



ICMA
Pakistan

Fiscal Budget Proposals 2020-21

Institute of Cost and Management Accountants of Pakistan

OUR MISSION

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

OUR VISION

To be the Preference in Value Optimization for Business

CORE VALUES



Competence



Innovation



Ethics



Transparency



Professionalism

Published by:

Research and Publications Directorate ICMA Pakistan

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About ICMA Pakistan

Institute of Cost and Management Accountants of Pakistan is one of the premier professional institutes of Accountants, established in 1951 by the name and title of 'Pakistan Institute of Industrial Accountants (PIIA). Later, it was renamed as Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) which gave it the mandate to regulate the profession of Management Accounting in Pakistan. The institute received its charter under the CMA Act, 1966 of Parliament which entrusted it the responsibility of coaching, examining and conferring internationally recognized post graduate professional certifications of Associate Cost and Management Accountant (ACMA) and Fellow Cost and Management Accountant (FCMA). The Institute is a founding member of International Federation of Accountants (IFAC) since 1977, Confederation of Asian and Pacific Accountants (CAPA) since 1980, South Asian Federation of Accountants (SAFA) since 1984 and the only current participant of International Integrated Reporting Council (IIRC) in Pakistan. The Institute has a legacy of 70 years of contributing to the economic growth, public sector governance, financial management and auditing profession.

The Institute has over 7,000 members within Pakistan and abroad. These members are serving at high-profile positions such as CEOs, CFOs, COOs, CIAs, Company Secretaries etc., thus 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 Institute has strong ties both with the higher education institutions 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 is actively involved in providing professional and technical support to the Ministry of Finance, Ministry of Commerce, Planning Commission, SECP, SBP, FBR, AGP, and other regulators and policy making organizations. The public practice function of the Institute is supported by over 150 Cost and Management Accounting firms which are holding license to undertake national and international consulting assignments. The Institute also organizes SECP approved Directors Training Program (DTP) for the capacity building of Board of Directors of Listed companies.

The Management Accountants are today an integral part of any management team in business organizations and assist them in reducing cost of doing business and optimizing profits. They are also serving in services sector and contribute towards the noble cause of three Es, namely Efficiency, Effectiveness and Economy. A large number of management accountants are serving the nation by teaching in universities and academic institutions, whereas others are practicing as Management Consultants, Cost Auditors and as Tax Advisors.



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Foreword

I am pleased to present the ICMA Pakistan's Fiscal Budget Proposals 2020-21 which incorporates valuable proposals and recommendations for bringing policy changes and amendment in taxation laws so as to provide an enabling environment for the private sector and businesses to flourish and to promote industrial productivity, investment and economic growth in the country. The budget document also presents industry-specific tax issues that would help the government in developing industrial policy initiatives. We hope and expect that these proposals would merit attention of the government and policy makers and find a place in the forthcoming Finance Bill 2020 for FY 2020--21.



ICMA Pakistan believes that in the present uncertain and challenging times, in the wake of COVID-19 pandemic, the Government must allocate adequate funds to those priority sectors which are essential for our country to fight against the pandemic. At the same time, the business and industry, especially the SMEs and small businesses, which are facing great hardships due to prolonged lockdowns in the country in shape of factory and shop closures, halt in production and sales, payment of salaries and wages to labourers and employees; cancellation of export orders, low volume of domestic sales; etc should be given special incentives, exemptions and reliefs in their different aspects of business operations so that they can survive these difficult times. It is of utmost importance that the Government must take every measure to sustain the businesses to continue the economic activity and avoid any recession that could negatively impact the economy. At the same time, the Government must also provide relief to the salaried class and poor segments of society.

ICMA Pakistan further proposes that the markup rate may be reduced to 3% for bank financing and Sales Tax rate may be brought down to 5% to facilitate economic growth as it is an unprecedented situation requiring extraordinary relief measures from the Government. Emphasis should also be given by the Government to introduce steps to enhance ease of doing business to facilitate start-ups to generate business activity and encourage new businesses. Furthermore, incentives be provided to promote digitalization which is the need of time and for ensuring transparency. It is also proposed to make business registration mandatory for all the businesses.

The members of ICMA Pakistan are working in diverse sectors of economy in various leadership positions and they have in-depth and relevant knowledge of challenges surrounding the economic growth along with practical solutions to those challenges. I hope FBR will find the proposals presented by ICMA Pakistan Members useful and will incorporate these suggestions in upcoming budget.

Zia ul Mustafa, FCMA
President, ICMA Pakistan

From the Desk of Chairman, Research & Publications Committee

The National Budget, being an economic policy tool of government, primarily aims to use the financial resources of the country towards undertaking development and welfare projects; provision of education and health facilities; upgrading defense capabilities; supporting trade and industry for growth and uplifting of underprivileged sections of society.

Being a professional body, ICMA Pakistan has the legacy of participation in national issues related to the economy and corporate sector. Every year, the Institute submits its pre-budget recommendations to the concerned policymakers, including the Ministry of Finance and the Federal Board of Revenue (FBR) and we are indebted to them that they always give due consideration to these recommendations.



This year, due to the lockdown situation in the country amid the COVID-19 pandemic outbreak, the Institute's campuses and all other activities have been ceased; hence as per customary, we could not hold the pre-budget sessions through our Branch Councils in the major cities. Notwithstanding this difficulty, the Institute organized a live Technical Session on Budget 2020-21 on 3rd May 2020 where Dr. Hamid Ateeq Sarwar, Member (Inland Revenue – Policy) FBR was the Chief Guest. During the sessions, the members of the Institute and other professionals shared their proposals on various anomalies in the taxation laws as well as suggestions on how to revive the economy and industry in the post COVID-19 scenario. These proposals are part of this booklet, in addition to the proposals developed by our Technical Support and Practice Development (TSPD) and the Research and Publications (R&P) Department of the Institute.

I would suggest that the Government should form a Special 'COVID-19 Economic Revival Task Force' comprising of the representatives of the relevant regulators and Ministries, Chambers of Commerce and Industry Associations, Presidents of Professional Accounting Bodies registered in Pakistan and other stakeholders to prepare a short term, medium and long term roadmap for the revival of business and economy and the kind of support required by them.

It is hoped that the proposals put forward by ICMA Pakistan will meet the due consideration of regulators and FBR.

Muhammad Yasin, FCMA
Chairman, Research and Publications Committee

Chapter 1

Macro-economic Policy Considerations

Chapter 1: Macro-Economic Policy Considerations

1.1. Budget Policy Strategy

In the present COVID-19 pandemic scenario, the Government must focus its budget policy strategy for FY 2020-21 on short-term and medium & long-term considerations.

The short-term policy consideration should be based on 'Crisis Management' and the Government must make every effort to provide emergency relief to vulnerable populations and affected businesses; avoid mass lay-offs of workers and bankruptcies of organizations; and avoid any possible financial crisis.

The Medium & Long-term policies consideration should be based on 'Macro-economic stimulus' and for this purpose, the Government must initiate steps to stimulate the national economic output through monetary and fiscal measures; support small businesses through loans and guarantees; and support workforce and preserve employment through grant of wage subsidies.

1.2. Top Spending Priorities for FY 2020-21 and onwards

With the emerging economic scenario in post COVID-19 pandemic, the Government must ensure to allocate sufficient funds in the Federal Budget 2020-21 to the following priority sectors so as to mitigate the aftershocks of the pandemic and strengthen systems to combat such emergency situation in future:

- Public Health care system
- Social safety net programs
- Agriculture [due to locust attack] and Food Security
- Soft infrastructure [health, education, emergency, financial system etc]
- Small Businesses [SMEs and Cottage industry]
- Housing & Construction
- Digital Technology and e-Commerce

1.3. Further slashing of SBP Policy rate to boost economy

The State Bank of Pakistan (SBP) may consider to further slash the benchmark policy rate, presently at nine percent, to single digit in order to boost the aggregate demand and stimulate the economy.

The slashing of interest rates will help reduce pressure on businesses to pay interest money on bank loans in the wake of the coronavirus pandemic. The rate cut decision would especially be beneficial for power, fertilizer, cement and steel manufacturers to continue paying interest money in present crisis.

1.4. Offering Bailout Package to Small Businesses

The SME sector has been hit hard due to COVID-19 pandemic in shape of liquidity crunch and having limited access to finance to continue businesses. According to a recent survey conducted by SMEDA, 95% of SME's reported a reduction in operations due to the lockdown. Around 92% of them reported different levels of disruption in supply chain whereas 23% of the enterprises reported 100% losses in export orders because of the COVID-19 impact.

Innovative ways need to be explored to ensure that SMEs stay in business in the post Covid-19 scenario. A bailout package for SMEs need to be announced by the Government with special concessions such as tax breaks, low utility rates, access to finance etc to boost their productivity. The Government should also consider to incorporate long term monetary policy and incentives in the forthcoming annual budget for the revival of SMEs and small businesses. ICMA Pakistan also recommends that the Government may consider to create a tax credit to encourage small businesses to invest in technology and provide virtual offices.

1.5. Reviving the closed defaulted industries through incentives

The unemployment in the country is surely to increase manifold due to repercussions of the pandemic. To cope with the increasing employment, the Government need to look for 'out of box' solutions to generate job opportunities for the people. One such initiative would be to revive the already closed and sick units in the country by providing them some kinds of incentives. These industries are closed due to various reasons e.g. bank default, mismanagement etc.

It is estimated that almost 30 percent of such defaulted units, which are mainly polyester staple fiber and glass industries, have installed machinery and ready-to-use infrastructure which can be re-utilized partly or completely. The Government may consider to offer similar amnesty scheme to such defaulted units as it has provided to the construction industry recently.

1.6. Incentivizing Textile industry to capture export markets

The global textile buyers are anticipating disruption to the supply chains from China, which accounts for a big part of global textile production and rethinking their sourcing strategies. It is a golden opportunity for Pakistani textile companies to grab a considerable share in the global export market. There is already mounting orders for textile products being received by the Pakistani exporters.

The textile industry is faced with host of challenges in shape of higher energy tariffs and lack of supply chain. The Government need to infuse much-needed impetus into the struggling textile industry by providing incentives such as reduced power tariffs and establish proper supply chains for raw materials.

1.7. Diverting funds from PSDP to small development schemes

Due to COVID-19 pandemic, the utilization of public sector development program (PSDP) is likely to slow down. It is suggested that to generate employment opportunities for the people, local works development schemes may be initiated both through the federal and provincial governments and funds may be diverted from PSDP to these small schemes under the SDG Accelerated Program.

1.8. Strengthening the Healthcare system and capacity

The Government must take the following initiatives to strengthen the healthcare system and capacity:

- a) Developing a national health Action Plan to deal with pandemics
- b) Expanding conventional health care facilities and medical equipment factories
- c) Allocation of additional resources to hospitals to handle epidemics

- d) Launching of special programs for training of quarantine specialists
- e) Launching of awareness and biosafety programs for medic and paramedics
- f) Upgrading of laboratories for diagnosis of COVID-19 and other such diseases
- g) Ensuring free and subsidized testing and treatment for the poor segment of population
- h) Establishing a state-of-the art research centre in emerging and re-emerging infectious diseases
- i) Undertaking effective and well-resource public health measures to prevent infection
- j) Adjusting health care and macro-economic policies

1.9. Expanding the Social Safety Net Programs

The coronavirus outbreak and lockdowns have exposed the weakness in the social safety net programs in the country. Food security has also become a significant challenge. The government is lacking an integrated social safety network to reach out to all the people, especially in rural areas. This could also lead to misuse of money and resources allocated under different government welfare programs.

The Government must make sure to integrate and expand the social safety net programs with proper supply framework to properly disburse cash and food-related commodities by engaging partners. There is need for a strong monitoring framework to ensure that deserving gets the food and cash.

Chapter 2

Tax Policy Considerations

Chapter 2: Tax Policy Considerations

2.1 Relief to Businesses and Individuals in COVID-19 Scenario

Due to COVID-19 pandemic and prolonged lockdown in the country, the businesses and individuals are suffering badly. In this unprecedented situation, the Government must consider to provide some relief to them by reducing taxes and input cost. This would lead to increase in business and commercial activities in the country and eventually help the FBR to collect the much-needed tax revenues.

The following suggestions may be considered by the Government in this regard:

- a) Turnover tax on businesses may be decreased to 0.5 percent and Turnover tax exceeding Rs. 100 million may be implemented with a rate of 0.2% and so on.
- b) The General Sales Tax (GST) may be brought down to a minimum level of 4% to 5% on all items.
- c) The Annual tax liability and withholding tax may be reduced by at least 50% or to a minimum level.
- d) The compulsory requirement of CNIC for businesses may not be pressed at this time of crisis.
- e) The Point of Sales (POS) system and integration of business should also not be pressed at this time.
- f) The SMEs and Cottage industries may be provided relaxations and special incentives to survive.
- g) Tax reforms be undertaken to provide relief to businesses and individuals in present situation.
- h) The salaried class may be offered 'zero-rated tax' for at least next 2 years to improve their purchasing power and increase savings which would help in the growth and expansion of economy.
- i) Income tax may be fixed for small traders and shopkeepers
- j) Start-up business may be provided tax immunity of 2 to 3 years so that they can flourish.
- k) Some relaxation may be sought from the IMF in payment of debts.

2.2 Special Privileges to regular taxpayers

The regular taxpayers need to be recognized by providing them with special privileges and incentives. Separate clause may be introduced in tax legislations for this purpose.

It is suggested that the Government may consider issuing 'Tax Loyalty Cards' to the regular taxpayers according to their tax contribution. The privileges that could be considered for attaching with Tax loyalty card may include life insurance, health insurance, discount offers, priority treatment in government hospitals, priority for admissions of the Children of tax payers in Government Schools/Universities and priority for entry to VIP places without security checks.

2.3 Introducing Industry-specific fixed taxation system

The Government may consider to club all kinds of federal, provincial and local taxes into one tax and introduce industry specific fixed taxation system. This would not only help the industries in avoiding the complex tax structure and saving time and money; but it would also motivate other companies in the industry to come into the tax net.

It is suggested that the fixed tax system for each industry may be decided on the basis of and in proportionate to the business volume of the specific industry, in consultation with the concerned industry association and Chambers of Commerce and Industry. The FBR can set the tax collection target for each industry for FY 2020-21 by implementing fixed tax system.

2.4 Broadening of Tax base – Taxing the Online businesses

Over the years, several provisions have been introduced in Federal Laws that were meant to identify the potential taxpayers and thus increase the Tax Base. Some of these provisions are as under:

- Section 153/108(B)/236(G) & (H) of the Income Tax Ordinance, 2001.
- Section 3(1A)/73(4) of the Sales Tax Act, 1990.

Unfortunately, instead of being a source of identifying the potential taxpayers and broadening the tax base, these provisions and concept of Filer/Non-Filer have been utilized as a tool for revenue generation.

It is suggested that since all the revenue authorities have now been available with sufficient data of both the potential taxpayers as well as the evaders, this is the high time to take strict measures to add new taxpayers into the base; generate the revenue stream; enhance the Government collections and relieve the tax burden from the already squeezed taxpayers, especially the salaried class.

It is further suggested that to increase tax revenues, the government may charge some minimum tax from the online businesses like Daraz, Amazon and operating from abroad.

2.5 Fixing realistic tax revenue target

It has been observed that the tax revenue collection targets announced in the budget is often unrealistic which is revised even more than once by the Government. To achieve this unachievable revenue target, the tax collecting authority normally implement arbitrary and non-transparent tax laws which creates must hurdles and difficulties for the tax paying individuals and companies.

It is suggested that un-realistic revenue targets should not be set and the target announced in the budget should be maintained and every effort be made not only to meet the target but to surpass it.

2.6 Re-visiting the Withholding tax regime, rate and adjustability

The sections in terms of withholding tax are very complex due to which the businesses and companies find difficulties in compliance. The withholding tax rates are also high which increases cost of doing business. Further, the un-adjustability of WHT causes undue taxation for businesses and discourages documentation.

It is therefore proposed that the withholding tax regime may be simplified and merged and the WHT rates may be reduced to 3.5% on Supplies and 5% on Services to lower to cost of doing business. Further, all withholding taxes may be made adjustable and concept of minimum tax should be abolished.

2.7 Withdrawing Withholding tax responsibility from Retailers

The Withholding tax i.e. deduction at source is always an issue for retailers due to which they normally hide their grey channel buying. The vendors do not want deduction in their payments and therefore add back the tax amount in their invoices which reduce the profit margin of Retailers.

It is suggested that for better documentation, the responsibility of being a Withholding agent may be withdrawn for the Retailers and instead the turnover tax may be rationalized, in addition to simplifying the procedure for AOPs and Sole proprietors to become Limited Companies.

2.8 Relaxing documentation requirements for traders and small shopkeepers

To provide relief to the traders and small shopkeepers, the FBR may consider to curtail down the required documents to a minimum level. Further, FBR should fix sales tax at manufacturing stage only and the services sector sales tax rate may be reduced to 3 percent where there is no input allowed.

2.9 Special Procedures for small shopkeepers and traders

Special Procedures for Small Shop Keepers and Traders is a good step for the community. It is suggested that the individual should also qualify as a shopkeeper if he is a jeweler, a real estate agent, a doctor, a consultant, an accountant or a lawyer.

2.10 Taking measures to curb misuse of Afghan Transit Trade (ATT)

Smuggling through the Afghan Transit Trade has always been the biggest threat for economic growth and hardly any sector has been left untouched by this menace. Massive under invoicing and dumping of imported products, especially by the Commercial importers is destroying the domestic industry. Information about values at which Customs Authorities clear the import consignments is not available publicly which encourages the unscrupulous importers to under invoice their product and evade taxes.

It is therefore suggested that a quantitative restriction may be applied on goods moving under the ATT on the basis of consumption requirements. Further, the values at which import shipments are cleared through PRAL or CARE need to be publicly made available.

The Government of Pakistan must insist of Electronic Data Interchange (EDI) for both FTA and non-FTA imports from China. Depending on industry, the Import Trade Price (ITP) be fixed e.g. on basis of country of origin, weight, volume etc. after discussion with stakeholders.

2.11 Penalty for willful wrong tax assessment

Penalty and punishment for officials of FBR may be introduced for willfully making wrong tax assessments during audit and for harassing the citizens and taxpayers. These should include monetary fines equivalent to time value of money of the assessee and his/her attorney, and imprisonment to a reasonable period so as to discourage harassment and willful wrong acts. The promotion/ increments of tax officials may also be linked with the %age of orders sustained at appellate level.

2.12 Curtailing unnecessary powers of tax officials

Unnecessary powers of the taxation officers need to be curtailed and focus should be made by the tax collecting authority on ensuring minimum human involvement in the proceedings. To achieve this goal, it is important that the capacity and efficiency of IT system of FBR should be improved.

2.13 Other Tax Policy Considerations

- a) National Tax Number (NTN) and filer status may be made compulsory for opening bank accounts except for children and housewives.
- b) Revision of annual Income Tax Returns may be made easier or allowed at AC/DC level.
- c) The social security, Labor-related taxes e.g. EOBI, PESSI, WPPF, WWF, professional and property tax and education Cess etc. may be rationalized especially for export business.

2.14 Including Cost and Management Accountants (CMAs) in Section 100D of Tax Laws (Amendment) Ordinance No.1 of 2020 for providing certification services to Builders and Developers

A new provision i.e. Section 100D has been introduced in the Income Tax Ordinance, 2001 through the Tax Laws (Amendment) Ordinance No. 1 of 2020 which prescribes a scheduler based fixed tax regime for Builders and Developers on the basis of project area in respect of their income from sale of building or sale of plots for the tax year 2020 and onwards. Necessary Rules to this effect have been enacted by inserting 'Eleventh Schedule' to the ITO Ordinance, 2001.

In respect of capital investment, it has been required that the Developer shall obtain a certification of project completion that at least 50% of the plots have been booked for sale and at least 40% of the sale proceeds have been received by September 30, 2022.

It is strongly recommended that the Cost and Management Accountants (CMAs) qualified from ICMA Pakistan may also be included as professional providing certification services to builders and developers under Section 100D of the Income Tax Ordinance, 2001. It is important to mention that CMAs have the relevant expertise in such certification services under different taxation laws of the country and they are fully capable to undertake such responsibility in a more efficient manner.

2.15 Tax exemption to Professional Accountants on services

The Professional Accountants help in the documentation of economy and play role in enhancing tax base. They extend tax consultancy and corporate law services to earn their livelihood. However, the professional accountants are subject to taxation under the law. It may be mentioned here that similar tax and corporate law services provided by Advocates are not chargeable to tax. Subjecting the professional accountants to tax on same services is therefore unjustified. Further, these services do not involve any input tax claim.

It is recommended that the professional accountants, including small firms of Cost and Management Accountants who are already striving for survival may be excluded and exempted from the charge of 16% effective sales tax by the Government. The big accounting firms may, however, be taxed at 3% to 4 percent. The concept of tier-1 retailer was for big retailers. Some minimum threshold may also be introduced such as annual turnover above Rs. 50 million for charge of tax on professional accountants.

2.16 Excluding ‘Accountants’ from the list of Services for online integration with FBR Computer System

The Federal Board of Revenue (FBR) is considering to make it mandatory for different categories of integrated businesses and enterprises to integrate online with the FBR’s computer system. In this connection, FBR has issued a new rule i.e. online integration of businesses through an SRO 296(I)2020, to amend the Income Tax Rules, 2002. It has been made mandatory for service providers to install the electronic fiscal device (EFD) to record their procurement and supply transactions. According to the FBR, online integration of businesses would be compulsory for 12 sectors, including ‘Accountants’.

It is suggested that the ‘Accountants’ may be excluded from the above list of service providers keeping in view of the fact that most of the professional accountants’ firms do not have any appointment system in place and there are also no fixed charging criteria. Sometimes, clients do not visit their offices daily.

2.17. Inclusion of the name of CMAs as member of ADR Committee under Customs Act 1969

Section 195C of the Customs Act, 1969 deals with Alternate Dispute Resolution (ADR). Under sub-section 2 (b) (1) of Section 195C, the name of CMAs has been omitted [inadvertently] despite the fact that CMAs are included as members in Alternate Dispute Resolution Committees (ADRC) formed u/s 134 A of the Income Tax Ordinance, 2001; u/s 47 A of Sales Tax Act, 1990; and u/s 38 of Federal Excise Act, 2005.

It is proposed to also include the name of Cost and Management Accountants (CMAs) having minimum ten years’ experience in the field of taxation, along with other members. This would bring the fair representation of professional accountants and it would be in line with other laws in respect of ADRC.

2.18. Extending Cost Audit to all industries and granting cost audit exclusive rights to CMAs

Companies Act 2017 imposes requirement for audit of cost accounts in accordance with the provisions as contained in Section 250(2) *ibid.* it requires that cost audit will first be recommended by regulatory authority supervising the business of relevant sector or any entity of the sector to Securities Exchange commission of Pakistan (SECP) which may issue directives for implementation of recommendations.

Based on existing structure of most of regulatory bodies, it is apprehended that the concept of cost audit may not be adopted in its true spirit as envisioned under Section 250 of the Companies Act. Further, even if regulatory authority opts to recommend cost audit it is dependent upon the directions to be issued by SECP. These conditions make it too lenient for the industry to ensure its implementation. Besides the whole exercise may consume protracted processes and is fraught with risks of repeated interventions and opposition by the vested groups.

Secondly, it is altogether a wrong perception that 'cost audit' is not prevalent in any jurisdiction except India and Bangladesh. The fact of the matter is that maintenance of cost accounting information and its validation thereof is obligatory in many countries, including USA, Canada, UK and Germany. Every country administers and monitors its industry and economy for which there is an in-built mechanism for cost measurement and control. In Pakistan, India and Bangladesh, this mechanism is termed as 'cost audit'.

The industry in Pakistan is currently facing challenges in international export markets due to uncompetitive prices and its main reason is high cost of production. This situation has further accentuated with the negative impact of COVID-19 on the manufacturing and export industries. For survival and sustainability, it is inevitable that our industry gain cost advantage over their foreign counterparts. In India, it is because of obligatory cost audit requirement that Indian goods have an edge in foreign markets.

Further, to safeguard the interests of consumers, it is required to make cost audit obligatory similar to financial audit. It will help to arrest exorbitant increase in prices, undue profiteering, unnecessary expenditures, excessive wastages and unbridled illegitimate gains by manufacturer and service providers. Added to this, it will promote innovations and use of technology to curtail costs and reduce prices. It will consequently upsurge foreign exchange reserves, improve capital market volatility, control ballooning debts and boost up economy. The need for cost audit intensifies in the context of public sector organization where whooping expenditures and inefficiencies are made at the expense of public money.

In view of the above, it is strongly recommended that the cost audit regime is extended to all the industries in Pakistan and its exclusive right is given to the Cost and Management Accountants (CMAs) only.

The argument of allowing cost audit exclusively to CMAs is based on valid grounds that under the CMA Act, 1966, cost audit regulation is the exclusive domain of ICMA Pakistan; CMAs have specialized education and training in cost and management accounting; Cost audit needs specialized skills and knowledge which is delicately covered in ICMAP Syllabus and practice and in India, only Cost Accountants are the only finance professional who are authorized under the law to act as sole cost auditors of companies.

Chapter 3

Income Tax Proposals

Chapter 3: Income Tax Proposals

3.1 Abolishing tax on undistributed profits [Section 5A]

Section 5A relates to tax on undistributed profits @ 5% of accounting profit before tax on every public company, other than a scheduled bank or a modaraba.

It is proposed that this Section may be removed / abolished from the ITO Ordinance 2001.

3.2 Allowing deductions on calculating property income [Section 15]

Section 15 relates to income from property; however, deductions on property has not been allowed.

It is proposed that deductions on calculating property income may be allowed under above Section 15.

3.3 Enhancing the limit for Salary payable in Cash [Section 21 (m)]

Section 21(m) of ITO, 2001 disallows the expenditure on account of salary exceeding 15,000 in cash.

It is proposed that the existing limit of salary payable in cash may be enhanced to Rs. 50,000 from Rs. 15,000 by amending Section 21 (m). The salaried employees will be benefited from this amendment.

3.4 Restoring initial tax rebate for researchers and full time teaches [Section 53]

Through the Finance Act 2013, the Federal Government reduced the tax exemption or rebate for full time teachers and researchers, employed in non-profit education or research institution, Board of Education or a HEC-recognized University, including government training and research institution, from 75 percent to 40 percent [Section 53 read with Part 3 of Second Schedule of ITO 2001].

It is proposed that tax rebate to full time teachers and researchers may be brought to previous level of 75 percent in consonance with government's policy to promote education and research in the country.

3.5 Enhancing the time period for carry forward of business losses [Section 57 (2)]

As per sub-section 2 of Section 57 of ITO 2001, If a loss sustained by a person for a tax year under the head 'Income from Business' is not wholly set off then this loss amount can be carried forward to the following tax year and applied in that year, and so on, but no loss can be carried forward to more than six tax years immediately succeeding the tax year for which the loss was first computed.

It is proposed that that the time period for carrying forward the loss, not set off, be enhanced from six tax years to ten tax years immediately succeeding the tax year for which the loss was first computed.

This would be similar to the concession provided to stated-owned banks that carried forward losses up to a period of ten years in respect of losses incurred in relation to A/Y 1995-96 to 2000-2001.

3.6 Restoring previous sub-section to benefit loss making companies [Section 57 (4)]

The sub-section 4 of Section 57 of ITO, 2001 was replaced vide Finance Act 2018.

It is proposed to restore the previous sub-section 57(4) which will benefit the loss-making companies. The restoration of this section will also encourage investment climate in the country.

3.7 Tax on Surplus of Not-for-Profit Organizations [Section 100C]

Under Section 100C of ITO, 2001, the income of Non-profit organizations, trusts or welfare institutions, has been allowed a tax credit equal to one hundred per cent of the tax payable, including minimum tax and final taxes payable subject to conditions.

It is proposed to abolish sub-section (1A) and (1B) of Section 100C of ITO, as it is directly causing hindrance to the welfare activities involving capital expenditure to be incurred over a period exceeding one year. Alternatively, the limit of spending in a year on charitable and welfare activities from receipts during that year currently set at minimum 75% of such receipts, may be analyzed over a reasonable period (at least 3 years), to account for expenditures, which are inevitably spread over a period exceeding one year.

3.8 Reducing the rate of Minimum Tax [Section 113]

At present, the rate of Minimum Tax under Section 113 is charged at 1.5 percent of the sales (Turnover) with a few exemptions. For Traders, the turnover tax is 0.5% upto a turnover of Rs. 100 million.

It is proposed to reduce the rate of minimum tax from 1.50% to 0.5% and minimum tax paid in case of 'Nil' tax payable and next year it may be brought done further to 0.1 percent. This would benefit the new and small insurance companies and companies which are in losses in initial years of operation. The limit for retailers/ AOPs should also be increased up to Rs 50 million. To support the industry, the whole amount of minimum tax paid be allowed to be carried forward. In case of business losses where tax payable is zero, the whole amount of minimum tax paid be allowed to be carried forward and adjusted against tax liability for five years immediately succeeding the tax year for which the amount was paid. This will encourage the small shopkeepers/ retailers/ AOPs and also bring huge revenues.

3.9 Doing away with Alternative Corporate Tax [Section 113 C]

Section 113C is related to Alternative Corporate which is creating hardships for companies. Even in case of losses or low net income, the companies are required to pay undue tax.

It is proposed to do away with Section 113 C to facilitate the companies and also to improve the business environment of the country.

3.10 Non-allowing further amendment in Assessment Order [Section 122 (4) & (5A)]

Under Section 122 (4), 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 taxpayer's affairs. Furthermore, under Section 122 (5A) of ITO 2001, stereo-type proceedings are undertaken by the Additional Commissioner for each tax year which nullifying the provisions of Section 120 of Universal Self-Assessment.

It is proposed that to remove discretionary powers, once an assessment order has been passed by the Commissioner, further amendment should not be allowed, unless there is some genuine concern of the taxpayer. It is also proposed that Section 122 (5A) may abolished as it grants unfair power to Commissioner which may result in corrupt practices. It will also help strengthen the relationship between the taxpayer and the tax authorities.

3.11 Increasing threshold limit for Retailers /AOPs [Section 123]

Section 123 relates to charging Minimum tax on the income of certain persons. A threshold of Rs. 10 million has been fixed under this Section for individuals and Association of Persons (AOP) which is low.

It is proposed that the threshold limit for retailers and AOPs may be increased upto Rs. 50 million.

3.12 Auto stay against recovery while case is pending before Appellate Tribunal [Section 138]

Currently, in case of, appeal is pending at Commissioner Appeal level and if taxpayer deposits 10% of the tax demand, the recovery proceedings are not initiated. In most of the cases, relief from the Commissioner Appeals is not granted to the tax payers and they had to go to next level i.e. Appellate Tribunal where major time of the Tribunal is spent on disposal of stay matters and main appeals are not heard due to which disposal of cases is delayed much at Appellate Tribunal Level.

It is proposed to introduce Auto stay against recovery while case is pending before the Appellate Tribunal as the same exist if case is pending before Commissioner Appeals by depositing further 5% amount of tax demand. The tax payer already paid 10% for auto stay at Appeal Level. This would expedite disposal of cases at Appellate Tribunal and ensure early recovery of tax demanded.

3.13 Making the recovery proceedings lenient [Section 138 (2)]

Under Section 138(2), 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 was announced 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.

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. Once the audit is conducted of any tax payer, he may be excluded from selection of audit for next at least 3 years if tax paid is higher than last assessed tax.

3.14 Abolishing requirement to take payment from AOP members [Section 139]

Section 139 of ITO 2002 relates to collection of tax in the case of private companies and associations of persons. It is required that where any tax payable by a private company (including a private company that has been wound up or gone into liquidation) in respect of any tax year cannot be recovered from the company, the director of the company, other than an employed director; or a shareholder in the company owning not less than ten per cent of the paid-up capital of the company, shall be jointly and severally liable for payment of the tax due by the company.

It is proposed that this Section should be abolished from the ITO 2001 as it is not justified.

3.15 Withholding of Tax [Sections 148 & 153]

Section 148 relates to collection of advance tax from importers of goods whereas Section 153 relates to payment for goods, services and contracts.

It is proposed to make amendment to re-add this part to final taxation.

3.16 Including professional services in Fixed Tax Regime (FTR) [Sections 153 (7) (ii)]

Under sub-section 7(ii) of Section 153 on payments for goods, services and contracts, the services of professional like accountants, architects, dentists, doctors, engineers, interior decorators and lawyers, otherwise than as an employee have been mentioned.

It is proposed that 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 and they may be included in the Fixed Tax Regime (FTR) with applicable income tax rate.

3.17 Prescribing Turnover threshold of Rs. 50 million for all companies [Sections 153 (7) (i) (b)]

Section 153(7)(i)(b) of ITO presently defines all companies including single member companies, private limited companies and public unlisted companies without any threshold of capital or turnover to be a prescribed person (Withholding Agent), whereas Section 153 (7)(i)(h) and Section 153(7)(i)(i) define AOPs and Individuals having turnover of Rs. 50 million or above in the last tax year to be the prescribed person.

The withholding of tax being un-adjustable/fixed/minimum in nature has increased cost of doing business while reducing margins in a highly competitive and inflationary economy. Being a prescribed person also attracts stringent compliance and monitoring requirements. This is the very reason due to which there is low level of documentation and corporatization of the economy.

It is proposed that similar threshold of turnover of Rs. 50 million may be prescribed for all companies, excluding the listed companies and government owned entities.

3.18 Persons registered under Sales Tax Act, 1990 [Sections 153 (7) (i) (j)]

Through Finance Act, 2013, a new Clause (j) was inserted in sub-section 7 (i) of Section 153 of ITO 2001 whereby under definition of the 'Prescribed Person', a person registered under the Sales Tax Act, 1990' 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 has been included. It may be noted that every sales tax registered person is withholding agent regardless of quantum of turnover to collect tax on payment of goods, services and contracts. There are small traders who are registered for sales tax purpose just to secure business from Public and Private Sector Organizations but their turnover is very low and it is difficult for such small businesses to comply with the withholding provisions.

It is therefore 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.

3.19 Exemption Certificate [Section 159]

Under Section 159, there are no defined rules or criteria to get the Exemption certificate for WH Tax.

It is proposed to frame rules and criteria to get a certificate of exemption for the withholding of tax.

3.20 Certificate of Collection or Deduction of Tax [Section 164]

Section 164 of ITO, 2001 and Rule 42 of Income Tax Rules, 2002 refers to the Certificate of Collection or Deduction of Tax.

It is proposed that on FBR e-portal, access should be provided to tax payers to extract their certificates, reports of tax deduction at source. This should be automatically linked with the tax returns of respective tax payers. It will ensure that withholding agents are depositing due tax to the Govt. exchequer.

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

Section 165A relates to powers given to FBR to probe into banking transactions whereby the banks have been asked to provide the details of cash withdrawal, deposits, profit on debt exceeding certain limits to FBR. This discriminatory power is likely to increase harassment and signify an obstacle to documentation.

It is proposed to do away with Section 165A from the Income Tax Ordinance, 2001.

3.22 Allowing automatic refund to salaried individuals within one month [Sections 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 of receipt of a refund application.

It is proposed that Section 170(4) may be amended so as to allow income tax refund within one month automatically to salaried individuals' auto credit for their facilitation and building confidence.

3.23 Audit of Income Tax Affairs [Section 177]

Under Section 177, the Commissioner has been authorized to undertake audit of income tax affairs of taxpayers. However, there are no specific rules for the audit defined in this provision.

It is proposed that a specific and clear list of required documents for a specific category (Class of income) may be added in the legislation. Further, Hon'ble High Court has restricted the Commissioner concerned to select the case for audit without any reason. It is therefore recommended that the proper clause mentioning reasons for the selection of cases for audit be inserted to enhance the confidence of taxpayers. It is also recommended to restore the three years Non-Audit policy of Audit. Furthermore, audits/ uncalled-for orders are creating extraordinary demands. It is accordingly suggested to provide appreciations to the officers on the first stage recoveries.

3.24 Rationalizing Penal provisions under various Sections [Sections 21(C), 161, 162(2), 182, 205(3)]

The penal provisions under different sections of ITO 2001 e.g. Sections 21(C), 161, 162(2), 182 & 205(3) need to be relaxed. In the last budget the penalties were increased.

It is proposed that penal provisions under the above-mentioned Sections may be relaxed and rationalized to facilitate the withholding agents. Further, under Section 182 and 205, the penalties and default surcharges on non-filing of annual tax returns and wealth statement in on a higher side.

3.25 Reducing fixed advance tax on Marriage Halls [Section 236D]

Section 236D relates to advance tax on functions and gatherings.

It is proposed that fixed tax on Marriage halls may be reduced to Rs. 5,000 with an area of 2,000 to 2,500 Sq.yards to facilitate the small businessmen and create ease of doing business.

3.26 Removal of Anomaly and Rationality of Tax on LLPs [Section 280]

In 2017, a new enactment i.e. Limited Liability Partnership Act, 2017 was made. By virtue of its definition, LLP is a corporate body but by virtue of arrangement it is a partnership. Even with this new legislation of LLPs being important legal form of business, necessary amendments have not been made in the Income Tax Ordinance, 2001 to provide taxation of LLPs which may create confusion amongst LLPs as tax payers.

It is proposed to remove this anomaly and rationalize tax on LLPs to create a positive impact on revenue. A new sub-clause needs to be added in Section 280 to define LLPs under 'Association of Persons' (AOPs) instead of Company as it is similar form of business though registered with SECP under the Limited Liability Partnership Act, 2017. LLP is a documented form of business therefore it should be promoted by including incentive provisions under the tax law.

3.27 First Schedule to ITO, 2001

(a) Reduction in tax rate for small companies

While introducing concept of the Small companies, the partnership firms were encouraged to convert their business into incorporated companies by offering lower income tax rate of 20% and exempting them from being withholding agents. However, afterwards the income tax rate was increased to 25% and they were also made withholding agent with stringent requirement of compliances.

It is proposed that the rate of income tax for small companies may be reduced from the current 25% to 20 percent. Small Companies should be exempted from being a Withholding Agent to deduct taxes and file statements. Tax on Dividends for Private Limited Companies should also be eliminated. This will promote corporate culture by offering the same incentives as partnership firms.

3.28 Second Schedule to ITO, 2001

(a) **Fixed tax regime for Hajj Operators:** The Fixed tax regime for Hajj Companies may be restored with an increase of Rs. 6,500 to avoid any litigation. This matter is already agreed upon with State Minister Mr. Hammad Raza in presence of Member IR, FBR and Hajj Organizers Association of Pakistan (HOAP).

3.29 Fourth Schedule to ITO, 2001

During the year 2016, tax measure of one basket income for Insurance companies was introduced. The Capital Gains and Dividend income is currently being taxed @ 30% as against reduced rate of tax for other sectors. This state is discriminatory in nature and may hamper the profitability of insurance companies. The investor's interest in this sector is dwindling and is directly affecting the capacity building of insurance sector, which in turn is resulting in buying more reinsurance support from international market and thus draining additional foreign exchange.

It is therefore proposed to abolish the tax measure of one basket or the rate of tax may be brought down in line with other sectors by amending Rule 6B of Fourth Schedule to ITO, 2001.

Chapter 4

Sales Tax Proposals

Chapter 4: Sales Tax Proposals

4.1 Gradual reduction in rate of Sales Tax

As already promised by the Government, the rate of sales tax for various products or services may be reduced gradually. This would help curb inflation in view of covid-19 pandemic situation.

4.2 Single registration and single integrated filing

Currently, the taxpayers doing business in Federal Capital as well as in the Provinces have to get themselves registered in Federal Board of Revenue (FBR) as well as all in the Provincial Revenue Authorities and file separate returns (generally 5 returns). This is a cumbersome job and create inconvenience for taxpayers.

It is proposed that a single online integrated Sales Tax Returns filing procedure may be introduced for Federal and Provincial Sales Tax declaration instead of current separate filing requirements for federal and each province. The amendment will result in convenience and ease of doing business.

4.3 Stage-wise Sales Tax

The present sales Tax Act was introduced in 1990 and despite Government's efforts for its implementation, it has not been accepted by the business community and so far, the registered persons could not exceed one hundred thousand. The law is much complicated and with issuance of SROs, Special Procedure Rules, it has become more cumbersome. Although this act is called Sales Tax Act, but it is actually a Value Addition Tax, and with passage of time it has become a blend of VAT, Turn over, Presumptive tax etc.

It is proposed that instead of present system, sales tax may be introduced under which every trader shall be required to pay tax on sales. Sales tax may be imposed @ 10 % at import and manufacturing stage and 2% tax on all traders at all stages in the supply chain i.e. Distributors, wholesalers and retailers. The tax paid on purchases be included in the cost of purchases.

Every trader whether distributor, wholesalers or retailer who holds NTN and filing his Income Tax Return, may automatically be considered registered for sales tax and he must submit his Sales Tax Return every month showing his purchases, sales and closing stock. The taxation officer during desk audit shall match the sales figures declared in Sales Tax Returns with the declared in Income Tax Return. In case of difference the T.O. shall recover Sales Tax or Income Tax with penalties. This shall besides collection of Sales Tax shall also ensure documenting of country's economic activities. The tax base will also increase manifold.

4.4 Amendments in Islamabad Capital Territory (Tax on Services) Ordinance, 2001

- (a) As per schedule to the Islamabad Capital Territory (ICT) Ordinance 2001, there is list of 42 services which are taxable. There are certain services which are mixed up with each other. Many terms are not clearly defined which causes confusion among the tax payers/ departments. Even some of the services do not contain PCT Codes, therefore there remains confusion in the field with respect to the taxability under different serial numbers of the schedule.

It is proposed that each taxable service may be defined separately, category wise and with true spirit to avoid unnecessary litigations and confusions. (May take guidance from The Sindh Sales Tax Act on Services 2011 and The Punjab Sales Tax on Services Act, 2012).

- (b) The services of professional accountants do not involve input tax claim, therefore, the effective rate of 16% is not justified in view of 4% - 5% effective sales tax in case of products.

It is, therefore, proposed to exempt/ reduce the Sales Tax on Services falling under the following PCT headings according to Islamabad Capital Territory (Tax on Services) ordinance, 2001: -

Slabs	Services	PCT Heading	Action Requested
Annual turnover not exceeding Rs 10 million	Management Consultancy Services	9815.4000 9819.9300	Exemption from Tax
	Services provided by accountants and auditors	9815.3000	
Annual turnover exceeding Rs 10 million	Services provided by corporate law consultants	9815.9000	Fixed Sales Tax Rate of 5% be applied

It will reduce the hardships of the professionals providing services as mentioned against the PCT headings. The benefit of such measures will reduce the cost of doing business of the business as well.

(c) Currently the rate of sales on services is 16 percent. Certain services are at reduced rates of 5% without input tax claim vide SRO 495(1) 2016 dated 4th July 2016. In most of the cases, there is hardly any input for provision of services except few services of telecom and banking. Therefore, the higher rate of tax on services may be one of the causes of tax evasion.

It is proposed that the rate of sales tax on all services may be gradually reduced to 5% from existing 16%. Broadening of tax base and resultantly will increase the Revenue of national exchequer.

4.5 GST on Supplies to Government

In Pakistan large number of supplies to the Federal Government, Federal Institutions and departments are levied GST under Sales Tax Act, 1990. Tax money from the national exchequer is paid to the supplier. The supplier after adjustment of the input tax, pay the balance amount if any to the federal government. Such levy/payment of the GST on supplies to Government have following negative impacts:

- a) The money is drawn from the national exchequer for payment of GST to the vendor and then vendor pay the tax to federal government after adjustment of input tax. However, in the presence of input tax more than the output tax nothing shall go in national exchequer. Moreover, if the input tax is managed by the vendor through malpractices (fake and flying invoices) the national money goes into the pocket of vendor without any contribution to the national exchequer.
- b) Levy of the GST on supplies to federal government and then payment of GST by the vendor is shift of money from the national exchequer to vendor and then its deposit is mere a notional addition, if any in national exchequer and this has no real term addition in the national exchequer.

- c) Levy of the GST on supplies to government is a gateway of corruption within the governments departments. Sales Tax withheld by the government departments is not deposited in most of the cases.
- d) Though the levy of GST on supplies to the Federal Government not make any addition in national exchequer however same causes increase of cost of doing business for the registered person as compared to the unregistered person doing business in open market, then ultimately the registered person go towards the malpractices like fake and flying invoices to cover the cost of business.
- e) As levy of GST make no any addition in national exchequer in real term so maintaining the record of GST paid to the vendor, withholding of the sales tax and such other similar record keeping practice is carried out without any resultant benefit. Moreover, it is also a heavy work load to the FBR for assessment, examination of record and as well appellate forums.

It is therefore proposed that the levy of GST on supplies to Federal Government funded departments, institution, bodies etc. may be exempted under Sales tax act 1990.

The Federal government shall be able to record the GST collection from the private sector in real term. National money shall not go to the hands of private business man, business malpractices shall be reduced. Government department's corruption will decline. FBR/ Appellate Forum workload shall be decreased and ultimate it shall be a positive contribution in national exchequer.

4.6 Refund Filing-Chapter-V

Through SRO 918(I)/2019 dated 07 August 2019, sales tax refund processing was automated. From July 2019, sales tax refund claim would be considered as submitted after filing of refund claim in serial no. 29 of the Sales Tax Return by submission of form STR-7A within 120 days of claiming of refund claim and simultaneous filing of Annexure-H. As per the rule 28 of Chapter V of sales tax rules 2006, Annexure-H is to be filed within 120 days for zero rated sector while for other sector, rule 28 does not provide specific instruction, however prior to amendment in sales tax refund rules, 2006 , Consumption Sheet (Annexure-H) was required for processing of refund claim.

It is proposed that FBR may provide clarification that whether filing of Annexure-H is necessary with the sales tax return or filing of STR-7A would suffice the requirement for refund filing process and Annexure-H is mandatory for only zero-rated sector. Further, Form no. STR-7A is not available for electronic filing. FBR should ensure its availability electronically in e-FBR portal. The sector wise bifurcation of applicable risk assessment parameters for refund processing should also be provided.

Chapter 5

**Sector / Industry
Related Proposals**

Chapter 5: Sector / Industry Related Proposals

5.1 Telecom Sector

- a) **GST Harmonization:** GST rate may be harmonized and collection be centralized so that collection of full amounts arrived to cellular operators be ensured and hassle be reduced in accounting and collection. Operators may be asked to provide division between provinces as per decided formula.
- b) **Advance Withholding consideration:** There is abrupt charge and collection of Advance Withholding Income Tax. This collection is expense for majority and only a few subscribers are able to get an adjustment. Various parliamentary committees besides FTO has asked for either stopping collection or some very simple refund procedure need to be adopted.
- c) **Reduction on data usage taxation:** Communication is business enabler. Reduction of taxes on communication specially data may enable boost opportunities in business therefore taxes on data communication is recommended to be reduced as much as possible.

5.2 Oil and Gas Sector

- a) **Reducing high taxes on E&P Companies:** The Income of Petroleum Exploration and Production (E&P) companies is taxed under Part-1 of Fifth Schedule to ITO 2001. The applicable tax rate is 50% to 55% of profit and gain under Petroleum Concession Agreement under Petroleum Policies prior to 2001. The tax rate is 40% from Petroleum policies 2001 to date. Apart from income taxes, E & P companies also pay royalty at 12.5%, Production bonus and windfall levy on oil price to the Government which earn high from this sector. The gas and oil prices of Petroleum Exploration and Production companies are linked with international oil prices. COVID-19 has severely impacted the profitability of these companies due to fall in international oil prices and curtailment of production due to lower demand.

It is recommended that Petroleum E & P companies may be given tax incentives by reducing tax rates upto 10% for at least next three years so that they may get the fiscal space to enhance investment in exploration activities which is so instrumental for enhancing capacity of indigenous production.

- b) **Allowing Depletion Allowance Claim on gross receipt:** The Petroleum companies are facing issue of calculation basis for claim of depletion allowance as per below Clause 3 Part 1 of Fifth Schedule.

“3. In determining the income of such undertaking for any year ending after the date on which commercial production has commenced, an allowance for depletion shall be made equal to fifteen per cent of the gross receipts representing the well-head value of the production, but not exceeding fifty per cent of the profits or gains of such undertaking before the deduction of such allowance.”

FBR is not accepting the basis of calculation of depletion allowance that is “gross receipts representing the well-head value of the production, instead the well head value is reduced by royalty at 12.5% of well head value. This issue is being faced by Petroleum sector for the last ten years.

Due to COVID-19, the profitability of petroleum Companies will be severely affected. To provide some fiscal space to E & P companies for exploration and development activities, **it is recommended that the matter of depletion allowance may be resolved in its true spirit by allowing it on gross receipt representing well-head value of the production.** Although its applicability retrospectively may create substantial refund, however, it may be resolved prospectively as incentive to petroleum companies.

5.3 Textile Industry

- a) Freezing gas and electricity bills for the spinning industry: In the past the textile exporters availed zero-rated sales tax regime for the five major export-oriented sectors – textile, carpet, leather, sports and surgical goods. In the budget 2019-20, the government rescinded SRO 1125 and imposed 17 percent sales tax on erstwhile five zero-rated export sectors and exporters are required to apply for refund after export of consignment. This led to blockage of their working capital and hindered growth in exports.

It is proposed that in the Budget 2020-21, the Government may consider to restore zero-rate sales tax regime for the five major export-oriented sectors, including textiles, which would help revive exports and earn much-needed foreign exchange, keeping in view the projected shrinkage due to Covid-19.

- b) Freezing gas and electricity bills for the spinning industry: The entire textile sector chain starting from spinning to garments manufacturing and textile exports are all under serve pressure due to complete lockdown in the country, in addition to stoppage in imports of basic raw materials required by the industry and cancellation or deferment of export orders. It is presumed that in the longer run due to relief package announced by the Government for textile exporters, the situation would improve and gradually textile exports would increase. There is also a blessing in disguise. Due to world-wide spread of COVID-19 pandemic, many buyers in USA, Europe and other countries, have canceled orders from China and this could be of benefit to our textile exporters who can capture the export market.

It is proposed that the government may consider to freeze the gas and electricity bills for the spinning industry for at least two months so that the industry could operate without any interruption in these difficult times and avoid mass unemployment of workers.

- c) Duty on Yarn Export: At present, there is 11% customs duty, 5% regulatory duty and 2% additional duty on the import of cotton yarn. Compared to this, there is no duty on the export of yarn. This has created artificial shortage of yarn, rendering value-added textile exporters uncompetitive in the global market. This could lead to a decline in exports as domestic industries have been affected and are closing down.

It is proposed that whenever the government intends to impose regulatory duty on import of cotton yarn, it should also impose regulatory duty on export of yarn with a specific time limit for the duty.

- c) Duty Drawback of Taxes: Currently, the government is providing Duty Drawback of Taxes on garment @ 4%, home textile @ 3% and fabric exports @ 2%, respectively. (50% on shipment basis, and remaining 50% on the condition of increment). However, due to complete lockdown, exports are halted since March 2020 and it is impossible to increase exports.

It is proposed that for 50% of Duty Drawback of Taxes, the government should check export performance of eight months during July-February 2019-20 over July-February 2018-19 before lockdown instead of 12 months July-June 2019-20 over July-June 2018-19.

5.4 Pharmaceutical Industry

- a) **High Cost of Materials:** Pakistan has not enough capacity to produce API's due to lack of research and development. Most of the API's are being from India and China with higher cost. Moreover, the Pharma industry is exempt from sales tax; hence GST on some of the excipient, packaging materials and services is made the part of the product cost.

It is suggested that the Government may give exemption on GST of purchases of these items which will reduce the cost of materials and ultimately this will pass on to the consumer.

- b) **High Cost of Utilities:** The cost of utility is the major component of the cost of medicines. Recently, the Government has increased gas and power tariffs due to which the cost has increased significantly.

The Government may consider reduced tariff for the exports-oriented pharmaceutical units.

- c) **Mechanism of Drug Prices and Registration:** The prices and registration of medicines are controlled and regulated by the Drug Regulatory Authority of Pakistan. The Mechanism of pricing and registering of new products is a challenging task requiring a lot of documentation as compared to other countries.

It is proposed that DRAP should reduce the documentation and device new online registration process to reduce the time and cost.

- d) **High Cost of Quality Assurance:** It is mandatory for the pharmaceutical manufacturing units to fulfil the requirement of GMP. The cost of maintaining the quality of the product and manufacturing facility is increasing day by day. It is important for all the exporters to maintain the manufacturing facility as per international standards. This is also a challenging task and it demands separate technical staff who are vigilant and familiar with the international standards.

It is proposed that the Government should establish separate institutes or technical centers where they may provide the professional technical education on these international quality parameters.

- e) **Research and Development:** The Government has collected 1% on profit from all Pharmaceutical Industry on account of Central Research Fund (CRF).

It is proposed that this fund should be utilized on the research and development of new molecules, establishment of technical research centers and formation of new technical institutes.

- f) **Foreign Payments of Promotional and Marketing Expenses:** The exports of the medicines in Pakistan are increasing day by day especially in South Asian Countries, Central Asian Countries, Central African Countries and Francophone Countries. Pharmaceutical Industry is facing the tough time due to competition in international market especially with India.

We have a long and hectic process of approval of payments from SBP on account registration of premises, product registrations, inspection fees, renewal fees, salaries, promotional and marketing expenses as compare to India.

SBP may consider to reduce the documentation and time in payments approval process in order to increase the exports of the country.

5.5 Fertilizer Industry

- a) **Minimum Tax at Import Stage for Fertilizer manufacturers:** Section 148 (7) (b) of the Income Tax Ordinance omitted by Finance Act, 2017 – allowed adjustability of tax deducted at import stage for fertilizer imported by a fertilizer manufacturer. Due to thin margins of imported fertilizers in the wake of above omission, the tax deducted at import stage on the cost of fertilizers, being higher than tax payable under NTR on profits, becomes final tax for the fertilizers manufacturer which represents quite high % age of the fertilizers profit, making it difficult for the manufacturers to make available important fertilizers such as Phosphates to the farmer at an affordable price.

The Minimum Tax regime (MRT) at import stage (or Final Tax regime) was originally intended towards unorganized sector to improve documentation and collection of taxes. The fertilizer manufacturers are already in the organized sector and come under large tax payers. Hence, bringing such tax payers under the ambit of MTR/Final Tax Regime goes against its intended spirit. Incremental tax burden due to MTR at import discourages import, which affects phosphates fertilizers availability at affordable price in the market.

It is recommended that Clause b of Section 148(7) as deleted by the Finance Act, 2017 should be restated, which read as “148(7)b fertilizer by manufacturer of fertilizer.

- b) **Withholding Tax on import of Phosphoric Acid as raw material by fertilizer manufacturers** -Import of raw material is subject to withholding tax under section 148 of the IT Ordinance @ 5.5% under part II, S. No 8 of table of 1st Schedule. Exemption is available through SRO 717 (I)/ 2014 subject to the approval of the commissioner. This condition is exploited by the commissioners and large amounts of advance tax is demanded for the issuance of exemption certificate. Considering the profitability of the manufacturers have significantly declined it's impossible to adjust the advance tax paid by the manufacturers resulting in huge pile up of refunds.

It is proposed that separate S. No in Part II of the 1st Schedule to be added for advance tax to be reduced to 0% in case of import of Phosphoric acid used as raw material by fertilizer manufacturer.

- c) **Input Disallowance Section 8(1)(m):** Section 8(1)(m) disallows input tax pertaining to sales being made to unregistered customer that do not provide CNIC as per Section 23(1)(b). In fertilizer sector the main source of income of the dealers is the margin provided to it by the manufacturers that is transferred to its customer down the line. Generally, customers of the dealers (sub-dealers, retailers, farmers) are not registered in sales tax thus causing an undue hardship on the margins of the dealer due to disallowance of input tax. As fertilizer section forms the back bone of the Agricultural setup and it ensures food security in Pakistan. Therefore, any impediment to the supply chain of fertilizer sector would have a direct impact on the food inflation. Thus, allowing this facility specifically to Fertilizer sector would ensure a control food inflation that is already highest in the region.

It is proposed that exclusion for obtaining to CNIC by the dealers should be available specifically to Fertilizer Sector, due to socio-political environments.

- d) High taxes and duties on import of Gas compression machinery:** The taxes and duties on import of compression and transmission infrastructure are quite high subject to 18% custom duties and 17% sales tax at the time of import. Concession in custom duty for import of BMR machinery further reduced through Finance Act 2018. Compared with other gas consumers, the fertilizer industry is compelled to invest in gas infrastructure development resulting in huge outlay on CAPEX and OPEX in maintenance thereof. Therefore, such imposition of duties and taxes at the time of import leads to additional cost thereby affecting sustainability of fertilizer businesses.

It is proposed that Gas compression equipment & machinery may be fully exempted from import taxes and duties to support sustainability of the fertilizer industry.

5.6 Steel Industry

China is the largest producer of steel and alloy and due to COVID-19 outbreak in China, the global steel industry suffered due to halt in supplies of steel for their manufacturing industries, including Pakistan. In fact, Pakistan steel industry is dependent on raw material imports from China and Japan and if the situation persists any longer Pakistan will have to move towards expensive alternative which may increase the cost of production and slow down manufacturing and construction activities in the country.

It is proposed that to provide relief to Steel Industry facing reduction in turnover to unsustainable level, the Government may consider to reduce the turnover tax from 1.5% to 0.25% and restore fixed sales tax regime for steel industry instead of federal excise duty.

5.7 Printing & Packaging Industry

The printing industry which mainly imports paper and other raw material from abroad is facing difficulties due to tariff anomaly and high custom duty structure. The printed materials (books, catalogues, packing materials, literary materials etc.) are imported at minimal rated customs duty, whereas, the paper and paperboard imported by the printing and packaging industry is charged with the highest rate of duty to make local printing and packaging industry to come to a collapse. Further, additional unbalanced import tax persist on paper, as there is no duty on basis raw materials, i.e. pulp (H. S. Code 47), and nominal duty on finished goods i.e. printed books, literary materials (H. S. Code 49); however in semi-finished goods (H. S. Code 48) i.e. paper and paperboard there is 63 percent aggregate duty taxes add-on.

It is proposed that the Government may remove the tariff anomalies for the paper and packaging industry as identified above and also abolish the unwarranted additional customs duty.

5.8 SME Sector

The SME sector contributes 40% to the GDP; constitutes 90% of the enterprises; employs 80% non-agricultural worker and contributes 25% to exports. This sector is the backbone of our economy; however, it is facing major impediments in its growth such as high utility charges, interest rate and complicated and higher rate of taxation, collateral, etc. The following suggestions are made for SME growth:

- a) Unnecessary licenses required to start a new startup or business need to be done away with or reduced to a minimum level and the licensing process need to be automated and simplified.
- b) The Government may consider grant of exemption from income tax for 5 years to boost the SME sector
- c) The tax and regulatory burden on small and cottage industries may be reduced in consultation with SMEDA to provide ease of doing business to the SME sector.
- d) SME Bank(s) need(s) may be privatized and strengthened and Government should extend full support of SBP policy on SME financing, including review of all key regulations relating to SME financing.
- e) SME facilitation helpdesks may be established at Banks for guidance regarding documentation and other procedures critical in obtaining loans.
- f) The new SME Policy must include all industries based on annual sales turn over definition and credit may be provided for working capital and BMR at 6 percent.
- g) Special Grants and interest free loans may be provided to SMEs, especially startups and doing online businesses. Tax support may be provided to start new businesses
- h) Businesses that are debtors/ declared defaulters or are affected by any other bank issues may be facilitated and granted an opportunity to avail further loan facility. In other words, their CIBs should be cleared for further loan availability.
- i) Relaxation in mark-up may be provided by deferring it for 6 months without any additional charges.
- j) Around one-year exemption on imports of raw material and machinery for SMEs may be provided. Duties and taxes may be exempted on shipment arrived / stuck at port during the period of lockdown.
- k) Online awareness programs may be introduced for small unit owners to obtain online order from international buyers in order to enable them to compete with Indian or Bangladesh manufacturers.

5.9 Banking Sector

- a) The banks are taxed at the rate of 35% of taxable income. Income Tax Ordinance requires 1.5% minimum tax for Banking Companies.

It is proposed that tax rate for banks be reduced to 29% to bring it in line with other industries.

- b) It is proposed that the banks may be given KIBOR based compensation on utilization of banks' money in form of monthly advance tax.
- c) Currently income tax rate of 29% is applicable on microfinance Banks.

It is proposed to reduce tax rate to 20% since microfinance industry is supporting the poor and needy customers, providing micro loans for agriculture and livestock and advances to Micro and Small enterprises. Microfinance industry is also helping in furtherance of the goal of financial inclusion. It is proposed that similar reduction in tax rate applicable to income from advances for micro, small and medium enterprises, be provided to MFBs under Chapter X of Part III (Tax Credits) of ITO 2001.

- d) Banks make payment of advance tax on a monthly basis, after deduction of any withholding tax paid/deducted at source. With this view, banks are exempted from withholding tax deduction as a recipient of income. However, banks are still required to pay withholding tax on utility bills.

It is proposed that withholding tax provision should not apply on banks with respect to payment of electricity bills, telephone bills and mobile bills.



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