Proposals for the Federal Budget 2021 – **Summarized version**

The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

PBC Members: The most prominent businesses from 15 sectors

85 Member Companies

11% of GDP

40% of Exports

2/3rd Local companies

25% of Taxes

2 MN Jobs

1/3rd MNCs from 12 countries

Proposals to Promote Industrialization, Employment Generation, Export Led Growth and Import Substitution

1. Unlike commercial importers [usually in the form of individuals / AOP] and land / immovable property owners, even if shares of a Company are sold after 20/50 years, the same is subject to the levy of income tax on gain without appreciating the fact that value of the Company is increased via profits on which tax has already been paid. **Disposal of shares of public / private / unlisted company by sponsors / owners be allowed tax exemption after holding period of 10 years.** For detailed justification, please refer proposal no. 1 of detailed presentation.
2. In order to attract new local / foreign investment, **sales tax [10% upfront + 7% PDC] and income tax [1% or 5.5%] be reduced down to 1% either immediately or at-least in phase wise manner**, plan for which should be announced in the next budget to enable investors to plan accordingly. For detailed justification, please refer proposal no. 2 of detailed presentation.

Proposals to Promote Industrialization, Employment Generation, Export Led Growth and Import Substitution

3. **Inline with the SEZ law, grant exemption from minimum turnover tax to entities in SEZ.** Moreover, Since income of Zone enterprise is exempt from income tax under clause 126E, it is proposed that **exemption be granted to Zone enterprises and operators from all withholding and tax collection provisions as these will lead to refunds.** For detailed justification, please refer proposal no. 3 of detailed presentation.

4. Minimum tax [MT] law be rationalized to: (i) **exempt all listed company from MT** (ii) **reduce rate of MT by 0.2% annually to be ultimately brought down to 0.5% for all other companies** (iii) **carry forward and adjustment of MT be allowed even in case of loss year** (iv) **SEZ be exempted from the levy of MT** (v) **allow exemption from all taxes [including MT] to expansion / expansion / BMR projects [inline with tax credits u/s 65D and 65E] where investment is more than $15mn.** For detailed justification, please refer proposal no. 4 of detailed presentation.

Proposals to Promote Industrialization, Employment Generation, Export Led Growth and Import Substitution

5. At present, person exporting 50% or more on monthly basis is exempt from section 8B. **Threshold of exports u/s 8B should be reduced down to 10%, which will be in line with the minimum value addition requirement under section 8B** and will encourage manufactures to utilize excess unutilized capacity for potential export orders. For detailed justification, please refer proposal no. 5 of detailed presentation.

6. **Income tax exemption on dividend falling under Group relief [u/s 59B where holding is more than 55%] be restored** and **restriction to surrender loss only to the extent of % shareholding be removed**. Moreover, **condition to file Group's consolidated income tax return [to claim exemption from tax on dividend] incase of 100% wholly owned companies falling under Group Taxation [u/s 59A] be abolished.** For detailed justification, please refer proposal no. 6 of detailed presentation.

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7. Income tax **rate on dividend from entities not subject to income tax be restored to 15% from existing 25%.** For detailed justification, please refer proposal no. 7 of detailed presentation.

8. **Corporate service providers be subject to tax under normal tax regime instead of Minimum tax** and **rate of withholding on all services rendered by companies be reduced down to 3%.** Moreover, **advance tax on import of capital items by service providers be made adjustable instead of minimum tax.** For detailed justification, please refer proposal no. 8 of detailed presentation.

9. Government of Pakistan needs to support the private sector to ensure that **Pakistan meets its commitment to the UN Sustainable Development Goals**. To achieve sustainable Development Goals and to avoid wastage of resources, **recycling should be promoted / encouraged. In order to promote recycling and value addition of waste material and to promote environment friendly business structures, purchase of waste / used material should be exempted from income tax / sales tax withholding as an initial step for atleast 5 years.** For detailed justification, please refer proposal no. 9 of detailed presentation.

10. PROPOSED DIFFERENTIAL IN WITHHOLDING TAX RATES BETWEEN FILERS & NON-FILERS TO PROMOTE COMPLIANCE

For detailed suggestions / proposal, please refer point no. 10 of detailed presentation.

a) **unregistered industrial / commercial entities** having bill amount in excess of Rs. 20,000 per month, **extra sales tax should be increased from 5% to 20%**

b) After above collection for a period of 6 months, **all these connections be provisionally converted into NTN and STRNs** and return filings from these connections should be enforced.

c) **Utility companies be directed** to issue show cause notices where annual billing amount exceeds Rs.2.4 million and **directing provisionally registered persons to obtain permanent registration and incase of non-compliance, disconnect utility connection.**

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d) **Residential consumers be made liable to provide NTN in case electricity bill amount exceeds Rs.1.2** million per year or levy advance income tax withholding of 20%.

e) **All exemptions (like exemption on agricultural income) under the Income Tax Law should only be made available to filers** so that exempt income is also reported and wealth is reconciled.

f) Advance income tax is collected on sales of immovable property under section 236C, **which is 1% for both filers and non-filers, should be increased for non-filers to 10% for properties of 900 square yards or more.**

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g) **Holding of land by non-filers should be made more expensive by asking those authorities collecting property tax (cantonment boards / societies / registrar) to collect adjustable advance income tax, from non-Filers, on behalf of the Federal Government as follows:**

   a) **Rs. 500,000 per year for 800 yards or more but less than 1800 yards**

   b) **Rs. 1 million per year for 1800 yards and above.**

11. TO CURB MISUSE OF REGISTRATION UNDER CATEGORY "MANUFACTURERS" BY COMMERCIAL IMPORTERS

i. **The difference between the rate of income tax at import stage for commercial importers should be 2% more than manufacturers**

ii. **A comparison of HS code wise electricity & gas expense to sales as well as import quantity ratio**

iii. **Monthly sales as per Sales Tax return be matched with other documents**

iv. **Online Crest be used to trace sales and value addition**

For details / justification, please refer proposal no. 11 of detailed presentation.

12. MISUSE OF AFGHAN TRANSIT TRADE (ATT) & RAMPANT SMUGGLING

i. **Goods moving under ATT from Pakistan to Afghanistan should be charged with duties and taxes under Pakistani laws and the same should be transferred to the Afghan Government.** Secondly, the duties/taxes so paid should be deposited with State Bank in USD.

ii. **A quantitative restriction should be applied on goods moving under ATT on the basis of consumption**

iii. **Sales Tax registration number in Afghanistan should be a must for clearance of goods under ATT**

For details / justification, please refer proposal no. 12 of detailed presentation.

13. MASSIVE UNDER-INVOICING ESPECIALLY BY COMMERCIAL IMPORTERS IS DESTROYING DOMESTIC INDUSTRY

i. **Values at which import shipments are cleared through PRAL or CARE need to be publicly available.**

ii. **The Government of Pakistan must insist of Electronic Data Interchange (EDI), for both FTA and non-FTA imports from China**.

iii. **Depending on industry, the Import Trade Price (ITP) be fixed e.g. on the basis of country of origin, weight, volume etc.** after discussion with stakeholders.

iv. For items, prone to under invoicing and mis-declaration, **FBR should designate one or two ports (including the dry ports) for clearing of import consignments.**

v. 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 consignment which appears undervalued.**

vi. **Taxes and duties deposited by local manufacturers and commercial importers should be published.**

For details / justification, please refer proposal no. 13 of detailed presentation.