TheNetwork
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TaxWatch Tax Justice Campaign

June 2014

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Pakistan Muslim League (N) government has imposed Rs243.295 billion new taxes in its second budget 2014-15 announced in June 2014 with relief measures for industrialists and foreign investors. The focus of the taxes is to encourage tax compliance and making the cost of non-compliance high, promoting growth, removing discriminations and distortion in tax system.

Federal Board of Revenue, a top tax machinery of the country claims that the revenue measures will increase the share of direct taxes (income tax) in overall taxes. There is no guarantee that the 32 percent budgeted increases in direct taxation will actually be realised. The provisional direct tax collection in Fiscal Year 2013-14 is 9 percent lower than what was originally budgeted. Second, a sizable portion of the planned increase in direct tax collection comes on the back of those whose backs are already breaking.

For optimizing revenues and moving towards an equitable tax system, the FBR focus should be on broadening of tax base, minimization of tax exemptions and enhancement of enforcement and monitoring capacities, accountability and simplification of tax compliance. On these, no major breakthrough was witnessed in the budget.

The tax exemptions now amount to Rs477.1bn nearly 2pc of the country`s gross domestic product (GDP) in fiscal year 2013-14 compared to Rs239.535bn in the last year, an increase of Rs237.57bn. The government has withdrawn only Rs75 billion worth of tax exemptions, Rs28 billion lower than what it announced while unveiling the budget earlier this month.

In the post-budget discussion, the most important issue surfaced that provinces are not ready to authorize federal government to collect tax on agriculture income. This revelation was made by Finance Minister Ishaq Dar, while speaking before the Senate Standing Committee on Finance. Mr. Dar disclosed that tax collection by the provinces on agriculture income remained very poor as only Rs700 million have been collected in Punjab, while Rs300 million in Sindh. The irony is that agriculture sector has a share of 21 per cent in the GDP but its contribution to the exchequer remains less than 0.22pc of direct taxes.

Chairman FBR Tariq Bajwa has informed the Senate Standing Committee on Finance that top 10,000 retailers would be brought into the tax net under the new scheme announced the budget. At present, 2.5 million retailers are operating in the country. Out of total figure, only 8,000 are registered with the sales tax department.

On tax compliance, FBR has rejected an inquiry report relating to clearance of 1900 vehicles against a short payment of surcharge amounting to Rs450 million; Regional Tax Office (RTO) Faisalabad unearthed a unique tax fraud involving a tax consultant doing fraudulent business transactions to evade sales tax and the scope of investigation has been expanded to 180 registered persons. The RTO recovered Rs30 million sales tax from 85 accused so far and Large Taxpayers Unit (LTU), Karachi, has attached bank accounts of some 17 private and public companies to recover around Rs18 billion tax liabilities outstanding against them.

Sindh has reduced sales tax on services from 16 to 15 percent, Khyber-Pakhtunkhawa from 16 to 10 percent on a few services while Punjab has retained 16 percent in 2014-15 against the standard rate of 17 percent at federal level.

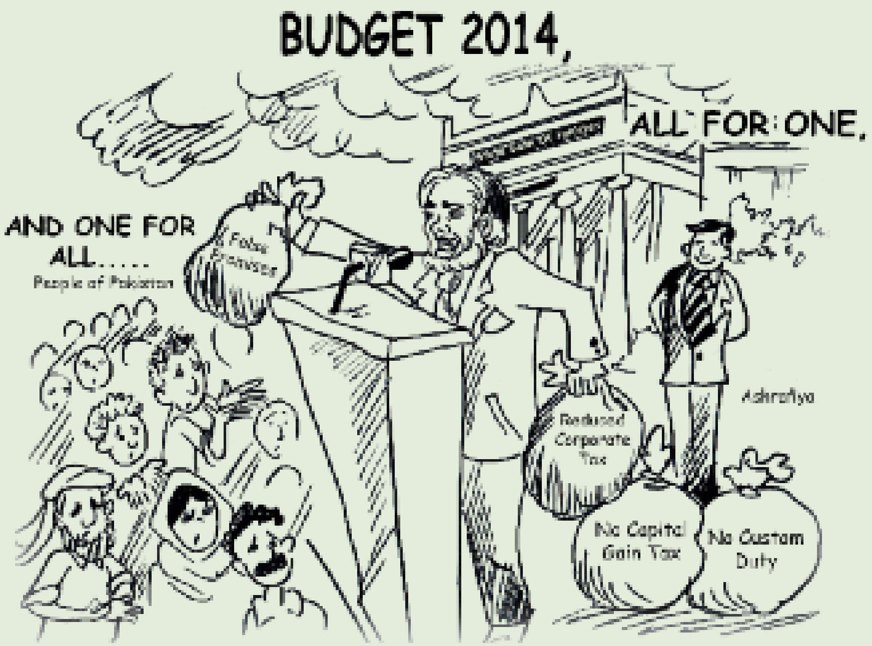
Revenue Measures taken in Budget 2014-15 (Rs. Billion)

Federal Taxes	Revenue Measures	Relief Measures
Customs Duties	36.095	1.740
Sales Tax & Federal Excise Duty	49.700	49.700
Income Tax	157.500	8.300
Total	243.295	12.04

Rs246.255bn new taxation measures taken

SOHAIL SARFRAZ & MUSHTAQ GHUMMAN

ISLAMABAD: The government has taken new taxation/administrative measures amounting to Rs 246.255 billion by enhancing advance tax rates for non-compliant taxpayers; imposed 5 percent sales tax on 35-40 items including plant/machinery; regulatory duty on luxury goods; 1-2 percent adjustable advance tax on purchase of immovable property; 7.5 percent advance tax on domestic electricity consumers (with monthly bill above Rs 100,000); abolished income support levy on movable assets and reduced maximum rate of duty from 30 to 25 percent.



The Federal Board of Revenue has proposed revenue generation measures of Rs 231.255 billion and administrative measures of Rs 15 billion. In total, the taxation and administrative measures comes to Rs 246.255 billion. The FBR has taken relief measures of Rs 12.040 billion. Out of Rs 231.255 billion new taxation measures, direct taxes measures of Rs 149.200 billion have been taken in budget. Sales tax and federal excise duty measures totaled Rs 47.700 billion. The taxation measures of customs duty totaled Rs 34.356 billion.

The relief measures taken on the customs duty side totaled Rs 1.740 billion; sales tax Rs 2 billion and relief measures pertaining to income tax stood at Rs 8.3 billion for 2014-15. The increase in rates of advance tax for non-compliant taxpayers would generate Rs 14 billion. The government would generate Rs 3 billion from 7.5 percent advance tax on domestic electricity consumers having monthly bill above Rs 100,000.

To penalize un-documented persons, the government has imposed an advance adjustable income tax, in addition to the tax collectable from return filers, be collected from persons who do not file income tax returns on certain transactions at rate of 5% for dividend income, 5% for interest income above Rs.500,000, 0.2 percent for cash withdrawals from banks and 0.5 percent in case of advance capital gain tax collected from seller of immovable property.

Through Finance Bill (2014-15), the government has imposed 17 percent standard rate of sales tax on rapeseed, sunflower seed and canola seed, 5 percent sales tax on oilseed for sowing, and raw and ginned cotton, withdraw 10 percent Federal Excise Duty (FED) on locally manufactured motor vehicles exceeding 1800cc and sales tax exemption to high efficiency irrigation equipment and green house farming equipment.

The government has reduced corporate tax rate from 34 to 33 percent for Tax Year 2015 causing revenue loss of Rs 7.7 billion. To attract, Foreign Direct Investment, generate employment and attract inflow of foreign exchange in Pakistan, the corporate tax rate is to be reduced to 20% if the investment is in a new industrial undertaking to be set up by 30.06.2017 and at least 50% of the project cost including working capital is through FDI as equity.

The rate of capital gains tax was to increase from 10% to 17.5% with effect from 01.07.2014. In order to avoid a sharp increase in rate which might negatively affect markets, the rates have been rationalized, and the CGT rates are proposed to be 12.5% for securities held up to 12 months and 10% for securities held for a period which is between 12 to 24 months.

To document and bring into tax net the real estate transactions it is proposed that an adjustable advance tax be collected on purchase of immovable property at the rate of 1% tax for complaint taxpayers and 2 percent for non-compliant persons. The measure is expected to generate Rs 10 billion. However, properties with value less than 3 million and schemes introduced by the government for expatriate Pakistanis will be excluded.

Sources said that the government will not charge 19.5 percent federal excise duty on telecom services in provinces, which are charging 19.5 percent sales tax on such services. Sindh, Punjab and KP would charge 19.5 percent sales tax on telecom services whereas FBR will not charge 19.5 percent federal excise duty on these services to avoid double taxation. The FBR has reduced FED on telecom services from 19.5 to 18.5 percent for Islamabad and Balochistan province. Beside, the government has announced reduction in rate of tax withheld on mobile phone charges reduced from 15 percent to 14 percent.

The government has imposed regulatory duty on luxury goods like cosmetics, chocolates, food preparations and prepared food stuff, beverages, mechanical and electrical appliances to generate Rs 500 million.

The FBR will generate Rs 2.5 billion from cement sector as Federal Excise Duty on the cement sector is being replaced from specific basis (Rs. 400 per MT) to 5 percent on retail price. The FBR has replaced capacity tax on aerated waters with normal tax regime i.e. 9 percent FED and 17 percent sales tax.

The international air travel would be subjected to fixed FED at Rs 5000 for economy & economy plus class and Rs 10,000 for club, business & first class. The local supply of ginned cotton would remain exempt from sales tax. The measure would generate Rs 3 billion.

Sales tax concession has been withdrawn on certain kinds of machinery imported by nine sectors generating additional revenue of Rs14 billion. The items are machinery, equipment and other items required for setting up, up-gradation and expansion of hotels (3 stars and above), tourism; sporting and other recreation services related projects as approved by the Ministry of Tourism; machinery, equipment and other capital goods for service sectors; machinery, equipment and capital goods imported for establishing wholesale/retail chain stores; air handling units; items imported by the manufacturing sector; heat ventilation air conditioner; machinery and equipment relating to broadcasting; machinery and equipment imported by surgical industry; machinery and equipment imported by cutlery industry.

Dispute huge number of bonus shares issued, the amount of tax paid on account of capital gains on bonus shares is very small. In order to discourage tax avoidance in this area, it is proposed that bonus shares be treated as dividend and taxed deducted at the rate of 5% the ex-bonus price of the shares.

Through Finance Bill (2014-15), Income Support Levy Act was promulgated through the Finance Act, 2013. The aim was to provide resources for the economically distressed persons. However, this measure has caused some concerns among public. It is therefore proposed to repeal the Income Support Levy Act, 2013.

There are certain distortions and inequities in the tax system and in such cases tax structure, rather than economic incentives, favours choice of one sector or manner of conducting business over the other. To remove such distortions in mutual fund industry it is proposed that Mutual Fund distribute dividend in cash only and that the rate of tax applicable to the dividend distributed by Mutual Fund be same as is applicable to class of income received by Mutual Fund. However, to encourage Mutual Funds the rate of tax on dividend distributed by Mutual Fund to companies in respect of interest income shall be 25% instead of 33% applicable to companies.

To discourage perpetual declaration of losses or very low income using tax avoidance means by companies, an alternate corporate tax @ 17% is proposed to be imposed on accounting income excluding the exempt income. The companies shall have to pay ACT or corporate tax whichever is higher. In order to facilitate companies that have genuinely low income for some period of time, the ACT paid is proposed to be carried forward up to 10 years, Finance Bill (2014-15) added.

Through Finance Bill (2014-15), the government has imposed 17 percent standard rate of sales tax on rapeseed, sunflower seed and canola seed, 5 percent sales tax oilseed for sowing, and raw and ginned cotton, withdraw 10 percent Federal Excise Duty (FED) on locally manufactured motor vehicles exceeding 1800cc and sales tax exemption to high efficiency irrigation equipment and green house farming equipment.

The government has withdrawn FED @ 10 percent on motor vehicles exceeding 1800cc. FED @ 10 percent was imposed on motor cars, Sports Utility Vehicles (SUVs) and other motor cars exceeding 1800cc through Finance Act, 2013. Increases in the prices have adversely affected sales tax resulting in decline in revenue besides hurting the local industry. Therefore, it is proposed to withdraw FED on locally manufactured motor vehicles exceeding 1800cc.

Business Recorder
4th June 2014

Police arrest tax consultant involved in fraudulent practices

ISLAMABAD: A unique kind of tax fraud has been unearthed by Regional Tax Office (RTO) Faisalabad involving a tax consultant doing fraudulent business transactions to evade sales tax and the scope of investigation has been expanded to 180 registered persons.

RTO Faisalabad has recovered over Rs 30 million sales tax from 85 accused out of 180 persons nominated in the FIR and further investigation is under way. The main accused Muhammad Asim, a 'fake' consultant has been arrested in FIR No. 4/214 and the tax involved amounted to Rs103 million.

Earlier, two accused namely Manzoor Ahmed and Suleman Khan, bona fide owners of M/s Sania Industries, Faisalabad and M/s Ghosia Maheria Textile, Faisalabad and their post-arrest bail were also dismissed due to strong evidence collected by the prosecution.

Over Rs 30 million sales tax was collected from 85 accused out of 180 nominated in the FIR No.4/2014.

Details of the case revealed that in pursuance of an information received regarding alleged fraudulent transactions made by Asim on behalf of the units, it has been observed that Asim and others made fake sales business transactions in the name of four units and were found involved in fraudulent purchases and subsequently facilitating the suppliers of textile sector to evade payment of tax as per SRO 283(I)/2011 as amended vide SRO 1125(I)/2011 which were actually made with unregistered persons and causing heavy loss to the exchequer.

The proprietor/owners of four units have informed the Chief Commissioner IR, RTO Faisalabad that units were registered with the Sales Tax Department and they hired Muhammad Asim s/o Muhammad Afzal for e-filing of sales tax returns and maintaining other sales tax record. Muhammad Asim got user ID and pin code of firms and using his own email address filed sales tax returns of our units. The so-called consultant is involved in some suspected activities. The fake consultant was requested to give copies of sales tax returns which were e-filed by firms to the department but he never provided the copies of sales tax returns to the owners and upon repeated phone calls he switched off his mobile. In response thereto, FIRs were lodged in different police stations against Muhammad Asim against fraud, misuse of firms pin password, etc, u/s 420,468/471 of PPC.

The case was fixed for hearing before Additional Session Judge Faisalabad who after hearing the case rejected the bail vide order dated.12.10.2013. The accused filed a petition in Lahore High Court for bail in two FIRs which were rejected by the court after hearing all the parties, including the representative of the FBR and now the accused is in Central Jail, Faisalabad.

In FIRs Muhammad Asim has stated/admitted that he e-filed sales tax returns and entered purchased invoice in sales tax return and himself issued sales invoices without the consent of owners and without making physical transfer of goods. The persons are also engaged in fake business transactions, ie, purchased paper invoices without making any physical transfer of goods.

It is clear that 'M/s Muhammad Asim', thus violated the provisions of sections 3,6,7,8,8A,22,23, 26 and 73 of the Sales Tax Act, 1990 and wilfully/deliberately caused the loss of tax amounting to Rs105 million by committing tax fraud as defined under Section 2 (37) of the Sales Tax Act,1990 which is recoverable from alleged unqualified consultant, all buyers mentioned in row No. 4 of preamble and other connivers under section 11 (3) along with default surcharge under section 34 of the Sales Tax Act, 1990 beside penal action under section 33 (5)(8) (11c) and (13) read with section 2(37) of the Sales Tax Act, 1990.

Therefore, the matter was referred to the competent authority to grant permission to register FIR u/s 37A & 37B of the Sales Tax Act, 1990 against Muhammad Asim & others and supplier of 10 units (as mentioned in the list) which was duly granted by the Chief Commissioner IR RTO, Faisalabad.On the basis of material evidence available in case file, a criminal case has been registered against Muhammad Asim along with all other beneficiaries/connivers.

Business Recorder
2nd June 2014

Effective from July 1 1pc WHT to be charged on purchase of property

ISLAMABAD: The government would charge one percent withholding tax on purchase of immovable property of all sizes, including plots, flats, houses, residential and commercial properties purchased at any time with effect from July 1, 2014.

Sources told that all sizes of immovable properties are covered under the withholding tax regime at the purchase stage through Finance Bill (2014). At the same time, there is no exemption from withholding tax on time period for purchase of immovable properties. The withholding tax would be collected at the time or registry or transfer of property. It is an adjustable tax and refund can be claimed on filing of income tax returns and wealth statements.

To document and bring into tax net the real estate transactions it has been proposed that an adjustable advance tax be collected on purchase of immovable property at 1 percent tax rate for complaint taxpayers and 2 percent for non-compliant persons. However, properties less than Rs3 million value and schemes introduced by the government for expatriate Pakistanis will be excluded.

Earlier, to overcome the administrative problems being faced in collection of Capital Gain Tax on disposal of immoveable property and to keep a track of the transactions of immoveable property adjustable advance withholding tax @ 0.5 percent of the consideration received on sale/transfer of immoveable property was levied on sellers/transferors of immoveable property under section 236C of the Income Tax Ordinance, 2001.

Advance tax collected under section 236C was introduced for the purpose of providing a mechanism for collection of capital gain tax on disposal of immoveable property.
The actual quantum of capital gain and tax payable thereon is to be computed at the time of filing of income return. Section

236C is not an independent provision and does not operate in isolation. Since Capital Gain Tax has been imposed only on disposal of properties held for a period of up to two years therefore, advance tax is also to be collected from sellers who held the immoveable properties for a period up to two years.
Prior to the 18th Constitutional Amendment Entry 50 of the Federal Legislative List contained in Part-I of the Fourth Schedule to the Constitution empowered the Federal Legislature to levy taxes on the capital value of the assets, not including taxes on capital gains on immoveable property.

The words "on capital gains" were omitted by the 18th Constitutional Amendment. The effect of omission of these words is that the Federal Legislature cannot impose taxes on capital value of immoveable property but can levy tax on capital gains on disposal of immoveable property.

In view of the modified constitutional position exemption to capital gains on the disposal of immoveable property held for a period up to two years was withdrawn by making amendments in section 37 of the Income Tax Ordinance, 2001 through the Finance Act, 2012.

Earlier, the rate of advance tax was introduced at 0.5 percent, now it has been proposed in the Budget 2014 that it should be 1 percent and 2 percent for NTN holder and Non-NTN holder, respectively.

Business Recorder
8th June 2014

Is PML-N following its tax principles?

Following our commentary last week that tried to assess whether budget FY15 reflects PML-N's vision, here is a quick view on whether the party is following the so-called tax principles it set out for itself. Presenting the budget last week, Finance Minister Ishaq Dar specifically spoke of six principles that guided him and his team in the preparation of that budget. Let's consider those principles one by one.

The first of these is that the share of direct taxes in overall taxes shall be increased. And indeed, so far as the numbers are concerned, the budget has moved in that direction. As a percentage of total FBR taxes, direct taxes have risen from 39 percent of budgeted and revised FY14 numbers to 42 percent in budget FY15.

But statistics tell you only so much. For one, there is no guarantee that the 32 percent budgeted increase in direct taxation will actually be realised. The provisional direct tax collection in FY14 is 9 percent lower than what was originally budgeted. Second, a sizable portion of the planned increase in direct tax collection comes on the back of those whose backs are already breaking.

Despite the annual 1 percent reduction announced last June, Pakistan's corporate tax is still one of the highest in the region and the concept of Alternative Corporate Tax at 17 percent of accounting income (if it's higher than standard tax payable) isn't going to make life any better, considering that corporates are already obliged to pay the levy of minimum tax at the rate of 1 percent even in the year of loss.

Relying on the country's most-documented sector to milk more revenues reeks of lazy and short-term thinking. This brings us to Dar's second and third principle that (a) the incidence of tax measures will be on those outside the tax net and those already in the net will be protected; and (b) the non-compliant taxpayers will have to bear a cost of non-compliance, which will raise their cost of doing business;
It is true that this time, there is a relatively more serious attempt to discriminate against those outside the tax net. Rates for a host of advance taxes and withholding taxes are higher for non-filers of tax returns than for those who file tax returns. More importantly, being an NTN holder isn't going to be enough, as one will have to be on the list of active taxpayers or otherwise hold 'taxpayers' privilege card' to be able to get away from higher rates of and advance and withholding taxes.

This is a clever move by Dar. However, many of these are living examples of how little trust the government has on the ability of its own revenue collection body. Asking airline operators or electricity providers (for sales tax on retailers) to collect taxes is akin to admitting FBR's innate weakness to move a limb and go out to get taxes itself.

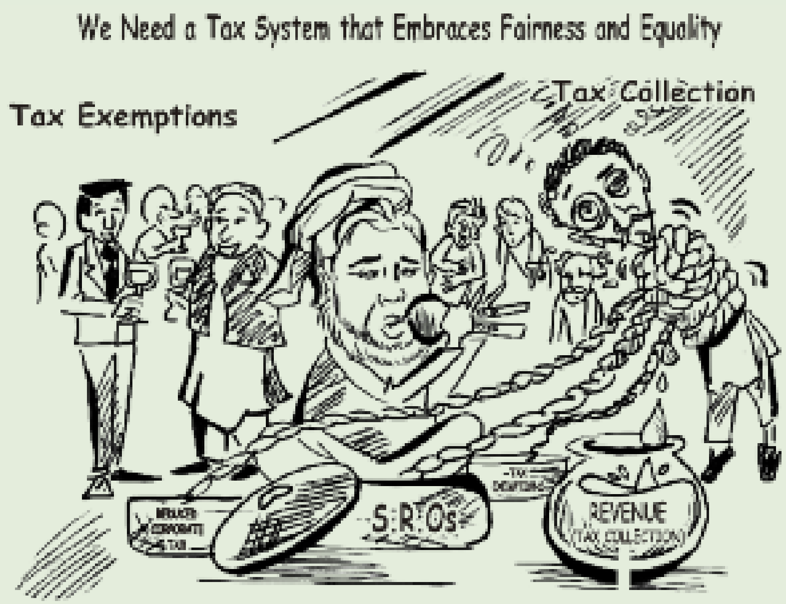
Sticking to sales on retailers, Adnan Mufti, a tax expert at Shekha & Mufti Chartered Accountants, points out an important practical problem. He says that the imposition of sales tax through electricity bills will require detailed exercise and scrutiny to be carried out by the FBR field formation with the help of electricity transmission and distribution companies for correct identification of retailers. "For instance, problems would emerge where electric connection is not in the name of retailer operating the business," he said.

Dar's fourth principle is that tax regime will be simplified and inequities created under SRO-based concessions and distortionary provisions will be removed through a phased plan. Well, considering that the FY15 budget touches upon seven SROs to that affect (out of 1000 plus SROs), one may stretch the definition of giving a benefit of the doubt and say that there has been some progress on that front. Still, there are miles to go before Dar sleeps, and since the so-called phased plan hasn't been brought fore to the public, one may as well remain skeptical as scores of SROs and provisions in the income tax law that give extraordinary benefits to the elite have not been withdrawn.

Before we jump right ahead to the sixth principle, let us make a point that Dar's fifth principle - "the tax revenues will be increased so as to improve the tax-to-GDP ratio" – is not even a principle. It can be called an outcome or a desired goal, but not really a principle.

Finally, if there is one thing that Dar has really progressed towards is his sixth vision which says that incentives will be provided for facilitating foreign investment in the country, development of less-developed areas, agriculture sector etc.

A cursory look at the budget reveals that



this element of Dar's tax vision has been more successfully achieved than his other principles. Incentives have indeed been given to foreign investors thinking to invest in Pakistan's manufacturing, housing and construction sectors, and to those operating in Gilgit-Baltistan, Balochistan and Malakand, etc. Whether foreign investors would be lured by it is an entirely different question.

Business Recorder
9th June 2014

FBR chief tells Senate body Top 10,000 retailers to be brought into Tax net

SOHAIL SARFRAZ

ISLAMABAD: Chairman Federal Board of Revenue (FBR) Tariq Bajwa has informed the Senate Standing Committee on Finance that top 10,000 retailers would be brought into the tax net under the new scheme proposed through Finance Bill (2014-15).

During the review of the Finance Bill (2014-15) here on Monday, the FBR Chairman said that at present 2.5 million retailers are operating in the country. Out of total figure, only 8,000 are registered with the sales tax department. The government has initially set the target of bringing top 10,000 retailers into the tax net. A new scheme for the retailers has been drafted in consultation with the relevant trade bodies of retailers.

Under the new scheme, the tax department would register the retailers in chain stores, shops in air-conditioned buildings and those accepting credit and debit cards with the tax department. Two tier regimes for sales tax has been proposed for retailers. The first tier shall comprise retailers who are part of national or international chains, or are located in air-conditioned shopping malls, or have credit or debit card machines, or having electricity bill exceeding Rs 50,000 per month for the past 12 months. They will be required to pay sales tax under the normal regime and to install Electronic Cash Registers. The remaining retailers shall fall in the second tier, who will be charged sales tax through their electricity bills at the following rates - 5 percent of monthly electricity bill up to Rs 20,000 and 7.5 per cent of monthly electricity bill above Rs 20,000.

The FBR Chairman said that the FBR has paid income tax refund of Rs 60 billion during the first eleven months of 2013-14 against Rs 43.5 billion paid in the corresponding period of previous fiscal year reflecting a handsome growth of 32 per cent.

When asked about tax exemptions available to the telecom sector, a FBR Member informed the committee that no exemption is available to the said sector. The FBR has not given any special tax treatment to the telecom sector.
The committee recommended that the regulatory duty may be imposed @ 25% as valorem on export of re-melted lead to save local battery manufacturing industry. The SRO 594(1)/2009 dated June 25, 2009 was amended vide SRO 578 (1)/2012 dated June 01, 2012, thereby, imposing regulatory duty @ 25% on export of lead under DTRE scheme.

The Engineering Development Board (EDB) has fixed input-output ratio of recycled lead recovery from used batteries at 100:55, whereas, the leading exporters are mis-declaring recovery of recycled lead from used batteries at 88%, thus evading duty on export of differential quantity of 33% (88%-55%) purchased from local market. The exporters in the DTRE are importing scrape batteries and Exporting Lead at under invoiced value causing loss to national exchequer.

Exporters under the DTRE scheme import scrape batteries with other waste materials like iron and steel scrap in the same container to evade custom duties on other scrape materials and are claiming excessive quantity of scrap batteries in the DTRE / Manufacturing Bond.

At the time of export of lead, exporters declare lower weight than actual quantity exported, so that their manufacturing bond remains in surplus to scrap batteries imported.

The above duty was imposed on June 01, 2012 and on August 09, 2012, within two months the provisions of SRO 594 were again invoked and regulatory duty on export of lead in the DTRE Scheme has been withdrawn.

The committee recommended that duties/taxes/GST should be withdrawn on green houses equipment, high efficiency irrigation system and solar panels and pumps.
It is roughly estimated that about 40% of Pakistan production of fruit and vegetable has been lost mainly because of lack of storage facilities. It is therefore, suggested that the Senate of Pakistan recommends to the National Assembly of Pakistan to give tax relief on cold chain development and cold storage facilities.

Dates worth billions of rupees in Makran Division and Balochistan, Cherry, Apricot, Trout and other fresh fruits from Gilgit-Baltistan are lost every year due to absence of market linkage. It is therefore suggested that the Senate of Pakistan recommends to the National Assembly of Pakistan to provide air freight services for market facilitation of these products from Gawadar, Gilgit and Skardu. There is a great potential for the processing industry in Makran Division and Gilgit-Baltistan. It is therefore, suggested that the Senate of Pakistan recommends to the National Assembly of Pakistan for giving special tax incentives/tax holidays for establishment of processing industry in Makran Division and Gilgit-Baltistan, committee recommended.

Business Recorder
10 June

Dar criticized for failing to revive wealth tax, raising GIDC

ZAHEER ABBASI

ISLAMABAD: Finance Minister Ishaq Dar has came under strong criticism for his failure to revive the wealth tax and massive increase in Gas Infrastructure Development Cess (GIDC) and Petroleum Levy, amid fears that these measures would further fuel inflationary pressure in the country.
Senator Sughra Iman said that Finance Minister as opposition member had always remained a strong advocate of reviving wealth tax, but appears to be in no mood to impose wealth tax after coming into power, "which can cover all

kinds of moveable and immoveable properties." The Committee proposed that petroleum levy should either be reduced or abolished and asked the government to withdraw proposed massive increase in GIDC to mobilize Rs 145 billion non tax revenue in the next fiscal year. The Committee decided to take up the matter of a phenomenal increase in GIDC with Finance Minister as increase would spike more inflation.

Senator Ilyas Bilour said that GIDC is unrealistic and is going to deprive smaller provinces. Bilour lamented that Finance Ministry has increased the GIDC without the consent of Parliament.

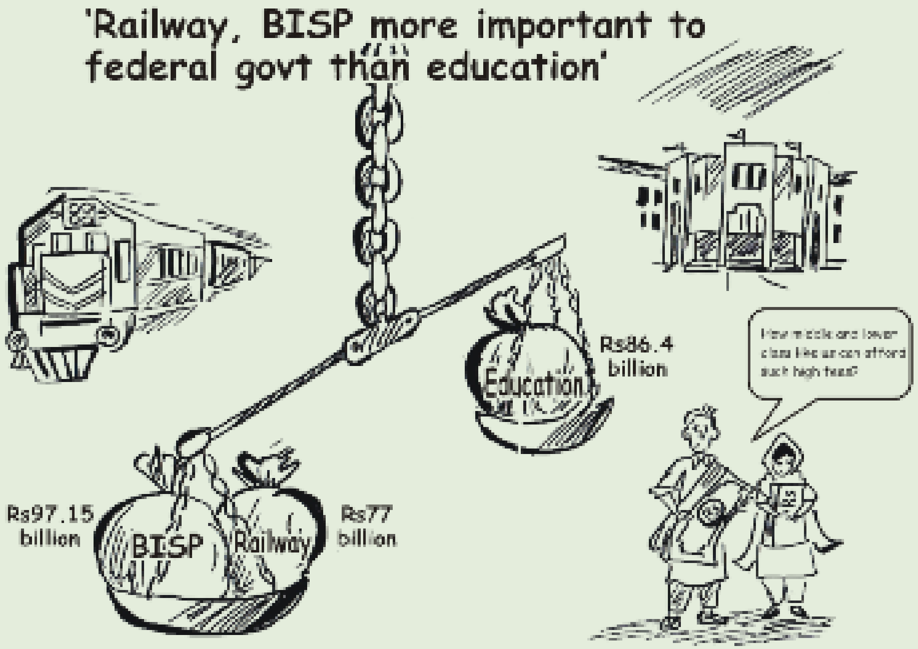
"The committee recommended Senator Ilyas Bilour's proposal that GIDC is an Act of Parliament and should not be part of Finance Bill. Initially, it was charged at the rate of Rs.13/MBTU but the present government had illegally increased it to Rs.100/ per MBTU. Now through Finance Bill, the government has proposed to increase it from Rs.450/MBTU to Rs.996/MBTU (more than 100%). These measures are negating Article 158 of 1973 Constitution of Pakistan. So it is proposed that these measures must be withdrawn. The Finance Secretary said that the government collects Rs 8 as petroleum levy each litre of diesel and Rs 10 on each litre of petrol which cannot be reduced as it is used as a tool to control petroleum prices. He said that government has not increased the price of petroleum products during the last few months and suffered a monthly loss of Rs 1.8 billion on account of PL.

Senators said that because of petroleum levy, prices of petroleum products have increased. This in turn exacerbates inflationary pressures in the country. Some members were of the view that the government collects Rs 25-30 on each litre of petroleum products through petroleum levy.

Secretary Finance preferred not to state anything on record about the price quantum of power tariff increase after a massive slash of Rs 115 billion in power subsidy. He also remained tight-lipped to a query of Saleem Mandviwalla, former finance minister, about the government plan to settle Rs 300 billion circular debt because no allocation was made in the budget for this purpose. Former Finance Minister said that he would like to know whether the government is going to adopt the process that it had adopted to retire Rs 480 billion circular debt; or it intends to take some other course, such as increase in electricity tariff. Secretary Finance remained tight-lipped and preferred not to respond to his question.

The Senate Standing Committee also recommended that all the incomes including agriculture tax should be brought into tax next, however, a ruling party's senator, Nuzhat Sadiq, opposed that federal government should be authorized to tax agriculture income.

Business Recorder
11th June 2014



Taxes and Dar

Federal Finance Minister Ishaq Dar stated before the Nasreen Jalil chaired Senate Standing Committee on Finance that provinces are not ready to authorise the federal government to impose or collect agriculture income tax. Nasreen Jalil (MQM) is from the only party that during the over one year long debate that succeeded in evolving a consensus leading to the 18th Constitutional Amendment had written a dissenting note with respect to not allowing the federal government to levy a farm income tax. It maybe recalled that Ishaq Dar, also a member of the then Rabbani-led constitutional reforms committee, had opposed the MQM's recommendation.

Be that as it may, Dar's statement to the Standing Committee on Finance is unfortunate for two major reasons. First and foremost, the PML-N has been in government in the Punjab for over six years now has deliberately avoided to levy a farm income tax at the same rate and in the same manner as that levied by the federal government on other sources of income. This indicates the party's preference for political mileage as opposed to the province's economic compulsions. It is unfortunate that the Punjab government opted to impose a flat tax on property in expensive urban areas (a tax that was challenged as many residing in posh localities have inherited the property) rather than to impose a tax on the income of rich landlords – not on inputs, not on output and not on losses as argued by the rich landlords in the country's provincial and federal assemblies but on the net income generated from their productive farm activities. Thus a total collection of 700 million rupees by Punjab from a farm tax last year is appallingly low as rightly stated by Dar as Punjab is widely regarded as the country's bread basket with 56 percent of the country's total population and agriculture accounting for 21 percent of the total Gross Domestic Product (GDP).

Secondly, the reluctance of Punjab to lead the way in farm tax collections is as appalling as Dar's inability to raise revenue generation through reforming the existing flawed taxation system skewed heavily in taxing the already taxed and through heavier reliance on indirect taxes whose incidence on the poor is greater than on the rich. In this context, it is relevant to note that Dar opted to defer a decision painstakingly cobbled together after consultations with the key stock market players by Dr Hafeez Sheikh to increase capital gains tax (CGT) in a phased manner and by 1st July 2014 to levy a CGT of 17.5 percent. Dar, in his budget 2014-15 speech stated that to ensure continued stability in the stock market, it is proposed that with effect from 1st July 2014 rates shall be 12.5 percent for securities held up to 12 months and 10 percent for securities held for a period between 12 and 24 months. In other words, a tax with a capacity to generate 100 billion rupees in one year (with CGT a considerable source of annual government revenue in India and other countries) generated under 2 billion rupees in the current year with the revenue impact of the budget 2014-15 remaining neutral for the next year. This is extremely unfortunate as it fuels speculation that Dar, like Shaukat Aziz, opted not to tax the sector to get the 40 odd key market players to manipulate the stock market in his favour, which he has often cited as an indication of the success of his policies.

In addition, Dar's tax for 2014-15 relies heavily on avoidance of scrutiny by the Federal Board of Revenue (FBR), thereby favouring withholding tax in the form of advance tax on first and business class tickets (at 3 percent), on purchase of immoveable property (one percent for compliant and 2 percent for non-compliant) and on electricity bills over one lakh rupees per month (at the rate of 7.5 percent), on car registration, cash withdrawals etc. In other words, attempts to document the parallel economy have fallen, once again, by the wayside which no doubt would concern the International Monetary Fund which had suspended the 2008 Stand-By Arrangement (SBA) for the failure of the then government to implement tax reforms whose major component was to enhance documentation. One would hope that Dar has a plan to enhance documentation which is not contained in the budget documents.

To conclude, one would hope that the Finance Minister would reveal his plans to enhance documentation in months to come and at the same time he would begin to impose taxes on those who can afford to pay (including the stock market players). At the same time one would hope that the provincial governments, particularly Punjab, takes the lead in implementing a farm tax that is comparable to the rate paid by the salaried class who are considerably poorer relative to the absentee landlords who are heavily represented in the nation's provincial and national assemblies.

Business Recorder
14th June 2014

All sources and sectors

Senate for imposition of income tax on all taxable incomes

RECORDER REPORT

ISLAMABAD: Senate has recommended to the National Assembly that income tax should be imposed on all taxable incomes from all sources and sectors without any discrimination. It has also urged the lower house of parliament to double withholding tax on purchase of immovable property from 1 to 2 percent for compliant taxpayers and 2 to 4 percent for non-compliant, grant special tax incentives/tax holidays for setting up processing industry in Makran Division and Gilgit Baltistan, abolish duties/taxes on import of tractors and withdraw sales tax on agricultural inputs and a 10 percent withholding tax on National Saving Schemes (NSS).

In its recommendations to the National Assembly, Senate recommended to the National Assembly that Duties/GST/Taxes should be withdrawn on import of Tractors, Combined Harvesters, Rice and Vegetable Transplanters, Pulses Harvesters, Thrashers, Wheat Sowing Drill, Laser Leveler and Disk Harrows, and sales tax on agricultural inputs and implements be abolished.

The 130 recommendations of the Upper House presented by Chairperson of the Senate Standing Committee on Finance Nasreen Jalil, which the house adopted unanimously, as leader of the house Raja Zafar-ul-Had said that these recommendations will immediately be transmitted to the National Assembly for possible consideration in the amended Finance Bill 20014.

The Senate recommends to the National Assembly that tax relief should be given on cold chain development and cold storage facilities. It recommended that advance tax on purchase of immovable property for compliant taxpayers be increased from 1 percent to 2 percent and to 2 percent to 4 percent for non-compliant taxpayers.

It further recommended that advance tax on purchase of immovable property for compliant taxpayers be increased from 1 percent to 2 percent and to 2 percent to 4 percent for non-compliant taxpayers.

The Senate also recommended to the National Assembly that the ceiling of Rs.3 million on Pensioners Accounts and Bahbood certificates of the National Saving Schemes be raised to Rs. 5 million per individual.

It recommended that sales tax and duties on Aerators, Shrimp Feed, trout/tilapia and their seedlings, Fish Feed Water Quality Test Kits, solar pumps should be withdrawn and duty on import of Shrimp Feed and Fish Cage Material should be abolished.
The following are unanimous budget recommendations of the Senate in the Finance Bill to the National Assembly for 2014-15:

The Senate recommended to the National Assembly that tax laws be amended in such a way that withholding exemptions in the smelting industry are not allowed to a taxpayer if his 80% or more purchases are not subject to withholding tax.

Exemption for Sales Tax and Income Tax on the import of storage batteries under H.C. codes numbers 8507.0000, 8507.2090, 8507.3000 and 8507.8000 should be withdrawn according to the recommendations of National Tariff Commission (NTC), to protect the local manufacturers;

A regulatory duty be imposed @ 25 percent ad valorem on export of re-melted lead to save the local battery manufacturing industry.

To improve road links between Taxila and Haripur, Taxila — Haripur via Khanpur Road be widened and asphalted;

To reduce distance and improve reach to the remote area of Clinger, a bridge be built from moza Chakani to Murradpur located at Chapar Road Clinger, District Haripur;

The repair work of the road from Raikot to Thakot Section on Karakorum Highway be initiated;

Babusar Tunnel from Chillas to Naran be constructed as soon as possible;

The work on Express way from Hassan Abdal to Bisham be initiated at the earliest;

As Khanjrab Top is closed from December, 2013 to April, 2014 and link from Pakistan to China is blocked due to a heavy snowfall, the government may take measures for removing snow on the Pakistan side by arranging snow ploughs so that traffic can flow un-interruptedly

As the Lowari Tunnel is not functioning properly specially in the Dir to Chitral Sector, measures need to be taken in this regard. Also, an amount be allocated in the budget for the completion of Lowari Tunnel this year;

A university should be established in District Kohistan to cater for the educational needs of the population;

In order to meet the increasing demands of power consumption, a 50MW Grid Station be established in District Kohistan;

As in the Mianchar area of District Hunza, Gilgit-Baltistan, the mountains pose a potential threat to Mianchar Village due to land slides and may also lead to damming of Hunza River causing flash floods, therefore, necessary plans should be made for the mitigation and redressal of this potential thread from land sliding which could cause another disaster like accidental formation of the Attabad Lake;

For alleviating the problems of security guards and security companies, the following steps should be taken:

Proper regulatory authority control of security companies and strict implementation; minimum pay of Rs 25000 per month; duty hours not more than eight hours; EOBI social security coverage to be provided; life insurance provision; provision of appropriate medical facilities/other benefits; minimization at bureaucratic hurdles in acquisition of NOC from all provinces, ICT and Govt. AJK, and weapons licence; and expeditious police verification of security guards.

A targeted subsidy should be provided on nitrogenous, phosphates fertilizers and micronutrients so that productivity can be increased and the agriculture sector could be stimulated;

To provide air freight services for market facilitation of Dates, Cherry, Apricot, Trout and other fresh fruits from Gwadar, Gilgit and Skardu;

The import duty on poultry products should be increased by 50% especially for products imported from Malaysia and China;

To increase the working capital of ZTBL by 50 percent to ensure the provision of sufficient credit facility to the farmers' community;

To increase the ceiling for agriculture loans per produced index units by 50 percent;

The government should announce a policy for support prices and intervention in major cash crops including cotton and tobacco to ensure a fair return based on the calculation of the cost of production per acre;

The remaining funds for Makhi-Farsh Link Canal Project Chotiari Phase-II should be released during the current Financial Year so that the scheme may be completed;

The subsidy on diesel should be given for those areas where ground water is being lifted through lifting machines;

Necessary arrangements should be made on an emergency basis for enacting the law on breeding rights so that the issue of shortage of good quality seeds could be addressed;

The proposed allocation of Rs 64.014 million for education be reviewed and doubled at least and the federal government should also establish a tertiary level high quality institutes;

The allocations for Water Resource Development be increased significantly as the amount allocated for a large number of Water Resource Development projects announced, is not sufficient;
The amount allocated for crop insurance be increased to protect the investment of a greater number of the small farmers against unforeseen calamities;

A new economic relief package be granted for the terrorism-affected province of KPK, like the economic relief package which was earlier granted to the province through Finance Bill, 2010, while the government has imposed different taxes instead;

Rs 2 billion should be allocated for those areas of Peshawar District which have not been provided the facility of gas and electricity;

Munda Dam, Kurram Tangi Dam and Warsak Dam should be completed on a priority basis and allocation in the PSDP be made accordingly;

A 132 KV Grid Station should be installed in District Bannu, and the 86 KV Grid Station in Kurram Garhi, District Bannu be upgraded to 132 KV;

Natural gas be supplied in Union Councils: 1. Shahbaz Azmat Khel, 2. Jando Khel, 3. Ghoriwala, 4. Shamshi Khel; 5. Kot Qalandar (Began, Shagi Machan Khel, Tarkhe Wala, Gaba Khel), 6. Khandar Khan Khel, 7. Zairakai Peerba Khel, 8. Spaireka Waziran, 9. Aral Aadi Khel-I, 10. Aral Aadi Khel-II Domail, 11.Bazan Khel;

The increase in pay and pensions of government servants (civil and military) be increased by 25 percent, as the meagre increase of 10 percent is not enough to provide relief to the hard pressed salaried and retired individuals, and the Ad hoc Relief Allowance be made a part of the basic pay of government servants;
Petroleum levy should be distinctively applied through a mechanism whereby the product cost becomes more for the rich and less for the poor;

Income tax should be imposed on all taxable incomes from all sources and sectors without any discrimination;

A subsidy should be paid/increased for electrical charges for tube wells of small farmers, but it should not be permitted on large holdings or absentee landlords;

The proposed allocation of Rs.10.017 million for health affairs and services be reviewed and be doubled at least. The allocation for health needs to reach 5 percent of GDP at the earliest so that the commitments related to MDGs can be fulfilled;

A subsidy to Utility Stores Corporation of Rs 7000 million be raised to at least 15000 million in order to provide better relief to the public during Ramazan;

The subsidy on sale of wheat to Fata be reviewed and raised from the present allocation of Rs. 293 million to Rs 400 million;

A special allocation for provision of clean drinking water should be made for availability of this basic necessity to people;

The monthly stipend under BISP for needy women should be raised from the proposed Rs 1500 per month to Rs 3000;

GST on edible items of everyday use such as rice, atta, Ghee, pulses and lentils should be reduced to 5 percent, and to make up for this shortfall, GST should be increased to 25% on luxury items such as perfumery, cosmetics, crockery, bathroom fittings, sporting arms, air conditioners and domestic electrical items;

Targeted subsidies should be provided to bring down the prices of basic food stuffs like rice, atta, ghee and pulses, to reduce the impact of inflation;

The 10 percent increase for Grade 1-15 in medical allowance should be raised to 25 percent and conveyance allowance from 5 percent to 10 percent;

There should be no increase in electricity charges and targeted subsidies should be provided in the power sector until the electricity generation system improves;

The allocation of Rs. 6 billion for Prime Minister's Low Cost Housing Scheme should be reviewed and raised to Rs 15 billion to increase the number of low-cost houses for the poor people;

Ample funds should be allocated to revive the Circular Railway, Karachi;

Funds be allocated for K-4260 MGD additional water supply project in Karachi for its timely completion during this fiscal year;

Special funds should be allocated for mass transit and infrastructure development projects in Karachi;

Infrastructure development in primary and secondary cities should be undertaken on a war footing to make them engines of growth;

Projects of mass transit programmes should be initiated for both metropolitan and municipal districts;
Measures be taken for promotion of an organized micro-finance sector;

Venture capital financing be initiated;

Steps be taken to initiate and encourage cooperative farming;

'Meaningful' agricultural reforms should be initiated;

Small and medium enterprises should be encouraged;

Labour-intensive and value added industries should be encouraged and established;

The employment quota for women should be progressively increased every year, so that within the next five years, it is increased to at least 35 percent, and women must be encouraged and facilitated to play their rightful role in contributing towards economic growth and the well-being of the nation;

All financial institutions should spend 5 percent of their net profit for promotion of education and poverty reduction;

All financial institutions, big multinationals, Government departments, universities, cities and towns should encourage sports activities to raise the standard of sports in the country;

The Annual Budget be tabled in March

every year so that it can be debated in the Parliament for 3 months;

Mid-year Budget Review should be made mandatory and debated in Parliament along with supplementary approval on all money matters;
Afghan Transit Trade be most vigilantly supervised, so that smuggling can be evaded and effectively checked to reduce its adverse impact on domestic trade and industry along with huge losses in revenue;

The policy of promotion of small and medium enterprises should be revitalized and a series of SME Model Estates be established in all the provinces, FATA and Gilgit-Baltistan to provide essential facilities, like land, finances, infrastructure support, managerial training and credit facilities;

The Planning Division and the Aviation Division should expedite the completion of Gwadar Airport whose initial PC-I was approved for Rs 8 billion;

Funds be allocated for electrification and gasification of all areas of Balochistan;

A monitoring system/procedure be devised for the Federal Government projects in the provinces, particularly in Balochistan, so as to ensure avoidance of wastage/corruption of funds;

The facility of move-over to the next higher grade/scale to the civil servants be restored;

A university should be established within Fata and one in any other part of Pakistan for the students of FATA and work in this regard should be initiated urgently. Moreover, at least two big hospitals should also be built at a central place in Fata;
Seats should be allocated for ten thousand students of primary level for admission in schools situated in other parts of the country along with funds allocation for their free education;
Federal government should provide exemption on duty on all types of extraction machinery for natural resources, and exemption on taxes including bank loans on easy terms and conditions, to control unemployment and initiate progress;

Funds be allocated in the budget for development of water resources in Fata;

Gas Infrastructural Development Cess (GIDC) is an Act of Parliament and should not be a part of Finance Bill. Initially it is charged at the rate of Rs 13/MBTU. The present government has increased it to Rs.100/ per MBTU. Now through Finance Bill 2014 it is proposed to increase it from Rs 450/MBTU to Rs.996/MBTU (more than 100%). These measures must be withdrawn;

The exemption for the import of machinery for Fata should be extended to 10 years;

The Federal Budget allocation for Hydro Projects in Khyber Pakhtunkhwa share, which is 6 billion for Golan Goal, Rs 3 billion for Khan Khwar and Rs 8.0 billion for Tarbela Extension Phase IV, which becomes Rs 17 billion equal to 39.5 percent of total allocation, should be increased accordingly as potential hydel sites are situated in the Khyber Pakhtunkhwa;
. Various relief measures announced by the government for Textile Sector in the Budget including reimbursement of all pending refunds within three months and reducing mark-up rate on Export Refinance should be extended to all sectors;

The federation should hold regulatory functions and projects in the Federal Capital, Fata, Gilgit-Baltistan and AJK relating to health and education and the remaining allocation be transferred to the divisible pool;

The Article 172(3) of the Constitution should be implemented;

The Provincial Surplus may be retained by the provinces;

Hydel profit calculated according to the AGN Kazi formula should be credited to the province where hydel projects are located;

Utility Store Cards should be issued on the basis of Poverty Assessment Survey under BISP and a 30 percent discount on all items may be given through this mechanism;

EOBI pensions should be increased to Rs 6,000 per month to bring it at parity with the minimum pension announced by the government and a legislation should be introduced to give effect to this increase;

A comprehensive National Plan for reducing power losses be drawn up in consultation with Discos and NTDC, and an allocation for the feasibility study and a plan implementation should be made in the current budget;

Inter-sectoral distortions in the tax regime should be addressed by the Tax reform Commission and a report should be submitted to the Parliament within six months, so as to give it effect before the close of the financial year 2014-15;

All investors (foreign & domestic) should be treated at par regarding corporate income tax rate; all companies showing zero taxable income should be audited annually or at least once every 3 years and every company registered with SECP should be required to file income tax returns;

All civil servants (including FBR) officials that are non-filers should be suspended till they are in compliance with income Tax Laws;

The payment for Circular Debt needs to be addressed in the budget until a mechanism to overcome the issue is implemented as it is not reflected in the overall subsidy figures;

Chashma Right Bank Canal in Khyber Pakhtunkhwa and Kachi Canal in Balochistan should be funded on a priority basis;

10 percent of the annual PSDP should be allocated for the Bhasha Dam project;

A necessary allocation should be made for completion of Gwadar Drinking Water project within this fiscal year; the route alignment of Pak-China Economic Corridor should be approved by the Council of Common Interests;

An allocation in PSDP should be made for the repair of N5S Indus Highway and it should be made an expressway, as it is a critical national road link;

Zhob to DI Khan Highway Link including Zhob Bypass should be included in the PSDP, and PSDP allocation for Qamardeen Karaiz Gateway should also be made;

Malakand Tunnel Project should be initiated and also PSDP allocation be made accordingly;

An allocation in PSDP be made for rebuilding of Chakdara to Kalam N95 road destroyed by floods;

Funds be allocated in PSDP for the rehabilitation of N45 Chakdara to Timurgara, Akhagram to Dir and Dir to Chitral;

A PSDP allocation for Khawajakhela to Bisham road project should be made;

The allocation should be increased for Greater Water Supply Quetta so that the project is completed during this fiscal year;

The PSDP allocation for N85 should be increased (Hoshab Nag Basima Surab Road);

The existing allocation from PSDP for Teachers Training Institutions and Training of Elementary School Teachers in Balochistan should be increased;

The construction of the road from Sui to Uch Field Dera Bugti should be completed and balance amount be allocated in PSDP;

The existing PSDP allocation should be increased for Construction/Up-gradation of Dirgi Shabozai to Taunsa Road Balochistan;

An allocation from PSDP should be made for the establishment of University of Loralai;

All projects under Aghaz-e-Huqooq-e-Balochistan should be provided adequate funding in PSDP and PKR 1.5 billion should be allocated in the Balochistan package for Awaran, Loralai, Chaghi, Dal Bandine and Zhob;

PSDP allocation should be increased for solar tube wells in Balochistan;

A 10 percent profit on the delayed payments of Rs.110 Billion from July 1991 to June 2005 which is due from WAPDA & Federal Government to Government of Khyber Pakhtunkhwa as per decision of the Tribunal be paid to Government of Khyber Pakhtunkhwa at the earliest;

The cap amount of net hydel profit Rs.6 Billion since 1991 has not been released during 2013-14 and the last two quarters of 2012-13. This amount should be released to Government of Khyber Pakhtunkhwa at the earliest;

All monies received from the friendly countries should be utilized in all provinces according to the divisible pool formula;

Since the signing of the water accord in 1991, Punjab and sometimes Sindh are also utilizing 2.8 million acre feet water of Khyber Pakhtunkhwa free of cost, but this water is not provided to Pakistani farmers of Punjab and Sindh free of cost. Both provincial governments are charging water rates from farmers and after the crops grow they charge malia also. Government of Khyber Pakhtunkhwa has calculated that amount collected as water rates was 48 billion from 1991 to 2009-10. Now this amount is about 67 billion. Therefore, this should be paid either by provinces or the federal government to the Government of KPK. However, malia may be kept by the above referred provinces.

The development funds released by the previous government for the members of parliament were frozen by the Supreme Court during the interim government period. Now the Supreme Court has ordered that Prime Minister can issue the frozen funds for completion of such development schemes. Therefore, the said funds should be issued immediately for early completion of the said schemes;

The minimum pension for widows of armed forces personnel should be the same as in the rest of the country;

A statement showing past actual expenditure of at least two completed years, together with budget of current years and the next financial year should be made available in the Budget in brief in future;

The Federal Bureau of Statistics (FBS) should be given more autonomy and its direct control by the Finance Minister should be curtailed;

The employees of the Senate Secretariat may also be granted honorarium as a reward for their hard work during the budget session like the National Assembly Secretariat employees;

The households of 100 villages of Northern, Central and southern Balochistan each should be electrified with solar energy;

LPG or LNG plants should be installed in all districts headquarters of Balochistan for good socio-economic development;

Zhob-Mughalkot road project should be started at the earliest as funding has already been approved by ADB;

Zhob city bypass project should be included in the PSDP, 2014-15;

Mughalkot-DI Khan road project should be included in the PSDP;

A university in Zhob should be established by the federal government;

The posts of Assistant be upgraded from BS-14 to BS-16, posts of UDC be upgraded from BS-9 to BS-14 and posts of LDC be upgraded from BS-7 to BS-9;

Adequate releases in the budget allocation of Ministry of Science & Technology should be made for the coming fiscal year as the development budget of the Ministry amounting to Rs 903.853 million is insufficient for the priority science & technology sector, and will result in a delay in projects completion, also rendering the employees of these projects jobless and wastage of precious funds;

OTHER RECOMMENDATIONS

The Senate recommends to the National Assembly that tax will not be withheld under section 153 (1)(a) on:

payments for purchase of scrap by steel melters, steel re-rollers, composite steel Units. The proposed amendment provides that such exemption is applicable if tax is collected, however reference to specific section under which such tax is to be collected has not been specified. It appears that the legislative intent was to refer newly proposed section 235B; and

payments received by ship-breakers for

ships imported after July 1,2014.

The Senate recommends to the National Assembly that any change with regard to Gwadar Port connectivity be reversed and the old route should be retained.
The Senate recommends to the National Assembly that Amounts allocated to Provinces in the Federal Budget shall be guaranteed and should not be reduced on account of failure of FBR to meet revenue targets.

Business Recorder
16th June 2014

Agri income tax Provinces not ready to authorise FBR: Dar

ZAHEER ABBASI

ISLAMABAD: Provinces are not ready to authorize federal government to impose tax on agriculture income, said Finance Minister Ishaq Dar .

Speaking before the Senate Standing Committee on Finance with Senator Nasreen Jalil in the chair to discuss the proposals of members for recommendations in Finance Bill 2014, Ishaq Dar said it would be a violation of Constitution to collect tax on agriculture income through Finance Bill. The Minister said that tax collection by the provinces on agriculture income remained very poor as only Rs 700 million have been collected in Punjab while Rs 300 million in Sindh. Dar said that such a low collection by a sector that has 21 percent share in the GDP is a matter of concern. The Minister said that any further increase in salaries and pensions is unlikely due to fiscal sonstraints and this situation would continue for the next three years.

The chairperson of the committee in her opening remarks said that the budget does not offer anything to the poor and the tax collection seems stagnant at 8 percent of the GDP as Federal Board of Revenue (FBR) has completely failed to broaden the tax net. Jalil further stated that load-shedding continues like in the past with no sign of improvement in the situation during the last one year. She said it was unclear as to how electricity and gas shortages would be managed in the next two years.

The Finance Minister reiterated that tax authorities would be able to twice downward revised revenue collection target of Rs 2275 billion for the current fiscal year and electricity consumers that use 200 units monthly would be provided subsidy. The government would have to provide a Rs 285 billion subsidy to protect consumers using 200 units monthly. The Minister said that the federal government would begin a deduction of 25 per cent of provincial electricity bill through federal adjuster from July 1, 2014 and assured the committee that 10 to 11,000MW electricity would be added to the system over the next three years and both Dasu and Diamar Basha Dam would be constructed. Dar stated that Pakistan does not need to take an NOC from India for construction of Diamar Basha dam.

The Minister said that 50 per cent of the country's population on the basis of two dollar daily income is living below poverty line, which needs to be taken care of. He said the government has earmarked Rs 118 billion in the budget for Benazir Income Support Programme (BISP) to provide financial support to over 5 million families.

Business Recorder
10 June 2014

Provincial budgets contain disparity in ST rates on services

RECORDER REPORT

ISLAMABAD: Sindh has reduced sales tax on services from 16 to 15 percent, Khyber Pakhtunkhawa from 16 to 10 percent on a few services while Punjab has retained 16 percent in 2014-15 against the standard rate of 17 percent at federal level.

A comparison of provincial budgets of Sindh, KP and Punjab revealed that a disparity in sales tax rates on services has been witnessed in provincial budgets of 2014-15. The KP has set Rs 12 billion as sales tax target from services in 2014-15, ie, 100 percent increase as compared to 2013-14 and the provincial collection of Sales Tax on Services of Sindh has been estimated at Rs 49 billion for 2014-15. The budgetary estimates (2014-15) for Punjab Revenue Authority (PRA) have been pitched at Rs 95 billion as against Rs. 62.35 billion for 2013-14 which is 52.4% higher than last year owing to the still untapped potential in the sales tax net.

Punjab government has set tax collection target of Rs 164.7 billion for fiscal year 2014-15, which is 30 percent higher than the current financial year ending June 30, 2014. KPK has set tax collection target of Rs 227 billion for fiscal year 2014-15, which is 14.55 percent higher than the current financial year ending June 2014. The revenue receipts of Sindh are

OVERSHADOWED BY LOBBIES, THE GOVERNMENT WITHDRAWS LOWER TAX EXEMPTIONS THAN PROMISED

estimated at Rs 599.32 billion for the year 2015, as compared to Rs 488.736 billion of revised budget of FY14, depicting an increase of Rs 110.5 billion.

Experts said that the general rate of federal sales tax is 17 percent after an increase by 1 per cent in Finance Act, 2013. The federal government has retained the rate of 17 per cent in the proposed Federal Finance Bill 2014. Punjab has retained the rate of 16 per cent. However, Sindh has, across the board, except generally for telecommunication services, reduced the rate to 15 per cent. Sales tax on services is taxed, wherever applicable, by the respective provinces and the sale of goods is taxed by the Federal Government. Principally, a value added tax system is in place in Pakistan therefore, sales tax on goods and services either at Federal or Provincial levels is admissible as input tax whilst discharging the respective output tax liability, unless specifically made inadmissible. The new services in addition to 'education' and 'health' sectors which are proposed to be taxed by Sindh include classified advertisements, share transfer agents, services provided or rendered in the matter of purchase or sale or hire of immovable property, services provided or rendered by property dealers, services provided or rendered by laundries and dry cleaners, technical, scientific and engineering consultants, cable TV operators, services provided or rendered by registrar to an issue, services provided or rendered by programme producers and production houses and services provided or rendered by corporate law consultants. Under the Punjab Sales Tax on Services Law, the new services which have now been included in taxable services in 2014-15 are specialized workshops, indenting/brokerage, call centre, laundry and dry cleaning, cable TV, TV/radio program production and print
media advertisements
(reduced rate of 5 percent).

Punjab has extended scope of services in the existing entries of the Second Schedule (Services) to race clubs, cargo services by road passenger transportation business and transportation through pipe line and conduit services, cafes, food (including ice-cream) parlours, coffee houses, coffee shops, degas, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc, intellectual property rights services, investment management services, technical inspection and certification services, quality control (standards' certification), technical analysis and testing, erection, commissioning and installation services. Other consultants including but not limited to human resource and personnel development services, exhibition or convention services, event management services, valuation services (including competency and eligibility testing services), market research services and credit rating services. Other services included travel agents including all their allied services or facilities, labour and manpower supplies, services provided by depository agents including services provided through manual or electronic book-entry system used to record and maintain securities and to register the transfer of shares, securities and derivatives, services by realtors and services provided by fashion designers whether relating to textile, leather, jewellery or other product regimes including allied services such as cutting, stitching, printing, manufacturing, fabrication, assembly, embellishment, adornments, display (including marketing, packing and delivery etc.), services by automobile dealers and industrial and commercial packaging services and similar outsourcing of industrial or commercial processes. All the said services are subject to sales tax at 16 percent, they added.

An official said that Khyber Pakhtunkhawa Revenue Authority (KPRA) has brought professionals including lawyers, income tax practitioners and chartered accountants and others into the sales tax net in 2014-15. Around 30-31 new services have been brought into the sales tax regime like restaurants, car dealers, inter bank clearance, air port services and massage centers, plastic surgeons and other services obtained by elite class.

Generally, one percent reduction has been made in sales tax on services from 16 to 15 percent. However, sales tax has been brought down from 16 to 10 percent on some services. The KPRA has taken the initiative to end the hassle of input tax adjustment, rebate and refunds by the taxpayers by drastically reducing sales tax

from 16 to 10 percent on certain services. The service providers can pay lower rate of 10 percent sales tax to avoid issues of input tax adjustments.
The KP has brought service stations and mobile telephone towers in the tax net as service stations will have to pay Rs 10, 000 per annum in head of GST, while mobile companies will now be bound to pay Rs 40, 000 per annum on the towers in provincial headquarters, Rs 30,000 per annum in divisional headquarters and Rs 20,000 per annum at district headquarters. The KPRA started collecting sales tax on key services from July 1, 2013 including hotels, marriage halls, lawns/clubs, beauty parlours, telecommunication services, customs agents, ship chandlers, stevedores, advertisements on TV and radio, courier services, insurance services and services provided by stock brokers, banking companies or non-banking financial institutions.

Business Recorder
17th June

Destroying tax appellate system

Huzaima Bukhari and Dr Ikramul Haq

The Finance Minister, Ishaq Dar, in the Finance Bill 2014, ignored the demand that tax appellate system should be made independent, free from the administrative controls as directed by the Supreme Court of Pakistan.

Even the amendments proposed in section 130 of the Income Tax Ordinance, 2001 to restore the original position of Appellate Tribunal Inland Revenue (ATIR) have been rejected by the officials of the Federal Board of Revenue (FBR) as reportedly the same were not presented before the Cabinet. This shows how little the present government is concerned about tax reforms and making tax justice system independent and efficient.

The FBR has managed to hoodwink the government of Nawaz Sharif for the second time. In the Finance Act 2013 a number of unconstitutional provisions were added, but the most serious violation of the supreme law of the land was an amendment in section 130 of the Income Tax Ordinance, 2001 providing for appointment of department officials as 'judicial members'.

The Finance Minister who claims to be an expert in taxes, finance and economics, at the time of giving nod to the tax proposals, could not even understand what the bureaucrats of FBR were up to — they wanted to capture ATIR. The evidence of this came to the fore when they finally got a person, ignored for promotion for Grade 21, appointed as Judicial Member in 2014.

It is unfortunate that the Cabinet and Parliament just act as rubber stamp for passing the Finance Bills. They are equally guilty of committing violations of the Constitution.

FBR's stalwarts use elected representatives as an instrument to fulfil their nefarious designs.

The FBR has sinfully and skilfully managed to destroy the independence of a judicial organ of the State, having a cherished history of seven decades, and committed a grave violation of the instructions of the superior court in utter disregard of Articles 189 and 201 of the Constitution of Pakistan.

FBR, cleverly taking benefit of the elected members' ignorance of tax laws, got inserted in the Finance Act 2013 [earlier in 2012 as well], a number of amendments that have crippled the already ineffective tax appellate system.

Appointment of tax officials as Judicial Members is aimed at converting ATIR into a 'camp office' of FBR. The officialdom of FBR wants affirmation of arbitrary and

unlawful orders passed by taxation officers to meet budgetary targets.

All tax bars agitated against this amendment, yet it was approved by Parliament. Now in the Finance Bill 2014, the position is not reverted despite the promise made by Ishaq Dar to tax bars and taxpayers.

Historically, Account Members, coming from FBR, were officers in Grade 21 (Chief Commissioners) or Commissioners in Grade 20 with 5 years' of experience.

The Finance Act 2012 reduced this condition to 3 years' experience. This facilitated induction of junior commissioners who could be influenced by FBR in the hope of better postings on their return to parent department. But the amendment by Finance Act 2013 to have Judicial Members in Grade 20 with law graduation was totally unlawful.

The setting up of the Tribunal in India in 1941 by the British government brought about a paradigm shift in the grievance redressal system.

The scheme of things in the Tribunal envisaged complete functional independence of the institution, a high degree of legal and technical expertise of the Members manning the benches, user-friendly, simpler and informal procedures, and inexpensive and quick justice delivery. It appears FBR does not like this legacy.

Throughout its history of 73 years, the qualification for appointment as Judicial Member has been the same as for the appointment of a High Court Judge, and only well experienced and competent people from the legal profession and judiciary have to be selected.

The political government made many appointments on the basis of nepotism and destroyed this institution during the last two decades. For Accountant Members, the Ministry of Law selects people nominated by FBR. But in 2014, the government of Nawaz Sharif destroyed this legacy of over seven decades by directly appointing an FBR official as Judicial Member.

The amendment made in 2013 that facilitated the appointment in 2014 of FBR's official as Judicial Member is against Para 5 of the National Judicial Policy 2009 which says: "All special courts/tribunals under the administrative control of Executive must be placed under the control and supervision of the Judiciary, their appointments/postings should be made on the recommendation of the Chief Justices of concerned High Court."

In 2013, in the wake of this amendment, we recommended a challenge on behalf of All Pakistan Tax Bar before the Supreme Court, but they did not take any action.

They are silent even today. It is high time that they should take up the matter with Chief Justice of Pakistan for the implementation of Para 5 of the National Judicial Policy 2009 and also file a petition directly in the Supreme Court under Article 184(3) for its implementation.

Prior to amendment in 2007, the Accountant Member must have been an officer of Grade 21. In 2007, Commissioner in Grade 20 having appellate experience of five years was also included. In 2010, the condition of working as Commissioner Appeal was removed. Then the Finance Act 2012 reduced condition of 5 to 3 years.

The worst amendment came through Finance Act 2013 providing for appointment of IRS officers as judicial members.

Amendments made in 2007, 2010, 2012 and 2013 were highly undesirable. The officers from FBR having little experience or no experience of appellate work have since been made part of ATIR as Accountant Members, and now one as Judicial Member. This has destroyed the very basis of this institution.

The insertion of clause (c) in section 130(3) by Finance Act 2013, insertions of words in section 130(5) "and, except in special circumstances, the person appointed should be a judicial member" and amendment through Finance Act 2012 to lower the service period requirement of Commissioner to be Member of the Tribunal to three years [section 130(4)(ii) are against the principle of independence of judiciary.

The original position of law that only a judicial member can be Chairman of the Tribunal must be restored through Finance Bill 2014.

In fact, the ATIR should not be under the control of Ministry of Law and should be placed under the judiciary. It is imperative to make the ATIR a truly independent and effective judicial forum. No person from Inland Revenue Service should be part of ATIR. Accountant members should be Chartered Accountants (CAs) and/or Cost and Management Accountants (CMAs), having tax experience of at least ten years, recruited by Judiciary.

Judicial Members should be as historically provided. This is necessary to make Tribunal an independent appellate body. (The writers, lawyers and Adjunct Faculty at Lahore University of Management Sciences (LUMS), are partners in law firm, Huzaima & Ikram

Business Recorder
20th June 2014

LTU attaches bank accounts of 17 firms to recover Rs18bn taxes

MUHAMMAD ALI
KARACHI: Large Taxpayers Unit (LTU), Karachi, has attached bank accounts of some 17 private and public companies to recover around Rs18billion tax liabilities outstanding against them,

According to sources, the city's LTU, the biggest revenue generating arm of the

Federal Board of Revenue (FBR) had identified 46 defaulted taxpayers belonging to exploration and production (E&P), insurance, banking, oil marketing companies (OMCs), sugar and pharmaceutical sectors. These taxpayers have around Rs18 billion outstanding tax liabilities, including income tax, sales tax and federal excise duty.

Moreover, sources said that department had recovered around Rs3.75 billion after seizing bank accounts of some 17 tax defaulters, while other defaulted taxpayers, were being served notices under Section 140 of Income Tax Ordinance, 2001 and Section 48 of Sales Tax Act, 1990.

The LTU, Karachi, with a view to making its tax recovery campaign successful has adopted 'zero tolerance policy', the sources said, adding that these 46 tax defaulted companies were directed to discharge their current tax demand and arrears of the last two years.

They said that department in order to meet its June's revenue target of around Rs102billion has geared up all its efforts to recover outstanding tax liabilities of around Rs18 billion before the end of current month.

Business Recoreder
20th June 2014

Tax exemptions double to Rs477bn

Mubarak Zeb Khan

ISLAMABAD: Tax exemptions enjoyed by industrialists, feudal lords and companies rose by a staggering 99 per cent during this fiscal year, at a time when the Federal Board of Revenue (FBR) has witnessed a shortfall of Rs200 billion in revenue collection.

The exemptions now amount to Rs477.1bn -nearly 2pc of the country`s gross domestic product (GDP) in fiscal year 2013-14 compared to Rs239.535bn in the last year, an increase of Rs237.57bn.

The finance minister said that the exemptions given through Statutory Regulatory Orders (SRO) will be phased out in three years. He said most part of the exemptions will go in the upcoming budget. The total cost of exemptions was Rs205.92bn in the year 2011-2012.

An SRO, an executive order which grants tax exemptions to an individual, industry or sector, is issued on the directive of the finance minister, the cabinet`s economic coordination committee or on FBR`s proposal.

Income tax exemptions: An amount of Rs96.634bn was lost due to exemptions in income tax in 2013-14, an increase of Rs14.25bn (17.3 pc) from Rs82.393bn in the year2012-13.

Independent Power Producers (IPPs) were given income tax exemption of Rs52.03bn, a hike of R3.43bn over last year when exemptions stood at Rs48.6bn. In 2010-11, income tax exemptions were Rs0.870bn for IPPs, reflecting a substantial increase in the past three years.

Boards of education, universities and computer training institutes also remained major beneficiaries of income tax exemptions which s tood at Rs11.1bn in 2013-14, followed by another Rs18bn to various enterprises, which were not disclosed in the survey. Under these two heads of exemptions an increase of Rs2.08bn and Rs3bn was witnessed this year. Exemptions on account of capital gains increased to Rs5bn in 2013-14 from Rs4bn in the previous year.

The cost of exemption on profits on debt/interest from government securities and certain foreign currency accounts/ books pront on debt increased by Rs2.1bn to Rs4.1bn this year from Rs2bn last year.

Sales tax exemptions: The FBR has worked out sales tax exemptions at Rs249bn this year as against Rs37.436bn last year, a rise of Rs211.564bn (565.14pc). However, this amount does not include those exemptions which cannot be calculated, for example, exemption on raw vegetables, tandoori roti, etc.

In the previous year`s survey, the Rs37.436bn sales tax exemptions were mentioned because of tractors, pharmaceuticals, and sugar. The partial exemption on sugar, which mostly benefits a handful of political families and ranges between Rs12bn and Rs20bn, was not disclosed in the survey this year.

The cost of sales tax on three export facilitation schemes was calculated at Rs19bn in 2013-14. Of these SRO450 (1)/2011 costs Rs14bn, followed by SRO492(I)/2009 of Rs4bn and SRO326(I)2008 of Rs1bn, respectively. Much higher is the quantum of sales tax exemption on six general and sector-specific SROs which cost Rs230bn to the kitty in 2013-14.

Further break-up shows that the zero per cent sales tax on specific goods under SRO549(I)/2008 cost government a loss of Rs94bn; followed by Rs65bn cost because of concessionary rate of sales tax on raw materials, intermediary inputs and finished goods related to five sectors-textile, carpets, leather, sports and surgical sectors.

The cost of SRO575(I)2006 is Rs30bn on machinery, equipment, apparatus and items of capital goods, followed by Rs26bn because of exemption from sales tax on import and supply of certain products under SRO551 (I) 2008.Customs exemptions: The customs exemptions surged to Rs131.451bn because of the preferential trade agreements that Pakistan signed in the recent past and other duty exemptions this year from

Rs119.706bn in the previous year, an increase of 9.82 pc (or Rs11.75bn).

The break-up of the customs losses showed that maximum exemptions in customs duties available on imports from China under free trade agreement, which reached Rs21.464bn in the outgoing fiscal year from Rs19.932bn last year, increased by 7.73pc.

The cost of exemption on imports from Saarc and ECO countries stood at Rs290 million, FTA with Sri Lanka at Rs732.6m, PTA with Iran Rs22.3m, Safta agreement Rs796.2m, from Mauritius Rs3.4m, from Malaysia Rs2.909bn; and Indonesia at Rs1.508bn.

Other major beneficiaries of these exemptions were the original equipment manufacturers (OEMs) of the automotive sector and vendors who availed Rs29.30bn exemptions in 2013-14 and general and conditional exemption of customs duty (non-survey) under SRO567(I)2006 costs Rs32.515bn; followed by Rs21.780bn because of exemption from customs duty and sales tax on import of specified machinery, equipment, apparatus and items under SRO575(I)2006.

Dawn
3rd June 2014

Taxing the rich and powerful

Perhaps the easiest executive exercise in Pakistan is the preparation of the country's annual budget. The official economic managers do it blindfolded. All that you need to do is resort to back calculation starting with a notional budgetary deficit figure conjured up on your own or advocated as one of the usual loan-related conditionalities by the IMF and arrive at dream figures of income and expenditure.

Most parliamentarians, even those sitting on the opposition benches, don't even unbundle the budget books secured tightly into a pack usually by a red or green ribbon and placed on their desks during the short and quick budget debate that normally does not last for more than a couple of weeks. Even if they were to open the budget documents, most perhaps, would not even know how to read them or decipher the budgetary terms, which would perhaps sound more like Greek to them.

That is, perhaps, why most speakers taking part in the budget debate talk about everything under the sun except the budget. And more often than not, most proposals get through unchallenged and the budget gets passed on the due date with little or no change.

But then, perhaps even those officials who prepare the budgetary proposals, one is constrained to assume, lack a dear understanding of the problems being faced by Pakistan on the economic front. That is, perhaps, why the remedies that they propose year after year for resolving these problems fail to show an iota of improvement in the situation, which continues to worsen.

For example, taxing the rich and the powerful is rarely attempted despite the fact that successive budgets have been known to have attempted to be balanced by massive internal and external borrowing, adding to the debt burden, which, in turn, adds to the next year's amortisation allocations in the budget. In A Case Study of Pakistan prepared by Dr Hafiz Pasha in connection with 'Economy of Tomorrow' movement launched by Friedrich Ebert Stiftung (FES), the author contends that the ultimate litmus test for future tax reforms in Pakistan will be taxing more of the rich and the powerful.

According to Pasha, today, the rich enjoy wide-ranging exemptions and concessions, low effective tax rates and can engage in tax evasion with a degree of impunity, frequently in connivance with the corrupt tax administration. The consequence is low direct tax-to-GDP ratio, which has kept the overall tax-to-GDP ratio at extremely low levels in relation to other countries in the region.

Currently, the direct tax-to-GDP ratio is 3.2 per cent. The figure for the same is 11 per cent in Malaysia, eight per cent in Thailand and six per cent in Turkey, India and Indonesia. Pakistan's share of direct taxes in total tax revenues is 33 per cent, as compared to between 45-60 per cent in many Asian countries.

Dr Pasha's study has revealed that only about one-third of the 60,000 companies in operation file returns and among those, less than half declare taxable profits. Also, it is estimated that about three million people in Pakistan earn more than the exempted income of Rs400,000 annually but only one-fourth actually file returns. In effect, one in 260 people file a return in the country as compared to one in 40 in India.

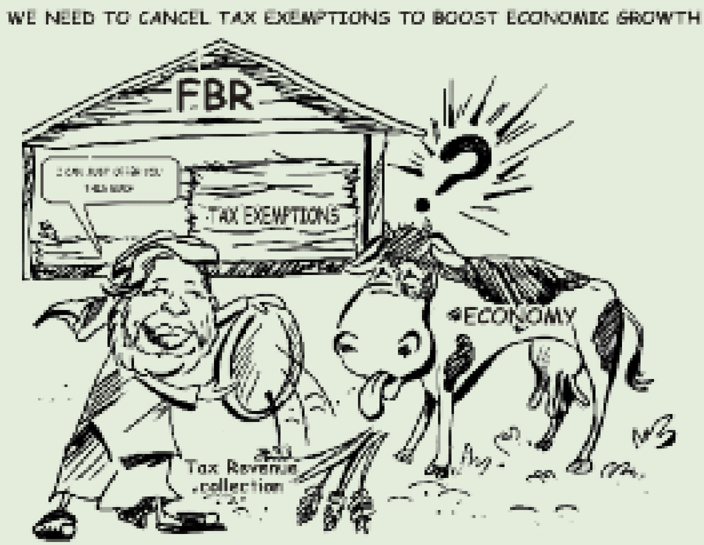
The tax base for corporate income tax, according to Dr Pasha, is eroded by almost half due to exemptions, deductions against labour and charitable contributions, and lower (presumptive) taxation of exports, etc. While many of these are in the nature of fiscal incentives, they have an implied revenue loss of almost Rs. 160 billion. Further, the performance of the Federal Board of Revenue in raising demands following company audits is weak. In 2012-13, this was Rs84 billion, showing a gap of 35 per cent in relation to the previous year.

Dr Pasha maintains that the root cause of failure of the taxation system of Pakistan is the very limited taxation of the rich and powerful. In addition, there are over 1,900 statutory regulatory orders (SROs) which create many holes in taxes like GST, customs duty and excise duties. The SROs largely benefit strong pressure groups and lobbies.

Express Tribune
4th June 2014

Tax Exemption

Distinction between filers and non-filers
A government, starved of resources, could adopt extreme and unconventional measures to increase its revenue receipts and narrow the budget deficit. Fiscal authorities of the country had initially imposed withholding tax on cash withdrawals from the banks for this very purpose on a uniform basis but have now sought to extend the scope of this measure to punish non-filers through a higher rate of 0.5 percent in the budget for FY15 as against 0.3 percent for filers of income tax returns under section 231A. In order to distinguish between the two categories of depositors, new definitions for "filers" and "non-filers" have been introduced in the Finance Bill 2014. However, as was to be expected, Pakistan Banks Association (PBA) is not in favour of the new measure and has commented that charging of enhanced rate of withholding tax from non-filers of income tax returns was practically impossible in the existing banking system. It should be understood that almost all the back-office functions of the banks are computerized and to comply with the amendment in the Finance Bill, banks would have to make significant changes in their systems. Each bank branch would have to identify filer/non-filer status after consulting each customer, which would be tagged with separate tax rates to calculate and deduct tax. According to the PBA, the change cannot be implemented without understanding operations of the banking system and mechanism of profit payment to the account holders. It was not clear whether profit/yield of Rs 500,000 for applying 15 percent tax rate in case of non-filers was for the year or per transaction. Currently, active taxpayers' list available at the FBR web portal was also incomplete. There was also a confusion about the definition of dividend income including on bonus shares and capital gains and the burden on banks would increase manifold due to the changes introduced in the Finance Bill in this respect.



As argued by the PBA, the new measure of charging higher withholding rate from the non-filers for cash withdrawal from the banks may not be totally impracticable but is largely unjustified and certainly difficult to implement. Moreover, it would affect saving behaviour of the households, encourage informal sector, which is the bane of the economy and promote cash transactions. This would create a formidable obstacle towards government's objective of documenting the economy and reviving growth. The move would also put pressure on the human and technical resources of the banks and reduce their profitability to a certain extent. Although the Federal Board of Revenue has issued an "Active Taxpayers List for Income Tax Deduction at Source yet the list cannot be considered as complete or final due to frequent revisions in the change of status, which may not be amended instantly due to huge number of account holders, different profit payment intervals and frequent system changes. As such, the change could lead to imposition of penalty on banks for non-compliance and unwarranted litigation. No need to say that lack of efficiency in the FBR and uncertainty about the timely inclusion or exclusion of filers/non-filers in the list of active taxpayers would add to the confusion and force the taxpayers to run from pillar to post to persuade the tax officials to add their name in the preferred list and convey it to the banks in a timely fashion. All of this would spread confusion, constrain the concerned parties to enter into unnecessary arguments and, in extreme cases, could compel the taxpayers to approach the courts for the redressal of their grievances. The measure is also violative of the basic functioning of various organisations. Banks are supposed to be intermediaries between savers and investors and not tax collecting agents. It is basically the job of the FBR to plug the loopholes, encourage documentation of the economy, bring the tax evaders into the tax net and punish them in whatever way it deems fit without bringing other institutions into the picture and putting unnecessary burden on their resources. On the other hand, we fail to understand why the PBA has taken so long to make their case for the consideration of fiscal authorities and brought their concerns to their attention so late. Early approach would have given more time to the government to assess pros and cons of the measure. Anyhow, it would be gratifying on the part of the government to revert to the old system and continue to charge the previous rate on cash withdrawals, dividends etc as has already been done in the case of first class travellers by revising the tax proposal and subjecting them to a uniform rate of withholding tax. In our view, the FBR needs to be more bold, efficient and imaginative in widening the tax net and increase tax revenues than resorting to easy ways of involving the banking and other institutions into this business.

Business Recorder
24th June 2014

Clearance of 1,900 vehicles under VAS

FBR rejects Customs report, orders fresh inquiry

MUHAMMAD ALI

KARACHI: Federal Board of Revenue (FBR) has reportedly rejected Customs department's inquiry report relating to clearance of 1900 vehicles under 'Vehicle Amnesty Scheme' (VAS) against a short payment of surcharge amounting to Rs450 million.

That the FBR declaring said report null and void has reconstituted a fact-finding committee which would be submitting a detailed report to the Board . The committee had been directed to conduct a fresh inquiry against officers posted at Karachi during June, 2012 to November 2013 when 1900 vehicles were cleared against a short payment of surcharge.

Two collectors, a deputy collector, an assistant collector, three principal appraisers and four appraisers, who were posted at the Car Group of the Collectorate during the said period, would be interrogated by the committee.

Six overseas Pakistanis, in a joint complaint lodged with the FTO, have reportedly alleged that customs authorities at Karachi had cleared cars imported by overseas Pakistanis, involving infringement of age limit prescribed by the ministry of commerce in its SRO 1441(I)/2012, whereas the Customs department at Peshawar had refused to provide a similar facility to the car imported by them at Peshawar dry port.

The complaint was investigated and following the allegation of discrimination was found maintainable by FTO, Customs authorities were asked to take suitable measures to resolve the issue.
The Customs department filed a review petition to set aside the decision of FTO, but it was reportedly rejected because of misrepresentation. The Customs department in its report also said that surcharge on import of old and used vehicle was not being calculated correctly since June, 2012 to November 2013 and around 1,900 vehicles were cleared against a short payment of surcharge amounting to Rs450m.

Business Recorder
2nd June 2014

Additional taxes to yield Rs231bn

Mubarak Zeb Khan

ISLAMABAD: The PML-N government has imposed Rs231 billion new taxes in its second budget with relief measures for industrialists and foreign investors.

The focus of tax proposals is to increase share of direct taxes in overall taxes, document the economy, remove distortions in tax laws and promote foreign direct investment and industrialisation.

For the first time in history of the tax department, revenue measures sales tax, excise duty and customs duty will not be implemented from June 4 because there was no legal cover for it.

The Federal Board of Revenue will now have to withhold implementation of revenue measures till the passage of the budget by parliament later this month.

Last year, the Supreme Court had struck down the Provisional Collection of Taxes Act, 1931, which empowered the tax department to implement revenue measures from the next day ofpresentation of the budget.

Two tax commissions on reform and rationalisation of general sales tax were constituted.

The budget proposes to raise Rs231bn through new taxes and withdrawal of SROs direct andindirect taxes.

The total revenue to be generated through withdrawal of SROs is estimated at Rs103bn, including Rs36bn through income tax, Rs35bn through sales tax and Rs32bn through customs duty.

An amount of Rs128bn, including Rs108bn in income tax, Rs16bn in sales tax and Rs4bn incustoms duty, will be collected through additional revenue measures.

Due to inflation and economic growth, nearly Rs304bn will be raised outside the tax measures. The government hopes these measures will help achieve a revenue target of Rs2,810bn.

The revenue target for 2013-14 was revised downward to Rs2,275bn.

Income tax measures: The government has exempted profits and gains earned by coal mining projects in Sindh that supply coal exclusively to power generation projects from payment of tax.

It also decided to tax their dividends at a reduced rate of 7.5pc; capital gains tax proposed to be 12.5pc for securities held up to 12 months and 10pc for securities held for a period between 12 and 24 months.

Five-year income tax exemption will be given for setting up processing plants for locally-grown fruits in Balochistan, Malakand Division, GilgitBaltistan and Fata. Customs duty and sales tax will also be exempted on import of equipment for these areas.

A reduced rate of 20pc on investment in new industrial undertakings to be setup by June 2017 and atleast 50pc of the project cost, including working is through FDI in equity: corporate tax rate is reduced to 33pc from 34pc. 50pc reduction in tax liability of disabled persons on income up to Rs1m; and the government with drew the income support levy introduced last year.

To facilitate the non-residents, it is proposed that if one member of the joint venture is a company, it should be taxed separately at the applicable rate while the individuals should be taxed as an AOP separately; the income tax concessions at Gawadar coast given to China Overseas Ports Holding Company.

The rate of withholding tax on functions and gatherings has been reduced to 5pc from 10pc; exemption granted to Sindh Pension Fund; the entire amount of flying allowance exceeding an amount equal to the basic salary be taxed at a concessional rate of 7.5pc; Rs1 per unit of electricity consumed with electricity bill will be charged from every steel melter, steel re-roller, composite unit of melting, re-rolling and MS cold.

Withholding tax rate has been reduced to 14pc from 15 pc, airlines may collect advance tax at the rate of 3pc on the sale of first class and club / executive class air tickets if the passenger is a compliant taxpayer, and 5pc tax if the passenger is a non-compliant person.

An adjustable advance tax will be collected on purchase of immovable property at a rate of 1pc for compliant taxpayers and 2pc for non-compliant persons. However, properties whose values do not exceed one million rupees and schemes introduced by the government for expatriate Pakistanis will be excluded.

The government will collect 7.5pc advance tax from domestic electricity consumers on a monthly bill of above Rs100,000.

The government introduced additional tax for those persons who did not file income tax returns 5pc for dividend income, 5pc for interest income above Rs500,000, 0.2pc for cash withdrawals from banks and 0.5pc in case of advance capital gains tax collected from seller of immovable property. This tax will be in addition to the tax collectable from return filers.

In addition, currently the highest rate of tax is for vehicles above 2000 CC. It has been proposed that two higher slabs may be added for vehicles from 2501 to 3000cc and above 3000cc with higher rates of tax. For non-filers the rates will be double.

Another proposal was that debt securities be included in the definition of securities. However, companies shall be excluded from such deduction. An alternative corporate tax at 17pc is proposed to be imposed on accounting income, excluding the exempt income of companies, to avoid tax evasion.

The rate of deduction of tax on services for corporate taxpayers was increased to 8pc from 6pc and for non corporate to 10pc from 7pc; the rate of initial depreciation on buildings is proposed to be reduced to10pc.

It is proposed that non-profit entities be granted a 100pc tax credit instead of exemption; obtaining NTN a compulsory condition for obtaining commercial/industrial electricity and gas connections.

The rate of tax on advertising agents has been raised to 10pc from 5pc; exemption from deduction of withholding tax be withdrawn on foreign news agencies; the rate of tax on dividend distributed by Mutual Funds to companies in respect of interest income shall be 25pc, instead of 33pc, applicable to companies.

It was proposed that bonus shares be treated as dividend and tax deducted at a rate of 5pc of the ex-bonus price of the shares. Foreign institutional investors will be brought under the withholding tax regime.

The rate of withholding tax has gone up for commercial importers by 0.5pc, resident and non-resident contractors by 1pc, suppliers by 0.5pc, payments made by exporters/export houses on account of services of stitching, dying, printing, embroidery, sizing, weaving by 0.5pc, petrol pump operators by 2pc and commission agents by 2pc.

However, they will have the option of filing returns and accounts. In such case the currentrates of taxd eduction will be minimum tax rates for them. If an individual chose not to file the return, the tax deducted will be final tax.

It is proposed that advance income tax be collected by Excise and Taxation Departments on transfer of private motor vehicles for a period of 5 years. The rate of tax will be the same as that for registration of a new motor vehicle and will be reduced by 10pc in every subsequent year.

Sales tax and federal excise measures: A levy of 17pc was proposed on rapeseed, sunflower seed and canola seed; 17pc sales tax on import of finished articles of leather and textile.

The government proposed 5pc sales tax on import and supply of plant and machinery not manufactured locally; impose 17pc sales tax on remeltable scrap; 5pc sales tax imposed on oilseed for sowing, and raw and ginned cotton.

However, local supply of raw and ginned cotton shall remain exempt.

The rate of sales tax at 5pc proposed on soyabean meal, oil cake and directly reduced iron, and 17pc sales tax on purpose-built taxis.

Sales tax on the steel sector, shipbreakers and steel melters operating in sugar mills will be rationalised.

The Federal Excise Duty (FED) on international travel will rise to Rs5,000 from Rs3,840 on economy and economy plus, Rs10,000 from Rs6,840 on club, business and nrst class;16pc on chartered flights on full amount charged; replacement of capacity tax on aerated waters to charge normal tax rate of 16pc; FED on cigarettes increased; on cement the specific FED was replaced by 5pc on retail price.

The FED on locally-produced cigarettes has been raised by 13.21pc if retail price exceeds Rs2,286 per thousand cigarettes, and by 23.30pc if retail price does not exceed Rs2,286 per thousand cigarettes.

To bring the undocumented retail sector in the tax net, retailers will be registered on a two-tier system retailers part of national and international chains, located in air-conditioned malls having debit and credit machines will pay tax at 17pc; chargeability of the sales tax at 5pc in case ofmonthly electricity bill up to Rs20,000 and at 7.5pc of the monthly electricity bill exceeding Rs20,000.

To restrict undue claims of input tax, the government has introduced electronic scrutiny and intimation system to conduct all checks and analysis objectively; further tax charged at 1pc on supplies made to unregistered persons is being specifically excluded from the purview of output tax.
vThe 10pc withholding tax is likely to be withdrawn on locally manufactured motor cars, Sports Utility Vehicles (SUVs) and other motor cars exceeding 1800ce; sales tax exemption to high efficiency irrigation equipment and greenhouse farming equipment; reduction in sales tax rate on local supply of tractors; exemption of sales tax import and supply of Cochlear Implants System; reduction in FED rate from 19.5pc to 18.5pc on telecommunication services; specific rates of sales tax on mobile phones; exclusion of FED on telecommunication services subject to provincial sales tax is being proposed.

The government introduced minimum tax at 0.5pc for oil marketing companies, oil refineries, SSGC/SNGPL for the cases where annual turnover exceeds Rs1 bn; PIA Corporation, poultry industry including poultry breeding, broiler production, egg production and poultry feed production.

A minimum tax rate of 0.2 pc will be for distributors of pharmaceutical products, fertilisers and cigarettes; petroleum agents and distributors; rice mills and dealers and flours mills; 0.25pc for motorcycle dealers and 1 pc for all other cases.

Customs duty measures: The maximum customs tariff is reduced to 25pc from 30 pc; the zero slab is replaced by 1pc customs duty; imposed regulatory duty on 60 items; customs duty on UPS reduced to 15 pc from 20 pc; on petroleum coke not-calcined reduced tolpc from 5 pc; exemption up to 50 pc granted on Hybrid Electric Vehicles (HEVs) upto1800 ccand above1800ccgranted 25 pc.

The customs duty on networking equipment is raised from 5pc to 10pc; 10pc increase in the fixed rate of duty and taxes on used vehicles; customs duty increased to 10pc from 0pc and 5pc on flat-rolled products of alloy steel; 5pc duty imposed on import of generators above 1100 KVA; a uniform rate of 15pc customs duty is levied on dyes, except basic dyes and indigo blue dyes being used in the textile sector.

A uniform rate of 10pc customs duty on all kinds of CDs/DVDs; customs duty on flavouring powders enhanced from 10pc to 20pc to avoid misclassification. A uniform rate of 10pc is levied on liquid paraffin and white oil.

Customs duty on dryers is increased from 5pc to 10pc; a uniform rate of 15pc is levied on starches; customs duty on colouring matters is enhanced from 5pc to 10pc; customs duty on satellite mobile phones whether or not functional on cellular networks is reduced from 25pc to 10pc.

The collector of customs will collect the advance tax at the rate of 1pc on import of industrial undertaking importing remeltable steels directly reduced iron for its own use; persons importing potassic fertisers; persons importing urea; 2pc on persons importing pulses; 3pc on commercial importers of SRO1125; 4.5pc on shipbreakers on import of ships; 5.5pc on industrialundertakings;5.5pc on companies and 6pc on other persons not covered in other schemes.

Dawn
4th June 2014

Less regressive taxation

THE finance bill for the fiscal year 2014-15 proposes significant changes in federal taxes.

The idea said to be behind the suggested changes is to facilitate investments in the economy, broaden the narrow tax base, document the undocumented sectors, improve compliance, boost direct tax revenues, remove exemptions to certain sectors, punish tax dodgers and curb evasion.

Eminent tax experts and economists term the proposed changes as `less regressive` than the ones introduced in the Nawaz Sharif government`s first budget last year.

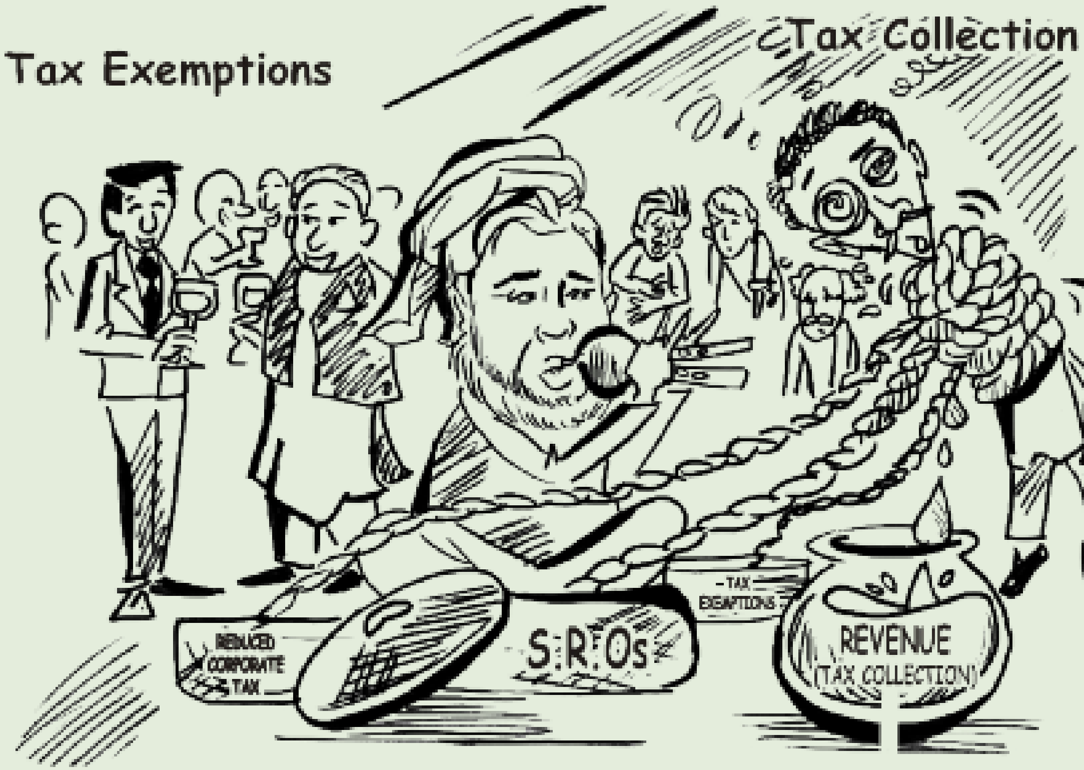
Sayem Ali, an economist at Standard Chartered Bank, was pleased to note that the implementation of indirect taxes, which burden the majority of people, was avoided in the new budget. Hence, the new taxation is less regressive than the previous one.

Still, many are dissatisfied by its strategy to continue its dependence on `direct taxation in indirect mode,` arguing that it will keep the government from collecting taxes of Rs2.81 trillion, it is targeting to raise during the next financial year.

Economist Asad Sayeed contends that the reason governments resort to this is that the tax machinery is incompetent and lacks credibility. `This is one way of not attempting to reform the Federal Board of Revenue and get some taxes. The consequence is forgone tax collection.

The proposed new taxes and withdrawal of sales tax exemptions will generate revenues of Rs231 billion or equal to

We Need a Tax System that Embraces Fairness and Equality



0.80pc of domestic output.The scrapping of exemptions will yield Rs103 billion, and new taxes Rs128 billion. `The new measures will boost the share of the direct taxes in tax revenues,` Finance Minister Ishaq Dar claimed in his budget speech. `The measures will target those who either don`t pay taxes or file returns.

Sayem is not optimistic about the government`s estimates of expanding the narrow tax base through the pro-posed measures. Nor is he very hopeful of an increase in tax revenue as a ratio of domestic output, which stands at 9.5pc one of the lowest in the world.

`Where are the 3m wealthy people the government planned to tax,` he asked. The government, it appears, has scrapped its plan to bring the people, who it says live in luxury but don`t file tax returns or pay taxes, into the tax net.

The minister didn`t speak of tax exemptions and concessions of Rs477 billion given to various powerful and rich lobbies during the present year double the amount of exemptions and concessions of Rs239.5 billion allowed last year; something that has disappointed tax experts like Ikram-ul-Haq.

`It is disturbing to see the government lacking the will to tax the rich.

Major taxation proposals show the poor will face more misery, while the powerful have managed to escape proper personal taxation on their colossal incomes and wealth,` he pointed out.

He is of the view that the imbalance between direct and indirect taxes the share of indirect taxes is not less than 75pc if presumptive taxes are excluded from income tax is increasing. `The rich are not paying direct taxes, as the total number of individuals showing income tax liability exceeding Rs1 million in tax year 2013 was less than 15,000,`

The Institute for Policy Reforms (IPR), a new Lahore-based think tank, finds that the budget documents do not support the government`s estimates of growth in tax collection or increase in the tax-to-GDP ratio and contribution of direct taxes and decline in fiscal deficit.

`The government may feel satisfied at the 16pc growth rate for tax collection (in 2013-14 to revised target), but it falls well below its target growth rate of 27pc. Despite the rhetoric about tax reforms, there is little change in the tax-to-GDP ratio and especially in the abysmally low contribution of direct taxes to the total revenues.

`The government`s professed objective of increase in contribution of direct taxes aside, the finance bill does not propose any major measure for its enhancement. Last year, finding resistance among some key constituents, the government quickly gave up its objective to broaden the tax base. This year, the government did not even consider it worth a mention,` argues the IPR analysis of the budget.

In his critique on tax policy, Asad terms it as unimaginative and routine.

`There`s no break from the past and no realisation that the task is enormous, given the exceptionally low tax-to-GDP ratio.

He is of the opinion that the `bang for the buck in taxation is going to come from effectively taxing services. This entails wholesale and retail trade, construction and professional services.

Also, only 21pc of the firms registered with the SECP pay tax. This is scandalous. The issue is there is no tax policy as such. If there was a policy which laid out goals and objectives of the government, it would be easier to judge them by it.

Dawn
9th June 2014

`Poor` agriculture tax collection by provinces annoys Dar

Khaleeq Kiani

ISLAMABAD: Finance Minister Ishaq Dar has criticised provinces for `poor` tax collection from the agriculture sector which forms 21 per cent of the country`s gross domestic product (GDP).
On the first day of weeklong deliberations on federal budget by the Senate`s standing committee on finance led by Senator Nasrin Jalil, the minister also lamented that the provinces were not ready to empower the federal government to tax agriculture income despite their low collection from the sector.

The finance minister had figures on his fingertips to prove his point. Punjab has collected only Rs700 million and Sindh Rs300m. `It`s a matter of concern,` he said.

His criticism of the lacklustre performance by the provinces over revenue collection through the country`s one of the three major sectors has come at a time the four provinces are about to announce their provincial budgets ahead of formal opening of talks on 8th National Finance Commission (NFC) award.

The finance ministry has been critical of the 7th NFC award since it was signed by then finance minister Shaukat Tarin in 2009, saying it was left with no fiscal space after meeting mandatory obligations ofdebtservicing,defence and running of the government to take up infrastructure projects or improve the living conditions of the people.

Increased provincial share in the federal divisible pool in the 7th NFC award to expire on June 30, 2015 was based on commitment by the provinces in 2009 that they would take effective steps for increased revenue collection through agriculture and real estate to increase tax-to GDP ratio to 15pc by the terminal year (2015).

The ratio has since dropped below 10pc.

Responding to a question, Mr Dar said it would be violation of the Constitution to collect tax on agriculture income through Finance Bill.

The finance minister declined to consider further increase in salaries and pensions saying there was no fiscal space for such a proposal.

`The situation would remain unchanged for the next three years.

He was responding to criticism that 10pc increase in salaries was insufficient. He insisted that the government had linked increase in salaries and pensions to inflation and had in fact given more than the rise in inflation.

Ms Jalil said the federal budget did not offer anything to the poor and total tax collection seemed to have stagnated at 8pc of the GDP as the Federal Board of Revenue (FBR) `has completely failed to broaden the tax net` She said load-shedding continued unabated like in the past with no sign of improvement during the last one year. She said it was unclear how the government planned to manage electricity and gas shortages

Mr Dar insisted that tax authorities would be able to achieve the revenue collection target of Rs2.275 trillion, which has been reduced twice, for the outgoing fiscal year. Asked why the government had not allocated funds for circular debt that stood in excess of Rs300 billion now, the finance minister said his ministry would not pay for the leakages and less recoveries by the Ministry of Water and Power and its power companies.

He said the power ministry and its companies would have to make extra efforts to improve recoveries because the finance ministry would also shoulder the price differential among various consumer groups.

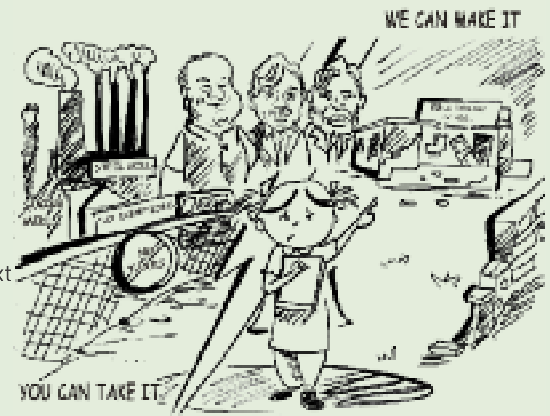
He said the government would provide a subsidy of Rs285bn to protect consumers using 200 units monthly. He said the federal government would start deducting 25pc of provincial electricity bill through federal adjuster from July 1 under a decision of the Council of Common Interests.

He assured the committee that 10,00011,000MW electricity would be added in the system over the next three years and both Dasu and Diamer Bhasha Dam would be constructed. Responding to a question, he said Pakistan did not need to take a no-objection certificate (NOC) from India to construct of Diamer Bhasha Dam.

Mr Dar reiterated that the country`s 50pc (90m) population lives below poverty line on the basis of a daily income of two dollars. For this, the government has allocated Rs118bn for the Income Support Programme to provide financial support to over 5m families, he said.

The committee criticised the government for increasing gas infrastructure development cess (GIDC) through budget, saying it did not meet the criteria for a money bill and should have been brought to the parliament as a separate bill if the government wanted to increase it. But Mr Dar said the GIDC was part of the money bill since its very introduction a few years ago.

Dawn
10th June 2014



Paltry tax revenue from farm income

FINANCE Minister Ishaq Dar has taken the provinces to task for their poor` tax collection from the agriculture sector.

The irony is that agriculture sector has a share of 21 per cent in the GDP but its contribution to the exchequer remains less than 0.22pc of direct taxes. Taxing income from agricultural activities has been the domain of provinces, not the federation, even before the 18th Amendment was passed.

But the provincial governments have been hesitant and may remain so to tax income of the landowners because most of them sit in the assemblies and enjoy perks and influence and also have close connections with the civil and military elites. So, they have been charging only fixed tax on land holdings which rarely sees an increase.

Ishaq Dar also deplored the fact that the provinces, not being able to enhance the collection, are unwilling to let the federal government do the job. Although such a transfer of power is no guarantee to increased collection for the desired revenue, it involves an amendment in the constitution, which the feudal lobby may not wish to be adopted.

Meanwhile, it is quite confusing that some provinces are also taxing agriculture income with an alternative option to collect land tax. Punjab has in the 2013-14 fiscal year shifted its focus from land-based valuation system to income based tax collection. This is a positive initiative.

Under the income-mode system, holders of more than 50 acres of land are required to submit their income tax returns like other taxpayers.But because of the capacity-related issues of the collectors in the field, income tax mode could not be fully implemented. So, the tax collection continued in the previous fixed mode system. As a result, Punjab collected Rs830 million, a low figure, in the current fiscal year against the target of Rs2.01 billion. However, it was still Rs110 million higher when compared to previous year`s figure.
The target for next fiscal year remains unchanged.

In Sindh, the tax collected under income-mode from the agriculturesector is extremely low. It was initially estimated to be Rs468.6 million in 2013-14, but was revised to Rs426.5 million later, down by almost nine per cent. The target for tax on agriculture income for 2014-15 is Rs512.1 million. Khyber Pakhtunkhwa`s agricultural income tax revenue showed literally no growth for 2013-14 over its collection in 2012-13. This shows a lack of capacity or willingness to improve the system.

It was in 2012 that the provincial governments started implementing what was called "armonisation of agriculture income tax policy in the provinces` in line with the decision taken by all the four provincial finance secretaries. As a corollary, the provincial governments started taking steps for collecting agricultural income tax at local level. In the KP, the information provided by the income tax department on agriculture income, after district-wise segregation, was forwarded to respective districts for calculating agriculture income tax (AIT) and serving of tax demands.

Agriculture income tax is generally viewed as a difficult tax to collect. The impediments in its collection include uncertainty in the income due to vagaries of weather. Equally difficult is to convince the landowners to pay the tax. Often, their main argument is that agriculture is already overtaxed in the form of cane andcotton cess, sales tax on farm inputs, abyana and malya road taxes.

The fact remains that if any sector in the economy is excluded from income tax, it creates an incentive for people to evade taxes by showing income from other sectors as income from the agriculture sector. It also creates a disincentive for taxpayers when they see such a large sector, including a rich farmers group, not paying their due share of taxes.

The privileged status of the landlords was originally created by the British. It was the Bhutto government which repealed the 1922 income tax law in 1977 but in 1979 the Ziaul Haq government cancelled the 1977 measure and again exempted the agricultural income from any tax.

Dawn
23rd June 2014

TAX EXEMPTIONS TO RICH NEARLY DOUBLE

Customs seize 12 planes of Shaheen Air, lodge FIR for tax evasion

Bhagwandas

KARACHI: The customs authorities have registered a case against the Shaheen Air International (SAI) and seized 12 of its aircraft, directing the airline not to sell or scrap the planes without paying taxes said to be running into hundreds of millions of rupees to the government.

The SAI was in the process of selling, scrapping the aircraft, which were parked at Karachi airport, at a price of about Rs1.5 million each.

Besides the12 planes sitting idle atthe airport for long, the SAI has 18 operational aircraft, of which one plane was damaged in the recent attacks at the airport.The FIR mentioning case No SI/Misc/68/2014 AFU (Audit) has been registered by customs preventive officer, Syed Hassan Mehdi, against SAI`s managing director, directors and partners for violating Sections 2 (s), 32 (2) & 79 of the Customs Act 1969 which is punishable under clauses 8, 14 & 47 of Section 156 (1) ibid read with Sales Tax Act 1990 and Income Tax Ordinance 2001. No one has been arrested yet.

The description of the SAI`s seized aircraft and their registration numbers are: AP BIT; AP BHA; AP BJI; AP BJH; AP BIP; AP BIR; AP BIK; AP BIS; AP BIQ; AP BHC; AP BHB and AP BIU. The value of, duty and taxes on, these aircraft were to be ascertained.

The FIR says: `It was learnt from a reliable source that M/S Shaheen AirInternational Limited, Karachi, temporarily imported 12 aircraft (mentioned above) under different lease agreements.

It started scrapping the aircraft without getting prior permission from the customs authorities as required under Section 79 of the Customs Act 1969.

> `In order to confirm the information the undersigned (Syed Hassan Mehdi) and a team of customs officers from rummaging and patrolling section, Jinnah International Airport, Karachi, physically inspected SAI`s `on-ground` aircraft on the apron of the airport.
>
> `On June 18, 2014, after physical inspection, it was found that 12 different aircraft (as mentioned above) belonging to the SAI that were parked in the ground area behind Bay No 28 at Jinnah International Airport were not intact; fit-tings therein (including engines etc)had been removed / dismantled.
>
> `Musheernama to this effect was prepared on the spot. The information so received has further revealed that Shaheen Air International has approved a scrap dealer for cutting and removing of aircraft against a payment of Rs1.55 million each for five aircraft, which aspect is being probed into, to ascertain the extent of illegality committed by SAI to the total amount of taxes / duties evaded by them and to identify the persons responsible for the loss to the government exchequer.

`In the meantime, a notice under Section 168(1) has been served upon the management of the M/S Shaheen Air International not to remove, part with or otherwise deal with the said aircraftwithout prior permission of the customs authorities,` adds the FIR registered at the Customs air freight unit, Jinnah International Airport on June 18, 2014.

it was not the first time the SAI had been caught red-handed by the customs evading customs, duties, taxes etc. Just a few weeks back the SAI staffers were caught shifting various goods including aircraft parts at Karachi airport without mandatory documentation and payment of taxes, duties, customs. A case was registered and the SAI admitted it was a mistake.

The customs confiscated the goods but offered to release them if the SAI paid taxes plus fine etc, which the SAI paid.

SAI deputy managing director Faisal Rafiq had earlier confirmed it in response to queries by Dawn.

Dawn
30th June 2014

Lobbies get tax plans changed in their favour

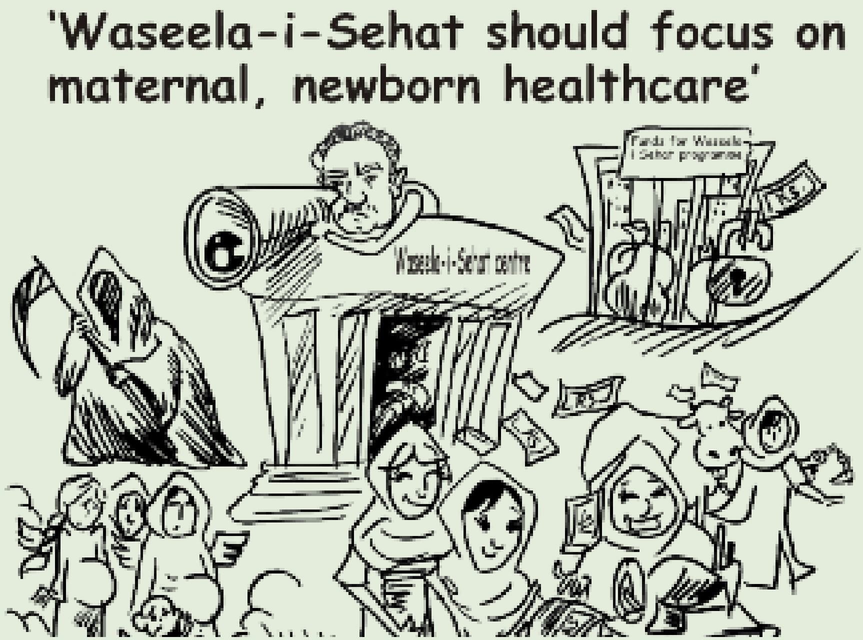
Ministers demand increase in salaries, PM rejects

SHAHBAZ RANA

ISLAMABAD: The well-entrenched real estate and textile lobbies prevailed over the federal cabinet at the eleventh hour, as the government was compelled to drastically change its original plan of fully capturing the income generated from few of the most lucrative sectors.

The process of conceding to the demands had begun even before a special cabinet meeting, after Prime Minister Nawaz Sharif himself amended a tax proposal that was aimed at levying 7.5% advance income tax on monthly electricity bills amounting to Rs35 ,000 of domestic consumers.
During a meeting held last week, the premier raised the ceiling to Rs100,000, defeating the purpose of the original idea, revealed sources privy to closed-door discussions.

The special cabinet meeting was held, hours before the government presented its second budget in parliament. When various lobbies were fighting to protect their interests, the federal ministers too jumped into the bandwagon and demanded an increase in their salaries equivalent to the one given to civil servants, sources in the Ministry of Finance revealed.



The biggest setback came from the influential textile lobby that blocked the government's move to increase sales tax on yarn from 2% to 3% and on fabric from 3% to 4%.

After the prime minister gave the goahead to the Ministry of Finance, the lobby approached Finance Minister Ishaq Dar and persuaded him to drop the proposal.

The finance minister said it was a win-win situation as in return for not increasing the tax on domestic sales of the textile sector, the government pushed the industry to agree on another budgetary measure.

The Federal Board of Revenue (FBR) had estimated receiving about Rs.20 billion from the textile sector by marginally increasing the tax. At the standard rate of 17%, the textile sector had to cough up RsG5 billion next year.

The FBR had also tabled a proposal to introduce 1% advance tax on purchase of property for tax-compliant people and 2% on those who are not in the tax net. The proposal was aimed at encouraging the filing of tax returns, according to the FBR. Though the cabinet approved the proposal, it exempted properties having certain value from the levy.

During the cabinet meeting, Railways Minister Khawaja Saad Rafique, who has stakes in the real estate sector, op-posed the move. On his insistence, the prime minister exempted property worth Rs3 million from advance tax.

The FBR had proposed Rs2 million ceiling for tax exemption. The finance minister's speech states "properties with value of less than Rs2 million" will be exempt from the tax. The deputy commissioner rates are peanuts when compared with market rates. A property having deputy commissioner rate of Rs3 million may have market value of Rs4o million, according to the sources.

On average, the deputy commissioner rates are five times less than market rates, say real estate experts. The cabinet, at one point, wanted to set the limit at Rs5 million but FBR Chairman Tariq Bajwa stepped in.

Bajwa defended the step despite his close relatives being associated with the real estate business. At the post-budget press conference, Dar praised Bajwa for his honesty and integrity.

The minister was of the view that the cabinet raised the exemption ceiling to Rs3 million in a bid to facilitate the middle-class.

According to sources, cabinet ministers also pushed for increase in their salaries, which Dar resisted due to possible criticism in the media and by opposition parties. The prime minister suggested that if the federal ministers felt that their salaries were low, he was ready to surrender his pay in favour of them.

Express Tribune
5th June 2014

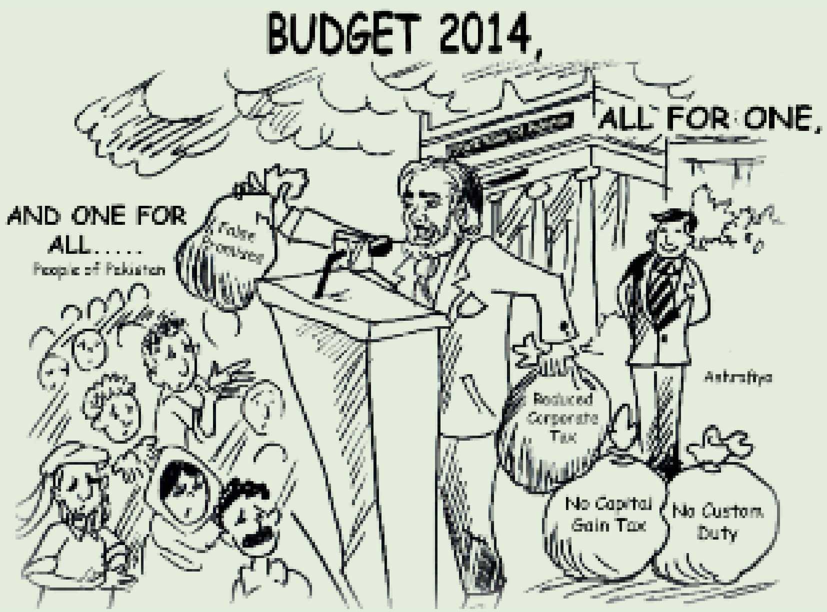
Income inequality and taxes

Uzair M Younus

Thomas Piketty's Capital in the Twenty-First Century has been all the rage these days in the West. The book has kick-started a much needed debate on rising income inequality, stagnating wages and the empowerment of a global elite that has benefitted from increasing globalisation. The author makes his argument by stressing that the rate of return on capital has been significantly larger than the rate of economic growth in recent decades. This in inequality has led to a situation where wealth is begetting more wealth, while the middle and lower classes face stagnating wages and an erosion of their purchasing power.

The book is mainly a discourse on capitalism in the West but it has a number of lessons for the developing world. In the last few decades, emerging economies have shown strong growth. However, this growth has also been accompanied by rising inequality and recent protests in Turkey, Brazil and other emerging economies as signs of this growing divide. The situation in Pakistan has been similar, where high inflation and a stagnating economy has dealt a great blow to the majority of the population. Even during Musharraf's era, where the economy grew by leaps and bounds, incomes primarily rose for the urban populace belonging to the upper echelons of our society. During this period, real incomes for the rural poor fell, and this trend has increased over the last few years.

The business-friendly and industry-oriented government of Prime Minister has made economic growth a fundamental priority. However, like the capitalist elite all over the world, the cabinet and close advisers of the prime minister believe in trickle-down economics. Their belief is that growth led by capitalists, will trickle down as growth for the less privileged in due course. While inequality will rise in the short-run, the medium and long term will usher in an era of prosperity for the majority of the population. This policy has been in action since the new government took power and gave Rs.477 billion in tax exemptions to the elite, a 100 per cent increase from the last fiscal year. Reports indicate that the new budget will continue this trend and continue to give exemptions to those that need them the least, while using regressive forms of indirect taxation and cutting subsidies to break the back of those that need monetary relief.



For a feudal society like Pakistan, where a small moneyed class has reigned supreme for decades, such a policy will reinforce the status quo and increase the divisions within our society. The inequality of the Musharraf era was largely visible in urban centres like Lahore and Karachi as expensive imported cars, designer clothing, and fashionable malls catering to the elite popped open in every nook and corner. During this same period, the average Pakistani has been placed under increasing fiscal strain, struggling to even properly feed his or her family. The result has been a rise in malnutrition, with about 1.5 million children in Pakistan suffering from it. Both women and children suffer from this epidemic and estimates say that more than half of women and over Go per cent of children under five years of age are anaemic in Pakistan.

For an economy to grow, investments need to be made in developing human capital through education and healthcare. The provision of these services rests on effective taxation and redistribution of wealth as it allows money to flow from the elite to the less privileged in society. With one of the lowest tax-to-GDP ratios in the world, Pakistan needs fundamental taxation and economic reforms. Taxing the elite is the first step in fixing this growing problem and this is what Piketty argues for in his book. Sadly, for a government whose power base is the moneyed class, fundamental reforms that seek to reduce inequality and establish a more equitable taxation system will not be a priority. Economic growth is indeed a priority, but the economic growth model being followed by Nawaz Sharif's government seeks to benefit the own-ers of capital and those who have already accumulated vast amounts of wealth. Growth is indeed returning to Pakistan, but the fruits of this growth will largely enter the coffers of the elite and this will only reinforce the growing divisions within our society.

Express Tribune
5th June 2014

Taxing the rich

Having been criticised repeatedly for not doing anything to tax the wealthy, the government has, at last, decided to levy taxes on some of the more welloff members of society. The latest proposals include a 10 per cent tax on first and business dass airline tickets as well as an increase in the sales tax on services provided by professionals such as accountants, lawyers, doctors, dentists, architects, engineers and interior decorators. The sentiment behind the policy is laudable, but if this is the best the federal government can do then they have a long way to go before Pakistan's tax system becomes anywhere near progressive. The tax on luxury airline travel is justifiable, although we object to the government's use of the withholding tax as the mechanism to enforce it. A withholding tax, after all, is a poor substitute for people paying their taxes honestly for fear of being audited by the Federal Board of Revenue. Audits, and not withholding taxes, are the real key to making the rich pay their fair share.

Our broader objection is to the increase in the taxes on professional services. The increase from six per cent to 10 per cent — while large — is certainly not outrageous, and the government can justify having that tax rate for services provided by professionals who are largely from the uppermiddle class. However, we object to the fact that the government is turning to sectors that are largely documented and pay their taxes anyway. Law firms, accountants, and engineering firms are relatively small segments of the Pakistani economy but largely well documented ones. Admittedly, health care should prob-ably be paying a larger amount in taxes, but that is a problem of enforcement, not of a low tax rate. In other words, this is once again a case of the government taxing what it can, and not what it should.

The truly wealthy in Pakistan are the industrialists who have lobbied for exemptions from the tax code, or the large traders who keep few records of their transactions and evade taxes outright.

We will believe the government's promises to crack down on the wealthy tax cheats when it goes after those people, not the honest folks who are already paying their fair share.

Express Tribune
1st June 2014

A not so simplified sales tax regime

Retail sector points out flaws in new proposal to collect taxes

FAROOQ BALOCH
KARACHI :"Most of the retailers are willing to pay their due share of taxes, but they want a simple and easy method of doing so," Finance Minister Ishaq Dar said in his budget speech on June 3. The minister then introduced what he called 'a two-tier Simplified Sales Tax Regime for Retailers'.
Dar acknowledged that retailers wanted an easy way for paying their taxes. His Simplified Sales Tax Regime, however, is not as simple, according to sources in the retail sector.

"Under the current budget proposal, it is not clear how this regime will be implemented for the collection of taxes from small retailers," said Fareed Oureshi, a representative of the Karachi Retail Grocers Group - an umbrella organisation for 250 small grocery stores.

There are many businesses, including big factories, that evade taxes but they were not targeted, Oureshi said. "We are already in the tax net and file our tax returns, this new system will only make things worse and evaders will remain at large."

In the federal budget for fiscal year (FY) 2014-2015, the finance ministry proposed to bring the largely undocumented retail sector under the tax net by linking their volumes and eventually sales tax to their electricity usage.

Operating the system To implement this new system, the finance ministry divided the retailers into two categories. The first tier comprises of retailers who operate as part of national and international chain stores; operate in airconditioned shopping plazas; have [point-of-sale] machines for credit or debit cards and have monthly electricity bills in excess of Rs50,000 - all remaining retailers will fall in the second tier.

For tier II retailers, the ministry would introduce a mechanism for the payment of sales tax through the retailers' electricity bills, the minister said. "Thus, retailers with an electricity bill of less than Rs20,000 in a month shall be charged only s% of the bill as sales tax on retail sales while those with higher bills shall be charged 7.5%."

"I don't think this will be sustainable" said an official from the retail sector while commenting about the aforesaid proposal. "In a country where people don't pay electricity bills and steal power through illegal connections, linking sales tax with electricity usage is not a wise idea," Citing an example, the official said a similar idea was once tried in Sargodha to bring the makers of appliances, such as ceiling fans, under the tax net. When the government linked their sales volumes to their power usage, many had switched to alternate energy sources to hide their sales volumes, the official said - some switched to LPG while others used petrol generators.

The retail sources are sceptical about the transparency and implementation of the said regime and say the government should instead charge a fixed amount of tax from small retailers. By charging a fixed amount, the government can first bring them under the tax net, according to an official, and then increase the tax rate according to their sales.

Giving an example, Karachi Retail Grocers Group's Qureshi said the government could check his tax returns for the last three years to determine the amount of tax. This can be done for every retailer who is filing taxes. "Since we buy our stocks from distributors, our sales could be matched with our distributors' records for inaccuracies." "Even if they fix the tax to Rs5 ,000 per retailer, they can raise Rs125 million from 25,000 general stores in Karachi alone,"

Express Tribune
13th June 2014

Govt withdraws lower tax exemptions than promised

Takes back Rs75b in concessions, which is Rs28b lower than announced in budget

SHAHBAZ RANA

ISLAMABAD: The federal government has withdrawn only Rs75 billion worth of tax exemptions, Rs28 billion lower than what it announced while unveiling the budget earlier this month, shows an official document that forms the basis of taxation measures for the upcoming fiscal year.

In income tax, the government withdrew Rs15 billion worth of exemptions against the claim of taking back Rs36 billion in concessions for the next fiscal year 2014-15, beginning July.

Similarly, against the claim of withdrawing Rs35 billion worth of sales tax exemptions, which were provided by issuing Statutory Regulatory Orders (SRO), the document depicted that only tax concessions of Rs27.7 billion were withdrawn. Instead of fully withdrawing the concessions, in many cases the government ended up increasing the tax rates. The scrapping of less-than-announced tax exemptions will have adverse implications for next year's revenue target of Rs2.81 trillion, which the Federal Board of Revenue (FBR) already believes is over-ambitious - a view that it has conveyed to the top leadership in closed-door meetings.

The inability to do away with most of the exemptions highlights the growing influence of different lobbies that have been enjoying tax breaks for decades, according to tax experts.

In remarks made during a recent meeting of the Senate Standing Committee on Finance and Revenue, FBR Chairman Tariq Bajwa stated that the government had worked out the cost of tax exemptions at Rs477 billion. Of this, concessions of Rs240 billion could be taken back while the rest were socially sensitive.

According to Bajwa, about 40% of Rs240 billion worth of exemptions have been withdrawn from the new fiscal year while the remaining will be scrapped in two phases, from July 2015 to June 2017.

On the eve of the federal budget announcement, the government said out of Rs103 billion, customs duties had a share of Rs32 billion, sales tax Rs35 billion and income tax Rs36 billion.

Despite repeated attempts, FBR spokesman Shahid Hussain Asad, who is also the member of Inland Revenue Policy, was not available for comments.

Income tax
The government withdrew Rs15 billion worth of income tax exemptions. This included withholding tax exemption on payment to foreign news agencies that would yield Rs3 billion. Although it did not strictly fall in the category of exemption, the government took back withholding tax breaks available to large trading houses that would provide Rs6 billion in revenue. Tax exemption available to Hamdard Laboratories was also done away with that would yield Rs1 billion. Tax exemptions for non-profit organisations were removed that would generate Rs5 billion next year.

Sales tax
Under the tide "Review of exemption SROs", the document showed that the government brought amendments to seven sales taxrelated SROs that would give revenue of Rs27.7 billion.

Amendments to SRO 575, which deals with machinery and equipment, will yield Rs14 billion. Revisions in SRO 727, which also deals with import of machinery and plant, will yield Rs6 billion.

Changes in SRO 551 will generate Rs1.7 billion in tax revenue, amendments to SRO 501, which covers food items, will fetch Rs2 billion, changes in SRO 69, which deals with seeds, will give Rs2 billion and changes in SRO 1,125, which is concerned with imported garments, leather and carpets, will provide Rs2 billion in revenue next year.

Customs duties
The document showed that this was the only area where the amount showed and claimed was the same at Rs32 billion. By amending SRO 575, the government will receive revenue of Rs12 billion, Rs9 billion will be raised due to changes in SRO 567 and another Rsu billion will come as a result of changes in SRO 565.

Express Tribune
17th June 2014

Pilots threaten strike if new taxes not revised downwards

Govt has proposed change in income tax on their flying allowance

KARACHI: Pilots of the Pakistan International Airlines (PIA) threatened to go on a strike and suspend operations of the financially crippled national flag carrier if taxes on their salaries are not revised downwards immediately.

The threat comes just days after the government proposed a change in the income tax regime on the flying allowance of the pilots, meeting their expectations of addressing a long pending issue.

Yet the pilots under the leadership of Pakistan Air Line Pilots Association (Palpa) Captain Amir Hashmi think otherwise.

"Pilots working for PIA have announced unanimously that they will stop flying if the airline's management continues to implement 'unfair and unjust' taxation policy on their salaries," Palpa said in a statement. PIA pilots claim they pay much more in taxes than their counterparts in private Pakistani airlines.

"I can only stop the movement to a certain extent but by the looks of things it has gone too far now," the statement quoted Hashmi as saying.

"We need a fair solution to the matter immediately by either returning over taxed money or charging the same from private airlines' pilots."

OVERSHADOWED BY LOBBIES, THE GOVERNMENT WITHDRAWS LOWER TAX EXEMPTIONS THAN PROMISED

In the Budget 2014-15, government imposed a 7.5% tax on the flying allowance that exceeds the basic salaries of pilots. The government says this is actually a relief.

The previous budget had included the flying allowance with all the other components of the salary and taxed it as per the applicable income tax slabs.

Before that the flying allowance, which makes up major chunk of pilot's salaries, was taxed at 2.5%.

PIA pilots, who constitute the most powerful union in the airline, have always contested that flying allowance should be treated in a way special way as a 'risk allowance.'

Many times Palpa has even likened the allowance with the salaries paid to Pakistani soldiers stationed at Siachen Glacier considering the danger involved with the job.

Interestingly, in the entire statement, PIA pilots kept on lashing at the management, which has nothing to do with taxes - the contribution every citizen has to make to run the country.

"Pilots are trying to pressurise the government and that's all," said a senior PIA official. "They want the airline to bear part of the taxes." That would basically mean more losses for the airline that will have to be paid from the national kitty. Palpa said despite the airline's poor health, the management has hired two additional general managers. The association also went on to accuse the management of wrongdoing for hiring aircraft on wet lease, which were recently returned.

A PIA spokesman said that the management was in negotiations with the pilots and it will give an appropriate answer later.

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17th June 2014

Excise and taxation department laments increase in withholding tax

Says it would decrease revenue collection, calls method problematic

SOHAIL KHATTAK

KARACHI: Sindh Excise and Taxation Department criticised the government's decision to increase advance withholding tax on vehicles, stressing that it will drastically decrease revenue from vehicle registration.

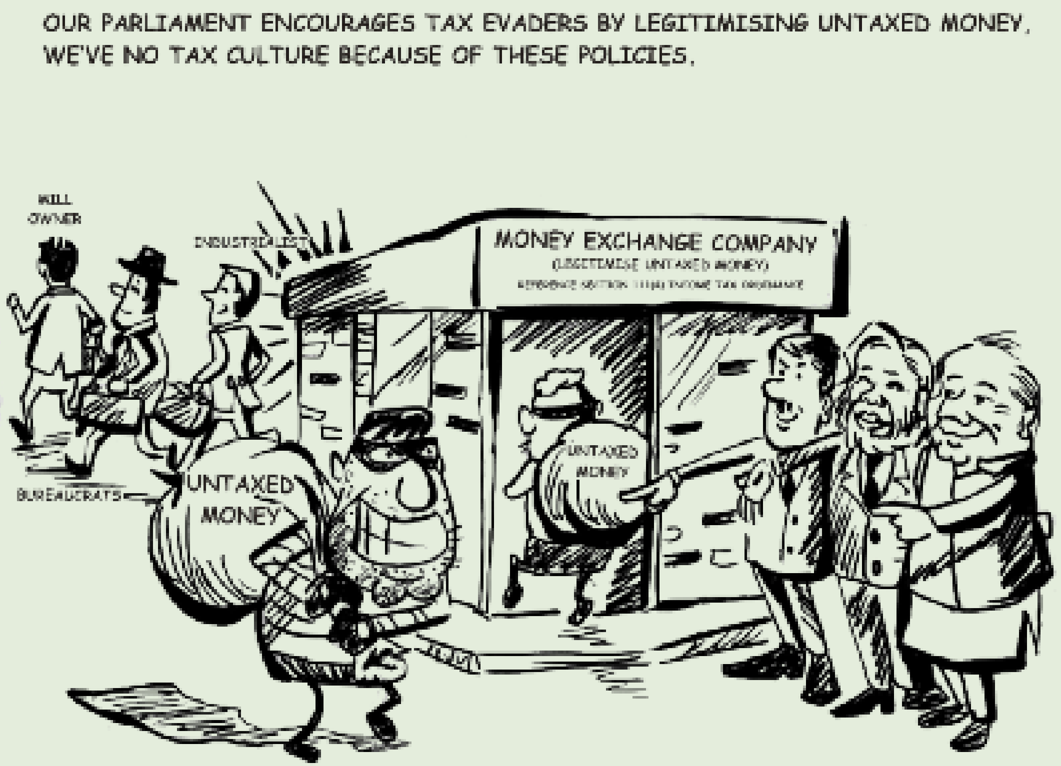
Provincial Minister Excise and Taxation Mukesh Kumar Chawla raised objections regarding the implementation of new rates in the time ftame provided by the FBR. Moreover, new tax rates will discourage people from registration and transfer of their vehicles and ultimately adversely affect the law and order situation of the country.

"Under the income tax ordinance Section 232-B, the federal government collects advance withholding tax annually on motor registration:. said Chawla. "Income tax filers and non-filer categories have been included in the tax collection. This tax, which was earlier collected once a year, will now be collected for five years every time a vehicle is transferred.

"The FBR issued us the order on June 25 to start tax collection under the new rules from July 1, which is impossible for the excise department. We don't have access to check and verify the income tax filers and non-filers. The FBR will provide us the data of the filer in a CD every month but our computer software needs to be upgraded for new amendments. We need at least a month to upgrade the software and computer system. The FBR should come and discuss the issues and problems connected with the implementation of new rates and also pay us the service charges."

He said that the people would not transfer their vehicles for five years and will instead choose to sell their vehicle on an "authority letter—a process used in the bygone days—thus encouring those who use vehicles in criminal activities. Car dealers also raised objections on the new tax rates, calling the decision unwise and 'foolish'. All Pakistan Motor Dealers Association Chairman H M Shahzad said that the FBR will lose the revenue that it generated from the old rates and will also affect the Sindh government's revenue as people will stop car transfer. "I can get an undertaking that you have bought my car and you are using it while it is still under my ownership. Why would somebody transfer a car that costs Rs100,000 when he can use it without any cost," said Shahzad.

Engine Capacity(cc)	Rates for filters in rupees	Rates for non-filters
Up to 850	10,000	10,000
851-1,000	20,000	25,000
1,001-1,300	30,000	40,000
1,301-1,600	50,000	100,000
1,601-1,800	75,000	150,000
1,801-2,000	100,000	200,000
2,001-2,500	150,000	300,000
2,501-3,000	200,000	400,000
3,001 and above	250,000	450,000



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PM's decision to consider single-digit sales tax rate hailed

KARACHI: Zakaria Usman, president of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI), welcomed the decision of Prime Minister Nawaz Sharif for setting up a commission to consider its sales tax proposal of single stage - single digit non-adjustable sales tax, a statement said.

Usman said that the FPCCI in its shadow budget had proposed the government to introduce a no input / no refund mechanism in sales tax, which would instantly result in positive cash flow for businesses, it said.

If the government agrees to bring the rate of sales tax down to five percent on domestic stage, eight percent at the import stage and 0.5 percent at the retail stage, this will go a long way in bringing down the cost of doing business, lowering inflation, providing relief to the common man, reduce prices, eliminate corruption and would also put an end to smuggling, he said.

Usman also said that Pakistan can never reach the real tax potential unless fundamental reforms in the tax policies and administiations are made and tax compliance should be made easy, the statement said.

He applauded the bold and visionary decision of the Prime Minister to direct formation of a commission to consider single stage, single-digit non-adjustable sales tax regime and the Federal Board of Revenue (FBR) to revert to circle-based system to reduce tax compliance burden of businessmen and bring about accountability and deficiency in the revenue board.

Usman with his core team members, including Shaukat Ahmed, SVP, Mazhar All Nash-, VP, Zeeshan Merchant and Shahid Ahmed had already met Finance Minister Ishaq Dar on three occasions to discuss the possibility of this proposed sales tax scheme, he said, adding that the FPCCI along with its member associations is willing to partner with the government in increasing the tax base and revenues.

With the proposed scheme, the sales tax revenue has been projected to rise to around Rs1,500 billion as compared to the present sales tax revenue of around Rs900 billion with no extra burden on exporters. He said the present system of sales tax is complex and there are only 19,387 sales tax payment filers.

The present sales tax system encourages frauds, sales tax non-compliance and encourages business of flying / fake invoices, he said, adding that a whole sales tax mafia consisting of unscrupulous persons and some tax officials has emerged.

By bringing the rate of sales tax down to a single-digit of five percent, these issues can be significantly reduced and the tax base could be increased several times.

The FPCCI has assured the government of its full support and cooperation. The finance minister has also appreciated the proposals of the FPCCI in the interest of the country, he said

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Punjab misses agriculture income tax target

Munawar Hasan

LAHORE: The Punjab government's initiative to enhance the recovery of agricultural income tax proved a nonstarter as it managed to collect only Rs830 million on this account against the target of Rs2.01 billion during the fiscal 2013-14.

Actually, the provincial government had shifted its focus to income-based tax collection from the land-based valuation system for agriculture income tax. That may be a reason that it fell short of meeting the fiscal year's target by whopping Rs1.18 billion. Compared with the preceding fiscal year, the collected tax was Rs110 million higher in FY14. However, it was on lower side as compared to that of FY11 and FY12.

For the next fiscal year (FY15), the government set the same target of Rs2.01 billion for the agriculture income tax. The agriculture income tax is an important direct tax for the Punjab, enforced under the AIT ACT 1997, which determined a fixed amount per acre of land.As per the major amendments introduced to this Act in 2001, holders of 25 acres of irrigated land (equivalent to 50 acres of unirrigated land) were required to submit their MT return.

Despite an announcement last year, the incomemode of the tax was, however, not practically implemented due to capacity related issues of the collectors in the field. The tax collection, however, continued in the fixed mode and owing to the subdivision of land overtime into smaller holdings, and exemption to owners of up to 12.5 acres, the collection from this tax has been declining in recent times, according to the new budget document.

Commenting on what he called bad governance on part of provincial government in tax recovery, Sarfraz Khan, former member Federal Board of Revenue (FBR) and central leader of ICissan Board Pakistan, said the department concerned has badly failed in engaging fanning community on this vital issue. The farmers were not taken into confidence at the time of the formulation of the new mechanism of agricultural income tax collection, he lamented. Khan said that provincial machinery was also not capable to audit and assess taxable areas of the agriculture sector. The biggest issue is capacity as well as will of the people concerned, he observed.

The member FBR is also wary of the approach of the government for agriculture sector, saying farmers, especially small and medium land holders, are facing huge problem due to high cost of production. He said that farmers in Punjab were burdened under a wide range of indirect taxes, which needs to be reviewed first. Last year, the provincial government announced that it was fully aware of the revenue potential of AIT. The issue thus had been thoroughly debated and later, the important decisions had been taken to increase the tax recovery. It may be noted that Shahbaz Sharifled government reduced the budget estimate of the tax receipt for AIT for 2011-12 to Rs927 million from the level of 2010-11, which stood at Rs1.2 billion, showing a significant reduction. Owing to the low collection of agricultural income tax, the share of MT in direct taxes came down to just 2.36 percent in the budget estimate of FY13. It was 4.04 percent in FY12 and 6.75 percent in FY11.

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FBR serves show cause notices to senior IRS officers

Shahnawaz Akhter

KARACHI: The Federal Board of Revenue (FBR) has issued show cause notices to senior officers of Inland Revenue Service for their negligence in issuance of illegal sales tax refunds.

The officials said that a commissioner and a deputy commissioner of Regional Tax Office (RTO) have been served show cause notices in illegal refunds scam.

Three RTOs of Karachi jointly issued sales tax refunds worth around Rs40 billion, which were found illegal and issued on fake and flying invoices, the officials said. They said that besides issuing show cause notices, the FBR has also suspended one auditor, who was allegedly involved in the refund scam.

The refunds were issued prior to June 30, 2013 and after detection of the scam, the authorities have blacklisted 4000 companies for further transactions, the officials said.

They said that the unscrupulous persons have taken full advantage of the flaws in the FBR system and established companies having no physical existence.

To obtain refunds or input adjustments one has to declare purchases and supplies with his monthly sales tax returns.

In the bogus refund scam, the persons established fake companies and get registered with the sales tax department in both ends for purchases and supplies, which created a chain of transactions that had never done physically.

However, some genuine registered companies also become part of the game without having knowledge, the officials added.

In the latest case of show cause, an exemption certificate was issued to a company by one RTO without having jurisdiction.

They said the issuance of illegal refunds was done in both direct and indirect taxes in connivance with the Inland Revenue officials. Officials at the RTOs on the condition of anonymity said that high officers were directly involved in the scam by way of issuing exemption certificates to non-genuine taxpayers or those who were not qualified under Section 148 and 153 of the Income Tax Ordinance, 2001.

It was alleged that the commissioners of IRS issued such exemption certificates to thousands of fraudsters without conducting any physical verification of the units or ascertaining the genuineness of their tax profile. The officials said that this happened because the FBR has granted discretionary powers to conduct misappropriation action under the umbrella of law, which caused huge revenue losses to the national exchequer.

In the cases that were black-listed for the sales tax, where the authorities initiated action under the Sales Tax Act, 1990, it was identified that fraudsters had also been awarded such exemption certificates by the same authorities in order to evade income tax, as well as sales tax but no action had been taken for the recovery from the companies or against the officers who were involved in connivance with each other. In an official note sent to the FBR Headquarters, it was revealed: "The high officers of Inland Revenue Services have also awarded bogus manual income tax refund to blacklisted / suspended fraudsters without having prior scrutiny or validation of record as required under the law, which first needs to be catered through uploaded the claims on a computerised system for prior validation of the income tax refund as of sales tax refund and do keep track of the sanctioning officers of such refund claims along with their tax profile, as well as basic standard ratios of the case on computerised system."

The officials said that the solution for detecting the culprits is that the FBR should identify IP (Internet Protocol) address of those companies, which filed sales tax returns regularly to obtain illegal refunds and later vanished.

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