PAKISTAN BUSINESS COUNCIL'S

PROPOSALS FOR THE FEDERAL BUDGET 2009-2010

FEDERAL BOARD OF REVENUE

Forwarded: May 11, 2009

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Revised: May 20, 2009

(Based on Discussions in Islamabad with GoP)

Pakistan Business Council

FOSTERING ECONOMIC GROWTH

FBR

PAKISTAN

The Pakistan Business Council – An Introduction:

- Established in 2005 by 14 of Pakistan's largest business groups including multinationals.

- PBC is not a "trade body" or an "industry association" our advocacy aims to improve the general business climate of the Country.

- We are registered as a Section 42 company (not for profit) under the Companies Ordinance 1984.

- Our 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 an excellent working relationship with the Ministry of Finance / FBR / SECP / SBP having worked closely through taskforces for the following:

    - 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)

PBC Members' – Pakistan's Marquee Brands:

AlliedBank	Atlas	Colgate Palmolive	The Dawood Group	DESCON	ENGRO
GATRON	GulAhmed TEXTILE MILLS LIMITED, KARACHI	HBL HABIB BANK	TOYOTA DAIHATSU INDUS MOTOR COMPANY LIMITED	IIL International Industries Ltd.	KASB
LAKSON TOBACCO COMPANY LIMITED	Lucky Cement Concrete Progress	MTL Millat Tractors Ltd.,	NISHAT MILLS LTD.	50 Years Of dedicated service to the Industry Packages Limited	Sapphire
Standard Chartered	SIEMENS	Unilever			

PBC's Budget Proposals – The Underlying Objectives:

- Revitalizing Pakistan's manufacturing sector; not through "rebates", "refunds" and "write offs" but by providing an enabling environment which promotes:
    - Consolidation
    - Investment
    - Transparency
    - Documentation, and
    - Sustainable Growth

- Supporting the Government's efforts to increase the Tax-to-GDP ratio by:
    - Identifying sectors of the economy which should pay their fair share of taxes
    - Proposing incentives for greater documentation of the economy

- Incentivizing investment in the general development of HR in the Country

PBC's Proposals for the Federal Budget 2009 cover the following areas:

1. Amendments / clarifications in the Holding Company Law 2007 and its supporting legislations.

2. Rationalization of Corporate Income Tax and Sales Tax

3. Level playing field for the organized sector.

4. Documentation of the economy & broadening of the tax base

5. Human Resource Capacity building

1. Amendments / Clarifications in the Holding Company Law 2007 & its Supporting Legislation

INCOME TAX ORDINANCE 2001		
Existing Situation	**Proposed Change**	**Rational for Change**
Section 59B(2)(b): "A company within the group engaged in the business of trading shall not be entitled to avail group relief"	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" Explanation: 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*[1]	To make the legal provisions consistent with spirit of the concept and underlying understanding of the Taskforce formed for this purpose. Moreover trading activity up to the extent of 30 percent of the turnover is proposed not to disqualify the claim. As a Large Trading House entails a significant investment and creates real jobs in the economy, it is proposed to make it eligible to surrender its losses.
Section 59B	To be inserted after Section 59B: Explanation: The amendment in this Section by the Finance Act 2009 shall be deemed always to have been enacted and shall have effect accordingly.	In order to make the amendments applicable for pending cases.
Section 103(A): "Any income derived from inter-corporate dividend within the group companies entitled to group taxation under Section 59AA of Section 59B"	Section 103(A) to read: "Any income derived from inter-corporate dividend within the group companies" Explanation: For the purposes of this clause term within the group mean companies within a group as registered under the Group Companies Registration Regulation 2008	To streamline exemption on inter-corporate dividends.

[1] *Inserted on May 20th .The objective being to allay fears that Groups would offset losses created by speculative businesses.*

2. Rationalization of Corporate Income Tax & Sales Tax

Existing Situation	Proposed Change	Rational for Change
Rate of Corporate Income Tax in Pakistan is 35%	Reduce rate of Corporate Income Tax by 2% per annum over the next 4 years	Rate of Corporate Income Tax in Pakistan is on the higher side as compared to global/regional rates
Rate of Sales Tax in Pakistan is 16%	Reduce rate of Sales Tax by 1 ½% per annum so that it is 10% by 2012	High rates of Sales Tax encourage evasion and serve as an incentive for staying in the informal sector. Low rates will lead to greater compliance and reduce cost of doing business in the formal sector
A watered down Sales Tax Regime that keeps major sectors of the economy out of the tax net	Replace the existing Sales Tax regime with an across the board VAT on goods and services	An across the board VAT with minimum exemptions will lead to greater documentation of the economy. It will also bring sectors of the economy such as most professional services into the tax bracket
No corporate investment tax credit in Pakistan	A 15% investment tax credit as was the practice in the past. Section 107 A of the Income Tax ordinance 1979	To regain its competitiveness, Pakistani industry is in dire need of upgrading both technology and machinery. Investment Tax Credit will not only help Pakistani industry regain its lost domestic market share, it will also allow it to compete with regional players.

3. Level Playing Field for the Organized Sector:

Existing Situation	Proposed Change	Rational for Change
Commercial Importers are charged a presumptive tax rate of 2% which is also their final tax liability	Commercial Importers be brought into the normal tax regime, till this can be accomplished, the previous rate of Presumptive Tax of 6% be reintroduced.	Increased Government revenue while at the same time helping to reduce the impact of undervalued imports
Pakistan allows Afghanistan Transit facility under the 1965 Afghan Transit Trade Agreement (ATTA)	Reintroduce the Negative List for ATT. Quantitative restrictions need to be placed on ATT based on demand conditions in Afghanistan.	These measures will reduce the excess quantities which are imported under the ATT and destined for Pakistan. Will also lead to revival of manufacturing in Pakistan and increased revenues for the Government
Across the board massive under invoicing, dumping of imported products	Depending on industry input, values be fixed for import consignments, basis of valuation can be area, weight, volume etc. The old Customs General Order 25 needs to be revived. This allowed local manufacturers the option to buy at a 10% premium any consignments which appeared undervalued. Pakistan can impose some Non Tariff Barriers such as designating some specific ports for clearance of some items	Allow industry to fairly compete with imports, Government to benefit from increased revenue.
Import valuation data and Sales Tax, FED deposited by various units is not public information	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. Sales Tax and Federal Excise Duty deposited by local manufacturers should be published as was the practice in the past	Greater transparency at import stage. Will reduce incidence of mis declaration both in import as well as help in reducing misreporting of production data.

4. Documentation of the Economy & Broadening of the Tax Base:

Existing Situation	Proposed Change	Rational for Change
No incentive for corporate sector to buy from registered suppliers	Entities that can prove that 90% of their purchases are from registered suppliers get a 2% lower corporate tax rate.	Incentive to buy from registered suppliers, greater documentation of the economy.
No incentive for individuals to insist on proper sales receipts	Computerized sales tax invoices for sales made to individuals be 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
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.	No rational for keeping sector outside of the tax net.
No tax on capital gains on shares till June 2010	Gains on share transactions should be taxed. Capital Gains Exemptions only when shares have been held for more than a year	Although capital gains on shares are exempt till 2010, to reduce uncertainty tax rate on short term transactions and exemptions for longer term holding need to be announced
A very Low Taxpayers Base (about 1.0 million in a population of about 170.0 million)	Filing of tax returns be mandatory for persons who have: ➢ a credit card in their name, ➢ who have taken a personal loan from any financial institution, ➢ who have traveled outside of Pakistan in the last financial year, ➢ who are members of a private club, ➢ who are members of a professional body, ➢ who at any point during the last financial year had more than Rs.100,000 in their savings account or more than Rs.250,000 in their current account.	Greater documentation of the economy, greater tax collection

5. Human Resource Capacity Building

Existing Situation	Proposed Change	Rational for Change
The WWPF & the WWF (total 7%) have failed to contributed towards improving the quality of the human resource in the Country	Listed companies be allowed to spend up to 50% of their contribution on technical training programs Alternatively the rate rates of WPPF & WWF be reduced by 50%	Industry driven technical training programs will lead to the development of a human resource pool which is in line with industry needs