ICMA Pakistan
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PRE-BUDGET PROPOSALS 2017-18

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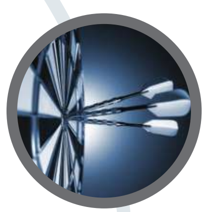
Vision Mission & Core Values

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 area to bring value-addition in the economy

Core Value

- Competence
- Innovation
- Ethics
- Transparency
- Professionalism

Institute of Cost and Management Accountants of Pakistan - A Profile

Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) is one of the premier professional institutes of Accountants, established in 1951 with the name and title of 'Pakistan Institute of Industrial Accountants (PIIA). The institute received its charter under the Cost and Management (CMA) Act, 1966 of the Parliament. Later, it was renamed as the 'Institute of Cost and Management Accountants of Pakistan'.

Under the CMA Act, 1966, ICMA Pakistan has been entrusted with the responsibility to provide education, examine competencies and confer internationally recognized post-graduate professional certifications of Associate Cost and Management Accountant (ACMA) and Fellow Cost and Management Accountant (FCMA).

ICMA Pakistan is founding member of International Federation of Accountants (IFAC) since 1977; Confederation of Asia and Pacific Accountants (CAPA) since 1980; and South Asia Federation of Accountants (SAFA) since 1984.

Under mutual collaboration and recognition, the Institute has collaborations with CIMA-UK; ACCA-UK; CPA Australia and CPA Ireland. It is actively working with ICAEW, CPA Canada; IMA, USA and AICPA for recognition.

The Institute has over 5,000 members, out of which more than 900 members are serving abroad. These members are serving at high-profile positions such as CEOs, CFOs, COOs, CIAs, Company Secretaries, Financial Analysts, Public Practitioners, Management Consultants, etc, hence making significant contributions towards business growth and economic development. The Institute has over 15,000 students, 200 faculty members, over 250 employees, 07 regional Branch Councils, 11 education campuses and 18 examination centres.

The Council with eight elected members and four members nominated by the Government of Pakistan, is a supreme decision making body and responsible for overall management of the Institute. The government nominations usually belong to Ministry of Finance (MoF), Securities and Exchange Commission of Pakistan (SECP), Auditor General of Pakistan (AGP), Federal Board of Revenue (FBR), State Bank of Pakistan (SBP) and any other government regulator.

The Institute's Council is supported by Standing and Non-standing Committees which are entrusted with responsibilities to develop policies for activities falling in their domain. The operational matters are run by full-fledged directorates. The head office is in Karachi and regional headquarters are at Lahore and Islamabad.

The Institute has strong ties both with the higher education institution and corporate sector by way of Industry-Institution liaisons to utilize each other expertise for mutual benefit. It has four categories of collaboration viz. (i) Corporate Partnership Scheme; (ii) Practical Training Scheme; (iii) Partnership for Research, Development and Innovation; and (iv) Registered Education Provider.

The Institute, in collaboration with other accounting body of the country, every year recognizes those companies which present best disclosures in their reports for their stakeholders and investors. This event is organized with the title of 'Best Corporate and Sustainability Report Awards (BCSRA)'. The Institute also organizes Directors Training Program (DTP) in collaboration with SECP for capacity building of Board of Directors of Listed companies.

The Institute is actively involved in providing technical support to the Ministry of Finance, Ministry of Commerce, Planning Commission, Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Federal Board of Revenue, Accountant General of Pakistan Revenues, Auditor General of Pakistan, Competition Commission of Pakistan, other ministries, regulators and policy making organizations.

The Institute's members have legal privileges under Companies Ordinance, 1984; Income Tax Ordinance, 2001; Sales Act, 1990; Income Tax Rules, 2002; SBP's Prudential Regulations; Companies Rules, 1985; Customs Act, 1969. Today, Management Accounting firms are providing excellent professional services to manufacturing, services and financial sectors. The public practice function of the Institute is supported by over 100 firms which are holding license to undertake national and international consulting assignments.

Over the years, the Management Accountants produced by the Institute have met the requirements of industry and business over the years as they are trained to turn knowledge into value addition.

PREFACE

Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) is a leading professional institution of international repute and a regulator of management accounting profession in Pakistan. The Institute is committed to build a strong corporate culture to achieve sustained national economic growth and market competitiveness.

The management accountants with their vast and diversified professional experience are contributing towards the economic uplift of Pakistan. They are actively engaged in every sector of economy to bring efficiency, professionalism and expertise so as to develop and prepare Pakistan's economy to meet the current and future needs.

ICMA Pakistan has always played its due role in budget making process by submitting its recommendations in shape of a booklet that covers interalia, proposals for income tax, sales tax, customs and federal excise, in addition to sector/industry-wise proposals. The budget document also covers proposals for improvements in existing taxation laws and suggesting concrete measures for generating tax revenues and improving industrial productivity.

The development of national economy is one of the top priorities of the present government and the national budget set out the vision of the government in this regard. It has a great significance as it charts out the path to economic reform and development agenda of the government. We hope that the government is cognizant of the need to minimize gap between revenue and expenditure, as this would require, among other things, to enhance the tax-to-GDP ratio by undertaking various measures such as broadening the tax net. To encourage business activities and investment, it is imperative that the government should provide a conducive policy environment for corporate sector so that it can supplement the efforts of the government in achieving the economic targets.

In the forthcoming budget, the government must come out with measures to document the informal sector of the economy which would help enhance tax revenues. However, there are some reservations of the undocumented sector which need to be addressed such as the cumbersome processes of tax collection and reporting requirements that need to be simplified. Moreover, the role of the professional institutions like ICMAP, should be enhanced so that they can provide the professional backbone for the processes of good governance, audit and review.

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.

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.

I must acknowledge the efforts of our Research and Publications Directorate in compiling the pre-budget recommendations through different sources as well as developing in-house research on the economy and different industry sectors. The proposals received from the members of the Institute have also been duly incorporated.

We hope that these recommendations will assist the government in minimizing budget deficit, enhancing the economic growth and setting the right priorities. ICMA Pakistan will continue to play its advisory role to the government so that together we can make this country economically sound and prosperous.

Mohammad Iqbal Ghori, FCMA
President, ICMA Pakistan and
Chairman Research and Publications Committee

National Council 2017-18

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Chapter 1

Current Economic Overview

1.1. Macro-Economic Indicators

1.1.1. Real GDP: The real GDP growth in FY 2015-16 was 4.7 percent as against the set target of 5.5 percent i.e. missed target of 0.8 percent. As per State Bank of Pakistan (SBP), the real GDP growth in FY 2016-17 is expected to be higher than last year owing to rebound in agriculture and increased pace of work on infrastructure and energy projects. The government has set target of 5.7 percent in FY 2017-18, whereas the World Bank foresees real GDP growth of 5.4 percent.

1.1.2. Per Capita Income: The per capita income during FY 2015-16 witnessed a growth of 2.9% to USD 1560.7 as against USD 1516.8 achieved in FY 2014-15.

1.1.3. Price Level: The Consumer Price Index (CPI) inflation during July-Feb 2016-17 was recorded at 3.90 percent as against 4.28 percent during same period last year. The Sensitive Price Index (SPI) stood at 1.20 percent as against 1.02 percent during same period last year. The WholesalePrice Index (WPI) was recorded at 3.46 percent as against negative 1.70 percent during last year.

1.1.4. Current Account Balance: The current account deficit widened 121 percent during first eight months (July-Feb) of the ongoing FY 2016-17, standing at USD 5.473 billion as compare to USD 2.482 billion in the same period of pervious year.

1.1.5. Unemployment Rate: The current unemployment rate is estimated at around 6 percent. As per a survey report of the Institute of Policy Reforms (IPR), the unemployment rate was highest in 2016 during last 13 years in Pakistan. The main reasons of high unemployment rate are inflation, closer of industries due to energy crisis and law and order situation.

1.1.6. Foreign Exchange Reserves: The foreign exchange reserve stood at USD 21.8 billion on February 24, 2017. However, as per State Bank of Pakistan (SBP), the forex reserves slipped to USD 21.55 by March 31, 2017 due to external debt servicing and other official payments.

1.2. Industry Sector Growth

1.2.1. Large Scale Manufacturing (LSM): The LSM sector grew by 3.24 percent during first five months (July-Nov) of FY 2016-17 over the corresponding period of last year as per data released by Pakistan Bureau of Statistics. In November 2017 the LSM grew by 8.02 percent on a year-on-year basis which indicates revival in the industrial production.

1.2.2. Sector-wise Growth: As per Pakistan Bureau of Statistics, sector-wise industrial growth during July-Nov FY 2016-17 was as under:

Sr.	Sector	Growth in FY 2016-17 (July-Nov)
1	Food Beverage and Tobacco	25.46%
2	Iron and Steel products	20.64%
3	Engineering products	18.91%
4	Automobiles	11.35%
5	Electronics	9.82%
6	Non-Metallic mineral products	9.51%
7	Pharmaceuticals	9.12%
8	Paper and Board	6.25%
9	Fertilizers	4.48%
10	Petroleum products	3.92%
11	Rubber products	1.41%
12	Chemicals	1.37%
13	Textiles	0.23%

There were other sectors which recorded negative growth e.g. wood products declined 95.43 percent and Leather product by 7.81 percent.

1.3. External Sector

1.3.1. Foreign Portfolio Investment (FPI): According to State Bank of Pakistan (SBP), the overall Foreign Private Investment (FPI) nosed dived by 55 percent to Rs. 405.5 million during July-Feb 2015-16 from Rs. 898.3 million in the same period last year. This drastic decline in FPI was due mainly to massive outflow of USD 345 million from the equity market during the period.

1.3.2. Foreign Direct Investment (FDI): According to SBP, Foreign Director Investment (FDI) into Pakistan decreased by 21 percent to USD123million in Feb 2017 as compared with USD 155 million during same month last year. However, cumulative FDI increased by 6 percent to USD 1.285 billion in the first eight months (July-Feb) of ongoing FY 2016-17, compared with USD 1.212 billion in the same period of the previous year.

1.3.3. Exports: During eight months (July-Feb) of FY 2016-17, Pakistan exported goods worth USD 14.05 billion as compared to exports of USD 14.34 billion during same period of last FY 2015-16, reflecting a year-on-year decrease of 2 percent.

1.3.4. Imports: During eight months (July-Feb) of FY 2016-17, Pakistan imported goods worth USD 29.45 billion as opposed to USD 26.47 billion in the comparable period of FY 2015-16, showing a significant increase of 11.25 percent.

1.3.5. External Debt and Liabilities: The external public debt increased by around USD 1 billion during the first quarter (July-Sep) of FY 2016-17 and recorded as USD 58.7 billion.

1.3.6. Balance of Payments (BoP): During first eight months (July-Feb) of current FY 2016-17, the current account deficit has soared to USD 5.47 billion as compare to USD 2.48 billion recorded in the similar period of the last fiscal year. The main reasons for this high rise in BoP are declining exports, worker remittances and foreign exchange inflows.

1.4. Fiscal Development

1.4.1. Fiscal Deficit: The budgeted fiscal deficit limit for current FY 2016-17 is 3.8 percent of GDP. However, the revised fiscal deficit target is 4.1% of the GDP.

1.4.2. Tax Collections: During first nine months (July-March) of current FY 2016-17, the FBR collected Rs. 2,258 billion as against Rs. 2,093 billion a year ago, reflecting an increase of 7.88 percent. The government has set a revenue collection target of Rs. 3620.8 billion for the year ending June 30, 2017 which means that FBR meet to collect revenue of RS. 1362.8 billion in next three months.

1.4.3. Total Expenditures: The targeted expenditures in FY 2016-17 is around 19.6 percent of GDP. Expenditure in the first half of current fiscal year stood at 8.3 percent of GDP which is the same as last year. The government was able to contain current expenditure by curtailing domestic interest payments and spending on other categories including subsidies.

1.4.4. Tax-to-GDP Ratio: The tax-to-GDP ratio in Pakistan is one of the lowest in the world, standing at around 9.5 percent in 2015-16. In 2009, the government had planned to increase the tax-to-GDP ratio to 15 percent in next five years i.e. by FY 2014-15. However, the target is still out of reach of the government.

(Source: IMF World Economic Outlook, statistics released by FBS, FBR, SBP and Business newspapers)

Chapter 2

Role of CMAs in Economic Growth and Efficiency

2.1 Controlling Inflation though Cost Audit

Cost audit reduces the cost of production and eventually the benefit pass on to general public in shape of reduction in prices of commodities. One can argue that reduction in sales price would reduce the government revenues due to reduction in amount of sales tax. This argument is not based on actual facts as any reduction in sales tax would automatically be compensated by increase in amount of Income tax due to increase in profits (if half of the benefit arises due to reduction in cost is transferred to general public). The reduction in prices will lessen inflation; speed up economic activities and increase government revenues.

It is strongly recommended that the government may consider enhancing the scope of cost audit regime in Pakistan to achieve economic efficiency and control general market inflation.

2.2 Developing Rescue Plans for Inefficient PSEs

Management Accountants may be engaged 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 loss making units in overcoming management-related problems and achieving economic efficiencies and maximum productivity.

2.3 Cost Control and Financial Management in PSDP Projects

The Management Accountants may be associated for effective 'cost management and control' and 'financial management' of the Public Sector Development Programs (PSDPs) implemented by Provincial governments. This would help bring down the cost of projects.

2.4 Representation in Anti-Dumping Tribunal

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

2.5 Assisting NTC for Industry Awareness on Anti-Dumping

The Cost and Management Accountants 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.

2.6 Drug Pricing, Control and Vigilance

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. The following proposals be considered by government:

2.6.1 CMAs may 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.

2.6.2 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.

2.6.3 To ensure transparency and cost effectiveness, Cost Audit shall be made compulsory in the Pharmaceutical industry as soon as possible.

2.7 Forming a 'Financial Reporting Council' to safeguard interest of Investors

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.

To strengthen and regulate financial reporting in Pakistan and to safeguard the interest of all stakeholders, including shareholders and investors, it is strongly recommended that the government should establish an independent 'Financial Reporting Council (FRC)' having representation of accountancy bodies, management accountants, auditors, finance professionals, professional advisers, public sector finance leaders, entrepreneurs, economists, tax experts and business leaders from the industry. This would help attract foreign and domestic investment and nurture corporate culture in Pakistan. FRC as a statutory regulatory body are already in place in UK, Australia, Singapore and many other countries.

ICMA Pakistan can provide all support to develop framework, objectives and detail working to make FRC operational in the best interest of economy in particular and the country in general.

2.8 Forming a 'Pakistan Accountants' Council' for professional accountants

It is proposed that the government may consider to form a common platform for the professional accountants in Pakistan with name and title of 'Pakistan Accountants' Council' (PAC) similar to that of Pakistan Engineering Council (PEC). The PAC may be chaired by the sitting Federal Finance Minister and have representations as members from the Ministry of Finance, Planning Commission, SECP, FBR, SBP, AGPR, ICAP and ICMA Pakistan. The proposed Council shall provide professional support and guidance to the regulatory authorities in enhancing the overall performance of corporate sector and to make them globally competitive in order to ensure sustainable growth of national economy. The PAC may devise policies and ensure implementation in the areas of Accounting Systems, Financial Reporting, Tariff and Pricing, Cost Management, Risk Management and Audit, Business Planning, Organizational Development, Capacity Building, Resource Optimization and Management Reporting and improvement in Business and Commercial Laws.

ICMA Pakistan can provide all support to develop framework, objectives and detail working to make PAC operational in the best interest of economy in particular and country in general.

2.9 Exclusive Rights for CMAs in Companies Bill, 2017 [Section 250]

Section 250 of Companies Bill, 2017 (replacing Section 258 of Companies Ordinance, 1984) is related to Cost Audit and based on Management Accountants' expertise and specialization. The cost audit rights should be exclusive with CMAs. The Chartered Accountants may be permitted to conduct cost audit in only those areas where practicing cost and management accountants are not available. Further, like in India the Cost Audit may be made mandatory on all the industries in Pakistan to improve their cost of manufacturing and exports. This argument of allowing cost audit exclusively to CMAs is based on following grounds:

2.9.1 That objective of 'CMA Act 1966' is to regulate the profession of Cost and Management Accounting in Pakistan, that is specifically concerned with 'manufacturing industries', whereas objective of 'CA Ordinance, 1961' is to regulate the Auditing and Accounting profession in Pakistan, which is particularly concerned with the financial aspects only.

2.9.2 That the quality of audit will hamper if CAs are allowed for cost audit in addition to financial audit, because CA firms are already in shortage of qualified CAs to adequately address issues pertaining to statutory financial audit.

2.9.3 Under the CMA Act, 1966, cost audit regulation is the exclusive domain of ICMAP

2.9.4 CMAs have specialized education and training in cost and management accounting

2.9.5 CMAs are specialists in costing whereas CAs lack knowledge about cost accounting

2.9.6 Cost audit needs specialized skills and knowledge which is delicately covered in ICMAP Syllabus and practice

2.9.7 In India, only Cost Accountants are authorized under the law to act as sole cost auditors of companies

2.9.8 Chartered Accountants solely enjoy perquisites of statutory financial audit, hence costing audit privileges be awarded to CMAs only

2.9.9 CMAs can conduct cost audit more independently as they have no role in financial audit.

2.10 Audit Rights for CMAs under Foreign Contributions Act, 2014

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

Chapter 3

Proposals for Improving Tax Refund System

3.1 Setting up a 'Permanent Review Committee' to monitor and implement a Speedy Refund System for Export-oriented sector

ICMA Pakistan strongly recommends that a permanent 'Review Committee' may be formed by the government to monitor and implement a speedy refund mechanism which would help redress the grievances of the exporters. The proposed Review Committee may comprise representatives from the FBR, Chairmen of concerned Associations of export oriented industries and the Institute of Cost and Management Accountants of Pakistan. A notification to this effect may be issued by the FBR and also given legal cover in the Finance Bill 2017-18.

The following time-frame is proposed for expeditious refund of sales tax to exporters:

i. Automated Filing of Sales Tax Return by exporters = 15 days

ii. Submission of Files to FBR for Refund = 30 days

iii. Processing of Files by FBR (automation) = 30 days

iv. Refund of Payments to exporters = 30 days

3.2 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.

It is proposed that 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.

Chapter 4

Proposals for Facilitating Export-oriented Sector

In January 2017, the Prime Minister Mian Muhammad Nawaz Sharif announced an attractive 'Trade Enhancement Package' of Rs. 180 billion to boost exports of five value added sectors viz. Textiles, Leather, Carpets, Sports and Surgical goods.Out of this Rs. 180 billion package,Rs. 162 billion has been allocated for the development of textile sector. Other features of the incentive scheme include abolishment of customs duty on import of cotton and man-made fiber, other than polyester; abolishment of sales tax on import of cotton and textile machinery. Further, duty drawback rates has been fixed at 7% for textile garments; 6% for textile made ups; 5% for processed fabric; 4% for yarn and grey fabric and 7% for sports goods, leather and footwear.

The following suggestions are made to improve the incentive package so that the exporters of the above five value-added sectors, especially textile sector, can reap maximum benefit from this Incentive Scheme:

4.1 Allocating funds for payment of duty drawback to exporters

The time lines, mechanism and budget allocations for providing duty draw backs to the exporters have not been provided in the incentive package.

It is therefore proposed that the Government should immediately allocate funds for the scheme and transfer them to State Bank of Pakistan for the period of 18 months for disbursement through commercial banks on realization of exports proceeds.

4.2 Extending scope of Incentive package to five years

The scope of the incentive package announced for the exporters span over a period of 18 months, starting from January 2017 to June 2018.

It is proposed that the scope of incentive package may be extended from the current 18 months to 5 years.

4.3 Rationalizing utilities input cost for five exporting sectors

There is need for rationalizing the input cost including power and gas prices for the exporters of five value added sectors. Since energy is an important element of cost of production, particularly for springing, weaving and processing industry. Its availability at regionally competitive price is important. The electricity tariff for the textile industry comprises of various types of surcharges alongside system inefficiencies and recovery losses that leads to additional cost for the consumer.

It is proposed that to bring down the input cost for the exporters, Rs. 6.63 per unit surcharge may be waived of immediately for the five exporting sector and a one energy price mechanism may be introduced throughout the country @ of Rs.7 per unit to ensure a level playing field.

Further, the exporting sector is getting gas supply from the government from both domestic and imported sources with two different tariff, The Domestic supply is available at Rs. 600 per MMBTU plus Rs. 200 per MMBTU against GIDC where the imported supply at Rs. 950 per MMBTU the textile sector is heavily depended on gas supply which do not provides them a level playing field with in the country.
It is therefore proposed that the government should introduce weighted average price of gas both gas (WACOG) domestic and imported supplies to encourage new investment in the textile industry.

Moreover the gas supply to the textile mills, particularly located in Punjab may be made available by the government at Rs. 600 per MMBTU in order to bring down the cost of doing business in real term.

4.4 Extending incentive scheme to commercial exporters

The current incentive package for five value-added sectors is only for manufacturer-cum-exporters. This excludes an important portion of our export-oriented textile industry.

It is proposed that the incentive package may also be extended to commercial exporters.

4.5 Inclusion of left out HS codes in SRO no. 62 (1)/2017

In pursuance of PM's incentive package for exporters, the Ministry of Commerce issued a notification vide SRO no. 62 (1)/2017 dated February 02, 2017, allowing drawback of local taxes and levies on non-textile exports. This SRO has become altogether ineffective due to non-inclusion of all measure relevant HS Codes. Due to this serious omission, almost 95% of manufacturer-cum-exporters are unable to avail maximum benefit of the incentive package.

It is proposed that the flaw in the above notification i.e. SRO no. 62 (1)/2017 may be rectified through inclusion of remaining HS Codes.

4.6 Expediting Income Tax refund of Exporters

Billions of Rupees of income tax refunds are pending with the FBR and their delay has triggered serious liquidity crunch for the exporters and manufacturers and they are bearing huge financial cost on their own hard earned stuck-up money.

The concerned authorities should therefore take realistic view of the matter and expedite the release of refunds of income tax to exporters and manufacturers at the earliest.

Chapter 5

Proposals for Enhancing Tax Revenues

5.1 Targeting new tax payers having commercial electricity connections

There are around four million commercial electricity connections in the country which points towards increased commercial activities

It is proposed that FBR may target new tax payers on the basis of commercial electricity connections in order to broaden the tax net.

5.2 Settling old tax issues by offering tax incentive scheme

The government announces tax incentive schemes for non-taxpayers, however, there is hardly any tax incentive scheme for regular taxpayers, rather they are harassed on old pending tax issues which remain shuffling between appeal courts, high courts etc.

It is, therefore, proposed that through settlement of old and pending tax issues, the government can generate tax revenues by offering some tax incentive scheme to tax payers. This would promote investments resulting in more business activities, jobs and tax revenues for the Government.

5.3 Imposing Taxes on Soft drinks and Energy drinks

The Government can generate revenue by imposing Tax on soft drinks and energy drinks, as being levied in other countries of the world, in view of its detrimental effect on human health. The Governments of UAE and Saudi Arabia are also contemplating to impose such kind of tax on soft drinks considering rising rates of diabetes and obesity across the Gulf region.

5.4 Renewal of registration of businesses subject to tax compliance

At present businesses are registered with different authorities such as SECP, FBR etc. All of them are not active tax payers.

It is proposed that registration of all businesses in Pakistan should be made under a single 'Business Registration Authority' and all renewals of businesses should be subject to tax compliance like filing of annual Income Tax Return. NADRA is the best option as it has comprehensive national data base. This would help broaden tax base and increase revenues.

5.5 Taxing the Retail sector by offering incentives

The Retail sector contributes a nominal share in tax collection though it is a lucrative sector from where FBR can generate maximum revenue. According to estimate, around 70% to 80% retailers, comprising of small traders and shopkeepers earn more than the exemption limit. As per latest information available, the FBR has already identified 6,000 retailers for sales tax collection @ 0.5% of gross amount of sales tax.

ICMA Pakistan proposes that the government should expand the tax net of retail sector by offering them 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.

5.6 Taxing the Transport Sector by imposing a Fixed Tax

The transport sector also contribute a lesser share in national tax revenues despite the fact that medium transporters earn around Rs. 3000/- per day whereas heavy transporters like buses, trucks and trailers earn up to Rs. 10,000/-. This accumulates 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.

5.7 Increasing income tax rate on Agriculture

The agricultural sector is the largest sector of national economy, contributing almost 24 percent share in 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 by the FBR.

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

The FBR is considering to provide a low tax rate to those traders and industrialists who will disclose their hidden income. On the same line, the FBR may also 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.

5.9 Expanding Scope of Taxpayer Privilege and Honor Card Scheme

In 2014, FBR had announced a 'Taxpayer Privileges and honor Card Scheme' for extending privileges/VIP facilities to 100 top taxpayers. This initiative was quite encouraging, however there has not been any improvement in this scheme to cover more tax payers.

It is proposed that the scope of this Scheme may be broaden through Finance Bill 2017 to coverindividuals 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.

5.10 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 rated 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.

Chapter 6

Proposals for reducing Government Expenditures

6.1 Reducing dependence on bank borrowings

A major dilemma associated with government spending is dependency on borrowings from banks. It is suggested that the government should reduce its dependence on bank borrowings which would eventually bring down its spending.

6.2 Cutting down Non-development expenditures

Non-development expenditures constitute a big portion of the government spending and include expenditures of the President House, Prime Minister' Secretariat; Federal Ministers, etc. It is suggested to cut down non-development spending so that money saved is utilized on productive developmental avenues which would eventually spur economic growth.

6.3 Closing down Projects incurring heavy losses

There are various government projects which are incurring continuous heavy losses to the treasury. Such projects need to be identified and closed down to save precious money running in millions of Rupees being incurred on them for keeping them in operation.

6.4 Curtailing expenditures on General Public Service head

The Current expenditures have shown an increasing trend over the years. In current expenditures, General Public Service (GPS) constitutes the largest head of expenses. Under GPS, huge amount of revenue is spent on Executive and Legislative Organs, Financial and Fiscal Affairs and External Affairs which includes parliamentarian expenses, ministerial departments, local government offices and inter-departmental committees not concerned with a specific function, such as certain expenses of the Department of the Prime Minister and Cabinet, departmental monitoring and control of monetary and fiscal policy etc.

It is strongly recommended that the government should make serious efforts to cut down these extra expenditures on GPS.

6.5 Cutting down expenditure on Energy Subsidies

The subsidies given by the government to energy sector leads to widening of fiscal deficit. The subsidy amount is generated through banks borrowings, which results in higher expenditures for the government. Recently, the government has even reduced the development budget as a result of subsidy reduction target as demanded by the IMF. This need to be implemented as soon as possible to bring down the expenditures.

6.6 Conducting Expenditures Reforms Analysis

In addition to tax and tariff reforms being undertaken by the government, there is also need to conduct 'Expenditure Reforms Analysis' so as to determine the direction and deployment of revenue raised as a result of such reforms. For this purpose, an 'Expenditure Reform Curriculum' need to be developed which may cover a comprehensive cost benefit analysis of all government expenditures as well as analysis of adopting optimal approach for gradual shifting and reformation. Once the optimal expenditures are identified, it will be 'economically efficient' to set targets for tax collections and revenue utilization.

6.7 Tracking current and development expenses

The current expenditures digest a major portion of the financial plan. It is proposed that the government spending on current and development expenditures may be explored to investigate whether this spending is being utilized in line with the changing economic conditions.

6.8 Releasing next quarter PSDP funds after Audit of Utilized Funds

The government releases funds for PSDP projects on the basis of formula which is 20 percent in the first quarter; 30 percent each in second and third quarters; and 20 percent in fourth quarter in each year. However, it has been observed that actual utilization of previous PSPD funds is less than fifty percent, which means the projects are not completed in time. It is proposed that there should be a detailed audit to assess the actual utilization of funds on the project, prior to releasing the next installment of funds. This would lead to lesser expenditures and bring transparency.

Chapter 7

Proposals for Simplifying Tax Structure

7.1 Doing away with multiplicity of taxes and departments

The multiplicity of taxes and departments should 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 the other. It is suggested that issuance of such notices may be made by only one officer for all matters regarding any deficiency/explanation.

7.2 Curtailing powers of Director General Intelligence

A Directorate General Intelligence has been established by FBR which has unlimited powers including raids. This has led to undue harassment of tax payers and trust deficit.

It is proposed that the discretionary powers of Directorate General Intelligence may be curtailed and confined only to highlighting tax evasions and not adjudicating matters of taxpayers. The taxpayers found guilty may be served proper showcause notices and their cases may be referred to the concerned RTO/LTU and further proceedings may be initiated by the concerned Commissioners so as to discourage harassment of taxpayers.

7.3 Providing tax credits to compliant taxpayers

The compliant corporate taxpayers are not being offered any kind of relief or incentive for remaining compliant in paying taxes.

It is proposed that the government should reward corporate taxpayers who are fully compliant with all legal and tax compliance requirements by giving them 2% tax credit.

7.4 Simplifying Tax procedures for SME's and individual taxpayers

The composition of tax payers reveals that very few tax payers are multinationals or large corporate tax payers. Almost 90% of tax payers are AOPs, INDIVIDUALS, and SMEs.

It is proposed that procedures, rules and regulations for these assesses should be simplified. Also, any 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 amendment made.

7.5 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 on any delay or non-submission, huge penalties are imposed. An average individual/AOP/SME do not have resources or finances to comply with such requirements. As such, the tax compliance procedures should be made simple.

7.6 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.

7.7 Intimidating language of FBR Notices

The language of FBR notices is very pinching and intimidating which de-motivates 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.

7.8 Authoritative behaviors of FBR Officials

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

7.9 Punitive action on misusing discretionary power to harass tax payers

As there are many punitive provisions for tax payers on non-compliance with different rules and regulations, some punitive provisionsmay also be introduced for both Income Tax and Sales tax officials who are not acting in accordance with their obligations, and use discretionary powers to harass tax payers or delay in passing the relief to tax payers promptly.

7.10 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 detailed brochure for available tax credits should be displayed on FBR's website after every change in Finance Act along with examples.

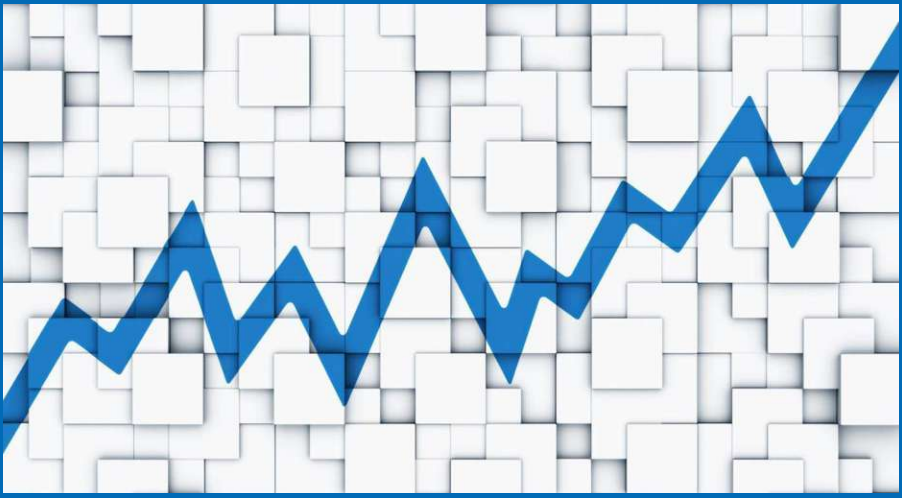
7.11 Adjustment of Deductions at Source from Quarterly Advance Tax

Presently, the Withholding Agents deposit withholding tax to FBR on weekly or monthly basis. It is proposed that FBR may 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 WH 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.

7.12 Allowing Withholding tax within seven days

Previously Withholding Agents were required to deposit withholding tax within seven days from the end of each fortnight which is now required to be paid within seven days from the end of each week, which is very time consuming and increases the cost of compliance. It is suggested that Rule 43 be amended so that withholding amount may be deposited within 7 days of end of month on monthly basis.

Taxation Proposals



Chapter 8

Proposed Income Tax Measures

8.1 Bringing down the Corporate Tax Rate to 25 percent

The corporate income tax rate (other than small companies) is highest in Pakistan i.e. 32% for tax year 2016; 32% for tax year 2017 and 30% for tax year 2018 and onwards, whereas companies in majority of Asian countries are subject to direct tax as a maximum rate of 25%. In addition, large corporate houses in Pakistan are also contributing substantial amounts towards Workers Profit Participation Fund (WPPF) and Workers Welfare Fund (WWF) which leads to additional tax burden and increases the cost of doing business.

It is proposed that income tax rate on taxable income of companies may be reduced to 25 percent so as to encourage investment. This would also lead to corporate sector growth and promote documentation.

8.2 Allowing to issue SRO to exporter for income tax exemption

The procedure of income tax exemption on imports, made by exporters, is very complicated and lengthy due to which importers cannot get certificates on time from the FBR to apply for exemption in custom. Resultantly, shipments get delay and importers have to pay income tax to get their shipments to avoid delays.

It is proposed that a specific notification/SRO may be issued for income tax exemption to facilitate exporters in getting their import consignments cleared without undergoing lengthy process of payment/approval as well as in expeditious refund settlement.

8.3 Revoking Super tax imposed on corporate sector

Through Finance Act 2015, the government imposed one-time Super tax for rehabilitation of temporarily displaced persons on high net-worth individuals and corporate sector. This super tax is unjustified and tantamount to an additional burden on the existing liability of compliant taxpayers as well as a disincentive to new investments in Pakistan.

It is proposed that this super tax should be revoked through Finance Bill 2017. Further, such adhoc and discriminatory levy may not beintroduced in future as it puts additional burden on tax payers.

8.4 Restoring initial allowance on plants and machinery [Section 23]

Through the Finance Act, 2013, the rate of initial allowance on plant and machinery as described under the Third Schedule to income tax ordinance was reduced to 25% and for building it wasreduced from 25% to 15% effective from tax year 2014.

It is proposed that the rate of 50% should be restored as standard rate for initial allowance for plant, machinery and buildings to gear up investment in BMR and capacity enhancement of existing industries. This would create job opportunities and generate tax revenues for the government once the unit making theinvestment starts earning profits.

8.5 Abolishing discretionary power under section 177

Presently a taxpayer can be subject to audit selection under two sections i.e. 214C and 177 whilesection 122(5A) is also used by tax machinery for full-fledged audit which puts additional burden on taxpayers by maintaining large records of books of accounts.

It is proposed that discretionary power u/s 177 should be abolished and Section 122(5A) may be invoked subject to audit or some obvious information and the taxpayer selected for audit in any tax year must not be selected for next year to compensate and provide relief to taxpayer.

It is further proposed that FBR should focus more on modernization of auditt echniques and base audit on risk areas asevaluated by team of FBR.

8.6 Removing Penal provisions under Section 21(C), 161, 162(2), 182(15) and205(3) to facilitate withholding agents

As the withholding regime imposed under the law extends with each passing year, it has increased responsibilities as well as cost of withholding agents in term of workload, compliances and allocation of resources. Thus, withholding agents are already contributing their resources towards the cause of tax base broadening and improving and cash flow for the government exchequer. It is highly unjustified to penalize withholding agents on any inadvertent omission in their responsibilities.

It is proposed that reliance on income tax withholding be decreased and Income tax withholding agents may be incentivized in shape of tax credits or they may be allowed to retain some portion of tax deducted collected as service charges to meet the management cost of the organization.

8.7 Rationalizing the formula of advance tax payment for individual

Under Section 147, Advance tax is applicable on business entities and individuals having last assessed income of Rs.500,000 or above according to the formula [A/4-B] where 'A' is the latest tax assessed and 'B' is the tax paid during the quarter. The advance tax is payable on quarterly installment basis. This formula is not rational as the tax assessed during the latest assessed tax year may be less or more.

It is proposed that the formula may be changed to the formula applicable for corporate entities where advance tax is computed on quarterly turnover basis as provided under subsection (4) of Section 147 of the Income Tax Ordinance 2001.

8.8 Amending Section 147 (4A) to allow accurate estimation of tax liability

Section 147(4A) was substituted through the Finance Act 2015 under which the taxpayer is required to furnish to the commissioner, on or before the due date of the second quarter, an estimate of the amount of tax payable by taxpayer and there after pay fifty percent of such amount by the due date of the second quarter of the tax year after making adjustments for the amount, if any, already paid. The remaining fifty percent of the estimate is to be paid after the second quarter in two equal installments payable by the due date of the third and fourth quarter of the tax year. In the event in the tax liability become more than the estimate field with second quarter, penalty of five thousand rupees or three per cent of the amount of tax involved, whichever is higher, along with default surcharge of twelve percent per annum is imposed. This penalty is negative on the part of corporate sector, which is already paying huge amount in the form of advance tax.

It is therefore proposed that necessary amendments be made in section 147 (4A)by changing the date of filing of an estimate to any date on or before the due date of the last installment of the tax year. The unjustified penal clause may also be deleted.This would result in more accurate estimation of tax liability on the part of the taxpayers and reduce tax litigation between taxpayers and the tax collecting authority.

8.9 Increasing tax credit to transact business with registered taxpayers

Every manufacturer, registered under the Sales Tax Act, 1990 and engaged in doing business with registered taxpayers is provided with a tax credit @ 3% on its tax liability under Section 65A of the Ordinance. However, the credit is available only if 90% of the sales are made to registered taxpayers, which is a very high benchmark, especially in view of current level of compliance.

It is proposed that this credit limit may be increased from 3% to 5% to incentivize companies in doing business with registered taxpayers only. Further the condition of 90% sales should be reduced to 50% excluding sales subject to final tax. i.e. export sales. This will incentivize corporate sector to follow the intent of legislation in the true spirit.

8.10 Exempting withholding tax for large tax payers [Section 153]

All companies engaged in manufacturing and listed on Pakistan Stock Exchange or assessed to tax in LTUs should be exempt from withholding of tax under section 153.The penal liability in case of shortfall, in advance tax will be reduced and the monthly deposit of withholding tax will reduce the incidence of assesse in default. This will also save substantial amount of cost and effort involved in collecting and keeping records.

8.11 Reducing the Corporate tax rate for listed companies

The effective corporate tax rate for listed companies is 30 percent which discourages listing of companies on stock exchange. It is recommended to reduce it to 25 percent so as 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 those companies who plan to go public and expand their corporate ownership structure.

8.12 Withdrawing Withholding Tax on retailers so that they opt as company

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 percent amount in their cost which becomes quite expensive for retailers.

It is proposed that FBR may withdraw this 4.5 percent 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, being full and final discharge of liability.

8.13 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 (especially 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.

8.14 E-Filing of Statements on annual basis instead of monthly [Section 165]

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 month to which withholding tax pertains.

It is proposed that 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.

8.15 Allowing deductions on calculating property income [Section 15A]

Through Finance Act 2013, the tax on rental income was brought under the Normal Regime and income was being taxed on normal regime. However through Finance Act 2016, rental income for individuals/AOPs has been brought to Fixed Tax Regime (FTR) without allowing any deductions and maximum slab is 20 percent. It may be noted that return on real estate in terms of rental income is very low as compared to investment in any property and there are ancillary expenses related to properties. Although there is gain through appreciation of the properties but the same is taxable under the head Capital Gains under Section 37. The tax on rental income was initially 5% as final liability which encouraged the individuals to pay the tax honestly and collection was increased manifold.

It is proposed that for individuals and AOPs the slabs may be reduced upto 10 percent or else deductions under section 15A may be allowed. This would facilitate tax payers and discourage tax evasion.

8.16 Bringing tax rate for Non-Residents at par with Residents [Section 152]

Under Section 152 (2A) of ITO, 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 payment, deduct tax from the gross amount payable (including sales tax) at the rate specified in Division II of Part III of First Schedule.The Non-residents are still being charged old rates despite the fact that Resident's withholding tax has increased and distinction has been made between a company and non-company and filer and a non-filer.

It is therefore, proposed that the rate applicable for non-residents may be made at par with the residents.

8.17 Charging reduced tax@1% of gross receipt on incoming international calls

Under clause 3 of Part II of Second Schedule of ITO, 2001, the tax on 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.

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.

8.18 Allowing payments without tax deduction to foreign telecom network operators [Section 152]

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

8.19 Exempting 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 taxable income of recipients, it is therefore proposed that such grants may be exempted from total income.

8.20 Withholding tax exemption on Bonus Shares [Section 236M]

Income derived by Collective Investment Schemes (CISs)/ Voluntary Pension Schemes (VPS) etc. are exempted from tax, if not less than 90 percent of its accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit holders. Accordingly 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.

It is proposed that clause 47B be amended and reference of Section 236M be made in it. This omission is un-necessarily creating hurdles for CIS as bonus shares received by them are being subject to withholding tax.

8.21 Withholding Tax exemption 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 ITO, 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."

8.22 Withdrawal of Withholding Tax on Cash Withdrawal from banks

The deduction of 0.6 percent withholding tax on cash withdrawal on amount of more than Rs. 50,000/- is quite and unjustified and it has resulted in cash transactions in the economy outside the banking channel.

It is proposed that the exemption limit may be enhanced to Rs. 150,000 and the rate of withholding tax on cash withdrawal be brought down to 0.2 percent. This would promote growth of bank deposits and discourage cash transactions in the economy.

8.23 Eliminating the requirement for approval of Commissioner [Section 114]

Under Section 114, the approval of Commissioner IR is required for revision of annual income tax return in case the return is revised after the lapse of 60 days from the filing of original return.

It is proposed that the requirement for approval to revise the return prior to any notice of the department for adjudication up to the period of six years, may be done away with to facilitate the tax payers.Further, the requirement for approval of the Commissioner for revision of tax return prior to any departmental notice for adjudication may also be eliminated.

8.24 Providing broad based relief to taxpayers on tuition fee [Section 64AB]

As per Section 64AB of Income Tax Ordinance 2001, some relief to tax payers have been allowed. However, this relief is restricted to only those tax payers having taxable income less than Rupees one million.The allowable deduction ceiling of 5% of the total tuition fee paid have made this Section meaningless for most of the tax payers.

It is proposed that Section 64AB may be modified as under to make it realistic and fruitful for all individual tax payers across the board.

64AB. Deductible allowance for education expenses. — (1) Every individual shall be entitled to a deductible allowance in respect of tuition fee paid by the individual in a tax year.

(2) The amount of an individual's deductible allowance allowed under sub-section (1) for a tax year shall not exceed the lesser of —

(a) Actual total tuition fee, examination fee, admission fee or annual fee paid by the individual referred to in sub-section (1) during the tax year;

(b) twenty-five per cent of the person's taxable income for the tax; and

(c) an amount computed by multiplying sixty thousand with number of children of the individual.

(3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.

(4) Allowance under this section shall be allowed against the tax liability of either of the parents making payment of the fee on furnishing national tax number (NTN) or name of the educational institution.

8.25 Withdrawing powers to probe into banking transactions [Section 165A]

Through the Finance Act 2013, a new Section 165A was inserted in Income Tax Ordinance, 2001, whereby the tax authorities were given discretionary powers to have online access to banks central data bases containing details of account holders and their transactions. This was against the principle of secrecy and provide chances for misuse by tax officials.

It is proposed that Section 165A be either withdrawn or else this provision may be revisited and suitably amended so that any misuse of power could be checked and penalized.

8.26 Allowing income tax refund within 15 days [Section 170(4)]

Under Section 170(4), the commissioner has been authorized to make refund of tax paid in excess to amount chargeable to tax within 60 days which is a harsh provision.

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

8.27 Doing away provision on treatment of foreign losses [Section 104 (2)]

Under Section 104 (2), total deductible expenditures incurred by a person in deriving foreign-source income, exceeding total foreign source income for a tax year chargeable to tax under a head of income, the resulting 'foreign loss' is required to be carried forward to following tax year and set off against foreign source income chargeable to tax under that head in that year. This provision is contrary to the concept of global taxation and there was no such restriction in the repealed Income Tax Ordinance, 1979.

It is proposed that Section 104 (2) may be done away with from the Income Tax Ordinance.

8.28 Persons registered under Sales Tax Act be not included in definition of Prescribed Person under Section 153

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 sale of goods, rendering or providing services or on execution of contract.

It is proposed that sales tax registered persons may be removed from the definition of prescribed person. Similarly, the small traders and companies may also be excluded from the list of prescribed persons as withholding agents, being low turnover.

8.29 Doing away with submission of monthly WH Statement [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.

It is proposed that the requirement for submission of monthly withholding statement may be eliminated as it tantamount to repetition of information already submitted to tax authorities at time of payment of withholding tax.

8.30 Further amendment in Assessment Order be not allowed [Section 122 (4)]

As per Section 122 (4) of IT 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 taxpayers' affairs.

It is proposed 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.

8.31 Making tax recovery procedure lenient [Section 138(2)]

Under Section 138(2) of IT 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 tax authorities with possibility of misuse. Through Finance Act 2016, it has beenannounced that if the case is pending before Commissioner (Appeals) and the tax payer pays 25% of the amount due, the recovery proceedings will not be initiated which is good step.

It is proposed 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 Commissioner Appeal and paid 10% of the tax demand. In case appeal is pending before Appellate Tribunal and the tax payer has paid 25% of the tax amount due, the recovery proceedings may not be initiated against him. Furthermore, once the audit is conducted of any tax payer, he may be excluded from selection of audit for next at least three years if tax paid is higher than the last assessed tax.

8.32 Invoking Section 140 may be stopped till decision of first appeal

Section 140 of ITO 2001 relates to recovery of tax from persons holding money on behalf of a taxpayer. The commissioner has been authorized under this section to serve a written notice to recover money as set out in the notice.

It is proposed that invoking of Section 140 of Recovery of tax may be stopped till the decision of the First appeal as it could lead to harassment and may cause adverse effect on working capital and production capacity of taxpayer.The availability of bank details at the disposal of FBR employees may also result in misuse of information.

8.33 Amending Section 176 to insert omitted words of 'Cost and Management Accountants'

Under Section 176 (c), it is 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 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 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 above sub-section (c) of Section 176.

It is proposed 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)".

8.34 Adopting proper audit procedure [Section 177(6)]

Section 177(6) 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'. This discretionary power is reported to be misused by Commissioner to make unjustified additions to income of taxpayers which enhances their tax liability. Some additions are, however reversed after going through the appellate process.

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

8.35 Restoring 75% tax rebate for 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, 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 proposed that tax rebate to teachers and researchers may be brought to previous level of 75 percent in consonance with government' policy to promote education and research in the country.

8.36 Providing 100% tax rebate for researchers and scholars

Our country has dearth of professionals who are involved in research and development. One of the reasons is that they are not being supported by the government as in other countries, especially advanced nations where research is accorded highest priority for a sustainable economic growth. A very good initiative has been taken by the Higher Education Commission (HEC) recently to make it binding on all HEC-recognized academic institutions/ universities to establish the 'Offices of Research, Innovation and Commercialization (ORIC)'. However, this initiative will not be successful unless the government provide a conducive environment for researchers and research organizations to flourish.

It is proposed that in forthcoming budget, the government may consider to provide 100 percent tax rebate on salaries of researchers.

8.37 Reducing rate of Advance Tax on imports [Section 148]

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

It is proposed that companies registered in LTU should be exempted from withholding income tax under Section 148 on raw materials and capital goods at import stage. Alternatively, tax rate on these items be reduced from present 5.5% to 1 percent.

8.38 Clarifying unexplained income from FE Remittances [Section 111]

Under Clause (a) of sub-section 4 of Section 111, 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 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 funds remitted under this Section do not distort the formal economy.

8.39 Allowing Tax Credit on Purchases from registered persons [Section 65A]

Under Section 65A, 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.

Since the above facility is not available on purchases from registered persons, it is therefore recommended that a new Section (65AA) be inserted which reads as follows:

"65AA. 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 would help encourage documentation as companies will have an incentive to purchase from registered persons.

8.40 Extending Tax Credit to Investments in factory premises [Section 65E]

Under Section 65E, 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 proposed that tax credit under Section 65E should also be extended to investment in factory building and manufacturing related infrastructure.

8.41 Allowing loss adjustment from non-speculative business [Section 65]

The Finance Act 2013, denied adjustment of losses from non-speculative business against income from salary and property income.

It is proposed that the position existing prior to Finance Act 2013 may be restored under Section 65 of IT Ordinance, 2001.

8.42 Excluding professional services from minimum tax [Section 153]

The professional service providers, who by their governing statutes, are not allowed to get themselves incorporated, may be excluded from the ambit of minimum tax under Section 153 or they may be allowed to carry forward such minimum tax for next five tax years.

8.43 Reducing order period from 30 to 15 days [Section 152 (5A)]

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

It is proposed to reduce the period to 15 days and if no order is passed the notice may be deemed as accepted. Further one time exemption is granted in cases of perpetual payment under an agreement with a non-resident.

8.44 Issuing 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 fact rather than interpretation of law. Guideline by OECD also supports this principle.

It is proposed to issue guidelines for application of transfer pricing rules. For this purpose, Section 108 and Rules 20 to 27 of OECD Guidelines may be adopted.

8.45 Enhancing period for grant of stay order by Commissioner[Section 128 (1A)]

Under Section 128 (1A), the Commissioner (Appeals) has the power to grant stay against recovery in 30 days which is a short period of time.

It is proposed that the above period may be enhanced to 180 days in line with the power of Appellate tribunal. [Section 128(1A)].

8.46 Defining the term 'Execution of contract' [Section 153]

The term 'execution of contract' is open ended as every transaction is an execution of a contract under the contract Act. Both tax payers and the department have interpreted this term differently in different situations and this has resulted in litigation.

It is proposed that the term 'execution of contract' used in Section 153 may be defined so as to avoid further litigation.

8.47 Explaining non-taxability of amount paid on maturity of insurance policy [Section 151(1) (d)]

The amount paid to policy holder on maturity of 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 in debt in financial instrument] on payment 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.

8.48 Exempting withholding tax to Distributors and Retailers [Section 156]

Many businesses and manufacturing concerns provide free of cost goods to distributors, wholesalers and retailers on achieving sales targets, as an incentive to promote sales of their products. Such incentives or benefits falls in sub-section 1(d) of Section 18 of ITO 2001 and is chargeable to tax under the head 'income from business'[Section 156]. FBR treat post sales free issue and incentives as prize and accordingly demand 20% withholding tax by invoking section 156 of IT Ordinance, 2001.

It is proposed that appropriate amendment may be made to protect against un-warranted dispute being raised.

8.49 Allowing tax collection on exports without form E [Section 154(3C)]

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) may be amended to provide that it would only apply where the goods are exported without 'Form E' or on goods exported through land routes.

8.50 Extending Tax Credits [Sections, 65B, 65D and 65E]

The enhanced period of tax credit as referred under Sections 65B, 65D and 65E of Income Tax Ordinance, 2001, expired on June 30, 2016.

It is proposed that tax credits under these Sections should be extended through Finance Bill 2017 from 10 to 15 years instead of currently offered 5 years. This would help encourage new investors to plan for future investment projects.

8.51 Restoring Initial depreciation allowance rate to 50% for Plant & Machinery [Section 23]

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

It is proposed that Initial Depreciation Allowance rate may 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 revenue for government.

8.52 Reducing WH Tax on export proceeds realization for promoting exports

Exports is the lifeline of any exporting country and contributes to economic growth and balance of payments.

It is proposed that besides offering other incentives, the withholding tax on export proceeds realization may be reduced from present 1 percent to 0.25 percent in order to promote exports. Further, the Export Development Surcharge (EDS) being charged at 0.25%.of FOB value may also be abolished.

8.53 Abolishing 12.5% WH Tax on Dividends

Since the corporate income is already taxable at the rate of 32 percent, it is suggested that further tax on distribution of income may not be imposed. As such, 12.5% withholding tax presently being charged on dividends tantamount to double taxation. This may be made adjustable against tax liability of payee.

8.54 Revising threshold of WHT under SRO 586 dated 30-06-1991

As per Provision of SRO 586 dated 30-06-1991 withholding tax are not applicable on payment of Rs 25,000 against supplies and on payment of 10,000 against services.It is proposed that this threshold may be revised.

8.55 Increasing limit for cash payment [Section 21 (1a)]

Section 21(1)(a) of ITO, 2001 allows cash payment up to Rs 10,000 (other than salary). This limit is unchanged since the promulgation of Ordinance. Over the years, due to inflation, the expenses have gone high.

It is proposed that this limit may be increased from Rs. 10,000 to Rs. 50,000 to bring it in line with Section 73 of Sales Tax Act, 1990.

8.56 Removing Ambiguity [Section 113(2)(c)]

According to Section 113(2) (c) where the minimum tax exceeds the actual tax liability under normal tax rate, the excess amount is carried forward for adjustment against tax liability of subsequent tax years. In case where there is no tax liability, the field officers deny this minimum tax adjustment by wrongly interpreting this clause.

It is proposed that this ambiguity may be removed to clarify that adjustment in subsequent years is also available where no tax is payable.

8.57 Rationalizing Tax Slabs of salaried class individuals

Current minimum taxable threshold of Rs. 400,000 for salaried class has not been revised since July 2012. Further maximum rate of 30% for salaried class is too high. Upto 30-06-2013, there were only six tax slabs and maximum tax rate was 20% for salaried class.

Since the 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 hardship because of current high inflation it is proposedthat minimum taxable threshold may be increased to Rs. 600,000 from existing Rs. 400,000, total number tax slabs may be reduced to 8 from existing 12 slabs and maximum tax rate for salaried tax payers may be reduced to 20% from existing 30%.

8.58 Adjusting excess tax paid from Individual Tax Returns [Section 149]

Section 149 of ITO 2001 refers to deduction of tax at source under the head of salary.Normally any excess tax withheld of Individuals can get adjusted from the primary withholding agent of the salaried tax payer. However, this facility is only available within the year. If there is excess tax deduction of a salaried tax payer the procedure is to get a tax refund, which is an impossible task for an individual.

It is proposed that after the pre-determine period of filing of tax return, a tax adjustable challan may be generated from IRIS which can be used to adjust the tax from the tax payer's primary tax withholding agent.

8.59 Group Taxation (Section 59AA) and Group Relief (Section 59B)

The concept of Group taxation was introduced in Pakistan on the basis of a detailed study carried out by the 'Task Force for the Review of law Relating to Holding Companies', constituted by the then Central Board of Revenue in 2006 and its recommendations were duly incorporated through the Finance Act 2007. This was an important initiative for Pakistan's Taxation system and economy, aimed at streamlining the group ownership structures and discouraging the complicated cross-company ownership to make the corporate sector internationally transparent and competitive. It has helped in promoting documentation, fostering corporatization, allowed corporate entities to grow into conglomerates and minority shareholders to participate. The implementation of the Task Force recommendations prompted considerable structural changes as group formed holding companies, stepped up investment, created employment and offered opportunities to outside investors to participate in listed subsidiaries of well-run groups. This also resulted in the broadening the capital market and substantial increase in tax revenues. A number of these groups now have the potential to compete internationally with scale and gravitas to raise capital abroad.

Through Finance Act 2016, following amendments were introduced in the income tax Ordinance 2001, which may be detrimental for the corporate sector;

a) Exemption for inter-corporate dividends in a group structure has been abolished for entities designated under Group Relief. This will result in incidence of double (at time, triple) taxation on inter-corporate dividend i.e. the companies first pay tax on their profits and when inter-group dividends are distributed, these are taxed again in the hands of the company and further taxed on distribution to the shareholders of the parent company when distributed as dividend;

b) A restriction under Group Relief has been introduced whereby the surrender of losses will be restricted to the percentage shareholding of the holding company in the entity surrendering the losses. One of the major conditions for surrender of losses under group relief is the maintenance of substantial interest or control in the subsidiary company by the holding company. It is an internationally accepted principle that with control, an entity assumes to govern all the assets and liabilities of another entity in their entirety, including losses. Imposing a limitation on the right of the holding company to utilize such losses (based on holding percentage) is not only economically unjust but also against the concept of group taxation under internationally accepted norms.

It is proposed that in the interest of growth, corporatization and documentation, the FBR may consider revoking the amendments bought about through Finance Act, 2016.

Furthermore, the time limit for setting-off of assessed losses under sub-section 3 section 59B of the Ordinance, a subsidiary company is allowed to surrender its assessed losses for set off against income of holding company for not more than three years.It is proposed that the time limit of the set off of losses should be extended to five years.

8.60 Reducing the capital gain tax rate on share holding

At present there is 15 percent tax imposed on holding for less than twelve months; 12.50 percent for holding twelve months or more but less than twenty four months; and 7.5 percent for holding period of twenty four months or more but less than four years.

It is proposed that capital gain tax rate of 10 percent where holding period of securities is less than six months; eight percent for holding period is six months or more but less than twelve months; and zero percent where holding period is more than twelve months.

8.61 Charging tax on issuance of bonus shares

The present treatment of bonus shares as income of shareholders is very detrimental to the growth of capital market and has hampered the issuance of bonus shares by listed companies.

It is proposed that there may be withdrawal of amendments made to ITO, 2001 regarding charging tax on issuance of bonus shares.

8.62 Capital Gain Tax Exemption on sale of property to REITs

REIT involves an additional transaction of transfer of property to a Trustee at market value. This results in unrealized gains for the seller whose ownership is merely being converted into REIT units. At least 90% REIT profits are distributed each year as a dividend and dividend is subject to tax. Non-REIT entity does not require property transfer to a Trustee neither it has the compulsion for the dividend distribution. Tax shelter through leveraging is a huge advantage for Non-REIT entities and hence it is a big disadvantage for REITs. Imposition of Capital Gain Tax on this unrealized gain makes the transaction uneconomical at the initial stage. Exemption from income tax granted to this gain, which was available till June 2015 is the most critical starting point to promote REITs in the country.

It is therefore proposed that the Capital Gain Tax Exemption on Sale of Property to REITs should be available to all types of REIT schemes as it was available till June 2015. Accordingly, the newly added proviso be deleted and Clause (99 A), Second Schedule Part 1 ITO, 2001 be amended as under:

'Profits and Gain accruing to a person on sale of Immovable Property to a REIT Scheme upto thirtieth day of June, 2020'.

8.63 Investment in REIT be treated as investment in Stock Fund

Under the prevailing regime investment in REITs by a Company is subject to harsh taxation. If a company invests directly in real estate total tax payment comes to 9.26%, whereas same investment by a company through REITs would attract taxation at 21.64%. Tax for an individual comes to 9.41%. The REIT scheme is clubbed with Money Market Fund to eliminate the risk of Tax Arbitrage. As the illustration on the next slide demonstrates, Tax Arbitrage risk is misplaced in case of REIT Funds. In fact, Government's revenue will be much higher if companies invest through REIT rather than directly investing in real estate. Unlike REITs, Companies have the ability to borrow and leverage their capital structure, which creates tax shield for the company. REITs distribute 90% of their income as taxable dividend, whereas companies generally payout 40% of their profits as dividend and borrow upto 50% of asset value.

25% tax rate on dividends received by a company from REITs has almost halted development of REITs industry. It is proposed that the tax rate should be brought down to 10%, which is charged on dividends received from a stock fund. Even at the proposed lower rate of dividend taxation at 10%, Government's revenue will be 18% higher if companies invest through REITs. Secondly, investment in REIT units be treated as investment in Stock Fund (wrongfully classified with Money Market or Fixed Income Fund). Accordingly, under Proviso c of Part I-Division III of the First schedule ITO, 2001 the word "REIT Scheme" after the words "Collective Investment Scheme" be deleted and the words "and from REIT Scheme shall be taxed at the rate of 10%" be added after the word "at the rate of 25%", so that Second Proviso of Part I-Division III of the First Schedule to be read as follows:

'Provided further that the dividend received by a company from collective investment scheme, shall be taxed at the rate of 25% and from REIT Scheme shall be taxed at the rate of 10% for tax year 2015 and onwards'.

8.64 Rate of Advance tax on Dividends received from REIT Scheme [Section 150]

The rate of advance tax on dividend as per Section 150 [Division I of Part III, First Schedule] First Schedule] ITO, 2001 required to be deduced by REIT schemes should be made similar to that of Stock Fund.

The Finance Act 2015 added the word "REIT Scheme" (these words should be deleted) in the third column of table of proviso (c) after the words "Income Fund or". It is proposed that the word "or REIT Scheme" be added in the second column of table of proviso (c) after the word "Stock Fund".

'Provided that the rate of tax required to be deducted by a collective investment scheme, REIT Scheme or a mutual fund shall be:-

	Stock Fund or a REIT Scheme	Money Market Fund, Income Fund or any other fund
Individual	10%	10%
Company	10%	25%
AOP	10%	10%

8.65 Relaxing time limit for payment of advance tax on functions [Section 236D]

The time limit for payment of advance tax charged on banquet functions, events and gathering under Section 236D of ITO 2001 needs to be relaxed. According to the existing provisions, tax is charged to the customers in advance and deposited in the Government treasury within seven days of the date of event. The issue arises in case the events are held on credit terms in which case the withholding agents deposits the tax prior to collection of payment from their customers. This is an extra burden on the withholding agent to extend credit as well as pay advance tax on behalf of his customer prior to collection.

8.66 Exemption from Advance Tax on Sale of Immovable Property

REIT regulation requires that property must be transferred in the name of Trustee which creates an extra leg of property transfer. In most of the cases, selling Immovable property to REIT is a non cash event, as the seller receives REIT Units as consideration (resulting in paper gains). The Government rightly recognizing this earlier exempted capital gains arising to any person from selling Immovable property to a REIT Scheme under Clause 99A of the Second Schedule, ITO; there should also be no advance tax implications on selling Immovable property to REITs. Since transactions with REITs are carried on actual valuations and all other property transactions are reported at valuations several folds lower than the actual values; sellers of Immovable property to REITs, REITs and purchases of Immovable property from REIT will be at a severe disadvantage when compared to informal sector due to the application of these Advance Tax clauses. REITs distribute majority of their distributable income as dividends and are therefore tax exempt under clause 99 of the second schedule, ITO. REITs serve as a conduit or pass through to the investors for tax purposes. Therefore, there should be no advance tax implications on REITs.

It is therefore proposed that Advance tax on sale / purchase of immovable property under Section 236 (C) and 236 (K) of ITO, 2001 should be exempted for transactions with REITs as REITs are merely pass-through entities. Furthermore, the provisions of section 236 (C) and section 236(k) should not apply to seller or purchaser of Immovable property in the case where immovable property is transferred to and from REIT scheme

It is further proposed to add the following sub-section under both the referred Sections 236 (c) (1) and 236(k) (1)

'Nothing contained in this section shall apply to Immovable property transfers to and from a REIT Scheme'

Furthermore in line with the above, exemption certificate from Advance Tax, as per Section 236(c) should not be required from a REIT scheme.

8.67 Inserting a new 'Tenth Schedule' in ITO 2001 on Mutual funds and collective Investment Schemes

It is proposed that Section 100D may be inserted throughFinance Bill 2017 to incorporate the 'Tenth Schedule'relating to mutual funds and collective investment schemes. The new schedule may be read as 'rules for the computation of the income, profits and gains of mutual fund and collective investment scheme and related matters'.

The tax provisions in respect of taxation of both mutual funds and investors will be consolidated in the new schedule. Existing frame work will not change and mutual funds will be required to distribute in the form of cash dividend 90% of its income excluding capital gains realized and unrealized.

8.68 Inserting a new 'Eleven Schedule' in ITO 2001 on REIT Schemes

It is proposed that a new section 100E may be inserted through Finance Bill2017 to incorporate the 'Eleventh schedule' of REIT Schemes which may be read as 'rules for the computation of the income, profits and gains of REIT schemes and related matters'.

8.69 Inserting a new 'Twelve Schedule' in ITO 2001 on approved pension funds

It is proposed that a new section 100F may be inserted through Finance Bill 2017 to incorporate the 'Twelfth Schedule' which may be read as 'rules for the computation of the income of participants of approved pension fund and related matter'

The tax provisions in respect of taxation of Voluntary Pension Schemes will be consolidated in schedule 12. The existing framework shall remain unchanged.

8.70 Removing discrimination with taxpayers of AJ&K

The taxpayers of AJ&K, duly registered on NTN-Roll of Department of Inland Revenue/ Council Board of Revenue, AJ&K Council are facing 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, taxpayers of AJ&K are subject to higher rate of taxation. The same is available on official web-site of AJ&K Council Board of Revenue.

It is proposed that FBR may take necessary measures to remove above discrimination faced by the AJ&K taxpayers.

8.71 Providing Tax exemption to Professionals on Export of Services

Exports of goods or services are the life line of our economy. At present, only IT related services are exempted from income Tax.

It is proposed that income from export of services by professionals like engineers, architects and accountants etc. may also be provided exemption from income tax.

8.72 Allowing WH Agents to Retain 10% of tax collection as Service Charges

FBR has been availing the services of Withholding Agents free of charge for quite a long time. These withholding agents have been incurring heavy expenditure on hiring and training of staff, record maintenance, audit and other operating expenses.

It is proposed that withholding agent may be allowed to retain 10 percent of tax collection amount as service charges on principle of natural justice.

8.73 Removing Clause 3(a) of Part I of Sixth Schedule of IT Ordinance, 2001

Presently employer contribution of Provident Fund, exceeding Rs 100,000 annually is included in income of employee. Since employees are already paying high rate of taxes and this benefit is also related to retirement, hence it is proposed that this should be abolished by eliminating clause 3(a) of Part I of Sixth Schedule of IT Ordinance, 2001.

8.74 Withdrawing Advance Tax on Domestic Air Ticket

It is proposed that advance Income tax @5% on domestic air ticket may be withdrawn as this tax is adjustable. The Airlines do not provide CPR(s) to companies and even to the Travel Agent. Further FBR system fail to verify this tax leading to additional burden on companies.

8.75 Accepting paid electricity bill as evidence of Advance Tax

Paid electricity bill should be accepted as evidence of advance tax as electricity companies don't file tax returns with individual's names.

8.76 Amending SRO 509 to relief the industry from unnecessary taxation

Through SRO 509(I)/2013 The federal government levied extra tax 5 percent of the total burden amount excluding the amount of taxes, in addition to tax paid supplies of electric power and natural gas to persons having industrial or commercial connection who's monthly bill exceeds rupees 15000. But who have either not obtained Sale Tax registration number or are not on the Active Taxpayer Tax of FBR.

Since the taxpayers are facing problems in paying this extra tax. It is proposed that necessary amendment may be made in SRO 509 to provide relief to taxpayers

8.77 Imposing tax on luxuries items

The government is charging minimum value added tax @ 3 percent at import stage on import of all commercial items.

It is proposed that the minimum value added tax on import of luxuries items may be increased to discourage unnecessary import that puts Burdon on the balance of payment.

Chapter 9

Proposed Sales Tax Measures

9.1 Release of all Outstanding Sales Tax Refund Claims

Huge amount of exporters' liquidity is blocked with the FBR in their Sales Tax and causing immense problems to the exporters in keeping up their export commitment.This is causing liquidity problem for the exporters.

It is proposed that all outstanding claims of the exporters are cleared without the least delay. FBR should inform the exporters by which date their refund claims will be cleared.

9.2 Introducing simple Sales tax mechanism for wholesaler and traders

Above 90% of sales tax collection is at import stage on import of goods; at manufacturing stage (third Schedule Items and Special Procedure Chapter XII Items) and through Special Procedures for certain Sectors i.e. steel sector, retailers and others. The major tax evasion takes place at the wholesale and trading stage such as undue input adjustments and sales suppression. Further, the sales tax on wholesalers and traders is applicable on VAT mode where proper procedure for input and output is adopted and net payment in the Federal Treasury may be less than 4 percent.

It is proposed that for wholesale and trade sector, simple mechanism of sales tax may be implemented and straight rate ranging from 4 percent to 5 percent may be imposed without any adjustment of input tax. This would reduce chances of sales suppression due to low rates and increase direct taxes, in addition to improvement in tax collection.

9.3 Sales tax input / output adjustment Section 8(1)(b) encompassing SRO 490 as amended by SRO 450

The implementation of this aforementioned section by tax, officials is such that it defies the main principle of VAT mode of taxation i.e. disallowing input on items having direct nexus with output of a registered person. The spirit of legislation should prevail and items having direct nexus with taxable activity should not be brought under the preview of the subject section and SRO.

It is proposed that a clarification should be issued by FBR to its officials in order that they may not stretch this section beyond its legal boundaries.It would not only ensure required compliance of the law but would also support in the reduction of cost of doing business.

9.4 Sales tax withholding regime-Section 8(1)(ca), 8(A) and sub section 4A of Section 11.

Section 8(1)(ca) "the goods or services in respect of which sales tax have not been deposited in the Government treasury by the respective suppliers." Section 8A – Joint and several liability of registered persons in supply chain where tax unpaid. 1)can a person be penalized for something which is not in his control? 2)Can a person exercise any control on other parties which are not under his control? Vide Finance Act 2016, a new provision was added as sub section 4A of Section 11 of the Sales Tax Act. 1990 states that "Where any person, required to withhold sales tax under the provisions of this Act or the rules made there under, fails to withhold the tax or withholds the same but falls. the withholding regime imposed under the law extends with each passing year. It has increased the responsibilities as well as cost of withholding agents in terms of workload, compliances and allocation of resources. Thus, withholding agents are already contributing their resources towards the cause of tax base broadening and improving cash flow for the Government exchequer. In view of the already aforementioned burden imposed on withholding agents it is highly unjustified to penalize withholding agents on any inadvertent omission in their responsibilities.

It is proposed that these should be abolished as these are meant to punish taxpayers for something, which is not in their control. This not only increases the cost of doing business for the documented sector but on the other hand also encourages procurement from unregistered sector.The withholding tax regime imposed under the law has increased the responsibilities as well as cost of withholding agents in terms of workload, compliances and allocation of resources in view of the already aforementioned burden imposed on a withholding agents it is highly unjustified to penalize withholding agents on any inadvertent omission on their responsibilities.

9.5 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 sales tax rate may be reduced to single digit and it should be non-adjustable and non-refundable. This would help in improving tax collection and doing away with corruption.

9.6 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.

9.7 Defining 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 principle tantamount to 'Other Disposition' and accordingly liable to sales tax.

It is proposed that [STGO] may be amended in line with the definition of term supply given.

9.8 Tax Fraud - Section 2(37)

The definition of 'tax fraud' is very harsh which states that'tax fraud' means knowingly, dishonestly or fraudulently and without any lawful excuse ('burden of proof of which excuse shall be upon the accused').

In case the tax authorityalleges any person for committing tax fraud then the burden of proof shall rest on the person who has made the allegation and not the tax payer who has been accused.

It is therefore proposed that the definition of 'tax fraud' may be amended so as to put the burden of proof upon the tax authorities.

Further, under section 2(37) of the Sales Tax Act, 1990, underpaying tax liability for two consecutive periods was considered tax fraud, however, SRB under section 2(94) of Sindh Sales Tax on Services Act, 2011 deems underpayment even once as tax fraud. The provincial law is more restrictive whereby erroneous entry for the first time would be considered fraud and taxpayers would be needlessly harassed. This needs to be harmonized with Sales Tax Act, 1990.

9.9 Time of Supply - Section 2(44)

The definition of time of supply means the time at which goods are delivered or made available to the recipient of the supply or the time when payment is received by the supplier in respect of that supply whichever is earlier.The liability to pay sales tax is of the supplier and in normal business it becomes difficult for the suppliers to pay the sales tax in Government Treasury when the same is not received from the customers. In case of supplies to the public sector organizations these payments got delayed due to long processing procedures. This create undue burden on the taxpayers and becomes difficult to manage the cash flows.

It is proposed to amend the definition of time of supply as under:

'Time of supply means the time when payment is received by the supplier in respect of that supply or 06 months whichever is earlier. The above also correspond with Section 73(2)'.

9.10 Revision of Sales Tax Return [Section 7(1)]

Currently if tax payers finds any omission or wrong declaration, a registered person may file the revised return after approval of the concerned Commissioner. The time period for such revision is 120days.There should not be any restriction of revision of tax return if adjudication proceedings are not initiated against the tax payers.

It is proposed that revision of tax return may be made within the period of six months of filing of original return and after six months approval may be required from the concerned commissioner.This will also correspond with Section 7(1) which states that input tax can be claimed for any of the six succeeding tax periods.

9.11 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. It is proposed that 'Further Tax' may qualify for adjustment as input tax.

9.12 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. 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.

9.13 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 proposedto make amendments in SRO # 490(I)/2014 dated 12-06-2014 to allow input tax on electricity and gas consumption within residential colonies of registered persons, which are part of plants premises.

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

9.15 Claiming or deducting input tax paid on good or services[Section 8(1) 9ca]

Section 8(1)(ca) of Sales Tax Act debars 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. the Lahore High Court also took cognizance of such discrimination and struck down Section 8(1)(ca) from the statute.

It is proposed that compliant taxpayers may not be penalized if sales tax amount paid to supplier is verifiable through banking transaction from both the banks accounts of the supplier and buyer under Section 73 of the Act.

9.16 Deleting Section 8A to remove liability of person for non-compliance by Supplier

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

9.17 Deleting Section 8B with regard to Adjustable Input Tax

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.

It is proposed that Section 8B may be removed from the statute.

9.18 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 go to cleanse the atmosphere otherwise.

9.19 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.

9.20 Curtailing discretionary powers of tax officers [Sections 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 authorized 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 the Active Tax Payers List.

9.21 Removing discretionary powers of tax officer [Section 40B and 40C]

Under section 40B and 40C 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 may either be eliminated 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 the registered person.

9.22 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 proposed that this section may only be applicable where the case of tax fraud has already been established at the stage of Order-in-Appeal.

9.23 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 Regional Commissioners or DG, LTU. This authority may not be allowed to be delegated to any subordinate officer. The blocked bank account or STR/NTN shall be resorted by competent authority after full opportunity is extended to tax payer to explain reason for action and recording of replies of tax payer. The restoration shall be made within 48 hours directly and may not be lingered on moving files from one department to another.

9.24 Liability for Payment of Tax [Section 58]

Under the existing law, a person who is 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 ITO, 2001, caters such issues under section 139. This law comprehensively deals with a tax liability, both in the cases of a company and an association of persons. Provision analogues to section 139 of the Income Tax Law needs to be introduced in the Sales Tax Act.

9.25 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 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.

9.26 Inadmissible Input Tax [Section 73]

9.26.1 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 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 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.

9.26.2 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.

9.26.3 Part payment of invoice, to the extent of sales tax, is also not catered by the statute, which appears to be required.

9.26.4 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.

9.27 Removing 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 proposed that condition for filing unnecessary annexures may be curtailed at maximum level to achieve simplification and such details, if essentially required, can be made part of annual sales tax return.

9.28 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 registered sales tax persons.

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

9.29 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 and fixed rate of sales tax be excluded from application of Further Sales Tax to bring consistency within sales tax regime.

9.30 Providing separate sales tax registrations to two or more businesses of same entity

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 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.

9.31 Reducing period for retaining records by registered persons from six to three years [Section 24]

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 proposed that 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.

9.32 Removing 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 faced by the registered person.

9.33 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 58E(2) form Special Procedure for Payment of Sales Tax by Commercial Importer Rule 2006.

It is proposed that Clause 58-E(2) may be restored for the benefit of commercial importers.

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

9.35 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 proceeding for recovering 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 to provide commencement of recovery proceeding after 30 days from the receipt of order.

9.36 Disposal of all Refund claims [Section 66]

Under Section 66 of Sales Tax Act, 1990, the refunds claimed within one year of the date of payment is required to be disposed of by the Commissioner within a period not exceeding ninety (90) days from the date of filing of such application or claim by the exporter. However, there are delays in disposal of refunds which create liquidity for businesses.

It is proposed that the government should expedite the payment of sales tax refund to ease the liquidity problem of businesses.

9.37 Amending Section 21(2) on Blacklisting of Suppliers to avoid misuse

Section 21 of Sales Tax Act, 1990 deals with 'De-registration, blacklisting and suspension of registration. Sub-section 21(2) empowers the Commissioner to blacklist a registered person or suspend his registration in case he is satisfied that such person has issued fake invoices or has otherwise committed tax fraud.

It is proposed that this Section may be amended appropriately so as to avoid misuse of powers by the Commissioner.

9.38 Doing away with Sales tax on Advance Payment

Prior to amendment in Finance Act 2013, sales tax was chargeable at the time of delivery regardless of time of payment. However, after said amendment, sales tax is now also payable on receipt of advance payment which creates serious operational issues and unnecessary reconciliations, resulting in hardships to taxpayers. The Government is also not getting any benefit from this amendment, except slight timing difference.

It is proposed that sales tax on advance payment maybe done away with immediately.

9.39 Removing additional tax burden on registered Sale Tax person [Rule 18 C]

Vide SRO # 509 dated 12-06-2013 read with special procedure rules from 18A to 18C and section 3 (1A), electrical and gas companies are charging 5% extra sales tax and 1% further sales tax on monthly bills exceeding 15,000 from those consumers who do not provide their sales tax registration number.

As per Rule 18C of special procedure for claiming sales tax registration, a registered person is required to submit sales tax registration certificate bearing name and address of property where said connection is provided and it should also match with gas and electricity connection record.

The practical problem is that most of the business having rented property particularly in case of distribution business and all connections are maintained in the name of owners. The electric and gas companies do not accept sales tax registration and charge said additional taxes.

It is proposed that to provide relief to registered tax payers, the burden of additional tax may be removed or at least appropriate amendment be made in Rule 18C so as to allow gas and electric companies to accept rental agreement of the property mentioned in sales tax particulars. Further, the condition of matching with connection list should also be removed.

9.40 Removing 180 days' time limit for Return of Supply [Section 9 read with Rule 22(4)]

As per section 9 read with Rule 22(4) credit note can be issued for return of supply within 180 days, currently sales tax is levied on some health supplement, Dietary supplements and as per business norms industry has to take back the near expiry, expired or slow moving stock form the market even till 2 years so to support genuine transaction.

It is proposed that to remove the time limit of six months (180 days) on return of supply.

9.41 Doing away with SRO 485 (I) 2015

As per SRO 485 (I) 2015, sales tax withholding is now applicable at the time of purchase instead of payment. This is a unique sort of amendment with reference to withholding and creates lot of operation and recording issue. It is proposed to do away with this SRO.

9.42 Increasing minimum threshold for tax withholding for services and supplies

The minimum threshold for tax withholding for Services and Supplies were fixed in 1990s at Rs 10,000 and Rs 50,000, respectively.

It is proposed that this threshold may be increased to Rs 25,000 and Rs 100,000 respectively, in cases where both the withholder and deductee are on the Active Taxpayers List (ATL). The withholding Sales tax on payments to registered persons falling under LTUs may also be exempted.

9.43 Withdrawing 10% Sales Tax on Service Fee of Tour Operators

It is proposed that 10 percent Sales Tax on Service fee of Tour Operators should be withdrawn while Sales Tax on Commission earned by Travel Agents on air tickets should be levied as flat rate at Rs. 50 per ticket for domestic travel and Rs. 100 on international travel. It is also proposed that all tour operators /travel agents dealing in religious tourism/ pilgrims should also be exempted from Sales Tax on Services.

9.44 Centralizing revenue collection task by FBR instead of separate provincial revenue boards

Due to levy creation of separate body for recovery of sales tax for the persons carrying on business in the province of Sindh, i.e. Sindh Revenue Board (SRB) by virtue of "The Sindh Sales Tax on Services Act, 2011", the tax payers having business units across Pakistan and Azad Jammu & Kashmir (AJ&K) have also been trapped by the Federal Board of Revenue (FBR), Punjab Revenue Authority (PRA), Khyber Pakhtunkhwa Revenue Authority (KPRA) and the Council of AJ&K regarding payment of GST and related filing with different revenue collection bodies. Besides, these tax payers also have to confront various notices/ audit proceedings initiated by these three bodies, individually. This task has become quite hectic given the fact that provisions of Sales Tax Act 1990, Sindh Sales Tax on Services Act 2011, and Punjab Sales Tax on Services Act 2012 and Khyber Pakhtunkhwa Finance Act, 2013 have not been harmonized post creation of SRB, PRA and KPRA.

It is proposed that revenue collection be made only by FBR under provisions of Sales Tax Act, 1990 across Pakistan. FBR may allocate the recovered amount of taxes among concerned authorities. This would help the tax payers in running their business in Pakistan while dealing with only one revenue collection authority i.e. FBR.

9.45 Imposing single rate of Sales Tax on all services

It is proposed that a single rate of Sales Tax @ 10 percent may be imposed on all types of services with input tax credit facility. Further, there should be a comprehensive list of inadmissible goods and service in the Sales Tax Act, 1990.

9.46 Allowing adjustment of Sales tax on bad debts

The Sales Tax Act does not contain any provision for allowing adjustment in respect of bad debts after deposit of sales tax.

It is proposed 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 or debit note be extended up to 365 days.

9.47 Allowing sales tax refund against services

Sales Tax Refund is not being allowed against services such as Courier companies, Logistics, Clearing and forwarding agents and Insurance in spite of the fact that issue of input tax between provinces and Federal Government has been resolved.

It is proposed that necessary provisions may be added in the Sales Tax Act to allow sales tax refund against above services.

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

As per Clause 33 of 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 manufacturing of goods exported or supplied at zero rate, it is proposed that requirement under clause 33 of Sales Tax Refund Rules may be done away with.

9.49 Provincial Sales tax

a) The concept of tax withholding on sales tax has been adopted by the Sindh Revenue Board (SRB) with some variations from the "Sales Tax Special Procedure (Withholding) Rules, 2007". This has created complications as to how to deduct tax when dealing with persons registered in different tax territories. This complication may be removed.

b) Sales tax rate on services in Sindh is 15 percent. It is proposed that sales tax may be charged at reduced uniform rate of tax @10 percent to provide relief to services sector and increase the tax net.

c) As per Rule 22(1) of 'Sindh Sales Tax on Services Rules, 2011', sales tax input could not be claimed in the relevant period, rather it is claimed in the return for succeeding four months. It is proposed that the limit may be enhanced to one year, keeping in view the overall economic environment in which companies are mostly slow pay masters and payments are substantially delayed.

d) Under Rule 22A(viii) of the Sindh Sales Tax on Services Rules, 2011, input tax adjustment is not allowed "on goods and services used or consumed in a service liable to a rate of tax lesser than the 15% of the charges or to a specific rate of tax not based on value". It is proposed that this clause may be omitted and taxpayers be allowed to input adjustment. Sales tax charged at lower than standard rate of tax increases the cost of doing the business for the taxpayers, who are compliant to the law and are vital tool to help out in developing documented economy of the country.

e) Under the SRB rules, sales tax paid on capital goods, not exclusively useable or used in providing taxable services in Punjab, is considered inadmissible. This clause may be removed to facilitate the taxpayers.

Chapter 10

Proposed Federal Excise Measures

10.1 Reducing FED on Cement Industry to encourage infrastructure

Cement industry is subject to FED @ Rs. 1,000/- per ton and GST@ 17% of maximum retail price. These taxes come to around Rs. 130 per bag. This incidence of high taxation negatively impacts domestic consumption.

It is proposed that the government reduce FED stepwise to "Zero" to encourage cement off take as this would support housing and infrastructural development of the Country especially in the context of CPEC.Abolishment of excise duty will not only eliminate tax evasion but also enhance cement consumption at reduced price.

10.2 Removing list of excisable services from federal excise law

After the promulgation of Provincial Sales Tax Laws, the list of services subject to excise duty has been reduced. However, there still exist certain services which are taxable under the Federal Excise Act 2005. Due to existence of Provincial Sales Tax Laws it has become redundant and creates confusion amongst the tax payers.

It is proposed that list of excisable services may be removed from the Federal Excise Law to avoid confusion.

10.3 Streamlining FED Procedure for 'Franchise Fee'

The 'Royalty' payment has been subject to FED. The term used in the law is 'Franchise fee' which at times is distinguishable for royalties in strict commercial and practical sense. This has led to issues of interpretation and mis-application in many entities.

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

10.4 Bringing all Excisable Services 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 franchise who pays FED is not entitled to claim the same against his excise or sales tax liability.

It is proposed 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.

Chapter 11

Proposed Custom Duty Measures

11.1 Including Cement in list of CGO No. 11 of 2007

Clinker and Cement is manufactured locally and is abundantly available in Pakistan. It is surprising to note that the list of locally manufactured goods as notified by the Federal Board of Revenue vide Custom General Order no. 11 of 2007 dated August 28, 2007, does not include cement.

It is proposed that to include cement in the list of locally manufactured goods by making necessary changes in Custom General Order no. 11 of 2007 dated August 28, 2007.This would not only support to improve capacity utilization of the industry but would also support the Government in terms of additional revenue generation from local production.

11.2 Removing approved list clause in SRO 450 and SRO 327

A list of items has to be approved in SRO 450 and SRO 327 and only items mentioned in the list can be imported.In SRO 450 and SRO 327 Rules, there is no restriction on import of any item for re-export purpose, however, the customs insists to have an approved item list for SRO 450 & 327. Items not mentioned cannot be imported and any new items have to be added in list before import.

It is proposedto remove approved list clause so that goods for re-export purposes can be freely imported.

11.3 Refunding Customs rebate along with export proceeds realization

At present the industries apply for Customs Rebate after realization of export proceeds which is realized after 3 to 6 months. The rebates are kept outstanding for almost one year and exporters get payment after almost 1 ½ year despite the fact that exports are effected long back and keeping the payment of Custom Rebates outstanding causes great amount of hardships and severe liquidity crunch to the exporters.

It is proposed that all custom rebate claims may be settled immediately and paid through State Bank of Pakistan at the time of realization and payment of export proceeds.

11.4 Removing Difficulties faced by export-oriented Units [SRO 327 (I)/2008]

Under SRO 327(I)/2008, FBR notified the 'Export Oriented Units and Small and Medium Enterprises Rules, 2008" which is applicable only to units licensed as export-oriented units and registered as manufacturers-cum-exporters under Sales Tax Act, 1990. As per provision under sub-rule 10(1)(a) of SRO 327, 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.

At present, the goods imported by Export Units situated in other Customs Stations, is allowed shifting of goods under Safe Transportation Scheme to 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 CGO to authorize the customs staff at Importing Station to ensure applications of conditions of SRO 327(I)2008, for goods transferred to upcountry Manufacturing Bond, under different jurisdiction. While, securities are upheld by 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.

It is proposed that immediately after dispatch of goods under Safe Transportation Scheme, the Indemnity Bond and Post-dated Cheques may 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.

11.5 Removing ambiguity in manufacturing bonded License value [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.

One single Maximum Value is granted for both categories of goods on each License issued to Export Unit, as defined above, whereas, there is no nexus of utility or consumption between two different class of Imports. Due to this ambiguity, import value of machinery is 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 installed machinery within the capacity of License i.e. 100 million, then the Bond License

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

i. Value of Input/raw material, as per Analysis Certificate, as being approved
ii. Value of Plant & Machinery, to be determined or prescribed separately, intended to retained in Bond for 10 years.
iii. 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.

11.6 Amending Fifth Schedule (Table D – Entry 30) of Customs Act to allow Pharmaceutical Companies to claim exemption without mentioning particulars of Drugs

Under Part II of Fifth schedule of Customs Act (Table D entry # 30) 5 percent duty reduction is provided on import of Aluminum foil /cold forming aluminum foil (H.S code 7607.2000) for manufacturing purpose, subject to condition that the name of manufacturer and particulars of drug are printed on the foil.

This condition is difficult to be fulfilled as imported foil is used in several products and to maintain separate inventory of foil for each product is financially inefficient. As such, this exemption is availed by only few companies for selected products.

It is proposed that appropriate amendment may be made in the Fifth Schedule of Customs Act so as to remove the requirement to mention the particulars of drugs for claiming exemption. The name of manufacturer should be sufficient to claim exemption under this Provision.

11.7 Amending Fifth Schedule (Clause III) of Customs Act to remove requirement for IOCO Certificate to claim duty reduction by Pharmaceutical Companies

Under Clause III of Preamble of Part II of Fifth schedule of Customs Act, there is a requirement to submit IOCO certificate for claiming reduced rate of duty. Since all the pharmaceutical companies are required to get NOC from the Drug Regulatory Authority of Pakistan (DRAP) on each and every import, it is therefore proposed that the above requirement of IOCO Certificate may be done away with for speedy clearance of goods.

11.8 Withdrawing 1% additional duty on all imports vide SRO 1178 dated 30-11-2015

The government vide SRO 1178 dated 30th November 2015 levied additional customs duty on import of goods specified in First Schedule to the Customs Act, with few exceptions at the rate of one percent of the customs value of such goods.

Since this signifies an unexpected measure to achieve revenue target, it is proposed to do away with such additional customs duty on imports by withdrawing the above SRO 1178.

11.9 Zero Import duty on machinery & equipment (not locally manufactured)

The import duty on machinery and equipment (not locally manufactured) has been increased from 5 percent to 10 percent, which is restricting companies intending to make large scale investment in the country.

It is proposed that this should be reversed and the government should consider to allow such imports at zero rate.

11.10 Allowing separate H.S. code in tariff for fabric waste

A huge quantity of fabric waste is being imported by various manufacturers in Pakistan. It is proposed that a separate H.S. Code should be allowed in tariff for fabric waste.

11.11 Excluding 'Dyes' from Appendix A,B and C of Import Policy

It is suggested that Dyes (PCT Code 3204.1600) may be excluded from the Appendix A, B and C of Import Policy because due this the custom authorities are not allowing to importers the benefit of SRO 450(1)01 whereas they are allowing the same under SRO 327(1)08.

11.12 Allowing Import of Steam (Non-Coking) Coal

It is proposed that import of Steam (Non-Coking) Coal (HS Code 2701.1900) may be allowed under Export-oriented Unit License enacted by FBR vide SRO 327 dated 29th March 2008.

11.13 Inserting a separate section in Customs Act for cancellation of documents

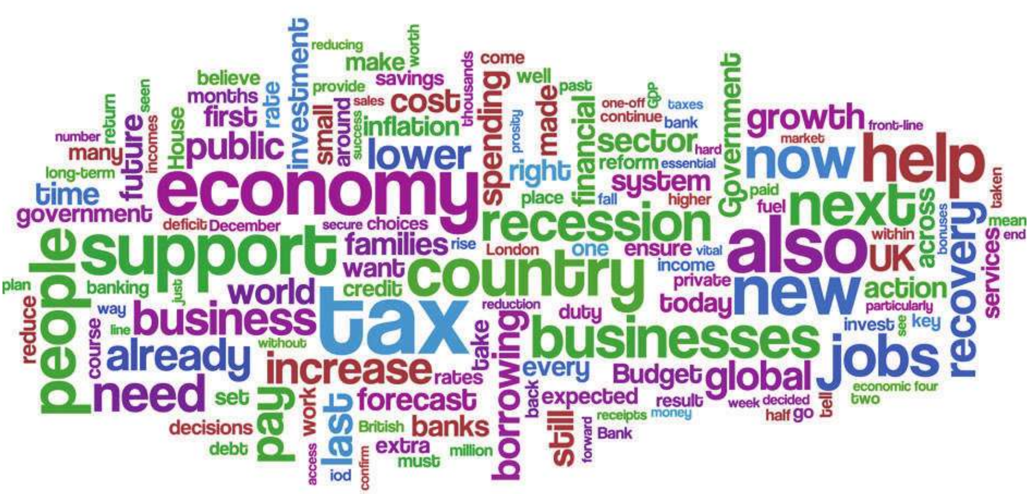
In the Customs Act, there is no rule for cancellation of documents. It is therefore proposed that a separate Section may be inserted in the Customs Act to allow the importers to cancel clearly any document.

11.14 Allowing benefit of SRO 492 to imported goods where labour involved

Under SRO 492(1)/09 on Import-cum-Re-export, it is binding on the Importer to attach the imported material with goods manufactured in Pakistan at the time of export. It is proposed that if any imported goods, where only labour is involved, may also be entitled to get the benefit of this SRO because they are earning foreign exchange in shape of labour.

Proposed Measures for China-Pakistan Economic Corridor (CPEC)

General Proposals



Chapter 12

Proposed Measures for China-Pakistan Economic Corridor (CPEC)

12.1 Tax Exemption to Non-Resident Pakistanis investing in CPEC-related Projects

Under the existing laws and regulations, non-resident Pakistanis making profits by investing in Pakistan are required to pay a certain amount in taxes. To attract investments from Pakistanis working abroad in setting up of industries in "Special Economic Zones (SEZs), to be established under CPEC, the government may consider to provide tax incentives to the non-resident Pakistanis by making necessary amendments in taxation laws and regulations. Similar tax incentives may also be provided to other foreign investors in CPEC projects.

12.2 Comprehensive Audit of CPEC-related Projects

The Government should consider to conduct comprehensive audit of each project to be undertaken under CPEC through federal and provincial authorities in order to remove any chances of corruption and ensure transparency on CPEC projects.

The professional services of cost and management accountants may be utilized for technical evaluation and cost audit. The reports of such audits should be published on the website of Ministry of Planning.

12.3 Restoring Input Adjustment on Construction Material

At present input tax credit on sales tax paid on building and construction material such as cement, bricks, paints, varnishes, distempers, electricity and sanitary fitting pipes, wires and cables etc. is not allowed under clause (e) of SRO 490 dated 12th June 2004 amended vide SRO 450 dated 27th May, 2013. Such a restriction on legitimate tax credit would discourage investment and in the context of CPEC it would increase costs of projects. It is proposed that government should restore input adjustment on construction materials.

12.4 Reducing Cement Prices for Construction Sector

In the backdrop of decline in global oil prices, the cement prices in the international market have also come down. However, in Pakistan the fuel price difference has not been passed on to the construction sector which is getting cement at relatively double the price of cement in international market. To provide opportunity to the Pakistani construction sector to take active part in CPEC-related projects, it is proposed that the government should reduce cement prices in line with its price in international market.

12.5 Creating Special Fund for CPEC Projects instead of relying on PSPD Funds

The National Economic Council (NEC) has approved budget of Rs. 942 billion for CPEC projects, out of which Rs. 171 billion are allocated for spending during FY 2015-16. However, it has been observed that the allocations under Public Sector Development Program (PSDP have been reduced to divert funds to CPEC projects.

It is proposed that instead of reducing the PSPD budget which would negatively impact the development work in the country, the government should create a 'Special Fund' for CPEC projects with local and foreign funding.

12.6 Special Package of Incentives to develop Ancillary Industries alongside CPEC Route

A number of Special Economic Zones (SEZs) are being planned to be constructed alongside the CPEC Route where local and Chinese investors would be setting up different industries.

It is proposed that in the forthcoming budget, the government should announce a special package of incentives such as concessional credits, subsidies, tax exemptions, reduction in rates of utilities (electricity, gas, and water), technology up gradation fund etc to encourage the SME sector to set up ancillary industries to support the major industry in the SEZs.

12.7 Custom duty Exemption on Import of Capital Goods and Machinery

The government has imposed 5% to 15% Regulatory duty on import of a number of items used as raw material by the local manufacturers. According to SRO 131(I)/2015, the raw material with Pakistan Customs Tariff Code 7602.0090, 7204.5000, 7204.4990, 7204.4100 and 7204.3000 are subjected to Regulatory duty.

It is proposed that the government should consider to give exemption in customs duties for initial import of capital goods, machinery & equipment for the establishment of industries in Special Economic Zones to be setup under the China-Pakistan Economic Corridor (CPEC) Project

Chapter 13

General Proposals

13.1 Setting up a Policy-making statutory Body separate from FBR

It is proposed that a policy-making body, separate from the Federal Board of Revenue (FBR) may be established having representatives from the Planning Commission, Ministry of Finance, Ministry of Law, FBR, Professional Bodies like ICMAP and ICAP, Tax Bar Association, chamber of Commerce and Stock Exchange. This body should make amendments in tax laws and finalize the Finance Bill well before the announcement of budget in Parliament.

13.2 Making the Appellate forums Independent from influence of FBR

The Appellate Forums should be made independent from 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.

13.3 Tax incentives on 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.

13.4 Withdrawing amendments made in WWF Law through Finance Acts 2006 and 2008

Amendments made in Workers Welfare Fund (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.

13.5 Workers profit participation fund.

Companies contribute annually 5% of its profits to Workers Profit Participation Fund in accordance with the provisions of the Companies Profits (Workers Participation) Act. 1968 (the WPPF Act). According to the said WPPF Act. The Company's workers are entitled only upto a maximum amount not exceeding four times of the minimum wages prescribed for unskilled workers under the Minimum Wages for Unskilled Workers Ordinance. 1969 whereas the leftover amount is deposited under the Workers Welfare Fund constituted under Workers Welfare Fund Ordinance 1971.Since the Company's workers directly contribute to the success of the Company therefore, the maximum funds should be passed to them directly and for this it is suggested that the maximum limit of four times of minimum wages should be enhanced to eight times of the minimum wages. Through a recent judgment of honorable Supreme Court of Pakistan all the amendments made in the labor laws including the WPPF Act vide various Finance Acts have been declared null and void. The effect of this judgment is that now practically no allocation from this fund can be made to the Company's' workers, which is against the very spirit of law and shall jeopardize the interests of the workers.

It is proposed that labor laws including WPPF Act may be suitably amended through the due process of law for the benefit of workers at large.

13.6 Ending weekly holiday on Saturday in Government

It is proposed that the weekly holiday on Saturday's in government organizations may be done away with in order to save the country from economic loss. Prior to 2011, the government organizations worked six days a week which was later changed by the previous government.

13.7 Fixing number of gazette holidays for export-oriented industries

There are 14 gazette Holidays and 52 Sundays which total up 66 holidays in a year.Apart from casual and privilege leaves, the frequent holidays (such asHoli religious event of Hindus) declared by the Provincial Government hurts the production schedules of export units.

It is proposed that the government may fix number of gazette holidays for the export-oriented Industries in the year and the workers may not be entitled forprovincial government's holidays. The fixed gazetteholidays can be adjusted by the employer and employee with mutual consent.

Sector-Specific Proposals












Chapter 14

Textile Industry

14.1 Reducing multiple taxes

Multiple local, provincial and federal taxes on the textile industry are leading to increase in its cost of doing business. These taxes range from turnover of 1%, transportation cost of raw material; Rs. 50 per Cotton Cess;, stamp duty @ 0.2% of export document; withholding tax on imported cotton and textile Cess at 1 percent.

It is proposed that the textile industry may be provided relief by reducing the above multiple taxes so as to lower its cost of doing business.

14.2 Imposing 20% regulatory duty on import of textile raw materials

The government should impose 20 percent regulatory duty on import of all textile raw material – from yarn to garments, to ensure revival of the textile value chain industry. Furthermore, the duty on import of Man Made Fibres like Polyester, Viscose, Acrylic, and Nylon should be reduced to zero percent, so that domestic yarn producers can compete with Indian, Indonesian and Chinese producers having their own manufacturing to produce these raw materials.

14.3 Withdrawing taxes to revive cotton production

There has been an unprecedented decline in cotton production during FY 2016-17 which has also impacted the textile value chain. The spinning sector which is already facing high cost of doing business is unable to procure cotton at the import parity. Similarly, it has been observed that sugar mills are being established in strictly protected cotton cultivation areas in Southern Punjab and Sindh, which is discouraging cotton growers.

The government should therefore consider to withdraw taxes on water, electricity, seed, pesticides and fertilizers to enable the cotton growers to achieve maximum cotton production during FY 2017-18 and compete regionally in terms of the input cost. Similarly, the services of agriculture extension and agricultural technology should also be made available to cotton growers right from the land preparation to the crop harvesting at the farm level. This would help decrease the input cost for the entire textile value chain industry.

14.4 Announcing special package to revive Closed Spinning Mills

Around 30 percent production capacity of textile spinning mills is stated to be impaired. The potential idle capacity of textile value chain is mainly in Punjab. Consequently, the exports of textiles is suffering badly. The government should consider to announce a special package to revive and stimulate the textile spinning sector to give boost to textile production and exports.

14.5 Removing gas infrastructure development Cess (GIDC)

The imposition of Gas Infrastructure Development Cess (GIDC) has crippled the textile industry which is already burdened and facing liquidity flow problem. In view of the declining oil and natural gas prices in the international market, there is no justification for imposition of GIDC. It is therefore proposed that GIDC should be completely withdrawn from the textile value chain industry to reduce the cost of doing business.

14.6 Ensuring Long-term Supply of RLNG to textile units

There is a broad agreement between the government and textile industry over the diversion of Re-gasified Liquefied Natural Gas (RLNG), originally allocated for power generation, to the textile units to minimize the gas shortage faced by the export sector.

The government should ensure long term supply of RLNG to textile units for boosting exports. The RLNG should also be provided to the new applicant textile mills.

14.7 Reducing Long Term financing and export refinance rate

To revive the ailing textile industry, it is proposed that Long Term Financing Facility for textile industry may be reduced from 5 percent to 4 percent maximum including bank spread. The financing cap of Rs 1.5 billion on Long Term Financing Facility may also be removed. Similarly, Export Refinance Facility may be brought down from present 3.5% to 3% and extendedto entire textile chain i.e. from spinning to garments.

14.8 Providing rebate in form of 5% DLTL on textile Exports

It is proposed that zero rating of all taxes may be allowed on textile exports and rebate be provided in form of Drawback of Local Taxes and Levies (DLTL) @ 5% against export of yarns, fabrics, made-ups and garments to compensate against incidentals of carousel types of levies, surcharges and taxed imposed on the textile industry.

14.9 Special package to revive closed textile units in faisalabad

The government should provide preferential treatment to textile units based in Faisalabad which are mostly affected due to electricity and gas supply shortages. New electricity and gas plants may be established in Faisalabad to revitalize the closed textile units.

14.10 Zero duty on Import of latest textile machinery

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

14.11 Zero Sales Tax Regime

To improve liquidity constraints faced by textile exporters and to remove irregularities and complaints with regard to refund claims, it is proposed 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. However, Sales Tax @ two percent may be charged on supplies made to unregistered person of the same sector.

14.12 Lifting Ban on new gas connections to textile industry in Sindh

The textile units located in the Province of Sindh are facing problems of low gas pressure which is badly affecting their production and resulting in delay in shipments of export order. The government should lift the ban on new gas connections and allow enhancement in gas load to the Sindh-based textile in the wake of smooth induction of RLNG into the system.

14.13 Levying regulatory duty on import of Polyester fabrics and items

The local polyester yarn industry is suffering losses due to dumped/subsidized product from China and Malaysia at prices which do not cover even full local production costs.

To promote the textile base, it is proposed that 20% duty be imposed on import of polyester fabrics and items under chapter 54.

14.14 Exemption of advance tax on coal import by export-oriented industries

The manufacturer-cum-exporters of textile sectors have been allowed Zero-rated Sales Tax on Electricity and Sui Gas Bill vide STGO of Sale Tax and Income Tax circulars. Coal is a kin energy to both above referred energies having similar nature and component in production process.

It is proposed that import of coal by textile manufacturer-exporters for their in-house consumption should be exempted from tax under the ambit of section 148 of the Income Tax Ordinance, 2001 and 'coal' should be included under the definition of raw material.

Chapter 15

Cement Industry

15.1 Increasing custom duty on import of clinker and cement

Clinker and Cement is manufactured locally and is abundantly availably in Pakistan leading to socio economic uplift of the locals. Currently, the import of clinker and cement is liable to custom duty @ 10% and 20% respectively and due to cheap energy cost in neighboring countries: low-grade quality cement is dumped into the Pakistani market.

It is proposed that to increase the customs duty on import of both clinker and cement to a uniform rate of 35% in order to support the local cement industry.Moreover import of cement should not be allowed until Pakistan Standards and Quality Control Authority certifies the quality of cement being imported into the Country.This would not only increase the capacity utilization of the local industry but would also safeguard the market from dumping of low-grade quality cement by regional players like Iran.

15.2 Allowing zero rated duty on import of coal and pet coke

Presently, coal and pet coke is being used as fuel for various manufacturing concerns and it attracts custom duty on import @ 5% & 6% respectively, which has increased the cost of doing business.

It is proposed that custom duty on coal and pet coke may be zero-ratedto support the option of using coal and pet coke as alternative source of energy for the Industry. This would reduce load on the national grid.

15.3 Allowing zero rated duty on import of plant and machinery

Cement industry is importing plant and machinery to increase its production capacity in view the growing demand of cement in the country. Presently, import of plant and machinery is subject to 3% custom duty.

It is proposed that custom duty on import of plant and machinery may be zero-rated.This would be an investment friendly measure and support in reduction of capital cost for capacity enhancement in cement industry.

15.4 Reducing tax on turnover to 0.20% as per section ITO 2001

Through Finance Act 2014, FBR introduced lower minimum tax rate @ 0.20% for dealers and distributors of fertilizers, pharmaceutical, fast moving consumer goods, cigarettes, rice & flour mills; and @ 0.25% for motor cycle dealers. Cement is also a bulk commodity and sold throughout Pakistan through dealer's network like any other bulk commodity.

It is proposed that minimum tax rate as required by section 113 maybe reduced to 0.20% for cement dealers/ distributors/ wholesaler as done for above mentioned sectors as per Division IX of First Schedule of Income Tax Ordinance. This wouldreduce tax burden on cement dealer's /distributors/ wholesaler.

15.5 Facilitating cement exports to Gulf and Middle East countries

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

15.6 Imposing regulatory duty on import of cement from Iran

The Iranian cement is being flooded into border areas of Balochistan and is being sold at lower prices as compared to locally produced cement. It is proposed to impose additional regulatory duty on import of cement from Iran and a prior approval mechanism be approved

Chapter 16

Sugar Industry

16.1 Special tax incentives to sugar mills cogenerating energy from Bagasse

Special incentives may be provided to those sugar mills which cogenerate energy from Bagasse during off-season. This would create additional revenue for the sugar mills and help the country in meeting the electricity shortfall. The government may also provide some tax incentives to sugar mills which produce ethanol fuel used in automobiles.

16.2 Determining sugarcane support price on basis of increase in input price

The government should determine the 'support price' of sugarcane crop on basis of economic factors like increase in prices of inputs and sucrose recovery, etc. to equally protect the interest of all stakeholders.

For this purpose, government and sugar mills may jointly assist farmers, through Agricultural Research Institutes, in planting high sucrose recovery varieties of sugarcane and in combating plant diseases through use of better pesticides. This would help improve yield per hectare of sugarcane, resulting increased sugar production.

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 growers and sugar mill management.

16.5 Processing of sugar export quota be subject to provision of Irrevocable L/C

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 proposed that above SBP circular may be complied with strictly and contracts, to be registered with SBP, be made contingent with irrevocable L/Cs and advance payment

Chapter 17

Automobile Industry

17.1 Incentives for localization of High-Tech automotive parts

The Auto Policy 2016-2021 announced by the Government does not provide any incentive for Auto parts manufacturers/vendors to encourage localization of Hi-Tech parts in the Country.

It is proposed that the Government should provide the status of Special of Economic Zones (SEZ) for setting up plants to manufacture Auto parts not yet locally produced such as parts for Engines, Transmission, Suspension, Body etc. This would reduce the input cost for the domestic Auto assemblers and also increase car production.

17.2 Reducing the Regulatory Duty on Import Auto Parts

Almost 70 percent raw material for automobile industry is being produced locally. However, there are many parts which are sub-standard for which the auto assemblers have to rely on their imports. Since there is 10 percent regulatory duty on import of auto parts in Pakistan, as such the auto assemblers have to bear undue cost which adds to the production cost.

It is proposed that regulatory duty on import of auto parts may be reduced.

17.3 Reversing 2% extra Sales tax on Non-Retail Sale of Auto parts

The auto parts industry is facing uncertainty and loss of sales as they continue to receive notices and threats from 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 downstream supply chain were not paying any sales tax in respect of 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". It is not adjustable as input tax and adds to cost of production.

It is proposed that FBR may issue an SRO to exempt the non-retail sales of auto parts from levy of 2% extra sales tax.

17.4 Providing Incentives on producing Ethanol compatible cars

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 it 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.

17.5 Providing Special Incentives for Local manufacturing of Critical Components

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

17.6 Developing Policy for dealerships / supply chain in auto industry

The government should develop a policy for 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 car dealers to ensure perfect competition in Auto industry.

17.7 Reducing minimum tax u/s 113 of ITO on turnover of authorized dealers

It is proposed that the Minimum tax charged under Section 113 of Income Tax Ordinance, 2001 may be reduced from 1% to 0.25% on turnover of authorized dealers of vehicle manufacturers, as being allowed to Motorcycle dealers, distributors of FMCG, Pharmaceutical, Fertilizers, etc.

17.8 Exempting WH Tax u/s 231B of ITO on sales of vehicle to dealers

It is proposed that Withholding Income Tax under Section 231B of Income Tax Ordinance, 2001 may be exempted on sale of vehicles by manufacturers to their authorized dealers.

17.9 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.

17.10 Ensuring quality standards in auto industry

Chapter 18

Leather Industry

18.1 Stabilizing livestock population used as raw material input

The livestock population in Pakistan is depleting rapidly which has fallen below to the figures in 2006. The raw hides and skins from the livestock sector constitute the fundamental raw material input for value-addition of finished leather, leather footwear an leather garments/products.

It is proposed that immediate measures be taken to stabilize the livestock population in Pakistan in order to save the dying leather sector which is the second biggest export oriented industry of the country.

18.2 Providing 75% subsidy on mandatory lab test for exports of leather goods

The federal commerce minister announced 75% subsidy on mandatory lab test from international laboratories for leather exports. However an official notification to this effect has not been issued by the Government.

It is proposed that the above notification may be issued immediately for promoting exports of leather goods from Pakistan.

18.3 Release of block funds to Leather industry

An amount of Rs. 300 million on account of exports rebates have not been paid for last two years by the Government to the leather Industry. Moreover sales tax refunds are also unpaid since last one year. This has resulted in liquidity problem for the leather industry and also closer of many leather unit in the Country.

It is proposed that the Government should promptly release the duty drawback and sales tax refund claim to the leather exporters.

18.4 Allowing Incentive on enhanced exports of finished Leather

The government is providing incentive of 4 percent on FOB value on enhanced exports of value-added products. Since 'Finished Leather' is also a highly valued item, the government may consider to allow similar incentive on export of finished leather products as well.

18.5 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, withholding tax on leather exports may be reduced from present 1 percent to 0.5 percent.

18.6 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.

18.7 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 e.g. leather shoes, bags, garments etc.

18.8 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 up gradation, 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 19

Pharmaceutical Industry

19.1 Allowing adjustment of 1% R&D expenditure of pharma companies

At present, the local pharmaceutical companies in Pakistan are paying 1 percent of their pre-tax profit to Drug Regulatory Authority of Pakistan (DRAP) towards 'Central Research Fund' as per the Drug Act, 1976.

It is proposed that any legitimate expenditure by the Pharma industry on R&D as communicated to DRAP with evidence should be adjustable against 1% payment. This would facilitate R&D expenditure by local industry and make their products more competitive both for domestic and export markets.

19.2 Abolishing Sales Tax on packing materials of pharma industry

As the finished products of Pharmaceutical industry are exempted from Sales tax so the sales tax on packing materials Like PVDC, PVC Aluminum foil, and cold formable should also be abolished to save extra cost of the industry.

19.3 Doing away with section 21(O) being detrimental to pharmaceutical business

Through Finance Act 2016 a new section 21(o) was inserted in ITO 2001 according to which deduction have not been allowed in computing the income under the head 'Income from Business' for any expenditure in respect of sales promotion, advertisement and publicity in excess of five per cent of turnover incurred by pharmaceutical manufacturers.

This Section 21(o) is highly discriminatory and detrimental to the pharmaceutical business and also violates the judgment of superior court in this regard. In addition it also contradicts the Section 20(1) of the Income Tax Ordinance 2001 which allows the deduction for any expenditure incurred by the person (including company) wholly and exclusively for the purpose of business.

It is proposed that section 21(o) may be deleted through Finance Act 2017.

19.4 Abolishing Sales Tax on Utility Bills of State-Regulated Pharma Industry

The prices of utilities are increasing constantly and sales tax on utility charges is also increasing simultaneously. Since prices of pharmaceutical products are regulated, the increase in utility prices and consequent increase in sales tax can neither be passed on to the consumer nor it can be claimed as input.

It is proposed that the government may consider to abolish sales tax on the utility bills of pharmaceutical companies.

19.5 Increasing Retention on export realization of pharma industry

To promote exports of pharmaceutical products, it is proposed that retention on export realization should be increased to 25% from existing 15% vide circular FE circular # 9 of 2008.

19.6 Increasing duty drawback rates to 10% for pharma products

To promote exports, the duty draw back rates for pharmaceutical products may be increased to 10 percent on all pharma presentation by making amendment in Schedule LXVI of SRO 212 dated 05-03-2009. Presently, the duty drawback rate is 1.32% on Tablets or Capsules; 1.15% on Liquids/Powders/Syrups/Drops/ Suspension/ Granules; 1.2% on Creams and Ointments; 1.29% on Injections and 1.05 % on Intravenous solution.

19.7 Removing hassle of inordinate delay in clearance of Pharma consignments

The pharma companies are facing inordinate delay in clearance of consignments on pretext of under-invoicing for custom duty evasion. Since price determination is based on many factors e.g. quality, purchased quantity, grade, accreditation etc. so customs authorities cannot draw any inference only on the basis of price. To remove this hassle, it is proposed that customs authorities should accept export shipping bills for rate verification as per previous practice.

19.8 Reducing duty on raw and packing materials

The pharma industry played a good role for raising standard and provide best product at affordable prices. However, the cost of doing business and exchange rates are continuously increasing. To provide some relief to the pharma industry, it is proposed that duty on raw and packing materials may be reduced on different pharma products in consultation with industry.

19.9 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.

19.10 Providing tax Incentives to attract investment in producing quality medicine

The government should offer tax incentives to attract investment from foreign pharmaceutical companies and to encourage local pharma industry to produce quality medicine. The government should also support R&D initiatives in pharma 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.

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

The government may make it mandatory through legislation on pharma companies to produce at least one 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.

19.12 Revamping Drugs Regulatory Authority of Pakistan (DRAP)

The government should consider to revamp and restructure the Drugs Regulatory Authority (DRAP) in order to transform it into a dynamic and professional body that may develop effective policies for the pharma industry.

Chapter 20

Fertilizer Industry

20.1 Bringing down the cost of inputs

There is dire need to bring down the cost of inputs and ensure availability of gas to unable the domestic industry in long term to sustain prices of locally produced fertilizers. The upward trend in international prices has rendered sale of DAP at present prices unviable, unless further subsidized.

20.2 Removing procedural complexities in Late payments of subsidy claims

In the Budget 2016-17, the Government had announced an incentive package for fertilizer industry, including allocation of Rs. 27 billion as fertilizer subsidy and reduction of GST on fertilizers from 17 percent to 5 percent. However there has been inordinate delays in release of subsidy amount by the Ministry of National Food Security and Research (MNSF & R).

It is proposed that the subsidy disbursement mechanism may be improved by removing procedural complexities in the Ministry.

20.3 Resuming gas supply to SNGPL based fertilizer plants

Natural gas contributes about 80% to the total production cost of fertilizer. However, continuous shortage of gas supply by SNGPL has resulted in deep crisis for this industry.

The government should direct the SNGPL to resume full and immediate gas to the deprived SNGPL based fertilizer plants and also resume gas supply to all plants on permanent basis.

20.4 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 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, it is proposed that the fertilizer plants may be allowed to import the commissioning cargo subject to payment of incremental charges over and above the charges to be incurred by PSO.

20.5 Charging 5% GST on fertilizer produced from imported LNG by Idle 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 should be levied on imported LNG to be utilized by the above plants.

20.6 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.

20.7 Restricting 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 to curb adulteration and malpractices in this sector.

20.8 Discouraging import of Urea that could lead to high prices

Urea is one of the most consumed fertilizer in agriculture sector. Recently, the Finance Division and the Ministry of Petroleum have given go-ahead to the Ministry of National Food Security and Research to frame policy that will allow urea import by the private sector. This move will open a new window of middlemen who will charge un-due commissioning before it will reach to the farming community. The private companies do not have the capacity to enforce a strict mechanism.

It is proposed that government should provide more gas to fertilizer industry at reasonable rates than to approve import policy of fertilizers.

Chapter 21

Edible Oil Industry

21.1 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 domestic edible oil sector. To achieve this, the government may provide incentives for proper farming, production, processing and marketing of oil seeds.

21.2 Providing benefits to farmers growing oil seed crop

The yield per acre of all oil seed crops (i.e. cottonseed, sunflower, canola, rapeseed, mustard etc.) ranges between 15% to 45% of their potential due to water scarcity and lack of application of latest technology and farming techniques.

It is proposed that the above bottlenecks may be removed to increase output and the price of locally produced edible oil may be fixed on the basis of cost of imported oil. The government should also take measures for increase in production of oil seed crop in the country.

21.3 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 private sector to start commercial production of olive oil in bulk. Some incentives may be provided to the private sector companies which are engaged in commercial production of olive oil.

21.4 Special Incentives on establishing joint ventures in oil refineries

Pakistan could earn valuable foreign exchange by making joint ventures with multinational companies in oil refineries, solvent extracts and value-added products.

It is proposed that duty on crude oil may be reduced to facilitate export of value-added products to landlocked countries at compatible prices.

Chapter 22

Oil and Gas Industry

22.1 Reducing Corporate tax rate for oil Exploration and Production Companies

To incentivize oil and gas exploration in the country, it is proposed that the high corporate tax rate on Oil Exploration and Production (E&P) sector may be reduced from present 40 percent to the rate applicable on other corporate sectors.

22.2 Allowing Distributors of Lubricating Oils to charge Sales Tax on their Supplies

Presently, industrial consumers are reluctant to buy goods directly from distributors as they are unable to issue sales tax invoice, thus resulting in a significant setback to the business carried out by the distributors.

It is proposed that in addition to manufacturers, registered distributors of lubricating oils may be allowed to charge sales tax on their supplies.

22.3 Offering Incentives for bringing new investments

There are abundant untapped reserves of oil and gas available in Sindh, Baluchistan 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.

It is proposed that the government may consider offering special incentives to bring new investments in oil and gas sector to explore, develop and exploit petroleum resources to achieve greater self-reliance in energy supplies.

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

The production from existing oil and gas reserves is rapidly declining and 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 it seriously and facilitate oil and gas exploration companies to discover new oil and gas fields and address all their grievances of priority.

22.5 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.

22.6 Impart training in latest petroleum exploration techniques

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

Chapter 23

IT and Software Industry

23.1 Doing away with 17 percent on import of component parts for IT Industry

The IT industry is at present faced with the imposition of 17% sales tax being charged on the component parts assembled inside the computers, thereby neutralizing the government's budgetary announcement under which the computer/laptop bearing the same component parts were placed under the zero-sale tax regime.

It is proposed that IT products used in assembling computers namely USB Flash RAM (H.S. CODE8523.519); Memory Card (HSC 8523.511); Computer RAM (HSC 8473.309); SSD Hard Drive (HSC 8471.703); Hard Drive / Portable Hard Drive (HSC 8471.702); Keyboard (HSC 8471.601); Mouse (HSC 8471.602); Computer Case (HSC 8529.9090); Power Supply (HSC 8504.4029); Graphic Card (HSC 8473.3092); DVD Drive (HSC 8471.704); Computer Processor (HSC 8542.31); LCD/LED (HSC 8528.721) and Motherboard / Printed Circuit Board (HSC 8473.309).

23.2 Reducing 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 proposed that IT industry may be exempted from payment of sales tax on IT products.

23.3 Extending Income Tax Exemption on IT/ITES exports 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. 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.

23.4 Providing Tax Relief and Benefits to IT Industry

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

Chapter 24

Telecommunications Sector

24.1 Treating Tax paid u/s 148 of ITO, 2001 by Telecom Companies as Advance Tax

The government may consider to declare the telecom companies as 'industrial undertaking' in view of the fact that telecom companies are not commercial importers for sale in market, rather they import telecom equipment for use in network to provide telecom services to people and businesses.

It is proposed that tax paid by them under Section 148 of ITO, 2001, may be considered as advance income tax instead of Final tax.

24.2 Reducing WH Tax on Telecom Customers

The withholding tax paid by telecom customers is much higher as compared to WHT in other sectors. Majority of customers are poor and non- tax filers, hence this higher WHT is unjustified.

It is proposed that tax impositionon telecom customers may be reduced in order to save poor people from undue taxation.

24.3 Rationalizing Taxes on telecom industry

To develop the telecom sector and to encourage inflow of more investments, it is proposed that the government may rationalize taxation on telecommunication sector.

24.4 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.

24.5 Providing Incentives to telecom industry to expand service in 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.

24.6 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.

Chapter 25

Mutual Fund Sector

25.1 Amending section 62 to include open-end Collective Investment Schemes

Under section 62 of ITO 2001, a resident person other than a company has been entitled to a tax credit for a tax year on investment in shares and insurance.

It is proposed that open-end collective investment schemes may be included separately in Section 62 so that the requirement for obtaining listing can be removed as that only adds to the cost of the fund without any value addition. Accordingly the proposed Section 62 would be read as under:

62. Tax credit for investment in shares, units of collective investment schemes and insurance. — (1) A resident person other than a company shall be entitled to a tax credit for a tax year either-

(i) in respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan, provided the resident person is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan;
(ii) in respect of the cost of acquiring in the year new units of open end collective investment scheme; or
(iii) in respect of any life insurance premium paid on a policy to a life insurance company registered by the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000 (XXXIX of 2000), provided the resident person is deriving income chargeable to tax under the head "salary" or "income from business".
(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —

(A/B) x C
Where—
A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;
B is the person's taxable income for the tax year; and
C is the lesser of —
(a) the total cost of acquiring the shares, or the total contribution or premium paid by the person referred to in sub-section (1) in the year;
(b) twenty per cent of the person's taxable income for the year; or
(c) [one and a half million rupees.

(3) Where —
(a) a person has been allowed a tax credit under sub-section (1) in a tax year in respect of the purchase of a share, units of collective investment schemes; and

(b) the person has made a disposal of the share within twenty-four months of the date of acquisition, the amount of tax payable by the person for the tax year in which the shares, units of collective investment scheme were disposed of shall be increased by the amount of the credit allowed.]

25.2 Amendment in 236W for removing Ambiguity

Amnesty scheme on purchase of property has been introduced through the Income Tax (Fourth Amendment) Act, 2016 dated December 2, 2016 by inserting Clause (c) of Sub-Section (4) of Section 111 read with explanatory Circular # 18 of 2016 dated 7th December, 2016, which is being widely misinterpreted by the provincial property registration authorities and every transferee or buyer of property is being forcibly asked to produce tax payment challan (CPRs) under Section 236W, no matter whether he/she wants to avail this amnesty scheme or not. This misinterpretation is causing hardship to those honest taxpayers who want to purchase property out of their legitimate tax paid income / wealth (already declared in tax returns).

To remove ambiguity and provide more clarity on this amnesty we propose to insert Sub Section (3) in Section 236W as under:

Collection of tax under sub-section (1) shall be optional and applicable only to those persons who want to avail amnesty under clause (c) of sub-section (4) of section 111.

25.3 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.

It is proposed that this tax anomaly may be removed so that 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 further 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.

25.4 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 may be removed to bring equity funds pari passu with direct investment in Capital Markets. It is 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.

25.5 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 proposed that FED on Asset Management Services be withdrawn by making necessary amendments in the Federal Excise Act, 2005.

25.6 Withdrawing notices issued by LTUs and RTOs to collect WWF

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 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.

25.7 Reducing tax rate on Dividends 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).

25.8 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 26

Housing and Construction Industry

26.1 Allowing FTR option for Housing projects approved before 1st July 2016

The Fixed Tax Regime (FTR) for Builders and Developers has been made mandatory projects approved after 1st July, 2016.

It is proposed that Projects approved earlier may also be given option either to opt for the prevailing system of assessment or go for fixed tax on their already ongoing projects. This may encourage the tax payers to avail benefits under Fixed Tax Regime (FTR).

26.2 Allowing Tax Exceptions to first time buyer of Real Estate in Pakistan

In order to achieve maximum growth and investment in Pakistan Real Estate sector by Pakistani expatriate and local population, it is proposed that tax exemption may be provided to anyone who buys his first unit in Pakistan (first time buyer). This incentive should be available for at least 3 years in the same way it was available for investment in share through stock exchange.

26.3 Enhancing the exemption limit of Withholding Tax on low cost properties

The exemption for Withholding Tax on low cost properties is currently Rs. 4 million. It is proposed that this exemption limit for Withholding Tax may be enhanced to Rs.5 million in view of exponential increase in property valuation by FBR.

26.4 Rationalizing Regulatory Duty on Steel Re-Bar imports

Steel Re-Bar is an essential raw-material component of construction and real estate sector. Due to price fluctuation of this item in international marketand for safeguarding the local steel industry, FBR imposed RD & ARD on Steel Imports to stem the growing trend of steel imports. However, the steel prices have recovered internationally while the local industry has created a cartel, leading to artificial hike in steel prices; exorbitant profits for steel manufacturing units and increased cost of construction for the real estate sector.

It is proposed that the RD & ARD on steel Re-Bar be reviewed and rationalized to safeguard the construction and real estate sector.

26.5 Real Estate Valuation and Taxation

Undervaluation and Rationalization of Property Valuation Tables and transfer taxes at the provincial and federal level have created difficulties for Builders and Developers.

It is proposed that 'a single valuation table'may be developed in consultation between the federal and provincial governments, in addition to reducing the federal and provincial taxes for transfer of property at actual value. This would lead to better documentation of economy; corporatization of real estate developers and builders and encouraging Banks, DFI's, Private Equity and other capital raising institutions to invest and finance real estate development.

26.6 Removing Anomalies in property transfer to encourage real estate investment

To remove anomalies in property transfer and valuation and to encourage real estate investment, the following measures are proposed;

a. The areas where valuation has been wrongly done may be rectified or else the seller may be allowed to sell his property to FBR as per valuation table on payment within 60 days.Further, FBR may rectify valuation distortions by meeting the stakeholders of all areas.

b. The Federal Government may charge one percent in total for withholding tax, Advance Income Tax and Capital Gain Tax from buyers and sellers (0.5% each). Prevailing Federal Government Taxes charged by FBR on property transactions are approximately 3% to 6% of FBR Valuation Table excluding Capital Gain Tax. The Federal Government will charge 3% to 6% of FBR Value as per today's valuation or 1% of Fair Market Value whichever (total taxes) is higher. This may result in increasing the revenue many folds.

c. The total Provincial & Local Government Taxes i.e. Stamp Duty, Registration Charges, Capital Value Tax, Town Tax must not exceed 1% of Sale Deed. The prevailing charges are 7.5% of sale deed amount as per D.C. rate which is inclusive of Registration Charges, Capital Value Tax, Town Tax and will be brought down to 1% proportionally. The Provincial Government may charge 7.5 of D.C. Value or 1% of fair market value whichever is higher. The same practice is being done for properties in Real Estate Investment Trust (REIT).

d. As the property valuations have increased many times, the Withholding tax on property transfer may be fixed at 1% for Filers and 2% for Non-Filers. As this tax is adjustable, actual receipts will not suffer and burden on tax payer will be reduced.

e. Withholding Tax (236-W) on property transfer may be reduced from3% to 2%. As this tax is not adjustable, actual receipts will not suffer due to higher valuations and burden on tax payer will be reduced.

f. Taxation under the provision of 236W (3 percent) be made optional for those who under normal circumstances are able to reconcile the new values in their wealth statement without taking advantage of the provision of 236W.

26.7 Extending credit facilities for BMR of construction machinery

Banks and DFIs should extend credit facilities for Balancing, Modernization and Replacement (BMR) of machineries used in housing and construction industry. The State Bank may direct the Commercial Banks to allocate certain percentage of credit to housing and construction sector.

26.8 Enhancing the Annual Disbursement limit of HBFC Loans

The annual disbursement of HBFCL loans should be substantially enhanced to Rs. 20 billion to overcome housing shortage. HBFC should offer packages at preferential mark up to provide affordable credit to low income groups.

It is proposed that the government may advise 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.

26.9 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 in the country.

26.10 Establishing an 'Infrastructure Construction Development Bank'

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

Chapter 27

SME Sector

27.1 Allocation of sufficient 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.

27.2 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 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.

27.3 Increasing Credit limit for Micro-enterprises

The credit limit to micro enterprises may be increased 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.

27.4 Increasing exemption limit for Cottage industries 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.

27.5 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 28

Transport & Communication Sector

28.1 Focusing on 'Metro Train' instead of 'Metro-Bus'

The government should focus on 'metro train' instead of 'metro-bus' which is more costlier in terms of long term maintenance. The metro train may be high on initial cost but in the long run it is more beneficial in terms of energy cost, maintenance and environment. Smart city trains are the way for future. Japan and China can provide expertise to Pakistan.

28.2 Investing in Road and Railway Infrastructure for economic development

Roads and Railways systems are the two main transport arteries of any economy. Upgrading of Pakistan's transportation system is critical to export competitiveness and economic growth. The transport Sector is required to be improved by modernizing through a continuous process of reforms supported by focused investments. Short term investment in improving existing roads and railways infrastructure need to be initiated. In the long run, new roads and railways tracks should be built in both urban and rural areas.

28.3 Better connectivity between markets and Industrial Clusters

Our domestic markets are not able to connect with industrial clusters in urban areas because of high transport costs due to inefficient urban transport and poor maintenance of existing provincial and local roads. Deficient urban transport and congestion should reduce in order to connect industrial clusters and domestic and international markets

28.4 Developing an Efficient Urban Transport Systems in Major Cities

Transport systems in major cities have not kept pace with increasing demand, resulting in overcrowding, accidents and air pollution. The absence of efficient urban transit systems has increased reliance on private vehicles, with 60%– 70% of the urban population now owning vehicles. The government should improve the urban transport on modern lines

28.5 Regulatory Mechanism for Transport Logistic and Supply Chain

The government should make legislation to regulate carriage of goods through air, sea, rail and road routes within and outside the country. This would help put in place a regulatory mechanism for transport logistic and supply chain in the country.

28.6 Developing Public-Private Partnership for Transport Sector Development

There is lack of clarity regarding the participation of the private sector in the Transport Sector. The government has failed to build a clear set of policies that would help to bring an effective partnership between the public and private sectors for the growth of Transport Sector.

It is proposed that the government may consider establishing a single authority to deal with the development of transport and communications sector, especially in backdrop of China-Pakistan Economic Corridor (CPEC)

Chapter 29

Hotel Sector

29.1 Restoring tax and duty exemptions on import of Hotel machinery

Through SRO 575(1) 2006 dated June 05, 2006,duty and tax exemptions were provided to the hotel industry on import of hotel-related machineries viz. kitchen and laundry equipment. However these exemptions were withdrawn through amendments vide Finance Act, 2014.

It is proposed that the above exemptions provided to the hotel industry may be restored to promote the hotel industry. Moreover, non-refundable duties on imported guest amenities, vehicles required to meet VVIP guests and tourist and hotel supplies need to be highlighted in the Finance Bill 2017.

29.2 Simplification of procedures for hotel industry to get custom duty concessions

The companies operating in hotel industry have to undergo hectic procedures in getting concessions in custom duties. As a gesture of cooperation, FBR should take measures to make this process simplified and taxes paid by Hotel Industry be grouped under one window operation.

29.3 Tax rationalization for hotel industry due to war on terror

The hotel industry in Pakistan has been severely hit due to continuous war on terror. Due to sensitive business dynamics of this industry, the profitability of the industry also suffers due to low rate of hotel occupancy.
It is proposed that the income tax rates of companies operating in hotel industry may be rationalized to provide some relief.

29.4 Extending period of sales tax payment for hotel industry

At present sales tax is required to be paid to the exchequer by the 15th of the following month. As a matter of fact, most of the hotel's sales are on credit basis (a large portion being government business) and actual collections are realized after 30 to 120 days.

It is therefore proposed that due date to deposit monthly net GST amount may be extended up to 30th of the following month for the hotel industry

Chapter 30

Agriculture Sector

30.1 Offering facilities for Value-addition of agricultural products

Pakistan being an agriculture country has huge potential to tap international market through value addition of agricultural produces.

The government, through SMEDA, may provide facilities and benefits for promotion of businesses, based upon agriculture and food products

30.2 Improving Inefficiencies in agricultural supply chain

To make agriculture sector globally competitive, there is need for investment in infrastructure that can promote efficiency by reducing transaction costs and market risks. The unreasonably long supply chain results in steep increase in total cost owing to procurement, transit and other taxes and service charges levied at various layers.

Due to such inefficiencies in supply chain, the farmers receive only less than 40% of what the consumer pays. Strengthening supply chain can benefit consumers and producers which is required now for the real transformation.

30.3 Implementing Prime Minister's relief package for farmers in true spirit

The Prime Minister recently announced a relief package for farmers to support them against the crisis of commodity prices in international market. However, this package has not been implemented in the true spirit. Per acre Rs 5000 was disbursed to farmers in Punjab only and not to the farmers in other provinces. This means that per acre compensation of Rs 5000 has not reached to 30 percent farmers.

There is a need for implementing this package in its entirety so that each and every farmer get the benefit and compensation.

30.4 Imposing Agricultural income tax on large and medium farmers

The government must seriously think to levy agricultural income tax on large and medium farmers. This initiative would help increase tax revenues from agriculture which is presently just one percent of the total collections by FBR.

Chapter 31

Education Sector

31.1 Enhancing education budget

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

31.2 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.

31.3 Making elementary education compulsory

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

31.4 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.

31.5 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.

31.6 Regulating tuition business

During last two decades, there has been mushroom growth of Tuition Centres all over the country which are making huge profits like other businesses but operating without any regulatory framework. Even some of them have setup like a college or university with heavy investment backed by investors. The tuition business mostly covers students of Matric [class IX and X], O-Levels, Intermediate, A-Levels and Graduation [B.Com, B.Sc, etc]. In the absence of any regulation mechanism, overall education system has been badly affected. The students don't take classes and in some cases they are encouraged only to attend classes in tuition Centres instead of colleges.

There is a need to regulate the tuition Centres and to monitor whether the earnings made through tuition business is properly taxed. Further, there is also need to assess that tuition business is not effecting general education system prevailing in the schools and colleges.

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