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Institute of Cost and Management Accountants of Pakistan

ICMA

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Pre-Budget Proposals

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Vision

To be the Preference in Value Optimization for Business

Mission

To develop Business Leaders through imparting quality education and training in financial and non-financial areas to bring value-addition in the economy.

Core Values



Competence



Innovation



Ethics



Transparency



Professionalism

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From the Desk of President



Kashif Mateen Ansari, FCMA
President
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Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) is a leading professional accounting body that is engaged in the economic uplift of Pakistan. ICMA Pakistan is committed to build a strong corporate culture enabling the Pakistani economy to achieve the desired growth in the future. The Institute is supported by the vast and diversified experience of its members and associates to fulfill its vision and mission. The Management Accountants as the members of this professional body are actively engaged in every sector of economy to bring efficiency, professionalism and expertise so as to develop and prepare Pakistan's economy for the current and future needs.

The economic development is the priority of the democratic government and the national budget sets out the vision of the government in this regard. It has a great significance as it charts out the path to the economic reform and the development agenda of the government. We hope that the government is cognizant of the need to minimize the gap between the revenue and the expenditure, as this would require among other things to enhance the tax to GDP ratio by various measures including broadening the Tax Net. In order to encourage business activities and investment in the country, it is imperative that the government desist from adding burden of further taxes on the existing taxpayers especially the corporate sector.

The government has to put in place concrete measures to bring in the undocumented parts of the economy within the realm of documentation. This can be achieved by reducing the cumbersome processes and enhancing the role of the professional institutions like ICMAP, where we can provide the professional backbone for the processes of good governance, audit and review.

It is important that the government must keep the right priority while making allocations to give importance to the sectors that affect the plight of the common man including health and education. Creating an environment of austerity without jeopardizing the goals of economic growth should be the guiding principle to control the non-development expenditures.

The proposals presented in this booklet have been collected through the Management Accountants and we hope that these recommendations will assist the government in minimizing budget deficit, enhancing the economic growth and setting the right priorities.

I would like to express my deep appreciation to all our members who have contributed in putting up these proposals.

From the Desk of **Chairman R&P Committee**

ICMA Pakistan has always played its due role in the budget making process by highlighting improvements in the existing taxation laws and suggesting concrete measures for generating tax revenues. Well before the presentation of the Federal Budget, ICMA Pakistan organizes a series of pre-budget seminars and sessions where heads and representatives of various Chambers of Commerce and Industry Associations are invited to present their proposals.

The Institutes' budget recommendations, interalia, covers the major issues facing the national economy and their possible solutions, such as issues pertaining to sales tax refunds, which has resulted in blockage of huge funds of businessmen, especially textile exporters which resulted in limiting working capital requirement. Presently, a hefty amount is pending with the FBR on account even after the issuance of Refund Payment Order (RPO). ICMA Pakistan has proposed to declare RPO as a negotiable document to ease working capital of exporters in order to promote growth. In addition, these recommendations also cover income tax, sales tax, federal excise and custom duty measures, in addition to sector specific proposals.

A comprehensive restructuring, revamping and legislation is required to make FBR a revenue oriented organization. Presently, they remain stuck up in refunds processing and litigation, even with Public sector enterprises. The refund processing shall be done from any other independent organization to maintain transparency and to avoid unnecessary litigation.

We will focus on compiling comprehensive budget proposals in order to create an enabling environment for the business community, as we strongly believe that only a pro-business budget can pave the way for a prosperous economy. A consolidated budget document, including sector / industry-specific proposals, would be submitted to the government with the hope that it would be given adequate representation.



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Chapter 1



Professional Role of Cost and Management Accountants

1.1 Financial Reporting Council

There is no regulatory body in Pakistan to regulate financial reporting. Presently, this function is being dealt by SECP and ICAP which are just focusing on compliance rather than corporate reporting. This has not only created monopoly of these two authorities but also conflict of interest, which signifies compromising on the growth of audit profession. In order to strengthen and regulate financial reporting in Pakistan and to safeguard the interest of all stakeholders, it is strongly recommended that the government should establish an independent regulator/ Financial Reporting Council (FRC) This would help attract foreign and domestic investment and nurture corporate culture in Pakistan.

1.2 Exclusive Rights for Management Accountants under Section 258 of CO, 1984

Section 258 of Companies Ordinance, 1984 is related to Cost Audit and based on Management Accountants' expertise and specialization. The cost audit rights shall be exclusive with Cost and Management Accountants. The Chartered Accountants may be permitted to conduct cost audit in those areas where practicing cost and management accountants are not available. This Section may be revised accordingly.

1.3 Audit Rights for Management Accountants under Section 254 of CO, 1984

Sub-section 1 (ii) of Section 254 of Companies Ordinance, 1984 shall be amended to open the provision for Cost and Management Accountants to qualify as auditors in case of a private company having paid up capital of three million rupees or more.

1.4 Audit Rights under Foreign Contributions Act, 2014

Management Accountants should be given entitlement for audit rights under the Foreign Contribution Act, 2014. They should be allowed to carry out special audit of accounts of International NGOs as well. For this purpose, Clause 16 (a) of draft Foreign Contributions Act, 2014 may be amended.

1.5 Representation in Anti-Dumping Tribunal

Management Accountants shall be given representation at the Anti Dumping Appellate Tribunal and any other Tribunals where the professional services of accountants are required.

1.6 Assisting NTC for Industry Awareness on Anti-Dumping

CMAs can work jointly with the National Tariff Commission (NTC) to make the industry aware about the anti-dumping/ countervailing duties required for competing in the international markets.

1.7 Developing Rescue Plans for Inefficient PSEs

Management Accountants can be associated by the government to develop rescue plans for revival of inefficient Public Sector Entities (PSEs) like Pakistan Railways, PIA, Pakistan Steel, etc. They can help such units in overcoming management-related problems and achieving efficiencies and maximum productivity.

1.8 Cost Control and Financial Management in PSDP Projects

Management Accountants shall be associated for effective 'cost management and control' and 'financial management' of the Public Sector Development Programs (PSDPs) implemented in all the provinces.

1.9 Drug Pricing, Control and Vigilance

Professional Role of Cost and Management Accountants in Costing and Pricing may be highlighted.

- a) In order to adopt global good practices in pharma industry and to stabilize and rationalize drug prices in the country, the Cost and Management Accountants must be given a professional role in drug price-setting and cost calculations.
- b) CMAs shall be nominated as members on the **Drug Advisory Board** or their professional services be engaged. The determination of actual cost of medicine /drugs would help in cost-plus pricing.
- c) The Government in coordination with Management Accountants, Pharma Industry and Consumers' Society shall come up with legislation to prevent sale of fake, sub-standard and non-registered drugs.
- d) To ensure transparency and cost effectiveness, Cost Audit shall be made compulsory in the Pharmaceutical industry as soon as possible.

Chapter 2



Special Regime for Five Export-Oriented Sectors – SRO 1125/2011

2.1 No Sales Tax – No Refund Regime for five export oriented sectors

At present there is a special regime for five export oriented industries viz. textiles, leather, carpets, sports goods and surgical items, applicable under SRO 1125 dated 31st December 2011. This notification has been modified several times since then through issuance of SROs 154, 505, 682 & 898. The exporters are facing acute liquidity problem due to stuck up of money in refund claims. There is also ambiguity as to how unregistered persons can be verified as person dealing in above five sectors.

“No Payment No Refund System” should be restored by FBR as collection of just two percent sales tax and then refunding it, is only an exercise in futility. It also involves time and efforts of FBR.

It is strongly recommended that all items listed in Table-1 of SRO 1125(i)/2011 be chargeable to Sales Tax @ zero percent within registered supply chain of five export sectors. Sales Tax @ 2 percent be charged on supplies made to unregistered person of the same sector. The Zero-rating would help ensure cash flow for textile industry and remove irregularities and delay in refund claims.

2.2 Doing away with requirement under Clause 33 of Sales Tax Refund Rules

As per Clause 33 of the Sales Tax Refund Rules, 2006, refund to claimants shall be paid to the extent of the input tax paid on purchases of imports that are actually consumed in the manufacture of goods which have been exported or supplied at the rate of zero percent.

Since it is quite difficult and cumbersome for the claimants to provide proof of the extent of input goods consumed in the manufacturing of goods exported or supplied at zero rate, it is suggested that requirement under clause 33 of the Sales Tax Refund Rules shall be done away with.

2.3 Making amendment in SRO 647 to allow full tax adjustment to registered tax payers moving from zero-rated regime to 'reduced rate' regime

Through SRO 154 dated February 28, 2013 amendment was made in SRO 1125 dated December 31, 2011, whereby zero rating concept for sales tax has been converted into a reduced sales tax rate regime. As a result, a person making zero-rated supplies having value exceeding 50% of value of all taxable supplies (earlier covered in SRO 647(I)/2007 dated June 27, 2007) cannot presently adjust input tax in excess of 90% of output tax. This has impacted some taxpayers who moved from "zero rated" to "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, 1990.

It is therefore, proposed that FBR shall issue a notification making amendment in SRO 647 of 2007 at serial no. 7 wherein for the words "**zero-rated**" may be explained to include reduced rate supplies as well". Other option is the rephrase serial no. 7 of SRO 647 as under:

"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."

By making the above amendment, the taxpayers would be able to claim input sales tax credit at an early date, in order to avoid blockage of funds leading to unnecessary refunds.

2.4 Sales tax exemption on purchase of diesel / petrol by five export-oriented industries

Under SRO 1125 dated 31st December 2011, the supply of electricity and gas to registered manufacturers or exporters of five zero-rated sectors viz. textiles, carpets, leather, sports and surgical goods sectors, shall be charged sales tax at zero per cent. Due to heavy electricity load-shedding

and sometime its non-availability for longer durations, the manufacturers are forced to adopt substitute resources like diesel/petrol generators for self-generation of electricity. This costs them handsome amounts on purchase of fuel for which they have to pay sales tax. This negates the concept of less incidence of input tax on manufacturer-cum-exporter.

It is proposed that in line with availability of zero-rating on electricity/gas connections for export-oriented manufacturing units, they may be allowed to procure diesel/ fuels at zero percent sales tax.

2.5 Making the refund process expeditious after removing existing procedural flaws

Sales tax refund process after CREST based matching of input and output sales tax is very complicated and time consuming. The claimed refund are pending for years and years unless the audit of those respective years or months is completed. Moreover, if there is a mismatch of input vs. output sales tax in CREST then that amount is also excluded from refund claim and is set aside till such time it finally matches up upon declaration of sale by the seller for his stores and spares, consumables or packing material. It also happened that Refund Payment Orders (RPOs) of refund claims, processed by RTOs, were rolled back without intimation to claimants and during reprocessing, the status of these claims is also changed to “deferred” or “withheld”. The payment are deferred upto 50% of sales tax and there is huge accumulation of sales tax with government causing acute liquidity problem for exporters.

To make the refund process expeditious, the following measures are suggested for consideration:

- a) The time frame for scrutiny of refunds should be reduced to 15 days.
- b) The PRAL networking systems, which frequently breakdowns, should be improved by FBR.

- c) The PRAL's software viz. **Computerized Risk-based Evaluation of Sales Tax (CREST)** should be linked to networks of textile-related associations so that their members could find out 'breaking of supply chain' on the spot. This is important to resolve supply chain issue of textile exporters.
- d) FBR should rectify errors in **STARR software system** and introduce a completely harmonized system or else allow manual over-ruling in current setup, in case there are system related issues. STARR software be amended so that specific reasons, pertaining to an objection could be mentioned, allowing overruling of objections raised by tax departments against refund claims.
- e) The refund verification and sanctioning process, which is full of logical error, should be completely streamlined to save time of taxpayers.
- f) Under Sales Tax Act, 1990 where refund due is not paid within the time specified from the date of filing the refund claim; a further sum equal to KIBOR per annum of the outstanding amount of refund, shall be paid to the claimant in addition to the due amount of refund. The tax officials found responsible for delaying payment of refunds and compensations shall therefore be taken to task by FBR in order to put in place a check and balance mechanism in the tax department.

2.6 Declare RPO as Negotiable Instrument

The Refund Payment Order (RPO) is issued after a hectic due diligence process. The stuck-up refunds of exporters with the FBR should be declared a 'negotiable instrument' by the government so that it may be discounted and negotiated with the bank. The relevant data available on FBR website should be timely updated so that the banks can immediately check/ verify the outstanding refunds of exporters for release of working capital.

2.7 Cost-based Electricity Tariff

The present tariff is based on cross-subsidy regime. The industrial consumers are providing cross subsidy to the domestic, agriculture and some other classified consumers. In order to make the textile exports competitive in the global market, the government should immediately eliminate the cross-subsidy and set cost-based tariff for textile manufacturing industry.

2.8 Proposed Mechanism for Expeditious Refund of Sales Tax to five export-oriented sectors

The whole process of refund of sales tax to exporters should be completed within four months as per the given proposed time-frame so as to resolve the liquidity problem of the exporters:

- a) Automated Filing of Sales Tax Return by exporters = 15 days
- b) Submission of Files to FBR for Refund = 30 days
- c) Processing of Files by FBR (automation) = 30 days
- d) Refund of Payments to exporters = 30 days

It is strongly recommended that Ministry of Finance may consider to form a permanent 'Review Committee' to monitor that the above proposed refund mechanism is being properly implemented and remove any grievances faced by the exporters. The Committee may comprise representatives from FBR, Chairmen of concerned Associations of five export oriented industries and the Institute of Cost and Management Accountants of Pakistan (ICMAP). A notification to this effect may be issued by the FBR and also given legal cover in the Finance Bill 2015-16.

Chapter 3



Proposals for Expanding Tax Base and Increasing Tax Revenues

3.1 Setting up a 'Business Registration Authority' to maintain database of businesses

There are three types of business entities in Pakistan i.e., (1) Individuals comprising of small traders and shopkeepers who can register with any of the government agency; (2) Partnership firms which are normally registered with local District Registrar of Firms, and (3) Companies which are registered with the Tax Departments, however all of them are not active taxpayers

ICMA Pakistan proposes to the government to consider establishing a single 'Business Registration Authority' for maintaining complete data base of business entities. If this is not possible then this charge be assigned to NADRA with whom every business entity must be registered. All businesses, irrespective of their status, should make annual renewal subject to tax compliances like filing of Annual Income Tax Return. This would help broaden tax base and increase tax revenues.

3.2 Setting up a Policy-making Statutory Body separate from FBR

It is proposed that a policy-making statutory body, separate from FBR, should be established in which representatives from Planning Commission, Ministry of Finance, Ministry of Law, FBR, Professional bodies like ICMA Pakistan and ICAP, Tax Bar Associations, Chamber of Commerce and Stock Exchange be included.

3.3 Setting up a Independent Statutory body for proposing amendment in tax laws

An Independent statutory body may be established to propose amendment in tax laws. The amendment in tax laws should be finalized month before tabling the Finance Bill in the parliament and disseminated for comments from the stakeholders.

3.4 Taxing the Retail sector by offering incentives

The Retail sector contribute a nominal share in tax collection and signify a lucrative sector from where FBR can generate maximum revenue. According to estimate, around 70% to 80% of retailers comprising of small traders and shopkeepers earn more than the exemption limit.

ICMA Pakistan proposes that the government should bring the retail sector under tax net by offering some kind of incentives such as providing them guarantee that in case of any disaster, they would be compensated by an amount equal to their last updated stock without any legal formality. It should be made mandatory for retailers to maintain an electric cash register which may be linked to FBR server. They may also be required to update stock daily and pay one percent tax on all kinds of purchases.

3.5 Taxing the Transport sector by imposing a fixed tax

The transport sector also contribute a lesser share in national exchequer despite the fact that medium transporters earn around Rs. 3000/- per day whereas heavy transporters like buses, trucks and trailers earn upto Rs. 10,000/- on daily basis. This accumulate into taxable income.

To generate tax revenue, it is proposed that FBR should impose tax on medium and heavy transporters. As their income is not verifiable, they should be charged a fixed annual tax i.e. Rs. 10,000/- for medium transporters and Rs. 15,000/- to 25,000/- for heavy transporters.

3.6 Taxing Universities and Educational Institutions charging heavy fees

Through the Finance Act 2013, a new Clause (58A) was inserted in Part I of Second Schedule of Income Tax Ordinance, 2001, whereby the 'income of a University or other education institution being run by a non-profit organization existing solely for education purposes and not for purposes of

profit' was given exemption from total income. As most of the private sector Universities charge heavy fee from students and are in a good position to pay income tax, as such exemption given to Universities under Clause 58A be withdrawn. This would help generate additional tax revenue.

3.7 Increasing income tax rate on Agriculture

The agricultural sector is the largest sector of national economy, contributing almost 24 percent share in the overall GDP, but its share in total tax collection comes to only one percent. It is strongly suggested that the income tax rate on agriculture should be increased and agricultural income should be brought under tax net. This is the neglected area from which tax revenue can be generated.

3.8 Liquidating huge tax arrears by reactivating ADR Committee

The government should reactivate the Alternate Dispute Resolution (ADR) Committee to resolve the pending tax-related disputes and to liquidate huge amount of tax arrears. The ADRC forum has not been functioning for the last few years. Efficient functioning of ADRC will generate more taxes.

3.9 Offering tax credit to new taxpayers as incentive for filing tax returns

The government may consider offering some tax credit to the new taxpayers for the first two years as an incentive for filing income tax returns. This may also include such persons who have NTN numbers but did not file income tax returns for one reason or other. This would help in generating revenue.

3.10 Conducting proper valuation of imported goods to check mis-declarations

Many importers declare less value of their goods during valuation process to avoid taxes which results in loss of revenue for the government.

ICMA Pakistan proposes that proper and exact valuation process at import must be ensured, so that importers pay exact amount of tax and duties. This would help increase tax collection.

3.11 Complete Immunity from Tax Audit be given under Section 122(5)(A)

Through circular # 15 of 2013, FBR clarified that all companies and individuals can avail immunity from tax audit under section 177 and 214C read with clause 84 of Part IV of second schedule as per SRO.1040(I)/2013 dated 5.12.2012, by paying 25% higher tax for TY13 against tax paid/assessed for TY12. A prescribed form for claiming exemption/immunity from audit was also issued by the FBR.

The above incentives cannot bring fruitful results unless the Commissioner continues to have powers under Section 122(5)(A) to call explanation and 'make enquiries as he deems necessary'. The taxpayers' confidence can only be built by ensuring complete immunity. As such, the businesses and individuals be granted immunity from Section 122(5)(A) which would help broaden tax base.

3.12 Expanding Scope of Taxpayer Privilege and Honour Card Scheme

In 2014, FBR announced "Taxpayer Privileges and Honour Card Scheme" for extending privileges/VIP facilities to 100 top taxpayers such as facilities at VIP lounges of airports, issuance of gratis passports; enhanced baggage allowance of US\$5,000 and excellence awards by the Prime Minister. This

initiative is quite encouraging. However, to broaden the tax revenue, it is proposed that the scope of this Scheme should also include gradually, individuals who are paying income tax of Rs. 100,000/-. In this connection, various categories like Gold, Silver and Platinum Cards may be introduced with varied benefits as per the amount of tax paid.

3.13 Setting targets for Commissioners to collect taxes from undocumented sector

It is proposed that every Income Tax Commissioner should be assigned target to collect 20% to 30% of periodic collection targets from the undocumented sector as well as form new sources. There should be a collection targets for field officers as well.

3.14 Broadening the concept of enhanced/reduce rate for filer and non-filer

It is proposed that the concept of enhanced/ reduced rate for filer and non-filer be introduced in all the provisions of withholding tax in order to document economy and broaden the tax base.

3.15 Making the Appellate Forums Independent from influence of FBR

The Appellate Forums should be made independent from the formal/informal Influence of FBR. The tax adjudication system must rest on fundamental of independence, insulation and isolation from tax collection. The prosecution has to be separated from adjudication with gradual shift towards independence by transferring the adjudication system under the command and control of independent office or Ministry of Law or most preferable under the respective High Courts in conformity with section 10A of the Constitution.

Secondly, the Finance Act 2013 extended the scope of appointment of Judicial Member of the Appellate Tribunal to an officers of an Inland Revenue in BS-20 or above who are Law Graduates. It has been felt that in last several years the appeal forum has been deteriorated by posting officers having no previous experience on appeal side. It is suggested that the said amendment should be withdrawn.

3.16 Phasing out of Minimum and Final Tax Regimes

Presumptive taxation regime [PTR] now known as Final taxation regime [FTR] introduced in 90's is a canon that needs to go under stern analysis for a sustainable growth in tax base. This Principal was introduced to cater the negative aspects of our society with the ill- intention of certain sector towards tax contribution and to restrain them from abusing the refund provisions. This was a stop-gap arrangement which unfortunately continued for more than two decades.

It is recommended that the corporate sector should either be excluded from FTR or given an option to opt out of the FTR unconditionally and the minimum tax paid for opting out of the presumptive tax regime is allowed to be carry forward for 5 years. Further the option should also be extended to Execution of contracts [S.153 (1) (c)], Brokerage and Commission [S.233] and CNG stations [S.234A]

The fixed tax, final tax and minimum tax regimes should be gradually phased out and the FBR should move towards taxation on net income basis.

3.17 Rationalizing Tax rates

The tax rates should be rationalized to bring down to acceptable level to help broadening tax base. In case of an individual and Association of Person [AOP], the maximum rate of taxation should be restored to previous rate of 20 and 25 percent for both class of taxpayers. The tool of tax audit should be used to create deterrence and not tax collection.

3.18 Setting threshold for small companies to encourage corporatization

Small Company is invariably required to act as a WHT agent while an Association of Persons and Individuals are required to act as WHT agent if their turnover exceeds Rs. 50 million. It is recommended that same threshold of turnover should be prescribed for small companies to encourage corporatization.

Chapter 4



Proposals for Facilitating Taxpayers and Simplifying Tax Structure

4.1 Intimidating language of FBR Notices

The language of FBR notices is very pinching and intimidating which demotivates the tax payers and eventually creates hindrance to provide relevant information to FBR. A soft and encouraging language may be used to get any information from the taxpayer.

4.2 Authoritative behavior of FBR Officials

The tax collecting officials of FBR demonstrate an authoritative and bureaucratic style which need to be changed. The FBR staff should be trained and groomed in a professional way.

4.3 Simplifying Tax laws and notifications

The composition of tax payers reveal that very few tax payers are multi-nationals or large corporate tax payers. Almost 90% of tax payers are AOPs, INDIVIDUALS, and SMEs. It is therefore suggested that procedures, rules and regulations for these assesses shall be made simple and workable.

Secondly, any law, rule or regulation, when amended, altered, or reissued with new wordings, should be simple, clear, comprehensive and provide complete text with amendment instead of referring to old notification and only mentioning the amendment made.

4.4 Simplifying Tax compliance procedures

The tax payers are burdened with a host of formalities, requirements and forms to be filled in and submitted within fixed deadlines, and huge penalties are imposed for any delay or non submission. An average individual/AOP/SME do not have resources or finances to comply with all such requirements. As such, the tax compliance procedures should be made simple.

Furthermore, multiplicity of taxes and departments shall be done away with and different investigative departments under FBR shall be merged into one Department. Sales Tax on Services shall be collected by FBR as before. Presently, a host of officers under Inland Revenue Service (IRS) are issuing notices to tax payers for compliance/explanation on different issues on one pretext or other. It is suggested that issuance of such notices shall be done by only one officer for all matters regarding any deficiency / explanation.

4.5 Punitive action on misusing discretionary power to harass tax payers

As there are many punitive provisions for tax payers on not complying with different rules and regulations, some punitive provisions shall also be introduced for department functionaries not acting in accordance with their obligations, and use discretionary powers to harass the tax payers or delay in passing the relief to the tax payers promptly.

4.6 Applicability of Tax laws and notifications

All taxation laws and regulations should be made effective from the date of notifications and not from the retrospective date. This would avoid complexity and facilitate taxpayers.

4.7 Guidance for salaried tax payers

Majority of the salaried class are unaware of procedure for claiming income tax refunds of deducted amount of tax. FBR Taxpayer Education and Facilitation Wing should start an awareness campaign for salaried taxpayers on how to claim refunds of the deducted amount from salary. A comprehensive brochure for available tax credits should be displayed on FBR's website after every change in Finance Act along with examples (as existing brochure is outdated).

4.8 Placing PRAL help Desks at all the RTOs

The taxpayers face great hardships in connecting with the FBR Help Line which is always busy and it consumes a lot of their precious time. Moreover, the queries are also not properly answered. It is therefore suggested that 'Help Desks' of Pakistan Automation Revenue Ltd. (PRAL) at each RTO throughout the country for taxpayers facilitation and resolving their problems.

Chapter 5



Proposed Income Tax Measures

5.1 Bringing down the Corporate Tax Rate to 25 percent

The corporate Income tax rate in Pakistan is comparatively higher in the region. It is recommended that it should be brought down to 25% or else a uniform tax rate of 30% be introduced for all businesses, irrespective of their legal status, to encourage corporatization; attract investment; promote industrialization; increase tax elasticity; improve tax compliance and reduce tax evasion.

5.2 Reducing the Tax Rebate for Listed Companies

The effective corporate tax rate for listed companies is 30 percent which discourages listing of companies on stock exchanges. It is recommended that it should be reduced to 25% to provide them an edge over unlisted companies. This would help maintain a differential between listed and non-listed sector and provide financial incentives for companies to go public and expand their corporate ownership structure.

5.3 Extending the Filing date of Annual Statements under Section 149 and 165

The date of filing of annual statements under section 149 and 165 of the Income Tax Ordinance is August 31 which is too short. It is suggested that the date of filing annual statements should be extended to September 30, which would help increase the compliance level.

5.4 Withdrawing 4.5% WH tax on Retailers to encourage them to register as limited companies

The retail sector prefer to operate as sole proprietor and avoid to register as private or public limited companies, because wholesalers supplying to retailers are mostly in unorganized sector and when retailer cut 4.5% withholding tax from their payment, they think that this is loss to them and eventually they adjust this 4.5% amount in their cost which becomes quite expensive for retailers.

It is recommended that FBR withdraw this 4.5% withholding tax from retailers to encourage them to register as limited companies through IPOs. This initiative would bring more retailers under tax net. Retailers may be fully exempted from tax on profits, and 1% income tax be charged on their turnover that should be considered as full and final discharge of liability.

5.5 E-Filing of Statements on annual basis instead of monthly basis under Section 165 of ITO

Under sub-section (1) of Section 165, every person collecting tax or deducting tax from a payment is required to furnish to the Commissioner a monthly statement in a prescribed form; and as per sub-section (2) every prescribed person is required to furnish or e-file statements by the 15th day of the month following the month to which the withholding tax pertains.

It is proposed that the e-filing of statements by the prescribed person should be on annual basis i.e. within two months of close of tax year, as e-filing of monthly statements are duplication of work and all the details of taxpayers are available on e-FBR servers.

5.6 Allowing cost adjustments on e-Filing to Small Traders and Shopkeepers

To encourage e-filing and tax compliance, some cost adjustments should be allowed to tax payers (specially to small traders and shopkeepers) against the tax payable amount or else FBR may announce a fix rate per filing for the e-intermediaries and announce to the general public. In this case the e-intermediaries will not charge fee to the clients against e filing.

5.7 Excluding Rent expense from Rental Income under Section 155 of ITO, 2001

Under Section 155 of Income Tax Ordinance, 2001, a company or any prescribed person making a payment in full or part (including advance payment) to any person on account of rent of immovable property (including rent of furniture and fixtures, and amounts for services relating to such property) is required to deduct tax from the gross amount of rent paid at the rate specified in Division V of Part III of the First Schedule.

It is proposed that 'rent expense' should not be included in calculation of 'rental income' of any person as due to his occupation he may acquire a residence on rent in another city or may shift to a small or larger home as per his requirement.

5.8 Bringing tax rate for Non-Residents at par with Residents under Section 152 (2A) of ITO

Under Section 152 (2A) of Income Tax Ordinance, 2001, every prescribed person making a payment in full or part (including advance payment) to a permanent establishment in Pakistan of a non-resident person for the sale of goods, rendering of or providing services, and on execution of a contract, shall, at the time of making the payment, deduct tax from the gross amount payable (including sales tax) at the rate specified in Division II of Part III of the First Schedule.

The Non-residents are still being charged old rates despite the fact that Resident's withholding tax has increased and distinction made between a company and non-company and filer and non-filer. As such, it is proposed that the rate applicable for non-residents should be made par with the residents.

5.9 Charging Reduced tax @ 1% of Gross Receipt on all Incoming International Phone Calls

Under clause 3 of Part II of 2nd Schedule of ITO, 2001 the tax in respect of income from services rendered outside Pakistan is to be charged @ of 1% of the gross receipt provided that such receipts are brought into Pakistan in Foreign exchange through normal banking channel.

Considering the nature of telecom services, it is proposed that all incoming international calls may be considered as services rendered outside Pakistan which should be taxed at the rate of 1 % of gross receipts. Since, the telecom services are rendered outside Pakistan therefore all requirements of Clause 3 of Part II of 2nd Schedule of Income Tax Ordinance 2001 are fully complied so the reduced tax rate of 1% should be applied instead of normal corporate tax rate.

5.10 Allowing payments to foreign telecom network operators without deduction of tax

Under section 152 of ITO, 2001 every person paying an amount of royalty or fees for technical services to a non-resident person is required to deduct tax @ 15% from the gross amount paid.

It is proposed that payments to foreign telecom network operators and satellite companies should be allowed without deduction of tax by considering their telecom services as 'commercial profits' as these are not the royalty payments. If tax is deducted while making the payments to these from Pakistan, they may also start deducting tax from the payments to Pakistan based telecom operators which will result in loss of foreign exchange to Pakistan.

5.11 Exempting from Total Income of Grants provided to Telecom Sector on USF

Under Clause 102A, of Part I of 2nd Schedule of ITO, 2001, the income of a person as represents a subsidy granted to him by the Federal Government for the purposes of implementation of any orders of the Federal Government in this behalf, have been exempted from the total income.

As grants given to telecom sector on account of Universal Service Fund (USF) to provide telecommunication services to commercially non-viable areas of Pakistan, are included in the taxable income of recipients, as such it proposed that such grant to telecom sector be also exempted from total income as it not the income but provided to implement the orders of the Federal Government.

5.12 Making provision for exemption from Withholding tax on Bonus Shares of CIS/VPS

Any Income derived by Collective Investment Schemes (CISs)/ Voluntary Pension Schemes (VPS) etc., is exempt from tax, if not less than ninety percent of its accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit holders. Accordingly the income derived by these CISs is also exempt from withholding tax under Clause 47B of Part IV of 2nd Schedule of the Income Tax Ordinance, 2001.

Vide Finance Act 2014, the bonus shares issued by companies quoted on a stock exchange were also subjected to withholding tax as per Section 236M of the ITO. The corresponding exemption from levy of withholding tax on bonus shares received by CIS/ VPS etc., was not provided in Clause 47B mentioned above. It is therefore, suggested that clause 47B be amended and reference of Section 236M be made in it. This omission is unnecessarily creating hurdles for CIS as bonus shares received by them are being subject to withholding tax.

5.13 Providing exemption from Withholding tax on withdrawal from Approved Pension Fund

Under Section 156B, the withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund is specifically exempt from taxation as per Clause 23C of Part I of 2nd Schedule to the Income Ordinance, 2001. However, no corresponding exemption is provided from withholding tax under the said Ordinance. To eliminate this lacuna, it is proposed that proviso (c) after proviso (b) be inserted under Section 156B of ITO, 2001 as follows:

“(c) Provided that tax shall not be deducted from any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005.”

5.14 Providing tax exemption on loans provided by Bank to its employees

Under Clause 53A various perquisites received by an employee by virtue of his employment have been exempted from tax. Under sub-clause (v) tax is also exempted on perquisite or benefit for which the employer does not have to bear any marginal cost.

It is proposed that loans provided by a bank to its employees be also exempted from tax, as while giving loans the bank does not have to bear marginal cost.

5.15 Abolishing Withholding Tax @ 0.5% on Cash Withdrawal from Banks

The deduction of 0.5% withholding tax on cash withdrawal on amount of more than Rs. 50,000/- is unjustified and need to be taken back with immediate effect. It is recommended that the exemption limit be increase from present Rs. 50,000 to Rs. 150,000 and the rate of withholding tax on cash withdrawal be brought down to 0.2 percent.

5.16 Enhancing Minimum Exemption Limit for Salaries Persons

Keeping in view the tremendous increase in the general price level, it is recommended that the basic tax exemption limit for salaried class persons be enhanced from present Rs. 400,000 to Rs.500,000 per annum (i.e. Rs.41,666/- per month).

5.17 Allowing Tax Credit for Salaried Persons on Utilities and Education of Children

Income tax on gross salary income of salaried persons is deducted at source without allowing any deductions. Previously under Clause (2E) of Part IV of First Schedule to the repealed Income Tax Ordinance 1979, a reduction in tax payable of an assessee was allowed, equal to five percent of expenditure on education of dependent children subject to maximum of Rs. 30,000/= per child subject to production of receipt bearing NTN of educational institution. However this tax reduction facility was subsequently withdrawn in the Income Tax Ordinance, 2001. Similarly, as per Clause (38) of Part I of Second Schedule to the Income Tax Ordinance 2001, exemption was granted on utility allowance upto ten percent of basic salary of the tax payer. However, subsequently, this exemption was withdrawn through Finance Act, 2006.

Since salaried people represent the only class in this country who pay their income tax honestly, therefore just to provide them some relief and to reduce their hardships due to current high inflation, ICMA Pakistan feels that they may be allowed a tax credits on expenditure on education of their dependent children as well as tax credit on their actual expenditure on account of utilities (i.e. electricity, gas, telephone and water bills).

5.18 Tax Incentives for setting up New Industries in Undeveloped Areas

The government should consider to provide tax holidays and incentives to innovative and new industries, especially those established in undeveloped areas. The government should also offer tax benefits and reliefs on setting of state-of-the-art industrial estates.

5.19 Removing discrimination with taxpayers of AJ&K

The taxpayers of AJ&K, duly registered on the NTN-Roll of Department of Inland Revenue/Council Board of Revenue, AJ&K Council are experiencing problems in clearance of their taxable transactions within the territory of Pakistan. Due to non-existence of Active Taxpayer List of AJ&K on FBR database, the taxpayers of AJ&K are subject to higher rate of taxation. The same is available on the official web-site of the AJ&K Council Board of Revenue. It is therefore suggested that FBR may take necessary measures to remove the above discrimination faced by the AJ&K taxpayers.

5.20 Withdrawing powers given under Section 165A to probe into banking transactions

Through the Finance Act 2013, a new Section 165A was inserted in the Income Tax Ordinance, 2001, whereby the tax authorities were given discretionary powers by allowing them online access to banks central data bases containing details of their account holders and all transactions made in accounts.

The above powers are against the principle of secrecy and can be misused by tax officials. As such, it is proposed that Section 165A be either withdrawn or else these provision may be revisited and suitably amended so that any misuse of power could be checked and penalized.

5.21 Allowing income tax refund within 15 days instead of 60 days under Section 170(4)

As per Section 170(4) of the Income Tax Ordinance, 2001, the Commissioner has been authorized to make refund of tax paid in excess to the amount chargeable to tax within 60 days which is harsh.

It is proposed that Section 170(4) may be amended so as to reduce the period for refund from 60 days to 15 days. Furthermore, Section 170(2)(c) be also amended to authorize the Commissioner to admit an application after the expiry of stipulated period of two years on genuine reasons.

5.22 Bringing down rate of minimum turnover tax to 0.5 percent under Section 113

Sub-section 2(b) of Section 113 of Income Tax Ordinance relates to minimum turnover tax rate to be paid as income tax for the tax year by a person having turnover of Rs. 50 million or above. Through the Finance Act, 2013, the turnover tax was increased from 0.5% to 1 percent.

It is proposed that the minimum turnover tax be brought to the previous level of one-half i.e. 0.5% and it should be levied on gross profit (Turnover less Cost of Sales). This would help the companies driven on volume with nominal margins to better manage liquidity and make further investments and expand business, thereby increasing their contributory share to the national economy.

5.23 Doing away with provision of Section 104 (2) on treatment of foreign losses

As per Section 104(2) of IT Ordinance 2001, the total deductible expenditures incurred by a person in deriving foreign-source income, if exceeds the total foreign source income for a tax year chargeable to tax under a head of income, the resulting 'foreign loss' shall be carried forward to the following tax year and set off against foreign source income chargeable to tax under that head in that year.

It is our opinion that Section 104(2) is contrary to the concept of global taxation and as such it should be done away with from the Income Tax Ordinance. It may be added here that there was no such restriction in the repealed Income Tax Ordinance, 1979.

5.24 Persons registered under Sales Tax Act be not included in definition of Prescribed Person

Through the Finance Act, 2013, a new Clause (j) was inserted in sub-section 7 (i) of Section 153 of Income Tax Ordinance, 2001 which included 'a person registered under the Sales Tax Act, 1990' in the definition of a 'Prescribed Person' as defined under Section 153 of IT Ordinance, making payment for goods, services and contracts, including advance payment to a resident person or for the sales of goods or for rendering of or providing of services or on execution of a contract.

As small traders having low turnover are also registered under the Sales Tax Act, 1990 just to secure business from public and private sector organizations, as such it is suggested that this provision should be eliminated from the definition of a prescribed person in the Finance Act, 2014.

5.25 Doing away with submission of monthly withholding statement under Section 165

Under Section 165 of Income Tax Ordinance, 2001, a withholding agent is required to file monthly statement to the Commissioner providing all the details on deduction of taxes from payments.

As the required information is mentioned in CPR, as such the requirement for submission of monthly withholding statement should be done away with, as it tantamount to repetition of information already submitted to the tax authorities at the time of payment of withholding tax.

5.26 Further amendment in Assessment Order be not allowed under Section 122 (4)

As per Section 122 (4) of Income Tax Ordinance, 2001, the Commissioner has been authorized to make further amendments (as many times as may be necessary) in the original amended assessment order, within prescribed time limit. This creates uncertainty in the tax payers affairs.

It is suggested that once an assessment order has been passed by the Commissioner, further amendment should not be allowed unless there is some genuine concern of the tax payer.

5.27 Making tax recovery procedure lenient by amending Section 138

Under sub-section (2) of Section 138 of Income Tax Ordinance, 2001, the Commissioner has been authorized that in case of non-recovery of taxes within specified time, he may proceed to recover the said amount either by attachment and sale of any movable or immovable property of taxpayer or appointment of a receiver for property management or arrest the tax payer and detain him in prison for a period not exceeding six months. This procedure seems quite authoritative and gives unlimited powers to the tax authorities with possibility of misuse or harassment.

It is strongly recommended that Section 138 should be suitably amended to make the tax recovery procedure lenient and free from any possibility of harassment or misuse by tax authorities. Furthermore, the recovery proceeding should not be initiated against a tax payer in case he has filed an appeal before the Commission Appeal.

5.28 Amending Section 176 to insert omitted words of ‘Cost and Management Accountants’

Under sub-section (c) of Section 176, it has been stated that “the firm of Chartered Accountants, as appointed by the Board or Commissioner to conduct audit under Section 177, for any tax year, may with the prior approval of the Commissioner concerned, enter the business premises of a taxpayer, to obtain any information, require production of any record, on which the required information is stored and examine it within such premises; and such firm may if specifically delegated by the Commissioner, also exercise the powers as provided in sub-section (4).

It may be pointed out here that through the Finance Act 2010, the words “or a firm of Cost and Management Accountants as defined under the Cost and Management Accountants Act, 1996 (XIV of 1966)” was inserted in sub-section 8 of Section 177 of the ITO 2001. However, it seems that the same was inadvertently omitted in the above sub-section (c) of Section 176. Hence, it is suggested that sub-section (c) of **Section 176 may be re-phrased** as under:

“the firm of Chartered Accountants or the firm of Cost and Management Accountants, as appointed by the Board or Commissioner to conduct audit under Section 177, for any tax year, may with the prior approval of the Commissioner concerned, enter the business premises of a taxpayer, to obtain any information, require production of any record, on which the required information is stored and examine it within such premises; and such firm may if specifically delegated by the Commissioner, also exercise the powers as provided in sub-section (4)”.

5.29 Adopting proper audit procedure under Section 177

Sub-section (6) of Section 177 gives powers to the Commissioner to amend the assessment order under sub-section (1) and sub-section (4) of Section 122 related to 'Amendment of Assessments'.

It has been complained by some taxpayers that tax authorities, while finalizing the audit proceedings or amendments under above Sections 122 and 177, respectively, make unjustified additions to the income of taxpayers, thereby enhancing their tax liability. Such additions are, however, reversed after going through the appellate process. The whole exercise creates problems both for the taxpayers and for the tax department. Therefore, such actions should be avoided.

It is therefore suggested that proper audit procedure should be adopted and the audit proceedings should be conducted by expert staff, hired by FBR. This would facilitate the tax payers.

5.30 Restoring 75% Tax Rebate for Researchers and Full Time Teachers

Tax exemption/ rebate of 40% on taxable income from salary has been allowed to a full time teacher or a researcher, employed in a non profit education or research institution, Board of Education or a University recognized by the HEC, including government training and research institution. Earlier, the tax rebate was 75% on taxable income of teachers and researchers but through Finance Act 2013, this has been reduced to 40 percent. This has been termed as an anti-education measure by the education sector as well as the research-based organizations.

It is therefore strongly recommended that tax rebate to teachers and researchers should be brought to previous level of 75% in consonance with government' policy to promote education and research.

5.31 Reducing rate of Advance Tax on imports under Section 148

Through the Finance Act 2014, the government increased the rate of advance tax under Section 148 of the Income Tax Ordinance, on manufacturers importing raw materials for their use from 5% to 5.5%. Earlier, the advance tax was charged at 3% at source from the manufacturers. This increase has resulted in significant cash flow problems for manufacturers and resulted in generation of income tax refunds.

It is recommended that rate of advance tax on imports on manufacturers importing raw material be reduced from present 5.5% to 1% to help them in their cash flow problems due to delay in refunds.

5.32 Clarifying unexplained income from foreign exchange remittances under Section 111

As per clause (a) of sub-section 4 of Section 111 of Income Tax Ordinance, 2001, the unexplained income or asset does not apply 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.

It is proposed that the above provision of Section 111 may be clarified to explain that clause (a) would only apply to remittances received by a person for investment in an industrial undertaking and for all other purposes up to an amount not exceeding US\$25,000 or equivalent during a tax year. This is important to ensure that the funds remitted under this Section do not distort the formal economy.

5.33 Allowing Tax Credit of 2.5% on purchases from registered persons under Section 65A

Under Section 65A of Income Tax Ordinance, 2001, 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.

As similar facility is not available on purchases from registered persons, it is therefore recommended that a new Section (65AA) be inserted which reads as “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”. This will encourage greater documentation as companies will have an incentive to purchase from registered persons.

5.34 Extending tax credit under Section 65E to investments in factory building & infrastructure

Under Section 65E of Income Tax Ordinance, 2001, tax credit has been allowed to an industrial undertaking on the purchase and installation of plant and machinery. Since expansion of plant or undertaking a new project involves investment in factory building and as such these types of investments should also be made eligible for tax relief. It is therefore, proposed that tax credit under Section 65E should also be extended to investment in factory building and manufacturing related infrastructure.

Similarly, tax credit is admissible under section 65B on amount invested in purchase of plant and machinery for BMR, extension and expansion. Whereas for the purposes of 65E credit is allowed on amount of invested in purchase and installation. It is therefore suggested that the provision of Section 65B should be brought in line with Section 65E.

5.35 Amending Section 113 and Section 169 to allow tax credit under Sections 65B, 65D and 65E against Minimum and Final Tax

Tax credit under Sections 65B, 65D and 65E on investment in plant and machinery and new industrial undertaking is available against minimum tax and final tax. Whereas, section 113 and section 169 prohibit any tax credit to be allowed against minimum tax and final tax. To remove this lacuna, it is proposed that an amendment should be made in section 113 and section 169 to allow tax credit admissible u/s 65B, 65D and 65E against minimum tax and final tax.

5.36 Allowing tax credit against personal taxation

In order to incentivize documentation, tax credit against personal taxation on submission of evidences of expenses be considered. On the submission of NTN of the recipient, tax credit for personal expenditure on education of children, rent of residence, medical and medical insurance can be introduced.

5.37 Allowing adjustment of losses from non-speculative business (Section 56)

The Finance Act 2013 denied the adjustment of losses from non-speculative business against income from salary and property income. The position existing prior to 2013 should be restored (Section 56)

5.38 Excluding Professional Service providers from ambit of Minimum Tax (Section 153)

The professional service providers, who by their governing statutes, are not allowed to get themselves incorporated, should be excluded from the ambit of 'minimum tax' or they may be allowed to carry forward such minimum tax for next five tax years.

5.39 Reducing order period from 30 days to 15 days by Commission under Section 152 (5)

Where payment to a non-resident is not likely to be chargeable to tax, the taxpayer is required to file a notice to the Commissioner u/s 152 (5) who is required to make an order within 30 days. This period may be curtailed to 15 days and if no order is passed the notice may be deemed as has been accepted. Further one time exemption be granted in cases of perpetual payments under an agreement with a non-resident.

5.40 Guidelines for application of Transfer Pricing Rules (Section 108 and Rules 20 to 27)

Issues relating to non-arm's length consideration (transfer pricing) are matters of determination of facts rather than interpretation of law. Guidelines by OECD also support this principle. It is proposed to issue Guidelines for application of transfer pricing rules. (Section 108 & Rules 20 to 27) or OECD guidelines be adopted.

5.41 Powers of Commissioner under Section 128 (1A)

The powers of Commissioner (Appeals) to grant stay against recovery be enhanced from 30 days to 180 days in line with the powers of Appellate Tribunal. [Section 128 (1A)]

5.42 Making the decision of ADRC binding on FBR

The Finance Act 2009, has restricted the scope of cases which could be referred to Alternate Dispute Resolution Committee [ADRC] i.e. prosecution proceedings have been initiated or interpretation of question of law is involved having effect on other identical cases or decision of ADRC is subject to an overriding approval of FBR. It is recommended to restore the position prior to Finance Act 2009 and Decision of ADRC should be made binding on FBR except where serious reservation and compelling reasons in writing authority may be given to reject the ADRC orders.

5.43 Making amendment in Section 151 (1) (d) to explain non-taxability of amount paid on maturity of insurance policy

The amount paid to policy holder on maturity or termination of life insurance contracts have always been considered as non-taxable being a capital receipt. However, the tax authorities contend that withholding of tax is required under section 151 (1) (d) [applicable to profit on debt in financial instrument] on payments made on maturity or termination of life insurance contracts. It is proposed that appropriate explanation may be inserted to clarify that section 151 (1) (d) does not apply to any amount paid under a contract of life insurance.

5.44 Defining the term 'Execution of Contract' under Section 153

The term 'execution of contract' is open ended as every transaction is an execution of a contract under the Contract Act. Both the taxpayers and the department have interpreted this term differently in different situations and this has resulted in litigation. In order to avoid further litigation, the term 'execution of contract' used in section 153 should be defined.

5.45 Exempting incentives to distributors and retailers from levy of WHT under Section 156

Many businesses and in particular manufacturers allow incentives to distributors, wholesalers and retailers of giving free of cost goods on achieving sales targets as an incentive to promote sales of their products. Such incentive or benefit falls in clause (d) of sub-section (1) of section 18 and is chargeable to tax under the head income from business.[Section 156]. The tax authorities, however, treat the post sales free issues and incentives as 'prize', and accordingly demand 20% withholding tax by invoking section 156 of the Income Tax Ordinance, 2001. It is proposed that appropriate amendment be made to protect against un warranted disputes being raised.

5.46 Amending Section 154 (3C) to allow tax collection on exports without 'Form E' or through land routes

Section 154 (3C) provide for collection of tax at source by Collector of Customs at the time of clearing of goods for export. Whereas the authorized dealer in foreign exchange is also required to collect tax under sub-section (1) at the time of realization of export proceeds. It is proposed that sub-section (3C) should be amended to provide that it would only apply where the goods are exported without 'Form E' or on goods exported through land routes.

5.47 Withdrawing amendment made in WWF Law through Finance Acts 2006 and 2008

Amendments made in WWF law through Finance Act 2006 and 2008 should be withdrawn as it has enhanced the burden of taxpayers and has triggered litigation. Further, the levy is not being utilized for workers welfare and as such it is unjust to enhance the scope of this levy when it is not utilized for the purpose declared in the relevant law.

5.48 Providing tax exemption to professionals on export of services

Exports whether of goods or services are the life line of our economy. Currently only IT related services are exempted from Income Tax. It is recommended that income from export of services by professionals like engineers, architects and accountants etc. also need to be exempted.

5.49 Extending tax credit under Section 65E to investments in factory building & infrastructure

The enhanced period of tax credit as referred under Sections 65B, 65D and 65E of Income Tax Ordinance, 2001, will be expiring on June 30, 2016. It is proposed that this period should be extended for another five years in order to promote investments in the industrial sector. This would

encourage new investors to plan for future investment projects knowing the fact that this facility for tax credit would be available for investment for next five years.

5.50 Restoring Initial Depreciation Allowance Rate to 50% for Plant & Machinery

Through the Finance Act 2014, the rate of initial depreciation allowance on plant and machinery as prescribed under the Third Schedule of Income Tax Ordinance, 2001 read with Section 23, has been reduced to 25% from 50%, effective tax year 2014. Moreover, the rate of initial depreciation allowance on building has also been reduced from 25% to 15% vide Finance Act 2014.

It is proposed that the Initial Depreciation Allowance rate be restored to 50% for Plant and machinery and 25% for Building as was the case prior to Finance Act 2014 . This will gear up investments in industrial sector resulting in job creation and increased tax revenues for the governments once the unit starts earning profits.

5.51 Developing mechanism of adjustment of deduction at source from quarterly advance tax

Presently, the withholding agent deposits withholding tax to FBR on weekly or monthly basis. It is suggested that FBR should devise a mechanism of adjustment of deduction at source from quarterly advance tax so that when a taxpayer claims tax deduction at source, his data is taken from FBR records by clicking that deposits which the withholding agents have deposited earlier on their NTN number. This would help in resolving discrepancies and ultimately both the FBR and taxpayers would be comfortable enough to justify deduction at source. It would be also easy for taxpayers to identify any wrong deposit of WHT by the agent. Many NTN holders do not deposit WHT despite the fact that purchaser withhold some amount and increase their profitability by not depositing tax and Goods

Seller/Service provider are not informed frequently. This results in loss of tax revenue for the FBR. Similarly, in Sales Tax ,taxpayer claiming input tax is unaware about submission or otherwise of output tax by the seller. If the suggested mechanism is put in place by FBR, it would be easy for the input claimer to click that particular deposit to know whether it has been deposited.

5.52 Introducing format on FBR website to check status of individual taxpayer by NTN number

As per new Withholding Rules for Services vide notification dated 18 February 2015, the Withholding agent need to check whether the person providing services is listed in the Active Taxpayers List (ATL) or not. At present, ATL list is downloaded from FBR website in excel format. It is proposed that the ATL list should be uploaded in FBR website in a format through which the withholding agent can enter the NTN number of person and check status whether he is an active tax payer or not.

Chapter 6



Proposed Sales Tax Measures

6.1 Bringing Sales Tax Rate to Single digit

The current rate of sales tax is 17 percent which is comparatively higher in the region. It is proposed that the sales tax rate should be brought down to single digit and it should be non-adjustable and non-refundable. This would help in improving tax collection and doing away with corruption.

6.2 Collecting Sales Tax at Single Stage

It is proposed that sales tax should be collected at single stage i.e. at import or manufacturing stage. In the value-added chain industry, GST should be collected at 0.5% at each stage of value addition to complete the chain. This would help in the documentation of economy.

6.3 Definition of Term 'Supply' – Section 2 (33)

The term 'supply' does not include the term "Other Disposition". Whereas Sales tax General Order [STGO] No. 2/2004 dated 12 June 2004 the FBR has opined that return of goods by the vendor to the principal tantamount to "Other Disposition" and accordingly liable to sales tax. It is suggested that [STGO] may be amended in line with the definition of term supply given in Section 2(33)

6.4 Tax Fraud - Section 2(37)

A genuine businessman faces problems to commence his business till the time he is awarded his sales tax registration number. On the contrary, supply of taxable goods without getting actually registered could penalize him with the most serious offence of 'tax fraud' under the Act.

Supply of taxable goods without getting registration, but after filing application for registration, is treated as "Tax Fraud" on the part of the supplier. To enable a supplier to commence his business till sales tax registration number is allotted a Provisional Certificate may be issued to him. On doing business on the strength of a Provincial Certificate issued by a Commissioner may not be charged for 'tax fraud'.

6.5 Time of Supply - Section 2(44)

‘Hire purchase’ transactions involve periodical installments, sale tax is now being charged on full amount of the transaction, at the time of signing a hire purchase agreement.

It is proposed that the definition of ‘time of supply’ may be amended. Tax should be levied at the time when installment is effected / paid because, in view of intellectual property rights issues, supply takes place at the time each payment of installment is effected. Further, the element of interest embedded in such installment not being a part of supply, but a financial cost to the recipient of goods, should be excluded for assessment of sales tax.

6.6 Sales Tax on Advances - Section 2(44)

Prior to amendment in section 2(44) through Finance Act, 2008, sales tax was levied at the time of actual delivery of goods regardless of time of payment. Subsequent to the amendment, sales tax is charged at the time of receipt of advances.

The present law is adversely affecting businesses which require booking of goods before these are in the hand of supplier. It is recommended to revert to law existing prior to the cited amendment.

6.7 Further Tax – Section 3 (1A) read with Section 7

Further Tax was earlier adjustable against output tax. However, now the tax is not considered part of input tax. This is anomalous. Further Tax may, therefore, qualify for adjustment as input tax.

6.8 Further Tax – Section 3 (1A)

In verdict on Writ Petition 17639/2013 dated 20 March, 2014, Lahore High Court has held that further tax need not be levied on persons / business

otherwise exempted from sales tax registration. The FBR has also issued a Sales Tax General Order (STGO) No. 68 of 2014 whereby framework of related mechanism has been spelled out. However, phraseology of the subject STGO is often not clear to the FBR officials. This needs to be taken care of.

Subject to Commissioner's approval exemption from further tax should be granted to suppliers not required to be registered under the ST Act, 1990. Furthermore, taxpayers registered under 'provincial sales tax laws' may also be treated 'registered' and exempted from further tax.

6.9 Tax Credit Not Allowed – Section 8

The tax auditors have been objecting to adjustment of tax paid by the taxpayer on electricity and gas consumed in residential blocks of the factories where production facilities are located, as input tax. The tax department is of the view that this area falls under the mischief of section 8(1)(a). Thus such claims of input tax are inadmissible.

It is recommended that amendments may be made in SRO # 490(I)/2014 dated 12-06-2014 with a view to allow input tax on electricity and gas consumption within residential colonies of the registered persons, which are part of the plants premises.

6.10 Input Tax Credit on Building Materials – Section 8 / SRO # 490/2001

SRO # 450 dated 27-05-2013 disallows input tax on sales tax paid on purchase of building materials even when these are used for construction of projects assisting the taxable activity.

Accordingly, changes made in SRO # 490(I)/2004 vide SRO # 450 dated 27-05-2013 may be deleted.

6.11 Claiming or deducting Input Tax Paid on Good or Services - Section 8(1) (ca)

Section 8(1)(ca) of the Sales Tax Act debar a registered person from claiming or deducting input tax paid on goods (or services) in respect of which sales tax has not been deposited in the Government treasury by the respective supplier. The provision is quite harsh treatment with the compliant taxpayer who has been penalized by the wrong doing of tax evaders. Recently, the Lahore High Court also took cognizance of such discrimination and has struck down Section 8(1)(ca) from the statute. It is recommended that compliant taxpayers should not be penalized if the sales tax amount has been paid to the supplier is verifiable through banking transaction from both the banks accounts of the supplier and buyer under section 73 of the Act.

6.12 Joint and Several Liability of Registered Persons in Supply Chain where Tax is Unpaid – Section 8A

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 has or would go unpaid, such person as well as the person making the taxable supply is jointly and severally liable for payment of such unpaid amount of tax.

It is therefore proposed that the person making the payment in good faith should not be made responsible for non-compliance by supplier. Accordingly, deletion of section 8A may be considered.

6.13 Adjustable Input Tax – Section 8B

Section 8B restricts claim of input tax to 90% of the output tax besides mandating forfeiture of 10% of input tax right. A provision seeking to defer the claim of legitimate input tax/ refunds of a registered person is not in

keeping with the philosophy of Sales Tax Act or any other and the cited forfeiture of a valid fiscal law. Accordingly, section 8B should be removed from the statute.

6.14 Show Cause Notices – Section 11

Show cause notices are issued to taxpayers under section 11 of the Sales Tax Act (also simultaneously under section 14 of the Federal Excise Act) on frivolous and intangible basis. This leads to weak assessment proceedings and adverse appellate orders against such assessments, causing enormous loss of departmental time and annoyance of the tax payers.

Respective law provisions should be amended to the effect that unless definite information of any tax evasion, illegal input tax adjustment or refund is available with the tax, officer show cause notice shall not be issued. The tax law should also provide a Special Assistant to the Chief Commissioner (not below the rank of an Additional Commissioner) examining the issue and subsequent orders in original issued. This would also go to cleanse the atmosphere otherwise.

6.15 Multiple Audits – Section 25 and Section 38

Quite often, tax authorities conduct multiple audits of same tax period under different nomenclatures i.e. annual audit, investigative audit, desk audit, audit for abnormal profile etc.

In terms of section 25 of the Sales Tax Act, the tax department may conduct audit for registered person only once a year. The terms 'Desk Audit', 'Investigative Audit' and 'Abnormal Tax Profile' are not defined by the statute. These should accordingly be discarded from the departmental manual. Law provides a specific and subjective criteria as also distinct mechanism for conducting investigative audits under section 38, which cannot/ should not be used as a tool for harassment and revenue generation.

6.16 Curtailing discretionary power of tax officers under Section 37 and 38

Under Section 37 of Sales Tax Act, 1990, any officer of Inland Revenue shall have powers to summon any person whose attendance he considers necessary either to tender evidence or to produce documents or any other thing in any inquiry which such officer is making for any of the purposes of this Act. Similarly, under Section 38, the authorised tax officers also have access to premises, stock, accounts and records of any business or manufacturing unit.

To check misuse of discretionary powers by IR officers under Section 37 and Section 38 it is proposed that these relevant Section of Sales Tax Act be suitably amended and prior approval of the Board be provided for initiating proceedings against registered persons who are on Active Tax Payers List.

6.17 Doing away with discretionary powers of tax officer under Section 40A and 40C

Under section 40-B and 40-C of Sales Tax Act, 1990, a Sales Tax Officer can be posted at the premises of a registered person or monitor his business activities through electronic tracking system. This is contrary to the policy of the government to minimize direct contact between a tax collector and taxpayer that could lead to corruption and tax evasion. Further, grant of such discretionary power to tax officials negates the concept of self assessment, which forms the basis of whole sales tax scheme.

It is proposed that Section 40B and 40C should either be done away with to minimize chances of corruption and direct contact between tax payer and tax collector; or else it should be implemented after completion of due process of law, including issuance of show cause notice. Normal mechanism be adopted if tax department realizes that proper tax is not paid by registered person.

6.18 Power of Arrest – Section 37A

Inland Revenue officers are authorized to arrest any person if the officer has reason to believe that such person had committed a tax fraud or an offence warranting prosecution under Sales Tax Act, 1990. It is recommended that this section should only be applicable where the case of tax fraud has already been established at the stage of Order-in-Appeal.

6.19 Authority to block bank accounts and suspend Sales tax registration

The Authority to block bank accounts or suspend or block sales tax registration / NTN No. shall only be vested in the Regional Commissioners or DG, LTU. This authority shall not be allowed to be delegated to any subordinate officer. The blocked bank account or STR or NTN shall be resorted by the competent authority after full opportunity is extended to tax payer to explain reason for the action and recording of replies of tax payer. The restoration shall be made within 48 hours directly and shall not be lingered on, moving files from one department to another.

6.20 Liability for Payment of Tax – Section 58

Under the existing law, a person who was a shareholder, holding even one share, can be held liable for liability of the company. A person who is a nominee director or employee director can also be held responsible for liability of the company. The Income Tax Ordinance, 2001, caters such issues under section 139. This law comprehensively deals with a tax liability, both in the cases of a company and a association of persons. Provision analogues to section 139 of the Income Tax Law needs to be introduced in the Sales Tax Act.

6.21 Allowing adjustment of sales tax withholding from Input tax credit

The Sales Tax Withholding Tax Rules, 2007 have been amended by FBR to declare all taxpayers, registered as companies in Income Tax Ordinance, 2001 and exporters as withholding tax agents. The intention of this amendment seems to be to utilize extended role of sales tax withholding without realizing its implications in certain situations. The sales tax withholding amount is required to be paid without adjustment with the available tax credit which is against the basic spirit of the law.

It is therefore, proposed that all taxpayers may be allowed to make adjustment of sales tax withholding payment from available amount of input tax credit in their sales tax return.

6.22 Inadmissible Input Tax – Section 73

- a) In case of payment not made by the buyer within 180 days, his corresponding input tax becomes inadmissible. It appears to be an irrational proposition. Considering the fact that related sales tax paid by the supplier to him (at the sales stage) is already deposited into the government treasury – consequent upon issuing a tax invoice, imposing such condition appears anomalous.

At present, gas/ electricity and petroleum sectors, in particulars, are caught by the vicious circular debt problem and payment of their invoices are delayed because of the liquidity issues culminating at the door steps of the governmental corridors.

- b) The law provision also does not take into account transactions where payments are made by some other person / guarantor on behalf of the buyer, which terms of the contract between the buyer and seller may call for.

- c) Part payment of invoice, to the extent of sales tax, is also not catered by the statute, which appears needed.
- d) The law section's phraseology should be simplified & improved, also in keeping legal decisions in matter. These decisions provide that non-compliance of the subject section does not adversely affect the input claims.

In today's environment, it is common that purchase and sales are made from/to same party. Therefore, traveling along the commercial norms, ledge adjustment should be allowed.

The law provision needs to be revised to accommodate payments terms and conditions based on industry practices and business norms.

6.23 Doing away with unnecessary Annexures in Sales Tax Return

The existing sales tax return contains some complicated and unnecessary annexures, which are time consuming and require hiring of professional staff such as Annexure 'F' and Annexure 'H' pertains to stock details, which are difficult not only to be reported every month but also to be filled-in properly. Its compliance for submission with Sales tax Return also causes hassle to genuine taxpayers. .

It is recommended that condition for filing unnecessary annexures should be curtailed at maximum level to achieve simplification and such details, if essentially required, can be made part of annual sales tax return.

6.24 Withdrawing 1% sales tax withholding on Purchases from unregistered persons

The registered person and withholding agents are faced with additional burden of sales tax withholding payment of 1% on purchases from unregistered persons, which is not adjustable as input tax. Consequently, this amount of payment is a double taxation for the registered sales tax persons.

It is proposed that Sales Tax Withholding @ 1% on purchases from unregistered persons should either be withdrawn or it may be given treatment of input tax in line with the analogy of VAT to set-off burden of addition sales tax.

6.25 Excluding Commercial importers from payment of Further Sales Tax

Through the Finance Act 2014, a Further Tax @ 1% was introduced on supplies made to unregistered persons whereas under Third Schedule of Sales Tax Act, exclusion in certain conditions have been provided such as sales tax on retail price items. However, certain categories of persons who are paying value addition of sales tax in advance like commercial importer or persons who pay extra sales tax under Special Procedure Rules are not excluded from the purview of Further Sales Tax.

It is proposed that commercial exporters and persons paying extra sales tax and fixed rate of sales tax be excluded from application of Further Sales Tax to bring consistency within sales tax regime.

6.26 Providing separate Sales Tax Registrations to two or more businesses of same concern

In case a proprietorship firm operates two or more different entities, there is no provision in the FBR's electronic system to distinguish transactions of both these entities or to reflect data/ particulars separately. As a result, the buyers are unable to trace and verify the second or other entity of a proprietorship firm having combined single sales tax registration number.

It is therefore proposed that separate sales tax registration be allotted to every separate entity or business of a proprietorship concern or else the electronic system be amended to resolve this issue. This would help in documentation of economy and better maintenance of taxpayers records.

6.27 Reducing the period for retaining records by Registered Persons from six to three years

Under Section 24 of Sales Tax Act, 1990, the registered persons are required to retain and maintain records and documents for a period of six years. This increases cost of compliance, especially for small and medium sized businesses who are unable to afford sales tax registration or its compliance.

It is therefore proposed that the condition for retaining records and documents by the registered persons may be reduced from six years to three years. This would help in reducing compliance cost.

6.28 Doing away with requirement for Commissioner's approval to file revised Sales Tax Return

As per Section 26 of Sales Tax Act, 1990, a registered person is required to obtain approval of Commissioner Inland Revenue to file a revised return to correct any omission or wrong declaration made in original sales tax return. This provision creates hardship for tax payers as even in case of a small clerical mistake in the return, he has to go through the whole process of not less than audit to get the permission for revision.

It is proposed that requirement for Commissioner's approval for revised return be made easy in cases where no refund is enhanced or no liability is decreased to avoid hardship for registered person.

6.29 Restoring Immunity of audit to commercial importers

Vide Finance Act 2012, the immunity from audit to commercial importers even after payment of 3% VAT at import stage was withdrawn by omitting clause 58-E(2) from Special Procedure for Payment of Sales Tax by Commercial Importer Rule 2006. It is therefore, proposed that the above Clause 58-E(2) be restored for the benefit of commercial importers.

6.30 Withdrawing Sales Tax Withholding Rules, 2007

The Sindh Sales Tax Withholding Rules, 2007 were introduced with the intention of documentation of economy and are applicable when a registered person makes payment to registered as well as unregistered person. However, these rules are not applicable for unregistered person as a payer, hence it is discouraging registration. The withholding tax from unregistered persons is shown in bulk in the return which negates the very purpose of broadening tax base. In addition, it has increased the workload of registered persons, as on one hand they have to issue certificate as a deducting authority and on the other hand, have to follow-up for certificate as a facing authority.

It is therefore proposed that the Sales Tax Withholding Rules, 2007 may be withdrawn for all registered taxpayers while making payment to registered persons.

6.31 Amending Rule 71 to provide commencement of recovery proceedings after 30 days

A registered person aggrieved by any decision, may file an appeal within 30 days from the date of receipt of such order. On the contrary, under Rule 71 of Sales Tax Rules 2006, the proceedings for recovery of impugned tax can be initiated after 30 days from the date of order. [Section 45B]. It is proposed that the Rule 71 be amended so as to provide commencement of recovery proceedings after 30 days from the receipt of order.

6.32 General Proposals on Sales Tax

- There should be a comprehensive list of inadmissible goods and service in the Sales Tax Act, 1990.
- Section 74 of the sales tax act, 1990 should prevail rather than electronic filing system because electronic system makes this section un-operative.
- 17% Sales Tax with an additional 3% value addition tax, on commercial Imports promotes evasion. It is should be brought down to 7%.
- The Sales tax Act does not contain any provision for allowing adjustment in respect of bad debts after deposit of sales tax. It is suggested that either special provisions be inserted to allow adjustment of sales tax on bad debts whenever it occurs or the time limits for issuing of credit and debit note be extended up to 365 days.

Chapter 7



Proposed Federal Excise Measures

7.1 FED procedures for 'Franchise Fee' should be streamlined

The 'Royalty' payments have been subject to FED. The term used in the law is 'Franchise fee' which at times is distinguishable from royalties in strict commercial and practical sense. This has led to issues of interpretation and misapplication in many entities.

It is recommended that FED procedures for franchise fee be streamlined and the same be brought in line with the State Bank's regulation.


7.2 Bringing All excisable services including franchise or royalty under VAT Mode

In terms of Section 3 of FED Act, where the franchiser is a foreign entity, the liability to pay FED on franchise services falls upon local franchisee on reverse charge basis. Such FED operates under a Non-VAT mechanism meaning whereby the local franchisee who pays FED is not entitled to claim the same against his excise or sales tax liability.

It is suggested that all excisable services including franchise or royalty may be brought under the VAT mode and taxpayers may be allowed to claim the same from their output tax / duty.



Sector-Specific Proposals



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Chapter 8



Textile Industry

8.1 Power and Gas Issue

The government should immediately resolve the power and gas shortage faced by textile sector, otherwise GSP Plus status would prove futile. The recent 33% increase in gas prices for compliant textile industry should be withdrawn immediately and the industry be fully passed on Rs. 4 per unit Fuel Price Adjustment on account of fallen oil prices for January 2015.

8.2 Preferential Treatment to Textile Industry

The government should provide preferential treatment to textile sector by offering un-interrupted electricity & gas supply. The present situation is that majority of textile units have been closed down in Punjab, causing massive unemployment of workers.

8.3 Special Treatment to Faisalabad Textile Units

The government should consider installation of new electricity and gas plants in Faisalabad - the textile hub of Pakistan, with biggest cotton belt. This would revitalize the closed textile units and attract workers from across Punjab province in the weaving mill, spinning units and garment factories.

8.4 Incentives for Value added Textile Exports

The government should encourage and incentivize the export of value added textile products to earn maximum foreign exchange earnings, instead of relying on exports of cotton and fabrics. A regulatory duty may be imposed on import of fine count yarn meant for domestic consumption.

8.5 Zero-rated duty on import latest textile machinery

The textile industry may be offered zero-rated duty for import of latest equipment and machinery to replace and upgrade their obsolete machineries in order to achieve product competitiveness.

8.6 Resolving the Sales Tax Refund Issue of Textile Exporters

To facilitate exporters to avail maximum benefit from GSP plus status and to eliminate corruption and non- accrual of bogus refunds and most importantly, to tackle the stuck up refunds issue of value-added textile exporters, the government should immediately enforce the previous system of zero-rating for export oriented textile industry which would mean 'no deduction and no payment of sale tax refund.

It is proposed that all items listed in Table-1 of SRO 1125(i)/2011 be chargeable to Sales Tax @ 0 percent within registered supply chain of five export sectors. Sales Tax @ 2 percent be charged on supplies made to unregistered person of the same sector. The Zero-rating would not only help ensure cash flow for textile industry, but would also remove irregularities and complaints with regard to refund claims.

Chapter 9



Cement Industry

9.1 Exploiting Coal reserves for meeting energy shortage of Cement Industry

The government should exploit the coal reserves in the country for making it available to the cement industry, which could provide them a cheap and constant source of energy for production.

9.2 Allowing zero-rated import of Petroleum Coke to reduce input cost of cement industry

Petroleum coke is a fuel, commonly used universally, as a substitute of coal in cement industry. The Government should reduce the custom duty on import of Petroleum coke from 5% to zero percent, as given on coal, in order to reduce the input cost of the cement industry.

9.3 Allowing import of Pet Coke from India

Import of Pet coke (HS Code 2713.1100) be freely allowed from India via sea and land routes at Attari and Wagah entry points, as is being done in case of cement export from Pakistan to India.

9.4 Offering Tax Relief for cement Industry

The import of cement machinery should be exempted from the levy of sales tax. Similarly, the Federal Excise Duty (FED) on cement may be reduced to Rs. 200 per ton from present Rs. 500 per ton. The withholding tax on power bills of cement units also be abolished to help the industry bring down its huge cost of production.

9.5 Seeking Trade Concessions from Gulf and Middle East countries for Cement Exports

The government must seek trade concession for the cement industry by using its favourable diplomatic relations with the Middle Eastern and Gulf countries. Trade Development Authority of Pakistan (TDAP) should be advised to include cement in their exhibitors' profile.

Chapter 10



Sugar Industry

10.1 Special tax Incentives to sugar mills cogenerating energy from Bagasse

The government should consider providing special incentives to those sugar mills which cogenerate energy from Bagasse during off-season. This would not only create additional revenue for the sugar mills but will also help the country in meeting the electricity shortfall. Government should also provide some tax incentives to sugar mills which produce ethanol fuel used in automobiles.

10.2 Determining Support price of Sugarcane on basis of increase in price of inputs

The government should determine the 'support price' of sugarcane crop on the basis of economic factors like increase in prices of inputs and sucrose recovery, etc. to equally protect the interest of all stakeholders. In this regard, the government and sugar mills should make combined effort to assist farmers, through Agricultural Research Institutes, in planting high sucrose recovery varieties of sugar cane and in combating plant diseases through use of better pesticides. This would improve yield per hectare.

10.3 Limiting the role of Middlemen in Sugar Sector to streamline pricing and supply issues

The government should seriously resolve the key issue of marketing of sugarcane from grower to mill owners and of refined sugar from mill to the market. It should strictly reduce or eliminate the role of middlemen in order to control hoarding and artificial hike in price of sugar in the market.

The government should encourage formation of 'Supervisory Committees', consisting of representatives of growers, sugar mills, agricultural department and local administration, to deal with price, supply and other related issues between the growers and the sugar mill management.

10.4 Taking up the hardships faced by sugar exporters in exporting to India

The Pakistan exporters are facing great hardships in exporting sugar through land routes to India, which is the biggest importer of our sugar. The government must take up this issue with the Indian government to facilitate exports of sugar from Pakistan on bilateral basis.

10.5 Processing of Sugar export quota be subject to provision of irrevocable letter of credit

The Ministry of Commerce, Government of Pakistan, has allowed export of sugar vide public notice dated December 14, 2012. Accordingly, the State Bank of Pakistan (SBP) vide its Circular # 11 dated December 18, 2012 has notified the mechanism for processing of such cases, whereby contracts for sugar export shall have to be registered against irrevocable letters of credit and advance payments. However, it has been observed that SBP also entertain paper contracts which resulted in early exhaust of quota. It is therefore proposed that the above SBP circular may be complied with strictly and contracts, to be registered with SBP, should be made contingent with irrevocable letters of credit and advance payment.

Chapter 11



Automobile Industry

11.1 Reversing 2% extra sales tax on non-retails sales of Auto parts

The auto parts industry is facing uncertainty and loss of sales as they continue to receive notices and threats from the Tax Collectors for immediate payment of 2% extra sales tax. This tax was imposed on several items as majority of wholesalers, distributors, dealers and retailers in the downstream supply chain were not paying any sales tax in respect of their value addition. However, in case of auto parts and automobile manufacturers, the supply chain is fully documented and supplies made to them cannot be termed as “retail sales. Also, it is not adjustable as input tax and this adds to the cost of production. It is therefore proposed that FBR may issue an SRO to exempt the non-retail sales of auto parts from the levy of 2% extra sales tax.

11.2 Providing Incentives to Auto industry for producing Ethanol compatible cars in Pakistan

Due to rising fuel prices globally, the government should encourage switching over to ethanol fuel as used in Brazil and other countries. Ethanol Fuel is extracted from Molasses and its is produced in good quantity by sugar mills in Pakistan. Since the engines of locally assembled cars do not support ethanol, as such the government should facilitate the industry in acquiring latest technology to produce ethanol compatible cars.

11.3 Special Incentive to attract Global Brands and local manufacturing of critical components

Special investment incentive packages, including tax or subsidy be offered by the government to attract global brands as well as promote investment in the manufacturing of critical components.

11.4 Developing policy for dealerships / supply chain in Auto industry

The government should develop a policy for the dealership/supply chain structure in auto industry as these do not have any significant role and are merely acting as agents of car manufacturers. Due to delay in deliveries, premiums are charged in secondary markets. There is need to create a meaningful competition for the car dealers to put in place perfect competition for the industry.

11.5 Persuading Car-assemblers to produce cheaper quality cars

The government should persuade the car-assemblers to produce cheaper quality cars in accordance with the purchasing power of the consumers in Pakistan. It should also encourage the foreign auto-assemblers to transfer technology in a given time frame for localization and strengthening the auto industry.

The government should frame regulation to make it a binding on the automobile manufacturers to offer safety measures such as anti-lock breaking system (ABS), lower CO emissions, etc along with quality specifications in order to ensure standard safety and quality standards in the auto industry.

Chapter 12



Leather Industry

12.1 Sales Tax exemption on Hides and Skins used as raw material by Leather industry

Hides and skins should be included in the Sixth Schedule of the Sales Tax Act, 1990 like phutti (raw cotton) for continuing zero-rating of these leather industry raw materials as agriculture produce.

12.2 Increasing duty drawback on export of finished leather

The government should consider realistic increase in duty drawback rates on export of finished leather for goat/ sheep skins and cow/buffalo hides and leather as the existing rates on these items are very low. Similarly, the withholding tax on leather exports should also be reduced from 1% to 0.5 percent.

12.3 Imposing ban on export of wet blue leather

The government should impose complete ban on export of wet blue leather of all kinds of raw hide/skin and pickled leather to meet shortage of these essential raw materials for leather industry. Stringent measures be also taken to discourage massive smuggling of live animals from borders to avoid shortage of hides and skins.

12.4 Allowing duty-free import of essential items used by leather industry

The government should consider allowing duty free import of essential accessories used by leather industry for value addition in leather products such as leather shoes, bags, garments etc.

12.5 Framing a 'Leather Development Plan'

The government should study incentives provided to leather industry in India, Bangladesh and China by their respective governments such as support for technology upgradation, setting up of Leather Development Centers, leather and footwear parks, combined treatment plants etc. It should also consider framing a 'leather development plan' like in India.

Chapter 13



Pharmaceutical Industry

13.1 Product Pricing to be based on Input Cost determination

The pharmaceutical industry has a long standing demand for allowing a reasonable price increase against inflation and heavy increase in input costs. The government must consider their legitimate demand after carrying out input cost determination of each product so that prices and profits are not so excessive that put burden on common man. Management Accountants can extend their services in cost determination.

13.2 Tax Incentives to attract investments in producing quality medicine

The government should offer tax incentives to attract investments from foreign pharmaceutical companies and also to encourage the local pharma industry to produce quality medicine. In addition, the government should support research and development initiatives in pharmaceutical sector, like in other countries, to ensure availability of quality drugs in the country. In this connection, the government may also consider release of grants to pharma companies on meeting set criteria.

13.3 Making mandatory to produce one essential pharma raw material in Pakistan

The government should make it mandatory through legislation for every pharmaceutical company to produce atleast on essential raw material in Pakistan so as to reduce heavy dependence on imports of costly raw material from other countries. This would not only save foreign exchange but also help bring down prices of medicines in Pakistan which would ultimately benefit the people.

13.4 Revamping Drug Regulatory Authority

The government should revamp and res-structure the Drug Regulatory Authority (DRA) in order to transform it into a dynamic and professional body that may develop effective policies for the pharma industry.

13.5 Taking strict measures to prevent sale of fake drugs

The government must take strict measures to prevent sale of fake, sub-standard and non-registered drugs as well as hoarding of medicines, by imposing penalties and making legislation.

Chapter 14



Fertilizer Industry

14.1 Resuming Gas Supply to SNGPL based Fertilizer Plants

Natural gas is an essential input in fertilizer which contributes about 80% to total production cost as fuel and feedstock. However, continuous shortage in gas supply has resulted in deep crisis for this industry. The fertilizer sector is receiving less than 20% gas on 75% load basis whereas other industries are receiving 50% gas on full load basis, which is unjustified for this industry. The government should direct the SNGPL to resume full and immediate gas to the deprived SNGPL based fertilizer plants. The government should also resume gas supply to all plants on permanent basis so that they remain viable for longer run.

14.2 Allowing Fertilizer Sector to import LNG from their own Sources

To ensure economic sustainability of fertilizer plants, the fertilizer sector may be allowed to import their own LNG from own sources. under the present arrangement, PSO is allowed to import one commissioning cargo through FSRU on FOB basis or LNG carrier on DES basis under LNG SPA. In case PSO is unable to bring the commissioning cargo, the fertilizer plants may be allowed to import the commissioning cargo subject to the payment of incremental charges over and above the charges to be incurred by PSO;

14.3 Charging 5% GST on fertilizer produced from imported LNG by Idle Fertilizer plants

The fertilizer plants currently idle and not contributing any revenue in the form of GST to the government exchequer, may be charged GST @ 5% on fertilizer produced by using imported LNG (as was allowed by ECC to the CNG sector on October 29, 2014) which will help increase the affordability of fertilizer produced from expensive LNG. in addition , no GIDC will be levied on imported LNG to be utilised by the above plants.

14.4 Charging transmission losses of Fertilizer Plants on Actual

Since the fertilizer plants are bulk users on high pressure transmission network with minimum or no transmission losses, the transmission losses, if any, may be charged at actual.

14.5 ICMAP Representative on Committee to develop modalities for Fertilizer Sector

The Economic Coordination Committee (ECC) had approved a long term plan for the fertilizer industry in 2013 under which gas supply to fertilizer plants is to be made from dedicated gas supply sources. A Committee was established to develop modalities, including legal and financing arrangement for project and determine better cost effective structure. Since Chemical Fertilizer industry is under purview of cost audit, it is suggested that the government should include the representative of ICMA Pakistan in the said Committee.

14.6 Ensuring quality control to prevent import of sub-standard fertilizer products

The government should ensure strict quality control and monitoring in order to prevent import of sub-standard fertilizer products and also to curb adulteration and other malpractices in this sector.

Chapter 15



Edible Oil Industry

15.1 Providing incentives on domestic farming and marketing of Oil Seeds

Import of edible oil is a heavy drain on our foreign exchange. Pakistan can save about US\$2 billion annually by encouraging the domestic edible oil sector. To achieve this, the government should provide incentives for proper farming, production, processing and marketing of oil seeds.

15.2 Providing benefits to farmers growing oil seed crop

The yield per acre of all oil seed crops (i.e. cottonseed, sunflower, canola, rapeseed and mustard) ranges between 15% to 45% of their potential due to water scarcity and lack of application of latest technology and farming techniques. The government should take measures to remove these bottlenecks to increase output.

The price of locally produced edible oil is fixed on the basis of cost of imported oil due to which the farmers have to suffer as they are on mercy of industry and middlemen, who procure their produce on this basis. As such, the farmers are less inclined to grow oil seeds and prefer other crops for better gain. The government should resolve this issue for the benefit of farmers and increase in production of oil seed crop in the country.

15.3 Encouraging commercial Production of Olive Oil by Private Sector

There is good potential for olive oil cultivation in Potohar region and Balochistan. The government should take up this project in collaboration with the private sector to start commercial production of olive oil in bulk that will help the trend of fortifying edible oils with olive oil. Some incentives may be provided to the private sector companies which are engaged in commercial production of olive oil.

Chapter 16



Oil and Gas Industry

16.1 Offering Incentives for bringing new investments in Petroleum exploration

There are abundant untapped reserves of oil and gas available in Sindh, Balochistan and other parts of the country which need to be explored to narrow down the gap between supply and demand and end the existing energy crisis. In this context, the government should give high priority to investments in oil and gas sector by offering incentives to encourage petroleum companies to explore, develop and exploit petroleum resources to achieve greater self-reliance in energy supplies.

16.2 Facilitating the Petroleum Sector in discovery of new oil and gas fields

The production from existing oil and gas reserves are on steep decline and rapidly exhausting. According to an estimate, we are left with oil reserves for only 10 years and gas reserves for about 15 to 20 years. The government should, therefore, take this seriously and facilitate the oil and gas exploration companies to discover new oil and gas fields. In this context, it should remove all the grievances of the oil and gas exploration companies which are hindering it in adding new discoveries, such as security issues.

16.3 Revising the petroleum policy frequently

The government should frequently revise the petroleum policies, keeping in view global oil/gas exploration – production scenario and domestic ground realities.

16.4 Providing training in latest petroleum exploration techniques

The government should also facilitate in providing training to geo-scientists and engineers in latest exploration and production techniques and also in promoting intra industry and intra-academia synergies.

Chapter 17



IT and Software Industry

17.1 Exemption from Sales Tax on IT Products

On 4th June 2011, FBR imposed sales tax on major IT products which converted into a blanket sales tax on all IT products on 14 May 2013. From 1st July 2013, provincial tax collection authorities also imposed a blanket services sales tax on IT & ITES industry. This has adversely impacted growth of Pakistan's IT & ITES industry. It is therefore proposed that IT industry may be exempted from payment of sales tax on IT products.

17.2 Income Tax Exemption on IT/ITES exports expiring in 2016 be extend till 2026

With the 2016 income tax exemption on IT/ITES exports window expiring soon, the IT industry is yet on the brink of facing another challenge. There is a lack of clarity on the way forward beyond 2016, especially for SMEs who do not have financial resources to compete globally and to grow. It is therefore proposed that FBR may consider extending income tax exemption beyond 2016, preferably till 2026 by which time the IT industry would be significant enough to survive additional taxation.

17.3 Providing Tax Relief and Benefits to IT Industry

The government should support the IT industry in marketing software internationally in order to get maximum projects and investments in research projects. The government should also provide tax relief to business units on amounts spent on software applications and related equipments. The IT companies should be provided credit from banks on soft and easy terms to promote IT industry.

17.4 Encouraging Listings of IT Companies on Stock Exchange

The threshold level for floating IT companies on local stock market should be lowered to encourage listings of as many IT companies on the stock exchange.

17.5 Developing infrastructure for growth of IT industry

The government should establish effective Information Technology Parks (ITPs) in Federal and Provincial Capitals on Public Private Partnership basis so that IT companies concentrate on their core business and not on peripheral issues related to facilities. All federal and provincial governments and departments may be advised to procure software only through local IT companies.

Chapter 18



Telecommunication Sector

18.1 Developing 10-year Integrated ICT Policy

The government should announce an integrated and focused ICT policy for a period of 10 years. Emerging cross –cutting segments e.g. mobile financial services should be a part of such policy.

18.2 Bringing down excise duty on telecom services

Excise duty on telecom services is quite high and need to be revised downward so as to bring the telecom services at par with other services subjected to FED. This will also provide some relief to public at large.

18.3 Special Incentives to telecom companies for services in War Zone areas

The government should consider grant of special subsidy/incentives to the telecom sector for providing services in the war zone where the losses are very high due to loss of revenue, high repair and maintenance cost and destruction of installation.

18.4 Incentives to telecom industry to expand service to rural areas

The government should encourage the telecom companies to expand their service network to rural areas in addition to universal service fund (USF). For this purpose, it should provide some tax incentives as well. Similarly, the government should offer incentives to telecom industry on issues like unverified SIMs, illegal international incoming traffic and same International Mobile Station Equipment Identity (IMEI) number for cell phones. The government should play an active role to stop this destructive competition environment.

18.5 Stopping issuance of further licenses in telecom sector

The government should not allow or grant more licenses until the maturity of present telecom sector, which is already going through astronomical survival pressures.

18.6 Uninterrupted power supply to Service Providing Exchanges

Main services providing exchanges must be exempted from load shedding to facilitate uninterrupted, smooth and regular supply of services to all the important/vital installations, service users.

Chapter 19



Mutual Fund Industry

19.1 Withdrawing tax levy on principle component of cash dividend

The Finance Act 2014 introduced requirement for mandatory cash dividend by open-end mutual funds, which adversely affects taxability of unit holders who invest closer to dividend distribution time or any time after first day of start of the year (ex-dividend date). In an open end mutual fund, mutual funds have Dividend Equalization, which is that each investor gets equal dividend per unit irrespective of the fact that it joined during the period/year. The cash dividend received by investor may have been paid out of his/her principal amount (received as element of income at time of investment), which will result in extra tax payment.

The above tax anomaly should be removed so that the principal component of investment is not taxed. This is an international practice. The UK laws do not consider this portion as income and hence is not taxed. It is therefore proposed that for levy of tax on dividend in case of open-end mutual funds, the portion of dividend related to equalization element may not be subjected to tax.

19.2 Imposing uniform tax rate of 10% on dividends of stock funds

The income of a stock fund comprises of capital gains as well as dividends received from stocks. Dividend payable by stock funds is subject to tax @ 12.5% when their capital gain is greater than dividend income. In case of direct investment through capital market, tax rate on dividend is 10% while the capital gain is taxable subject to holding period of the security. This differentiation, based on degree of contribution of capital gains to income of a Stock Fund, is not fair as the main focus of stock fund is not merely speculative “buy and sell” activity, but positioning of stock investment to ultimately benefit the small investors through earning dividend income and through appreciation in asset value of investment.

The above tax anomaly should be removed in order to bring equity funds pari passu with direct investment in Capital Markets. It is therefore proposed that the dividend of Stock Funds may be made liable to tax at the uniform rate of 10%, irrespective of the share of capital gains in such taxable income.

19.3 Withdrawing notices issued by LTUs and RTOs to collect WWF from Mutual Funds

Mutual funds do not come under the definition of ‘establishment’ as it do not employ workers and it is only engaged in collecting savings from institutional and individual investors. However, LTUs and RTOs are issuing notices to each mutual fund and pension fund, considering them as establishments under ‘West Pakistan Shops & Establishments Ordinance, 1971’ for collecting Workers Welfare Fund (WWF).

Since WWF levy is not applicable on mutual funds, it is proposed that FBR may direct its LTUs and RTOs to withdraw all the notices issued to mutual fund and pension fund companies and issue necessary clarification that WWF tax be not charged from mutual funds and pension funds.

19.4 Withdrawing FED on services rendered by Asset Management Companies

A 16% Federal Excise Duty (FED) is levied on services rendered by Asset Management Companies (AMCs) which manage investments in Mutual Funds and Pension Funds. These services are also being charged to the provincial Sales Tax by the provinces, which results in double taxation. It is therefore proposed that FED on Asset Management Services be withdrawn by making necessary amendments in the Federal Excise Act, 2005.

19.5 Reducing tax rate from 20% to 10% on dividend from Banks Investment in AMC

Banks have to make investments out of the deposits/assets they hold at any time during the course of business including setting up subsidiaries. If the investment is made in its own Asset Management Company (AMC), the tax rate on dividend received is 20% as per proviso to clause (6) of Seventh Schedule to the Income Tax Ordinance, 2001. This differentiation is glaringly discriminatory. It is, therefore, proposed that the rate of tax on dividend, accruing from investment of Banks in their Asset Management Companies (AMCs) may be reduced from 20% to 10%. This will bring uniformity in tax rates, remove the discrimination and rectify the fiscal anomaly as well as the legal distortion/aberration in respect of investment made by a bank in its own Asset Management Company (AMC).

19.6 Exempting Mutual Fund and Pension Fund from Withholding tax

According to Sections 236M and 236N of Income Tax Ordinance, 2001, the Bonus shares issued to the Shareholders are taxable @ 5% of the specified value under FTR and the company issuing bonus shares is obliged to withhold tax from the shareholders. Since Mutual Funds and Pension Funds are exempt through Clause 47B from withholding from Dividend, Profit on Debt, Brokerage and Commission, as such Mutual Fund should also be exempted from withholding tax under Sections 236M and 236N. Accordingly, Sections 236M and 236N should be added to Clause 47B, Part IV of Second Schedule of Income Tax Ordinance, 2001.

Chapter 20



Housing and Construction Industry

20.1 Tax Relief for the Construction companies

The presumptive tax on construction companies should not be more than 1% on yearly receipts. Similarly, stamp duties and registration fee be adequately reduced to an aggregate 1% which will in turn increase government revenue as more documentation will take place. The Government should also not charge stamp duty, registration fee etc on housing mortgage. Duties and taxes on construction materials be rationalized.

20.2 Duty free import of Construction machinery

Import of important plant and machinery required for the construction industry should be allowed at zero rated duty such as tower cranes, batching plants, elevators, solar panels etc

20.3 Extending credit facilities for BMR of construction machinery

Banks and DFIs should extend credit facilities for balancing, modernization and replacement (BMR) of machinery used in housing and construction industry. The State Bank may direct the Commercial Banks to allocate a certain percentage of the credit to the housing and construction sector.

20.4 Enhancing the Annual Disbursement limit of HBFC Loans

The annual disbursement of HBFC loans should be substantially enhanced to Rs. 20 Billion to overcome the housing shortage. HBFC should offer packages at preferential mark up to provide affordable credit to low income groups. The government should advise the HBFC to invest minimum Rs. 10 Billion on annual basis in small housing i.e. apartments smaller than 1500 sq. ft. and 120 sq. yards bungalows.

20.5 Easy financing of large construction Projects

Due to slow disbursement of loans by HBFC, many projects are not completed in time and delayed. The government and State Bank should therefore come forward to finance projects, requiring large money, on easy terms. This could facilitate in development and expansion of the construction industry.

20.6 Establishing an ‘Infrastructure Construction Development Bank’

An ‘Infrastructure Construction Development Bank’ may be established to deal with the financing issues of the construction sector. This proposed bank would provide required bonds/guarantees and debt financing opportunities through allowing non-asset based securitization like cash flow etc as well as financing of Infrastructure Construction Public-Private Projects.

20.7 Removing SSGC restriction on gas connection for high rise building

Sui Southern Gas Company (SSGC) has put a freeze on gas connections for high rise buildings. This restriction should be removed immediately to provide relief to the construction industry.

Chapter 21



SME Sector

21.1 Allocation of More Funds in Budget for SME development

The government should allocate sufficient budget for developing SMEs network throughout the country. SMEDA should be provided funds and resources to reach out to SMES and work for their promotion. The funds would also be helpful in completing the ongoing projects of SMEDA such as establishment of SME Export House, SME Institute, SME Ombudsman, Joint Venture Capital, SME Fund, Credit Guarantee Insurance and other promises made in the SME Policy which got approval of the National Assembly and the cabinet.

21.2 Financing Scheme for SMEs with equal risk-sharing by SBP and Banks

The State Bank of Pakistan (SBP) has introduced several financing schemes for SMEs but the commercial banks are reluctant to take the risk. It is important that the SBP should come up with such a financing scheme in which the risk is shared equally by the SBP and the commercial banks by virtue of credit insurance. There is a scheme at present in which SBP shares 40% risk and banks consider 60% sharing as higher.

21.3 Increasing Credit limit for Micro-enterprises

The credit limit to micro enterprises may be increased from half a million rupees to one million rupees as commercial banks are not inclined to finance the small sector. This would facilitate the micro finance banks to also accommodate small entrepreneurs along with the micro sector.

21.4 Increasing exemption limit for Cottage industries from Rs. 5 million to Rs. 10 million

The existing limit of turnover for cottage industry is Rs. 5 million or for utility consumption of Rs. 0.7 million. Keeping in view high market inflation and utility tariff, these limits have become outdated. In order to promote

the SME and cottage industry, it is proposed that the exemption limit for cottage industry be increased from Rs. 5 million to Rs. 10 million and the utility limit be raised to Rs. 1.2 million.

21.5 One-window Facility for SMEs

The government should consider providing one-window facility for SMEs where all basic amenities such as land, building, utilities, security should be provided in industrial parks.

Chapter 22



Agriculture Sector

22.1 Zero duty and tax on Farm sector Inputs

The farm sector inputs be given zero-rating status from payment of import duties, sales tax and other levies which increases the cost of production and makes the export of value added farm goods uncompetitive.

There should be also be zero duty on imports of farm machinery and equipment to encourage farming.

22.2 Offering facilities for Value-addition of agricultural products

Pakistan being an agriculture country has a huge potential to tap the international market through value addition of agricultural produces. The government, through SMEDA, should provide facilities and benefits for the promotion of businesses, based upon agriculture and food products

22.3 Developing agricultural implements sector

SMEDA should focus attention on indigenous development of agricultural implements sector in order to supplement the agricultural economy in the country.

Chapter 23



Education Sector

23.1 Increasing Education Budget

It is recommended that the overall education budget should be enhanced to at least 8% to 10% - out of which one third should be allocated to higher education sector.

23.2 Incentives to Private Sector for building Schools and Colleges in Rural Areas

It is proposed that some kind of tax Incentives be provided to the private sector for developing schools and colleges in the remote and under-developed rural areas, especially for girls education. Special budget should also be allocated by the government in this regard.

23.3 Making elementary education compulsory

Elementary education should be made compulsory and for this purpose friendly taxation and other related measures should be taken for providing resources to education sector, including tax reliefs and exemptions on teachers remuneration, educational and training institutions etc.

23.4 Tax Relief for Teachers and Education Sector


Tax relief to full time teachers and researchers was reduced to 40% from earlier 75%. This should be restored to the previous level and shall also be extended to all employees who are working in education and professional institutions to promote education within the country and to attract intellectuals and qualified to opt for teaching and research profession.

23.5 Training and Development of Teachers

The government should ensure an enabling environment for providing quality education by imparting rigorous training for capacity building of teachers. The network of vocational training Institutes for skill development should be expanded throughout the country.

23.6 Education Policy to focus on benefiting Low Income and Unprivileged Group of Society

As a matter of principle and policy, any development projects implemented directly by Federal Government in the provinces must be aimed at benefiting the low income and the underprivileged group of the society.



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Proposed Custom Duty Measures

Textile Export Oriented and Manufacturing Units:

1. Removing difficulties faced under SRO 327(I)/2008

Serial 10(1) (a):- Under this provision the amount of Customs Duty and other taxes involved is secured by the “Collector of the importing station” against indemnity bond and post dated cheques. Under the prevailing system the goods imported by Export Units situated in other Customs Stations, is allowed shifting of goods under Safe Transportation Scheme to the up-country Bonds, under CGO 10 of 1991, under which the securities stands discharged if receipts of goods from the competent Authority at Destination Bond is received at Importing Customs Station. There is no additional clause, in the CGO, to authorize the Customs Staff at Importing Station, to engage ensure applications of conditions of SRO 327(I)2008, for goods transferred to upcountry Manufacturing Bond, under the different jurisdiction. While, the securities, upheld by the Bond Section Karachi, pending consumption of goods for two or more years for input raw material and for ten (10) years for the machinery.

The difficulties and hardships under the system start when the requisite documents are sent to Customs House, Karachi, for release of securities, after a long time, on completion of formalities, like Audit Report etc., and Installation status of machinery, (allowed to retain in Unit for 10 years). The Export Oriented Units at Faisalabad had experienced tremendous difficulties and extra ordinary delays to get the securities released. In some cases, it became nightmare when files are lost at Importing Station. While sitting more than 1000 kilometers away, attendance and visiting Karachi, on daily or regular basis is not possible. Since, the securities are submitted for time bound limits, the Computer System, of Karachi Customs, **BLOCK** the clearance, as a matter of routine.

Recommendation

It is recommended that immediately after dispatch of goods under Safe Transportation Scheme, the Indemnity Bond and Post dated Cheques should also be transferred to the Collector of Customs, under whose jurisdiction the manufacturing unit is situated. A proper secured dispatch of documents system with acknowledgement may be arranged.

2. Ambiguity in manufacturing bonded license value under SRO 327(I)/2008

There are following two types of commodities/goods, allowed to be warehoused with a single maximum value/limit:

- (a) Input/raw material, ascertained on the basis analysis card, after due procedure prescribed in SRO 327(I)/2008, by the competent Authority. The amount so determined is entirely limited to the imported goods meant to manufacture of export products.
- (b) Plant and Machinery, under Serial 10(1)(e) of SRO 327(I)/2008, to be retained for a period of ten (10) years for the manufacturing of goods meant for export. The Plant and Machinery, so installed, do not fall under the characteristics of raw material or input goods, as per analysis certificate.

On each Licence issued to the Export Unit, one single Maximum Value is granted, for both categories of goods, as defined at a & b above. Whereas, there is not nexus of utility or consumption between the two different class of Imports. Due to the said ambiguity, the import value of machinery is being subtracted from the value well determined quota, of input/raw material as per analysis certificate. If a Licensed Unit having limit of 100 million for input/raw material, import and install machinery within the capacity of Licence i.e. 100 million, then the Bond Licence stands fully utilized in the Computers of Customs, and Value of input/raw material comes to "0".

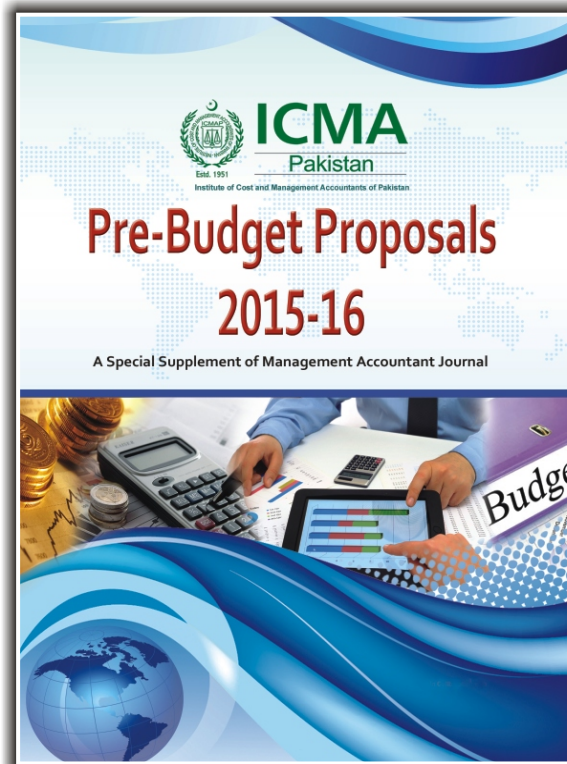
Recommendation

It is proposed that there should be two columns and levels of limits, prescribed on a Bond for Manufacturing Unit:

- Value of Input/raw material, as per Analysis Certificate, as being approved
- Value of Plant & Machinery, to be determined or prescribed separately, intended to retained in Bond for 10 years.
- The Licensed Unit may also be given an opportunity to replace Securities, submitted for Plant and Machinery, in accordance with the Table of depreciation given at Sr. 10 (1)(e) of SRO 327(I)/2008.

The machinery allowed to be retained for 10 years may require periodical maintenance, balancing, modernization and replacement. A suitable and eligible amount of spare parts and components may also be allowed periodically, mandatory to maintain the Plant and Machinery in good running condition.

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