

PAKISTAN BUSINESS COUNCIL'S
PROPOSALS FOR THE FEDERAL BUDGET 2013 - 14

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(Submitted: 30th April 2013)



FOSTERING ECONOMIC GROWTH

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MINISTRY OF FINANCE
GOVERNMENT OF PAKISTAN

The Pakistan Business Council:

- Established in 2005 by 14 (now 42) of Pakistan's largest private sector business groups including multinationals.
- PBC is neither a trade body nor an industry association. Our advocacy aims to improve the general business climate in the Country.
- Advocacy is evidence based drawing on international / regional best practices coupled with what is achievable in our environment.
- PBC and its Member Companies will support any effort which will improve the competitiveness of Pakistani industry; the role of Government as envisaged by the PBC is that of a facilitating partner.
- The PBC enjoys excellent working relationships with the Ministries of Finance / Commerce / Environment / Industries / Planning Commission and regulators including the SECP / SBP / CCP having worked closely through taskforces / committees / working groups and through submissions of formal position papers and presentations. PBC's has provided input for:
 - The Holding Company Law – 2007
 - The Law on Large Import Houses – 2007
 - The Real Estate Investment Trust Law – 2008
 - The Corporate Law Reform Commission – (Work in Progress)
 - The Law on Private Equity & Venture Capital – (Work in Progress)
 - The Corporate Rehabilitation Act – (Work in Progress)
 - The Special Economic Zones Act – (Work in Progress)
 - A formal position paper on the Competition Ordinance 2007
 - As a member of the Private Sector Development Taskforce & other committees of the Planning Commission
 - Position paper on Investments in Associated Companies & Undertakings
 - Position paper on Arbitration Bill
 - Formal position on the Takeover Code

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PBC's Proposals for the Federal Budget 2013 cover the following areas:

1. Amendments / Clarifications for improving understanding / interpretation / implementation of :
 - a) Income Tax Laws
 - b) Sales Tax Laws
 - c) Federal Excise Laws
2. Legislative changes for facilitation of taxpayers
 - a) Income Tax Laws
 - b) Sales Tax Laws
3. Measures for improving the Tax-to-GDP ratio & providing a level playing field for the organized sector through:
 - a) Better documentation & enforcement of existing laws.
 - b) Widening of the tax base.
4. Legislative measures to improve the human capital of the Country.

1.0. (A) Amendments/Clarifications for improving understanding / interpretation / implementation:
Income Tax Law 2001

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
1.	<p>Section 59B(2)(a): "there is continued ownership for five years, of share capital of the subsidiary company to the extent of fifty-five percent in the case of a listed company, seventy-five percent or more, in the case of other companies"</p>	<p>Section 59B(2)(a) to read: "there is <i>from the date of surrender of loss</i>, continued ownership for five years of share capital of the subsidiary company to the extent of fifty-five percent in the case of a listed company, or seventy-five percent or more, in the case of other companies"</p>	<p>Due to ambiguity, "<i>continued ownership for five years, of share capital of the subsidiary company</i>" is being read to mean as five years prior ownership i.e. prior to surrender of the loss. The underlying concept behind group relief is to nurture and turn around subsidiaries which have long term viability. The five year post surrender holding clause was also put into to place to prevent "loss shopping"</p>
2.	<p>Section 59B(2)(b): "A company within the group engaged in the business of trading shall not be entitled to avail group relief"</p>	<p>Section 59B(2)(b) to read: "A company (not being a company operating trading houses as defined under clause 57 of Part IV of the 2nd Schedule of the Ordinance) engaged in the business of trading shall not be entitled to surrender the loss"</p> <p>Explanation: <i>for the purpose of this paragraph, a company would not be considered to be engaged in the business of trading unless more than 30 percent of declared turnover is from business of trading. Provided that losses on speculation business as defined under Section 19(2) the Ordinance will not be available for surrender.</i></p>	<p>The clause "engaged in the business of trading" is being misconstrued to read as being applicable in every situation where there is some trading activity. It will be appreciated that manufacturing concerns augment their product offerings by importing / selling products that they don't manufacture themselves. The manner in which this provision of the law is being interpreted; a Company which primarily engages in manufacturing and has some trading interests albeit small; is unable to offset the losses of another company within the group. The proposed explanation of allowing trading activity up to the extent of 30 percent of the turnover allows better clarity of the law.</p> <p>As a Trading House entails a significant investment and creates real jobs in the economy, it is proposed to make it eligible to surrender its losses.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
3.	<p><u>Section 59B(2)(g):</u> "all companies in the groups shall comply with such corporate governance requirements as may be specified by the Securities and Exchange Commission of Pakistan from time to time, and are designated as companies entitled to group relief"</p>	<p><u>Section 59B(2)(g):</u> "all companies in the group shall comply with such corporate governance requirements <i>and group designation</i> rules as may be specified by the Securities and Exchange Commission of Pakistan from time to time"</p>	<p>The SECP does not require unlisted companies to follow the rules of corporate governance which are applicable to listed companies. This exemption holds for non-listed companies which are part of a group designated by SECP under its group designation rules. The insertion in Section 59(2)(g) will clear ambiguity in the interpretation of the law and make it consistent with the SECP's rules.</p>
4.	Section 59B	<p><u>To be inserted after Section 59B:</u> <u>Explanation:</u> <u>The amendment in this Section by the Finance Act 2013 shall be deemed always to have been enacted and shall have effect accordingly.</u></p>	<p>In order to make the amendments applicable for pending cases.</p>
5.	<p><u>Sub clause (iii) of clause 72 of Part I, 2nd Schedule</u> was omitted in the Finance Act 2009</p>	<p>Due to the withdrawal of this provision, profit on debt payable to non-resident persons in respect of foreign loans, registered with State Bank of Pakistan (SBP) and utilized for industrial investment in Pakistan has become taxable. It is proposed to reinstate Sub clause (iii) of clause 72 of Part 1, 2nd schedule</p>	<p>To promote industrialization and bring FDI into the country.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001

S.#	Existing Situation	Proposed Change	Rationale for Change
6.	<p><u>Section 65B.</u> (1) Where a taxpayer being a company invests any amount in the purchase of plant and machinery for the purposes of extension, expansion balancing, modernization and replacement of the plant and machinery already installed therein, in an industrial undertaking set up in Pakistan and owned by it, credit equal to ten percent of the amount so invested shall be allowed against the tax payable by it in the manner hereinafter provided.</p>	<p><u>Section 65B.</u> (1) Where a taxpayer being a company invests any amount in the purchase of plant and machinery for the purposes of extension, expansion, balancing, modernization and replacement of the plant and machinery already installed therein, in an industrial undertaking set up in Pakistan and owned by it, credit equal to ten percent of the amount so invested shall be allowed against the tax payable by it in the manner hereinafter provided.</p>	<p>To promote new investment in the country and to provide a level playing field to new entrants investing in plant and machinery in Pakistan</p>
7.	<p><u>A company paying advance tax u/s 147</u> is also subject to deduction of tax at source under other sections of the ITO, 2001, such as Section 153 etc.</p>	<p>Companies can opt for paying upfront advance tax u/s 147 every month. It is strongly suggested that where a company is complying with section 147 (advance tax) of ITO 2001 then it should be given an option to avail exemption from all withholding sections except those subject to Final Tax Regime.</p>	<p>To allow all companies to avail this option.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
8.	<p><u>65.C Tax Credit for enlistment:</u> (I) Where a taxpayer being a company opts for enlistment in any registered stock exchange in Pakistan, tax credit equal to fifteen percent of the tax payable shall be allowed for the tax year in which the said company is enlisted.</p>	<p><u>65.C Tax Credit for enlistment:-</u> (I) Where a taxpayer being a company opts for enlistment in any registered stock exchange in Pakistan, tax credit equal to fifteen percent of the tax payable shall be allowed for <u>5 tax years beginning from</u> the tax year in which the said company is enlisted</p>	To encourage listings on the stock exchanges.
9.	<p><u>111. Unexplained income or assets:-</u> (4) Sub-section (I) does not apply:- (a) 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</p>	<p><u>111. Unexplained income or assets:-</u> (4) Sub-section (I) does not apply:- (a) 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</p> <p><u>Provided that clause (a) would only apply to remittance received by a person for investment in an industrial undertaking and for all other purposes up to and amount not exceeding US\$25,000 or equivalent during a tax year</u></p>	<p>To ensure that the funds remitted under this section do not distort the formal economy.</p> <p>PBC strongly objects to any tax amnesty schemes or waivers in customs or other duties / levies as the PBC believes such moves on the part of the government penalizes the formal taxpaying sector.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001

S.#	Existing Situation	Proposed Change	Rationale for Change
10	<p><u>Removal of requirement to withhold tax on distributor payments:</u> At present under Section 153A of the Income Tax Ordinance, every manufacturer at the time of sale to distributors, dealers and wholesalers shall collect tax at the rate specified in Part II of the First Schedule from the aforesaid persons, to whom sales have been made</p>	<p>This section which is currently held in abeyance till June 30, 2013 needs to be deleted.</p>	<p>To allow a level playing field for the formal documented sector</p>
11	<p><u>Reduction in the rate of Advance Tax on Imports under Section 148 – Manufacturers importing raw materials:</u> Previously as per Clause (9A) of Part II of the Second Schedule of Income Tax Ordinance, manufacturers importing raw material for their own use were subject to collection of tax at source at the rate 3%.</p>	<p>It is strongly suggested that tax at source be reduced to 1% for all manufactures.</p> <p>Further the commissioner should be empowered to issue exemption certificate on a yearly basis if there is no expected tax payable during the year (due to prior year losses, refunds or tax credits) or the expected tax liability has been discharged</p>	<p>Manufacturers, whose raw materials are imported goods, are facing cash flow problems due to abnormal delays in getting their refunds, if any. The problem gets worse for companies who have huge brought forward losses, tax credits and are required to pay only 0.5% as Minimum Turnover Tax. In the past, this problem was taken care of by granting exemption certificates on yearly basis.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001

S.#	Existing Situation	Proposed Change	Rationale for Change
12	<p><u>Increase in period to adjust Minimum Turnover Tax:</u> At present under Section 113 of the Income Tax Ordinance, minimum tax paid in excess of actual tax payable can be carried forward for adjustment against the actual tax liability of succeeding five years.</p>	<p>It is proposed that Limit to carry forward Minimum Turnover Tax be enhanced to ten years.</p>	<p>This ceiling of five years is unjust for adjustment against the actual tax liability in case of most of the companies which have made huge investments and have assessed brought forward losses mainly on account of accelerated tax depreciation and tax credits. Further there should not be any extra tax burden on a taxpayer more than his actual tax liability. This adjustment time limit is unjust and creating problems for capital intensive companies and will eventually lead to flight of capital from the country.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001

S.#	Existing Situation	Proposed Change	Rationale for Change
13	<p><u>Reduction from 90% of advance tax payment to 80%</u></p> <p>As per sub-section (4A) of Section 147 of the Income Tax Ordinance, 2001, a company is now required to pay advance tax on the basis of estimate of current year's income, if the income is likely to be more than latest assessed income. In such a situation, the company is required to at any time before the last installment is due, furnish to the Commissioner an estimate of the amount of tax payable by it, and thereafter pay such amount after making adjustment of the amount, if any, already paid.</p>	<p>It is recommended that the law be changed to the one, which was in force before the 2006 Finance Act amendment whereby a company was required to pay advance tax equal to one fourth of the tax liability finalized for the latest tax year or at least the benchmark of ninety percent should be reduced to eighty percent.</p>	<p>The old law worked well in the past and as such be reinstated.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
14	<p><u>Tax Credit Under 65E:-</u> Tax Credit under Section 65E is restricted to investment in plant and machinery</p>	<p><u>Tax Credit Under 65E:-</u> Tax credit under section 65E should also extend to investment in factory building.</p>	Expansion of plant or undertaking a new project involves investment in building such investment should also be made eligible for tax relief.
15	<p><u>Tax Credit Under 65E:</u> (7) For the purposes of this section "new equity" means equity raised through fresh issue of shares against cash by the company.</p>	<p><u>Tax Credit Under 65E:</u> The condition of investment through fresh issue of shares should also be revisited</p>	The intent behind restricting the investment to fresh issue of shares is not much understandable especially if the Company has surplus funds and no borrowing.
16	<p><u>Section 122 (5A):</u> Section 122(5A) of the Income Tax Ordinance has been amended through Finance Act 2012 whereby the Commissioner Inland Revenue has been given the powers for making such enquires as he deems fit.</p>	Section 122(5A) should not used as a replacement for section 177. As such the amendment made through the Finance Act be deleted.	This amendment has brought the Section 122(5A) of the Ordinance parallel to section 177 read with section 214C and 122(5) of the Ordinance and attempts to negate/dilute the concept of self assessment and lead to fishing enquiry. Unfortunately, tax department is using section 122(5A) as norm instead of exception

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001

S.#	Existing Situation	Proposed Change	Rationale for Change
17	<p><u>104 Foreign Losses: (2):</u> "The foreign losses" are to be carried forward to the following tax year and set off against the foreign source income chargeable to tax under that head. Though losses can be carried forward to a maximum of six years the losses can't be adjusted against the local income of a resident taxpayer.</p>	<p>The restriction of set off of foreign losses against subsequent foreign income needs to be removed. In the repealed Income Tax Ordinance 1979 there was no restriction and foreign losses sustained by a resident could be set off against local income</p>	<p>To effectively reinstate the concept of taxing global income</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001

S.#	Existing Situation	Proposed Change	Rationale for Change
18	<p><u>Amendment made in Clause 57 of Part IV of Second Schedule to Income Tax Ordinance.</u> Exemption from section 148 & 113 was not applicable on Large Trading Houses through Clause 57 Part IV of 2nd schedule of I.T.O. 2001. This exemption was available for first ten years, starting from the tax year in which the business operations commenced. Through the introduction of SRO 140(I) 2013 dated February 26th 2013 the exemption u/s 113 & 148 was withdrawn before the said ten years from commencement of business.</p>	<p>It is proposed to restore the exemptions through inclusion of section 113 & 148 in Clause-57 of Part IV of second schedule to Income Tax Ordinance 2001. This would also demonstrate to foreign investor that there is the consistency in Government's policy and commitment to investors are adhered to.</p>	<p>It is pertinent to mention here that Large Trading houses have huge taxable losses and withholding taxes that are already refundable from the Government. The withdrawal of exemption 0.5% minimum turnover tax u/s 113 will further give rise to accumulated refunds which are already pending and adversely affect our working capital including higher financial cost.</p>

1.0. (B) Amendments/Clarifications for improving understanding / interpretation / implementation:
Sales Tax Law 1990

1.0. (B) PROPOSED Amendments / Clarifications / Explanations in SALES TAX LAW 1990			
S.#	Existing Situation	Proposed Change	Rationale for Change
1.	<p><u>Section 8A.</u> <u>Joint and several liability of registered persons in supply chain where tax unpaid.-</u> 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 would go unpaid, such person as well as the person making the taxable supply shall be jointly and severally liable for payment of such unpaid amount of tax:</p>	<p>DELETE THIS SECTION</p>	<p>The person making the payment in good faith should not be made responsible for non compliance by the supplier.</p>

1.0. (B) PROPOSED Amendments / Clarifications / Explanations in SALES TAX LAW 1990

S.#	Existing Situation	Proposed Change	Rationale for Change
2.	<p><u>8B. Adjustable input tax.-</u></p> <p>(1) Notwithstanding anything contained in this Act, in relation to a tax period, a registered person shall not be allowed to adjust input tax in excess of ninety per cent of the output tax for that tax period:</p>	<p>(1) Notwithstanding anything contained in this Act, in relation to a tax period, a registered person (<i>other than a company listed on any recognized stock exchange of the Country or registered with LTU</i>) shall not be allowed to adjust input tax in excess of ninety per cent of the output tax for that tax period:</p>	<p>Better cash flow management for the organized sector.</p>

1.0. (B) PROPOSED Amendments / Clarifications / Explanations in SALES TAX LAW 1990

S.#	Existing Situation	Proposed Change	Rationale for Change
3.	<p><u>Changes in Sales Tax Withholding Rules, 2007:</u> FBR through its recent SRO 98(I) 2013 has extended the Sales Tax Withholding Regime. The rate of withholding sales tax has been significantly increased from 1% to 3.2%. The application of withholding rules has also been extended to all the Companies as defined by the Income Tax Ordinance and Registered Exporters</p>	<p>It is proposed that SRO 660(I)/2007 be amended to read as follows:</p> <p><i>'A person (being the recipient of service of advertisement who is registered for sales tax and is in a refund situation) who receives advertisement service, shall adjust the amount of sales tax (as mentioned in the invoice issued by the service provider) against the sales tax refundable from the Government.'</i></p> <p>These withholding tax rules should be made applicable to companies and persons registered with Large Taxpayers Unit.</p> <p>Moreover, the rate of withholding tax be reverted to 1% as 3.2% is very high</p>	<p>The scope of withholding extending to company will give rise to non-deposit of tax as observed in issues relating to 8(1)(ca). Secondly, the amendments vide SRO.98 (I)/2013 will give rise to refunds in case sale of third schedule items.</p> <p>ANOTHER SET OF RECOMMENDATIONS ARE:</p> <ul style="list-style-type: none"> • Those companies whose value addition is less than 20% (or in other words have low margins) will end up having either excess of input over output which will be carried forward to the next period(s) or refund situation • Sales Tax Regime was earlier on 'earlier of delivery of goods or receipt of payment,' which got subsequently changed to 'delivery of goods' to avoid a lot of reconciliation issues. Though current incidence of sales tax is on delivery of goods but due to this SRO 98 customers will deduct Sales Tax at the time of payment in case of advances against supply of goods which is contrary to what was achieved in the recent past by changing the regime for incidence. • On commercial imports, in addition to 16% sales tax, there is additional 3% value added tax which makes it 19% at input stage. Now deduction under SRO 98 of 20% on output sales tax of 16% would result in blockage of funds.

1.0. (B) PROPOSED Amendments / Clarifications / Explanations in SALES TAX LAW 1990

S.#	Existing Situation	Proposed Change	Rationale for Change
4.	<p>Section 8(1)(ca) Tax credit not allowed:- (1) Notwithstanding anything contained in this Act, a registered person shall not be entitled to reclaim or deduct input tax paid on – (ca) the goods (or services) in respect of which sales tax has not been deposited in the Government treasury by the respective suppliers;</p>	<p><u>Section 8(1)(ca) should be amended as;</u> This section should be amended to exclude entities registered with the LTUs.</p>	<p>The disallowance of input tax on the assumption that the same has not being deposited with treasury by the supplier, is not only against the principal of natural justice but also jeopardize the fundamental right of a citizen wherein he has been held responsible for an offence which he has neither committed nor has a knowledge of the same being committed by its supplier.</p>
5.	<p><u>Definition of Provincial Sales Tax</u></p>	<p>This should include, the Punjab Sales Tax on Services Act, 2012 and Sindh Sales Tax on Services, 2011</p>	<p>The recent statutes have not been included in the Sales Tax Act, 1990</p>

1.0. (C) Amendments/Clarifications for improving understanding / interpretation / implementation:
Federal Excise Duty

1.0. (C) PROPOSED Amendments / Clarifications / Explanations in FEDERAL EXCISE DUTY LAW			
S.#	Existing Situation	Proposed Change	Rationale for Change
1.	<p><u>FED on Royalty Fee for technical services – Sub rule 7 rule 43 A</u></p> <p>A new sub rule 7 has been inserted in rule 43 A whereby authorized person being a bank is now required to deduct the amount of FED on foreign remittance of franchise fee, technical fee or royalty under franchise arrangement.</p>	<p><u>Explanation:</u></p> <p>FED is applicable only on those franchise fee, technical fee or royalty that are under franchise arrangement between franchisee and franchisor</p>	<p>Clarification is needed that FED is applicable only on those franchise fee, technical fee or royalty that are under franchise arrangement between franchisee and franchisor. Furthermore, that it is not applicable on normal service contracts in which non-resident person provides normal services with respect to any technical issues involved.</p>

2.0. (A) Legislative Changes for Taxpayers Facilitation - Income Tax Law 2001

2.0. (A) PROPOSED LEGISLATIVE CHANGES FOR FACILITATION OF TAXPAYERS' – INCOME TAX LAWS			
S.#	Existing Situation	Proposed Changes	Rationale for Change
1.	Effective rate of Corporate Income Tax in Pakistan is 42% (35% Income Tax + 5% WPPF + 2% WFF), which is one of the highest in the region.	<p>For the Listed Companies reduce rate of Corporate Income Tax by 2% annually so that it is 25% in five years time.</p> <p>For the Non-Listed Companies reduce the rate of Corporate Income Tax by 1% annually so that it is 30% in five years time. This will bring the rate of corporate tax in line with regional tax rates.</p> <p>For sole proprietorship and partnership concerns raise the rate of income tax on profits from the current 25% to 30%.</p> <p>For individuals & proprietorship concerns companies the highest tax slab be increased from 22% to 25%</p>	<p>Rate of Corporate Income Tax in Pakistan is on the higher side as compared to global/regional rates and has to be rationalized to retain and attract FDI.</p> <p>Additionally, this high rate of tax, as compared to the highest tax rate of 25% for the non-corporate sector, is becoming a big incentive for converting limited companies into partnerships and proprietorships.</p>

2.0. (A) PROPOSED LEGISLATIVE CHANGES FOR FACILITATION OF TAXPAYERS' – INCOME TAX LAWS

S.#	Existing Situation	Proposed Changes	Rationale for Change
2.	<p><u>WHAT CONSTITUTES TURNOVER:</u> Minimum tax is currently payable at 0.5% on the turnover from sources that are not taxable under Final Tax Regime (FTR). Minimum Tax applies irrespective of the amount of tax paid (albeit under FTR) in case there is a taxable loss from activities not covered under FTR or the tax payable is less than 0.5% of turnover from non FTR sources. This dual taxation under minimum tax and FTR regime is against the basic principle on the basis of which minimum tax was introduced in law which was to make every taxpayer contribute some tax to the exchequer</p>	<p>The original concept of comparison of tax liability with minimum tax on turnover from all sources as was applicable up to tax year 2008 before repeal of section 113 through Finance Act 2009 be restored. Accordingly, the definition of turnover as provided in section 113(3) of the ordinance be amended.</p>	<p>To restore the original and correct basis for levy of minimum tax so as to charge it from only such taxpayers who are not contributing any tax or are paying tax (including tax under FTR) less than the minimum tax on their turnover from sources (including FTR turnover)</p>

2.0. (A) PROPOSED LEGISLATIVE CHANGES FOR FACILITATION OF TAXPAYERS' – INCOME TAX LAWS

S.#	Existing Situation	Proposed Changes	Rationale for Change
3.	<p>Section: 71. Currency conversion.— (1) Every amount taken into account under this Ordinance shall be in Rupees. (2) Where an amount is in a currency other than rupees, the amount shall be converted to the Rupee at the State Bank of Pakistan 4[] rate applying between the foreign currency and the Rupee on the date the amount is taken into account for the purposes of this Ordinance.</p>	<p>Section 71. Currency conversion.— (1) Every amount taken into account under this Ordinance shall be in Rupees. (2) Where an amount is in a currency other than rupees, the amount shall be converted to the Rupee at the State Bank of Pakistan 4[] rate applying between the foreign currency and the Rupee on the date the amount is taken into account for the purposes of this Ordinance.</p> <p>Following to be added:</p> <p><i>(3) Except as provided in subsection (5) of section 76, exchange gains arising on revaluation of an amount referred to in subsection (2) shall be added to the total income in the year of occurrence, i.e. the year in which the exchange gain arises.</i></p> <p><i>(4) Except as provided in subsection (5) of section 76, exchange losses arising on revaluation of an amount referred to in subsection (2) shall be allowed as a deduction in the year of occurrence, i.e. the year in which the exchange loss arises.</i></p>	<p>This is in line with the accounting convention being followed internationally.</p>

2.0. (B) Legislative Changes for Taxpayers Facilitation – Sales Tax Law:

2.0. (B) PROPOSED LEGISLATIVE CHANGES FOR FACILITATION OF TAXPAYERS' – SALES TAX LAWS			
S.#	Existing Situation	Proposed Changes	Rationale for Change
1.	Currently an industry whose output is exempt from sales tax is not allowed to adjust its input sales tax.	An industry whose output is exempt from sales tax should be allowed zero rating for its inputs	Since input cannot be passed on it is added to the costs.

3.0 (A) Measures for Improving Tax-to-GDP Ratio – Better Documentation & Enforcement:

3.0 (A) Measures for Improving Tax-to-GDP Ratio – Better Documentation & Enforcement			
S.#	Existing Situation	Proposed Change	Rationale for Change
1.	Commercial Importers are charged a presumptive tax rate of 5% which is treated as their final tax liability, this puts the corporate sector especially the listed corporate sector at a disadvantage	<p>Commercial Importers be brought into the normal tax regime. Till this can be accomplished, listed companies be allowed the following:</p> <ul style="list-style-type: none"> • The rate of withholding tax on import of finished goods / goods sold in the condition in which they are imported, be 50% of that for the commercial / non listed corporate importers. • A listed corporate entity, opting to move from the presumptive to the normal tax regime for commercial imports, will not be able to revert to the presumptive regime for 5 years. 	Taxation under the normal tax regime will lead to increased Government revenues while at the same time helping to increase listings. A bias in favor of the listed sector will lead to greater documentation of the economy.
2.	Across the board massive under invoicing, dumping of imported products	<p>Depending on industry input, values are fixed for import consignments; basis of valuation can be origin, weight, volume etc.</p> <p>For items prone to under invoicing and mis-declaration, FBR designate one or two ports (including the dry ports) for clearing of import consignments. This will allow better monitoring of the import consignments.</p> <p>Institutional strengthening of the National Tariff Commission (NTC)</p>	<p>Allow industry to fairly compete with unscrupulous imports,</p> <p>Government to benefit from increased revenue.</p>

3.0 (A) Measures for Improving Tax-to-GDP Ratio – Better Documentation & Enforcement

S.#	Existing Situation	Proposed Change	Rationale for Change
3.	<p>The governments of Pakistan and Afghanistan have signed a new Transit Trade Agreement in 2010. The new agreement has done away with the provision of a negative list while at the same time most of the mechanisms' suggested for misuse of the transit trade including; quantity restrictions, collection of customs duties etc. not been incorporated in the new agreement.</p>	<p>Pakistan needs to take a more proactive approach in ensuring that the provisions in place for monitoring misuse of the new APTTA including the provision of submission of bank guarantees equivalent to GoP levies are collected on Afghan imports.</p>	<p>Making "smuggling" under the guise of "transit" less feasible will reduce pressure on domestic manufacturers while at the same time increase the government revenues.</p>
4.	<p>Section 65A. Tax Credit to a person registered under the Sales Tax Act 1990: (1) Every manufacturer, registered under the Sales Tax Act 1990, shall be entitled to a tax credit of two and a half percent of tax payable from a tax year, if ninety percent of his sales are to the person who is registered under the aforesaid Act during the said tax year.</p>	<p>Section 65A. Tax Credit to a person registered under the Sales Tax Act 1990: (1) Every manufacturer, registered under the Sales Tax Act 1990, shall be entitled to a tax credit of two and a half percent of tax payable from a tax year, if ninety percent of his sales purchases are to the from a person who is registered under the aforesaid Act during the said tax year.</p>	<p>This will encourage greater documentation as companies will have an incentive to purchase from registered persons.</p>

3.0 (A) Measures for Improving Tax-to-GDP Ratio – Better Documentation & Enforcement

S.#	Existing Situation	Proposed Change	Rationale for Change
5.	<p>Values at which various custom check posts clear import consignments are not public information. This allows unscrupulous importers to mis-declare consignments and evade government revenues.</p> <p>The Sales Tax and FED deposited by various units is not public information. This leads to massive evasion of Sales Tax and FED.</p>	<p>Values at which import shipments are cleared whether through PRAL or CARE needs to be public information. To protect confidentiality name of supplier maybe withheld. Additionally, the old Customs General Order 25 needs to be revived with a provision that local manufacturers be given the option to buy at a 15% premium any consignments which appear undervalued.</p> <p>Sales Tax and Federal Excise Duty deposited by local manufacturers should be published as was the practice in the past</p>	<p>Greater transparency at import stage will lead to reduction in mis-declaration and evasion of duties. It will also lead to greater accountability of the customs staff.</p> <p>Will reduce the incidence of Sales Tax & FED evasion and increase government revenues. If the KESC can publish the names of people stealing electricity, what is there to prevent the FBR from publishing the names of those who pay their taxes?</p>

3.0 (B) Measures for Improving Tax-to-GDP Ratio –Widening of the Tax Base:

3.0 (B) Measures for Improving Tax-to-GDP Ratio –Widening of the Tax Base			
S.#	Existing Situation	Proposed Change	Rationale for Change
1.	Certain incomes, most notably agricultural income is exempt from income tax	All incomes irrespective of source must be taxed.	Fairer distribution of the tax burden.
2.	No incentive for individuals to insist on proper sales receipts	Computerized sales tax invoices for sales made to individuals are part of a "National Sales Tax Compliance Incentive".	Greater incentive for individuals to insist on proper receipts for goods and services purchased. Greater documentation of the economy
3.	No tax on real estate developers / builders	Real Estate developers should be taxed on a per square foot basis for built up property and a per square yard basis on land developed for sale. However houses constructed on plots of less than 100 square yards or equivalent and apartments with a covered area of less than 800 square feet as well as developed plots of less than 120 square yards in residential areas should be exempt from tax. This should only be available if the taxpayer does not already have a house, plot or apartment registered in name. To provide a flip to the organized real estate sector the CVT and stamp duty should be rationalized as referred to in the National Housing policy 2001.	No rational for keeping sector outside of the tax net.

3.0 (B) Measures for Improving Tax-to-GDP Ratio –Widening of the Tax Base

S.#	Existing Situation	Proposed Change	Rationale for Change
4.	A very Low Taxpayers Base (about 1.0 million in a population of about 170.0 million)	<p><u>Filing of tax returns be mandatory for persons who:</u></p> <ul style="list-style-type: none"> ➤ have a credit card in their name ➤ have taken a personal loan from any financial institution ➤ have traveled outside of Pakistan in the last financial year ➤ are members of a private club, ➤ are members of a professional body ➤ own urban property of more than 240 square yards or equivalent or an apartment with covered area more than 1,500 square feet. <p>For manufacturing units and retail wholesale trade currently not in the tax net, following is proposed:</p> <ul style="list-style-type: none"> ➤ Registration with the tax authorities of units which have either a commercial or an industrial utility connection. ➤ For retail outlets operating with domestic utility connections, the minimum size of 500 square feet is recommended for registration. 	<p>All this information is easily available and will lead to:</p> <ul style="list-style-type: none"> • greater documentation of the economy, and • greater tax collection
5.	The formal sector in Pakistan faces an unfair competition from the undocumented sectors of the economy.	The Pakistan Business Council (PBC) supports an across the board implementation of the Value Added Tax (VAT). Where documentation is currently not possible as with major segments of the retail and wholesale chain, the model followed for bringing the formerly zero rated export sectors may be followed.	Greater documentation