year shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year. Since the exporters fall in the Final Tax Regime (FTR), as such it is suggested that refunds against income tax credit be allowed to exporters.

#### **4.8 Doing away with requirement under Clause 33 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.

Since 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, it is suggested that requirement under clause 33 of Sales Tax Refund Rules may be done away with.

#### **4.9 Sales tax exemption on purchase of diesel/petrol by five export-oriented industries**

Under SRO 1125 dated 31st December 2011, the supply of electricity and gas to registered manufacturers or exporters of five zero-rated sectors are



being charged sales tax at zero per cent. Due to heavy electricity load-shedding and sometime its non-availability for longer durations, the manufacturers are forced to adopt alternate resources e.g. diesel or petrol generators for self-generation of electricity. This costs them handsome amounts on purchase of fuel for which they have to pay sales tax. This negates the concept of less incidence of input tax on manufacturer-cum-exporter.

It is proposed that in line with availability of zero-rating on electricity/gas connections for export-oriented manufacturing units, they may be allowed to procure diesel/ fuels at zero percent sales tax.

#### **4.10 Making amendment in SRO 647 to allow full tax adjustment to registered tax payers moving from Zero-rated regime to 'Reduced rate' regime**

Through SRO 154 dated February 28, 2013 amendment was made in SRO 1125 dated December 31, 2011, whereby zero rating concept for sales tax has been converted into a reduced sales tax rate regime. As a result, a person making zero-rated supplies having value exceeding 50% of value of all taxable supplies (earlier covered in SRO 647(I)/2007 dated June 27, 2007) cannot presently adjust input tax in excess of 90% of output tax. This has impacted some taxpayers who moved from "zero rated" to "reduced rate" regime as they are currently allowed to adjust only 90% of their input sales tax as per Section 8B of Sales Tax Act, 1990.

It is therefore, proposed that FBR shall issue a notification making amendment in SRO 647 of 2007 at serial no. 7 wherein for the words "zero-rated" may be explained to include reduced rate supplies as well". Other option is the rephrase serial no. 7 of SRO 647 as under:

*"7. Person making zero-rated or reduced-rated supplies provided value of such supplies in aggregate exceeds 50% of value of all taxable supplies in a tax period."*

By making the above amendment, the taxpayers would be able to claim input sales tax credit at an early date, in order to avoid blockage of funds leading to unnecessary refunds.

#### **4.11 Doing away with Workers Welfare Fund on Income of Exporters**

The industrial undertaking falling under tax holidays or presumptive tax regime were not required to pay Workers Welfare Fund (WWF) on their income up to tax year 2008. From tax year 2009 and onward they are required to pay WWF on their total income under provisions of Workers Welfare Fund Ordinance, 1971. Being exporters, they discharge tax liability even before receiving their export proceed therefore, charge of WWF over and above this paid liability is a very harsh treatment. The tax payers earning income under FTR should not be required to pay any further tax / fund / deposits.

Majority of the textile exporters are operating various types of funds for the benefit and welfare of their workers / employees / staff. Hence, WWF should be abolished in case income falls under presumptive tax regime / final taxation. Further, release of funds for the benefits of workers from the concerned departments becomes another annoyance due to non-cooperative attitude and bureaucratic hurdles.

It is recommended that this matter should be resolved on intermediate basis and necessary legislation may kindly be referred for approval regarding elimination of this unjust levy upon exporters and the law may be amended to restore the position before amendment introduced by the Finance Act of 2006 and 2008.

## Chapter 5



### **Proposals for Broadening Tax Net and Enhancing Tax Revenues**

## Chapter 5: Proposals for Broadening Tax Net and Enhancing Tax Revenues

### 5.1 Setting up a 'Business Registration Authority' to maintain database of businesses

There are three types of business entities in Pakistan i.e. (1) Individuals comprising of small traders and shopkeepers who can register with any government agency; (2) Partnership firms which are normally registered with local District Registrar of Firms, and (3) Companies which are registered with tax department, however all of them are not active taxpayers.

ICMA Pakistan proposes to consider establishing a single 'Business Registration Authority' for maintaining complete data base of business entities. As an alternate, this charge be assigned to NADRA with whom every business entity must be registered. All businesses, irrespective of their status, should make annual renewal subject to tax compliances like filing of annual Income Tax Return. This will help broaden tax base and increase revenues.

### 5.2 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 the exemption limit. As per latest information available, the FBR has already identified 6,000 retailers for sales tax collection @ 0.5% of gross amount of sales tax.

ICMA Pakistan proposes that the government should expand the tax net of retail sector by offering them some kind of incentives, such as providing them guarantee that in case of any disaster, they would be compensated by an amount equal to their last updated stock without any legal formality. It should be made mandatory for retailers to maintain an electric cash



register which may be linked to FBR server. They may also be required to update stock daily and pay one percent tax on all kinds of purchases.

### **5.3 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.

To generate tax revenue, it is proposed that FBR should impose tax on medium and heavy transporters. As their income is not verifiable, they should be charged a fixed annual tax i.e. Rs. 10,000/ - for medium transporters and Rs. 15,000/ - to 25,000/- for heavy transporters.

### **5.4 Taxing Universities and Educational Institutions charging heavy fees**

Through the Finance Act 2013, a new Clause (58A) was inserted in Part I of Second Schedule of Income Tax Ordinance, 2001, whereby the 'income of a University or other education institution being run by a non-profit organization existing solely for education purposes and not for purposes of profit' was given exemption from total income.

As most of the private sector Universities charge heavy fee from students and are in a good position to pay income tax, as such exemption given to Universities under Clause 58A be withdrawn. This would help generate additional tax revenue.

### **5.5 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 strongly suggested that the income tax rate on agriculture should 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.

## **5.6 Liquidating huge tax arrears by reactivating ADR Committee**

The government should reactivate the Alternate Dispute Resolution (ADR) Committee to resolve the pending tax-related disputes and to liquidate huge amount of tax arrears. The ADRC forum has not been functioning for the last few years. Recently, the Tax Reforms Commission has also suggested to bring ADR system under Federal Tax Ombudsmen to redress the taxpayers' issues on a fast track basis.

It is therefore recommended that that the above suggestion of Tax Reforms Commission should be implemented or else FBR should restart ADR under the existing tax and Customs laws and a clear timeline should be given for resolving the dispute from the date of filing of application. The decision of Panel should be binding on both the taxpayer and the tax department. Efficient functioning of ADRC will generate more taxes.

## **5.7 Offering tax credit to new taxpayers as incentive for filing tax returns**

The FBR is considering to provide a low tax rate to those traders and industrialists who will disclose their hidden income. On the same line, the FBR may also consider offering some tax credit to the 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.

## **5.8 Conducting proper valuation of imported goods to check mis-declarations**

Many importers declare less value of their goods during valuation process to avoid taxes which results in loss of revenue for the government. It is therefore, proposed that proper and exact valuation process at import must be ensured, so that importers pay exact amount of tax and duties. This would help increase tax collection.

## **5.9 Complete Immunity from Tax Audit be given under Section 122 (5)(A)**

Through Circular # 15 of 2013, FBR clarified that all companies and individuals can avail immunity from tax audit under section 177 and 214C read with clause 84 of Part IV of second schedule as per SRO.1040(I)/2013 dated 5.12.2012, by paying 25% higher tax for TY13 against tax paid/assessed for TY12. A prescribed form for claiming exemption/immunity from audit was also issued by the FBR.

The above incentives cannot bring fruitful results unless the Commissioner continues to have powers under Section 122(5)(A) to call explanation and 'make enquiries as he deems necessary'. The taxpayers' confidence can only be built by ensuring complete immunity. As such, the businesses and individuals be granted immunity from Section 122(5)(A) which would help broaden tax base.

## **5.10 Expanding Scope of Taxpayer Privilege and Honour Card Scheme**

In 2014, FBR announced "Taxpayer Privileges and Honour Card Scheme" for extending privileges/VIP facilities to 100 top taxpayers. This initiative is quite encouraging.

To broaden the tax revenue, it is proposed that the scope of this Scheme should also include gradually, individuals who are 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.

## **5.11 Setting targets for Commissioners to collect taxes from undocumented sector**

It is proposed that every Income Tax Commissioner should be assigned target to collect 20% to 30% of periodic collection targets from the undocumented sector as well as from new sources.

There should be a collection targets for field officers as well. Some incentives should also be provided to Tax Commissioners and Field officers. This would help increase the tax base and bring revenue from the informal sector of the economy.

#### **5.12 Rationalizing Tax Rates**

The tax rates should be rationalized to bring down to acceptable level to help broadening tax base. In case of an individual and Association of Person [AOP], the maximum rate of taxation should be restored to previous rated of 20 and 25 percent for both class of taxpayers. The tool of tax audit should be used to create deterrence and not tax collection.

#### **5.13 Setting threshold for Small Companies to encourage Corporatization**

Small companies are invariably required to act as a Withholding agent while an Association of Persons and individuals are required to act as WHT agent if their turnover exceeds Rs. 50 million. It is recommended that same threshold of turnover should be prescribed for small companies to encourage corporatization.

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

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

#### **5.15 Making the Appellate forums Independent from influence of FBR**

The Appellate Forums should be made independent from formal/informal influence of FBR. The tax adjudication system must rest on fundamental of independence, insulation and isolation from tax collection. The



prosecution has to be separated from adjudication with gradual shift towards independence by transferring the adjudication system under the command and control of independent office or Ministry of Law or most preferable under the respective high courts in conformity with section 10A of the constitution.

## Chapter 6



### Proposals for Cutting Down Government Expenditures

## Chapter 6: Proposals for Cutting Down Government Expenditures

### 6.1 Reducing the size of large Consumption Outlays

The two major dilemmas associated with government spending are dependency on borrowings from banks and significant allocations for defense and general services budgets. It is suggested that the size of large consumption outlays may be reduced and shifted towards development and other investment expenditures.

### 6.2 Conducting Expenditures Reforms Analysis

In addition to tax and tariff reforms being undertaken by the government, there is also need to conduct 'Expenditure Reforms Analysis' so as to determine the direction and deployment of revenue raised as a result of such reforms. For this purpose, an 'Expenditure Reform Curriculum' need to be developed which may cover a comprehensive cost benefit analysis of all 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.

### 6.3 Closing down Projects incurring heavy losses

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 million of Rupees being incurred on them for keeping them in operation.

### 6.4 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.

## **6.5 Tracking current and development expenses**

The current expenditures digest a major portion of the 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.

## **6.6 Curtailing expenditures on General Public Service head of Current Expenditure**

The Current expenditures have shown an increasing trend over the years. In current expenditures, General Public Service (GPS) constitutes the largest head of expenses amounting to Rs. 2530.38 billion in FY 2014-15 as against Rs. 2364.88 billion in FY 2013-14. Under GPS, huge amount of revenue is spent on Executive and Legislative Organs, Financial and Fiscal Affairs and External Affairs which includes parliamentary 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 strongly recommended that the government should make serious efforts to cut down these extra expenditures on GPS.

## **6.7 Releasing next quarter PSDP funds after Audit of Utilized Funds on Projects**

The government releases funds for PSDP projects on the basis of formula which is 20 percent in the first quarter; 30 percent each in second and third quarters; and 20 percent in fourth quarter in each year. However, it has been observed that actual utilization of previous PSDP funds is less than fifty percent, which means the projects are not completed in time. It is proposed that there should be 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.

## **6.8 Cutting Down expenditure on Energy Subsidies**

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



## Chapter 7



### **Proposals for Facilitating Taxpayers and Simplifying Tax Structure**

## Chapter 7: Proposals for Facilitating Taxpayers and Simplifying Tax Structure

### 7.1 Simplifying Tax laws and notifications

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 made simple. Also, any rule or regulation, when amended, altered, or reissued with new wordings, should be simple, clear, comprehensive and provide complete text with amendment instead of referring to old notification and only mentioning amendment made.

### 7.2 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 imposed. An average individual/AOP/SME do not have resources or finances to comply with such requirements. As such, the tax compliance procedures should be made simple.

### 7.3 Doing Away with Multiplicity of Taxes and Departments

The multiplicity of taxes and departments should be done away with and different investigative departments under FBR shall be merged into one Department. Sales Tax on Services shall be collected by FBR as before. 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. It is suggested that issuance of such notices shall be made by only one officer for all matters regarding any deficiency/explanation.

### 7.4 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.

### **7.5 Intimidating language of FBR Notices**

The language of FBR notices is very pinching and intimidating which demotivates 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.

### **7.6 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.

### **7.7 Punitive action on misusing discretionary power to harass tax payers**

As there are many punitive provisions for tax payers on non-compliance with different rules and regulations some punitive provisions may also be introduced for department functionaries not acting in accordance with their obligations, and who use discretionary powers to harass tax payers or delay in passing the relief to tax payers promptly.

### **7.8 Guidance for salaried tax payers**

Majority of the 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.

### **7.9 Placing PRAL help Desks at all the RTOs**

The taxpayers face great hardships in connecting with the FBR Help Line which is always busy and it consumes a lot of their precious time. Moreover, the queries are also not properly answered. It is suggested that 'Help Desks' of Pakistan Automation Revenue Ltd. (PRAL) should be placed at each RTO throughout the country for taxpayers facilitation and resolving their problems.

### **7.10 Simple and hassle free withholding tax rate**

At present there are many withholding rates which are applicable on filer, non- filers, corporate and non-corporate sector, which may lead to mistakes and ultimately could attract default surcharge. It is proposed that withholding tax rates should be made simple.

### **7.11 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.

It would be also easy for taxpayers to identify any wrong deposit of WHT by the agent. Many NTN holders do not deposit WHT despite the fact that purchaser withhold some amount and increase their profitability by not depositing tax and Goods Seller/Service provider are not informed frequently. This results in loss of tax revenue for the FBR. Similarly, in Sales Tax, taxpayer claiming input tax is unaware about submission or otherwise of output tax by the seller. If the suggested mechanism is put in place by FBR, it would be easy for the input claimer to click that particular deposit to know whether it has been deposited.

### **7.12 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.





## Chapter 8: Proposed Income Tax Measures

### 8.1 Bringing down the Corporate Tax Rate to 25 percent

The corporate Income tax rate in Pakistan is comparatively higher in the region. It is suggested to bring it down to 25 percent or else introduce a uniform tax rate of 30 percent for all businesses, irrespective of their legal status. This would not only improve tax compliance and reduce tax evasion but also help encourage corporatization.

### 8.2 Reducing the Corporate Tax Rate for Listed Companies

The effective corporate tax rate for listed companies is 30 percent which discourages listing of companies on stock exchange. It is recommended to reduce it to 25 percent so as to provide them an edge over unlisted companies. This would help maintain a differential between listed and non-listed sector and provide financial incentives for those companies who plan to go public and expand their corporate ownership structure.

### 8.3 Withdrawing Withholding Tax on Retailers so that they opt as Company

The retail sector prefer to operate as sole proprietor and avoid to register as private or public limited companies, because wholesalers supplying to retailers are mostly in unorganized sector and when retailer cut 4.5% withholding tax from their payment, they think that this is loss to them and eventually they adjust this 4.5 percent amount in their cost which becomes quite expensive for retailers.

It is recommended that FBR may withdraw this 4.5 percent withholding tax from retailers to encourage them to register as limited companies through IPOs. This initiative would bring more retailers under tax net. Retailers may be fully exempted from tax on profits, and 1% income tax be charged on their turnover, being full and final discharge of liability.

### 8.4 E-Filing of Statements on annual basis instead of monthly basis

Under sub-section (1) of Section 165, every person collecting tax or deducting tax from a payment is required to furnish to the Commissioner

a monthly statement in a prescribed form; and as per sub-section (2) every prescribed person is required to furnish or e-file statements by the 15th day of the month following month to which withholding tax pertains.

It is proposed that the e-filing of statements by the prescribed person should be on annual basis i.e. within two months of close of tax year, as e-filing of monthly statements are duplication of work and all the details of taxpayers are available on e-FBR servers.

#### **8.5 Allowing Cost adjustments on e-Filing to Small Traders and Shopkeepers**

To encourage e-filing and tax compliance, some cost adjustments should be allowed to tax payers (especially to small traders and shopkeepers) against the tax payable amount or else FBR may announce a fix rate per filing for the e-intermediaries and announce to the general public. In this case the e-intermediaries will not charge fee to the clients against e filing.

#### **8.6 Excluding Rent expense from Rental Income under Section 155 of ITO, 2001**

Under Section 155 of Income Tax Ordinance, 2001, a company or any prescribed person making a payment in full or part (including advance payment) to any person on account of rent of immovable property (including rent of furniture and fixtures, and amounts for services relating to such property) is required to deduct tax from the gross amount of rent paid at the rate specified in Division V of Part III of the First Schedule.

It is proposed that 'rent expense' should not be included in calculation of 'rental income' of any person as due to his occupation he may acquire a residence on rent in another city or may shift to a small or larger home as per his requirement.

#### **8.7 Bringing tax rate for Non-Residents at par with Residents under Section 152 (2A) of ITO, 2001**

Under Section 152 (2A) of ITO, 2001, every prescribed person making a payment in full or part (including advance payment) to a permanent

establishment in Pakistan of a non-resident person for the sale of goods, rendering of or providing services, and on execution of a contract, shall, at the time of making the payment, deduct tax from the gross amount payable (including sales tax) at the rate specified in Division II of Part III of the First Schedule.

The Non-residents are still being charged old rates despite the fact that Resident's withholding tax has increased and distinction has been made between a company and non-company and filer and a non-filer. As such, it is proposed that rate applicable for non-residents be made par with the residents.

#### **8.8 Charging Reduced tax@1% of Gross Receipt on all Incoming International Calls**

Under clause 3 of Part II of 2nd Schedule of ITO, 2001 the tax on income from services rendered outside Pakistan is to be charged @ of 1% of the gross receipt provided that such receipts are brought into Pakistan in Foreign exchange through normal banking channel.

It is proposed that all incoming international calls may be considered as services rendered outside Pakistan which should be taxed at the rate of 1% of gross receipts. Since, the telecom services are rendered outside Pakistan therefore all requirements of Clause 3 of Part II of 2nd Schedule of Income Tax Ordinance 2001 are fully complied so the reduced tax rate of 1% should be applied instead of normal corporate tax rate.

#### **8.9 Allowing payments without tax deduction to foreign telecom network operators**

Under Section 152 of ITO, 2001, every person paying an amount of royalty or fees for technical services to a non-resident person is required to deduct tax @ 15% from the gross amount paid. It is proposed that payments to foreign telecom network operators and satellite companies may be allowed without deduction of tax by considering their telecom services as 'commercial profits' as these are not royalty payments. If tax is deducted while making them payments from Pakistan, they may also start deducting

tax from payments to Pakistan based telecom operators that will result in loss of foreign exchange to Pakistan.

#### **8.10 Exempting from Total Income of Grants provided to Telecom Sector on USF**

Under Clause 102A, of Part I of 2nd Schedule of ITO, 2001, the income of a person as represents a subsidy granted to him by the Federal Government for the purposes of implementation of any orders of the Federal Government in this behalf, have been exempted from the total income.

As grants given to telecom sector on account of Universal Service Fund (USF) to provide telecommunication services to commercially non-viable areas of Pakistan, are included in taxable income of recipients, as such it is proposed that such grant to telecom sector be also exempted from total income as it is not income rather provided to implement the orders of the Federal Government.

#### **8.11 Withholding Tax exemption on Bonus Shares of Investment/ Pension Schemes**

Any Income derived by Collective Investment Schemes (CISs)/ Voluntary Pension Schemes (VPS) etc. is exempt from tax, if not less than 90 percent of its accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit holders. Accordingly the income derived by these CISs is also exempt from withholding tax under Clause 47B of Part IV of 2nd Schedule of the Income Tax Ordinance, 2001.

Vide Finance Act 2014, the bonus shares issued by companies quoted on a stock exchange were also subjected to withholding tax as per Section 236M of the ITO. The corresponding exemption from levy of withholding tax on bonus shares received by CIS/ VPS etc., was not provided in Clause 47B. It is therefore, suggested that clause 47B be amended and reference of Section 236M be made in it. This omission is un-necessarily creating



hurdles for CIS as bonus shares received by them are being subject to withholding tax.

#### **8.12 Withholding Tax exemption on withdrawal from Approved Pension Fund**

Under Section 156B, the withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund is specifically exempt from taxation as per Clause 23C of Part I of 2nd Schedule to the Income Ordinance, 2001. However, no corresponding exemption is provided from withholding tax under the said Ordinance. To eliminate this lacuna, it is proposed that proviso (c) after proviso (b) be inserted under Section 156B of ITO, 2001 as follows.

*“(c) Provided that tax shall not be deducted from any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005.”*

#### **8.13 Tax exemption on loans provided by Banks to their employees**

Under Clause 53A various perquisites received by an employee by virtue of his employment have been exempted from tax. Under sub-clause (v) tax is also exempted on perquisite or benefit for which the employer does not have to bear any marginal cost.

It is proposed that loans provided by a bank to its employees be also exempted from tax, as while giving loans the bank does not have to bear marginal cost.

#### **8.14 Withdrawal of Withholding Tax on Cash Withdrawal from Banks**

The deduction of 0.6 percent withholding tax on cash withdrawal on amount of more than Rs. 50,000/- is unjustified and need to be withdrawn by government. It is recommended that the exemption limit be also increased from present Rs. 50,000 to Rs. 150,000 and the rate of



withholding tax on cash withdrawal be brought down to 0.2 percent. Due to this deduction the businessmen are reluctant to make deposits in banks.

#### **8.15 Allowing Tax Credit for Salaried Persons on Utilities and Education of Children**

Income tax on gross salary income of salaried persons is deducted at source without allowing any deductions. Previously under Clause (2E) of Part IV of First Schedule to the repealed Income Tax Ordinance 1979, a reduction in tax payable of an assessee was allowed, equal to five percent of expenditure on education of dependent children subject to maximum of Rs. 30,000/= per child subject to production of receipt bearing NTN of educational institution. However this tax reduction facility was later withdrawn in the ITO, 2001. Similarly, as per Clause (38) of Part I of Second Schedule to ITO, 2001, exemption was granted on utility allowance upto ten percent of basic salary of tax payer. However, subsequently, this exemption was withdrawn through Finance Act, 2006.

Since salaried people represent the only class in this country who pay their income tax honestly, therefore just to provide them some relief and to reduce their hardships due to current high inflation, ICMA Pakistan feels that they may be allowed a tax credits on expenditure on education of their dependent children as well as tax credit on their actual expenditure on account of utilities (i.e. electricity, gas, telephone and water bills).

#### **8.16 Tax Incentives on Setting up New Industries in Undeveloped Areas**

The government should consider to provide tax holidays and incentives to innovative and new industries, especially those established in undeveloped areas. The government should also offer tax benefits and reliefs on setting of state-of-the-art industrial estates.

#### **8.17 Removing discrimination with taxpayers of AJ&K**

The taxpayers of AJ&K, duly registered on NTN-Roll of Department of Inland Revenue/ Council Board of Revenue, AJ&K Council are facing problems in clearance of their taxable transactions within the territory of

Pakistan. Due to non-existence of Active Taxpayer List of AJ&K on FBR database, taxpayers of AJ&K are subject to higher rate of taxation. The same is available on official web-site of the AJ&K Council Board of Revenue. It is proposed that FBR may take necessary measures to remove above discrimination faced by the AJ&K taxpayers.

#### **8.18 Withdrawing Powers under Section 165A to probe into banking transactions**

Through the Finance Act 2013, a new Section 165A was inserted in Income Tax Ordinance, 2001, whereby the tax authorities were given discretionary powers by allowing them online access to banks central data bases containing details of their account holders and all transactions made in accounts. These discretionary powers are against the principle of secrecy and can be misused by tax officials. As such, it is proposed that Section 165A be either withdrawn or else this provision may be revisited and suitably amended so that any misuse of power could be checked and penalized.

#### **8.19 Allowing income tax refund within 15 days under Section 170(4)**

As per Section 170(4) of IT Ordinance 2001, the Commissioner has been authorized to make refund of tax paid in excess to amount chargeable to tax within 60 days which is harsh. It is proposed that Section 170(4) may be amended so as to reduce the period for refund from 60 days to 15 days. Also, Section 170(2)(c) be also amended to authorize the Commissioner to admit an application after expiry of stipulated period of two years on genuine reasons.

#### **8.20 Doing away with provision of Section 104 (2) on treatment of foreign losses**

As per Section 104 (2) of IT Ordinance 2001, the total deductible expenditures incurred by a person in deriving foreign-source income, if exceeds total foreign source income for a tax year chargeable to tax under a head of income, the resulting 'foreign loss' shall be carried forward to

following tax year and set off against foreign source income chargeable to tax under that head in that year.

It is our opinion that Section 104 (2) is contrary to the concept of global taxation and as such it should be done away with from the Income Tax Ordinance. It may be added here that there was no such restriction in the repealed Income Tax Ordinance, 1979.

#### **8.21 Persons registered under Sales Tax Act be not included in definition of Prescribed Person under Section 153 of ITO, 2001**

Through the Finance Act, 2013, a new Clause (j) was inserted in sub-section 7 (i) of Section 153 of Income Tax Ordinance, 2001 which included 'a person registered under the Sales Tax Act, 1990' in the definition of a 'Prescribed Person' as defined under Section 153 of IT Ordinance, 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.

As small traders having low turnover are also registered under the Sales Tax Act, 1990 just to secure business from public and private sector organizations, as such it is proposed that this provision should be done away from the definition of a prescribed person.

#### **8.22 Doing away with submission of monthly WH Statement under Section 165**

Under Section 165 of Income Tax Ordinance, 2001, a withholding agent is required to file monthly statement to the Commissioner providing all the details on deduction of taxes from payments. As the required information is mentioned in CPR, as such the requirement for submission of monthly withholding statement should be done away with, as it tantamount to repetition of information already submitted to tax authorities at time of payment of withholding tax.

### **8.23 Further amendment in Assessment Order be not allowed under Section 122 (4)**

As per Section 122 (4) of IT Ordinance, 2001, 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.

### **8.24 Making tax recovery procedure lenient by amending Section 138**

Under Section 138(2) of IT Ordinance, 2001, 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.

It is strongly recommended 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.

### **8.25 Amending Section 176 to insert omitted words of 'Cost and Management Accountants'**

Under Section 176 (c), it is stated that "the firm of Chartered Accountants, as appointed by the Board or Commissioner to conduct audit under Section 177, for any tax year, may with prior approval of the Commissioner concerned, enter the business premises of a taxpayer, to obtain any



information, require production of any record, on which the required information is stored and examine it within such premises; and such firm may if specifically delegated by the Commissioner, also exercise the powers as provided in sub-section (4).

It may be pointed out that through the Finance Act 2010, the words “or a firm of Cost and Management Accountants as defined under the Cost and Management Accountants Act, 1996 (XIV of 1966)” was inserted in sub-section 8 of Section 177 of the ITO 2001. However, it seems that the same was inadvertently omitted in the above sub-section (c) of Section 176. Hence, it is suggested that sub-section (c) of Section 176 may be re-phrased as under:

*“the firm of Chartered Accountants or the firm of Cost and Management Accountants, as appointed by the Board or Commissioner to conduct audit under Section 177, for any tax year, may with the prior approval of the Commissioner concerned, enter the business premises of a taxpayer, to obtain any information, require production of any record, on which the required information is stored and examine it within such premises; and such firm may if specifically delegated by the Commissioner, also exercise the powers as provided in sub-section (4)”.*

#### **8.26 Adopting proper audit procedure under Section 177**

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

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



### **8.27 Restoring 75% Tax Rebate for Full Time Teachers**

Tax exemption/ rebate of 40% on taxable income from salary has been allowed to a full time teacher or a researcher, employed in a non-profit education or research institution, Board of Education or a University recognized by the HEC, including government training and research institution. Earlier, tax rebate was 75% on taxable income of teachers and researchers but through Finance Act 2013, this has been reduced to 40 percent. This has been termed as an anti-education measure by the education sector as well as the research-based organizations.

It is strongly recommended that tax rebate to teachers and researchers may be brought to previous level of 75 percent in consonance with government's policy to promote education and research in the country.

### **8.28 Providing 100% Tax Rebate for Researchers and Scholars**

Our country has dearth of professionals who are involved in research and development. One of the reasons is that they are not being supported by the government as in other countries, especially advanced nations where research is accorded highest priority for a sustainable economic growth. A very good initiative has been taken by the Higher Education Commission (HEC) recently to make it binding on all HEC-recognized academic institutions/ universities to establish the 'Offices of Research, Innovation and Commercialization (ORIC)'. However, this initiative will not be successful unless the government provide a conducive environment for researchers and research organizations to flourish.

It is strongly recommended that in forthcoming budget, the government may consider to provide 100 percent tax rebate on salaries of researchers.

### **8.29 Reducing rate of Advance Tax on imports under Section 148**

Through the Finance Act 2014, the government has increased the rate of advance tax/withholding tax under Section 148 of Income Tax Ordinance, on manufacturers importing raw materials for their use from 5% to 5.5%.

Earlier, advance tax was charged at 3% at source from the manufacturers. This increase has led to significant cash flow problems for manufacturers and resulted in generation of income tax refunds.

It is proposed that companies registered in LTU should be exempted from withholding income tax under Section 148 on raw materials and capital goods at import stage. Alternatively, tax rate on these items be reduced from present 5.5% to 1 percent.

### **8.30 Clarifying unexplained income from FE Remittances under Section 111**

As per clause (a) of sub-section 4 of Section 111 of Income Tax Ordinance, 2001, the unexplained income or asset does not apply to any amount of foreign exchange remitted from outside Pakistan through normal banking channels that is encashed into rupees by a scheduled bank and a certificate from such bank is produced to that effect.

It is proposed that the above provision of Section 111 may be clarified to explain that clause (a) would only apply to remittances received by a person for investment in an industrial undertaking and for all other purposes up to an amount not exceeding US\$25,000 or equivalent during a tax year. This is important to ensure that the funds remitted under this Section do not distort the formal economy.

### **8.31 Allowing Tax Credit on Purchases from Registered persons under Section 65A**

Under Section 65A of Income Tax Ordinance, 2001, every manufacturer, registered under the Sales Tax Act 1990, is entitled to a tax credit of 2.5% of tax payable from a tax year, if 90% of his sales are to a person who is registered under the aforesaid Act.

Since the above facility is not available on purchases from registered persons, it is therefore recommended that a new Section (65AA) be inserted which reads as follows:

*“65AA. Every manufacturer registered under the Sales Tax Act 1990 is entitled to a tax credit of 2.5% of tax payable from a tax year if 90% of his purchases are from a person who is registered under the aforesaid Act during the said tax year”.*

This above provision, if implemented, would help encourage documentation as companies will have an incentive to purchase from registered persons.

### **8.32 Extending Tax Credit under Section 65E to Investments in Factory Premises**

Under Section 65E of Income Tax Ordinance, 2001, tax credit has been allowed to an industrial undertaking on the purchase and installation of plant and machinery. Since expansion of plant or undertaking a new project involves investment in factory building and as such these types of investments should also be made eligible for tax relief.

It is therefore, proposed that tax credit under Section 65E should also be extended to investment in factory building and manufacturing related infrastructure.

### **8.33 Allowing adjustment of losses from non-speculative business under Section 65**

The Finance Act 2013, denied adjustment of losses from non-speculative business against income from salary and property income. It is proposed that the position existing prior to Finance Act 2013 should be restored under Section 65 of IT Ordinance, 2001.

### **8.34 Excluding Professional Services from Ambit of Minimum Tax under Section 153**

The professional service providers, who by their governing statutes, are not allowed to get themselves incorporated, should be excluded from the ambit of minimum tax under Section 153 or they may be allowed to carry forward such minimum tax for next five tax years.

**8.35 Reducing Order Period from 30 to 15 days under Section 152 (5A)**

Where payment to a non-resident is not likely to be chargeable to tax, the taxpayer is required to file a notice to the commissioner u/s 152 (5) who is required to make an order within 30 days. This period may be curtailed to 15 days and if no order is passed the notice may be deemed as has been accepted. Further one time exemption is granted in cases of perpetual payment under an agreement with a non-resident.

**8.36 Guideline for application of Transfer Pricing Rules (Section 108 and Rules 20 to 27)**

Issues relating to non-arm's length consideration (transfer pricing) are matters of determination of fact rather than interpretation of law. Guideline by OECD also supports this principle. It is proposed to issue guideline for application of transfer pricing rules. (Section 108 & Rules 20 to 27 of OECD Guidelines be adopted).

**8.37 Powers of commissioner under Section 128 (1A)**

The power of commissioner (Appeals) to grant stay against recovery be enhanced from present 30 days to 180 days in line with the power of Appellate tribunal. [Section 128(1A)].

**8.38 Defining the term 'Execution of contract' under Section 153**

The term 'execution of contract' is open ended as every transaction is an execution of a contract under the contract Act. Both tax payers and the department have interpreted this term differently in different situations and this has resulted in litigation. In order to avoid further litigation, the term 'execution of contract' used in section 153 should be defined.

**8.39 Making amendments in Section 151(1) (d) to explain non-taxability of amount paid on maturity of insurance policy**

The amount paid to policy holder on maturity of termination of life insurance contracts have always been considered as non taxable being a



capital receipt. However, the tax authorities contend that withholding of tax is required under section 151(1) (d) [applicable to profit in debt in financial instrument] on payment made on maturity or termination of life insurance contracts. It is proposed that appropriate explanation may be inserted to clarify that section 151(1) (d) does not apply to any amount paid under a contract of life insurance.

#### **8.40 Exemption of WH Tax to Distributors and Retailers under 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 income from business under Section 156. The tax authorities however 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 to protect against unwarranted dispute being raised.

#### **8.41 Amending Section 154(3C) to allow tax collection on exports without form E or through land routes**

Section 154 (3C) provide for collection of tax at source by Collector of Customs at the time of clearing of goods for export, whereas the authorized dealer in Foreign Exchange is also required to collect tax under sub-section (1) at the time of realization of export proceeds. It is proposed that sub section (3 C) should be amended to provide that it would only apply where the goods are exported without 'Form E' or on goods exported through land routes.

#### **8.42 Withdrawing amendment made in WWF Law through Finance Acts 2006 and 2008**

Amendments made in Workers Welfare Fund (WWF) law through Finance Act 2006 and 2008 should be withdrawn as it has enhanced the burden of



taxpayers and has triggered litigation. Further, the levy is not being utilized for workers welfare and as such it is unjust to enhance the scope of this levy when it is not utilized for the purpose declared in the relevant law.

#### **8.43 Providing Tax exemption to Professionals on Export of Services**

Exports of goods or services are the life line of our economy. At present, only IT related services are exempted from income Tax. It is recommended that income from export of services by professionals like engineers, architects and accountants etc. may also be provided exemption from income tax.

#### **8.44 Extending Tax Credits under Section, 65B, 65D and 65E**

The enhanced period of tax credit as referred under Sections 65B, 65D and 65E of Income Tax Ordinance, 2001, will be expiring on June 30, 2016. It is recommended that tax credits under these Sections should be extended from 10 to 15 years instead of currently offered 5 years. This would help encourage new investors to plan for future investment projects.

#### **8.45 Restoring Initial Depreciation Allowance Rate to 50% for Plant & Machinery**

Through Finance Act 2014, the rate of initial depreciation allowance on Plant and Machinery, as prescribed under the Third Schedule of IT Ordinance, 2001 read with Section 23, has been reduced to 25% from 50%, effective tax year 2014. Moreover, the rate of initial depreciation allowance on building has also been reduced from 25% to 15% vide Finance Act 2014.

It is proposed that Initial Depreciation Allowance rate be restored to 50% for Plant and Machinery and 25% for Building as was the case prior to Finance Act 2014.

This will gear up investments in industrial sector, resulting in job creation and increased tax revenue for government once the unit starts earning profits.

#### **8.46 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, we suggest that rule 43 be amended so that withholding amount may be deposited within 7 days of end of month on monthly basis.

#### **8.47 Reducing WH Tax on Export Proceeds Realization for promoting exports**

Exports is the lifeline of any exporting country and contributes to economic growth and balance of payments. To promote exports, it is recommended that besides offering other incentives, the withholding tax on export proceeds realization should be reduced from present 1 percent to 0.25 percent.

It is further proposed that the Export Development Surcharge (EDS) being charged at 0.25%.of FOB value should also be abolished.

#### **8.48 Abolishing 12.5% WH Tax on Dividends**

Since the corporate income is already taxable at the rate of 32 percent, it is suggested that further tax on distribution of income should not be imposed. As such, 12.5% withholding tax presently being charged on dividends tantamount to double taxation. This may be made adjustable against tax liability of payee.

#### **8.49 Revising threshold of WHT under SRO 586 dated 30-06-1991**

As per Provision of SRO 586 dated 30-06-1991 withholding tax are not applicable on payment of Rs 25,000 against supplies and on payment of 10,000 against services this threshold was set in 1990 and should be revised.

### **8.50 Rising limit under Section 21 (1a) to bring in line with Section 73 of ST Act 1990**

Section 21(1)(a) of Income Tax Ordinance, 2001 allows cash payment up to Rs 10,000 (other than salary). This limit is unchanged since the promulgation of Income Tax Ordinance, 2001. Over the years, due to inflation, the expenses have gone high. It is therefore proposed that this limit be increased from Rs. 10,000 to Rs. 50,000 to bring it in line with Section 73 of Sales Tax Act, 1990.

### **8.51 Doing away with WH Tax on payment to Distribution Houses under Section 153(1)**

Tax deducted under section 153 (1) is subject to final discharge for assesses other than manufacturing company. However, the distribution business is high turnover low margin business, and they work on a margins ranging between 1% to 3%, while the withholding of tax @ 4.5% (1% in case pharmaceuticals products) from their payments is great burden. It is therefore proposed that withholding from the proceeds to distribution houses should be done away with or at least it should be included in Section 153 (3) (a) of Income Tax Ordinance, 2001 to become eligible for claiming adjustment.

### **8.52 Allowing WH Agents to Retain 10% of tax collection as Service Charges**

FBR has been availing the services of Withholding Agents free of charge for quite a long time. These withholding agents have been incurring heavy expenditure on hiring and training of staff, record maintenance, audit and other operating expenses. It is suggested that withholding agent should be allowed to retain 10 percent of the amount of tax collected as service charges on the principle of natural justice.

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

Presently employer contribution of Provident Fund, exceeding Rs 100,000 annually is included in income of employee. Since employees are already

paying high rate of taxes and this benefit is also related to retirement, hence it is proposed that this should be abolished by eliminating clause 3(a) of Part I of Sixth Schedule of IT Ordinance, 2001.

#### **8.54 Withdrawing Advance Tax on Domestic Air Ticket**

It is proposed that advance Income tax @5% on domestic air ticket may be withdrawn as this tax is adjustable. The Airlines do not provide CPR(s) to companies and even to the Travel Agent. Further FBR system fail to verify this tax leading to additional burden on companies.

#### **8.55 Removing Ambiguity under Section 113(2)(c)**

According to Section 113(2) (c) where the minimum tax exceed the actual tax liability under normal tax rate, the excess amount is carried forward for adjustment against tax liability of subsequent tax years. In case where there is no tax liability, the field officer deny this minimum tax adjustment by wrongly interpreting this clause. It is therefore proposed that FBR should remove this ambiguity and clearly mention that this adjustment in subsequent years is also available where no tax is payable.

#### **8.56 Accepting paid electricity bill as evidence of Advance Tax**

Paid electricity bill should be accepted as evidence of advance tax as electricity companies don't file tax returns with individual's names.

#### **8.57 Rationalizing Tax Slabs of Salaried Class Individuals**

Harmonization of tax rates in respect of the salaried Individual and other than salaried individual should be done and the existing slabs need to be revisited.

The maximum rate of tax for salaried individuals should be brought down to 25 percent, either in one go or in phases of 1.25 percent annually over the next four years.

### **8.58 Reducing the Capital Gain Tax Rate on Share holding**

At present there is 15 percent tax imposed on holding for less than twelve months; 12.50 percent for holding twelve months or more but less than twenty four months; and 7.5 percent for holding period of twenty four months or more but less than four years. It is proposed that capital gain tax rate of 10 percent where holding period of securities is less than six months; eight percent for holding period is six months or more but less than twelve months; and zero percent where holding period is more than twelve months.

### **8.59 Charging tax on Issuance of Bonus Shares**

The present treatment of bonus shares as income of shareholders is very detrimental to the growth of the capital market and has hampered the issuance of bonus shares by listed companies. It is proposed that there should be withdrawal of amendments made to Income Tax Ordinance, 2001 regarding charging tax on issuance of bonus shares.



## Chapter 9



### Proposed Sales Tax Measures

## Chapter 9: Proposed Sales Tax Measures

### 9.1 Bringing Sales Tax Rate to Single digit

The current rate of sales tax is 17 percent which is comparatively higher in the region. It is proposed that sales tax rate may be reduced to single digit and it should be non-adjustable and non-refundable. This would help in improving tax collection and doing away with corruption.

### 9.2 Collecting Sales Tax at Single Stage

It is proposed that sales tax should be collected at single stage i.e. at import or manufacturing stage. In the value-added chain industry, GST should be collected at 0.5% at each stage of value addition to complete the chain. This would help in the documentation of economy.

### 9.3 Defining of Tem 'Supply' - Section 2(33)

The term supply does not include the term 'Other Disposition' whereas sales tax General Order[STGO] No.2/2004 dated 12 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 suggested that [STGO] may be amended in line with the definition of term supply given.

### 9.4 Tax Fraud - Section 2(37)

A genuine businessman face problems to commence his business till the time he is awarded his sales tax registration number. On the contrary, supply of taxable goods without getting registration, but after filing application for registration, is treated as "Tax Fraud" on the part of supplier. To enable a supplier to commence his business till sales tax registration number is allotted a Provisional Certificate may be issued to him. On doing business on the strength of a Provincial Certificate issued by a Commissioner may not be charged for 'tax fraud'.

## **9.5 Time of Supply - Section 2(44)**

'Hire purchase' transactions involve periodical installments, sale tax is now being charged on full amount of the transaction, at the time of signing a hire purchase agreement. It is proposed that the definition of 'time of supply' may be amended. Tax should be levied at the time when installment is effected / paid because, in view of intellectual property rights issues, supply takes place at the time each payment of installment is affected. Further, the element of interest embedded in such installment not being a part of supply, but a financial cost to the recipient of goods, should be excluded for assessment of sales tax.

## **9.6 Sales Tax on Advances - Section 2(44)**

Prior to amendment in section 2(44) through Finance Act, 2008, sales tax was levied at the time of actual delivery of goods regardless of time of payment. Subsequent to the amendment, sales tax is charged at the time of receipt of advances. The present law is adversely affecting businesses which require booking of goods before these are in the hand of supplier. It is recommended to revert to law existing prior to the cited amendment.

## **9.7 Further Tax – Section 3 (1A) read with Section 7**

Further Tax was earlier adjustable against output tax. However, now the tax is not considered part of input tax. This is anomalous. It is therefore proposed that 'Further Tax' may qualify for adjustment as input tax.

## **9.8 Further Tax – Section 3 (1A)**

In verdict on Writ Petition 17639/2013 dated 20 March, 2014, Lahore High Court has held that further tax need not be levied on persons/ business otherwise exempted from sales tax registration. FBR has also issued a Sales Tax General Order (STGO) No. 68 of 2014 whereby framework of related mechanism has been spelled out. However, phraseology of the subject STGO is often not clear to the FBR officials. This needs to be taken care of.

Subject to Commissioner's approval exemption from further tax should be granted to suppliers not required to be registered under the ST Act, 1990. Furthermore, taxpayers registered under 'provincial sales tax laws' may also be treated 'registered' and exempted from further tax.

## **9.9 Tax Credit Not Allowed – Section 8**

The tax auditors have been objecting to adjustment of tax paid by the taxpayer on electricity and gas consumed in residential blocks of the factories where production facilities are located, as input tax. The tax department is of the view that this area falls under the mischief of section 8(1)(a). Thus such claims of input tax are inadmissible.

It is recommended that amendments may be made in SRO # 490(I)/2014 dated 12-06-2014 with a view to allow input tax on electricity and gas consumption within residential colonies of the registered persons, which are part of the plants premises.

## **9.10 Input Tax Credit on Building Materials – Section 8 / SRO # 490/2001**

SRO# 450 dated 27-05-2013 disallows input tax on sales tax paid on purchase of building materials, even when these are used for construction of projects assisting taxable activity. Accordingly, changes made in SRO# 490(I)/2004 vide SRO # 450 dated 27-05-2013 may be deleted.

## **9.11 Claiming or Deducting Input Tax Paid on Good or Services – Section 8(1) 9ca)**

Section 8(1)(ca) of the Sales Tax Act debars a registered person from claiming or deducting input tax paid on goods (or services) in respect of which sales tax has not been deposited in the Government treasury by the respective supplier. The provision is quite harsh treatment with the compliant taxpayer who has been penalized by the wrong doing of tax evaders. Recently, the Lahore High Court also took cognizance of such discrimination and has struck down Section 8(1)(ca) from the statute. It is recommended that compliant taxpayers should not be penalized if the

sales tax amount has been paid to the supplier is verifiable through banking transaction from both the banks accounts of the supplier and buyer under section 73 of the Act.

#### **9.12 Deleting Section 8A to remove liability of person for non-compliance by Supplier**

Where a registered person receiving a taxable supply from another registered person, is in the knowledge or has reasonable grounds to suspect that some or all of the tax payable in respect of that supply or any previous or subsequent supply of the goods supplied has or would go unpaid, such person as well as the person making the taxable supply is jointly and severally liable for payment of such unpaid amount of tax. It is proposed that the person making the payment in good faith should not be made responsible for non-compliance by the supplier. Accordingly, deletion of section 8A may be considered.

#### **9.13 Deleting Section 8B with regard to Adjustable Input Tax**

Section 8B restricts claim of input tax to 90% of the output tax besides mandating forfeiture of 10% of input tax right. A provision seeking to defer the claim of legitimate input tax/ refunds of a registered person is not in keeping with the philosophy of Sales Tax Act or any other and the cited forfeiture of a valid fiscal law. It is, therefore proposed that Section 8B should be removed from the statute.

#### **9.14 Show Cause Notices – Section 11**

Show cause notices are issued to taxpayers under section 11 of the Sales Tax Act (also simultaneously under section 14 of the Federal Excise Act) on frivolous and intangible basis. This leads to weak assessment proceedings and adverse appellate orders against such assessments, causing enormous loss of departmental time and annoyance of the tax payers.

Respective law provisions should be amended to the effect that unless definite information of any tax evasion, illegal input tax adjustment or



refund is available with the tax, officer show cause notice shall not be issued. The tax law should also provide a Special Assistant to the Chief Commissioner (not below the rank of an Additional Commissioner) examining the issue and subsequent orders in original issued. This would go to cleanse the atmosphere otherwise.

#### **9.15 Multiple Audits – Section 25 and Section 38**

Quite often, 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.

In terms of section 25 of the Sales Tax Act, the tax department may conduct audit for registered person only once a year. The terms 'Desk Audit', 'Investigative Audit' and 'Abnormal Tax Profile' are not defined by the statute. These should accordingly be discarded from the departmental manual. Law provides a specific and subjective criteria as also distinct mechanism for conducting investigative audits under section 38, which cannot/ should not be used as a tool for harassment and revenue generation.

#### **9.16 Curtailing discretionary powers of tax officers under Sections 37 and 38**

Under Section 37 of Sales Tax Act, 1990, 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.

To check misuse of discretionary powers by IR officers under Section 37 and Section 38 it is proposed that these relevant Section of Sales Tax Act 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.

### **9.17 Doing away with discretionary powers of tax officer under Section 40B and 40C**

Under section 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 power 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 should 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 be adopted if tax department realizes that proper tax is not paid by the registered person.

### **9.18 Power of Arrest – 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 recommended that this section should only be applicable where the case of tax fraud has already been established at the stage of Order-in-Appeal.

### **9.19 Authority to block bank accounts and suspend Sales tax registration**

The Authority to block bank accounts or suspend or block sales tax registration/ NTN No. shall only be vested in Regional Commissioners or DG, LTU. This authority may not be allowed to be delegated to any subordinate officer. The blocked bank account or STR/NTN shall be resorted by competent authority after full opportunity is extended to tax payer to explain reason for action and recording of replies of tax payer.

The restoration shall be made within 48 hours directly and may not be lingered on moving files from one department to another.

## **9.20 Liability for Payment of Tax – Section 58**

Under the existing law, 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 Income Tax Ordinance, 2001, caters such issues under section 139. This law comprehensively deals with a tax liability, both in the cases of a company and an association of persons. Provision analogues to section 139 of the Income Tax Law needs to be introduced in the Sales Tax Act.

## **9.21 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 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 therefore, 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.

## **9.22 Inadmissible Input Tax – Section 73**

9.22.1 In case of payment not made by the buyer within 180 days, his corresponding input tax becomes inadmissible. It appears to be an irrational proposition. Considering the fact that related sales tax paid by supplier to him (at the sales stage) is already deposited into the government treasury– consequent upon issuing a tax invoice, imposing such condition appears

anomalous. At present, gas/ electricity and petroleum sectors, in particulars, are caught by vicious circular debt problem and payment of their invoices are delayed because of the liquidity issues culminating at the door steps of the governmental corridors.

- 9.22.2 The law provision also does not take into account transactions where payments are made by some other person / guarantor on behalf of the buyer, which terms of the contract between the buyer and seller may call for.
- 9.22.3 Part payment of invoice, to the extent of sales tax, is also not catered by the statute, which appears to be required.
- 9.22.4 The law section's phraseology should be simplified & improved, also in keeping legal decisions in matter. These decisions provide that non-compliance of the subject section does not adversely affect the input claims.

In today's environment, it is common that purchase and sales are made from/ to same party. Therefore, traveling along the commercial norms, ledge adjustment should be allowed.

The law provision needs to be revised to accommodate payments terms and conditions based on industry practices and business norms.

### **9.23 Doing away with unnecessary Annexures in Sales Tax Return**

The existing sales tax return contains some complicated and unnecessary annexures, which are time consuming and require hiring of professional staff such as Annexure 'F' and Annexure 'H' pertains to stock details, which are difficult not only to be reported every month but also to be filled-in properly. Its compliance for submission with Sales tax Return also causes hassle to genuine taxpayers. .



It is recommended that condition for filing unnecessary annexures should be curtailed at maximum level to achieve simplification and such details, if essentially required, can be made part of annual sales tax return.

#### **9.24 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% on purchases from unregistered persons, which is not adjustable as input tax. Consequently, this amount of payment is a double taxation for the registered sales tax persons. It is proposed that Sales Tax Withholding @ 1% on purchases from unregistered persons should either be withdrawn or it may be given treatment of input tax in line with the analogy of VAT to set-off burden of addition sales tax.

#### **9.25 Excluding Commercial importers from payment of Further Sales Tax**

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

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

#### **9.26 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 the 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 therefore proposed that separate sales tax registration 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.

#### **9.27 Reducing period for retaining records by Registered Persons from six to three years**

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 who 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 compliance cost.

#### **9.28 Removing requirement for Commissioner's approval to file revised Sales Tax Return**

As per Section 26 of Sales Tax Act, 1990, a registered person is required to obtain approval of Commissioner Inland Revenue to file a revised return to correct any omission or wrong declaration made in original sales tax return.

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.

It is proposed that requirement for Commissioner's approval for revised return be made easy in cases where no refund is enhanced or no liability is decreased to avoid hardship faced by the registered person.

### **9.29 Restoring Immunity of audit to commercial importers**

Vide Finance Act 2012, the immunity from audit to commercial importers even after payment of 3% VAT at import stage was withdrawn by omitting clause 58E(2) from Special Procedure for Payment of Sales Tax by Commercial Importer Rule 2006. It is therefore, proposed that the above Clause 58-E(2) be restored for the benefit of commercial importers.

### **9.30 Withdrawing Sales Tax Withholding Rules, 2007**

The Sindh 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, have to follow-up for certificate as a facing authority.

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

### **9.31 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 be amended to provide commencement of recovery proceeding after 30 days from the receipt of order.

### **9.32 Claiming or deducting Input Tax Paid on goods or services U/S 8(1) (Ca)**

Section 8(1)(Ca) of Sales Tax Act debars a registered person from claiming or deducting input tax paid on goods (or services) in respect of which sales tax has not been deposited in the government treasury by respective supplier.

The provision is quite harsh treatment with the compliant taxpayer who has been penalized by the wrong doing of tax evaders. Recently, the Lahore High Court also took cognizance of such discrimination and has struck down section 8(1) (Ca) from the statute.

It is proposed that compliant taxpayers should not be penalized if the sales tax amount has been paid to the supplier is verifiable through banking transaction from both the banks account of the supplier and buyer under section 73 of the Act.

### **9.33 Disposal of all Refund claims U/S 66**

Under Section 66 of Sales Tax Act, 1990, the refunds claimed within one year of the date of payment is required to be disposed of by the Commissioner within a period not exceeding ninety (90) days from the date of filing of such application or claim by the exporter. However, there is delay in disposals which need to be expedited.

### **9.34 Amending Section 21(2) on Blacklisting of Suppliers to avoid misuse**

Section 21 of Sales Tax Act, 1990 deals with 'De-registration, blacklisting and suspension of registration. Sub-section 21 (2) empowers the Commissioner to blacklist a registered person or suspend his registration in case he is satisfied that such person has issued fake invoices or has otherwise committed tax fraud.

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

### **9.35 Doing away with Sales tax on Advance Payment**

Prior to amendment in Finance Act 2013, sales tax was chargeable at the time of delivery regardless of time of payment. However, after said amendment, sales tax is now also payable on receipt of advance payment which creates serious operational issues and unnecessary reconciliations, resulting in hardships to taxpayers. The Government is also not getting any benefit from this amendment, except slight timing difference. It is therefore proposed that sales tax on advance payment should be done away with immediately.

### **9.36 Amending Rule 18 C to remove additional tax burden on registered ST person**

Vide SRO # 509 dated 12-06-2013 read with special procedure rules from 18A to 18C and section 3 (1A), electrical and gas companies are charging 5% extra sales tax and 1% further sales tax on monthly bills exceeding 15,000 from those consumers who do not provide their sales tax registration number.

As per Rule 18C of special procedure for claiming sales tax registration, a registered person is required to submit sales tax registration certificate bearing name and address of property where said connection is provided and it should also match with gas and electricity connection record.

The practical problem is that most of the business having rented property particularly in case of distribution business and all connections are maintained on the name of owners. Consequently, the electric and gas companies do not accept sales tax registration and charge said additional taxes.

It is proposed that to provide relief to registered tax payers, the burden of additional tax should be removed or at least appropriate amendment be made in Rule 18C so as to allow gas and electric companies to accept rental



agreement of the property mentioned in sales tax particulars. Further, the condition of matching with connection list should also be removed.

**9.37 Removing 180 days time limit for Return of Supply (Section 9 read with Rule 22(4))**

As per section 9 read with rule 22(4) credit note can be issued for return of supply within 180 days, currently sales tax is levied on some health supplement, Dietary supplements and as per business norms industry has to take back the near expiry, expired or slow moving stock from the market even till 2 years so to support genuine transaction. In this era of technological advancement where many checks can be placed to check genuineness of transaction this 6 month time should be removed or at least increase to 2 years

**9.38 Doing away with SRO 485 (I) 2015**

As per SRO 485 (I) 2015, sales tax withholding is now applicable at the time of purchase instead of payment. This is a unique sort of amendment with reference to withholding and creates lot of operation and recording issue. It is proposed to do away with this SRO.

**9.39 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 should 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). It is further proposed that the withholding Sales tax on payments to registered persons falling under LTUs should be exempted.

**9.40 Withdrawing 10% Sales Tax on Service Fee of Tour Operators**

It is proposed that 10 percent Sales Tax on Service fee of Tour Operators should be withdrawn while Sales Tax on Commission earned by Travel



Agents on air tickets should be levied as flat rate at Rs. 50 per ticket for domestic travel and Rs. 100 on international travel. It is also proposed that all tour operators /travel agents dealing in religious tourism/ pilgrims should also be exempted from Sales Tax on Services.

#### **9.41 Abolishing Rented out immovable properties**

It is suggested that Sales Tax on rented out immovable properties may be abolished as it increases the cost of doing business, stokes inflation and restricts investment.

#### **9.42 General Proposals about Sales Tax**

- 9.42.1 Single rate of Sales Tax @ 10 percent may be imposed on all types of services with input tax credit facility. Further, there should be a comprehensive list of inadmissible goods and service in the Sales Tax Act, 1990.
- 9.42.2 Percent sales tax with an additional 3 % value addition tax, on commercial imports promotes evasion. It is should be brought down to 7 percent.
- 9.42.3 The Sales Tax Act does not contain any provision for allowing adjustment in respect of bad debts after deposit of sales tax. It is suggested 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.
- 9.42.4 Sales Tax Refund is not being allowed against services such as Courier companies, Logistics, Clearing and forwarding agents and Insurance in spite of the fact that issue of input tax between provinces and Federal Government has been resolved. FBR may consider to introduce necessary provisions in the Sales Tax Act in this regard.

- 9.42.5 A separate Section may be added in Sales Tax Act 1990 and Income Tax Ordinance 1979 for accountability of FBR officers who often carry out ambitious exercise. Some punitive provisions may be introduced for department functionaries not acting in accordance with their obligations, and using discretionary powers to harass tax payers.
- 9.42.6 Plants and Machinery should be exempted from sales tax to promote industrialization and new investment in the country. Further, the procedure for submission of post dated cheques should be withdrawn to avoid hassles in said process.
- 9.42.7 FBR should immediately de-notify the services which are now chargeable under the Provincial legislation after the 18th Constitutional amendments.

## Chapter 10



### Proposed Federal Excise Measures

## Chapter 10: Proposed Federal Excise Measures

### 10.1 Streamlining FED Procedure for 'Franchise Fee'

The 'Royalty' payment has been subject to FED. The term used in the law is 'Franchise fee' which at times is distinguishable for royalties in strict commercial and practical sense. This has led to issues of interpretation and mis-application in many entities. It is therefore recommended that FED procedures for franchise fee be streamlined and brought in line with the State Bank's regulation.

### 10.2 Bringing all Excisable Services under VAT Mode

In terms of Section 3 of FED Act, where the Franchiser is a foreign entity, the liability to pay FED on franchise services falls upon local franchisee on reverse charge basis. Such FED operates under a Non-VAT mechanism meaning whereby the local franchise who pays FED is not entitled to claim the same against his excise or sales tax liability.

It is suggested that all excisable services including, franchise or royalty, may be brought under the VAT mode and taxpayers may be allowed to claim the same from their output tax/duty.

### 10.3 Abolishing FED on all Services which are being taxed in Provinces

There are certain services which are taxed under independent Provincial Sales Tax Laws of Sindh, KPK, Punjab and Balochistan, and at the same time, there services are also taxable under the Federal Excise Act 2005. This results in double taxation and increases cost of doing business. It is therefore proposed that FED on all other services which are taxable under the sales tax laws of Sindh, KPK, Punjab and Baluchistan may be abolished.

### 10.4 Exemption of Stamp Duty on Invoice in Punjab

In Punjab, a Stamp Duty @ 0.20% on the invoice value of bills of exchange is imposed as per Stamp Act, 1899. Since exports are zero-rated and also stamp duty on bills of exchange in Sindh Province is exempted, it is therefore recommended that the Punjab Government should also do away with the stamp duty.

## Chapter 11



### Proposed Custom Duty Measures



## Chapter 11: Proposed Custom Duty Measures

### 11.1 Removing Difficulties faced by export-oriented Units under SRO 327 (I)/2008

Under SRO 327(I)/2008, FBR notified the ‘Export Oriented Units and Small and Medium Enterprises Rules, 2008’ which is applicable only to units licenses as export-oriented units and registered as manufacturers-cum-exporters under Sales Tax Act, 1990. As per provision under sub-rule 10(1)(a) of SRO 327, the amount of Customs Duty and other taxes involved is secured by the “Collector of the importing station” against indemnity bond and post dated cheques.

At present, the goods imported by Export Units situated in other Customs Stations, is allowed shifting of goods under Safe Transportation Scheme to up-country Bonds, under CGO 10 of 1991, under which the securities stands discharged if receipts of goods from the competent Authority at Destination Bond is received at Importing Customs Station. There is no additional clause in CGO to authorize the customs staff at Importing Station to ensure applications of conditions of SRO 327(I)2008, for goods transferred to upcountry Manufacturing Bond, under different jurisdiction. While, securities are upheld by Bond Section Karachi, pending consumption of goods for two or more years for input raw material and for ten (10) years for the machinery. The difficulties and hardships under the system start when the requisite documents are sent to Customs House, Karachi, for release of securities, after a long time, on completion of formalities, like Audit Report etc., and Installation status of machinery, (allowed to retain in Unit for 10 years). The Export Oriented Units at Faisalabad had experienced tremendous difficulties and extra ordinary delays to get the securities released. In some cases, it became nightmare when files are lost at Importing Station. While sitting more than 1000 kilometers away, attendance and visiting Karachi, on daily or regular basis is not possible. Since, the securities are submitted for time bound limits, the Computer System, of Karachi Customs, BLOCK the clearance, as a matter of routine.

It is therefore recommended that immediately after dispatch of goods under Safe Transportation Scheme, the Indemnity Bond and Post dated Cheques may also be transferred to the Collector of Customs, under whose jurisdiction the manufacturing unit is situated. A proper secured dispatch of documents system with acknowledgement may be arranged.

### **11.2 Removing ambiguity in manufacturing bonded licence value under SRO 327(I)/2008**

There are following two types of commodities/goods, allowed to be warehoused with a single maximum value/ limit:

- a. Input/raw material, ascertained on the basis analysis card, after due procedure prescribed in SRO 327(I)/2008, by the competent Authority. The amount so determined is entirely limited to the imported goods meant to manufacture of export products.
- b. Plant and Machinery, under Serial 10(1)(e) of SRO 327(I)/2008, to be retained for a period of ten (10) years for the manufacturing of goods meant for export. The Plant and Machinery, so installed, do not fall under the characteristics of raw material or input goods, as per analysis certificate.

One single Maximum Value is granted for both categories of goods on each Licence issued to Export Unit, as defined above, whereas, there is no nexus of utility or consumption between two different class of Imports. Due to this ambiguity, import value of machinery is subtracted from the value well determined quota, of input/raw material as per analysis certificate. If a Licensed Unit, having limit of 100 million for input/raw material, import and installed machinery within the capacity of Licence i.e. 100 million, then the Bond Licence stands fully utilized in the Computers of Customs, and Value of input/raw material comes to "0".

It is therefore proposed that there should be two columns and levels of limits, prescribed on a Bond for Manufacturing Unit:

- i. Value of Input/raw material, as per Analysis Certificate, as being approved
- ii. Value of Plant & Machinery, to be determined or prescribed separately, intended to retained in Bond for 10 years.
- iii. The Licensed Unit may also be given an opportunity to replace Securities, submitted for Plant and Machinery, in accordance with the Table of depreciation given at Sr. 10 (1)(e) of SRO 327(I)/2008.

The machinery allowed to be retained for 10 years may require periodical maintenance, balancing, modernization and replacement. A suitable and eligible amount of spare parts and components may also be allowed periodically, mandatory to maintain the Plant and Machinery in good running condition.

### **11.3 Amending Fifth Schedule (Table D – Entry 30) of Customs Act to allow Pharmaceutical Companies to claim exemption without mentioning particulars of Drugs**

Under Part II of Fifth schedule of Customs Act (Table D entry # 30) 5 percent duty reduction is provided on import of Aluminum foil /cold forming aluminum foil (H.S code 7607.2000) for manufacturing purpose, subject to condition that the name of manufacturer and particulars of drug are printed on the foil.

This condition is difficult to be fulfilled as imported foil is used in several products and to maintain separate inventory of foil for each product is financially inefficient. As such, this exemption is availed by only few companies for selected products.

It is proposed that appropriate amendment may be made in the Fifth Schedule of Customs Act so as to remove the requirement to mention the particulars of drugs for claiming exemption. The name of manufacturer should be sufficient to claim exemption under this Provision.

#### **11.4 Amending Fifth Schedule (Clause III) of Customs Act to remove requirement for IOCO Certificate to claim duty reduction by Pharmaceutical Companies**

Under Clause III of Preamble of Part II of Fifth schedule of Customs Act, there is a requirement to submit IOCO certificate for claiming reduced rate of duty. Since all the pharmaceutical companies are required to get NOC from the Drug Regulatory Authority of Pakistan (DRAP) on each and every import, it is therefore proposed that the above requirement of IOCO Certificate may be done away with for speedy clearance of goods.

#### **11.5 Withdrawing 1% additional duty on all imports vide SRO 1178 dated 30-11-2015**

The government vide SRO 1178 dated 30th November 2015 levied additional customs duty on import of goods specified in First Schedule to the Customs Act, with few exceptions at the rate of one percent of the customs value of such goods. Since this signifies an unexpected measure to achieve revenue target, it is proposed to do away with such additional customs duty on imports by withdrawing the above SRO 1178.

#### **11.6 Zero-rating Import Duty on Machinery and Equipment (not locally manufactured)**

The import duty on machinery and equipment (not locally manufactured) has been increased from 5 percent to 10 percent, which is restricting companies intending to make large scale investment in the country. It is therefore proposed that this should be reversed and the government should consider to allow such imports at zero rate.

#### **11.7 Allowing Separate H.S. Code in Tariff for Fabric Waste**

A huge quantity of fabric waste is being imported by various manufacturers in Pakistan. It is proposed that a separate H.S. Code should be allowed in tariff for fabric waste.



### **11.8 Excluding 'Dyes' from Appendix A,B and C of Import Policy**

It is suggested that Dyes (PCT Code 3204.1600) may be excluded from the Appendix A, B and C of Import Policy because due this the custom authorities are not allowing to importers the benefit of SRO 450(1)01 whereas they are allowing the same under SRO 327(1)08.

### **11.9 Allowing Import of Steam (Non-Coking) Coal**

It is proposed that import of Steam (Non-Coking) Coal (HS Code 2701.1900) may be allowed under Export-oriented Unit License enacted by FBR vide SRO 327 dated 29<sup>th</sup> March 2008.

### **11.10 Inserting a Separate Section in Customs Act for Cancellation of Documents**

In the Customs Act, there is no rule for cancellation of documents. It is therefore proposed that a separate Section may be inserted in the Customs Act to allow the importers to cancel clearly any document.

### **11.11 Allowing benefit of SRO 492 to imported goods where labour involved**

Under SRO 492(1)/09 on Import-cum-Re-export, it is binding on the Importer to attach the imported material with goods manufactured in Pakistan at the time of export. It is proposed that if any imported goods, where only labour is involved, may also be entitled to get the benefit of this SRO because they are earning foreign exchange in shape of labour





## Chapter 12: Proposed Measures for China-Pakistan Economic Corridor (CPEC)

### 12.1 Tax Exemption to Non-Resident Pakistanis investing in CPEC-related Projects

Under the existing laws and regulations, non-resident Pakistanis making profits by investing in Pakistan are required to pay a certain amount in taxes. To attract investments from Pakistanis working abroad in setting up of industries in “Special Economic Zones (SEZs), to be established under CPEC, the government may consider to provide tax incentives to the non-resident Pakistanis by making necessary amendments in taxation laws and regulations. Similar tax incentives may also be provided to other foreign investors in CPEC projects.

### 12.2 Comprehensive Audit of CPEC-related Projects

The Government should consider to conduct comprehensive audit of each project to be undertaken under CPEC through federal and provincial authorities in order to remove any chances of corruption and ensure transparency on CPEC projects.

The professional services of cost and management accountants may be utilized for technical evaluation and cost audit. The reports of such audits should be published on the website of Ministry of Planning.

### 12.3 Restoring Input Adjustment on Construction Material

At present input tax credit on sales tax paid on building and construction material such as cement, bricks, paints, varnishes, distempers, electricity and sanitary fitting pipes, wires and cables etc. is not allowed under clause (e) of SRO 490 dated 12th June 2004 amended vide SRO 450 dated 27th May, 2013. Such a restriction on legitimate tax credit would discourage investment and in the context of CPEC it would increase costs of projects. It is therefore proposed that government should restore input adjustment on construction materials.

#### **12.4 Reducing Cement Prices for Construction Sector**

In the backdrop of decline in global oil prices, the cement prices in the international market have also come down. However, in Pakistan the fuel price difference has not been passed on to the construction sector which is getting cement at relatively double the price of cement in international market. To provide opportunity to the Pakistani construction sector to take active part in the CPEC-related projects, it is proposed that the government should reduce the cement prices in line with its price in the international market.

#### **12.5 Creating Special Fund for CPEC Projects instead of relying on PSPD Funds**

The National Economic Council (NEC) has approved budget of Rs. 942 billion for CPEC projects, out of which Rs. 171 billion are allocated for spending during FY 2015-16. However, it has been observed that the allocations under Public Sector Development Program (PSDP) have been reduced to divert funds to CPEC projects.

It is proposed that instead of reducing the PSPD budget which would negatively impact the development work in the country, the government should create a 'Special Fund' for CPEC projects with local and foreign funding.

#### **12.6 Special Package of Incentives to develop Ancillary Industries alongside CPEC Route**

A number of Special Economic Zones (SEZs) are being planned to be constructed alongside the CPEC Route where local and Chinese investors would be setting up different industries.

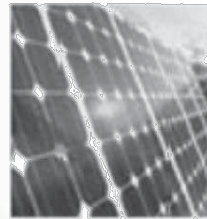
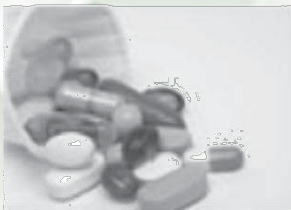
It is proposed that in the forthcoming budget, the government should announce a special package of incentives such as concessional credits, subsidies, tax exemptions, reduction in rates of utilities (electricity, gas, water), technology upgradation fund etc to encourage the SME sector to set up ancillary industries to support the major industry in the SEZs.

## **12.7 Custom duty Exemption on Import of Capital Goods and Machinery for CPEC**

The government has imposed 5% to 15% Regulatory duty on import of a number of items used as raw material by the local manufacturers. According to SRO 131(I)/2015, the raw material with Pakistan Customs Tariff Code 7602.0090, 7204.5000, 7204.4990, 7204.4100 and 7204.3000 are subjected to Regulatory duty. It is recommended that in the forthcoming budget, the government should consider to give exemption in customs duties for initial import of capital goods, machinery & equipment for the establishment of industries in Special Economic Zones to be setup under the China-Pakistan Economic Corridor (CPEC) Project.



## Sector-Specific Proposals





## Chapter 13



### Textile Industry

## Chapter 13: Textile Industry

### 13.1 Reducing Multiple Taxes on Textile Industry

Multiple local, provincial and federal taxes on the textile industry are leading to increase in its cost of doing business. These taxes range from turnover of 1%, transportation cost of raw material; Rs. 50 per Cotton Cess, stamp duty @ 0.2% of export document; withholding tax on imported cotton and textile Cess at 1 percent.

It is therefore proposed that the Government should provide relief to the textile industry by reducing the above multiple taxes so as to lower its cost of doing business.

### 13.2 Imposing 20% Regulatory Duty on Import of Textile Raw materials

The government should impose 20 percent regulatory duty on import of all textile raw material – from yarn to garments, to ensure revival of the textile value chain industry. Furthermore, the duty on import of Man Made Fibres like Polyester, Viscose, Acrylic, and Nylon should be reduced to zero percent, so that domestic yarn producers can compete with Indian, Indonesian and Chinese producers having their own manufacturing to produce these raw materials.

### 13.3 Withdrawing Taxes to Revive Cotton Production

There has been an unprecedented decline in cotton production during FY 2015-16 which has also impacted the textile value chain. The spinning sector which is already facing high cost of doing business is unable to procure cotton at the import parity. Similarly, it has been observed that sugar mills are being established in strictly protected cotton cultivation areas in Southern Punjab and Sindh, which is discouraging cotton growers.

The government should therefore consider to withdraw taxes on water, electricity, seed, pesticides and fertilizers to enable the cotton growers to achieve maximum cotton production during FY 2016-17 and compete

regionally in terms of the input cost. Similarly, the services of agriculture extension and agricultural technology should also be made available to cotton growers right from the land preparation to the crop harvesting at the farm level. This would help decrease the input cost for the entire textile value chain industry.

#### **13.4 Announcing Special Package to revive Closed Spinning Mills**

Around 30 percent production capacity of textile spinning mills is stated to be impaired. The potential idle capacity of textile value chain is mainly in Punjab. Consequently, the exports of textiles is suffering badly. The government should consider to announce a special package to revive and stimulate the textile spinning sector to give boost to textile production and exports.

#### **13.5 Removing Gas Infrastructure Development Cess (GIDC) on Textile Industry**

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 the declining oil and natural gas prices in the international market, there is no justification for imposition of GIDC. It is therefore proposed that GIDC should be completely withdrawn from the textile value chain industry to reduce the cost of doing business.

#### **13.6 Ensuring Long-term Supply of RLNG to Textile Units**

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

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

### **13.7 Setting Cost-based Electricity Tariff for Textile Industry**

The present tariff is based on cross-subsidy regime. The industrial consumers are providing cross subsidy to domestic, agriculture and some other classified consumers. In order to make the textile exports competitive in the global market, the government should immediately eliminate the cross-subsidy and set cost-based tariff for textile manufacturing industry.

### **13.8 Reducing Long Term Financing and Export Refinance Rate for Textile Industry**

To revive the ailing textile industry, it is suggested to consider one percent reduction of Long Term Financing Facility from 5 percent to 4 percent maximum including bank spread. The financing cap of Rs 1.5 Billion on Long Term Financing Facility may also be removed.

Similarly, the Export Refinance Facility may also be reduced by 0.5 percent, from present 3.5% to 3% and to extending this facility to entire textile chain i.e. from spinning to garments.

### **13.9 Providing Rebate in form of 5% DTL on Textile Exports**

It is suggested that zero rating of all taxes may be allowed on textile exports. Further, rebate be provided in form of Drawback of Local Taxes and Levies (DLTL) @ 5% against export of yarns, fabrics, made-ups and garments to compensate against incidentals of carousel types of levies, surcharges and taxes imposed on the textile industry.

### **13.10 Special Package to Revive Closed Textile Units in Faisalabad**

The government should provide preferential treatment to textile units based in Faisalabad which are mostly affected due to electricity and gas supply shortages. New electricity and gas plants may be established in Faisalabad to revitalize the closed textile units and attract workers from across Punjab province in the weaving mill, spinning units and garment factories.



### **13.11 Incentives for Value added Textile Exports (VAT from 2 to 1%)**

The government should incentivize export of value added textile products to earn maximum foreign exchange earnings, instead of relying on exports of cotton and fabrics. A regulatory duty may be imposed on import of fine count yarn meant for domestic consumption.

### **13.12 Zero duty on Import of Latest Textile machinery**

The textile industry may be offered zero-rated duty on import of latest equipment and machinery to replace and upgrade obsolete machineries to achieve product competitiveness.

### **13.13 Zero Sales Tax Regime for Textile Industry**

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

### **13.14 Lifting Ban on New Gas Connections to Textile Industry in Sindh**

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

### **13.15 Levying Regulatory Duty on Import of Polyester Fabrics and Items**

The local polyester yarn industry have suffered cumulative losses of Rs. 3 billion during last three and half years due to dumped/subsidized product from China and Malaysia at prices which do not cover even full local production costs. To promote the textile base, it is proposed that 20% duty be imposed on import of polyester fabrics and items under chapter 54.



## Chapter 14



### Cement Industry

## Chapter 14: Cement Industry

### 14.1 Exploiting Coal reserves for meeting energy shortage of Cement Industry

The government should exploit coal reserves for making it available to the cement industry, which could provide them a cheap and constant source of energy for production.

### 14.2 Allowing zero-rated import of Petroleum Coke

Petroleum coke is a fuel, commonly used universally, as a substitute of coal in cement industry. The Government should reduce the custom duty on import of Petroleum coke from 5% to zero percent, as provided on coal, in order to reduce the input cost of the cement industry.

### 14.3 Allowing Import of Pet Coke from India

Import of Pet coke (HS Code 2713.1100) be freely allowed from India via sea and land routes at Attari and Wagah entry points, as done in case of cement export from Pakistan to India.

### 14.4 Offering Tax Relief for cement Industry

The import of cement machinery should be exempted from the levy of sales tax. Similarly, the Federal Excise Duty (FED) on cement may be reduced to zero and withholding tax on power bills of cement units be abolished to help the industry bring down its huge cost of production.

### 14.5 Seeking Trade Concessions from Gulf and Middle East countries for Cement Exports

The government must seek trade concessions for cement industry by using its favorable diplomatic relations with the Middle Eastern and Gulf countries. Trade Development Authority of Pakistan (TDAP) may be advised to include cement in their exhibitors' profile.

#### **14.6 Imposing Regulatory Duty on import of Cement from Iran**

The Iranian cement is being flooded into border areas of Balochistan and is being sold at lower prices as compared to locally produced cement. It is proposed to impose additional regulatory duty on import of cement from Iran and a prior approval mechanism be approved by Pakistan government with regard to imported quality of Iranian cement.

## Chapter 15



### Sugar Industry

## Chapter 15: Sugar Industry

### 15.1 Special Tax Incentives to Sugar Mills cogenerating energy from Bagasse

Special incentives may be provided to those sugar mills which cogenerate energy from Bagasse during off-season. This would not only create additional revenue for the sugar mills but will also help the country in meeting the electricity shortfall. The government should also provide some tax incentives to sugar mills which produce ethanol fuel used in automobiles.

### 15.2 Determining Support price of Sugarcane on basis of increase in price of inputs

The government should determine the 'support price' of sugarcane crop on basis of economic factors like increase in prices of inputs and sucrose recovery, etc. to equally protect the interest of all stakeholders.

For this purpose, government and sugar mills may jointly assist farmers, through Agricultural Research Institutes, in planting high sucrose recovery varieties of sugarcane and in combating plant diseases through use of better pesticides. This would help improve yield per hectare of sugarcane, resulting in increase sugar production.

### 15.3 Limiting Role of Middlemen to streamline Sugar pricing and supply issues

The government should seriously resolve the key issue of marketing of sugarcane from grower to mill owners and of refined sugar from mill to market. It should strictly reduce or eliminate the role of middlemen to control hoarding and artificial hike in price of sugar in the 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 mill management.



#### **15.4 Resolving Problems faced in exporting Sugar to India**

The Pakistan exporters are facing great hardships in exporting sugar through land routes to India, which is the biggest importer of our sugar. The government must take up this issue with the Indian government to facilitate exports of sugar from Pakistan on bilateral basis.

#### **15.5 Processing of Sugar export quota be subject to provision of Irrevocable L/C**

The Ministry of Commerce, Government of Pakistan, has 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 has 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.

## Chapter 16



### Automobile Industry

## Chapter 16: Automobile Industry

### 16.1 Reducing the Regulatory Duty on Import of Auto Parts

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

The government may, therefore, consider to reduce the regulatory duty on import of auto parts.

### 16.2 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 the 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 their 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”. Also, it is not adjustable as input tax and this adds to cost of production. It is therefore proposed that FBR may issue an SRO to exempt the non-retail sales of auto parts from levy of 2% extra sales tax.

### 16.3 Providing Incentives to Auto industry for producing Ethanol compatible cars

Due to rising fuel prices globally, the government should encourage switching over to ethanol fuel as used in Brazil and other countries. Ethanol Fuel is extracted from Molasses and it is produced in good quantity by sugar mills in Pakistan. Since the engines of locally assembled cars do not support ethanol, as such the government should facilitate the industry in acquiring latest technology to produce ethanol compatible cars.

#### **16.4 Providing Special Incentives for Local manufacturing of Critical Components**

Special investment incentive packages, including tax or subsidy be offered by the government to attract global brands and promote investments in the manufacturing of critical components.

#### **16.5 Developing Policy for Dealerships / supply chain in Auto industry**

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

#### **16.6 Reducing Minimum Tax u/s 113 of IT Ordinance on turnover of Authorized Dealers**

It is proposed that the Minimum tax charged under Section 113 of Income Tax Ordinance, 2001 may be reduced from 1% to 0.25% on turnover of authorized dealers of vehicle manufacturers, as being allowed to Motorcycle dealers, distributors of FMCG, Pharmaceutical, Fertilizers, etc.

#### **16.7 Exempting WH Tax u/s 231B of IT Ordinance on Sales of Vehicle to Dealers**

It is proposed that Withholding Income Tax under Section 231B of Income Tax Ordinance, 2001 may be exempted on sale of vehicles by manufacturers to their authorized dealers.

#### **16.8 Persuading Car-Assemblers to produce cheaper quality cars**

The government should persuade the car-assemblers to produce cheaper quality cars in accordance with the purchasing power of the consumers in Pakistan. It should also encourage the foreign auto-assemblers to transfer technology in a given time frame for localization and strengthening the auto industry.

## 16.9 Ensuring Quality Standards in Auto Industry

The government should frame regulation to make it a binding on automobile manufacturers to offer safety measures such as anti-lock breaking system (ABS), lower CO emissions, etc along with quality specifications to ensure standard safety and quality standards in the auto industry.



## Chapter 17



### Leather Industry

## Chapter 17: Leather Industry

### 17.1 Allowing Incentive of 4% FOB Value on Enhanced Exports of Finished Leather

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

### 17.2 Increasing Duty Drawback on export of Finished leather

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

### 17.3 Imposing ban on export of Wet blue leather

The government should impose complete ban on export of wet blue leather of all kinds of raw hide/skin and pickled leather to meet shortage of these essential raw materials for leather industry. Stringent measures be also taken to discourage massive smuggling of live animals from borders to avoid shortage of hides and skins.

### 17.4 Allowing duty-free import of essential items used by leather industry

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

### 17.5 Framing a 'Leather Development Plan'

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

## Chapter 18



### Pharmaceutical Industry

## Chapter 18: Pharmaceutical Industry

### 18.1 Allowing adjustment of 1% R&D Expenditure of Pharma Companies

At present, 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 the 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.

### 18.2 Abolishing Sales Tax on Packing Materials of Pharma Industry

As the finished products of Pharmaceutical industry are exempted from Sales tax so the sales tax on packing materials Like PVDC, PVC Aluminum foil, and cold formable should also be abolished to save extra cost of the industry.

### 18.3 Abolishing Sales Tax on Utility Bills of State-Regulated Pharma Industry

The prices of utilities are increasing constantly and sales tax on utility charges is also increasing simultaneously. Since the prices of pharmaceutical products are regulated by the government, the increase in utility prices and consequent increase in sales tax can neither be passed on to the consumer nor it can be claimed as input, it is therefore proposed that the government may consider to abolish sales tax on the utility bills of pharmaceutical companies.

### 18.4 Increasing Retention on Export Realization of Pharma Industry

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



### **18.5 Increasing Duty Drawback Rates to 10% for Pharma Products**

To promote exports, the 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. Presently, the duty drawback rate is 1.32% on Tablets or 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.

### **18.6 Removing hassle of inordinate delay in clearance of Pharma consignments**

The pharma companies are facing inordinate delay in clearance of consignments on pretext of under-invoicing for custom duty evasion. Since price determination is based on many factors e.g. quality, purchased quantity, grade, accreditation etc. so customs authorities cannot draw any inference only on the basis of price. To remove this hassle, it is proposed that customs authorities should accept export shipping bills for rate verification as per previous practice.

### **18.7 Reducing duty on raw and packing materials for Pharma Industry**

The pharma industry played a good role for raising standard and provide best product at affordable prices. However, the cost of doing business and exchange rates are continuously increasing. To provide some relief to the pharma industry, it is proposed that duty on raw and packing materials may be reduced on different pharma products in consultation with industry.

### **18.8 Product Pricing to be based on Input Cost determination**

The pharmaceutical industry has a long standing demand for allowing a reasonable price increase against inflation and heavy increase in input costs. The government must consider their legitimate demand after carrying out input cost determination of each product so that prices and



profits are not so excessive that put burden on common man. Management Accountants can extend their services in cost determination.

#### **18.9 Providing 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.

#### **18.10 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.

#### **18.11 Revamping Drugs Regulatory Authority of Pakistan (DRAP)**

The government should consider to revamp and restructure 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.

## Chapter 19



### Fertilizer Industry

## Chapter 19: Fertilizer Industry

### 19.1 Resuming Gas Supply to SNGPL based Fertilizer Plants

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

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

### 19.2 Allowing Fertilizer Sector to import LNG from their own Sources

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

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

### 19.3 Charging 5% GST on Fertilizer produced from imported LNG by Idle Fertilizer plants

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

In addition, no GIDC will be levied on imported LNG to be utilised by the above plants.

#### **19.4 Charging transmission losses of Fertilizer Plants on Actual**

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

#### **19.5 ICMAP Representative on Committee to develop modalities for Fertilizer Sector**

The Economic Coordination Committee (ECC) had approved a long term plan for the fertilizer industry in 2013 under which gas supply to fertilizer plants is to be made from dedicated gas supply sources. A Committee was established to develop modalities, including legal and financing arrangement for project and determine better cost effective structure. Since Chemical Fertilizer industry is under purview of cost audit, it is suggested that the government should include the representative of ICMA Pakistan in the said Committee.

#### **19.6 Restricting Import of sub-standard Fertilizer products**

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

#### **19.7 Discouraging import of Urea for Fertilizer Industry that could lead to high prices**

Urea is one of the most consumed fertilizer in agriculture sector. Recently, the Finance Division and the Ministry of Petroleum have given go-ahead to the Ministry of National Food Security and Research to frame policy that will allow urea import by the private sector. This move will open a new window of middlemen who will charge un-due commissioning before it will reach to the farming community. The private companies do not have the capacity to enforce a strict mechanism. It is suggested that Government should provide more gas to fertilizer industry at reasonable rates than to approve import policy of fertilizers.



## Chapter 20



### Edible Oil Industry



## Chapter 20: Edible Oil Industry

### 20.1 Providing Incentives on Domestic Farming and Marketing of Oil Seeds

Import of edible oil is a heavy drain on our foreign exchange. Pakistan can save about US\$2 billion annually by encouraging domestic edible oil sector. To achieve this, the government may provide incentives for proper farming, production, processing and marketing of oil seeds.

### 20.2 Providing benefits to farmers growing oil seed crop

The yield per acre of all oil seed crops (i.e. cottonseed, sunflower, canola, rapeseed, mustard etc. ranges between 15% to 45% of their potential due to water scarcity and lack of application of latest technology and farming techniques. The government should take measures to remove these bottlenecks to increase output. The price of locally produced edible oil is fixed on the basis of cost of imported oil due to which the farmers have to suffer as they are on mercy of industry and middlemen, who procure their produce on this basis. As such, the farmers are less inclined to grow oil seeds and prefer other crops for better gain. The government should resolve this issue for the benefit of farmers and increase in production of oil seed crop in the country.

### 20.3 Encouraging commercial production of Olive Oil by Private Sector

There is good potential for olive oil cultivation in Potohar region and Balochistan. The government should take up this project in collaboration with private sector to start commercial production of olive oil in bulk. Some incentives may be provided to the private sector companies which are engaged in commercial production of olive oil.

### 20.4 Special Incentives on establishing Joint Ventures in Oil Refineries

Pakistan could earn valuable foreign exchange by making joint ventures with multinational companies in oil refineries, solvent extracts and value-added products. The government may consider reduction in duty on crude oil so that value-added products could be exported to landlocked countries at compatible prices.

## Chapter 21



### Oil and Gas Industry

## Chapter 21: Oil and Gas Industry

### 21.1 Reducing Corporate Tax rate for Oil Exploration and Production Companies

To incentivize oil and gas exploration in the country, it is proposed that the high corporate tax rate on Oil Exploration and Production (E&P) sector may be reduced from present 40 percent to the rate applicable on other corporate sectors.

### 21.2 Allowing Distributors of Lubricating Oils to charge Sales Tax on their Supplies

Presently, 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 the business carried out by the distributors. It is therefore suggested that in addition to manufacturers, registered distributors of lubricating oils may be allowed to charge sales tax on their supplies.

### 21.3 Offering Incentives for bringing new investments in Petroleum exploration

There are abundant untapped reserves of oil and gas available in Sindh, Balochistan 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 therefore proposed that the government may consider offering special incentives to bring new investments in oil and gas sector to explore, develop and exploit petroleum resources to achieve greater self-reliance in energy supplies.

### 21.4 Facilitating the Petroleum Sector in discovery of new oil and gas fields

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

take it seriously and facilitate oil and gas exploration companies to discover new oil and gas fields and address all their grievances of priority.

### **21.5 Revising the petroleum policy frequently**

The government should frequently revise the petroleum policies, keeping in view global oil/gas exploration – production scenario and domestic ground realities.

### **21.6 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.

## Chapter 22



### IT and Software Industry



## Chapter 22: IT and Software Industry

### 22.1 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 therefore proposed that IT industry may be exempted from payment of sales tax on IT products.

### 22.2 Income Tax Exemption on IT/ITES exports expiring in 2016 be extend 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. FBR may consider extending income tax exemption beyond 2016, preferably till 2026 by which time the IT industry would be significant enough to survive additional taxation.

### 22.3 Providing Tax Relief and Benefits to IT Industry

The government should support the IT industry in marketing software internationally to get projects and investments in research projects. The government may also provide tax relief to business units on amounts spent on software applications and related equipments. IT companies may be provided credit from banks on soft and easy terms to promote IT industry.

### 22.4 Encouraging Listings of IT Companies on Stock Exchange

The threshold level for floating IT companies on local stock market should be lowered to encourage listings of as many IT companies on the stock exchange.

## **22.5 Developing infrastructure for growth of IT industry**

The government may consider setting up IT Parks in on Public Private Partnership basis to enable IT companies to concentrate on core business. All federal and provincial governments and departments may be advised to procure software only through local IT companies.

## Chapter 23



### Telecommunications Sector

## Chapter 23: Telecommunications Sector

### 23.1 Treating Tax paid u/s 148 of ITO, 2001 by Telecom Companies as Advance Tax

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. It is therefore proposed that tax paid by them under Section 148 of Income Tax Ordinance, 2001, may be considered as advance income tax instead of Final tax.

### 23.2 Reducing WH Tax on Telecom Customers

Average 18.6 percent GST and 14 percent WHT is paid by telecom customers which is higher as compared to WHT in other sectors. Majority of customers are poor and non-tax filers, hence this 20.8 tax is unjustified. It is proposed that tax imposition on telecom customers should be rationalized in order to save poor people from undue taxation.

### 23.3 Rationalizing Taxes on Telecom Industry

To develop the telecom sector and to encourage inflow of more investments, it is suggested that the government may rationalize taxation on telecommunication sector.

### 23.4 Bringing down excise duty on telecom services

Excise duty on telecom services is quite high and need to be revised downward so as to bring the telecom services at par with other services subjected to FED. This will also provide some relief to public at large.

### 23.5 Providing Incentives to telecom industry to expand service in Rural areas

The government should encourage the telecom companies to expand their service network to rural areas in addition to universal service fund (USF).

For this purpose, it should provide some tax incentives as well. Similarly, the government should offer incentives to telecom industry on issues like unverified SIMs, illegal international incoming traffic and same International Mobile Station Equipment Identity (IMEI) number for cell phones. The government should play an active role to stop this destructive competition environment.

### **23.6 Stopping issuance of further licenses in telecom sector**

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



## Chapter 24



### Mutual Fund Sector

## Chapter 24: Mutual Fund Sector

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

The Finance Act 2014 introduced requirement for mandatory cash dividend by open-end mutual funds, which adversely affects taxability of unit holders who invest closer to dividend distribution time or any time after first day of start of the year (ex-dividend date). In an open end mutual fund, mutual funds have Dividend Equalization, which is that each investor gets equal dividend per unit irrespective of the fact that it joined during the period/year. The cash dividend received by investor may have been paid out of his/her principal amount (received as element of income at time of investment), which will result in extra tax payment.

The above tax anomaly may be removed so that principal component of investment is not taxed. This is an international practice. The UK laws do not consider this portion as income and hence is not taxed. It is proposed that for levy of tax on dividend in case of open-end mutual funds, the portion of dividend related to equalization element may not be subjected to tax.

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

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

The above tax anomaly may be removed to bring equity funds pari passu with direct investment in Capital Markets. It is proposed that the dividend

of Stock Funds may be made liable to tax at the uniform rate of 10%, irrespective of the share of capital gains in such taxable income.

#### **24.3 Withdrawing FED on services rendered by Asset Management Companies**

A 16% Federal Excise Duty (FED) is levied on services rendered by Asset Management Companies (AMCs) which manage investments in Mutual Funds and Pension Funds. These services are also being charged to the provincial Sales Tax by the provinces, which results in double taxation. It is therefore proposed that FED on Asset Management Services be withdrawn by making necessary amendments in the Federal Excise Act, 2005.

#### **24.4 Withdrawing notices issued by LTUs and RTOs to collect WWF from Mutual Funds**

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

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

#### **24.5 Reducing tax rate on Dividends from Banks Investment in AMC**

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

Companies (AMCs) may be reduced from 20% to 10%. This will bring uniformity in tax rates, remove the discrimination and rectify the fiscal anomaly as well as the legal distortion/aberration in respect of investment made by a bank in its own Asset Management Company (AMC).

#### **24.6 Exempting Mutual Fund and Pension Fund from Withholding tax**

According to Sections 236M and 236N of Income Tax Ordinance, 2001, the Bonus shares issued to the Shareholders are taxable @ 5% of the specified value under FTR and the company issuing bonus shares is obliged to withhold tax from the shareholders. Since Mutual Funds and Pension Funds are exempt through Clause 47B from withholding from Dividend, Profit on Debt, Brokerage and Commission, as such Mutual Fund should also be exempted from withholding tax under Sections 236M and 236N. Accordingly, Sections 236M and 236N should be added to Clause 47B, Part IV of Second Schedule of Income Tax Ordinance, 2001.

## Chapter 25



### Housing and Construction Industry



## Chapter 25: Housing and Construction Industry

### 25.1 Tax Relief for Construction Companies

The presumptive tax on construction companies should not be more than 1% on yearly receipts. Similarly, stamp duties and registration fee be adequately reduced to an aggregate 1% which will in turn increase government revenue as more documentation will take place. The Government should also not charge stamp duty, registration fee etc on housing mortgage. Duties and taxes on construction materials be rationalized.

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

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

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

The annual disbursement of HBFC loans should 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. In this connection, it is suggested that 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.

### 25.4 Easy financing of large construction Projects

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

## 25.5 Establishing an 'Infrastructure Construction Development Bank'

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

## Chapter 26



### SME Sector

## Chapter 26: SME Sector

### 26.1 Allocation of More Funds in Budget for SME development

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

### 26.2 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 important that the SBP should 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.

### 26.3 Increasing Credit limit for Micro-enterprises

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

### 26.4 Increasing 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. In order 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.

### **26.5 One-window Facility for SMEs**

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



## Chapter 27



### Transport & Communication Sector

## Chapter 27: Transport & Communication Sector

### 27.1 Focusing on 'Metro Train' instead of 'Metro-Bus'

The government should focus on 'metro train' instead of 'metro-bus' which is more costlier in terms of long term maintenance. The metro train may be high on initial cost but in the long run it is more beneficial in terms of energy cost, maintenance and environment. Karachi need metro train as thousands of public transport plying on roads add to pollution. Smart city trains are the way for future. Japan and China can provide expertise to Pakistan in this regard.

### 27.2 Investing in Road and Railway Infrastructure for export and economic development

Roads and Railways systems are the two main transport arteries of any economy. Upgrading of Pakistan's transportation system is critical to export competitiveness and economic growth. The transport Sector is required to be improved by modernizing through a continuous process of reforms supported by focused investments. Short term investment in improving existing roads and railways infrastructure need to be initiated. In the long run, new roads and railways tracks should be built in both urban and rural areas.

### 27.3 Better connectivity between markets and Industrial Clusters

Our domestic markets are not able to connect with industrial clusters in urban areas because of high transport costs due to inefficient urban transport and poor maintenance of existing provincial and local roads. Deficient urban transport and congestion should reduce in order to connect industrial clusters and domestic and international markets

### 27.4 Developing an Efficient Urban Transport Systems in Major Cities

Transport systems in major cities have not kept pace with increasing demand, resulting in overcrowding, accidents and air pollution. The

absence of efficient urban transit systems has increased reliance on private vehicles, with 60%– 70% of the urban population now owning vehicles. It is suggested that government should improve the urban transport on modern lines

### **27.5 Regulatory Mechanism for Transport Logistic and Supply Chain**

The government should make legislation to regulate carriage of goods through air, sea, rail and road routes within and outside the country. This would help put in place a regulatory mechanism for transport logistic and supply chain in the country.

### **27.6 Developing Public-Private Partnership for Transport Sector Development**

There is lack of clarity regarding the participation of the private sector in the Transport Sector. The government has failed to build a clear set of policies that would help to bring an effective partnership between the public and private sectors for the growth of Transport Sector.

### **27.7 Establishing a Separate Authority to regulate and develop Transport Sector**

Administrative and management control for transport sector is fragmented among different sub-sectors under different ministries and departments which creating obstacles and hurdles in the way of effective co-ordination and management in overall transport sector. Furthermore, there is lack of professional management and lack of commercial orientation in the operations of public sector entities dealing with the transport sector. The government should consider to constitute a single authority to deal with the development of transport and communications sector, especially in the backdrop of China-Pakistan Economic Corridor (CPEC)

## Chapter 28



### Agriculture Sector

## Chapter 28: Agriculture Sector

### 28.1 Offering facilities for Value-addition of agricultural products

Pakistan being an agriculture country has huge potential to tap international market through value addition of agricultural produces.

The government, through SMEDA, may provide facilities and benefits for promotion of businesses, based upon agriculture and food products

### 28.2 Improving Inefficiencies in Agricultural Supply Chain

To make agriculture sector globally competitive, there is need for investment in infrastructure that can promote efficiency by reducing transaction costs and market risks. The unreasonably long supply chain results in steep increase in total cost owing to procurement, transit and other taxes and service charges levied at various layers.

Due to such inefficiencies in supply chain, the farmers receive only less than 40% of what the consumer pays. Strengthening supply chain can benefit consumers and producers which is required now for the real transformation.

### 28.3 Implementing Prime Minister's Relief Package for Farmers in true spirit

The Prime Minister recently announced a relief package for farmers to support them against the crisis of commodity prices in international market. However, this package has not been implemented in the true spirit. Per acre Rs 5000 was disbursed to farmers in Punjab only and not to the farmers in other provinces. This means that per acre compensation of Rs 5000 has not reached to 30 percent farmers.

There is a need for implementing this package in its entirety so that each and every farmer get the benefit and compensation.



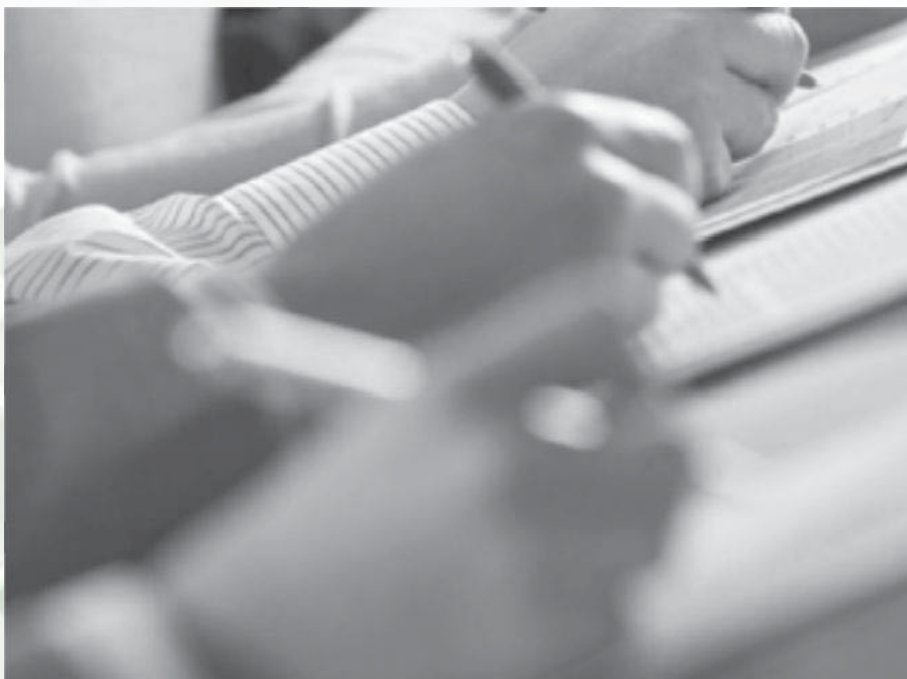
#### **28.4 Reducing Sales Tax on Agricultural Inputs and Crop Loan Insurance Scheme**

The government must reduce sales tax on fertilizer pesticide and electricity and must ensure that crops loan insurance scheme is available to the farmers. The government may also consider providing Rs 30 billion subsidy on export of two million tons of wheat.

#### **28.5 Imposing Agricultural Income Tax on Large and Medium Farmers**

The government must seriously think to levy agricultural income tax on large and medium farmers. This initiative would help increase tax revenues from agriculture which is presently just one percent of the total collections by FBR.

## Chapter 29



### Education Sector

## Chapter 29: Education Sector

### 29.1 Enhancing Education Budget

It is recommended that the overall education budget should be enhanced to at least 8 percent to 10 percent- out of which one third should be allocated to higher education sector.

### 29.2 Incentives to Private Sector for building Schools and Colleges in Rural Areas

It is proposed that some kind of tax Incentives be provided to the private sector for developing schools and colleges in the remote and under-developed rural areas, especially for girls' education. Special budget should also be allocated by the government in this regard.

### 29.3 Making elementary education compulsory

Elementary education should be made compulsory and for this purpose friendly taxation and other related measures may be taken for providing resources to education sector, including tax reliefs and exemptions on teacher's remuneration, educational and training institutions etc.

### 29.4 Tax Relief for Teachers and Education Sector

Tax relief to full time teachers and researchers was reduced to 40% from earlier 75%. This should be restored to the previous level and shall also be extended to all employees who are working in education and professional institutions to promote education within the country and to attract intellectuals and qualified to opt for teaching and research profession.

### 29.5 Training and Development of Teachers

The government should ensure an enabling environment for providing quality education by imparting rigorous training for capacity building of

teachers. The network of vocational training Institutes for skill development should be expanded throughout the country.

## **29.6 Focusing Education Policy to benefit Low Income and Unprivileged Group of Society**

As a matter of principle and policy, any development projects implemented directly by Federal Government in the provinces must be aimed at benefiting the low income and the underprivileged group of the society.

## **29.7 Regulating Tuition Business**

During last two decades, there has been mushroom growth of Tuition Centres all over the country which are making huge profits like other businesses but operating without any regulatory framework. Even some of them have setup like a college or university with heavy investment backed by investors. The tuition business mostly covers students of Matric [class IX and X], O-Levels, Intermediate, A-Levels and Graduation [B.Com, B.Sc, etc]. In the absence of any regulation mechanism, overall education system has been badly affected. The students don't take classes and in some cases they are encouraged only to attend classes in tuition centres instead of colleges.

There is a need to regulate the tuition centres and to monitor whether the earnings made through tuition business is properly taxed. Further, there is also need to assess that tuition business is not effecting general education system prevailing in the schools and colleges.







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