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Fiscal Budget Proposals 2021-22

ICMA Pakistan
Estd. 1951

Institute of Cost and Management Accountants of Pakistan

Research and Publications Committee

To be the Preference in Value Optimization for Business

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

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- Competence
- Innovation
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Published by:

Research and Publications Directorate
Institute of Cost and Management Accountants of Pakistan

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From the Desk of President

I am pleased to present the ICMA Pakistan's Fiscal Budget Proposals 2021-22 booklet which contains valuable proposals and recommendations on income tax, sales tax, customs duty, federal excise as well as some industry-specific tax proposals. I do hope that these proposals would merit the attention of the policymakers and would be incorporated in the forthcoming Finance Bill 2021 and Federal Budget 2021-22.

ICMA Pakistan would be more than willing to meet the concerned officials of the FBR, Ministry of Finance and other Government officials, in case any elaboration is required on these budget recommendations. Being a professional institution of repute, it has always been the desire of the Institute to play its due role in providing professional input to the government and regulators on corporate, taxation, and economic related legislations. Our primary concern is to help create an enabling environment for the private sector and businesses to flourish and promote industrial productivity, investment, and economic growth in the country.

We have entered the second year of the pandemic with a mixed feeling of both hope and fear. Hope, that being one of the luckiest countries with a low rate of deaths from COVID-19, we would Insha Allah manage to achieve some economic recovery by end of 2021 and next year. This is also acknowledged by the World Bank in its 'Pakistan Development Update, April 2021' in which it mentions that 'notwithstanding the rise in COVID cases, Pakistan has been showing signs of a fragile economic recovery with a gradual economic dynamism'. World Bank further predicts that Pakistan's economic growth is expected to reach 1.3 percent in FY 2021 and strengthen to an average of 2.7 percent for FY 2022-23. Having said that, there is also fear that if the COVID-19 cases increase in the third wave and the Government had to resort to complete lockdown, this could have a devastating impact on our economy, leading to a decline in industrial productivity and a rise in poverty level. Nonetheless, it is satisfying that the Government is fully cognizant of the prevailing situation and taking prompt initiatives to control the spread of disease. As a responsible nation, we must also ensure compliance with the prescribed SOPs and play our collective role.

In the present difficult times, ICMA Pakistan would recommend to the Government to allocate adequate funds to those priority sectors which are essential for our country to fight against the pandemic. The government should especially consider providing special incentives, exemptions, and reliefs to SMEs and small businesses to survive and sustain themselves in the long run. ICMA Pakistan further proposes that the markup rate may be reduced to 3% for bank financing and the 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 and promote digitalization which is the need of time. It is also proposed to make business registration mandatory for all businesses.

I hope FBR will find the ICMA Pakistan budget proposals useful and incorporate the same in the upcoming budget.

Zia ul Mustafa, FCMA
President, ICMA Pakistan

From the Desk of Chairman, Research & Publications Committee

On behalf of the Research and Publications (R&P) Committee, I am pleased to present the ICMA Pakistan's Budget proposals booklet for FY 2021-22 for submission to the government and policymakers. The document has been prepared, based on valuable input by the members of the Institute, experts, and other stakeholders.

The broader objective is to present concrete proposals and recommendations that could facilitate the business and industry as well as help in improving the ease of doing business in the country.

ICMA Pakistan submits, every year, its budget recommendations to the FBR and Ministry of Finance and we are indebted to them that they always give due consideration to these recommendations. This year's budget proposals booklet of ICMA Pakistan covers income tax, sales tax, customs duty, federal excise, proposals for the export-oriented companies/sector, and general proposals. The booklet also features a special section on 'Industry and Sector-specific Proposals' which covers 16 industries in Pakistan.

I would like to appreciate the Chairman of the National CPD Committee, Mr. Ather Saleem Ch. for timely organizing a 'National Pre-Budget Conference' on Zoom on 30th March 2021 jointly with the Technical Support and Practice Development (TSPD) and Research and Publications (R&P) Committees of the Institute.

The Conference was quite productive as some concrete proposals were put forward by the members and other speakers. These proposals are part of this booklet, in addition to other proposals collected by the R&P Department from the Chambers and Industry Associations.

I would also like to acknowledge the efforts of Mr. Shehzad Ahmed Malik, Vice President and Chairman of the TSPD Committee, and his team for compilation of the budget proposals presented during the Conference and received from the practicing members of the Institute.

I do hope that ICMAP Pakistan's budget proposals would be duly considered by the FBR and Government.

Awais Yasin, FCMA
Chairman, Research and Publications Committee

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 aboard. 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.

Chapter 1

Income Tax Proposals

Income Tax Proposals

Amendments are proposed in the following Sections of the Income Tax Ordinance, 2001:

1.1 Section 20

To make up for the shortage of liquidity due to delayed and pending refunds, the taxpayers have to borrow funds from banks on which they have to pay a markup. A hypothetical credit equal to 'KIBOR + 1.50' may be provided while calculation of taxable income to compensate for the markup paid by the taxpayer.

It is proposed that maximum credit up to 75% of markup paid to financial institutions on the funds borrowed equal to 'Income Tax Refunds' due from FBR may be given to taxpayer while calculation of the taxable income.

1.2 Section 23A

Under this Section, the rate of initial allowance is 25% for plant and machinery and 15% for building. Through the Finance Act 2014, the rate of initial depreciation allowance on plant and machinery, as prescribed under the Third Schedule to Income Tax Ordinance 2001, has been reduced to 25% from 50%.

It is proposed that the rate of initial allowance may be increased to 50% in case of addition in plant and machinery (as was the case before the Finance Act 2013) and 25% in case of building. This would encourage companies to invest and make a substantial addition to their fixed assets and improve technology in plants and machinery.

1.3 Section 57(4)

It is proposed that the sub-section 4 inserted vide Finance Act 2018, may be deleted and the previous sub-section may be restored. In the case of loss-making companies, this restoration will benefit such companies.

1.4 Section 59(B)

As per Section 59B, a holding company can purchase the loss of its subsidiary, provided there is continued ownership of five years as mentioned in Sub-section 2 of Section 59B. As per sub-section 5, if the ownership is subsequently reduced within 5 years, then the benefit availed through purchase of loss is reversed. The Sub-section 2 of Section 59B is misinterpreted by the tax department that purchase of loss by the holding company is allowed in the sixth year i.e., after the end of continued ownership of five years. This interpretation is making subsection 5 redundant.

It is proposed that to avoid such misinterpretation, the following 'explanation' may be added at the end of sub-section 2 of Section 59B of ITO, 2001:

"Explanation: For the removal of doubt, it is clarified that the holding company can adjust the losses of its subsidiary during the aforesaid period of 5 years."

1.5 Section 65A (Deleted vide Finance Act, 2017)

From the Tax Year 2009, a tax credit of 2.50% was given to Sales Tax registered Manufacturers, in case 90% of their sales were to those persons registered in Sales Tax. In 2016, this was increased to 3% to encourage persons towards documentation. However, this clause was deleted vide Finance Act, 2017.

It is proposed that Tax Credit on sales to persons registered under Sales Tax Act, 1990, earlier allowed vide Sec 65A may be re-incorporated in the tax law to incentivize the documented economy.

1.6 Section 65B

The tax credit was reduced to 5 percent through the last budget. This needs to be enhanced to 10% to encourage BMR in industrial undertakings. BMR allowance to Brownfield industries equal to greenfield may be given.

It is proposed that in case a taxpayer [being a company] invests any amount in the purchase of plant and machinery, for extension, expansion, balancing, modernization, and replacement (BMR) of the plant and machinery, already installed therein, in an industrial undertaking set up in Pakistan and owned by it, a credit equal to at least 10% of the invested amount may be allowed against the tax payable including on account of minimum tax and final taxes payable under any of the provisions of this Ordinance, by it in the manner hereinafter provided.

1.7 Section 65D

The amendment made through the Finance Act, 2016 be reversed to its original version.

It is proposed that where a taxpayer, being a company, formed for establishing and operating a new industrial undertaking, sets up, it should be given maximum tax rebate/ credit of the tax payable.

1.8 Section 65E

The amendment made through the Finance Act, 2016 be reversed to its original version.

It is proposed that in case of industrial undertakings established before the first day of July 2011, where a taxpayer maintains separate accounts of an expansion project or a new project, as the case may be, the taxpayer may be allowed a maximum tax credit the tax payable, including minimum tax and final taxes payable under any of the provisions of ITO, 2001 attributable to such expansion project or new project.

1.9 Section 80

In 2017, through new enactment i.e., Limited Liability Partnership Act, 2017; by virtue of its definition, it is a corporate but by virtue of arrangement it is a partnership. Even with this new legislation of LLP being an important legal form of business, no amendment has been made in the Income Tax Ordinance, 2001 to provide taxation of LLPs which may create confusion amongst the LLPs as taxpayers.

It is proposed that Limited Liability Partnership (LLP) may be defined under the definition of Association of Persons instead of Company as it is a 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.

1.10 Section 113

At present, the rate of Minimum Tax under section 113 is charged at 1.5%. This rate of Minimum tax should be reduced to half percent to benefit the new and small insurance companies and other small businesses & to the companies which are in losses in their initial years of operation.

It is proposed that in all other cases, the rate of minimum tax may be reduced to 0.5 percent.

1.11 Section 113C

This section creates a hardship for companies. Even in case of losses or low net income, companies are still required to pay undue tax.

It is proposed that Section 113C may be abolished or rationalized.

1.12 Section 122, Sub-section 5A

Section 5A gives unfair power to Commissioner which may result in corrupt practices. The reassessment should be rationalized. It should be made with the permission of the higher authorities.

It is proposed that this Section should be rationalized to reduce the misuse of this section.

1.13 Section 128 (IA)

Currently the Commissioner (Appeals) grants stay for 15 days only and after expiry of the stay the taxpayer has to file repeated extensions until the decision of the Appeals. Relevant Sections are: ITO 2001 Section 128 (1A). This is a cumbersome process which is quite unnecessary and causes undue hardships.

It is proposed to amend Section 128 (1A) of the ITO 2001, to increase the stay duration to Ninety (90) days instead of 15 days, and extend the order timeline to 180 days instead of the existing 30 days. This will eliminate unnecessary documentation and save time of both the taxpayer and the Commissioner (Appeals).

1.14 Section 130

Accountant members are posted in the Tribunal from the tax department and can be reposted back in the tax department and hence are very conservative when imparting justice.

It is proposed that the Accountant Member posted at Inland Revenue Appellate Tribunal, should retire from there and should in no way go back / transfer back to the tax department. This will go a long way in imparting justice.

1.15 Section 131

Currently, a stay order is granted by the Inland Revenue Appellate Tribunal for a limited number of days. The current provision/amendment needs to be deleted and the earlier position of law needs to be restored in the interest of natural justice to provide relief to the taxpayer.

It is proposed that the Stay order by Tribunal should be valid till Disposal of its Appeal Under Section 131.

1.16 Section 138

Currently, in case, an appeal is pending at the Commissioner Appeal level and if the taxpayer deposits 10% of the tax demand, then recovery proceedings are not initiated. In most of the cases, relief from the Commissioner Appeals is not granted to the taxpayers and Taxpayers had to go to the next level i.e. Appellate Tribunal where a 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 that auto stay against recovery may also be introduced while the case is pending before the Appellate Tribunal. 10% would have already been paid by the taxpayer for auto stay at First Appeal Level.

1.17 Section 140 and new Provisions 56 AB

This Section is related to the recovery of tax from persons holding money on behalf of a taxpayer. This provision and further access to information on bank accounts under other provisions of law, have been counter-productive and led to a flourishing cash economy. Many innovative ways have been evolved by businesses similar to block-chain and a local hundi system. Such provisions only affect the documented businesses while the entire undocumented sector is immune from such laws.

It is proposed that access to bank accounts may only be limited to accounts of unregistered persons with unusually high amounts of transactions. Commissioner should only be authorized to obtain information about the funds in accounts and to seek clarification as to the nature of transactions and sources of funds. Such persons may be brought into the tax-net. This would provide relief to the registered persons and restore confidence in banking system; encourage official transactions and bring unregistered persons into the tax-regime. This would also increase bank deposits which may be used for lending to industry.

1.18 Section 148

(a)
The current 5.50% rate of withholding tax u/s 148 in the case of industrial undertaking of the value of goods creates significant cash flow impacts for manufacturers and results in the generation of income tax refunds.

Manufacturers, whose raw materials are imported goods, are facing cash flow problems due to abnormal delays in getting their refunds if any. The problem gets worse for companies who have huge brought forward losses, tax credits and are required to pay only Minimum Turnover Tax.

It is proposed that zero-rated import of Plant and Machinery and a reduced rate of 1% on import of Raw Material may be considered to facilitate the real manufacturers.

(b)
The commercial importers of raw material pay WHT @2.0% up to 5.5% which can only be possible if the Gross Profit is 30%, while the margin is not more than 2 to 3% on raw materials sold without value addition or change in form. By amendment to Section 148 of ITO, 2001 through Finance Bill 2018-19, WHT paid on import of raw materials by commercial importers has been converted to MINIMUM TAX and the importers have been taken out of Fixed Tax Regime (FTR).

It is proposed to abolish the concept of Minimum Tax and WHT and the taxpayers may be allowed to pay certain Fixed Tax or opt for Audit regime and pay taxes in accordance with actual tax liability on Income. All Taxes deducted have to be adjustable against actual tax liability.

1.19 Section 150/159, 151/159, 153/159, 235/159 etc.

Process of issuance of exemption certificate u/s 148 automatically has been prescribed vide recent Tax Laws (Second Amendment) Ordinance, 2019. For the rest of the provisions, issuance of exemption certificates is made on a pick and choose basis and not on all the applications on merit.

It is proposed that the process of issuance of the exemption certificate, especially, for the provisions of 150, 151, 153, 235 be made automatic upon deduction of withholding tax or by way of payment of advance tax u/s 147 equal to 100% of the last tax year's tax liability.

1.20 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. Similar exemption is available for Sales Tax in the Sales Tax Special Procedure (Withholding) Rules, 2007 via SRO 586 dated July 1, 2017.

The deposit of withholding tax will reduce the incidence of assesse in default. This will also save substantial amount of cost and effort of compliant taxpayers involved in collecting and keeping records of such practice. Further, to encourage more compliance environment, over regulation / recovery of tax indirectly should be done away with.

1.21 Section 153 (a)

WHT @4.0% to 4.5% of gross invoice value is deducted on supply of goods by filer companies and registered persons, respectively. This results in the middleman demanding from importer/manufacturer to issue invoice directly in the name of ultimate buyer to avoid this harsh and excessive tax. As a result, supply chain is broken and the aim of documentation of economy is defeated. Further, the rate of 4.0% to 4.5% WHT u/s 153(a) is very high.

It is proposed to reduce the WHT to 1% for filers which could be adjustable. WHT should be distributed across the supply chain and 1% may be recovered at each stage. This would provide relief to documented businesses; encourage documentation and bring unregistered persons into the tax net.

1.22 Section 153 (7)

Tax deducted under Section 153 of ITO 2001 is levied on amount inclusive of Sales Tax which is tantamount to Tax over Tax. It adversely affects those industries and trade which operate on thin margins and larger scale. Also, such practice of tax over tax is unfair.

It is proposed to substitute the word "inclusive" with "exclusive" in Section 153(7)(v)(a). This would create a fair tax regime and rectify an obvious anomaly which is continuing for years.

1.23 Section 161

As per Sections 174 of the ITO, 2001, the taxpayer is required to maintain accounts and documents of six years after the end of tax year to which they relate. However, no time limit is prescribed in Section 161 of the ITO for monitoring of withholding tax. As no time limit is prescribed for monitoring of withholding tax, taxpayers are receiving notices for periods beyond six years for which they are not obliged to maintain records. Further field officers force on recovery from withholding agents despite the fact that the person from whom tax was to be withheld has already discharged his tax liability.

It is proposed to impose time limit of 1 year from date of filing of WHT statement for passing an Order under sections 161/ 205 of ITO, 2001. Time limit may also be provided in Section 161 for monitoring of withholding taxes. This will result in resolving of disputes with tax authorities.

1.24 Section 164, 168 & 170

Practically, Certificate of collection or deduction of tax under section 164 of the ITO, 2001 are not acceptable to tax authorities while processing refund claims or adjusting advance tax against tax liability. In the same way credit for tax collected and deducted under section 168 of the ITO, 2001 is not being given to taxpayers unless direct verification from withholding agent is done. Resultantly, refund claims of tax payers are either being delayed or large amounts of refunds become stuck due to hurdles in direct verification from withholding agents.

For admissibility of tax withheld under sections where Computerized Payment Receipts (CPRs) are not generated (including tax deducted on vehicles, token taxes, airline tickets, utilities, Profit on debt, cash withdrawal etc.), the certificates given by withholding agents may be treated as sufficient evidence of deduction of taxes for processing of refunds.

1.25 Section 164 and Rule 42 of Income Tax Rules, 2002

On the FBR portal, there is a need to enhance the accessibility to taxpayers to extract their certificates, reports of tax deduction at source, and further, it should be automatically linked with the tax returns of respective taxpayers. It will also ensure that withholding agents are depositing due tax to the Goverment exchequer.

1.26 Section 170 (1) & 170(4)

The concept introduced to pay sales tax refunds through Promissory Note should also be applied in payment of income tax refunds being a good idea to reduce liquidity problems of taxpayers.

It is proposed that payment of income tax refund may also be made through 'Payment of Refunds through Promissory Note' as being done in Sales Tax refunds cases. Also, the State Bank of Pakistan may be advised to formulate a procedure for acceptance of these Promissory Notes as collateral securities.

1.27 Section 171

Income tax refund becomes due on the date of income tax return but while calculation of a number of days for delayed refund, date of refund order u/s 170(4) is taken into account. Delayed days should be calculated from the date of filing of income tax return u/s 120 because actually income tax refund becomes due by all means on the date of filing of return and its assessment u/s 120.

It is proposed that income tax refund should become due from the date of assessment of income treated to have been made by the Commissioner u/s 120, not from the date refund order u/s 170(4) is made.

1.28 Section 177(1)

Current impression of pick & choose audit to be strictly avoided especially in case of an applicant of refund.

Risk-based Audits, with one month prior notice, may be adopted as a policy rather than to conduct random Audits. The selection of audits should be made once every three years.

1.29 Section 177, 214C, 138 & 175

(a)
General amnesty for provisions of audit may be re-introduced as was done in the past. This will help flourish the industry and will generate employment in the country.

It is proposed to provide an exemption from Audit for Taxpayers who deposit 20% more tax over the last year's tax liability. Further, an exemption may also be provided from Audit for 2 years for the new entrants.

(b)
The atmosphere of friendship and confidence be enhanced to encourage industrialization in the country and to improve employment generation.

It is proposed that discretionary powers under Section 177, 214C, 138, 175 of (Income Tax) for coercive selection of audit, recovery through attachment, and powers to enter & search premises may be regularized by seeking approval from FBR so that field offices may not misuse powers.

1.30 Section 236 G and 236 H

The manufacturers of electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam etc., collect advance tax @ 0.1% for filer (for non-filer 0.2%) & 0.5% for filer (for non-filer 1%) of gross of amount of sale to distributors, dealers, wholesalers and retailers. At the time of sale. Most of these goods are not fast-moving consumer goods. The only FMCG is beverages on which Section 236 G & H are unjustly applied. This tantamount to discrimination for beverage manufacturers being the only manufacturer of FMCGs manufacturer class liable to above tax.

It is proposed to appropriately amended this Section to exclude the manufacturers of FMCGs from being collecting agents under Sections 236 G & H of the Ordinance. This would relieve the unjust burden of tax on consumer goods and enable manufacturers of FMCGs to pass the benefit to end-consumers.

1.31 1st Schedule to ITO, 2001

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

It is proposed that in the case of Small Companies, the rate of income tax may be reduced from the current 25% to 20%. Small Companies may be exempted from being a withholding agent to deduct taxes and file statements. Further, Tax on Dividend for Private Limited Companies may be eliminated.

1.32 Rule 6B of the Fourth Schedule

During the year 2016, a tax measure of one basket income for Insurance companies was introduced. The Capital Gains and Dividend income is currently being taxed @ 30% as against the reduced rate of tax for other sectors. This state is discriminatory in nature and may hamper the profitability of the insurance companies.

It is proposed to abolish the tax measure of one basket or the rate of tax may be brought down in line with other sectors.

1.33 Distortions in the Withholding Tax Regime

Imposition of Withholding Tax (WHT) on various stages of supply chain (Importers, Manufacturers, wholesalers and Distributors) has created complexities and distortions. It has made compliance very difficult for most tax-payers.

After acquiring powers to access information from all institutions under Sec.56 AB, FBR and its subordinate departments must take the responsibility to identity non-compliant and undocumented entities/persons instead of laying responsibility on existing taxpayers.

(a) WHT collected at Import Stage

All of these should be converted into ADJUSTABLE TAX against actual liability instead of MINIMUM TAX which is a flawed concept.

For raw materials, Intermediates and Machinery attracting tax rate of 5.5%, tax rate should be reduced to 2%.

Commercial Importers of raw material pay WHT @2.0% up to 5.5% which can only be possible if the Gross Profit is 30%, while the margin is not more than 2 to 3% on raw materials sold without value addition or change in form. WHT paid on raw materials under PART III of 12th Schedule be made adjustable against actual tax liability on self-assessment basis or it may be treated in FTR.

(b) WHT on Supplies of Goods and Services

Where, both buyers and suppliers are active tax payers, tax rates should be brought down to levels commensurate to the normal Net Profit rates in those trades/segments after consultation with stake-holders.

(c) WHT on Utility Bills etc.

It should be applicable only on person not appearing in Active Tax Payer list.

In all cases, WHT should be applied on Net Sale amount only. It should not be applied on amount inclusive of sales tax which tantamount to Tax over Tax. It would remove distortions and complexity in Income Tax regime and increase reliance on Direct Taxes rather than Indirect Taxes. It would also restore credibility of system and confidence of tax-payers through a fair taxation regime.

1.34 Disparity in WHT on Manufacturers and Commercial Importers of Yarn

Under SRO-1125/2011 Dated. 31.12.2011, the commercial Importers are subject to 3% withholding Income tax whereas Manufacturers are only subject to 1% withholding Income Tax. Prior to SRO-1125 / 2011 dated. 31.12.2011 & SRO- 212(1) 2013 withholding Tax was being charged at a uniform rate of 1% for more than five years.

It is proposed to charge 1% WHT from both the Manufacturers and Commercial Importers. This would provide a level playing field to both commercial Importers & Manufacturers and support the SMEs.

1.35 Simplification of Income Tax Return Form

Every year changes are made in the Income Tax Form which makes it more confusing and difficult for the tax-payers to fill the form. It is particularly cumbersome for the SMEs including individuals and AOPs. The taxpayers have to seek assistance from consultants and pay large amount of fee only to comply with the requirements of tax return. Due to the changes every year, tax-payers have to wait for the new form to be issued by the FBR which takes a month or two after the new budget is approved. The complicated form only helps the business of Consultants and Tax practitioners at the expense of compliant tax-payers. It is one of the reasons that many individuals prefer to stay out of tax regime.

It is suggested that separate Income Tax Return forms for Companies, AOPs, Individuals and salaried class may be developed and the forms for SMEs, individuals and retailers may be a simple one-page form both in English and Urdu. The manual completion and filing may be allowed for individuals and SMEs to encourage documentation.

Further, extreme penalties and charges may be avoided in case of late filing. Errors/short payment may be notified to registered person within two months of filing and correction of errors may be allowed to tax-filer for up to 3 months of filing without requirement of commissioner's approval. This would help simplify the filing procedures and documentation and broaden the tax base.

1.36 General Income Tax Proposals

1) The slabs of income tax may be rationalized.

2) The slab of basic exemptions of 0.4 million may be increased to 0.6 million.

3) Income tax rate may be reduced to 20% from 29% and 35% for AOPs and corporate companies.

4) To broaden the tax base, WAPDA and other electric supply agencies may be tasked to provide detailed data of commercial and industrial electric meters on their website, and based on given details of such commercial meters, the FBR may book them for tax returns.

5) Small traders may be brought into the tax net through a fixed taxation system.

6) Tax Profile updating should not lead to 'Active Tax payer' rather penalty may be imposed only.

7) The system of withholding taxes may be rationalized.

8) Sections 138, Section 140, and other recovery methods may be relaxed. Recovery notice may be issued after the permission of Chairman FBR or any higher Authority to minimize the element of harassment to the taxpayers.

9) Advance income tax on raw material may be reduced to 3% from 5.5%.

10) Manual Appeals may be allowed viz-a-viz Online for some period before complete shifting to online.

11) As per SRO 1262, the first appeal time deadline may be extended to 60 days instead of 30 days.

12) There may not be any fixation of tax targets for the field IT officers. This curtails the fair policy and leads to undue demands in the shape of illicit orders.

Chapter 2

Sales Tax Proposals

Sales Tax Proposals

The following amendments are proposed in the Sales Tax Act, 1990:

2.1 High rate of Sales Tax (17%)

The rate of Sales Tax @ 17% in Pakistan is among the highest in the region. It is a disincentive to documentation and compliance and also encourages smuggling, evasion, under-invoicing, and misdeclaration. It is also a hindrance in the documentation of the supply chain and broadening the base of registered manufacturers, importers and traders.

It is proposed that the rate of Sale Tax may be reduced to 'single digit' on all sectors to reduce the cost of inputs and provide support to reduce prices of consumer goods as well as the cost of exports.

2.2 CNIC – Unregistered Persons

By amendment to Section 8 (sub-section 1, Clause M) of Sales Tax Act, 1990 and addition of 10th Schedule, it is mandatory to provide CNIC number of Unregistered persons in the invoice. A similar statute has been added U/S. 19A of Federal Excise Act, Section 216A to ITO, and Section 156A of Customs Act. Moreover, 3% Further Tax is also charged on sales to unregistered buyers even if the CNIC number is provided, which is unjust and tantamount to penalizing the registered persons who have to bear the burden of 3% Further Tax. This provision has resulted in the proliferation of undocumented cash transactions. With hardly 45000 registered entities in the Sales Tax Regime, it is very hard to find a registered buyer. This has affected the entire supply chain including manufacturers, importers, and traders in the documented sector, and has led to greater advantage for smugglers and undocumented sectors as they do not have to face any such condition. Many registered persons are now forced to issue flying invoices to registered persons to overcome CNIC conditions and avoid 3% Further Tax.

It is proposed that the requirement of CNIC may not be mandatory till the time that the number of registered persons in the Sales Tax regime is substantially increased. Providing CNIC number may be optional and may be treated at par with STRN if provided in the Sales Tax Return. Further Tax on supplies to the unregistered buyer may not be charged if the CNIC number is provided in the Sales Tax Return. In case the CNIC number of unregistered buyers of raw materials is not provided, VAT may be charged at 1.7% on sellers of raw material. This would discourage cash economy and fake and flying invoices.

2.3 Raw material imports – 3% Value added Sales Tax

Value-Added Sales Tax at import stage on commercial importers of raw materials was removed in the Finance Act 2019-20 as commercial importers do not add any value to raw materials and sell it in the same form. Also, after re-imposition of this 3% VAT in Finance Act 2020, the amendment made in Section 8(B) of Sales Tax Act 1990 through SRO 1190(I)/2019 allowing adjustment of input tax to a maximum of 90% of output Tax was not removed. This led to double taxation as importers were forced to pay Extra 10% value addition over and above 3% paid at the customs stage. The anomaly has been created again in the Finance Bill 2020-21. VAT cannot be imposed where no value is added as inputs like gas, electricity, labor, or machinery are not used.

It is proposed to rectify this anomaly and raw materials imported by commercial Importers may be excluded from the scope of Condition (2) under "Procedures and Conditions" Twelfth Schedule of Sales Tax Act. For importers of Finished products paying 3% VAT at the customs stage and having no local purchase may be exempted from the application of Section 8(B). This would help remove disparity in rates of Sales Tax on Raw Materials at import stage between commercial importers and industry as all raw materials are consumed in the industry.

2.4 Raw material sales to Unregistered Units – 3% Further Tax

Further Tax of 3% is charged on sales of raw material by commercial importers to unregistered buyers. Since a large number of small industries are unregistered, it is not possible to issue a Sales Tax Invoice to them. To avoid 3% further Tax, the commercial importers' issue flying invoices to registered industries who can claim input of 17% + 3% against their Sales Tax liability on value addition. This input Sales Tax of 17% and VAT 3% will otherwise go to the exchequer without any adjustment or refund claim if the Further Tax of 3% is withdrawn. Such invoices are also used to claim refunds. It is a loss both to the exchequer and commercial importers.

It is proposed that further Tax of 3% may be withdrawn on Sales of raw material by commercial importers to unregistered buyers and Commercial importers may be charged 1.7% Value Added Tax on Sales of raw material to unregistered units, instead of charging 3% Further Tax. This measure will revive commercial imports of Raw Material and prevent leakage of Revenue to the tune of Rs. 35 billion.

2.5 Sales Tax Return Revision – Rule 14A

Despite being allowed under Clause 26(3), the taxpayers are required to get CIR's approval for return revision. The approval of Commissioner Inland Revenue (CIR) is required to revise return even in cases where revision is applied within 60 days and the amount of tax liability is not reduced.

It is therefore proposed that Section 26(3) may be applied completely and the e-filing system may be updated to automatically reopen revision in case it is applied within 60 days of return filing. This will remove discrepancies and facilitate the taxpayers.

2.6 Sales Tax Audit – Section 25

Sales Tax Audits are being conducted outside the established criteria of computer balloting creating hardship for taxpayers through multiple audits by LTU/RTO, U/S 25 of Sales Tax Act. Sales Tax audits under Section 25(2) & Section 72B can be carried out every year. Sales tax audit outside the set parameters every year is misused by the tax authorities and creates an unnecessary burden for the taxpayer. The tax authorities already have powers under Section 11(2) to issue a show-cause notice to the taxpayer where any tax is short-paid/fraud situation. Hence, such an annual tax audit clause creates duplication of work for the taxpayer.

It is proposed to restore provision for carrying out audit once in 03 years which was omitted through Finance Act 2019. It is also proposed that sales tax audits may only be conducted on a computer ballot basis. Audit parameters may be well defined after consultation with the stakeholders. This would not only lead to ease of doing business but also relieve the registered persons of such audit outside the criteria of computer balloting.

2.7 Power to summon persons in inquiries- Section 37

Inquiry before the office of IR deemed judicial proceedings within the meaning of 193-228 CPC (Act XLV of 1860). The provisions treat business persons as criminals putting them within the scope of PPC. Such provisions are the root cause of a narrow tax base and a flourishing undocumented economy.

It is proposed to remove this provision and replace it with a new provision to separate the jurisdiction to deal with offenses of the tax regime and providing the accused sufficient opportunity to defend his case before the tribunals which are independent of FBR and headed by competent judges.

The tribunals may also have the powers to deal with offenses and excesses committed by officers performing duties within FBR or any of its departments, division, or field formation. This would create a fair taxation regime and prevent abuse of sweeping powers to the officers of Inland Revenue.

2.8 Discrepancies in Post Refund Audit

Excessive documents are demanded unnecessarily in the name of Post Refund Audit. The taxpayers remain under pressure for submission of a huge volume of records, which taxpayers had already submitted to the ST Department.

It is proposed that record may not be required for post refund audit as Department is already in possession of all such documents submitted by the taxpayer. This would create ease of doing business for exporters.

2.9 Discrepancies in Sales Tax Refund on FASTER

Deferred refund claims are referred to concerned offices (RTO/CTO/LTO) for the processing which delays the refund. The procedure which stipulates deferred or missing refunds to be processed by RTO, CTO & LTO creates hardships for the exporters and causes undue delays.

It is proposed that all types of refunds may be processed through the FASTER system i.e., one stage rather than multiple stages to prevent undue delays in the refund and better utilization of the FASTER system.

2.10 Discrepancies in Sales Tax Return

Sales tax invoices of service providers, registered with provincial sales tax authorities, are still not integrated with the FBR web portal to allow input claims for tax paid on services. Due to the non-availability of provincial sales tax data on the system, the documents have to be submitted manually for claiming of refund.

It is proposed that an appropriate mechanism may be put in place for the availability of sales tax data of services in the system for verification of input and ensure admissibility of input tax on service invoices.

2.11 Discrepancies in Sales Tax Registration (IRIS)

Option is not available in IRIS registration 181-form to declare "Commercial Exporter/Importer" as principal activity. Due to lengthy and complicated procedure, taxpayers cannot specify themselves as Manufacturers. Due to the flaws in IRIS 181-Form, commercial Exporters/Importers have to pick the option of "WHOLESALER" as a principal activity which is incorrect. Due to no provision of separation between Importer and Manufacturers, taxpayers in both activities face problems.

It is proposed to provide a comprehensive range of activities as 'options' to specify clear business principal activity in IRIS 181-Form. The concerned Association may issue a certificate and FBR/Board may change the taxpayer status as Manufacturer. This would make the taxpayer profile well defined and clear and he may easily start his business without any delay and unnecessary hassle.

2.12 Introduction of Online Integrated Sales Tax Returns Filing procedure

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

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.

2.13 Introduction of simple procedure for direct collection of 2% Sales Tax from all Traders

The present sales Tax Act was introduced in 1990 and since then the Government has tried its best to implement it; however, the business community has not yet accepted it and the Registered Persons under Sales Tax could not exceed one hundred thousand. The law is much complicated and to implement tit the Government is making it more complicated through issuance of SROs, Special Procedure Rules etc. Although this Act is called Sales Tax Act, but it is actually a Value Addition Tax, and by passage of time it is now a mixture of VAT, Turn over, Presumptive etc. tax.

It is proposed that instead of present system, sales tax may be imposed @ 10% at the import and manufacturing stage and 2% on all traders at all stages in the supply chain i.e., Distributors, Whole sellers and retailers. Every trader whether distributor, whole seller or retailer, having an 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. This would ensure recording/ documenting of country's economic activities, in addition to sales tax collection. The Traders may be asked to issue sales tax invoice showing 2% Tax on the invoice. The Tax Officer, during desk audit, may match the sales figures declared in Sales Tax Returns by the Trader with the declaration made in his Income Tax Return and in case of any difference, he may be empowered to recover the sales tax or income tax by imposing some penalty.

2.14 Sales Tax @ 5% from Unregistered Person

The registered persons and withholding agents are deducting sales tax @ 5% on purchases from the unregistered persons. This is not adjustable as input tax and subsequently increases the cost of procuring goods / services as well as the cost of doing business.

It is proposed that the Sales Tax Withholding of 5% on purchases from unregistered persons may either be withdrawn or allowed as input tax for registered person. This proposed amendment will help the registered person to decrease the cost of its business.

2.15 Adjustable Input Tax [Section 8b]

Under Section 8B of the Sales Tax Act, 1990, a registered person has not been allowed to adjust input tax in excess of ninety percent of the output tax. This restriction restrains the taxpayer to claim his legitimate input tax and also causing financial hardships to the companies as the excess amount can be invested in the business to prevent financial pressure.

It is therefore proposed that 100% input may be allowed to the taxpayer companies.

2.16 Withholding Tax Agents

An Incentive scheme may be introduced for Withholding Tax Agents.

The Sections in terms of Withholding Tax may be reduced, simplified and merged. These sections are very complex and the business community is finding it difficult to comply with them.

If Withholding tax Agent fails to deduct withholding tax, a tax penalty may be imposed in addition to dislodging the expenses incurred by him.

2.17 Islamabad Capital Territory (Tax on Services) Ordinance 2001

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

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

The current rate of sales on services is 16% under Islamabad Capital Territory (Tax on Services) Ordinance 2001. 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. Hence, higher rate of tax 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%.

2.18 General Sales Tax Proposals

a) Sales tax on industries may be reduced and brought down to a single digit.

b) Additional sales tax of 3% on industrial raw material may be removed.

c) A clear-cut policy may be introduced for unabsorbed carry forward in Sales Tax Returns due to excessive payment of 3% additional sales tax at import stage.

d) Multiple taxes in sales tax like extra tax, additional sales tax, further tax, etc. may be simplified.

e) It is evident from the record that the frequency of payment of sales tax is reduced after a sales tax audit is conducted which is due mainly to the interaction of taxpayers and sales tax auditors leading to malpractices. Hence, Sales tax audit should be a one-time process and conducted once in three years.

Chapter 3

Customs Duty Proposals

Customs Duty Proposals

3.1 Rationalization of Customs Tariff on import of Black Tea

Consumption of Black Tea in Pakistan is 240,000 metric tons, but the imports through legal channels are hardly 100,000 metric tons due to very high rates of Customs Duty, Sales Tax, Regularity Duty, and WHT. The remaining requirement is fulfilled by Smuggling, ATT, and imports under various exemptions/concessions granted to PATA and Azad Kashmir which conduct 90% of official imports and sold all over Pakistan in tariff areas.

Legitimate importers have been driven out of the market due to distortions in the tax and duty regime, while also the government is losing a substantial amount of revenues. BLACK TEA imported in bulk and wholesale packing is treated as a finished product in 12TH SCHEDULE (TABLE 3) whereas it should be treated as raw material because Black Tea goes through a process of Blending and Packaging while also the taxes are charged on MRP.

It is proposed to rationalize the tariff structure on the import of Black Tea while exemptions to PATA and Azad Kashmir may be withdrawn as these are sources of revenue leakages and supporting misuse of concessions and smuggling. The tariff structure may therefore be rationalized as proposed hereunder:

	CURRENT RATE	PROPOSED RATE
CUSTOMS DUTY	11%	5%
REGULATORY DUTY	2%	0%
SALES TAX	17%	7%
WHT	5.50%	2%

3.2 Excessive Customs Duty on import of empty Aluminum Beverage Cans

Currently, the empty Aluminum Beverage Cans are subject to 32% of Custom Duty as compared to 11% in June 2016 or 12% in June 2017. Also, such cans are subject to higher valuation rates through valuation rulings issued from time to time. An appropriate approach is required to remove operational inefficiencies, reduce the cost of doing business and create an environment of competition for better quality and price.

It is proposed that the rate of duties may be rationalized to avoid monopoly of local manufacturers and it may be reverted to its original position.

3.3 Inclusion of Automobile and Motorcycle Spare parts in the Third Schedule

Due to the inclusion of Motorcycle and Automobile Spare parts in the Third Schedule to the Sales Tax Act' 1990 vide new serial No. 49 in column (1) through the Finance Bill 2019-20, serious hardship is being faced by importers of Motorcycle and Automobile spare parts. Under the amended procedure, importers are required to print MRP (Maximum Retail Price) on the imported parts and pay Sales Tax and Additional Sales Tax on Customs Value.

The importers do not have any means to determine the landed cost at the time of cargo delivery at the destination due to the fluctuations in exchange rates and also, they cannot determine the sale price of imported auto parts at which the retailers will sell the same to end-users. There is a wide variation in sale prices by wholesalers and retailers and the importers cannot pre-determine and declare MRP as required under the new regulations.

It may be noted here that motorcycle and auto parts are not a consumer product /grocery item which may require MRP to be printed on the product. It is an industrial use product, supporting Pakistan's auto industry and meeting the requirements of after-market.

It is therefore proposed that automobile/motorcycle spare parts may be taken out of the Third Schedule and included in the normal tax regime for assessment of Customs Duty, Sales Tax and WHT, etc. Customs authorities have the competency to assess the values and levy the Customs Duty and Taxes accordingly. This would facilitate importers and dealers in customs clearance and avoid detention and demurrage charges.

3.4 Reduction in Customs Duty on import of Paper and Paper Board

Paper and Paper board are the raw material for the Printing and Publishing Industry which convert them into books and packaging for the consumers. However, due to high tariffs, the printing industry has declined because a greater part of textbooks, magazines, and publications are now printed in Malaysia and Singapore, etc. by Pakistani publishers due to lower cost and anomalies. The items of Paper and paper board are assessed to the highest rate of applicable import duties being treated as Finished Goods. This raises the cost affecting the common man who has to pay for the costs.

It is proposed that imports under H.S Code Chapter 48 may be treated as Raw Material or Semi-Finished Goods and it may be assessed to lower import duty rates to support the local printing industry and reduce the cost of educational books in the country.

3.5 Addition of Optical Fiber Cables and Telephone Cables in SRO 211(1)/2009

Under S.R.O. 211(I)/2009 dated 05-03-2009 Schedule XXIV for the repayment of customs duties, Power Cables are available, however, Optical Fiber Cables (8544.7000) and Telephone UG Cables (8544.4910) are not present for duty drawback which is being exported from Pakistan for the last several years.

The Cable Fiber Industry is facing difficulties in Export Orders due to International competition with smaller delivery timelines. As per the DTRE rules {SRO 450(I)2001 Dated 18-JUNE-2001 – AMENDMENT SRO 506(I)/2007 Dated 09-JUNE-2007}, the procedure to avail the DTRE is very exhausting due to which at times while the case is under verification, either lead to late delivery charges or cancellation of the order to the exporters.

It is, therefore, proposed to incorporate the following in S.R.O. 211(I)/2009 dated 05-03-2009 Schedule XXIV for the repayment of customs duties applicable from the issued date of 5th March 2009:

1. **Optical Fiber Cables – OFC (8544.7000)**
2. **Telephone / UG Cables – UG (8544.4910)**

3.6 Review of Tariff rates for domestic Cable and Optic Fiber Cables Industry

Raw materials used in the manufacturing of Optic Fiber Cables are imported under “FIFTH SCHEDULE” Part-III (108) which are subject to high rates of Customs Duty and Additional Customs Duty vide SRO.670 (I)/2019 thus increasing the cost of locally manufactured cable. Due to the higher cost of raw materials, the local manufacturers are deprived of a level playing field in competition with the imported Chinese Cables.

It is proposed to review the Custom Duties on the industrial raw materials used in the manufacturing under Part-III of the FIFTH SCHEDULE to the Customs Act 1969 for the manufacturing of Optical Fiber Cable, Telecommunication Cables & Wires, Serial No. 108 of the table as proposed here-under:

SI.NO	DESCRIPTION	HS Code	Custom Duties	Additional Custom Duties	Total (Custom Duties + Additional Custom Duties)	Proposed Customs Duties
108	I. Cable filling/ Flooding compound	3824.9999	5%	2%	7%	**0%**
	II. Polybutylene Terephthalate	3907.7000	5%	7%	12%	**0%**
	III. Fiber Reinforced plastic/ glass Reinforced polypropylene	3916.9000	5%	7%	12%	**0%**
	IV. Water Blocking/ Swelling tape	5604.9000	5%	2%	7%	**0%**
	V. Single mode/ Multi mode optical Fiber	9001.1000	5%	7%	12%	**0%**

It is further proposed to exclude the above industrial raw materials from the preview of additional customs duties vide SRO 670(I)/2019. This would facilitate the local cable industry.

3.7 Other Customs Duty Proposals

1) Current customs duty rates may be reduced to avoid under-invoicing.

2) Custom duties on industrial raw materials may be reduced for making local industry competitive.

3) Regulatory duty on manufacturing items that are not manufactured locally may be abolished.

4) DTRE may be applied to the raw materials being used in emerging industries like pharmaceuticals, auto-parts, textile, etc., to encourage more exports.

5) The same facilitation may be provided to local investors as to the foreign investors especially in the case of CPEC. DTRE procedure/rules should be different for exporters.

6) The import duty on certain items prone to smuggling through Afghan Transit trade may be reduced so that smuggling is discouraged. Better surveillance may be provided to protect the local industry.

7) The clearance period for the perishable items may be reduced by the Government.

8) Export policy order para 207 states that export of perishable items is allowed through advance PKR payment but in practice (Customs) FBR does not allow without USD E-Form. The export policy order may be complied with strictly to facilitate the exports of perishable goods.

Chapter 4

Federal Excise Duty (FED) Proposals

Federal Excise Duty (FED) Proposals

4.1 Dual Taxation of FED and Sales Tax on Manufacturing

The concurrent levy of FED and Sales Tax on manufacturing constitutes double taxation which results in increased cost of production and renders the vulnerable industries uncompetitive and encourages smuggling. In addition to these indirect taxes and duty, beverages are also subject to advance income tax under Section – 236G and 236H of ITO, 2001. Further, the income of such manufacturers of beverages is also subject to Normal Corporate and Super Tax.

It is proposed that the Federal Excise Duty (FED) on manufacturing may be phased out as the Federal Excise Law is outdated and it has been the commitment of successive Governments to abolish this colonial-era tax.

4.2 FED on Cement

The Cement industry is subject to FED @ Rs. 1,500/- per ton and GST @ 17% of the maximum retail price. These taxes for the year 2020-21 come to around Rs. 170 per bag. This incidence of high taxation negatively affects domestic consumption.

It is proposed to reduce FED stepwise to "zero" to encourage cement off-take as this would support housing and infrastructural development in the country. Abolishment of excise duty will not only eliminate tax evasion but also enhance cement consumption at a reduced price.

4.3 FED on Beverages/ Concentrate

Excessive FED is charged on the supply of beverage concentrate and beverages. Currently, concentrate is chargeable to FED @ 50% ad valorem being the highest rate of FED under Federal Excise Act, 2005. Whereas beverages are charged to FED @ 11.5% on retail price. Beverages are also subject to General Sales Tax on the retail price and Income Tax at the time of supply. FED on beverages was reduced from 12% to 6% through Finance Act 2011 without a corresponding reduction in the rate of FED on beverage concentrate.

It is proposed that the rate of FED may be reduced on beverage concentrate from 50% to 25% and on beverages from 11.5% to 5% as beverages are not a luxury item and consumed by all income groups.

4.4 FED on Retail Products

As per Section 12 (4) of the Federal Excise Act, 2005, goods that are chargeable to FED on retail price, FED shall be paid on the retail price fixed by the manufacturer, inclusive of FED itself. This means the FED is also charged on FED, hence, raising the cost for manufacturers.

It is proposed that the provision of the aforesaid section may be amended to its post-2007 position to avoid the irrational charge of FED on FED as, under every taxation law, tax is not included in the price to calculate the said tax such as customs duty or sales tax is not included to calculate customs duty or sales tax.

4.5 FED on Fruit Juices

Through Finance Act, 2019, 5% FED is levied on Fruit Juices. In addition to FED, Juices are already subject to Sales Tax @ 17% on Retail prices.

It is proposed to abolish FED on Fruit Juices which are consumed by Kids as a source of energy and are not luxury products. The imposition of FED has unnecessarily created an additional cost for end consumers. This would increase the investment in the sector that would generate tax revenue.

Chapter 5

Proposals for Export-oriented Companies

Proposals for Export-oriented Companies

The following proposals are made for resolving the issues of the Export-oriented sector/ companies and to facilitate the sector in boosting the exports of the country

5.1 Restoration of Presumptive Tax Regime for exporters

Export is the backbone of the economy and SME exporters had been facing several issues with the Tax department regarding the assessment of their tax liability in the past. The Government had taken into consideration the problems faced by the SME exporters and had genuinely accepted the demand of the exporters in 1991 to treat export realizations under the Final Tax Regime. Initially, the rate of the income tax was fixed @ 0.50% of the export sales realized by the banks, which was subsequently enhanced to 1%. This action not only enhanced the government revenue but also provided relief to the exporters from arbitrary decisions of the assessing officer. FBR has recently taken away this facility from the exporters by withdrawing the option to file a return u/s 115(4) of the Income Tax Ordinance, 2001.

It is strongly recommended that the Final Tax Regime for the export industry may be restored in the best interest of the export business and the WHT rate may be reduced to 0.5% and as the tax is deducted at source by the bank on the realization of export sale proceed, a general exemption from audit u/s 177/214C may be continued for the exporters covered under Presumptive Tax Regime.

5.2 Revival of Zero Rating of Sales Tax for five export-oriented sectors

The Zero-rated Sales Tax Regime for five export-oriented sectors had been very beneficial for the export sector in the past and there is a dire need to revive the same. It is anticipated that the revival of the Zero-rated Sales Tax Regime would help exporters utilize their liquid resources for conducting necessary business operations instead of getting their funds stuck in Sales Tax refunds. This would also help the Government to do away with the futile exercise of collecting Sales Tax on value addition of goods meant for export and then deploying valuable resources to make arrangements for its refund.

It is proposed that the Zero-rating of Sales Tax may be revived for Five Export Oriented sectors including Sports, Surgical, Leather, Textiles, and Carpets to provide relief to the export industry. This would help in overcoming their liquidity and cash flow problems due to the current economic crisis and withholding of Sales Tax at different stages of value addition.

5.3 Reduction of rate of Income Tax withheld at source on Export Realization

All sectors of the economy especially the SME export sector of Sialkot are seriously affected due to the Covid-19 pandemic situation. The exporters are not only gradually losing their competitiveness in the international market due to ongoing inflation but also risk losing their business to their regional competitors.

In this difficult situation, it is proposed that the rate of deduction at source at the time of realization of export proceeds may be reduced from 1% to 0.5% for the next three years to extend relief to the industry.

5.4 Exempting Export-oriented companies from levy of Withholding Sales Tax

Sales Tax is a consumption tax; whereas, exported goods are meant for consumption in another territory/ jurisdictions; hence, there is no legal justification for levying Sales Tax on exports. Exporter companies should not be burdened with such high rates of withholding Sales Tax as it would discourage the corporatization process. Companies should be provided a level playing field with AOPs and Sole Proprietor businesses. Implementation of 5% withholding Sales Tax on Corporate Sector against purchases from unregistered persons is unjustified.

It is proposed that the Export-Oriented Companies may be completely exempted from levy of withholding sales tax with retrospective effect as the export sector is principally exempt from levy of Sales Tax globally as per International Norms. Further, it is proposed that the description of the Withholding Agent under Serial # 4 of the Eleventh Schedule to the Sales Tax Act, 1990, should be amended to add the words "excluding Exporter Companies with retrospective effect i.e., w.e.f. July 1, 2019." to provide relief to exporter companies. It is worth mentioning that exporters have already been excluded from the obligation of Withholding of Income Tax u/s 153 under clause 45 of part IV of the second schedule.

5.5 Revival of Zero Rating on inputs under SRO 327 (Export Oriented Unit)

FBR has withdrawn the Zero Rating facility on local procurement of input goods by Export Oriented Units through amendment in SRO 327(I)/2008 dated March 29, 2008, through SRO747(I)/2019 dated July 9, 2019. Clause (h) of SRO 747(I)/2019 has omitted Clause (b) and (c) of sub-rule (1) of rule 10 of the original SRO 327(I)/2008.

It is proposed that Clause (b) and (c) of sub-rule (1) of rule 10 of SRO 327(I)/2008 should be restored to revive the zero-rating facility for EOUs against local procurement of inputs.

5.6 Levy of Duties and Taxes at FOB value of import consignments to reduce input cost

Duty Drawback against exports is calculated as a certain percentage of FOB value of the export consignments, whereas Custom Duty, Sales Tax, etc. is charged at the C&F value of the consignment at the time of import, which is not justified. In the past, this practice had minimal impact due to relatively less quantum of freight but recently the freight charges have been substantially increased by shipping companies and charging of Duties and Taxes at C&F value has increased the cost of import of inputs and raw materials for the manufacturing sector.

It is proposed that Customs Duty and other taxes may be charged at the FOB value of the import shipment so that input cost of the industry relating to imported raw materials could be decreased to promote ease of doing business in Pakistan in the current crisis.

5.7 Allowance for duty-free import of samples worth US$ 10,000 to the exporters

It is important to mention that samples received from abroad by manufacturers in Pakistan play a vital role in the development, innovation, and reverse engineering of those items, which would ultimately help in soliciting new orders for similar items developed and manufactured in Pakistan. These Commercial samples are specimens of goods that may be imported by the Manufacturers cum Exporters in Pakistan to know their characteristics and usage and to assess their production feasibility. However, such samples are charged with high duties and taxes at the time of import, which makes it difficult for the SME Exporters to manage the cost of import of samples as import of such samples has been a regular feature for the export business.

it is proposed that samples worth US$ 10,000 may be exempt from the levy of duties and taxes during a year to facilitate the export sector of Pakistan.

5.8 Enhancement of Duty Drawback rates of Leather Gloves of all sorts

The Duty Drawback rate on Leather Gloves is currently 1.54% while it is 7.54% on Leather Jackets and 4.7% on Footwear. The regional competitors like Bangladesh and India have been paying 15% and 10% Duty Drawback on Leather Gloves respectively.

It is proposed that the rate of Duty Drawback on all types of Gloves should be enhanced from 5 to 10% to provide an incentive to the Gloves industry.

5.9 Continuance of Drawback of Local Taxes and Levies (DLTL) till 2027

The Incentive Package of Rs.180 billion announced by the Government to help achieve export-led growth had been highly acclaimed by the export sector and it had started showing results through strengthening of the manufacturing cum export sector. However, there is a strong need to extend this package till 2027 and enhance the existing rate of 3% to 5% to allow real benefits of this support package especially to counteract the adverse impact of the Covid-19 pandemic situation. Moreover, several genuine cases of the exporters had been rejected on the ground of being time-barred, whereas, those cases had been filed with the State Bank of Pakistan within the prescribed time limit but returned based on minor discrepancies.

It is proposed that all such time-barred cases of Drawback of Local Taxes and Levies (DLTL) may be cleared as there had been no fault on the part of the exporters.

5.10 Bringing the system for payment of DLTL claims to the exporters at par with the system for payment of Customs Duty Drawback Claims

It has been observed by the exporters that procedure and mechanism to claim Drawback of Local Taxes and Levies (DLTL) had been overly complicated resulting in hardships and inconvenience in processing and issuance of claims.

It is proposed that the system and mechanism to claim DLTL claims should be brought at par with the system and mechanism to claim Custom Duty Drawback Claim so that SMEs could be facilitated in filing, processing, and issuance of DLTL claims.

5.11 Deferment of collection of Export Development Surcharge (EDS) for next 3 years

Currently, the Export Development Surcharge (EDS) equivalent to 0.25% of the export value of all exports has been levied on exporters for transfer to the Export Development Fund and utilization under the Export Development Fund Act, 1999. The businesses in Sialkot especially the SMEs are struggling hard to maintain their export competitiveness and deliver orders according to the demands of customers. However, due to high inflationary pressures and higher cost of input, they find it very difficult to achieve the objective.

It is proposed that Export Development Surcharge may not be charged for a minimum period of three years so that the export businesses could be facilitated to regain their momentum. This would improve the competitiveness of the export business in the given economic scenario due to the Covid-19 pandemic situation.

Chapter 6

General Proposals

General Proposals

6.1 Pak-Afghan Trade

1) In Pakistan-Afghanistan transit trade only those items may be allowed which are consumed in Afghanistan and are not manufactured in Pakistan.

2) Smuggling through the Afghan-Transit trade route may be curbed on priority.

3) Commercial banks in KPK Province are not providing E-Forms facility regarding Pak-Afghan trade. This automatically encourages cash payments. To curb smuggling, concerned government departments should take the local Chambers of Commerce on board.

4) Banking channels may be established with neighboring countries in CAR's, Iran, and Afghanistan.

6.2 Protection of Local Industries

1) Local investors may be protected against foreign investments.

2) Incentives may be given to new emerging industries to sustain in the long run.

3) CNG sector may be protected to save billions of rupees investments and employment provided in this sector.

4) Incentives may be provided to the cottage and furniture industry as they hold a major share in GDP.

5) Levies on new industrial setup may be abolished.

6) Status of the industry may be given to electronic products including the mechanical, electrical and HVACR, and auto workshops.

7) Incentive package provided to the construction industry may also be extended to other industries and businesses to boost industrialization and achieve an export surplus.

8) Due to COVID-19, the force majeure clause can be invoked to review anti-national and anti-business contracts like in the energy sector.

9) The definition of the cottage industry may be revised and the Turnover limit may be raised to 5 million from 3 million for categorization as a cottage industry.

10) Under the ambit of Green Pakistan, special incentives may be given to products that are positively contributing to an emission-free environment and less consumption of energy.

11) State-of-the-art Industrial estates, slaughterhouses, and special economic zones may be established across Pakistan by the government to generate employment and self-dependency.

6.3 Promotion of Local and Regional Trade

1) Trade with Central Asian Countries (CARs) may be enhanced to harness untapped potential in that region.

2) Special incentives may be provided to increase the share of Pakistani Kinnow export in Far East Asia.

3) SRO 760 may be replaced with SRO 266 for the facilitation of gold and silver jewelry exporters. Import of raw material especially 24K gold and silver may be allowed at a lower rate for manufacturing of jewelry and discourage the smuggling of metals.

4) The government may consult and take on board all the stakeholders, professional bodies, local Chambers, and business community on CPEC related projects and initiatives.

5) Utility costs may be brought at par with regional market players.

6) Utility connections may be provided to the far-pitched areas for development.

7) Trade-related facilities should be provided all across Pakistan, irrespective of the city.

8) Road and air connectivity may be provided to Gwadar city and port to reduce the logistic cost and facilitate trans-shipment trade.

9) Railway stations across Pakistan may be upgraded according to modern requirements.

10) Motorway connectivity may be enhanced. Mirpur-Muzaffarabad-Mansehra Motorway may be constructed on a priority basis.

11) NLC issues may be resolved on an immediate basis as their terminal operation facilities are not up to the mark, and export consignment stays stuck for 06 to 07 days due to the not unavailability of scanners.

12) Agricultural Crop zoning across provinces should be identified and allotted for industrialization.

6.4 Ease of Doing Business

1) The total number of taxes should be reduced to five

2) Labour related taxes e.g. (EOBI, PESSI, WPPF, WWF) may be clubbed into One Tax

3) Professional and Property Tax may be clubbed into One Tax

4) Federal and Provincial Sales Tax may be clubbed into One Tax

5) The frequency of tax payments may be reduced by reducing the frequency of tax Payments of EOBI, PESSI and Sales Tax.

Chapter 7

Industry / Sector Specific Proposals

1. **Cement Industry**
2. **Automobile Industry**
3. **Steel Melters Industry**
4. **Dairy Farming Industry**
5. **Pharmaceutical Industry**
6. **Oil and Gas Sector**
7. **SME Sector**
8. **Plastic Recycling Industry**
9. **Furniture Industry**
10. **Stock Brokerage Industry**
11. **Mutual Funds Industry**
12. **Hospitality Industry**
13. **Real Estate Investment Trust (REIT) Sector**
14. **Telecom Sector**
15. **Information Technology (IT) Sector**
16. **Printing and Publication Industry**

Cement Industry

7.1.1 Abolishing Advance Tax on Cement Industry

Under Section 236 V of Income Tax Ordinance, 2001, the rate of advance tax to be collected on extraction of minerals shall be 5% of the value of the minerals. The imposition of advance tax on cement industry is irrational and unjust as the industry is already paying huge amount of federal and provincial taxes in the shape of income tax, federal excise duty, and royalty to tax authorities.

It is proposed that the advance income tax applicable for corporate cement sector may be abolished and it should only be applicable on un-organized sectors.

7.1.2 Zero-rated Customs Duty on import of Coal and Pet Coke

Presently, coal and pet coke are being used as fuel/ raw material for various manufacturing concerns, including the cement industry. These items attract customs duty @ 5%, which has increased the cost of doing business.

It is proposed to reduce the customs duty on coal and pet coke to “Zero” percent as is the case of other fuels i.e., LNG which is exempt from customs duty at import stage and used as a fuel by the industries. This would support the option of using coal and pet coke as alternative source of energy for the Industry and support the Government in terms of reduced load on the already burdened national grid.

7.1.3 Reducing FED on Cement

The Cement industry is subject to FED @ Rs. 1,500/- per ton and GST @ 17% of the maximum retail price. These taxes for the year 2020-21 come to around Rs. 170 per bag. This incidence of high taxation negatively affects domestic consumption.

It is proposed to reduce FED stepwise to “zero” to encourage cement off-take as this would support housing and infrastructural development in the country. Abolishment of excise duty will not only eliminate tax evasion but also enhance cement consumption at a reduced price.

7.1.4 Zero-rated Customs Duty on plant and machinery and capital goods for cement industry

Cement industry is importing the following plants and machinery to increase its production capacity keeping in view the growing demand of cement in the country:

Description	PCT Code	Custom Duty
Plant and Machinery	8419 to 8487	0% to 30%
Prime Movers	8701.2010 to 8701.2040	20%
Trailers	8716.1010 to 8716.9000	16% to 35%
Mining Equipment	8709.1100 to 8709.9000	30% to 35%
Off Highway Dump trucks	8704.1010 to 8704.9090	30%
Kiln Bricks	6903.9010	16%
Waste Heat Boilers	8402.1120 to 8402.1920	20%
Heat Recovery system Generators	8402.1130 to 8402.1930	20%
Shredded Tyres	4004.0020	20%

It is proposed to reduce the customs duty on import of all plants and machinery and capital goods, mentioned above, to "Zero" percent to induce investment in the cement industry and also reduce the capital cost for capacity enhancement.

Automobile Industry

7.2.1 Minimizing Tax burden on Auto industry

Taxes constitute at least 40% of the retail value of a new car. Exorbitant taxes on the auto sector leads to high car prices. The Government had recently increased the Additional Custom Duty (ADC) on vehicles from 2% to 7%. The Federal Excise Duty ranges from 2.5% to 7.5 percent.

The Government may consider minimizing the tax burden on the Auto sector and reduce the number and amount of taxes like ACD, AST, FE, etc. to avoid employment and revenue losses in the industry.

7.2.2 Reducing Turnover Tax [Section 113 of ITO, 2001]

Several industries are enjoying reduced rates of Turnover Tax under Section 113 of Income Tax Ordinance, 2001. Like the Oil and Gas sector, the Auto sector is also working on low margins despite high turnover; hence it should be facilitated by reducing the turnover tax to a great extent.

It is proposed that the auto sector may also be subject to a lower minimum tax, being the most organized sector and it may be allowed to be carried forward without limitation.

7.2.3 Withdrawal of FED on locally manufactured vehicle

Through Finance Act, 2019, revised FED is applicable on all categories of locally manufactured motor vehicles.

It is proposed that the levy of FED on locally manufactured vehicles be withdrawn by deleting serial no. 55B of Table I of First Schedule to the Federal Excise Act, 2005. This would restore the sales revenue from the aforesaid category of vehicles resulting in increased government revenue from the auto sector industry.

7.2.4 Input Sales Tax Adjustment

As per Section 8B of the Sales Tax Act, 1990, a registered person is not allowed to adjust its input tax on purchases over 90% of output tax for the period. As per SRO 36(I)2020 dated 21-01-2020, Listed Auto manufacturing companies were allowed to adjust their input tax to the extent of 95% of the output tax till December 2020.

It is suggested that the relaxation of input tax adjustment, to the extent of ninety-five percent, may be extended to the Parts manufacturers who supply parts to OEM. This would help the OEMs to avoid huge input tax carryforwards.

7.2.5 Special Incentives for Localization

The Government may provide similar incentives to the auto sector as given to the export sector; which are supporting localization and import substitution. This would not only lead to lesser imports of auto parts but also bring down vehicle prices.

It is suggested that the government may treat the auto industry like any other industry and allow competition in it on equal footing. There should not be investment barriers for either the potential new entrants or the existing auto assemblers. Further, all special auto-related SROs may be done away with and special incentives be provided to those existing auto assemblers who make investments or joint ventures with the local vendor industry for maximum indigenization of parts.

7.2.6 Special Package for Auto Vendor Industry

The auto vendor industry which is employing around 300,000 workers is not getting a direct incentive from the Government as being provided in the other sectors like cement, textiles, etc.

It is suggested that a special package of incentives may be provided by the Government to the auto vendor industry that could help augment the maximum level of indigenization or localization of parts.

In the Auto Policy 2021-26, the Government may also provide some tax incentives and exemptions to the local auto vendor industry to encourage the setting up of joint ventures with international collaboration to produce quality auto parts and accessories for the OEMs as well as for exports to other countries.

7.2.7 Priority on increasing indigenization in cars

The Government must focus its auto policy 2016-21 on increasing the indigenization in car manufacturing which is presently below 70% due to the use of imported parts and material. Indigenization in the local tractor industry is above 95% whereas localization of parts in motorcycle manufacturing also above 90 percent. Hence, the prices of tractors and bikes are comparatively cheaper and easily affordable by the common man.

It is suggested that the Government may give it a priority to increase the level of deletion in car manufacturing by encouraging joint ventures and technology upgradation. This would also help generate job opportunities.

7.2.8 Withholding Tax exemption on Sale of Imported CBU

A car manufacturer/ assembler importing CBU is specifically excluded from FTR u/s 148(7)(c). Further, CBU vehicles are sold in the same condition as imported i.e., without any value addition.

Due to lack of knowledge and industry practice, advance income tax is borne at two stages i.e. (i) collection on import thereof, and (ii) deduction from sales proceeds of CBU.

It is proposed that withholding exemption may also be available on the sale of CBU imported by Automobile Manufacturer. This would help avoid the double incidence of advance tax and reduce funds blockage of Automobile Manufacturers.

7.2.9 Income Tax on Turnover @ 1.5% on Auto Part Dealers

All dealers, retailers & distributors of other commodities, including Motorcycles, are taxed @ 0.25% percent of their sales. However, Auto parts dealers' retailers and distributors are taxed at 1.5% of their turnover.

It is suggested that this discrimination may be removed and Auto parts dealers' retailers and distributors may be taxed @ 0.25% of their turnover without any turnover limit. This change will encourage Distributors, Dealers, and Retailers to get them registered and to help the government towards the documented economy.

Steel Melters Industry

7.3.1 Payment of Further 10% Sales Tax [Section 8B (1) of Sales Tax Act, 1990

The steel melters are paying FED in Sales Tax mode even though they are already paying Sales Tax on production before the submission of sales tax return at the import stage on import of steel scrap, ferrous-alloys, and on electricity. At the time of production, they pay GST on electricity bills and all other consumable items. Although the steel melter companies pay the entire amount of FED (Sales Tax) before sales at production and before submission of sales tax return, they have to face difficulties at the time of annual refund of the sales tax.

It is proposed that the payment of further 10% sales tax under Section 8B of the Sales Tax Act, 1990, with every sales tax return by the steel melters may be done away with as it is impacting their liquidity.

7.3.2 Taxes on steel melting furnaces in FATA/PATA

The small steel melting furnaces in FATA/PATA are not paying sales tax and income tax. There is also no accounting of self-generation units i.e., sugar mills and small melting furnaces up to 1 - 2-ton capacity. On the other hand, the steel melters in other parts of the country are paying Rs. 12,410/= sales tax and Rs 1100/= income tax. Moreover, in the case of other taxes, a sum of Rs 1,000/= is paid. Total tax paid comes to Rs 14,510/= whereas the steel melting furnaces located in area FATA/PATA do not pay the said tax. All production from FATA/PATA is being dumped in taxable areas.

It is suggested that some relief may be provided to steel melter so that they remain competitive as compared to units located in FATA/PATA. Alternately, such a system be developed by the FBR that tax at the port is levied which should be paid by FATA/PATA and by units located in taxable areas. It should be Non-Refundable. The remaining tax may be received at this very point from the steel melters.

7.3.3 Registration of unregistered Small Furnaces with the FBR

The growth of the steel melting sector is being retarded by the unregistered small furnaces running on the B-2 electricity tariff. With a capacity of 500 kg/ 1 Ton, they manufacture ingots and MS long products. Cheap goods are being dumped into the market. They manufacture more than 1/1.5 million tons of ingot on yearly basis and it is almost impossible to compete with this nonpaying sector.

It is suggested that FBR may initiate steps to register the small steel melting furnaces.

7.3.4 Survey of Re-rolling Mills to control high tax evasion

Strict measures are required by the Government to control high tax evasion made by Re-rolling mills in the country. In Lahore and other areas, there are Re-rolling mills that have installed furnaces to the existing setup of re-rolling to avail the benefit of Composite Units of steel melting and re-rolling. The majority of these re-rolling mills are on B-2 electricity connection with sanctioned load of 480 KWH maximum whereas they utilize electricity units from 40,000 to 1.50,000 units in a month. They are only re-rolling mills but have shown themselves to be composite. They have installed small furnaces up to 1 to 2 Ton capacity and evading up to 86 percent of the taxes. It may be noted that on the B-2 electricity connection a furnace along with a re-rolling mill cannot be run simultaneously / at the same time.

It is suggested that a complete survey of all the re-rolling mills may be carried out to locate those units which are evading taxes. It is one of the main reasons that the re-rolling mills do not get invoices from the steel melting furnaces.

7.3.5 Approval of 800 Units for Manufacture of One Ton Billets/Ingots

Seven hundred units have been ordered keeping in view the large furnaces only whereas there are around 200 small furnaces of 5 to 10 tons capacity. Keeping in view the condition of the furnaces and the quality of scrap utilized no less than 800 units of electricity are consumed. Smaller capacity furnaces are experiencing losses.

It is hereby submitted that 800 units for manufacture of one ton of billet and ingot may be approved.

7.3.6 Reduction in Turnover Tax for Steel Melters

The Steel Melting Industry is a high volume, highly capital intensive, and low margin industry. Presently, it is extremely high and needs to be rationalized keeping in view the ground realities. Regardless of, the industry is operating in profit or loss, this tax has to be paid to the exchequer in any case.

It is proposed that the Turnover tax may be reduced from 1.5 percent to 0.75 percent.

7.3.7 Increasing Cost of Electricity

Steel melting furnaces utilize electricity as their raw material. Ever-increasing electricity tariff has a direct effect on the manufacturing cost of billets/ingots and Ms. Products.

It is suggested that the Regulatory Duty (RD) on imported Biller may be increased from 15% in ratio with the increase in electricity tariff. RD is suggested to be increased up to 25%.

Moreover, RD on import of scrap is levied @ 5% whereas scrap is a raw material of the steel melting industry and needs to be abolished.

Dairy Farming Industry

7.4.1 Restoration of Zero-rated Sales Tax Status for Dairy Products

The dairy products, including raw milk produced by the commercial farms, were earlier provided zero-rated sales tax status to keep the packaged products under the buying reach of the general public. However, through Finance Acts of FY 2015-16, FY2016-17, and FY2019-20, the sale tax zero-rating status was abolished and these products have been subjected to taxation. The abolishment of the zero-rate tax policy has drastically increased the cost of the milk processing industry which has led to an increasing trend of prices of packaged/hygienic milk & milk-based products. There is even a bigger void between processed milk prices and loose milk prices, which has not only resulted in a sharp decline of the industry but has reversed the conversion of unprocessed milk into documented formal sector processed milk. Lower profitability and decline in volumes have severely impacted the investments in the sector for the development of milk farming communities and cool chain infrastructure.

It is proposed to re-transpose the dairy products to the 5th Schedule to the Sales Tax Act, 1990 & continue the Zero-Rating facility for the dairy sector. Taxation of milk and cream concentrated i.e. full cream milk powder (0402.1000) should be taxed in line with liquid milk counterparts.

7.4.2 Introduction of Zero-rated Sales Tax on Dairy-related Packaged material

Milk is a perishable product and if not kept in a controlled environment, can be spoiled within four hours. Process and packaging are the only way to extend the life of milk and distribute it to far-flung places. Most of the fresh milk and fruit pulps perishes because of expensive packaging material. In case of zero-rating of taxes, the cost of production of food manufacturers would be reduced as it would lead to safeguarding the milk and fruit pulps and growth of the formal sector; thus, increasing employment and tax revenues for the government.

It is proposed to classify all dairy-related packaging material as zero-rated throughout the supply chain i.e., from the purchase/import of raw material to supply of finished goods to the packed food industry. This would help boost the packaged food industry; reduce waste of milk and fruit pulps; curb piling up of sales tax refunds in packaging industry, and increase exports currently not competitive due to high cost of production.

7.4.3 Extension of Zero-rating of Inputs to other direct and indirect material [Fifth Schedule to STA, 1990]

The Fifth Schedule to the Sales Tax Act, 1990 allows zero-rating of raw materials, packing materials, sub-components, components, sub-assemblies, and assemblies required for the manufacture of goods specified for the zero-rating subject to conditions defined in Chapter XIV of the Sales Tax Special Procedure Rules.

It is proposed that such zero-rating of inputs be extended to other direct and indirect material, including capital goods, required in the manufacturing process and furtherance of supply, including cattle feed and dairy farm machinery, for which an input tax is claimed, such as on energy and utilities, etc. This will stop the accumulation of refunds at the source, improve the cash flow position of dairy companies and avoid the cumbersome procedure for obtaining a zero-rating certificate.

7.4.4 Dairy Industry Tax on Trainings to support Farmers

Despite having 3rd largest milk production, we have one of the lowest yields per animal in the world and one of the highest farm gate prices. Compared to 9,500 liters/animal in West, our yield per animal is 1,300 liters, making the dairy industry uncompetitive. Duties & sales tax on livestock feed has limited the scalability of improved genetics and yield improvement initiatives by the dairy industry. Formal sector intervention in dairy farm services and support has resulted in improvement but the enabling regime would expedite the development of this sector.

it is proposed to have zero ratings on Dairy Industry Tax on training to support Farmers for breed improvement and on Best Farm Practices.

7.4.5 Packaging Raw Material for Food Processing Industry

The current tariff on the raw materials imported for use by the domestic food packaging industry is anomalous as basic raw materials are being charged to duty at the highest duty rate. This tariff is not only discriminatory but also goes against GOP's concessionary fiscal policy for the agriculture sector. Hence, there is a need to provide a level-playing-filed to the domestic food packaging industry. The duty exemption\concessions will not only help in developing the domestic food packaging industry but will prevent colossal waste of milk, other dairy products; and attract potential investment in packaging for food packaging alone over the next 2-5 years.

It is proposed that all categories of raw materials viz. impregnated paper & paper board, Polymers, Coated Paper/Paper Board and Aluminum Foil (Respective PCT Headings) may be exempted from levy of customs duty or lowest possible duty may be imposed under the Fifth Schedule to the Customs Act, 1969 when imported for production of packaging materials for the food industry. The Regulatory duty imposed on such items vide S.R.O.1035 (I)/2017 dated October 16, 2017, may also be abolished and amended thereafter.

7.4.6 Allowing import of necessary vaccines for dairy farming

Thousands of exotic cattle have been imported during the last one decade to perform high-quality milk production operation in the commercial and corporate dairy farming sector in Pakistan. These animals are prone to various livestock diseases which normally do not impact the local animals. Currently, a large number of vaccines are not legally allowed to be imported into Pakistan due to existing legislation and policies at the Drug Regulatory Authority of Pakistan (DRAP). The unavailability of these vaccines makes it highly risky to manage dairy farming operations with exotic cattle and the outbreak of disease can wipe away the whole herd.

It is recommended that necessary policy be adopted to give special import permission to the corporate farms for importing such vaccines for use at their own herds. A smooth free system to bring such vaccines to Pakistan would help farmers to prevent their cattle from huge losses, given disease outbreaks. The quality of such vaccines plays an accusable role in effective vaccination.

7.4.7 Duty on Exotic Animal Import

Import of exotic animals carries a duty of 2 percent (HS code 0102.21.20) and an additional customs duty of 1% (ECD). Exotic animals have higher genetics and high production capacity.

It is proposed to abolish the custom duty and additional customs duty on the import of dairy cattle. This would increase the income of the farmers and reduce the cost per liter of milk.

7.4.8 Provision of Subsidized Maize, Grain, Silos

Procurement of quality maize grain is a challenge for farmers for few years. The crop is affected with toxins many times and the price is shot up in the offseason. This leads to high input costs of farmers, in addition to the unavailability of the required quality on time. Toxin-compliant Maize grain is key for the health of animals, besides the factor of cost and availability. Maize grain is the main ingredient to provide energy to dairy cattle.

It is proposed that if the maize grain is stored in Steel Silos, then required quality and cost targets can be met and quality milk could be delivered to processors. A system be made to provide subsidized grain silos in different districts so that farmers can buy at affordable prices (set by the Government)

7.4.9 Withholding of Income Tax on Purchase of Fresh Milk

Purchase of milk should be exempted from withholding income tax, irrespective of sales by grower or commission agent. Purchase of fresh milk from the direct grower is exempt from income tax withholding under the provisions of clause 12(a), Part IV of 2nd schedule to Income Tax Ordinance 2001. Whilst if the milk is purchased through a commission agent, then it attracts the provisions of section 233 where the commission is subject to withholding of tax at the rate of 12% for filer and 24% in case of non-filer.

It is proposed that the tax rate on commission agents engaged in the collection of milk from remote and far-flung areas, be subject to a reduced rate of tax to facilitate the industry.

7.4.10 High Rate of withholding Income Tax on Imports & Supplies (Sales)

Withholding tax on all imports is applicable @ 5.5% on the raw material used for manufacturing and 4% on local sales. Most of the time, an exemption certificate is not issued by tax authorities because of which companies have to pay income tax at the import stage in addition to advance tax paid in each quarter. These payments result in generating income tax refunds at the end of the year impacting the cash flow of the companies.

It is recommended that Companies registered with the Large Taxpayers Units or listed on the stock exchange should be exempt from the collection of income tax under section 148 of the ITO, 2001.

7.4.11 Subsidized Electricity Tariff

The agriculture sector is being provided with subsidized electricity tariffs, while dairy farms continue to be charged high electricity costs despite dairy being one of the leading sub-sectors of the agriculture sectors. Nearly 58% of the agricultural GDP comes from Livestock.

It is recommended that subsidized electricity tariff (Tubewell rates) may be introduced for dairy farms and for chilling of milk, under agricultural tariff.

7.4.12 Service tax on the provision of services to the dairy industry

Currently, service tax is levied on various services at the rate applicable in respective provinces. Significant sale of the dairy industry is exempt from sales tax, thereby making service tax paid as part of the cost. The issue of input tax loss, apart from increasing cost, is against the concept of value-added tax whereby each party in the supply chain is entitled to claim its input tax. Hence, to enhance investment in the dairy industry and provide relief to existing manufacturers, services to the packaged dairy industry should be excluded from the ambit of service tax.

It is proposed to abolish the levy of service tax on services provided to the dairy industry.

7.4.13 Turn Over Tax (Minimum Tax Liability Under Section 113)

The dairy industry is a high-volume low margin business and gross profit ranges between 11 percent to 13 percent. The turnover tax of 1.5% currently being paid by this industry is extremely high.

It is proposed to reduce the Turnover tax from 1.5% to 0.5% to facilitate the dairy industry which is struggling to document the undocumented milk sector.

7.4.14 Taxation of Agricultural Equipment

Through the Finance Act 2015, sales tax on import of agricultural machinery was reduced from 17% to non-adjustable sales tax at 7% under the Eighth Schedule to the Sales Tax Act, 1990 whereas previously the sale tax at 17% was adjustable.

It is proposed that a reduced rate of 5% (as in the case of tractors) may also be adjustable and it may cover all agricultural machinery like mowers and cutters under PCT Code 8433.2000, dairy farm-related machinery such as milking equipment under PCT Code 8434.1000, 8434.2000, 8434.9000 which are still being charged at the rate of 17 percent.

7.4.15 Withholding Income Tax Deduction Rate on Distributors of Fast-Moving Consumer Goods

Turnover tax applicable on turnover of FMCG distributors is 0.2% of their total turnover. However, withholding agents are required to deduct income tax @ 2% / 2.5% on payments to them. The distribution of fast-moving consumer goods is a high turnover and low margin business. Accordingly, tax is being withheld at 2.5% from distributors on account of the supply of goods, which is higher than the net margins of distributors. Higher withholding tax than the ultimate liability of distributors is resulting in tax refunds and cash flow issues detrimental to the business environment.

It is recommended that the withholding tax rate be reduced from currently 2%/ 2.5% to 1.0% for dairy distributors in line with the withholding taxes applicable on the distributors of cigarette and pharmaceutical products (clause 24(A), Part II, 2nd Schedule of Income Tax Ordinance 2001).

Pharmaceutical Industry

7.5.1 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.

7.5.2 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.

7.5.3 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.

7.5.4 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.

7.5.5 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.

7.5.6 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.

Oil and Gas Sector

7.6.1 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.

7.6.2 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.

SME Sector

7.7.1 Incentive for promoting SME Growth

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 rateof 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.

Plastic Recycling Industry

7.8.1 Simplification of systems and procedures for obtaining Environmental Approvals

As per SRO # 345 dated 18th April 2016, the Importers/ Recyclers of Waste, Paring, and Scrap of Plastics are required to obtain Environmental Approval of Plastic Scrap Recycling Facilities/Capacities and Annual Environmental Audit Report from respective Federal /Provincial Environmental Protection Agencies (EPAs). The cumbersome systems, procedures, and formalities in obtaining the requisite environmental approval have practically hindered the import of the product, which is the basic raw material of the recycling industry.

The import of Plastic Scrap has been restricted to a few importers/recyclers. The plastic recycling industry is compelled in obtaining the basic raw material through the informal channel of smuggling. The limited import of plastic scrap is causing huge financial loss to the government exchequer. The closure of most of the recycling units in the country is also increasing the unemployment of the direct/ indirect workforce.

It is suggested that complicated systems and procedures in obtaining the environmental approvals from Provincial EPAs may be simplified so that the Plastic Recyclers are encouraged to get approvals. Provincial EPAs should provide the list to the MOCC of the plastic recyclers who have valid Environmental Approval.

7.8.2 Reduction in Customs Duty on imported recycled plastics

Waste, Parings, and Scrap of Plastics, excluding hospital waste of all kinds, used sewerage pipes and used chemical containers falling under their respective PCT codes [3915-1000, 3915-2000, 3915-3000 & 3915-9000] are imported by the plastic recycling industry on payment of 20% customs duty and 7% Additional Regulatory Duty (ADR).

It is proposed that the levy of 20% Customs Duty and 7% ARD may be reduced to 10% and zero percent, respectively, to bring it at par with the import of other plastics, considering imported recycled plastics as basic raw material.

Furniture Industry

7.9.1 Inclusion of Furniture Industry in definition of Cottage Industry

Furniture industry in Pakistan mainly comprises workshops employing artisans and manual labor, except the few entities which import and resell modular furniture to retailers on a larger scale. Tax authorities and field officers in many parts of Pakistan are issuing notices to the furniture shops and work-shops to register as 'Tier 1 retailers' which is unjust and not practicable for this trade.

Furniture Shops do not fulfill the criteria defined under Section 2, Sub-Sec. 43A of Sales Tax Act' 1990 because:

a. Furniture does not fall in Category of Fast-Moving Consumer Goods (FMCG).

b. Furniture Shops/Showrooms are only for the purpose of display of bulky pieces of furniture and to get orders from customers and not retail sale. The display requires area larger than 1000 feet and an anomaly is created under the Sub-Section 43A which wrongly classifies such shops/showrooms as Tier 1 Retailer.

c. With rapid increase in rates of electricity, the amount of Twelve Hundred Thousand in a year for commercial establishment should not be made a condition to qualify as Tier 1 retailer.

d. Under Definition of Cottage Industry (5AB), the amount of turnover of Rs.3.0 Million is very unrealistic. Such cottage industry cannot employ 10 persons or earn a profit of even Rs.25000/- per month after paying for materials, labor and overheads.

It is proposed as under:

Furniture shops/showrooms and workshops which are not part of national or international chain of Stores and not located in an airconditioned Mall, should be excluded from the scope of Section 2 (sub-section 43A)

a) All such furniture shops and workshops may be included in Cottage Industry (5AB) or treated as SMEs.

b) Amount of Turnover as defined under 5AB should be enhanced to Rs.50.0 Million.

c) Minimum covered area defined for inclusion in Tier 1 for a furniture showroom/shop does not have relevance in Furniture business as it does not reflect the volume of sales or turnover and therefore should not be the parameter to determine the Tier of retailer

The above suggestions, if implemented, would help protect the employment of hundreds of thousands skilled workers artisans and laborers and preserve the industry of traditional hand-crafted furniture spread all over the country.

Stock Brokerage Industry

7.10.1 Definition of the term 'Security' [Section 37A of ITO, 2001]

The newly added section 37A (3B) in ITO, 2001 has not resolved the issue of determination of the holding period of a security. In view of the nature of amendment in the form of "explanation" the question of its retrospective application also does not arise.

It is proposed that the newly added Section (3B) may be deleted being redundant and an explanation (proposed below) may be added to section 37A (3) of ITO, 2001 so as to control the damage to save the capital market.

Explanation:
"For removal of doubt, it is clarified that for the purposes of this section, share of a company, disposed of in a tax year for which the company has the status of a public company, "becomes a security" with effect from the date of acquisition, irrespective of the status of said company at the time of the acquisition of the said share".

7.10.2 Apportionment of Deductions [Section 67 of ITO, 2001]

As no effort is involved in earning passive incomes, hence the expenditures, deductions and allowances may not be attributed to such income.

It is proposed that the following proviso may to be added at the end of Section 67(1) of ITO, 2001:

Proviso
"Provided that this section shall not apply to passive incomes such as dividend, profit on debt".

7.10.3 Capital Gain Tax [Section 37A OF ITO, 2001]

The present rate at 15% for filers and 30% for non-filers is exorbitant and amounts to discouraging investment in Capital Market. Hence, to encourage investment in stocks for longer periods, there should be no tax where holding period is equal to or exceeds 3 years.

It is proposed to align the rates of Capital Gain Tax on disposal of securities in stock market with rates applicable to the mutual fund industry. Further, the current rate of 15% on disposal of securities in Deliverable Futures Contract (DFC) market of Pakistan Stock Exchange (PSX) may be brought down in line with 5% in Pakistan Mercantile Exchange (PMEX) as this futures market is the same as the DFC market of PSX.

It is also proposed to incentivize the investors by spreading CGT on other markets except DFC as per given slabs:

Where holding period is less than a year	10%
Where holding period is less than two (2) years but more than or equal to one (1) year	7.5%
Where holding period is less than three (3) years but more than or equal to two (2) years	5%
Where holding period is equal to three (3) years or more	0%

7.10.4 Capital Gain Tax – Non-Resident Pakistanis [Section 37A of ITO, 2001]

It is cumbersome for the non-resident Pakistanis to file returns in the absence of any other source of income. As such for investment in stocks they may be treated at par with the filers.

It is proposed that the Capital Gain Tax u/s 37A applicable to filers may be made applicable to Non-Resident Pakistanis and suitable amendments may be made in the ITO, 2001, to give effect to this proposal.

This would attract foreign remittances and investments in the capital market, but also enable the non-resident Pakistanis to avail the Roshan Digital (RD) Account regime when they are treated at par with the filers.

7.10.5 Carry Forward of Losses [Section 37A read with Section 58 & 59 of ITO, 2001]

If the carry forward of losses is allowed for 6 years as in other businesses, it would encourage investment in Capital Market which in turn would expedite the process of industrialization. The amendment would not only increase FBR's revenue but would also expedite the process of industrialization.

It is proposed that the carry forward of losses, as in other businesses may be allowed for 6 years rather than for 3 years as given in Sec 37A (5th proviso).

7.10.6 Tax Refunds [Section 170 of ITO, 2001]

Advance taxes/Withholding taxes are in the nature of **"amanat/trust"** from tax payer to FBR. Non-refund of payments, received by FBR in excess of tax liability for a year is a breach of trust. Due to withholding of refunds, the capital of persons in business is stuck.

It is proposed that the amount determined as refundable for a Tax Year may be paid to the tax payer as soon as its /his assessment is complete.

7.10.7 Tax on Dividends [Section 5 of ITO, 2001]

The tax rate is 25% in case of a person receiving dividend from a company where no tax payable by such company due to exemption of income or carry forward of business losses or claim of tax credit, thus 50% for non-filers which is more than normal tax regime of 29%.

It is proposed that the tax rate being exorbitant for such a category may be reduced. This will incentivize small investors and encourage investment in the Stock Market. Furthermore, to incentivize small investors, the following proviso may be added:

Proviso

Provided that there should be no withholding tax for individuals on dividends up to Rs. 600,000/- per annum.

7.10.8 Offences and Penalties [Section 182 of ITO, 2001]

Previously minimum penalty for the default used to be Rs. 25,000/-. In Finance Act, 2019 minimum penalty has been enhanced to Rs. 40,000/-. Most compliant tax payers become victim of minimum penalty. The law is favorable to habitual and big defaulters. It has become a tool of blackmailing in the hands of field staff. Doing away with the minimum penalty would save the compliant tax payers from harsh/un-fair treatment at the hands of IRS.

It is, therefore, proposed that Section 182 may be amended as under:

"Such person shall pay a penalty at the rate of 10% of the amount of tax not collected or deducted or fails to pay the tax collected or deducted as required u/s 160".

7.10.9 Reduction of Withholding Tax on Income from Margin Financing (MF) Transactions

The cost involved in Margin Financing includes financial cost payable to financial institution, trading, clearing and depository charges and other administrative cost which render that the amount deducted as advance tax could not be fully adjusted against tax liability of most brokers leading towards claims for tax refunds that are not time bound. Presently, the rate of tax on gross income of the Financier is 10% without deduction of any expenditure to earn such income.

It is proposed that the rate of withholding tax on the gross income earned on MF transactions may be reduced from 10% to 2.5%; or it may be charge @10% on the net income earned on such financing.

The proposed reduction would help developing the market and will certainly increase tax collection by FBR because ten years back, the size of similar market for margin transactions was several times higher.

7.10.10 Reduction in Tax on Brokerage and Commission [Section 233 of ITO, 2001]

To reduce the cost of doing business, it is proposed that the tax u/s 233 may please be reduced to 3% as in the case of rendering of or providing of services by Pakistan Stock Exchange and Pakistan Mercantile Exchange.

7.10.11 Abolishment of Tax on Dividend

Dividend is paid-out of tax-paid income of the company. Tax on dividend amounts to double taxation of the same income. Present tax rate on dividend is confiscatory in nature and has discouraged investment in stocks which in turn is disastrous to promote corporate culture.

Government should introduce a mechanism to remove double/triple taxation of company's profits;

a) Once in the hands of the company; and
b) Second in the hands of shareholders as dividends on same income as a tax on dividend.

In some cases, this comes as triple taxation:

c) Once in the hands of the company;
d) Second in the hands of sister concerned as dividends on same income as a tax on dividend; and
e) Third time in the hands of shareholders as dividends on same income as a tax on dividend.

It is proposed that tax on Dividend may please be abolished to avoid double / triple taxation.

Mutual Funds Industry

7.11.1 Inclusion of Section 150A in the Withholding Section for Mutual Funds and Pension Funds

An anomaly exists where all avenues of income have been included in the withholding section except the sukuks which affects the level playing field. A separate section was introduced for profit on corporate sukuks and the same has been missed out for inclusion in the withholding section for entities exempt in Section 47B.

To address this anomaly, it is suggested that the words '150A' may be inserted in Clause 47B of Part IV of the Second Schedule of Income Tax Ordinance, 2001 as under:

"[(47B) The provisions of sections 150, 151[, 233, 150A [and Part I, Division VII of the First Schedule] shall not apply to any person making payment to National Investment Unit Trust or a collective investment scheme or a modaraba or Approved Pension Fund or an Approved Income Payment Plan or a REIT Scheme or a Private Equity and Venture Capital Fund or a recognized provident fund or an approved superannuation fund or an approved gratuity fund.]"

The addition of the above clause 150A would not have any revenue impact as the income of the funds is exempt from tax and any tax withheld is refundable at year-end.

7.11.2 Removal of requirement for valid tax exemption certificate [Sections 150, 151 & 233 of ITO, 2001]

There is a requirement to obtain a valid tax exemption certificate for the claim of exemption under Sections 150, 151, and 233 of the Income Tax Ordinance, 2001 in the cases where a statutory exemption under clause 47B of Part IV of the Second Schedule is available. As the industry is growing, new funds are being launched and their tax is withheld which is refundable and therefore there is no revenue loss for the Government by removing this requirement as the income is already exempt from tax. Further, the industry is facing operational hassle.

It is proposed that the above requirement to obtain valid tax exemption certificates under Sections 150, 151, and 233 may be removed to facilitate the mutual funds' industry. Further, FBR's clarification/ internal memo of May 12, 2015, to its field offices may be withdrawn and there should not be any requirement of a specific exemption from the FBR every six months/ year, in cases of those entities that have been provided statutory exemption in clause 47B of Part IV of Second Schedule of the Income Tax Ordinance.

7.11.3 Provincial Sales Tax on Services - Jurisdiction Issues to be settled in Council of Common Interest

Provincial Sales Tax is applicable on the management services including fund and assets management services. The wordings of the laws enacted by the Sindh Revenue Board, Punjab Revenue Authority, and Khyber Pakhtunkhwa Revenue Authority are overlapping as the law governing Sindh Sales Tax enacted by Sindh Revenue Board states that sales tax is to be provided where business is registered while Punjab Sales Tax on Services Act, 2012 and Khyber Pakhtunkhwa Finance Act 2013 states that the province where taxable services are provided or rendered by the service provider is entitled to levy, charge and collect sales tax on such services.

It is proposed that this issue, being of equal relevance to all the provinces and affecting the entire Services Sector, may be placed on the agenda of the Council of Common Interests to resolve this matter at the earliest.

Hospitality Industry

7.12.1 Carrying forward of Business Losses in hotel industry [Section 57 of ITO, 2001]

Under this section, the losses sustained by a person for a tax year under the head 'Income from Business' can be carried forward to six tax years immediately succeeding the tax year in which the loss was first computed. Due to low margin and profitability, the initial losses sustained by the hospitality industry could not be set off within the stipulated time of six years. This means the hotels can potentially have a payback period of above ten years and a low return on investment.

It is, therefore, proposed that the time period for carrying forward of losses may be enhanced from six tax years to at least ten tax years. This will boost up the confidence of potential investors to further invest in a business suffering continued loss and consequently broaden the tax base of the country.

7.12.2 Abolishing Minimum Tax on hotel industry [Section 113 & Section 153(1)(b) of ITO, 2001]

The lockdowns and closure of hotels as well as restrictions on international travel due to the COVID-19 pandemic have adversely impacted the hotel industry. This sector has also suffered colossal losses due to the ban imposed by the Government on in-house dining and indoor banquet functions. It is estimated that the hotels will not be making taxable profits for at least the next few years. Hence, the method of applying a minimum tax on loss-making companies or companies with low-profit margins would not be justified.

It is proposed that the hotels and hotel owning companies may be exempted from charging Minimum Tax.

7.12.3 Exempting hotel industry from payment of Withholding Tax [Section 153 (1)(b) of ITO, 2001]

The hospitality industry is persistently facing losses due to lockdown and ban on in-house dining and indoor banquet functions. As such, they are not in a position to generate any taxable profit in the next few years.

It is proposed that the hospitality sector may be excluded from payment of withholding tax under this Section.

7.12.4 Exempting hotel industry from payment of Advance Tax on Utilities [Section 235 & 236 of ITO, 2001]

The hotels are paying advance tax on utilities including electricity, telephone, and internet, etc. Considering the sustained losses by the industry due to the pandemic, the companies in the hospitality and tourism sector are not foreseeing any taxable profit against which the Advance tax on electricity bills could be adjusted.

It is proposed that advance tax on electricity bills and other utility bills under Section 235 and 236 of ITO, 2001 may be abolished to enable the hospitality industry to improve their cash flows and liquidity situation.

7.12.5 Allowing Input Tax on Building material for the hotel industry [Section 8 (1)(h) of Sales Tax Act, 1990]

The Input tax on construction material is presently not allowed under section 8(1)(h) of the Sales Tax Act, 1990 except that used directly in the production or manufacture of taxable goods. Such restriction on legitimate tax credit discourages investment that could lead to a reduction in the economic activity in the country.

It is proposed that input tax on building material may be allowed for the hotel industry as it could have a positive long-term impact on investment projects in the hotel industry.

7.12.6 Excluding the applicability of Installing POS Invoicing System for the hotel industry

The Federal Board of Revenue, including the Provincial Authorities, has introduced a Point of Sales (POS) Invoicing System for all restaurants, cafes, coffee shops, eateries, snack bars, and hotels having any of such business activities and has urged them to integrate with tax collecting authorities newly introduced POS Invoicing System.

The hospitality industry has its own international accounting, billing, and receipts system. Adoption of a POS Invoicing system would be against the warranty terms laid down by the software developer and the companies could even forego the software warranty. The hospitality industry has already implemented a sophisticated system of generating sales tax invoices and is reporting to tax authorities through monthly sales tax returns.

Keeping in view the difficulties faced by the hospitality industry in the implementation of POS Invoicing system, it is suggested to exclude the applicability of installing POS Invoicing system for the hospitality industry.

7.12.7 Removing the restriction of Input Tax Adjustment for hotels in Sindh Province

There is 13% sales tax on services in Sindh with restriction on input tax adjustments for the goods/ services liable to a tax rate of over 13% due to which companies operating in Sindh do not get full credit of sales tax input and have to absorb sales tax over and above 13 percent. This unnecessary absorption of the cost of inputs is despite the fact that related outputs are deposited into the national exchequer, thereby leading to inflation in the economy.

It is proposed that such restrictions on input tax adjustments in Sindh may be removed for the betterment of the hotel industry and the overall economy in general.

7.12.8 Reducing the rate of 'Bed Tax' on hotels in Balochistan Province

The Excise & Taxation, Quetta has increased the bed tax exorbitantly on hotels operating in the Province of Balochistan and issuing challans to hotels based on 100% double occupancy without realizing the actual occupancy of the hotels. Further, the bed tax rate has substantially been increased from Rs. 20 per day per lodging unit to Rs 100 through Finance Bill 2018 and Rs 500 per day per lodging unit through Finance Bill 2019. It may be noted here that none of the hotels in Balochistan is operating at 100% occupancy and therefore treating all rooms double occupied for bed tax calculation is unjustified.

It is proposed that the bed tax rate may be reduced for all the hotels in Balochistan w.e.f. July 2019 based on actual/average occupancy of the hotels since such a high increase of bed tax will unnecessarily put an extra burden on the guests/tourists visiting the Balochistan province. Further, 'bed tax' being charged @ 5% on invoice amount [exclusive of GST] on hotels, restaurants operating in ICT territory may be abolished as being done in other provinces and keeping in view the current situation faced by the hotel industry.

7.12.9 Including loans for hospitality and tourism industry in SBPs' Temporary Economic Refinance Facility

To support sustainable economic growth in the backdrop of challenges being faced by the industry in the post-pandemic scenario, the State Bank of Pakistan (SBP) has introduced a Temporary Economic Refinance Facility (TERF) intended to provide concessionary refinance for setting up of new industrial units.

It is proposed that the loans provided to the hospitality and tourism industry for the ongoing projects may be made a part of the TER Facility of SBP on similar terms and conditions as provided to other industries.

7.12.10 Providing timely permission to hotels in sending remittances to their international Agents/ Suppliers

The companies in the hospitality industry are facing difficulties in getting timely permission for remittances to international Agents/ suppliers. The Exchange Policy Department of the State Bank of Pakistan (SBP) takes almost 3-4 months in granting the required approval. It may be noted here that foreign suppliers and agents are playing a vital in boosting the business of the hospitality industry and enhancing inward foreign currency inflow into Pakistan. In case of non-payment or late payment, the services supplied by them would be affected. Consequently, the hotels will incur huge losses of revenue, and the country also losses foreign currency inflow.

It is recommended that the hospitality industry may be allowed timely permission by the SBP for payment to international suppliers and agents. The commercial banks may also be authorized by the SBP to process the payment up to a certain threshold.

7.12.11 Allowing advance payment to the hospitality industry to import specialized equipment

The State Bank of Pakistan (SBP) has withdrawn advance payment @ USD10,000 per invoice against irrecoverable Letter of credit up to 100% of the value of goods. The withdrawal of this facility and placing of 100% cash margin with the banks is creating a hindrance for the hotel industry to obtain goods and services from their foreign suppliers. Being a specialized industry, most of the machinery and equipment doesn't have any local substitute for which the hospitality industry needs to import special equipment.

It is suggested that the hospitality industry may be allowed advance payment to foreign suppliers so that they can import all specialized equipment with ease and without having any cash flow problems.

7.12.12 Doing away with Custom duties on import of machinery and equipment for the hotel industry

In the past, the hotel industry was allowed duty-free and/or reduced rate of customs duties under various SROs issued from time to time, on import of machinery, equipment, and other items, required for setting up, up-gradation, and expansion of hotels. Being a specialized industry, most of the machinery and equipment doesn't have any local substitute for which the hospitality industry needs to import special equipment.

It is proposed that customs duty may be withdrawn on machinery and equipment imported for hotel projects.

7.12.13 Allowing duty-free import of Pre-fabricated structure

The hospitality industry is paying 11% customs duty on import of pre-fabricated room structure for setting up of new hotels/motels in hill stations, Gilgit-Baltistan, AJK, and Coastal Areas of Baluchistan (excluding hub).

It is recommended that the hospitality industry may be allowed duty-free import of pre-fabricated structure for construction of new hotels which will significantly reduce the cost of opening of new hotels and boost up the tourism and hospitality sector in the northern area, Gilgit Baltistan, AJK, and coastal area of Baluchistan where the conventional construction cost is very high as compare to the pre-fabricated structure.

7.12.14 General Proposals for the hospitality industry

a) The tax reliefs and incentives applicable to the construction industry may be extended and made applicable on the new and under construction hotel projects including hotels, motels, tourist resorts, etc.

b) The hospitality sector may be allowed loan facility up to 20% of gross turnover, based on the audited accounts of 2020. The rate of interest on these loans may be reduced from the existing rate and principal repayment should be in 5 years with 2 years of a grace period. Provision for swapping of new loans with the existing portfolio may also be considered. This would help in overcoming the liquidity crisis.

c) The incentive of Cashback to Customers under FBR Circular, SRO 1339(I)/2020 may also be extended to the restaurants of the hospitality industry to encourage customers to get 5% cashback on all invoices issued by the restaurants. This will not only increase the business volume of the hospitality industry but also broaden the tax base of the country and hence will increase the tax collection.

d) The levy of Gas Infrastructure Development Cess (GIDC) may be abolished in the hotel industry which is already suffering huge losses due to the COVID-19 pandemic.

e) Since the hotel business has been slowed down by almost fifty percent, the government may consider a reduction in electricity tariff i.e., a 5% reduction in tariff for peak hours for the next two years. Peak Hours rate should be eliminated to provide relief to the Hotel Industry as the major expense of electricity is still an average of Rs. 23 per unit including taxes, which is too high to bear.

Real Estate Investment Trust (REIT) Sector

7.13.1 Set Off of Losses [Section 56 of ITO, 2001]

The existing Section 56 of ITO, 2001 is meant for the companies where 'income from property' is the other source of income; whereas REIT is solely engaged in real estate/property income; hence its income should be treated in line with 'income from business' and accordingly provision for set-off of losses may be allowed.

It is proposed that the following amendment may be made in Section 56 of ITO, 2001:

*"**56 Set off of losses.** — (1) Subject to sections 58 and 59, where a person sustains a loss for any tax year under any head of income specified in section 11, the person shall be entitled to have the amount of the loss set off against the person's income, if any, chargeable to tax under any other head of income 1[except income under the head salary or income from property **other than income from property under REIT Scheme / REIT Management Company]** for the year."*

7.13.2 Tax on Income from Property [Section 15 and 15A of ITO, 2001]

Income from property is the core business activity of a Rental REIT Company and all expenses are incurred solely for this core business. The rental income of a REIT Company is a 'business income' as compared to other companies where rental income is considered as 'other source of income and deductions are allowed to a limited extent against such rental income. Whereas business of REIT company is primarily based on the "income from property", hence "income from property" for REIT Company should be treated at par with "income from business" and all such expenses incurred shall be allowed in line with the spirit of the Tax laws.

It is proposed that since 'income from the property' is being taxed at applicable corporate tax rate in line with 'income from business'; hence all expenses deduction may be allowed against 'income from property". Accordingly, the following amendment is proposed to be made in Section 15A of ITO, 2001:

"15A: Deductions in computing income chargeable under the head —Income from Property. — (1) In computing the income of a [company] chargeable to tax under the head "Income from Property" for a tax year, a deduction shall be allowed for any expenditure incurred by the person in the year wholly and exclusively for the purposes of income from property .

7.13.3 Dividend [Section 150], Profit on Debt [Section 151] and Payment of Goods, Services & Contracts [Section 153]

In terms of Clause 99 of Second Schedule to ITO, 2001, the income of a REIT Scheme is exempt from tax subject to distribution of 90% profit as dividend. Hence, deduction of tax at source should not be applicable.

It is proposed that the following sentence may be inserted in Sections 150, 151, and 153 respectively:

"Nothing contained in this section shall apply to a REIT Scheme"

7.13.4 Rate of Advance tax on Income from Property [Section 155 of ITO, 2001]

In terms of Clause 99 of Second Schedule to ITO, 2001, the income of a REIT Scheme is exempt from tax subject to distribution of 90% profit as dividend, therefore, deduction of tax at source should not be applicable.

It is proposed that the following sentence may be inserted in Sections 155 of ITO, 2001:

"Nothing contained in this section shall apply on payment of rent of immovable property owned by a Rental REIT Scheme"

7.13.5 Advance tax on purchase or transfer of immovable property [Section 236(K) of ITO, 2001]

In terms of REIT Regulations 2015, immovable property is required to be transferred in the name of a 'Trustee' who is supposed to act as a 'custodian' of the property on behalf of unitholders of the REIT Scheme. In this way, the transfer of property under REIT is merely a book transaction. Further, the income of a REIT Scheme, controlled by the Trustee, is exempt from tax upon distribution of 90% profit. Hence, the withholding tax under Section 236K should be exempt.

It is proposed that the following sub-section may be inserted in Sections 236(K) of ITO, 2001:

"Nothing contained in this section shall apply to immovable property transfers to and from a REIT Scheme."

7.13.6 Advance tax on sale or transfer of immovable property [Section 236(C) of ITO, 2001]

As the sale or transfer of immovable property for implementation of REIT schemes is a book transaction only, hence, advance tax under section 236(C) should not be applicable on REIT.

It is proposed that the following sub-section may be inserted in Sections 236(C) of ITO, 2001:

"Nothing contained in this section shall apply to immovable property transfers to and from a REIT Scheme."

7.13.7 Rate of Tax on Dividend [Part I-Division III of the First schedule to ITO, 2001]

The tax rate on dividends @ 25% received by a company from REITs is on a higher side as compared to dividend taxation from a mutual fund. Tax on dividend from REIT Scheme should be lower than taxes on other industry to serve as an incentive for the REIT Sector.

It is proposed that dividend for a REIT Scheme in the hand of a Company should be charged at least at a rate as applicable to mutual funds being symmetrical in nature. In this connection, the following amendment is proposed:

"(b) 15% in mutual funds, REIT Scheme and cases other than those mentioned in clauses (a) and (c)."

7.13.8 Capital gain tax on the transfer of immovable property to REIT Scheme [Proviso(s) to Clause 99A, Part I of Second Schedule, ITO, 2001]

REITs can be of different types like Rental, Developmental, Hybrid. In the developmental model, the project can be residential, commercial, infrastructure, etc. Currently, CGT exemption is available only to Rental and Residential Developmental REIT Schemes, which is discouraging for other types of REITs. Further, in terms of REIT Regulations, 2015, for the formation of a REIT Trust, property meant for REIT Scheme involves an additional transaction of transfer of property to a Trustee at market value which results in unrealized gains for the seller whose ownership is merely being converted into REIT units that is a book transaction only.

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 is the most critical starting point to promote REITs in the country. Currently, there is only REIT Scheme in Pakistan established in June 2015. This single REIT Scheme has so far made a tax contribution to the national exchequer of approximately Rs. 2,882.0 million. Through tax incentives, more REIT schemes would come in and tax revenue will multiply manifold.

REIT is the documented and fully regulated form of the real estate sector and this sector should be promoted through tax incentives in line with the government's policy to document the economy.

It is proposed that Capital Gain Tax exemption on Sale of Property to REITs should be applicable for all types of REIT schemes as it was available till June 2015. In this connection, the following amendment is proposed to be made in Clause (99 A), Second Schedule, Part 1 of ITO, 2001:

"Profit and gains accruing to a person on sale of immovable property to a REIT Scheme shall be exempt."

Telecom Sector

7.14.1 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.

7.14.2 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.

7.14.3 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.

Information Technology (IT) Sector

7.15.1 Incentive for promoting IT Sector

1) The current tax exemptions for the companies engaged in IT business (both local and exports) may be extended for the next five years.

2) The Sales Tax on IT services (infrastructure installation, support, and services) may be reduced by 50 percent.

3) An Electronic Payment Gateway may be operationalized to develop an e-Commerce business in the country.

4) IT Security & Audit systems of banks may be upgraded as per international standards to make the banking system secure for businesses.

5) The current taxes on computer hardware components, printers, and networking equipment, etc. accumulate to approximately 36 percent. It may be reduced to 5 percent to help to prevent under-invoicing and use of the grey channel.

6) The Government may consider establishing its payment platform where there should be no charges on remittances to make our I.T. houses competitive in the international market.

7) E-commerce merchants like PayPal, Stripe, Paytime, Paya, and others may be brought to Pakistan to promote e-commerce & online IT businesses.

8) The Government may bring reputable storage chip manufacturing companies to Pakistan for Joint Ventures (JVs) to curtail the import bill of computer storage devices such as memory cards, SSDs, RAMs, and embedded storage chips.

9) The use of high-quality open-source software, especially in Government departments, may be promoted to curtail our software imports.

10) Free technology parks for new startups may be set up in major cities to promote IT startups. Necessary infrastructure such as Internet, printing, office space & free web hosting may be provided by the government.

11) Incubation centers may be set up in all the major universities across the country to promote start-ups and provide on-job training to IT graduates.

Printing and Publication Industry

7.16.1 Reducing the heavy tax burden on Printing and Paper Industry

Paper and paperboard are the key raw materials of the printing and publishing industry. Paper and paperboard are imported from different countries and used in education and packaging industries. However, the industry is facing great hardship due to the high incidence of taxes on the local printing and paper-making industry whereas there is a reduced or limited rate of taxes and duties on the imported printed materials. The high tariff structure has increased the cost of production of the local printing industry which orders on an Adhoc basis depending upon their requirements and also maintains a small inventory of imported paper and paperboard to meet urgent supply. The industry also imports machinery for the printing press. The present duty structure on raw material imports is as under:

Duty Structure on Paper Industry (Pre-budget)			
	Imported printed material	**Printing industry**	**Paper industry**
HS Code	4901.9100, 4901.9910, 4903, 4902.9990,4901.9990	4810.1310-4810.2900, 4810.9200- 4810.9900, 4810.1320,4802.6990, 4804.1100,4805.1100	4703.2100, 4707.9010
Custom duty	3%	20%	3%
Sales tax	0%	17%	17%
Additional Custom Duty	2%	2%	2%
Income tax	6%	5.50%	5.50%
Excise and taxation	1.15%	1.15%	1.15%
Regulatory duty	0%	5%/0%	0%
Total	**12.15%**	**52%/57%**	**29.65%**

As can be noted, the raw material of the printing industry is taxed at 52 percent while the raw material of paper mills is taxed at 29.65 percent. However, the importers of printed material are only subject to a 12.2 percent tax. This unjust tariff structure is destroying the local printing and publishing industry and there is a need to rationalize the tariff to reduce the cost of production of the local industry.

It is proposed that the customs duty levied on import of basic raw material for the printing industry i.e., paper and paperboard in jumbo rolls and large sheets may be reduced substantially and on the contrary custom duty may be increased on the import of printed material (finished goods) such as books, catalogues, printed and packaging materials, literary materials, labels, pharmaceutical leaflets, etc.

7.16.2 Reducing Custom Duty and Regulatory Duty on papers imported under HS Code 4801

H.S Code Chapter 4801 declares 'paper' as 'raw material'; however, the government treats paper (raw material) as luxury goods and charges customs duty, Regulatory duty and other taxes [totaling 56% to 63%], anomalous tariffs, and anti-dumping duties ignoring the fact the local industry make quite very few types of paper and they largely depend on fine quality imported papers for making printed materials.

It is to be noted here that there is no duty on Pulp [basis of raw material] imported under HS Code 4705 and negligible duty on finished goods such as printed books, literary materials, etc.

It is therefore proposed that paper may be treated by the Government as raw material and there should be either zero or negligible duties and other leviers on it as being provided to raw materials of other industries.

ICMA Pakistan
Estd. 1951

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