

● *Proposals for the
Federal Budget*
2022 – 23 ●



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● The Pakistan Business Council (PBC) – Members ●





● *The Pakistan Business Council (PBC) – A Brief Introduction* ●

- Established in 2005 by 14 (now 91) of Pakistan's largest private sector business groups including multinationals.
- PBC is registered as a not for profit under the Company Law and registered with the SECP as such.
- PBC is neither a trade body nor an industry association. The PBC's advocacy aims to improve the general business climate in the country for the formal sector.
- PBC's Advocacy is evidence-based drawing on international / regional best practices coupled with what is achievable in Pakistan's unique environment.
- The PBC enjoys an excellent working relationship with the Ministries of Finance / Commerce / Environment / Industries / Planning / Food Security as well as the major regulators including the SECP / SBP / NTC / CCP, having worked closely with them through taskforces / committees / working groups and through submissions of formal position papers and presentations.
- The major current thrust of the PBC is the revival of manufacturing in Pakistan. Pakistan is deindustrializing at a rapid rate and Pakistanis as a nation are slowly turning into a "nation of traders", this is primarily due to faulty policies pursued by successive governments which favored imports over domestic manufacturing. The PBC firmly believes that for Pakistan to be a middle-income country by 2030, a revival of its manufacturing sector is imperative. Pakistan can ill-afford to offshore jobs especially in industries which require large amounts of labor with low skill sets. To promote this "Make-in-Pakistan" agenda of the PBC, the PBC is working with various stakeholders in Pakistan to develop a common agenda for the economy.
- The PBC acts in Pakistan as the secretariat for the Pakistan India Joint Business Forum (PIJBF) & the Afghanistan Pakistan Joint Business Council (APJBC), both are bodies which comprise of prominent businessmen from Pakistan and the partner countries.

More information about the PBC, its members' and the nature of work being done by the PBC can be found on its website: www.pbc.org.pk

● *Economy & The Tax Regime* ●

One of the founding objectives of the PBC has been the creation of an enabling environment for the promotion of investments and sustainable growth. Tax policy and tax administration are both crucial for creating an enabling environment for businesses in the formal sector to have a level playing field vis-à-vis the informal sector. The PBC's position on the current tax regime is briefly discussed below:

Fundamental reforms of the taxation regime are required ●

Pakistan's taxation regime needs fundamental reforms to lead to sustainable growth of both the country and tax revenues. These reforms are contingent on political will to pursue those outside the tax base and the FBR's capability and capacity to implement. They will take time to bear results. In the meantime, any knee-jerk revenue seeking actions undermine profitability of businesses in the formal sector and hence long-term tax revenues.

Principles-led tax regime ●

Taxes should be simple, predictable and supportive of business growth and the formalization of the economy. The aim should be for higher tax revenues to flow from the combination of improved profitability of existing taxpayers and from broadening of the tax base.

Industry, which presently contributes taxes disproportionate to its share of GDP must be facilitated to create more jobs, boost value-added exports and promote import substitution. The impact of taxes on manufacturing vs commercial importers should be reviewed, as should the impact on corporates vis-à-vis other forms of business.

- FBR and the formal sector should work in partnership to broaden the tax base.
- The earlier tax credit to encourage taxpayers to transact with the formal sector should be revived.
- The vast amount of information on non-taxpayers provided by withholding agents should be mined.
- Higher advance taxes should be levied on utility bills of non-tax filers.
- Corporate entities, especially those listed, which operate to a higher standard of governance and accountability and their shareholders must not be penalized in comparison to unincorporated entities and their owners, otherwise the incentive to incorporate will be undermined.
- There should be a level playing field in the holding periods for capital gains tax on sale of company shares vs. real estate.

Targets before capability are not a solution

For some time now, FBR is given an unrealistic tax target, which in the absence of resources and capability, force it to extract more tax from existing taxpayers. With Pakistan already in an IMF program the temptation to levy substantially higher taxes on existing taxpayers needs to be resisted. Significant changes are required in the structure, resources, and technology of the Federal Board of Revenue before setting targets. Separate targets should be set for revenue from existing and new taxpayers. Targets for existing taxpayers should be in line with expected growth in the nominal GDP. Tax target from new taxpayers should be set in line with the evolving capability and capacity of the FBR. Tax refunds due should be excluded from revenue when assessing performance against either of these targets.

Reliance on Minimum, Advance and Withholding Taxes thwarts FBR's capability building

Minimum tax based on turnover is fundamentally flawed and acts as a barrier to entry of new players as it raises the initial investment required to cover tax payable in early loss years. FBR's reliance on minimum, advance and withholding taxes has grown sharply as this is an easier way than assessing taxable profits. This reliance should be phased out gradually. Levying minimum tax on SEZ enterprises and others in their tax holiday periods defeats the purpose of the tax holiday.

Formalization of the Economy

The use of cash in the economy should be discouraged. Restrictions on use of cash above a certain limit would also assist. The transit treaty with Afghanistan has been misused through diversion of goods to Pakistan. The Afghan Transit Trade Agreement has expired, with the evolving situation in Afghanistan, Pakistan needs to look to renegotiate the treaty with clauses putting in quantitative and qualitative restrictions on what can transit, insist on letters of credit, charge duty and GST on import which would only be refunded to the Afghan government on exit, track and monitor containers, strengthen inspection of empty containers returning to Pakistan and make physical controls along the border stronger. The civil and military authorities need to be on the same page to do this. Electronic Data Interchange with key trading partners should be deployed to check under-invoicing of imports. The provinces have little incentive to check smuggling as customs duty and GST evaded are federal taxes and do not hurt their revenues. Provinces may be incentivized to conduct raids on shops that deal in smuggled goods. Positive lessons from the success of cell phone registration with PTA and Urdu language labelling requirement for imported food items can be applied to other smuggling prone goods.

The PBC believes that the Finance Bill 2022 needs to promote an environment which promotes investments in the manufacturing and services sector leading to the creation of jobs, which increases value-added exports and ultimately benefits the government in the form of greater revenues, increased documentation of the economy and a broader tax base. As we have learnt from the COVID-19 crisis, manufacturing jobs as opposed to those in the services sector, are primarily in the formal sector which provide a certain level of job security



● *PBC Tax Proposals 2022 – 23* ●

The PBC's recommendations for Budget 2022 – 23 have been prepared in the backdrop of Pakistan's economy showing signs of recovery, which though positive is still well short of the levels needed by Pakistan if it is to absorb the large numbers of new entrants into the job market, as well as providing meaningful employment to those already in the workforce.

The economy needs growth, jobs, value-added exports and structural changes to distribute the burden of taxation on all segments of the population which can afford it. This year's tax proposals look to jumpstart the manufacturing sector. The Finance Act 2022 needs to support Pakistan's manufacturing sector and the formal services sector.

The PBC's proposals for the Federal Budget 2022 – 23 are divided into the following '5' sections:

- Promoting Industrialization / Growth / Job Creation
- Consolidation of Businesses for Scale to Improve Competitiveness
- Documenting the Economy & Providing a Level Playing Field for Domestic Manufacturing
- Reducing the Cost of Doing Business in Pakistan
- Helping Pakistan Meet its Commitments to the UN Sustainable Development Goals

● Promoting Industrialization / Growth / Job Creation ●

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>01</p> <p>Promoting Industrialization / Growth / Job Creation</p>	<p>Income Tax / Sales Tax</p>	<p>Various Income and Sales Tax Laws Discourage Investment At present, new local/foreign investors are reluctant to invest in the manufacturing sector of Pakistan due to various impediments including collection of sales tax 17% upfront plus 3% minimum value addition (except for plant and machinery falling under Chapter 84 & 85) and income tax 5.5% at import of plant and machinery/ spare parts in addition to various other taxes and levies thereafter.</p>	<p>New entry number 1(viii) be inserted in column number 2 of the Table specifying rate of tax at import stage as given in Part-II of the 1st Schedule to the Income Tax Ordinance, 2001 as follows:</p> <p><i>(viii) industrial undertakings importing Plant & Machinery and Spare Parts</i></p> <p><i>Moreover, sales tax on Plant & Machinery and Spare Parts should be brought down to 1% over a 5 – year period</i></p>
<p>02</p> <p>Promoting Industrialization / Growth / Job Creation</p>	<p>Income Tax</p>	<p>Clause 126E, Entity setup in Special Economic Zones As income of SEZ entity (Zone Enterprise or operator) is exempt from income tax for a period of 10 years, there should not be any withholding of Income tax at source at any stage for Zone Enterprises and under any provisions of ITO till such time exemption is available to the Zone Enterprise. However, entities setup in SEZ are subject to income tax withholding under various Sections including 148, 153, 236K, etc.</p>	<p>Since income of a Zone enterprise is exempt from income tax under clause 126E, it is proposed that the rate of income withholding under all provisions of the Income Tax Ordinance 2001 be reduced down to 0% inline with the zero rating as allowed for certain items under clause 5AC of Part II to the 2nd Schedule to the Income Tax Ordinance, 2001.</p>
<p>03</p> <p>Promoting Industrialization / Growth / Job Creation</p>	<p>Income Tax</p>	<p>Greenfield Industries – Exemption from income tax, which was available for 5 years to Greenfield projects under clause 126 of the 2nd Schedule to the Income Tax Ordinance, 2001 has been withdrawn. Through section 65G, tax credit has been allowed to Greenfield projects @ 25% of the “eligible investment” amount, which can be claimed in initial three years. Moreover, as earlier highlighted, clause “(iv) of the definition of Greenfield project brings it at par with the “Pioneer industry”, which is a totally different concept. Said clause is reproduced below for ready reference: (iv) using any process or technology that has not earlier been used in Pakistan and is so approved by the Engineering Development Board; and</p>	<p>Tax holiday for 5 years be allowed to Greenfield industries inline with Section 65D of the Income Tax Ordinance, 2001.</p> <p>Alternatively, considering the fact that a Company usually incurs losses in its initial years of operations, period of 3 years tax credit should at least be extended till 5 years in line with the exemption earlier allowed to Greenfield projects.</p> <p>Moreover, clause “(iv)” of the definition of Greenfield industries be deleted to distinguish Greenfield projects from Pioneer Industry.</p>

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>04</p> <p>Promoting Industrialization / Growth / Job Creation</p>	Customs	<p>Misuse of Afghan Transit Trade (ATT) & Rampant Smuggling</p> <p>Misuse of the Afghan Transit Trade (ATT) is a major issue for companies in the formal sector; whether in manufacturing or imports</p>	<p>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. A quantitative restriction should be applied on goods moving under ATT on the basis of consumption</p>
<p>05</p> <p>Promoting Industrialization / Growth / Job Creation</p>	Income Tax	<p>Anomalies / disparity in Minimum Tax under section 113 with other laws</p> <p>Rate of minimum tax of 1.25% is extremely high and unrealistic.</p>	<p>In order to promote industrialization, Minimum tax should be abolished for all Listed companies as these companies are subject to stringent regulations and audit. For other companies, rate of minimum tax be reduced gradually by 0.25% on an annual basis so that by Tax Year 2025 the rate is 0.5%..</p>
<p>06</p> <p>Promoting Industrialization / Formalization of the Economy</p>	Income Tax	<p>Tax Credits under various sections</p> <p>Various incentives were available previously in Income Tax laws to promote industrial investment. However, in recent times various such incentives have been withdrawn.</p>	<p>To encourage companies to invest in plant and machinery, either for import substitution or export growth, tax credits should be reintroduced with specific framework to target economic activity towards "Made in Pakistan" or "Import Substitution".</p> <p>To promote capital market activity credit for listing on PSX should be reinstated.</p>
<p>07</p> <p>Promoting Industrialization / Formalization of the Economy – Exports</p>	Sales Tax	<p>Section 8B</p> <p>Following two issues are severely hurting exporters' / potential exporters capacity to export:</p> <p>a) Section 8B restricts Input tax adjustment to the extent of 90% of the Output tax [i.e., ratio of Input / Output \leq 90%]</p> <p>b) Sales tax zero rating is allowed on local as well as imported purchases by DTRE licenses whereas on the other hand, for licensees of Manufacturing Bond, Export Oriented Units and Export Facilitation Schemes, sales tax zero rating is only allowed on imports and not on local purchases of</p>	<p>As per SRO 1190 dated October 2, 2019, section 8B is not applicable to persons whose zero-rated supplies during a month is more than 50% of the total supplies. Since exports do not contribute towards Output tax, therefore, the condition of 50% should be amended to 10% on monthly basis for all exports irrespective of any sector otherwise it would not be possible for registered person to absorb the amount of input tax paid for the purposes of manufacturing of items for local and export sales and consequently, the same would discourage export of goods.</p>

Objective	Legislation / FBR Wing	Issue	Recommendation
		goods despite the fact that goods purchases under these schemes are subject to strict scrutiny by the Customs authorities and on the basis of approved input/output ratios	Local supplies to Manufacturing Bond, Export Oriented Units and Export Facilitation Schemes should also be allowed zero rating along the lines available to DTRE license holder. This zero -rating benefit should be notified both for the buyer (EOU/manufacturing bond/EFS) and the local supplier with the requirement of noting the EOU/ bond license number in the sales tax returns of supplier. The supply should be cross verified through the crest system through the info of the EFS/EOU/bond license number.
<p>08 Promoting Industrialization / Formalization of the Economy – Exports</p>	Sales Tax	<p>Section 7A(2) of the Sales Tax Act, 1990 on import of Plant & Machinery As per section 7A(2) of the Sales Tax Act, 1990, Minimum Value addition tax [MVAT] @ 3% (except for Chapter 84 and 85) is applicable on all imports except for those specified in 12th Schedule to the Sales Tax Act, 1990. As per clause 2(1) of the 12th Schedule, MVAT @ 3% is not applicable on “Raw materials and intermediary goods imported by a manufacturer for in-house consumption”. Based on this, Custom Authorities have taken a position that import of Machinery [not covered in above exception] are subject to the levy of 3% MVAT in addition to normal sales tax @ 17%.</p>	In addition to existing exemption to Plant and Machinery under Chapter 84 and 85, MVAT should also be abolished on import of all Plant and Machinery. MVAT concept is principally applicable for any item imported by commercial importers for subsequent sales in same condition. Therefore, the said levy of 3% should not be applied to manufacturers. Moreover, Plant and machinery imported by manufacturers are used in manufacturing process therefore, the concept of minimum value addition is not applicable in such cases.
<p>09 Promoting Industrialization / Formalization of the Economy</p>	Income Tax	<p>Clause 18B of Part II of the Second Schedule to the Income Tax Ordinance, 2001 has been deleted vide Tax Laws (Second Amendment) Ordinance 2021 providing 2% reduction in tax rate for Shariah Compliant companies</p>	The reduction clause may be reinstated with the evidence of compliance being certified by SECP in this regard. This would encourage shariah compliance in the Country

● Promoting Competitiveness Through Consolidation of Businesses for Scale ●

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>10</p> <p>Promoting Competitiveness Through Consolidation of Businesses for Scale</p>	Income Tax	<p>Taxation of Intercorporate dividends between group companies</p> <p>Relief from multiple tax on ICD was introduced via Finance Act 2008 through introduction of clause 103A in Part I of Second Schedule of the Income Tax Ordinance, 2001 ("ITO").</p> <p>Subsequently, via Finance Act 2016, during the previous government's tenure, this relief was abruptly removed for companies eligible under section 59B of the ITO. The said relief was reinstated again in 2019 during the current government's tenure through introduction of clause 103C in Part I of Second schedule of the ITO.</p> <p>In 2021, via Income Tax (Second Amendment) Ordinance 2021 clause 103C of Part I of Second Schedule it has again regrettably been removed from under the mistaken interpretation that it is an exemption.</p>	<p>In order to distinguish multiple taxation of ICD with an income tax exemption, it is proposed that a new subsection to be inserted in section 59B as under:</p> <p>Distribution of dividends within companies eligible for group relief under this section shall not be deemed a taxable event.</p>
<p>11</p> <p>Promoting Competitiveness Through Consolidation of Businesses for Scale</p>	Income Tax	<p>Changes in Group Taxation laws.</p> <p>Prior to the Finance Act, 2016, the right of surrender of losses was not related to the percentage holding of shares by that entity in the group if such entity was part of the group based on shareholding as prescribed in the law.</p> <p>Moreover, the condition for holding company to maintain continuous ownership in subsidiary is also prescribed to the extent of minimum criteria for the designation of entities under group relief. This further solidifies the intent of legislature that once entities are designated as group, then actual ownership is not pertinent.</p>	<p>Group Taxation should be restored in its initial form as introduced via Finance Act 2007 and Finance Act 2008 in order to:</p> <ul style="list-style-type: none"> i. Encourage deployment of funds from retained earnings in new corporate entities; and ii. Allow foreign partners to enter Joint Ventures with a 100% owned subsidiary of a Pakistan based Holding Company resulting in reduction of shareholding of the parent company below 100% <p>Specifically, the following is being proposed:</p>

Objective	Legislation / FBR Wing	Issue	Recommendation
		<p>However, through Finance Act 2016, a restriction was introduced by insertion of clause 1A in section 59B such that the surrender of losses is now related and restricted to the percentage shareholding.</p> <p>Furthermore, via Finance Act 2015, exemption of intercorporate dividend from wholly owned subsidiaries (eligible under section 59AA) has been linked the operational procedure of filing of Group Return under section 59AA</p>	<p>In order to distinguish multiple taxation of ICD with an income tax exemption, it is proposed that a new subsection to be inserted in section 59B as under:</p> <p>Distribution of dividends within companies eligible for group relief under this section shall not be deemed a taxable event.</p> <p>Clause 1A and its references in section 59B should be removed.</p> <p>Condition of Group Return Filing introduced in Clause 103A Part I of Second Schedule of ITO via Finance Act 2015 to claim exemption on Intercorporate Dividend between whole owned subsides (eligible under section 59AA) should also be removed.</p>
<p>12</p> <p>Promoting Competitiveness Through Consolidation of Businesses for Scale</p>	<p>Income Tax</p>	<p>Ambiguity relating to Taxation of <u>buy-back of shares</u></p> <p>Capital gains arising to shareholders on the shares buy-back transaction is taxable as capital gains. Rule 13P of the Income Tax Rules 2002, provides for detailed procedure in this respect. Since there is a possibility that the payment to shareholders from accumulated profits on account of share buy-back maybe treated as dividend, appropriate clarification be made in the law.</p>	<p>It is proposed that following exclusion after clause (f)(iv) in sub-section (19) of section 2 be inserted:</p> <p><u>(v) any payment made by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 88 of the Companies Act, 2017 (XIX of 2017)</u></p>

● Documenting the Economy & Providing a Level Playing Field for Domestic Manufacturing ●

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>13</p> <p>Documenting the Economy & Providing a Level Playing Field for the Formal Sector</p>	Income Tax	<p>Low tax payer base – increased reliance on existing taxpayers</p> <p>The number of taxpayers needs to be significantly increased – the narrow taxpayer base is leading to greater pressure on the existing taxpayers.</p>	<p>Mining of FBR’s Database to identify new taxpayers & those not fully discharging their liabilities:</p> <p>The FBR has got access to financial data in various forms including the monthly statements submitted by withholding tax / collecting agents as per various sections. Information as per Statement under sections 165A, 165B, 175A and NADRA, FIA, Bureau of Immigration and Overseas Employment records are also available. This can be a start to bringing new taxpayers in the net. In addition, the FBR has also collected data about tax paid by non-filers on vehicles, immovable property & on gains made in the Stock Market</p>
<p>14</p> <p>Documenting the Economy & Providing a Level Playing Field for the Formal Sector</p>	Customs Law	<p>Massive under-invoicing especially by Commercial Importers is destroying domestic industry</p> <p>Across the board massive under invoicing and dumping of imported products has been increasing. Information regarding values at which various custom check posts clear import consignments is not publicly available. This encourages unscrupulous importers to under-declare the value of consignments to evade government revenues.</p>	<p>Values at which import shipments are cleared through PRAL or CARE need to be publicly available.</p> <p>The Government of Pakistan must insist of Electronic Data Interchange (EDI), for both FTA and non-FTA imports from China & other major trading partners China & other major trading partners.</p> <p>In future the requirement of EDI should be made compulsory for imports from FTA / PTA & major trading partner countries.</p> <p>The rate of withholding tax on imports for commercial importers should be at least 2% higher than what it currently is and the Withholding tax should be considered as an adjustable advance tax.</p> <p>Valuation Ruling should be issued in consultation with Brand owners, i.e., who have valid registration of the brands under relevant intellectual property laws</p> <p>Additional measures are proposed in Annexure 1 attached to these proposals</p>

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>15</p> <p>Documenting the Economy & Providing a Level Playing Field for the Formal Sector</p>	<p>Income Tax</p>	<p>Difference in Withholding Tax Rate between Filers & Non-Filers is Nominal:</p> <p>Discrimination in tax treatment of Filers & Non-Filers is commendable.</p> <p>However, this has now become a revenue measure with no effort to use the data collected to increase documentation and broaden the tax base</p>	<p>The withholding tax regime should be simplified by reducing the number of withholding provisions. The current withholding tax guide available on FBR website is a 48-page document as of 2021, which clearly shows the complexity of the regime from compliance and ease of doing business aspects.</p> <p>There needs to be a significant distinction in the withholding income tax rates charged from non-filers vs the rates for filers. The rates of filers need to be reduced so that not only the burden of complaint taxpayers is reduced, but also the cost of doing business for non-complaint persons is increased.</p> <p>Additional measures are proposed in Annexure 2 attached to these proposals</p>
<p>16</p> <p>Documenting the Economy & Providing a Level Playing Field for the Formal Sector</p>	<p>Income Tax</p>	<p>Misuse of Registration Under Category “Manufacturers” By Commercial Importers</p> <p>Many “commercial importers” have been importing goods under the garb of fake registration as “manufacturer” to attract reduced rate of custom duties and income tax.</p> <p>Considering the fact that most of the commercial importers have been misusing the lower rate of tax otherwise available to manufacturers, therefore, FBR has reduced down the rate of tax at import stage to 1%/2%/5.5% [on the basis of HS codes] for manufacturers as well as commercial importers.</p> <p>However, instead of making rate of tax at par for both commercial importers and manufacturers, PBC recommends to place system-based controls to track those commercial importers involved in under invoicing and importing under the garb of registration as manufacturers.</p>	<p><u>Some specific measures proposed are:</u></p> <p>a) A comparison of HS code wise electricity & gas expense to sales as well as import quantity ratio [to be computed from the income & sales tax returns] will help to identify commercial importers importing goods under the garb of registration as manufacturers. Unusual differences between various manufacturers of same category of goods should be investigated further as that could mean trading of imported goods instead of use for own manufacturing</p> <p>b) The difference between the rate of tax at import stage collected from commercial importers should at least be 2% more than manufacturers. In order to allow commercial importers to claim adjustment of taxes deducted at import stage, commercial importers should be asked to present a certificate from their auditors that at least 70% of imported items have been exported or sold to registered manufacturers. This will also help increase the overall tax base</p>

Objective	Legislation / FBR Wing	Issue	Recommendation
			<p>c) Monthly sales declared by commercial importers should be matched with sales declared in the annual income tax return as well as the credit entries in all business bank accounts. In case of any discrepancy, a reconciliation with justifiable reasons should be submitted by the commercial importers</p> <p>d) Online CREST system must be amended in a way to trace sales along with value addition thereon of person to whom supplies were made by Commercial importer</p> <p>Through implementation of system-based controls, rate of tax at import stage from commercial importers can be kept 2% higher than manufacturers, which at one end will generate revenue for the Government and at the same time will provide level playing field to manufacturers.</p>
<p>17 Documenting the Economy & Providing a Level Playing Field for the Formal Sector</p>	<p>Sales Tax</p>	<p>Preventing Misuse of POS By Importers Who Use Fake Registration Profile of Retailer</p> <p>In order to avail / misuse reduced rate of sales tax @ 12% on supplies of textile [which is available on supply of finished textile article through integrated POS system for retail outlets], some unscrupulous persons, after importing raw materials get tolling bills issued in their name from other manufacturers. Thereafter, such imported raw material is being sold as finished textile article through POS integrated with FBR system to avail reduced sales tax rate of 12%. FBR, view notification number 1(3)ST-LP%E/Misc/2020/1182R dated January 4, 2022 has already clarified that bulk supply through POS is tantamount to be treated as wholesale and hence would be chargeable to standard rate of 17% sales tax.</p>	<p>To prevent this unscrupulous practice, the following should be made mandatory for entities whose imports are over 70% of their output and who have a POS facility:</p> <p>a) Should declare the number of their retail shops and</p> <p>b) Provide the square ft. retail space, detailed address, and Google pin location of all the retail stores</p> <p>c) Report per shop per month sales volume and invoices along with the monthly sales tax return.</p>
<p>18 Documenting the Economy & Providing a Level Playing Field for the Formal Sector</p>	<p>Sales Tax</p>	<p>The Issue of Flying Invoices</p> <p>At present, general rate of sales tax is 17%. 3% further tax is also applicable incase supplies are made to unregistered persons.</p>	<p>Further Tax @ 3% incentivizes issuance of flying invoices by unscrupulous persons. In order to discourage issuance of flying invoices and to encourage proper reporting of sales, rate of further tax should be reduced down to 1% or to maximum 1.5%</p>

● *Reducing the Cost of Doing Business in Pakistan* ●

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>19</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Tax of 25% on dividends from exempt entities introduced via Finance Act 2019 (Division III of Part I of First Schedule)</p> <p>Through Finance Act 2019, rates of dividend taxation have been increased from 15% to 25% on dividends paid by entities whose income is exempt under the Income Tax Ordinance. The higher rate of dividend in such cases effectively withdraws the benefit of exemption or concession intended to be provided e.g., if Government intends to provide concession to SEZ than while providing corporate tax exemption at one end, higher tax incidence on its dividend reduces the benefit at other end. Exemptions are associated with some economic objective and higher dividend rate will discourage such economic objectives</p>	<p>Clause (a) of Division III of Part I of First Schedule as applicable before Finance Act 2019, should be reinstated, to apply the rate of 15% on dividend received from exempt entities.</p> <p>Similarly, amendment be made for the withholding tax rates specified in clause (a) of Division I of Part III of the First Schedule, by reinstating the position prior to Finance Act 2019.</p>
<p>20</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Tax on Corporate Profits:</p> <p>All companies except banking companies & companies defined in section 2 shall be taxed at 29% on taxable income</p>	<p>The rate of income tax on companies should be gradually reduced to 20% to align with the taxation rate of other countries in the region.</p> <p>Listed companies should be given the first benefit of the lower taxation rates as compared to other companies to further encourage transparency and documentation.</p>
<p>21</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Section 113C – Alternate Corporate Tax</p> <p>Through section 113C ACT was imposed on companies at the rate of 17% on accounting profits</p>	Section 113C should be abolished as there is already minimum tax on goods and services
<p>22</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Section 154(3B)</p> <p>Currently under Section 154(3B) every direct exporter and an export house registered under the Duty and Tax Remission for Exports Rules, 2001 provided in Sub -Chapter 7 of Chapter XII of the Customs Rules, 2001 shall, at the time of making payment for a firm contract to an indirect exporter shall deduct tax at 1% of the payment made. This 1% tax deduction shall be considered as final tax on the income of the indirect exporter.</p>	This clause should be extended to all exporters under various schemes like EFS, EOU etc. to remove differential treatment under various export schemes

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>23</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p><u>Section 161 Subsection 3:</u> Section 161 Subsection 3: The Commissioner has been empowered to modify the withholding tax recovery order, companies would thus be required to maintain records and details for an indefinite period of time. Failure to provide such records could be used as a tool by the tax authorities to create undue tax demands in order to achieve their revenue targets.</p>	Sub-section (3) should be omitted for avoiding record retention for unlimited period. The limitation of time be provided under the law for initiating and concluding the monitoring of withholding tax proceedings, like those for non-monitoring proceedings which is also important for harmonization
<p>24</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p><u>Section 15A(1)(h) of Income Tax Ordinance 2001.</u> As per Finance Act 2020, deductibility of administrative collection charges has been restricted to 4% of revenue as compared to 6% previously.</p> <p>Renting of property is also a business and various administrative and collection charges are incurred which normally exceed even the 6% threshold.</p>	The allowable threshold should be allowed on actual basis as is the case in other sources of income or at the very least be restored to 6% of gross rental revenue
<p>25</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p><u>Remove inconsistency in tax rates on sales by manufacturers to dealers and retailers</u> The applicable rate of Advance tax u/s 236G and u/s 236H on sales by manufacturers to dealers and retailers is 0.1% and 0.5% respectively. It becomes challenging for the companies to determine if the customer will be classified as dealer or retailer.</p>	The rate of advance tax u/s 236G and 236H should be made consistent at 0.1% on sales to dealers or retailers for ease of doing business.
<p>26</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p><u>Minimum Tax 113 – Clause “c” Sub-Section 3</u> Through Finance Act 2021 a proviso is added to the clause c of subsection 3 of section 113 reproduced as follows: “Provided that if tax is paid under sub-section (1) due to the fact that no tax is payable or paid for the year, the entire amount of tax paid under sub-section (1) shall be carried forward for adjustment in the manner stated aforesaid” The above proviso was added to clarify that minimum tax can also be carried forward and adjusted</p>	Appropriate explanation should be added after the proviso of Clause C of subsection 3 of section 133 to enable the companies to re-claim turnover tax adjustments earlier disallowed by the Tax department because of lacuna in tax provisions existed at that time.

Objective	Legislation / FBR Wing	Issue	Recommendation
		<p>against future tax liability if there is no tax payable for the tax year. Though prospective application of this proviso is crystal clear but there is ambiguity for adjustment of past years turnover taxes, especially, where companies are under litigation for disallowance of already claimed prior year adjustment of turnover taxes in their income tax returns for the tax year preceding this amendment.</p>	
<p>27 Reducing the Cost of Doing Business in Pakistan</p>	<p>Sales Tax</p>	<p>Section 8(1)(i) Claim of input tax on vehicles falling under Chapter 87 of the Customs Tariff is barred irrespective of the use of such vehicles.</p>	<p>Such disallowance is against the spirit of section 7 and increases the cost of doing business</p> <p>Recommended that in line with section 8(1)(h) where input tax is allowed on building material used directly in production activity, input tax shall also be allowed on vehicles used directly in supply chain activity in form of trailers, prime movers, bulkers etc.</p>
<p>28 Reducing the Cost of Doing Business in Pakistan</p>	<p>Income Tax</p>	<p>Section 148 (1) Advance Tax on Imports & Section 153 Advance tax on sale of goods and services Companies are required to pay advance quarterly income tax based on their projected incomes under Section 147.</p> <p>In addition, companies are also required to pay advance tax on imports @ 1%/ 2%/ 5.5% and on sale of their goods @ 4% and services @8%. This leads to the creation of refunds as companies are paying advance income tax based on projected income, advance income tax on imports and advance income tax on sales.</p> <p>There is a cumbersome procedure for seeking exemptions under Section 148 (advance tax on imports) which also does not take into account capacity expansions</p>	<p>Import of Plant & Machinery by companies should be exempted from withholding at import stage.</p> <p>Moreover, for raw materials, preferably corporate manufacturers should be excluded from the ambit of income tax withholding at import stage. In case, FBR wants to keep track of GD wise import of raw materials and complete exemption from tax collection is not feasible, then at least the rate of income tax collection should be reduced down to 0.5% across the board for all raw materials from the existing 1% / 2% and 5.5% for different items.</p> <p>In addition to above, local supply by corporate manufacturers should be excluded from the ambit of income tax withholding under section 153 in line with the general exemption given to commercial importers despite the fact that income tax collection from commercial importers at import stage is minimum.</p>

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>29</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Withholding tax u/s 148 (Imports) -Income Tax Ordinance 2001 Section 161 Subsection 3: Withholding tax u/s 148 (Imports) -Income Tax Ordinance 2001</p> <p>Without prejudice to point 15 above, certain raw material covered under category III of Twelfth Schedule are subject to WHT tax and fall under minimum tax regime. In order to claim the advance tax, the tax payers are required to file an application to Commissioner/ Board for claiming adjustment of withholding tax deducted as advance tax, which leads to administrative and operational inefficiencies, and puts the company at the risk of exposure till such application is entertained.</p>	Tax deduction on import of Raw material for own use u/s 148 (Imports) should be explicitly expressed as withholding advance tax across the board in the Income Tax Ordinance, which will save the companies from exposure resulting from possible delays in acceptance of application by the Commissioner/ Board or non-acceptance at all. It will remove operational and administrative hassle also.
<p>30</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Section 156 – Prizes and Winnings Section 156 requires a Company to collect 20% tax on “prize offered by companies for promotion of sale”</p>	Explanation needs to be added to this Section to clarify that it is applicable to prizes given to end consumers only since the income of the supply chain i.e., dealers, distributors is subject to withholding tax in the shape of withholding taxes imposed under separate withholding regimes.
<p>31</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Transactions under dealership arrangements Section 108B: A new section 108B has been inserted by FA-2019 whereby 75% of the Dealers margin will be added back to Sellers Income u/s 108(B). And for the purpose of this section, 10% of selling price will be taken as Dealers Margin</p>	Delete section 108B and instead put the items of 3rd schedule in section 236G
<p>32</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	Income Tax	<p>Minimum Tax on Services - Section 153 Certain companies, including Asset Management Companies (AMC) have been provided relief where minimum tax is reduced to 3%.</p> <p>REIT Management Companies (RMC) should be given level playing field and be given benefit structure in-line with AMCs’</p>	Amendment is suggested in clause (2)(i) Division III of Part III of the First Schedule of the Income tax Ordinance, 2001 to incorporate the following; “Services rendered by REIT management companies”

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>33</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	<p>Sales Tax</p>	<p>Section 8B Under the Sales Tax Act, Section 8B, a company is not allowed to adjust input tax in excess of 90% of the output tax for that period. Further, commercial importers paying 3% minimum Value Addition sales tax at import stage are totally exempt from the applicability of minimum tax owing to SRO 1190 dated 2.10.19</p>	<p>Aim of section 8B was to discourage fake claims of input tax, however, in current scenario, owing to integration of all Federal and provincial sales tax returns, claim of fake input tax is not factually possible.</p> <p>Section 8B is not applicable to Listed Companies as per Section 8B(1).</p> <p>Consequently, unlisted companies manufacturer should be excluded from the ambit of section 8B for ease of doing business, to promote manufacturing, improve cashflows, resolve issues of refunds</p>
<p>34</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	<p>Income Tax / Sales Tax</p>	<p>Income Tax Audit [under sections 177 & 214C] and Sales Tax Audit [U/S 25 (2) & Section 72B (1A)] – Income Tax and Sales Tax audits under Section 25(2) & Section 72B above referred sections can be carried out every year.</p>	<p>Income Tax and Sales Tax audits should be carried out once in every 3 years as was introduced in both the laws through Finance Act 2018 and deleted by FA 2019.</p>
<p>35</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	<p>Sales Tax</p>	<p>Toll Manufacturing: Clarification required on toll manufacture services</p> <p>Recently, FBR issued a notification no 180608-R dated October 28, 2021 in which FBR has categorically said to all toll manufacturer should discharge their sales tax liability in FBR. On the basis of this notification many toll manufacturers have been moved on from SRB to FBR and also started for discharging their sales tax liability in FBR instead of SRB</p>	<p>SRB issuing the notices to the toll manufacture for discharging their sales tax liability in SRB instead of FBR. We strongly, recommend to FBR take up this matter with SRB and resolve it on priority.</p>
<p>36</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	<p>Income Tax</p>	<p>SRO 250 of 2019 Requires companies to pay for the electronic monitoring and tracking of their output</p>	<p>SRO needs to be amended to ensure that manufacturers do not have to pay the cost of monitoring and that this will not lead to harassment Alternately 100% tax credit be allowed for investment made for such electronic monitoring in line with section 64D of the Income Tax Ordinance, 2001 where tax credit is being allowed for POS machines.</p>

Objective	Legislation / FBR Wing	Issue	Recommendation								
<p>37</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	<p>Sales Tax</p>	<p>Incentive for dealing with sales tax registered persons</p> <p>Before its repeal, Section 65A provided tax credit of 3% of tax payable to person registered under Sales Tax Act, 1990 subject to condition that at least 90 percent of total sales are made to persons registered under aforesaid Act, this was withdrawn vide Finance Act, 2017.</p> <p>Instead, section 21(q) in the Income Tax Ordinance was inserted by FA 2020 whereby any expenditure attributable to sales made to unregistered persons (under sales tax act) is proportionally disallowed.</p> <p>A registered person (seller) should not be held responsible for the wrongdoing of other i.e., made liable if buyer is not registered under sales tax act (being unjust and against principles of natural justice) but instead should be incentivized for dealing with registered persons, keeping in view the overall registration trends in the Country.</p>	<p>Section 65A should be restored. Further, calculation of 90% sales should also include export sales and sales to government agencies / person who are not required to get registered under the said Act.</p> <p>Moreover, to improve the effectiveness of the said section, it is recommended to gradually increase the percentage of tax credit as illustrated below:</p> <table border="1" data-bbox="1023 734 1406 987"> <thead> <tr> <th>Sale made to registered person</th> <th>Tax credit allowed</th> </tr> </thead> <tbody> <tr> <td>70% & over</td> <td>1%</td> </tr> <tr> <td>80% & over</td> <td>2%</td> </tr> <tr> <td>90% & over</td> <td>3%</td> </tr> </tbody> </table> <p>We further recommend to change the mechanism to allow tax credit on procurement basis instead of sales basis i.e., the registered person should be rewarded based on higher purchases from other registered parties, which we believe is more effective in documenting the economy.</p> <p>It is also proposed that section 21(q) should be deleted.</p>	Sale made to registered person	Tax credit allowed	70% & over	1%	80% & over	2%	90% & over	3%
Sale made to registered person	Tax credit allowed										
70% & over	1%										
80% & over	2%										
90% & over	3%										
<p>38</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	<p>Income Tax</p>	<p>Taxation of Services sector</p> <p>Under the current income tax laws Services sector is subject to minimum tax @ 8% under section 153(1)(b) which has been reduced to 3% for certain services sectors.</p> <p>In addition to the above, Advance tax is also being collected under section 235 on electricity consumption which is leading to income tax refunds and liquidity problems for the industry.</p> <p>Furthermore, advance tax deduction on import of capital items, under section 148 (Part I and Part III of Twelfth Schedule), for use in business for the provision of services also becomes minimum tax since section 148(7) limits the adjustability of tax deduction at import to "industrial undertakings" only.</p>	<p>To address the anomalies in taxation of service sector companies, the following is being proposed.</p> <p>i. Corporate service sector and specially listed companies and their subsidiaries should be taxed under the normal tax regime instead of the minimum tax regime and rate of WHT under section 153(1)(b) for the aforesaid companies should be reduced to 3%, like AMC</p> <p>ii. Enabling provision should be inserted in section 235 and section 159 for issuance of exemption certificates to services sector under minimum tax regime.</p> <p>iii. Advance tax deduction under section 148 (7) on import of capital</p>								

Objective	Legislation / FBR Wing	Issue	Recommendation
			<p>items under Part I or Part III of 12th Schedule for by services sector for their own use should be made adjustable. In this regards, section 148 shall be amended as follows:</p> <p><u>The tax required to be collected under this section shall be minimum tax on the income of the importer arising from the imports subject to sub-section (1) and this sub-section shall not apply in the case of import of goods on which tax is required to be collected under this section at the rate of 1% or 2% by an industrial undertaking for internal consumption in the business.</u></p>
<p>39 Reducing the Cost of Doing Business in Pakistan</p>	<p>Income Tax</p>	<p>Incidence of Capital Gains Tax on Sale Shares in Public /Private/ Unlisted Companies Gain on disposal of land after a holding period of 4 years is exempt from the levy of income tax whereas on the other hand, gain on disposal of shares of public / private / unlisted company is taxable irrespective of any holding period without appreciating the fact that value of the Company is increased via profits on which tax has already been paid.</p>	<p>In order to divert investment from non-revenue generating asset [land] to revenue / employment / export generating assets [industries], disposal of shares of public / private / unlisted company by sponsors / owners be allowed tax exemption on capital gain subject to the condition that the holding period should be more than 10 years in line with exemption on disposal of land. If this is not acceptable, rate of tax on disposal of shares of private company be taxed @ 15% as applicable to dividend as the breakup value of the Company would have been increased from retained profits, which could otherwise have been declared as dividend and taxed as such.</p>
<p>40 Reducing the Cost of Doing Business in Pakistan</p>	<p>Sales Tax</p>	<p>Section 8(h) and (i) Input tax on building and construction materials, paints pipes, cables, wires, furniture and fittings, vehicles, etc. is not allowed as input tax credit.</p>	<p>Building and construction materials, paints pipes, cables, wires, furniture and fittings, vehicles, etc. are directly and indirectly used in the production and supply of taxable activities. Input tax credit on these items should be allowed. Disallowance of input tax on such items increased the cost of doing business as well as promote procurement through unregistered vendors where only 5% withholding as unregistered is applicable.</p>

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>41</p> <p>Reducing the Cost of Doing Business in Pakistan</p>	<p>Sales Tax</p>	<p>Scope of Tax, Section 3 Sales Tax GST rate is fixed at 17%. Presently, Section 3(1A) levies further tax on supply of goods whereby goods are sold to person(s) who have not obtained sales tax registration under the Sales Tax Act, 1990.</p> <p>Exceptions are provided vide SRO 648(1)/2013. However, the list is not comprehensive and needs to be amended.</p>	<p>A high standard tax rate of 17% has led to low registration of less than 200K while income tax filers are about 3 million. Moreover, Tier 1 retailers engaged in the business of finished fabric, and locally manufactured finished articles of textile, textile made-ups, leather and artificial leather are allowed reduced sales tax rate of 12%, if their sales transactions are integrated with the FBR system. Unfortunately, several income taxpayers are not willing to register owing to high rate and even retailers are not interested in implementing the POS integration as high rate of 12% is not attractive, in addition to other issues.</p> <p>The Standard rate and POS rate be gradually reduced by 1% per year to attract to encourage the unregistered taxpayers to become registered and avail benefits of input adjustment. This will increase the documentation of the economy and create a level playing field for the registered taxpayers.</p> <p>It is proposed that Section 3(1A) should be rationalized and further tax should not be applicable if:</p> <p>a) Buyer is not required to be registered under Sales Tax Act 1990;</p> <p>b) Buyer holds FTN; Buyer, being service provider, is registered under respective provincial authority</p>

● *Helping Pakistan Meet its SDG Targets* ●

Objective	Legislation / FBR Wing	Issue	Recommendation
<p>42</p> <p>Helping Pakistan meet its commitment to the UN Sustainable Development Goals</p>	Income Tax	<p>Under existing laws, purchase of goods from undocumented sectors attracts income tax withholding of 9% as well as sales tax withholding of 5% which increases the cost of doing business of the documented sector as this additional cost has to be borne by them.</p> <p>To achieve Sustainable Development Goals and to avoid wastage of resources recycling should be promoted / encouraged</p>	<p>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 exempt from income tax & sales tax withholding as an initial step for at least 5 years.</p>
<p>43</p> <p>Helping Pakistan meet its commitment to the UN Sustainable Development Goals</p>	Sales Tax	<p>Section 8B(4A) of the Sales Tax Act, 1990. input tax allowed in case of locally manufactured electric vehicles [EV] shall be limited to the extent of amount of output tax [@ 1% of sales value] and no refund or carry forward of excess input tax shall be allowed. As per 8th Schedule to the Sales Tax law, locally manufactured EV are subject to sales tax @ 1%.</p> <p>Based on the above, it would not be possible for any electric Vehicle manufacturers to adjust the amount of input tax paid on import of plant and machinery and on the facility to manufacture Electric Vehicle.</p> <p>Moreover, input tax paid during production of electric vehicles will only be adjustable to the tune of 1% of Sales Value. This is discouraging investment in manufacturing setup of Electric Vehicles.</p>	<p>In order to encourage use of electric vehicles as part of Pakistan Net Zero commitment, entire input tax should be treated as adjustable by manufacturers of Electric Vehicles.</p> <p>In case of any excess input tax, the same should be refunded.</p>

● *Annexure 1* ●

Additional Measures for Curbing Massive Under-Invoicing by Commercial Importers

S. No.	Existing Situation	Proposed Change	Rationale for Change
01	<p>Massive under-invoicing especially by Commercial Importers is destroying domestic industry</p> <p>Across the board massive under invoicing and dumping of imported products has been increasing. Information regarding values at which various custom check posts clear import consignments is not publicly available. This encourages unscrupulous importers to under-declare the value of consignments to evade government revenues.</p> <p>There are massive leakages in the Afghan Transit Trade (ATT) and smuggled goods are being openly sold in all major shopping centers of the country. Customs however is not willing to act against smuggled products citing "lack of cooperation from local authorities"</p>	<p>a) Values at which import shipments are cleared through PRAL or CARE need to be publicly available.</p> <p>b) The Government of Pakistan must insist of Electronic Data Interchange (EDI), for both FTA and non-FTA imports from China. In future the requirement of EDI should be made compulsory for imports from FTA / PTA partner countries.</p> <p>c) 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. ITP's may be fixed for most items prone to mis-declaration such as consumer goods and margins of commercial importers be monitored to assess the value of subsequent supply of imported goods. A certificate to this effect should be issued by auditors of commercial importers.</p> <p>d) 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. This will allow better monitoring of the import consignments where chances of mis-declaration are on a higher side.</p> <p>e) 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 consignment which appears undervalued.</p> <p>f) Taxes and duties deposited by local manufacturers and commercial importers should be published.</p>	<p>Transparency in collection of taxes will discourage mis-declaration, measures to discourage evasion of taxes and duties will help industry to fairly compete with unscrupulous imports and also Government stands to benefit from the increased indirect taxes revenues. It will also help in accountability of the customs staff and will reduce the incidence of Customs Duty & Sales Tax evasion and increase government revenues.</p> <p>The proposed change will help in boosting the manufacturing base of Pakistan.</p>

S. No.	Existing Situation	Proposed Change	Rationale for Change
		<p>g) The rate of tax collected from commercial importers be increased by at least by 2%. Presently, tax collected from commercial importers is treated as Final Tax. In order to avoid burdening of genuine commercial importers, we would recommend that the income tax collected at import stage be treated as an advance tax.</p> <p>h) In order to allow commercial importers to claim adjustment of taxes deducted at import stage, commercial importers should be asked to present certificate from auditors that at least 70% of imported items have been exported or sold to registered manufacturers. This will also help increase the overall tax base.</p> <p>i) Monthly sales declared by commercial importers should be matched with sales declared in annual income tax return as well as the credit entries in all business bank accounts. In case of any discrepancy, a reconciliation with justifiable reasons should be submitted by the commercial importers</p> <p>j) Online CREST system must be amended in a way to trace sales along with value addition thereon of person to whom supplies were made by Commercial importers</p>	

● Annexure 2 ●

Proposed Differential in Withholding Tax Rates Between Filers & Non-Filers to Promote Compliance

S. No.	Existing Situation	Proposed Change	Rationale for Change
01	<p>Withholding Tax Rate difference between Filers & Non-Filers is Nominal:</p> <p>The concept of separate withholding tax rates for filers & non-filers was introduced as a measure for increasing documentation of the economy. Though large amounts are being collected from non-filers, no effort has been made to increase the tax base. The non-filers for the most part have built the cost of this government levy into pricing and passed it on to their customers.</p>	<p>In order to broaden the tax base and to achieve increase in overall tax collection without burdening existing tax payers, the policy to increase tax on non-filers / unregistered persons should be implemented specifically in the following cases:</p> <p>a) unregistered industrial / commercial entities (not having STRN) having bill amount in excess of Rs. 20,000 per month, extra sales tax should be increased from 17% to 30%</p> <p>b) After collection of extra tax as referred above for a continuous period of 6 months, all these connections should be provisionally converted into NTN and STRNs and return filings from these connections should be enforced.</p> <p>c) In case of provisional registration as above, 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. In case of non-compliance, utility companies be directed to disconnect utility connections.</p> <p>d) Moreover, in order to bring all commercial / industrial users in the tax net and to verify filer status, Electric distribution companies should provide one year to all such consumers to get their NTN registered with electricity distribution companies. In case of failure to provide NTN, electricity connection should be disconnected.</p>	To promote greater compliance

S. No.	Existing Situation	Proposed Change	Rationale for Change
		<p>Considering the fact that all industrial / commercial connections will be linked with NTN, the tax department will then be in a better position to assess the electricity consumed by commercial / industrial users and corroborate the same with amount of sales / production etc. reported in sales tax / income tax return</p> <p>e) in order to bring all commercial / industrial users in the tax net and to verify filer status, Electric distribution companies should provide one year to all such consumers to get their NTN registered with them. Thereafter, such commercial/industrial consumers without NTN should be charged advance income tax @ 20% (from existing 5%/12% for industrial and commercial connections respectively) on their utility bills.</p> <p>f) Advance tax @7.5% is collected from domestic connections in the name of Non-Filers is collected where monthly bill is Rs.25,000 or more. Rate of advance tax be increased to 30% where monthly bill is in excess of Rs.75,000</p> <p>g) 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.</p> <p>h) Withholding tax of Rs. 50,000 for non-filers be levied on International business class tickets</p> <p>i) Withholding income tax on interest income u/s 151 is 15% for filer and 30% for non-filer. Rate should be increased to 50% for non-filers in case interest income is more than Rs.2,000,000/-</p>	

S. No.	Existing Situation	Proposed Change	Rationale for Change
		<p>j) Annual advance income tax @ 20,000 is applicable [under section 234] for non-filers owners of vehicles of 2000cc and above. Amount of tax should be increased to 100,000 for non-filers.</p> <p>k) Advance income tax of Rs. 800,000 on purchase of vehicles in excess of 2000cc by non-Filers [under section 231B] should be increased for non-Filers to Rs. 2,400,000 [3 times]</p> <p>l) Advance income tax on transfer of vehicles [applicable on 2nd hand buyer] under section 231B(2) should be increased for non-Filers as follows:</p> <p>a) Existing rate of 75,000 for 2001cc to 2500cc be increased to 225,000 [3 times]</p> <p>b) Existing rate of 100,000 for 2501cc to 3000cc be increased to 300,000</p> <p>c) Existing rate of 125,000 for 3000cc and more be increased to 375,000</p> <p>m) Advance income tax of Rs. 400,000 on sale of vehicle [2001cc and above] by non-filers before registration [own money] should be increased to 1,200,000</p> <p>e) 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</p>	

S. No.	Existing Situation	Proposed Change	Rationale for Change
		<p>f) In order to generate tax revenues and to divert funds from unproductive resource to productive area [for import substitution / export promotion industry], 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:</p> <p>g) Rs. 500,000 per year for 800 yards or more but less than 1800 yards</p> <p>h) Rs. 1 million per year for 1800 yards and above.</p>	



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