

PAKISTAN BUSINESS COUNCIL'S
PROPOSALS FOR THE FEDERAL BUDGET 2014 - 15

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(A Company set up under Section 42 of the Companies Ordinance 1984)

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MINISTRY OF FINANCE
GOVERNMENT OF PAKISTAN

The Pakistan Business Council:

- Established in 2005 by 14 (now 45) 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 are 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 / continues to work 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 – 2012
 - 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

PBC Member Companies

 Abbott A Promise for Life	 AkzoNobel	 AlliedBank	 Artistic Milliners	 Atlas	 Bank Alfalah Limited	 CHERAT CEMENT
 Coca-Cola	 Colgate - Palmolive	 Dawood Hercules	 DESCON	 The Legend Leads. English Biscuit Manufacturers	 engro corp	 faysabank
 GATRON	 Getz pharma	 gsk GlaxoSmithKline	 GulAhmed TEXTILE MILLS LIMITED, KARACHI	 HBL	 HUBCO growth through energy	 ICI PAKISTAN
 INTERNATIONAL INDUSTRIES LTD.	 INDUS GROUP	 TOYOTA DAIHATSU INDUS MOTOR COMPANY LIMITED	 JDW Sugar Mills Ltd.	 LOTTE	 LUCKY CEMENT	 MEGA CONGLOMERATE
 MTL Millat Tractors Ltd.	 National FOODS SINCE 1970	 Nestlé	 Nishat (Chunian) Limited	 NISHAT MILLS LTD.	 PACKAGES Limited	 pakarab FERTILIZERS LIMITED
 SUZUKI	 MILIP MORITZ INTERNATIONAL	 SAIF GROUP	 SANOFI	 Sapphire	 SIEMENS	 Standard Chartered
 PROTECTS Tetra Pak WHAT'S GOOD™	 UBL	 Unilever				

PBC's Proposals for the Federal Budget 2014 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
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) Specific suggestions for 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.	<u>Section 59B</u>	<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>	In order to make the amendments applicable for pending cases.
4.	<u>Sub clause (iii) of clause 72 of Part I, 2nd Schedule</u> was omitted in the Finance Act 2009	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, 2 nd schedule	To promote industrialization and bring FDI into the country.
5.	<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 148, Section 153 etc.	Companies can opt for paying upfront advance tax u/s 147 by the 15 th of 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.	To allow all companies to avail this option.

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
6.	<p>111. Unexplained income or assets:- (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>111. Unexplained income or assets:- (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>
7.	<p><u>Section 113: Minimum Tax</u></p> <p>Through Finance Act 2013 the rate of minimum turnover tax under section 113 of the Income Tax Ordinance, 2001 has been increased to 1% from 0.5%.</p>	<p>It is recommended that the Minimum Turnover Tax revert to 0.5%</p>	<p>This will help companies better manage liquidity.</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
8.	<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
9.	<p>Section 122 (5A): 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>	<p>Section 122(5A) should not used as a replacement for section 177. As such the amendment made through the Finance Act be deleted.</p>	<p>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</p>
10	<p>104 Foreign Losses: (2): "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 and promote the development of Pakistani multinationals.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
11	<p>Section: 71 Currency conversions — (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>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
12	<p><u>Reduction in the rate of Advance Tax on Imports under Section 148 – Manufacturers importing raw materials:</u></p> <p>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%. Through SRO 154/2013 the withholding tax rate was increased from 3% to 5% creating significant cash flow impacts for manufacturers and resulting in the generation of income tax refunds.</p> <p>The positive measure of issuance of exemption certificate on imports by commissioners was introduced in Finance Act 2013,</p>	<p>The rate of Advance Tax on imports under Section 148 – Manufacturers importing raw materials needs to be reduced to 1%</p> <p>The positive measure of issuance of exemption certificate on imports by commissioners was introduced in Finance Act 2013, however, these rules need to be revisited as under the current set of rules, practically no exemptions have been granted. This is causing hardships in the form of income tax refunds.</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 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
13	<p><u>Initial Depreciation Allowance on Plant & Machinery under Section 23:</u></p> <p>Through the Finance Act 2014, the rate of initial depreciation allowance on plant and machinery as prescribed under the Third Schedule to Income Tax Ordinance 2001 has been reduced to 25% from 50%, effective tax year 2014.</p>	<p>It is proposed that the Initial Depreciation Allowance rate be restored to 50% as was the case prior to the Finance Act 2013</p>	<p>This will gear up investments in the industrial sector resulting in job creation and increased tax revenues for the Governments once the unit starts earning profits.</p>
14	<p><u>Tax Credit Under 65E:-</u></p> <p>Tax Credit under Section 65E is restricted to investment in plant and machinery</p>	<p><u>Tax Credit Under 65E:-</u></p> <p>Tax credit under section 65E should also extend to investment in factory building and manufacturing related infrastructure.</p>	<p>Expansion of plant or undertaking a new project involves investment in factory building and manufacturing related infrastructure and as such these types of investments should also be made eligible for tax relief.</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
15	<p><u>Tax Credit under Sections 65B and 65E:</u></p> <p>Following is the wording of <u>65B. Tax Credit for investment:</u>(1) Where a taxpayer being a company invests any amount in the purchase of plant and machinery, for the purposes of <i>extension, expansion, balancing, modernization and replacement of the plant and machinery, already installed</i></p> <p>While in 65B (4) "... for the purposes of <i>balancing, modernization and replacement of the plant and machinery already installed in an industrial undertaking owned by the company.</i></p> <p>65E(1)inter alia for the purposes of- (i) <i>expansion of the plant and machinery already installed therein; or</i></p>	<p>In order to streamline sections 65B(4) and 65E(1) with the wordings mentioned in 65B(1), it is proposed to insert, the following wording in bold in the respective sections as follows:</p> <p>65B (4) make an investment for the purposes of <i>extension, expansion, balancing, modernization and replacement of the plant and machinery.</i></p> <p>65E(1) for the purposes of- (i) <i>extension, expansion, balancing, modernization and replacement of the plant</i> and machinery already installed therein; or</p>	<p>This amendment will further promote industrialization and new investment in the country</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
16	<p>Tax Credit under Section 65B:</p> <p>(1) Where a taxpayer being a company invests any amount in the <u>purchase of plant and machinery</u>, 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,</p>	<p><u>An explanation be added to sub-section (1) of Section 65B</u></p> <p>For removal of doubts, for the purposes of this section, it is declared that the words <u>“purchase of a plant and machinery”</u> includes all direct expenses which are necessary to make the Plant and Machinery in a workable condition and also includes factory buildings and manufacturing related infrastructure.</p>	<p>This amendment will further promote industrialization and new investment in the country. Huge direct expenses like installation charges, Fees for technical services, factory building and related infrastructure are incurred to make the Plant and Machinery into a workable condition.</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
17	<p><u>Minimum tax carry forward in case of loss in earlier periods section 113</u></p> <p>As per section 113(2)(c), where tax paid (minimum tax) under sub section (1) exceeds the actual tax payable under Part 1, clause (1) of Division I, or Division II of the First Schedule, the excess amount of tax paid shall be carried forward for adjustment against tax liability under the aforesaid part of the subsequent tax year.</p>	<p>To address the ambiguity surrounding the adjustment of minimum tax by loss suffering companies (who have no corporate tax payable), the following Explanation is proposed to be inserted;</p> <p><u>"Explanation</u> – For the removal of doubt, it is declared that the expressions "the excess amount of tax" apply to all cases where no tax is payable or paid for any reason whatsoever including any loss of income, profits or gains or set-off of losses or unabsorbed depreciation of earlier years, exemption from tax and allowances and deductions admissible under any provision of this Ordinance.</p>	<p>Following is an extract from the Finance Minister's budget speech of June 12, 2004 whereby the carry forward period of Minimum Tax was increased from 3 to 5 Years.</p> <p>Quote" The concept of minimum turnover tax payable by a resident company <u>if the tax liability is nil or less than 0.5% due to losses or low income is considered as a disincentive for the companies incurring genuine losses in the initial years of business or due to admissible depreciation.</u> To help the newly established companies it is proposed to allow carry forward of un-adjusted amount of minimum tax for a period of 5 years for adjustment against future tax liability. If the amount is not adjusted in the said period of 5 years it would automatically lapse." Unquote</p> <p>In spite of clear intention of carry forward facility of Minimum tax paid owing to loss, it has been argued by certain quarters that if minimum tax paid exceeds the actual tax payable, then it allows carrying forward the excess amount which is adjustable against future tax liability whilst where on tax is payable by the taxpayer due to business loss or whatsoever reason, then minimum tax paid under this section does not allow to carry forward against future tax liability. This is unjust because the actual tax liability of most of the companies which have made huge investments have brought forward losses mainly on account of accelerated tax depreciation.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001													
S.#	Existing Situation	Proposed Change	Rationale for Change										
18	<p><u>Contradiction in the provisions of section 169, 113 with 65B, 65D and 65E</u></p> <p>Section 65B, 65D and 65E were amended through Finance Act 2012, whereby the tax credit allowed under these sections could be set-off against minimum tax (under section 113) and final tax (under section 169) as well.</p> <p><u>Section 169(2)(d)</u> states "the tax deducted shall not be reduced by any tax credit allowed under this Ordinance". Therefore tax credit does not allow to be set-off against final tax. Similarly, under section 113(1) minimum tax, if taxpayer tax liability for the year reduced by tax credits falls short of the minimum tax on turnover taxpayer will have to pay minimum tax.</p>	<p>The following <u>EXPLANATION</u> be inserted in section 113(1) and 169(2)(d) to remove the lacuna of the law as follows:</p> <p><u>In section 113(1)(d)-</u> " For the removal of doubt, it is clarified that in line with the amendments made in sections 65B, 65D and 65E, actual tax payable under normal tax regime shall be before the application of current and prior year tax credit available under afore mentioned sections while comparing with minimum turnover tax payable."</p> <p><u>In section 169(2)(d)-</u> "For the removal of doubt, it is clarified that in line with the amendment made in the sections 65B, 65D and 65E, tax deducted or collected under this section shall be reduced by tax credits under sections 65B, 65D and 65E."</p> <p>Further, if tax credit is adjusted against Minimum Tax Liability (which is higher of Normal Tax Liability & Minimum Tax Liability), the same is to be treated as a constructive payment (as it will lead to Nil or partial payment after tax credit adjustments)</p>	<p>The proposed treatment is in line with e-return version; however, this is necessarily to be backed by wording in the relevant sections.</p> <p>Example</p> <table> <tr> <td>Minimum Tax Liability=</td> <td>Rs.100</td> </tr> <tr> <td>Normal tax Liability prior to tax</td> <td></td> </tr> <tr> <td>Credit of current & prior years</td> <td>Rs. 60</td> </tr> <tr> <td>Tax credit for current year</td> <td>Rs 80</td> </tr> <tr> <td>Tax credit for prior year</td> <td>Rs.20</td> </tr> </table> <p>In this situation, tax credit for current & prior year of Rs 100 is adjusted against Minimum Tax Liability of Rs 100 and be treated as a constructive payment and carried forward to next year.</p>	Minimum Tax Liability=	Rs.100	Normal tax Liability prior to tax		Credit of current & prior years	Rs. 60	Tax credit for current year	Rs 80	Tax credit for prior year	Rs.20
Minimum Tax Liability=	Rs.100												
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1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001

S.#	Existing Situation	Proposed Change	Rationale for Change
19	<p><u>Certificate of collection or deduction of tax under section 164</u></p> <p>Finance Act 2013 inserted an amendment in section 164(2) whereby certificate of tax deduction or collection from the withholding agent is not enough as an evidence to claim a tax credit under income tax return.</p> <p>Furthermore, along with this certificate of deduction or collection taxpayer must obtain income tax challan or computerized payment slip (CPR) from the withholding agent in order to obtain the tax credit under income tax return.</p> <p>The CPR is not practically possible in several cases.</p>	<p>In section 164(2), after the word "in that year "the following be added</p> <p><i><u>"and such certificate shall be treated as sufficient evidence of the collection or deduction for the purposes of section 168"</u></i></p> <p align="center"><u>OR</u></p> <p><i><u>"and in cases where sections 8, 154, 148, 231A, 231B, 234, 235, 236 and 236B apply, the certificate of deduction and collection of tax issued by the taxpayer is sufficient evidence for the purpose of section 168".</u></i></p>	<p>Due to this change through the Finance Act 2013, it is very difficult to adjust the income tax withheld as per the following sections since the withholding agent is required to issue certificate of tax deduction or collection but owing to huge quantum of transactions it is nearly impossible for them to prepare and issue each taxpayers' CPR, especially in the following cases:</p> <p>Section 8 "Dividend"</p> <p>Section 154 "Exports"</p> <p>Section 148 "Imports"</p> <p>Section 231A "Cash withdrawal from a bank"</p> <p>Section 231B "Advance tax on private vehicle"</p> <p>Section 234 " Tax on motor vehicles"</p> <p>Section 235 " Electricity Consumption"</p> <p>Section 236 " Telephone users"</p> <p>Section 236B "Advance tax on air tickets"</p> <p>Proposed amendment is to avoid the practicaldifficulties and legal hassle.</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
20	<p><u>Set off capital losses against income chargeable under any other head of income (Section 59. Carry forward of capital losses.-)</u></p> <p>At present, where a person sustains a loss under the head "Capital Gains", the loss cannot be set off against income chargeable under any other head of income and shall have to be carried forward to the next year and can only be set off against capital gains, if any.</p>	<p>It is recommended that under section 56. Set off of losses.- the wording "<u>subject to section 59</u>" which refer to separate treatment of capital losses be deleted.</p> <p>Further, the restriction of set off of capital losses mentioned in section 59 only against subsequent capital gains needs to be removed to allow setting off losses against any other head of income.</p>	<p>Investments are an integral part of the business and companies make an investment in associated or subsidiary companies and in other non-related growth oriented companies</p> <p>Restriction to set off of capital losses discourage companies from investing in local companies as well as investing in companies abroad.</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
21	<p><u>Collection of advance tax under section 236G:</u></p> <p>Through the Finance Act, 2013 section 236G was introduced to the Income Tax Ordinance, 2001 whereby every manufacturer or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam are required to collect tax at the rate of 0.1 per cent of the gross value of sales to distributors, dealers and wholesalers.</p>	<p>This Section should be deleted</p>	<p>Deduction from distributors, dealers and wholesalers as adjustable advance tax in excess of their tax liability for the year creates a perpetual refundable position for the distributors etc. resulting in cash flow problems and financing charges</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
22	<p><u>Collection of advance tax under section 236H:</u></p> <p>Through the Finance Act, 2013 section 236H was introduced to the Income Tax Ordinance, 2001 whereby manufacturer, distributor, dealer and wholesaler or commercial importer of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam are required to collect tax at the rate of 0.5 per cent of the gross value of sales to retailers.</p>	<p>This Section should be deleted</p>	<p>Deduction from retailers as adjustable advance tax in excess of their tax liability for the year creates a perpetual refundable position for the distributors etc. resulting in cash flow problems and financing charges</p>

1.0. (A) PROPOSED Amendments / Clarifications / Explanations in INCOME TAX ORDINANCE 2001			
S.#	Existing Situation	Proposed Change	Rationale for Change
23	<p><u>Section 182. Penalty for failure to furnish a return or statement.-</u></p> <p>Through the Finance Act 2011 the following explanation was added in Section 182:</p> <p><u>“Explanation.-</u> For the purposes of this entry, it is declared that the expression “tax payable” means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under sections 120, 121, 122 or 122C.”;</p>	<p>In order to avoid hardship, it is recommended to add the words in bold in Explanation in section 182(1):</p> <p><u>Explanation:</u> For the purpose of this entry, it is declared that the expression “Tax payable” means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under sections 120, 121, 122 or 122C <u>as reduced by tax deduction, collection and advance tax payments.</u></p>	<p>Penalty provisions on delay / failure to file return of income etc. contained in section 182 on the basis of gross tax liability instead of net tax payable with rerun (i.e. tax liability reduced by deduction, collection and advance tax payments)is undue burden, creating hardship and an impediment in inducing non-taxpayers to come into tax net</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>	DELETE THIS SECTION	The person making the payment in good faith should not be made responsible for non-compliance by the supplier.

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

S.#	Existing Situation	Proposed Change	Rationale for Change
2.	<p>8B. Adjustable input tax.- Restriction of Input Sales Tax at 90% of Output Sales Tax</p> <p>In view of amendment by SRO 154 dated February 28, 2013 in SRO 1125 dated December 31, 2011, zero rating concept for sales tax has been converted into a reduced sales tax rate regime.</p> <p>Consequently, those who were earlier covered in SRO 647(I)/2007 dated June 27, 2007 (Annexure 1) entry no 7 (given below) cannot now adjust input tax in excess of 90% of output tax.</p> <p><i>"7. Person making zero-rated supplies provided value of such supplies exceeds 50% of value of all taxable supplies in a tax period."</i></p> <p>This is impacting some of the taxpayers who have moved from the "zero rated" to the "reduced rate" regime as they are currently allowed to adjust only 90% of their input sales tax as per Section 8B of the Sales Tax Act.</p>	<p align="center"><u>Option 1:</u></p> <p>FBR to issue clarification letter for the words "zero-rated" mentioned at serial no 7 of the SRO 647 of 2007 "includes reduced rate supplies as well".</p> <p align="center"><u>Option 2:</u></p> <p>Serial No. 7 of the SRO 647 of 2007 to "<i>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.</i>"</p>	<p>Allow taxpayers to claim input sales tax credit at an early date, in order to avoid blockage of funds leading to unnecessary refunds</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></p> <p>Through SRO 704(I)2009 dated July 30, 2009, FBR introduced concept of Sales Tax Withholding (STWH) for first time for persons registered in LTU, relevant wording's of SRO are "Registered persons in a Large Taxpayers Unit (LTU), who purchases goods from a registered person, <u>other than one registered in an LTU</u>, shall deduct and withhold <u>one percent</u> of value of taxable supplies received by him as sales tax from the payment due to the supplier.</p> <p>Through SRO 98(I)2013 dated February 14, 2013, amendments has been made in STWH rules whereby all Companies whether registered in LTU/RTO are required to withhold sales tax and rates has also been enhanced to 3.40% (1/5th of 17%) from 1%. The exemption of deduction on purchases from LTU registered suppliers has also been withdrawn.</p>	<p>It is recommended that STWH rules may either be withdrawn for all taxpayers or <u>conditions as laid down in SRO 704(I)2009 dated July 30, 2009 may be restored, whereby Taxpayers registered in RTO should not deduct STWH of Taxpayers registered in LTU and tax rate may also be reduced to 1% from preset 3.40%.</u></p>	<p>The aforesaid amendment at one hand increase the workload of persons registered in LTU as they are now required to collect STWH information/Challans from their buyers registered with the LTU while on the other hand their funds are unusually being tied-up.</p> <p>LTU registered parties being Large Taxpayers of the Country are timely discharging their all tax liabilities and furthermore STWH being adjustable tax, FBR cannot benefit from any STWH from LTU parties.</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
4.	<p><u>Notification of Provincial Sales Tax on Services by FBR required in Official Gazette:</u></p> <p>Sindh Revenue Board (SRB) and Punjab Revenue Authority (PRA) were constituted in 2011 and 2012 respectively to collect tax on services, post 18th amendment. FBR continued to allow input adjustment of sales tax on services paid to SRB and PRA till July 2013.</p> <p>Through the Finance Act 2013, the wording of section 2(22A) of Sales Tax Act 1990 was changed so that, whilst adjustment is allowed, the FBR now needs to notify the services in the Official Gazette. However, no such notification has been issued to-date.</p> <p>WE HAVE BEEN GIVEN TO UNDERSTAND THAT THIS ISSUE IS NOW RESOLVED FOLLOWING THE SIGNING OF THE MOU BETWEEN THE FBR , SRB & PRA</p>	<p>It is proposed that:</p> <ul style="list-style-type: none"> • FBR notifies the Provincial Sales Tax on services in the Official Gazette; <p align="center">Or</p> <ul style="list-style-type: none"> • Requirement of notification is removed from the Sales Tax Act 1990; <p align="center">Or</p> <ul style="list-style-type: none"> • Applicability of new provision 2(22A) is suspended. 	<p>Denial of input tax on services is against the concept of VAT mode. The proposed changes will help to remove the hardships and unnecessary funds blocked for taxpayers registered with either FBR or with SRB/PRA.</p> <p>The interim relief granted by the honorable SHC needs to be considered as unless this issues is resolved at the earliest, more and more companies may be forced to approach the courts for redressal of their complaints.</p>

1.0. (B) PROPOSED Amendments / Clarifications / Explanations in SALES TAX LAW 1990			
S.#	Existing Situation	Proposed Change	Rationale for Change
5.	<p><u>Section 8(1)(ca)</u> 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 deleted;</u></p>	<p>The matter was challenged in Honorable Lahore High Court (LHC), in a petition W.P.No.3515/2012 filed by D.G Khan Cement Company Limited. LHC permitted relief and declared the provision as unconstitutional.</p> <p>Therefore, this provision of law should be deleted.</p>
6.	<p><u>Enhancement in scope of SRO 670(I)/2013:</u> - At present, SRO 670(I)/2013 allows raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of zero rated items to be charged at the rate of zero percent.</p>	<p><u>It is proposed that:</u> - a) The scope of the SRO should be enhanced to include purchase of machinery parts and fuel (i.e. diesel and lubricants for running the plant and machinery) used in the manufacture of zero rated items b) A clarification or amendment should be issued to allow secondary packaging to be treated as packing material for the purpose of this SRO so as to allow its purchase to be charged</p>	<p>Denial of refund tax on inputs to manufacturers of zero rated items is against the equity</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
7.	<p><u>Sales Tax on Toll Manufacturing Charges by Federal and Provincial Governments</u></p> <p>The Federal Government has been collecting sales tax on toll manufacturing charges as it has repeatedly defined/clarified that the toll manufacturing activity falls under the definition of manufacturing. The provincial governments in their budgets of 2013-14 have also brought the toll manufacturing activity under the ambit of services and have made it subject to sales tax under the respective Sales Tax Acts. This tantamount to duplication of sales tax as the taxpayer will now have to pay sales tax at the standard rate to both federal and provincial governments.</p>	<p>It is proposed that Federal and Provincial Governments should sit together and reconcile their differences and decide among themselves about the correct authority for recovery of sales tax on toll manufacturing activity so that a registered person is not subject to duplication of sales tax</p>	<p>Companies involved in toll manufacturing are being subjected to double taxation.</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
8.	<p><u>Impact on Manufacturing Industry in light of SRO 895(I)/2013 & SRO 896(I)/2013 both dated 04 October 2013.</u></p> <p>Several items have been removed from the Third Schedule vide SRO 895(I)/2013 and these items have now been included in the “Special Procedure for Payment of Extra Sales tax on Specified Goods” vide SRO 896(I)/2013.</p> <p>Included therein are items which are consumed by Manufacturing Sector as Raw-Material which are now subject to Extra Tax @ 2% in addition to the normal 17% sales tax..</p> <p>Further as per section 8(1)(c) of the Sales Tax Act, 1990, the claim of this extra tax of 2% by way of input tax is prohibited.</p>	<p>We propose that the expression “sold in retail” appearing at serial number 9 of SRO 896/13 may also be inserted to the preamble of the rule 58S to read as under: (proposed insertion in italics).</p> <p><u>Option 1:</u> “58S. Application.- The provisions of this Chapter shall apply to supplies of goods <u>“sold in retail”</u> specified in the following table.....”.</p> <p align="center"><u>OR</u></p> <p><u>Option 2:</u> Insert an additional sub-rule under Rule 58T as below in the “Special Procedure for Payment of Extra Sales tax on Specified Goods” similar to exclusion accorded to wholesale-cum-retail outlets operating under Sub-Rule 58R of Chapter XII of the Sales Tax Special Procedure Rules, 2007. <u>“The purchases made by registered manufacturers, who acquire the specified goods to manufacture or produce taxable goods, shall not be subject to extra tax under this Chapter”</u></p>	<p>It puts the formal sector at a disadvantage as they are not able to adjust the extra 2% paid as input.</p>

1.0. (B) PROPOSED Amendments / Clarifications / Explanations in SALES TAX LAW 1990			
S.#	Existing Situation	Proposed Change	Rationale for Change
9.	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.

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

1.0. (C) PROPOSED Amendments / Clarifications / Explanations in FEDERAL EXCISE DUTYLAW			
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.	<p>Effective rate of Corporate Income Tax in Pakistan is 41% (34% Income Tax + 5% WPPF + 2% WFF), which is one of the highest in the region.</p> <p>Through the Finance Act 2013, the rates of tax for salaried individuals have been revised upward. The abrupt increase of maximum tax rate by 10% (from 20% to 30%) is too high and needs to be reconsidered.</p>	<p>For Companies continue to reduce rate of Income Tax BY 1% so that it is brought down to 30% 25% in about five years time. This will bring the rate of corporate tax in line with regional tax rates.</p> <p>For individuals the highest tax slab be decreased from 30% to 20%</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>The salaried individuals are not only the highest in terms of numbers but also the most compliant segment of taxpayers.. A sudden increase in the highest slab from 20 to 30% through the Finance Act 2013 is acting as a disincentive.</p>

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 6% 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.	The FBR's powers to issue SROs and the indiscriminate use of these powers whether for personal gains or due to political or other pressures distorts and severely impacts the FBRs revenue collection targets	SROs above a certain defined threshold [to be decided by the parliament] should be vetted and approved by Economic Coordination Committee (ECC). FBR powers to issue a SRO should be limited to a predefined threshold as is necessary to smooth out technical issues within the Finance Bill. Also no SROs to be issued that pertain to any member of the ECC and/or Cabinet.	This will help the FBR smooth out technical issues while helping it resist political and other pressures.

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

S.#	Existing Situation	Proposed Change	Rationale for Change
3.	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>
4.	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.	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.	Making "smuggling" under the guise of "transit" less feasible will reduce pressure on domestic manufacturers while at the same time increase the government revenues.

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

S.#	Existing Situation	Proposed Change	Rationale for Change
5.	<p><u>Section 65A& 65AAP</u></p> <p>Presently as per Section 65A 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.</p> <p>A similar facility is not available on purchases from registered persons</p>	<p><u>It is recommended that the following new section be inserted in the Income Tax Ordinance 2001:</u></p> <p><u>Section 65AA:</u> 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</p>	<p>This will encourage greater documentation as companies will have an incentive to purchase from registered persons.</p>
6.	<p><u>Strengthening enforcement of collection on Withholding Tax / Sales Tax regime and audit:</u></p> <p>A significant area of revenue leakage; it is estimated that a substantial amount under Sales Tax and WT is collected but not deposited in the Treasury each year.</p>	<p>Better enforcement for large WT agents (PIA et al, banks, utilities, telcos etc) can generate a significant amount with relatively little effort.</p>	<p>A significant source of increase in FBR's revenues.</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
7.	<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 (A) Measures for Improving Tax-to-GDP Ratio – Better Documentation & Enforcement

S.#	Existing Situation	Proposed Change	Rationale for Change
8.	<p>The biggest element of corruption in sales tax is “refunds”, these are arising in zero rated as well as normal tax regimes, where the supplier purchases invoice without any supply, and these are commonly known as flying invoices.</p> <p>In order to curb this, the legislature has introduced section 8(1)(ca) & 73 and made changes in registration rules. However, these are creating hardship issues for the genuine businesses as well</p>	<p>In order to reduce the risk of claiming inadmissible input tax, the use of electronic invoicing should be promoted in compliance with chapter XIV of the Sales Tax Rules, 2006. The invoices issued by the supplier will be transmitted electronically to the buyer and FBR simultaneously. Further, the sales tax return will also be updated on real time basis. This process will also be helpful for companies which have a large customer/consumer base.</p>	<p>To reduce leakages through inadmissible refunds</p>

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

S.#	Existing Situation	Proposed Change	Rationale for Change
9.	Technology options available for checking leakages are not being implemented by the FBR. An example would be the use of coding technology on cigarette packets to track if government levies have been paid on it.	<p>In the first stage FBR work with the Cigarette industry to implement the proposed Codentify option which allows tracking of each packet of cigarette to ensure that non-duty paid and counterfeit product can be identified.</p> <p>To implement this amendments need to be brought in Section 40C of the Sales Tax Act & Section 45A of the FED Act which will allow the FBR to electronically monitor production and distribution of not only cigarettes but other taxable items.</p>	Increase tax collection

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, ➤ 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

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

S.#	Existing Situation	Proposed Change	Rationale for Change
6.	Legislation to bar the announcement of Amnesty Schemes like the Tax Amnesty 2012.As this introduces “moral hazard” and possible incentives to continue evading full payment of taxes	Identification of potential taxpayers via use of “third party” databases has already been done by the FBR. Notices need to be issued and those whose notices are being returned as ‘unknown’ should have their CNICs and Passports cancelled to ensure compliance.	Direct Action would be much preferable to an amnesty.