



## **The PBC Welcomes the Economic Reforms Package.... but has serious reservations on the restoration of the Full and Final Tax Regime**

*Karachi, 23<sup>rd</sup> January, 2019:* The Pakistan Business Council (PBC) welcomes the Economic Reforms Package announced by the Finance Minister this evening, with one notable exception outlined below.

The measure to incentivize bank lending to SMEs and the agriculture and low-cost housing sectors is innovative and should address the acute funding gaps of these critical segments of business. The exemption from import duty and GST on plant and machinery and income tax holiday for greenfield projects is also positive for the promotion of investment. We hope that minimum tax on turnover will not apply during this tax holiday period. It would have been desirable for similar concessions to be extended to existing businesses undertaking capacity expansion. Investment as % of GDP in Pakistan is half that of its neighbors.

The withdrawal of Super Tax, removal of tax on retained profits and the exemption of inter-corporate dividends from cascading taxes have long been a demand of the PBC. We are delighted that these capital formation and consolidation measures have been reflected in the package. The confirmation of a 1% per annum reduction in corporate tax, until it reaches 25%, will help in planning.

Exporters cash flows will benefit from the promissory notes to be issued in lieu of tax refunds. Business will welcome the reduction in withholding tax returns and local manufacturing will be promoted by lower duty on raw materials.

The PBC is disappointed at the restoration of the Full and Final Tax Regime for commercial importers. Upon payment of 6% of the declared import value, such traders will not be required to file income tax returns, thus bypassing accountability of profit. This had been the case until the last PML (N) budget when it was withdrawn to promote accountability. It would have been sensible to make the 6% tax at the import stage an advance adjustable tax and the need to file tax returns had been retained. That would have ensured tax revenue whilst promoting a basis of accountability.

The extent of under invoicing in Pakistan is estimated at US\$ 6 Bn per annum. Pakistan is negotiating for Electronic Data Interchange (EDI) with its main trading partners to overcome it. Admittedly, the FBR currently lacks the capacity to adequately deal with the thousands of returns. As the government has been working to address the FBR's talent and technology gaps, it is a pity that accountability was not given a reasonable opportunity to be established, contrary to what would be expected in the Naya Pakistan. The PBC hopes that the government will reconsider this change.

Overall, the package announced is positive for local manufacturing. The PBC hopes that measures to facilitate and expedite export rebates signaled by the Finance Minister will also help boost exports.