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TaxWatch Tax Justice Campaign

May 2014

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Finance Minister Ishaq Dar told the National Assembly that at least $200 billion of `Pakistani money` was stashed away in Swiss banks. Mr. Dar disclosed that the government was engaging with Swiss authorities to get to the money, hidden away by various Pakistani nationals. Last year, federal cabinet had already approved renegotiation of the current Pak-Swiss tax treaty and Federal Board of Revenue officials and the Swiss authorities concerned had agreed to meet in August this year to upgrade the existing agreement. Moreover, there is also indication that government is considering enactment of Foreign Accounts Tax Compliance Act (FACTA) to counter tax evasion by Pakistani companies and individuals from their overseas income.

Two important decisions were taken in May 2014 for improving tax compliance in the country. FBR has granted power of assessment and recovery to officials of the tax intelligence unit of the Inland Revenue Service (IRS), to unearth and recover the evaded tax from fraudsters. The intelligence unit has unearthed cases involving tax evasion of Rs6 billion. So far only Rs800 million has been recovered from evaders, reflecting poor compliance of the tax department. Ironically, Finance Minister Ishaq Dar has suspended the implementation of the order due to pressure from powerful business lobbies.

FBR is revising value of imported goods to collect due taxes from importers. However, Director General of Customs Valuation Mohammad Yahya blamed the Karachi chamber of commerce for influencing the value of imported goods at lower rate despite the evidence of higher value found in containers. There are examples that invoice found in a container at the value of $500 but persons representing the member demand determining the same at the prevailing value of $100.

On enforcement side, Directorate General of Intelligence and Investigation Wing (Customs) has confiscated smuggled tyres and some other goods worth millions of rupees after raiding shops and warehouses in some cities of Punjab. Under-invoicing/smuggling of tyres, cigarettes, tea, petrol/diesel are depriving the national kitty of around Rs50 billion in revenue annually. In Karachi, the intelligence department also seized smuggled goods worth Rs438 million and detected tax evasion of Rs796 million related to the misuse of SRO 1125.

FBR also detected massive misuse of Duties and Taxes Remission for Exporters (DTRE) scheme. And restricted the facility of green channel for goods clearance under free trade agreement (FTA) without producing an original certificate of exemption.

Tax department issued notices to refineries and gas utility companies to deposit the due liabilities to the tune of Rs5 billion to Rs6 billion as withholding tax, the liabilities due since July 2012.

Two tax policy recommendations came for improving the tax collection. The World Bank has proposed capturing agriculture income at a stage when farmers bring their crops to the market—as the existing mechanisms to collect tax on farm earnings have failed to yield results.

Transparency International Pakistan (TIP) has sent a letter to finance minister for the implantation of its recommendation which would increase revenue by Rs2, 000 billion annually. International Centre for Public Policy, University of Georgia also estimated over Rs 1,800 billion tax evasion annually in Pakistan. The government has not extended the deadline for availing the prime minister tax incentive scheme from April 30, 2014. The scheme has abysmally failed to lure investor for declaring their investment and coming into the normal taxation regime.

The tax-to-GDP ratio has declined during the current year despite an increase in tax rates. Even though tax collection had improved by more than 15 per cent during this year, the tax-to-GDP ratio had dropped significantly. The government had set a target to achieve the ratio of 10.9pc in 2013-14.

Tax to GDP Ration of
Federal Board of Revenue

Period	Party in Govern-ment	Tax to GDP (%)
2001-2007	PML-Q	
2003-04		9.2
2004-05		8.9
2005-06		9.4
2006-07		9.2
2007-08		9.5
2008-2013	PPP	
2008-09		8.8
2009-10		8.9
2010-11		8.5
2011-12		9.4
2012-13		8.7
2013-2014	PML-N	
2013-14		9.5 proposed

Tax-GDP ratio going down

SOHAIL SARFRAZ

ISLAMABAD: Renowned economist and former finance minister Dr Hafiz Pasha said that the lacklustre performance of the Federal Board of Revenue (FBR) is evident from the fact that netting non-filers was a total failure, tax-to-GDP ratio is going down while revenue growth is below 10 percent in April 2014. The FBR may hardly collect Rs 2,250 billion revenue against downward revised target of Rs 2,345 billion for 2013-14.

Giving a presentation on federal budget (2014-15) in an event organised by Institute of Policy Reforms, Pasha said something very unusual has happened during current fiscal year. The IMF told FBR to scale down ambitious revenue collection target from Rs 2,475 billion to Rs 2,345 billion. We would be lucky enough if we reach the figure of Rs 2,250 billion by the end of current fiscal year. In April the growth rate in revenue collection was below 10 percent. If the FBR is unable to raise tax revenue growth beyond the current rate, there is likely to be a shortfall of around Rs 90 billion in achieving even the revised target of Rs 2,345billion for 2013-14.

On the FBR's drive to expand the tax-base, Pasha said over 3 million people are not filing income tax returns. In India, there are 32 million return filers. The FBR's drive to net non-filers was a total failure. To enforce filing of returns by potential taxpayers is a key condition of the IMF. It is amazing that 42 percent of the returns in the tax directory have declared zero income.

To deal with non-filers, Dr Pasha proposed that the owners of property above a minimum size are expected to file income tax returns. However, this is not the case frequently. The FBR has sent notices to a large number of non-filers, but the response has been very poor. As one punitive step, property owners who are required to file returns may not be allowed to sell or transfer their property if they are unable to present the last three years income tax returns at the time of registration of the transaction.

Dr Pasha remarked that the level of tax compliance reflects total breakdown of the tax system. While opposing the proposal of the single digit sales tax, he said that single digit sales tax would result in more sales tax evasion under the Value Added Tax regime. The government must avoid any move to bring existing 17 percent sales tax to a single digit. The strategy should be to work towards improving the existing system rather to go back to a single-stage tax. The biggest drawback of the single-stage tax system is that it will lead to a cascading of the tax burden, that is, a tax on tax. If the nominal rate is 5 percent then due to cascading the effective tax rate could be as high as 8 percent.

Dr Pasha said that currently the type of sales tax regime is being debated for adopting the one which best suits the country. The GST is levied, more or less, in the VAT mode with multiple stages of taxation along the value chain and with input tax invoicing at each stage.
The growing disillusion with the GST is primarily due to two reasons. First, there is a perception of over-invoicing of inputs, arising from the so-called 'flying invoices' problem. Second, industry has been complaining vociferously about delays in the payment of refunds. This has arisen particularly at times when FBR is under pressure to achieve targets.

The alternative that has been suggested is the reversion to a single-stage scales tax, without input tax invoicing. This is the kind of tax which existed in Pakistan prior to the promulgation of the 1990 Sales Tax Act. As such, the GST will be levied on the value of sales/production and not on the value addition.

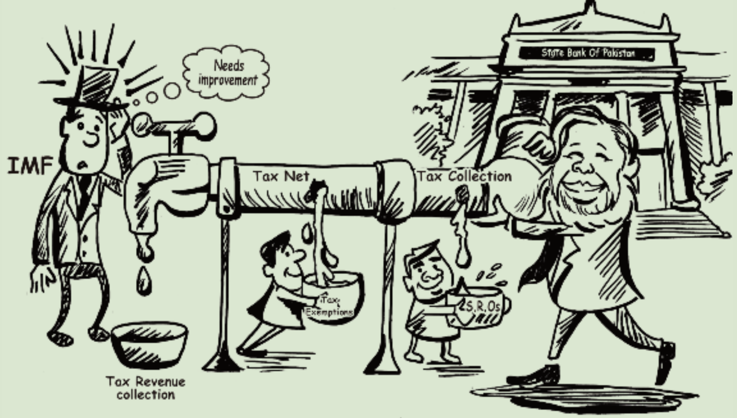
Pakistan has been one of the pioneers in the implementation of a VAT system in developing countries. It will be unfortunate if this system is abandoned now. In our view the strategy should be to work towards improving the existing system rather going back to a single-stage tax. Steps that need to be taken to improve the working of the existing GST are as follows:

The development of the CREST software has led to reduction in over invoicing of inputs. In addition, the capacity to audit sales tax returns is, more or less, non-existent in FBR currently. Such capacity should be built up quickly to facilitate a move towards composite audit (of income tax and GST simultaneously. This was the basic logic behind the setting up of IRS.

Refunds must be honoured expeditiously. Small refunds of opts, say, Rs. 1 million may be paid immediately. In the case of larger refunds, the policy may be to pay 60 percent immediately after the filing of a claim and the remaining 40 percent following assessment. A special refund cell was established in the office of the Chairman FBR, which ought to be reactivated, Pasha added.

Dawn
17th May

State Bank of Pakistan has called for measures to eliminate tax exemptions and clamping down on leakages to minimise tax avoidance and evasion



FBR detects massive misuse of DTRE scheme by big shots

RECORDER REPORT

KARACHI: Federal Board of Revenue (FBR) has detected massive misuse of Duties and Taxes Remission for Exporters (DTRE) scheme, Director Intelligence and Investigation, FBR, Muhammad Asif Marghoob Siddiqui, told business community, here on Tuesday.

Responding a number of questions during a meeting at Karachi Chamber of Commerce and Industry (KCCI), Siddiqui said that a number of big shots were involved in misuse of DTER scheme. However, he did not give the names and details of the misuse of the scheme.

He further said that a policy would be devised within next four days to initiate action against those involved in misuse of the scheme.

When his attention was drawn towards the issue that some times when importer reached port to get their consignment cleared they found notice to withhold the container for examination, he agreed that the importers should be intimated about holding the containers back for examination to save them from unnecessary hassle.

Siddiqui said that around 70 to 80 percent complaints were genuine and announced to appoint addition director Khalil Usmani as focal person to look into the complaints and address them.

He admitted that smuggling was going on in connivance with officials.

Business Recorder
9th May

Ruling elite is letting down FBR

Huzaima Bukhari and Dr Ikramul Haq

Continuous failure of Federal Board of Revenue (FBR) in meeting even the lowest possible revised targets during the last many years must be seen in the background of policy of appeasement of the successive governments, civil and military alike, towards tax evaders. Tax directory, unveiled by FBR recently, testifies to this effect as only 890,000 filed tax returns out of 3.6 million holders of National Tax Number (NTN), despite generous tax amnesty made available vide SRO 1065(I)/2013 in the wake of Prime Minister's Tax Incentive Package.

The Chairman FBR and his team in November 2013 made it clear that extraordinary concessions and amnesties, announced by this and earlier governments had dampened their efforts to meet targets. The Finance, however, as usual was engaged in self-praise telling the head of International Monetary Fund (IMF) team, Jeffery Franks, "I am happy about the performance of FBR." During talks with IMF team, Ishaq Dar did not tell that enormous tax exemptions and concessions, given by politicians, had eroded Pakistan's tax base over the period of time, and that the present government was not at all interested in taxing the rich and mighty. He did not justify how less than 15000 individuals filed tax returns showing tax liability of more than one million in a country of 180 million inhabitants, where 500,000 ultra-rich alone must have paid income tax of over Rs. 200 billion, if not more.

Ishaq Dar did not tell Franks that by personally announcing unprecedented tax concessions for his supporters, influential businessmen, on November 27, 2013, later implemented through statutory regulatory orders (SROs), Premier Nawaz Sharif reconfirmed the track record of Muslim League (Nawaz) of appeasing tax cheats. In the wake of "Tax Relief Package", unveiled by Prime Minister, Dar announced that "25 out of 26 demands of traders have been accepted by the government during its short tenure".

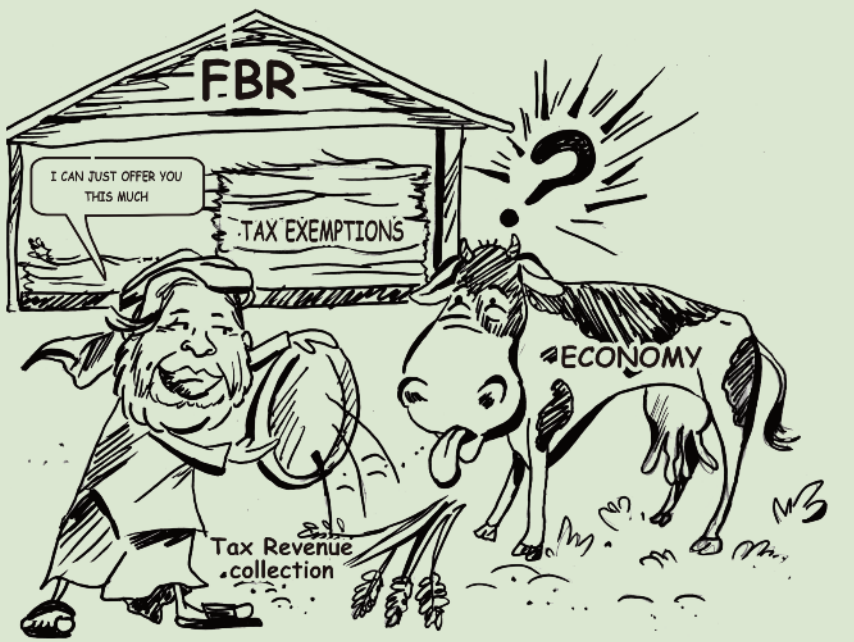
The concessions announced by Prime Minister further eroded the already fragile ability of FBR to enforce tax obligations. It certainly rendered the tax target of Rs 2,475 billion fixed in the budget 2013-14 meaningless, which later reduced to Rs 2,345 billion. In the first ten months of the current fiscal year, the FBR collected only Rs 1,743 billion, showing a growth rate of 15% against the required rate of 28%. In the remaining two months, FBR needs to collect Rs 602 billion, which is next to impossible.

Experts told in the very beginning of announcement of Tax Relief Package that it would not succeed as people enjoyed much cheaper solution under section 111(4) of the Income Tax Ordinance, which they had been availing with the connivance of unscrupulous advisers and money exchange dealers. It is not understandable what is preventing the parliament to delete this obnoxious provision of law. Section 111(4) of the

Income Tax Ordinance, 2001, provides a free hand to people to whiten their untaxed incomes and undisclosed assets. This despicable provision of law guarantees unscrupulous elements of complete protection regarding their illgotten, un-taxed money. No question can be asked by the tax authorities if they remit untaxed money from outside through banking channels and surrender the foreign currency to the State and get Pakistani rupees as encashment. The modus operandi is simple: just go to a money exchange dealer and for small premium he will arrange remittance for you. It confirms hundi/hawala business is in full swing in Pakistan. We have been highlighting the disastrous ill-effects of this law since it was introduced, but people who matter in the land never paid any heed, for the reasons well-known to everybody — they are a party in this dirty game.

Prime Minister Nawaz Sharif personally announced what he called "a package for promoting tax culture, investment in industry and the incentive package for revival of economy". The scheme, expired on April 30, 2014 included immunity from audit, default surcharge and penalty for NTN holders who did not file some or all income tax returns for the last five years "provided they file their missing income tax returns and pay a minimum of Rs 20,000 tax per year". Similar immunity from audit, default surcharge and penalty was extended to non-NTN holders having taxable income, provided they pay tax at a minimum of Rs 25,000 per year, and file returns for the last five years. Such return filers were assured of immunity from audit also for equal number of subsequent tax years for which they would file returns for past years. Even the two months' extension in the schemes failed to achieve any of the objectives announced by the Prime Minister.

WE NEED TO CANCEL TAX EXEMPTIONS TO BOOST ECONOMIC GROWTH



The audit of thousands of cases after Prime Minister's Relief Package was suspended to save known tax dodgers. This was done despite giving commitment to the IMF that no further tax concessions would be given, especially through SROs. The Finance Minister fired from the back and used the infamous tool of SROs to nullify all the measures for the documentation of economy announced in the budget 2013-14. The law passed by the Parliament requiring the banks to share transactions exceeding one million was suspended in the case of existing taxpayers through SRO 115(1)/2014 dated 19-2-2014 allowing them to keep on evading taxes by just paying small amounts. Even in the case of persons not filing tax returns, no information has been obtained from bank till today.

The spokesperson of FBR speaking at a public function a day after announcement of 'Tax Relief Package' by Prime Minister was quoted to have admitted that "all the SROs issued by FBR in the last five months were on the demand of the business community". He said that "FBR is fed up with issuing SROs and is ready to surrender this power to parliament".

Thousands of cases selected for audited for tax year 2013 through random computer ballot could have helped the FBR to achieve the tax collection target of Rs. 2475 billion but Prime Minister's package jeopardized it. FBR is now finding it difficult to meet revised target of Rs. 2345 billion. FBR as usual is using all kinds of negative tactics to show higher figures—the growth of 16% is a myth as billions payable as bona fide refunds are withheld and advances are received from the large taxpayers though not yet due. The Senate Standing Committee on Finance and Revenue has already taken serious note of this malpractice. The Chairman FBR admitted before the Senate Committee that refunds of Rs. 97 billion were blocked. The Senate Committee disbelieved his claim and expressed the apprehension that the figure might be as high as Rs 450 billion. The amnesty scheme of Prime Minister has received extremely cold response even from his ardent supporters, traders and industrialists. It is shocking that only 3000 persons have availed this scheme paying partly amount of less than Rs 100 million. Instead of admitting failure of policy announced by Prime Minister on his advice, Dar stared blaming FBR officials and during the Chief Commissioners' Conference on April 15, 2014.

In April 2014, FBR failed to achieve even the revised target of Rs 196.3 billion as it collected only Rs. 163 billion, according to Press reports. The FBR blames failed 'Relief Package' announced by Prime Minister without taking any input from them. They say from November 2013 to April 2014, they could not take any action against non-filers and now in two months, the process of creating and collecting demand cannot be completed.

FBR till April 2014 collected only 70% of the original target and 74% of the downward revised target of Rs 2,345 billion. In the remaining two months, the target of Rs 607 billion is not achievable, but FBR, as usual, to please the political masters is resorting to all kinds of negative tactics to show higher growth by blocking of refunds, raising illegal demands and collecting the same by freezing bank accounts plus seeking more and more advances from the banks and corporations, just to mention a few. This will further discourage compliant taxpayers and encourage tax evaders. The inflated collection in this way would result in cheating the all and in higher fixation for the next fiscal year.

Surrendering to influential lobbies after the announcement of the budget is one of the reasons behind the shortfall in revenues, according to FBR officials. Since assuming power in June last year, the federal government has accepted 26 demands of the business community, as admitted by Dar, in presence of Prime Minister Nawaz Sharif. These concessions, mainly relaxing documentation clauses, have worked against the principles of taxation, according to the sources. The Chairman of FBR is on record admitting that because of exemption and concessions given through SROs almost two-thirds of imports are duty free. If only such SROs, which are nothing but favours to certain business houses, are revoked, the collection of FBR can easily be doubled. If leakages like under-invoicing, fly-invoices, fake refunds etc are effectively countered, FBR can easily triple its revenues. What a tragedy that in the face of this situation our finance minister claims "the economy is going in the right direction." The reality is that two-thirds of tax money is being stolen right under his very nose.

The rich remain outside the tax net, while the poor are paying 17 to 19.5 percent GST on basic commodities of daily use. When tax was imposed on salt in the colonial era, the visionary leaders of that time staged a revolt against such high-handedness. But in the post-independence period, our rulers are playing havoc with the economic life of the common people by levying exorbitant tax on many everyday items. It is tragic that neither the politicians nor any non-governmental organisation have raised a voice against this injustice.

It is now clear that huge untaxed business empires — generating money power essential for winning elections in Pakistan — are either owned or favoured by Prime Minister and his close allies. The rich and powerful in Pakistan keep assets worth billions of rupees abroad. For electioneering, they get generous donations from business magnates and after winning payback through tax amnesties and concessions through SROs. Together they make billions through rent-seeking, tax evasion, and remit billions abroad.

It is time now that after publishing directory of all those who filed tax returns for tax year, FBR publishes another directory of tax defaulters, revealing the names of wealthy property owners, affluent lawyers, doctors and other professionals, politicians, businessmen, judges, generals, high-raking officials and their dependents who own assets worth billions of rupees but either do not file tax returns or cannot justify luxurious life and accumulation of wealth from incomes they have declared. FBR can easily collect Rs 8 trillion without levying new taxes as suggested in 'Effective fiscal management', Business Recorder, January 31, 2014. But the government wants to protect huge untaxed (underground) business empires through exemptions and concession, SROs and extending tax-free perks and perquisites to the militro-judicial-civil complex and public office holders. There is no will to convert palatial government buildings used for non-productive purposes to income-yielding assets. Huge amount of taxpayers' money goes for maintaining these for the enjoyment of a few thousand persons forming the ruling elite of the country. So the reality, as far as tax scenario in Pakistan is concerned, is clear and loud: ruling elites are letting down the FBR and nation.

Business Recorder
9th May

LCCI seeks withdrawal of SRO 351 (I)

RECORDER REPORT

LAHORE: The Lahore Chamber of Commerce and Industry (LCCI) on Friday out-rightly rejected SRO 351 (I) 2014 and called for its immediate withdrawal for the economic well being of the country.

LCCI Acting President Kashif Anwar was talking to the Chairmen of various trade and industry associations. He said the SRO 351 (I) 2014 would not only multiply to problems of business community but it would also open up the floodgates of corruption because of the repeated intervention of government agencies in the smooth running of businesses.

He said the business community was unable to understand the logic behind issuance of SRO 351 (I) 2014 that has created a parallel assessment organisation in the presence of Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs).

He termed SRO 351 (I) 2014 a well thought-out plan to tarnish the image of a business friendly government that otherwise was working day in and day out to promote economic activities in the country.

He said that the shortage of electricity and gas had already pushed the businesses to the wall and they were striving for their survival, therefore, such measures were bound to give a bad name to the government. At this point in time when both the private sector and the government were putting in their best efforts to attract foreign investment in the country, the SRO 351 (I) 2014 would hit hard these measures, he added.

The LCCI Acting President said the SRO 351 (I) 2014 would also create a rift like situation among various government institutions as the powers given to DG Intelligence and Investigation, Inland Revenue, would severely be affecting the working of LTUs and RTOs.

He said it was very unfortunate that the SRO 351 (I) 2014 was issued without even taking on board the Chambers in the country despite the assurance of Prime Minister of Pakistan Nawaz Sharif and Federal Finance Ishaq Dar that no unilateral economic policy decisions would be taken in future and the private sector would be consulted. He said after the issuance of SRO 351 (I) 2014 many government agencies would be interfering in the smooth running businesses that would ultimately be hitting the government revenues because the business people would more be concentrating on provision of various kinds of documents instead of expansion of their businesses. The President urged Prime Minister Nawaz Sharif and Federal Finance Minister Ishaq Dar to look into the issue and direct the Chairman Federal Board of Revenue to immediately withdraw SRO 351 (I) 2014.

Business Recorder
10th May

Rs2.81trn revenue target set

RECORDER REPORT

ISLAMABAD: The government has fixed a Rs 2,810 billion revenue collection target for the next fiscal year 2014-15, which is 23.1 percent higher than the downward revised target of Rs 2,275 billion for 2013-14.

The government set a target of Rs 2,475 billion for the current fiscal year which was revised downward to Rs 2345 billion on grounds that the budget estimate was based on an assumption that the FBR collection would be Rs 2,007 billion in 2012-13. The Finance Minister has stated that as the FBR collection was Rs 1,939 billion instead of the anticipated Rs 2,007 billion, thus there was erosion of revenue (Rs 68 billion) from the start of fiscal year (2013-14). The FBR revenue collection target has been further revised downward to Rs 2,275 billion during the third review with the International Monetary Fund (IMF) under its Extended Fund Facility (EFF), which is being viewed as a challenging target.

The IMF has projected a 3.7 percent GDP growth for next fiscal year and an inflation rate of nine percent. The government will not increase tax rates in budget and the gap would be narrowed by reducing tax exemptions and concessions of around Rs 200 billion granted through SROs.

According to sources, the FBR has witnessed a 10 percent reduction in customs duty collection during 2013-14 due to a decrease in dutiable imports and rupee strengthening against the dollar. At the import stage, the cumulative sales tax and customs duty collections are 41 percent below the 2013-14 budgetary target. Due to this massive shortfall of customs duty and sales tax at the import stage, the revenue collection target has been slashed from Rs 2,345 billion to Rs 2,275 billion.

Business Recorder
13th May

Withdrawal of FBR's new SRO sought

Trade bodies threaten to launch agitation

RECORDER REPORT

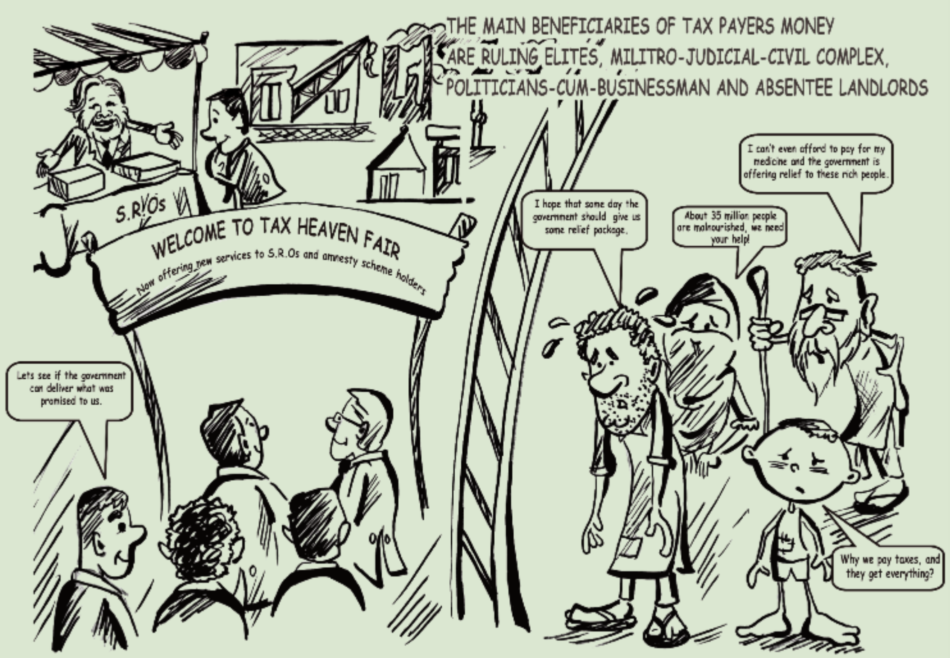
ISLAMABAD: All Pakistan Chambers of Commerce unanimously rejected the Federal Board of Revenue's new SRO.351(I)2014 (powers and functions of Directorate General Intelligence & Investigation), Inland Revenue), terming it a "Black Law" and gave government 10 days deadline to withdraw the said SRO or else face strong agitation of the business community.

Addressing a press conference here on Thursday, the host Dr. Shimail Daud Arain, President of Rawalpindi Chamber of Commerce and Industry (RCCI), said that giving all the powers to a single entity under said SRO will promote harassment, corruption and biasness. He said that government should overcome the faults in the prevailing system, as there is no need for establishing a new one, however solid steps should be taken to restore the confidence of the business community.

Through SRO.351(I)/2014, the FBR has empowered Directorate General (Intelligence & Investigation), Inland Revenue (IR) to enforce filing of income tax returns, wealth statement, compulsory register new taxpayers and authorized to carry out assessment/provisional assessment and audit of the registered persons for recovery of taxes.

Dr Shimail said that even in a dictator's era business friendly policies were introduced and now in a democratically elected regime businessmen community is facing black laws like SRO 351. He said that business community is united and there is no difference of opinion in the community from Khyber to Mehran. All the Chambers of the country are on the same page in this regard and if the said SRO has not been withdrawn the government would be given a tough time, he added.

President RCCI said that business community on many forums had suggested the government to broaden tax base, but not a single effort has been made in this regard yet. He was of the view that government's main objective is to further pressed the already taxpayers, which is not acceptable at all. He said that instead to bring other sectors into tax net, government is trying to achieve the tax collection target out of the already taxpayers. President Rawalpindi Chamber said that federal minister for Commerce Khurram Dastgir on his visit to RCCI vowed to eliminate SRO culture, but the birth of this new SRO generate restlessness and sense of insecurity among the tax payer business community, while tax evaders are enjoying the situation. He was of the view that through such steps government will lose its expected tax collection target. He further said that the SRO 351 (I) 2014 would not only multiply problems of business community, but it would also open up the floodgates of corruption because of the repeated intervention of government agencies in the smooth running of businesses.



Dr Shimail said that the shortage of electricity and gas had already pushed the businesses to the wall and they were striving hard for their survival therefore such measures were bound to give a bad name to the government. At this point in time, when both the private sector and the government were putting in their best efforts to attract foreign investment in the country, the SRO351(I)2014 would hit hard these measures.

About constitutional aspects of the SRO 351(1) 2014, he said that all the powers of Chief Commissioners were given to the Director General Intelligence & Investigation and he can appoint anyone to raid, or check any documents, bank accounts and other documents which create a sense of insecurity among the business community.

The meeting was attended by the representatives of Lahore, Khyber-Pakhtunkhawa, Haripur, Islamabad, Gujrat, Sheikhupura, Jhelum, Chakwal, Sargodha Chambers and representatives of trade associations of the City & Cantt were also present.

Business Recorder
16th May

FBR: blame game continues

Budget 2014-15

Huzaima Bukhari and Dr Ikramul Haq

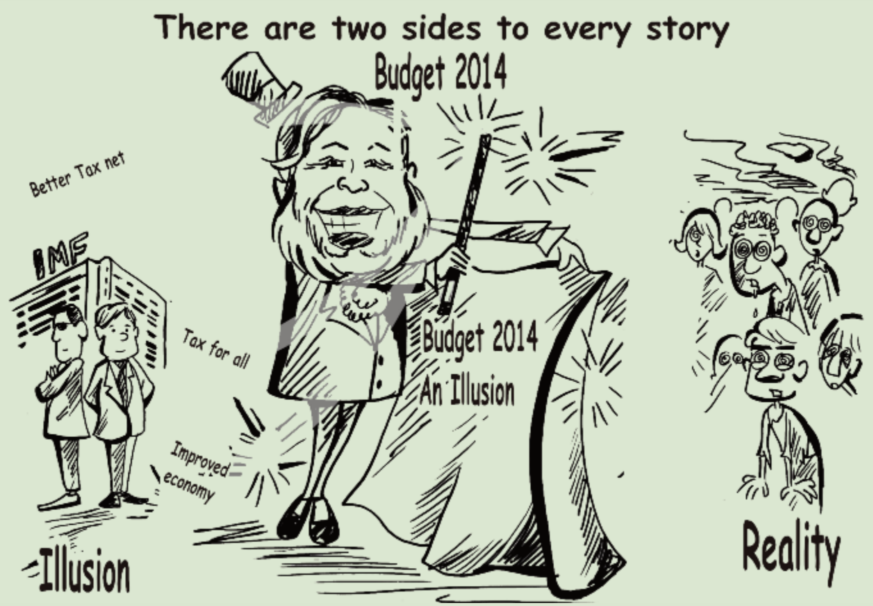
The Chairman of Federal Board of Revenue (FBR) while attending a hearing before the Senate Standing Committee on Finance on May 13, 2014, in a shocking move and in utter contradiction to his earlier statements, criticised the Ministry of Finance for fixing what he called "unrealistic" revenue target of Rs 2,475 billion. He, however, did not tell the Committee that the real tax potential was not less than Rs 8,000 billion, and that FBR only managed to secure about 25% returns this year. Throughout the hearing, the Chairman continued lying and unjustly blaming others in an attempt to conceal his organisation's incompetence, inefficiency and corruption. He did the same a few days ago when he admitted before the Committee that refunds of Rs 97 billion were unpaid, but refused to give the details about all such claims which the Committee said were not less than Rs 450 billon.

Over the period of time, FBR has earned notoriety in all areas: from misreporting of figures to blocking of refunds, from corruption to high-handedness, from blame game to hiding facts, and from inefficiency to complete uselessness. FBR has not only failed to enforce tax laws, but has also been misreporting tax collection figures — in view of this fact who would believe the target of Rs 2,800 billion for the forthcoming budget. Time and again, the different chairmen of FBR have admitted before the Committee of Parliament that tax reforms funded by foreign donors since 2004 did not yield desired results.

At the end of the Tax Administration Reforms Programme (TARP) in 2011, there was unprecedented decline in tax-to-GDP ratio — from 12.5% in 2002-2003 to 8.2%. In the current year, it will go further down as FBR's Chairman told the Senate Committee, “I expect to receive Rs 2,270 to Rs 2,275 billion this year”. The same Chairman until recently has been claiming that second revised figure of Rs 2,345 billion was achievable. He did not tell the Senate Committee that his political bosses gave exemptions and concessions that resulted in massive shortfall in revenue collection vis-à-vis original target of Rs. 2475 billion fixed at the time of announcement of the budget 2013-14. He concealed the fact that the rich and mighty in Pakistan, instead of paying income tax, thrive on the national resources meant for the welfare of the weaker segments of society ['Ruling elite letting down FBR', Business Recorder, May 9, 2014].

Responding to a question put up by Senator Sughra Imam of the Pakistan People's Party, the Chairman was kind enough to admit that “cost of tax exemptions granted over the years to the affluent was Rs. 480 billion per annum”. Here too he failed to mention the correct figure that is Rs. 800 billion per annum ['Onslaught of SROs continues', Business Recorder, October 11, 2013].

According to a Press report, the Chairman FBR said: “all of these exemptions cannot be withdrawn, as some are socially sensitive while others are protected under the constitution”. He further revealed that “in the first seven months of the current fiscal year, Rs 320 billion worth of exemptions were given that included income tax exemption given to independent power projects (IPPs) for electricity producers that is protected through agreements and will not be easy to withdraw”.



The Chairman was wrong on both the accounts. First of all, no exemption can be granted through any statutory regulatory order (SRO) as held by the Supreme Court in Engineer Iqbal Zafar Jhagra and Senator Rukhsana Zuberi v Federation of Pakistan and Others (2013) 108 TAX 1 (S.C. Pak) as under:

“It is well settled proposition that levy of tax for the purpose of Federation is not permissible except by or under the authority of Act of Majlis-e-Shoora (Parliament). Reference in this behalf may be made to the case of Cyanamid Pakistan Ltd. V. Collector of Customs (PLD 2005 SC 495), wherein it has also been held that such legislative powers cannot be delegated to the Executive Authorities. Also see Government of Pakistan v. Muhammad Ashraf (PLD 1993SC 176) and All Pakistan Textile Mills Associations v. Province of Sindh (2004 YLR 192).” [Page 18, Para 20]

As regards exemption granted to IPPs, it can also be withdrawn as held by the Lahore High Court in AES Pak Gen (Pvt) Company Lahore v Income Tax Tribunal Lahore (2006) 93 TAX 159 (H.C Lah.) and endorsed by the Supreme Court in Uch Power (Pvt) Ltd and others v Income Tax Appellate Tribunal and others 2010 SCMR 1236. It shows the level of competence of the Chairman FBR, who heads a very significant department of the government and is assisted by a number of high-ranking officers of Inland Revenue and Customs. This confirms collective intellectual bankruptcy prevailing in the FBR.

The Chairman FBR faced with tough questions about failure to achieve this year's original target of Rs 2,475 billion, declared (for the first time?) that “it was never the FBR's target, as during budget-making, it had proposed the figure of Rs 2,344 billion.” In other words, he blamed the Finance Minister for overstating the target. When asked about the chances of achieving his own figure of Rs 2,344 (first revised target), the Chairman FBR said “the government has already revised the target downward twice to Rs. 2.275 trillion, lower by Rs 200 billion.” He said that he would achieve it or there might be shortfall of about Rs. 5 billion. He blamed collection below Rs 2.344 trillion on decline of 10% in imports, “while the appreciating rupee also hurt collection at the import stage, about 41% of total revenues are received at the import stage”. If FBR has to depend on withholding taxes and voluntary payments to the extent of 90% then what is the need to maintain a gigantic organisation? This question escaped the Senate's attention but one hopes the worthy Chairman would care to offer an explanation to the nation!

It is strange that despite holding regular meetings, the Standing Committees on Finance (Senate and National Assembly) have never recommended penal action against FBR's top notches even after established cases of blocking of refunds, corruption, over-stating of collection figures, making false statements and misleading the elected members and the entire nation. This is the real malady. The tax affairs of majority of elected members are not transparent. They help the bosses of FBR and in return get favours. This unholy alliance was discussed in detail in 'Legislators and tax delinquency, Business Recorder, March 7, 2014'.

Undoubtedly, the present tax system not only protects the rich and mighty but also imposes greater and undue incidence on the poor and middle-class people e.g. 17% sales tax (in fact 30% to 45% on finished imported goods after levy of all kinds of duties and taxes). Indirect regressive taxes take away larger portion of low-income groups compared to high-income groups. The rich and mighty enjoy tax exemptions and concessions in Pakistan through SROs and exemption in-built in tax codes. They make enormous wealth through rent-seeking and speculative transactions in stocks and real estate. Enforcing tax compliance vis-à-vis the rich has become number one challenge in Pakistan — Tax Directory published recently shows that only 890,000 returns/statements were filed. Why is the Finance Minister not asking FBR to take action against the non-filers and publish their names as well? This question is baffling everybody's mind especially when Ishaq Dar says he has clean chit from IMF as well. Perhaps Dar is of the view that when IMF is paying promised tranches and other donors like the World Bank and the Asian Development Bank are giving loans of billions, why we should tax the rich.

Taxation is viewed as unfair and counterproductive by the majority in Pakistan. There is general non-acceptance of tax obligations—it is like a situation of tax revolt against the State that is extracting money at source etc and most of the people even do not know about it e.g. mobile users paying 15% adjustable income tax. Many rich openly defy tax laws, but pay generously in charity. Their refusal to pay taxes based on the argument that corrupt rulers do not deserve their money as they do not care a damn about welfare of society.

The provincial governments and assemblies are also guilty of protecting the rich and mighty by not levying/collecting tax on "agricultural income". The rich and mighty in Pakistan are virtually outside the tax net. Since they are not paying direct tax according to their real incomes, the vast majority of citizens argue as to why they should be subjected to exorbitant and multiple indirect taxes even under the garb of income tax? They are especially annoyed with multiple indirect taxes at the import stage, the burden of which comes down heavily upon the end consumers, vast majority of which represents weaker sections of the society.

Special efforts and rational policies are needed to restructure the tax system and restore public confidence in tax officials. Even a good tax system will not work, if tax officials work with negative mindset and instead of facilitation irk the taxpayers. Success or failure of FBR matters a lot — the nation at present is heavily indebted due to unwise policies and lack of political will to collect taxes from the rich. Tax concessions and exemptions must be abolished forthwith as in their presence revenues cannot be generated especially from the mighty sections of the society. FBR has failed to promote voluntary tax compliance — in a population of more than 180 million as only 890,000 filed tax returns/statements for tax year 2013.

During the last six years, FBR has miserably failed to achieve the revised targets, what to speak of originally fixed ones in the budgets — it may also be noted that even collections shown included blocked refunds of billions and advances that were not due from banks and public sector enterprises. In the fiscal year 2012-13, FBR failed to collect the three times downward-revised budget.

The massive shortfall of Rs 444 billion pushed fiscal deficit to 8% against the budgeted target of 4.7% of GDP. FBR collected only Rs 1,936 billion against the target of Rs 2,381 billion — at 3%, it was the lowest growth in 13 years. In fiscal year 2011-12, there was shortfall of Rs 75 billion, even though the target was revised downward to Rs 1,952 billion. In 2010-11, there was shortfall of Rs 38 billion, but the then Chairman FBR with his team made a false claim that they collected Rs 1,590.4 billion against the revised target of Rs 1,588 billion. The media exposed manipulation and later FBR retreated and admitted that actual collection was Rs 1,550 billion. Strangely, nobody was punished even after confession of cheating and fraud.

FBR has been misreporting the figures regarding income tax payers in Pakistan — there are not less than fifty million paying income tax under withholding tax system, though there were only about 890,000 return filers for tax year 2013. Failure is entirely that of FBR, as it remained unsuccessful in enforcing tax codes, compelling those having taxable income to file returns. Its performance is pathetically abysmal in achieving a satisfactory tax-to-GDP ratio and at 8.5% it is one of the lowest in the world. It is just thriving on withholding taxes and voluntary payments — constituting nearly 90% of total collection. The contribution of field officers [collection on demand through investigation or audit] is just 10% of total collection proving beyond any doubt how ineffective this organisation has become.

The repressive tax policies of successive governments have pushed millions of people below the poverty line. Whatever is collected, mainly from the poor, is spent for the luxuries of the rich and mighty who matter in this Land of Pure — the funds meant for masses are wasted ruthlessly or plundered with impunity by corrupt politicians and state functionaries. Just have a look how much money is spent for the luxuries of military-judicial-civil complex as compared to allocations for education and health. Collection of taxes does matter but the real importance lies in their spending.

For strengthening democracy and economic progress, it is imperative to tax the rich, make powerful civil-military bureaucrats accountable to people and ensure equality to all. In governance, everything in interlinked and interdependent — nothing worthwhile can be achieved without law and order, efficient justice system ensuring rule of law, improving infrastructure, encouraging business environment and investment in human resource.

(The writers, lawyers and Adjunct Faculty at Lahore University of Management Sciences (LUMS), are partners in law firm, Huzaima & Ikram)

Business Recorder
16th May

TIP claims Rs2,000bn shortfall in collection by FBR

KARACHI: Transparency International Pakistan (TIP) has claimed that the government has failed to implement its recommendation made on the order of the Supreme Court of Pakistan in Oct 2013 which would have increased revenue collection from Rs 1,942 billion to Rs 4,000 billion. It has further recommended that measures be taken to plug Rs 2,000 billion revenue leakage, under the same order, which Federal Board of Revenue (FBR) has not been able to control.

In a letter sent to Federal Finance Minister, Ishaq Dar on May 20, TI-Pakistan Adviser, Sohail Muzaffar has invited his attention to the report prepared at the behest of FBR by International Centre for Public Policy, University of Georgia estimating over Rs 1,800 billion tax evasion annually.

"The FBR report of Rs 1,800 billion short collection of taxes, confirms the TI Pakistan report which had indicated Rs 2,000 billion shortfall in collection by FBR, submitted in the Supreme Court of Pakistan on Oct 3, 2013", he said.

He informed the minister that in the civil misc application 2013 filed in the Supreme Court in the suo motu case regarding law and order situation in Karachi, on Oct 29, TI-Pakistan was asked by the Chief Justice of Pakistan to provide a rough figure of annual leakage in collection of FBR revenue. The Supreme Court was informed that public is paying taxes, but the businessmen are not fully depositing the FBR revenue in treasury.

Further TI-Pakistan was informed that due to the malice of flying invoices, the GST adjustments are mostly on fake documents. On a question asked by the Chief Justice of Pakistan, as to what measure could be taken to plug this huge tax loss, TI-Pakistan had stated that "if the political will of the government and Chairman FBR is there, the scheme for achieving the goal of zero tolerance against corruption could be prepared by TI-Pakistan, and that this scheme will ensure the Tax GDP ratio to increase from 8 percent to 16 percent in one year. The Chief Justice had directed TI-Pakistan to prepare the proposals and submit it in the apex court on Oct 30, 2013. Sohair Muzaffar said the proposal was submitted on Oct 30, 2013, which needs to be implemented in toto, and "is sure to generate approximately additional Rs 2,000 billion tax. Loss of one day may result loss of Rs 6 billion revenue.

The minister has been requested to examine the TI-Pakistan proposal for the budget of 2014/15, and if possible act on the recommendations which are very simple and easy to apply.

In accordance with the orders given by the Chief Justice on Oct 29, 2013, Syed Adil Gilani the then advisor, TI-Pakistan had submitted following recommendations to curb tax evasion in FBR, and make it a department of "Zero Tolerance against Corruption," and plug the estimated tax leakage of Rs 2,000 billion per annum. The recommendations had covered customs, administrative and technological measures, risk management of containers, transportation of containers, en route monitoring, and receipt of containers at border customs-stations. Legal mid-term and long-term measures, recommendations were also made to broaden income tax net. Similarly, major corruption was identified in refund of sales tax and its adjustment. "As a policy, FBR should abolish adjustments and refund." If FBR makes irrevocable policy of No Refunds No Adjustments total GST leakages by frauds/evasions, will be stopped.

TIP had also proposed on how to collect GST and WHT on pre paid card and had recommended new procedure for tax collection. It had also recommended that Judiciary to facilitate FBR in its revenue recovery. It was reported in January 2013 that while total stuck-up amount of the Federal Board of Revenue (FBR) in 351 cases stood at Rs225 billion in different courts including the Supreme Court, high courts and tribunals of the country. Measures recommended in this regard by TI-Pakistan included:

a. In case of appeal, litigation against FBR assessments, National Saving Certificates shall be deposited by the litigant in the court.
b. In case the court overturns the FBR assessment, strict administrative action shall be taken against the official of FBR for imposing wrong tax. This step will eliminate the harassment (for taking bribe) alleged to be the main purpose of making the false assessments by FBR official.
c. In case for custom dues, any party does not pay the taxes, nor make any appeal, the imported goods shall be auctioned within one-week time after expiry of the allowed period to pay.

d. In case of any FBR tax defaults, courts shall announce judgments within 90 days.

Business Recorder
22nd May

Reforming sales tax system – I

Taxation should serve as a catalyst for industrial expansion and economic growth. In Pakistan the ill-directed, illogical, regressive and unfair tax regulations are causing a dampening effect on the industrial and business growth. The sole stress on meeting revenue targets, without evaluating its impact on the economy, has crippled our trade and industry during the last few years, especially since we have started submitting completely to the dictates of the foreign donors. Had the successive governments concentrated on economic growth and industrial expansion, there would have been consequential, substantial rise in taxes today. It is impossible to enhance revenues with stagnation in economy, and overtaxing such economy, as has been done in Pakistan, can destroy the revenue system as well.

The priority of our rulers, military and civil alike, on achieving revenue targets, fixed ambitiously every year in utter disregard of how economy will behave and from whom the taxes should be collected, is the main problem. Unfortunately, even after resorting to regressive taxes and high-handedness in their collection, they have failed to collect the targets fixed in the budget. Fixing revenue targets in isolation and without making necessary efforts to improve productivity and economic growth, has forced Pakistan into a dilemma, where neither it can afford to give any tax relief package to the trade and industry [due to growing fiscal deficit] nor can it achieve a satisfactory level of economic growth [due to retrogressive tax measures]. This is a vicious circle in which our policymakers are perpetually trapped. The policymakers must find ways and means to come out of this tangle to make Pakistan a competitive place where investors find satisfactory conditions to live and invest.

In a country where there is no security of life or property, despite various tax and other incentives, investors will never come forward. In Pakistan, no one dares to invest in Federally Administered Tribal Areas (Fata) or Provincially Administered Tribal Areas (Pata) although there is no taxation, as risk to life and property is very high in these territories.

The reports of fixation of revenue target of Rs. 2,810 billion for the forthcoming budget again lacks any rational, its working is not share with the members of Standing Committees of Senate an National Assembly on Finance, what to talk of with public at large.

The real tax potential of Pakistan is not less than Rs. 8,000 billion but such level of collection requires fundamental tax reforms both at policy and administration level — Essential Tax Reforms, Business Reorder, April 11-13, 2014.

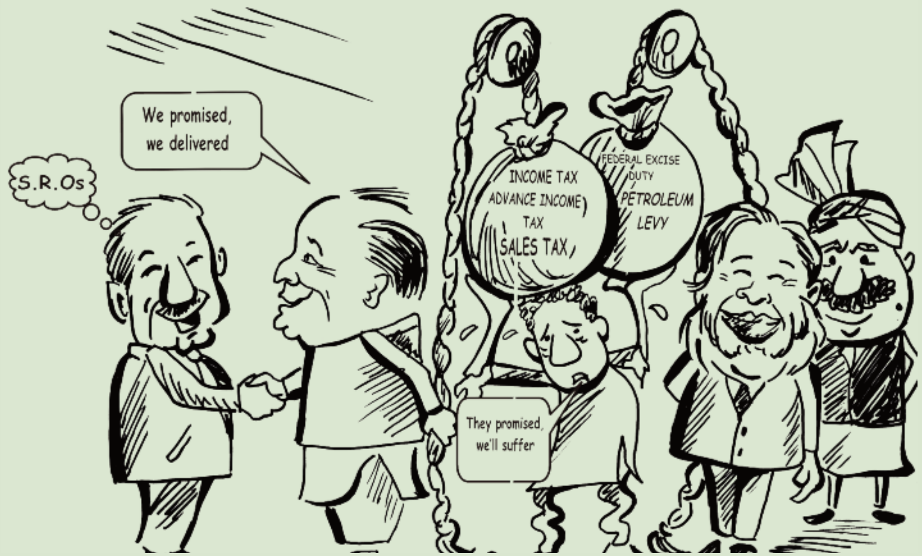
The Federal Board of Revenue (FBR), apex administrative revenue authority, has been single-handedly destroying Pakistan's trade and industry by imposing highly regressive indirect taxes (even in the garb of presumptive taxes under Income Tax Ordinance, 2001), withholding undisputed refunds, making excessive tax demands and resorting to all kinds of negative tactics and high-handedness to meet its budgetary targets. The actions of the tax machinery not only proved detrimental to business and industry, but it also failed to meet revenue targets for the last many years [revised downward what to speak of originally fixed]. Resultantly, the country is not witnessing any improvement on economic front — fiscal deficit, debt burden and debt servicing figures confirm this. Additionally, the heavy burden of the indirect taxes has pushed the millions below the poverty line — their number is now not less than 60 million. We need complete shift in our economic priorities.

The government must concentrate on increasing growth, productivity, better regulations and their enforcement as well as efficiency — these alone can ensure more revenues for the State. Pakistan cannot accelerate or sustain a reasonable growth rate, if the prevalent oppressive tax system is not replaced with an equitable one.

A number of eminent scholars, trade bodies, Transparency International (Pakistan) and foreign donors have suggested a number of changes in our existing sales tax regime, which need serious consideration of the economic/fiscal managers. There is an urgent need to revamp the refund system under sales tax regime that has created a mafia serving the interest of the corrupt. It is argued by many that Pakistan must introduce single-stage sales tax for the following reasons:

1. Present multiple rates of 17%, 19.5% and 21% are too high. Single stage sales tax at

New Faces with the same old story



the rate of 5% across the board, which brings more tax — Malaysian Model is a good example to follow.
2. At present the effective rate of sales tax in value added mode is only 3.7% so there is no justification to continue with it.
3. State is penalising the registered persons to bear extra tax burden of mandatory value addition whereas it has failed to widen the tax net. The number of total registered persons is less than 100,000 and only less than 40,000 filed returns paying some tax, others claim refunds.
4 The honest taxpayers are, in fact, paying for State's inefficiency and lack of political will to bring shutter power into the tax net.
5. In the presence of huge informal, undocumented economy, the system of value added tax (VAT) cannot work as in supply chain the genuine businessmen do not get invoices by tax evaders or persons who are outside tax net.
6. Due to mafias operating in sales tax refund system, State is getting much lower tax, and business of flying and fake invoices is corrupting the business environment.

Transparency International Pakistan in the CMA 534-K/2013 filed in the Supreme Court of Pakistan in the suo motu case SMC.16/2011 regarding law and order situation in Karachi filed a report that public was charged sales tax "but the businessmen are not fully depositing the same in treasury". TIP alleged that due to the malice of flying/fake invoices, the GST adjustments were mostly fake causing loss of billions of rupees.
Even the businessmen, especially the exporters, are not happy with the present sales tax system. On April 21, 2014, The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) demanded single digit sales tax rate on no refund/no adjustment basis in the upcoming budget 2014-15. Justifying single digit, single stage sales tax, FPCCI said it would be non-refundable, non-adjustable at import and manufacturing stage generating more revenue and "will eliminate malpractices in refund claims and input tax, which will reduce cost to the exchequer". FPCCI said it was strategically working on the single rate of sales tax and "expects the FBR to join hands in working to achieve this goal, which will lead to the generation of Rs1500 billion". It further claimed that "the main advantage of reducing sales tax to single digit will be giving relief to the common man, especially to the low and middle income group by reducing the inflation".

While, FPCCI is struggling for change in sales tax regime, FBR's top notches are not ready to implement any such change. Obviously it will block their financial lifeline, simple procedure completely eliminating discretionary powers and room for corrupt practices. In the meantime, exporters keep on alleging that "refunds of billions of rupees are blocked, bringing their business to almost a grinding halt".

Business Recorder
23rd May

Cases selected for manual audit FBR violating Sec 214C

KARACHI: In a clear violation of Section 214C of Income Tax Ordinance, 2001, Federal Board of Revenue has started selecting cases for manual audit under Section 177 of the Ordinance;

According to sources, taxpayers are being asked to appear before concerned commissioners with relevant documents for manual audit through Section 177 notices.

Moreover, sources said that tax department is directing taxpayers to make payments before audit completion instead of providing hearing opportunity to the taxpayers to clarify their position in case of any discrepancy is found in the records. Sources further said that tax department, which is restricted as per law to provide specific time to the taxpayers for producing the records, is not mentioning any date on the notices, reflecting the intention of the department to generate substantial revenue till the end of current fiscal year.

Replying to a question, sources said that taxpayers are receiving both audit notices – income tax and sales tax with the verbal restriction not to adjust pending tax refunds against tax demand.

Tax consultants, who did not want to be named, confirmed the issuance of audit notices for tax year 2013 under Section 177 of Income Tax Ordinance, 2001.
They said that after the insertion of Section 214C in the Ordinance through Finance Act, 2010, only FBR is empowered to select cases for audit.

They said that Section 177 of the Income Tax Ordinance, 2001 is subservient to Section 214C hence the substantive power to select a person for audit is provided in Section 214C and the provision providing procedure for conducting the audit is in Section 177.

They said that no computerised random balloting has so far been carried out for the audit for tax year 2013, which is a mandatory requirement for selecting cases for audit.

However, the relevant commissioners are presently misusing powers and selecting cases for audit for the said tax year under Section 177 of Income Tax Ordinance, 2001, they maintained.

Moreover, they said that taxpayer would first be selected for audit under Section 2l4C by the FBR and only then the commissioner would conduct its audit in accordance with procedure given in Section 177.

They also urged the chairman FBR to look into the matter and take appropriate measures to provide maximum relief to the taxpayers.

Business Recorder
26th May

Large number of tax officials are non-filers

ISLAMABAD: A large number of tax officials (Grade 17 and above) are non-filers of income tax returns for Tax Year 2013.

A senior FBR official confirmed to Business Recorder that out of over 1,700 tax officials of Inland Revenue Service (IRS) and Pakistan Customs Service (PCS), a large number of these officials have yet not filed tax returns.

Around 100 officials are on leave, training or deputation in other government departments. When asked whether the number of non-filer tax officials (Grade 17 and above) stood at 1,250, official said that the figure of 1,250 cannot be confirmed till finalisation of authentic data of tax officials at national level.

Many officials have yet not filed returns for tax Year 2013 and they would face penalty, but the number of non-filers would be less than the number of 1,250. If the figure of 1,250 non-filers is assumed to be accurate, this means that only 450 tax officials have filed their returns for TY 2013. However, the number of non-filers would be below 1,250.

The FBR has already issued the list of filers of income tax returns and all those not specified in the list of filers could be declared as potential non-filers of returns.

Meanwhile, the FBR has imposed penalty on a large number of tax officials, who failed to file their income tax returns for Tax Year 2013. According to the FBR instructions issued to the field formations, a large number of officers of FBR have not yet filed their Income Tax Returns for the Tax Year 2013. The Competent Authority has taken a serious view of the situation and has directed that Tax Returns may be filed by all defaulting officers by June 16, 2014 along with penalty to be calculated as per provisions of section 182 of the Income Tax Ordinance, 2001.The officers who failed to file their return of Income by the aforementioned date are informed that their Performance Allowance will be discontinued without any further notice.

All Chief Commissioners-IR/DGs/Chief Collectors/Collectors are requested to circulate the directions to the officers working under their administrative control and shall furnish a report to FBR on the compliance of the said directions within three days at the end of the stipulated date, the FBR instructions added.

Business Recorder
28th May

FBR appears feckless in taking action

1,000 non-filer officials
MUHAMMAD ALI

KARACHI: The Federal Board of Revenue (FBR) appears feckless in taking punitive measures against its over 1000 officers, who have failed to submit their income tax returns for tax year 2013, despite receiving a couple of warnings; it was learnt.

"FBR, which seems enthusiastic in broadening the tax base and striving to achieve annual budgetary target, is unable to ensure its taxation measures within the department as over 1000 officers, who are from grade 19 and above and serving in Customs and Inland Revenue Services, have not yet submitted their income tax returns for tax year 2013," sources said. After the amendments to the income tax laws in the budget 2012-13, taxpayers, having income of Rs. 1 million and above, have to file income tax returns including personal expenditures along with wealth statement for tax year 2013.

Sources in FBR said: "There is 100 per cent tax collection from government servants, as income tax is deducted at source." "However, submitting wealth statements, besides producing complete details of personal expenditures in tax returns is mandatory and FBR officials did not file income tax returns as their personal expenditures and details of wealth statements are not identical with their salary scales." Moreover, sources said that despite receiving a couple of warning notices from the board, these officers had not yet filed the returns. FBR in its recent warning notice threatened to discontinue their performance allowance, if they failed to submit income tax returns under section 182 of Income Tax Ordinance, 2001.

To a question, the sources said that although strict warning has been issued to the non-filer officers, who are from grade 19 and above, action against them would badly affect the working atmosphere in FBR as power of section 182 of the Ordinance, which is for penalty for failure to furnish return, has now been delegated to deputy commissioner, a most junior post in civil bureaucracy. "How it is possible that a junior civil servant can take punitive measures against his/her senior officers, albeit he/she has power to do so," sources said. "If any deputy commissioner dared to exercise the power of section 182 against non-filer officers, the chances of his/her own survival in civil bureaucracy will be threatened," they opined. They said that FBR would do nothing but issue warning notices as these tax officers, who have so far received more than one warning notices during last six months, are still serving in FBR with non-filers status.

Business Recorder
29th May

FBR officials Non-submission of tax returns: Dar takes notice

ISLAMABAD: Finance Minister Senator Ishaq Dar took serious notice of a news item published in a section of press stating that 1200 out of 1743 FBR officials have not submitted their income tax returns.

"The Finance Minister has directed Chairman FBR to verify the veracity of the report and if found correct, the defaulting officers should be directed to file their returns by 10th June subject to existing rules", says a press release issued here on Thursday.

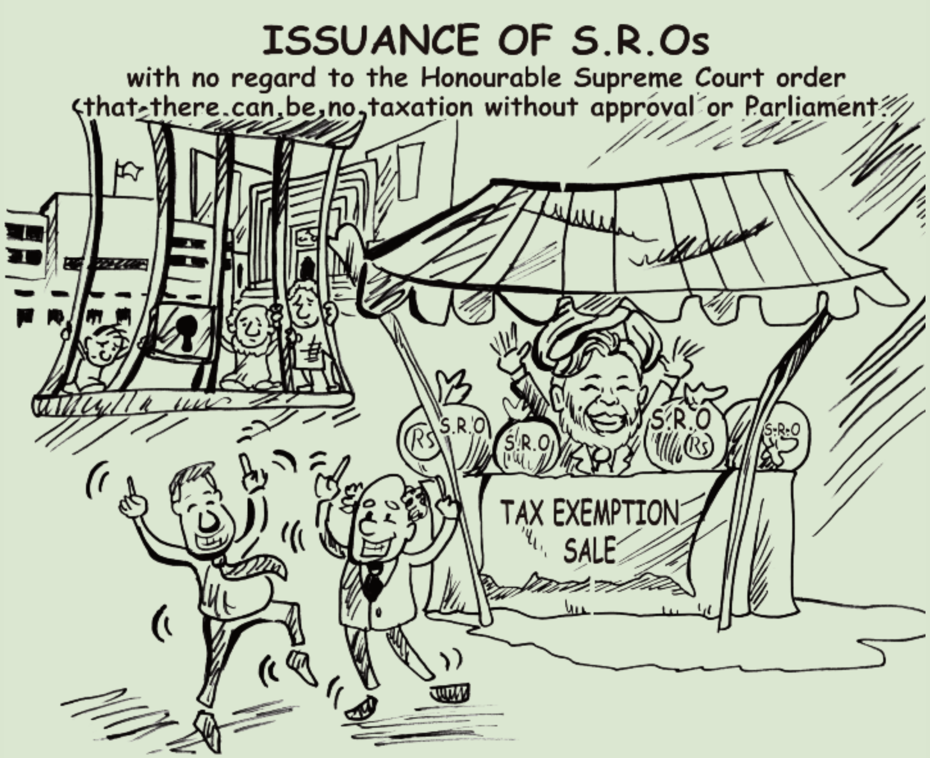
The statement quoted Ishaq Dar as saying that failing to comply with the directions given by the Finance Minister, punitive action should be taken against the non-complaint officers and their performance allowance must be stopped.—PR

Business Recorder
30th May

Misuse of SRO 1125 DGI&I detects Rs796m tax evasion

RECORDER REPORT

KARACHI: Directorate General of Intelligence & Investigation (DGI&I) -FBR, Karachi on Thursday claimed to have seized smuggled goods worth Rs. 438 million and detected tax evasion of Rs. 796 million related to the misuse of SRO 1125.



This was stated by Muhammad Asif Marghoob Siddiqui, Director, DGI&I, FBR Karachi at a press conference held at his office here.

He said that Directorate had launched a systematic and well-coordinated operation against the smuggling of goods and tax evasion on the instructions of Lutfullah Virk, Director General, Customs Intelligence & Investigation-FBR, Islamabad.

As a result of the crackdown, the huge quantity of smuggled goods including 385,000 liters of Iranian Diesel, Airconditioners, vehicles, Mobile Phones, Laptop Computers, Plastic Granules, Scrap, Generator and Tyres worth more than Rs 438 million were seized during the last 3 months.

He said that Anti Smuggling Organisation of this Directorate helped recovering duty and taxes more than Rs 103 million during last 3 months.

He said that Anti Smuggling Operations would continue and necessary instructions in this regard had been issued to concerned staff of Karachi, Hyderabad and Sukkur.

He further said that during the same period, cases of evasion involving duty & taxes were also detected at Karachi port as well as Port Muhammad Bin Qasim. Tax evasion amounting to Rs 796 million was unearthed in 36 such cases.

Contravention reports have been forwarded to the concerned adjudication authorities.

It is pertinent to mention that a major portion of these detected of taxes relates to misuse of SRO.1125 which allows concessions in taxes to the industries.

Further, additional revenue amounting to Rs 63 million was also deposited into the kitty during the same period.

Business Recorder
30th May

US tax law annoys investors

By Kalbe Ali | 5/10/2014 12:00:00 AM

ISLAMABAD: Faced with serious resistance at home over the enforcement of Foreign Accounts Tax Compliance Act (FACTA) by the US, the finance ministry is vying for a bilateral agreement with the US instead of a one-sided InterGovernmental-Agreement (IGA).

FACTA was enacted by the US in 2010 to counter tax evasion by US companies and individuals from their overseas income.

However, the most serious issue for Pakistan is that the timeline to sign the IGA with US is July 1 and the banking and nonbanlling sectors were trying to evade FACTA.

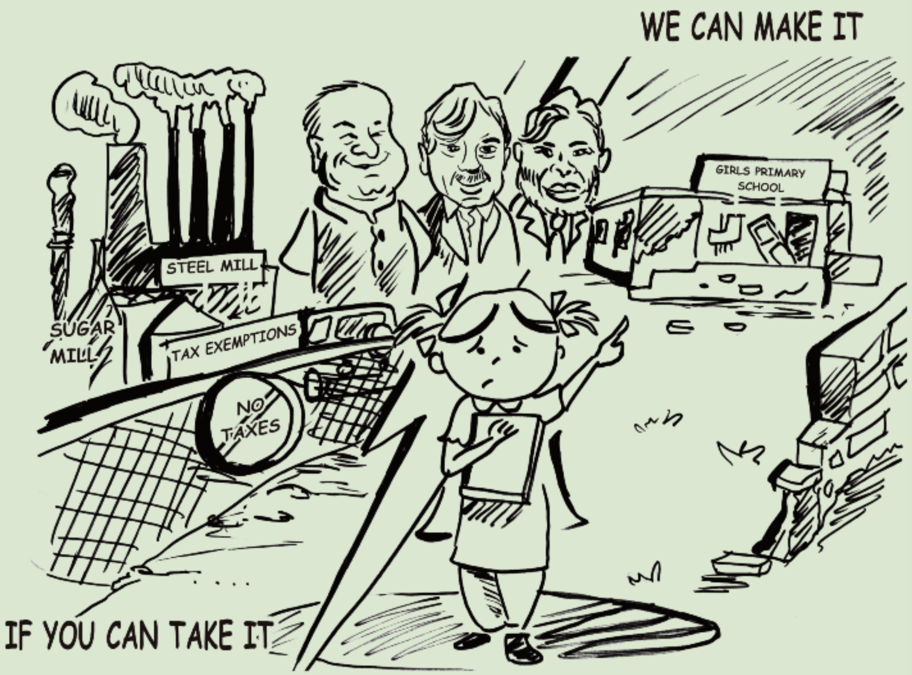
An of ficial of the finance ministry said that the government of Pakistan had gearedupitsefforts to dealwith the emerging situation, but the foreign financial institutions (FFIs) should also come forward and make a choice regarding FACTA.

FACTA calls that all investments (US source and non-US source) and all revenues and proceeds from investments undertaken by a US person needed to be reported to the Internal Revenue Service (IRS) irrespective of the type of investment and the location where it is held.

FACTA also offers countries around the world to enter into an inter-governmental agreement at the country level to share information regarding US national/companies accounts.

The official of finance ministry said that the target of this law was mainly those firms where US citizens have invested heavily. `But we too have to comply with the emerging laws to deal with the situation.

The finance ministry official said many US citizens were also operating overseas



businesses but they do not pay taxes in US based onlossesfaced by their overseas ventures.

Under the FACTA, if any US company or individuals do not agree to report certain information to the IRS regarding their US accounts, the FFIs not entering into an agreement will be deemed `Non-Participating FFIs` (NPFFIs) which would be subjected to 30 per cent penalty at the withholding on US source income starting from Jan 1, 2017.

At the same time the country`s financial mangers want the US authorities to sign a bilateral agreement allowing Pakistan to gain access to Pakistani firms operating in US too. But chances of US authorities ceding to Pakistani demand are slim as 21 countries have already signed IGA with US Treasury Department, 28 are in final stages and another 40 countries have initiated discussion over it.

The finance ministry has formed a workinggroup consisting of officials from the Finance Division, the SECP, the FBR and the SBP to devise a coordinated action in tackling the situation. While the SECP and the SBP have already issued instructions to banks, financial institutions, brokerage companies, insurance companies on the guidelines of working group on FACTA. These entities have been asked to do necessary preparation for registration with US IRA without IGA, but the banlcing and non-banking sectors are pressuring the government to sign IGA with US.

`If the government of Pakistan does not opt to sign IGA with the US and Foreign Financial Institutions operating in Pakistan do not get themselves registered with the IRS, they could face a penalty of 30pc at the withholding on US source income and gross proceeds, said an SECP official. The official said there are two approaches to deal with the situation.

The FFIs are given a choice to directly enter into agreement with IRS and report over the financial conditions and transactions, the official said, adding, `the second is Inter-Governmental Agreement approach.

In the IGA, foreign financial institutions will report to the FBR which in turn will report the same to IRS.

Dawn
2nd May

$200bn of Pakistan in Swiss banks: Dar

ISLAMABAD: Finance Minister Ishaq Dar staggered the National Assembly on Friday when he revealed that at least $200 billion of `Pakistani money` was stashed away in Swiss banks.

In a written reply, Dar told the house that the government was engaging with Swiss authorities to get to the money, hidden away by various Pakistani nationals.

In a detailed response to a question raised by Dr Arif Alvi of the Pakistan Tehreeki-Insaf (PTI), the minister quoted statements by a Swiss banker and a former Swiss government minister: `One of the directors of Credit Suisse AG stated on the record that $97 billion worth of Pakistani capital was deposited only in his bank. Similarly, Micheline Calmy-Rey, a former Swiss foreign minister, is reported to have put the amount of Pakistani money hidden in Switzerland at $200 billion a statement that was never contradicted,` he revealed.

Saying that he believed the figures were correct, Mr Dar said the situation called for immediate corrective action. To put the enormity ofthis find into perspective, Pakistan`s total external debt stands at $150 billion and its gross domestic productis said to be around $300 billion. The country can, theoretically, pay off all its debt with the money in Swiss banks and still have nearly a quarterofitleftover.

The finance minister said the government was working under the ambit of a new Swiss law, known as `The Restitution of Illicit Assets Act, 2010` (RIAA), which allows the Swiss government to exchange information which was considered confidential up to now regarding money that may have been obtained illegally and deposited in Swiss banks. He also briefed the house on the steps the government was taking to get the money back.

The minister said the federal cabinet in a meeting on Sept 20 last year had already approved renegotiation of the current Pak-Swiss tax treaty and Federal Board of Revenue officials and the Swiss authorities concerned had agreed to meet in August this year to upgrade the existing agreement.

In his reply, Mr Dar also referred to various international pressures that had forced the Swiss government to review its policy on clandestine banking.

Amid a global squeeze on tax evasion, money laundering and blatant outflows of capital, Switzerland`s 11 largest banks housed nearly $7 trillion of the world`s total offshore liquidity stock of $32 trillion.

Switzerland has traditionally been the oldest, the most formidable and the mostpopular secret banking jurisdiction, attracting massive sums of tax-evaded money from across the world into its banks with numbered-accounts. Since 2009, the US and EU have consistently been pressing Switzerland and other tax havens to allow international tax administrations to track illegal funds parked in their secretive banks.

Dawn
10th May

Dar’s Swiss Solution

BUSINESS persons know Finance Minister Ishaq Dar as a hardworking man. He always has his hands on one task and his eyes on the next. Now he has set for himself a new target that of bringing back $200bn of dirty money that wealthy Pakistanis are believed to have stashed away in Swiss banks.

He informed the National Assembly on Friday that Islamabad plans to renegotiate its tax treaty with Bern in August to use the new Swiss laws to get confidential information about illegal money kept in banks by Pakistanis. A summary has already been placed before the cabinet to seek its permission to negotiate the existing but deficient Pakistan-Switzerland Tax Treaty approved in September last. The objective of the exercise is to catch the tax dodgers who have illicitly shifted capital outside the country.

Under the Restitution of Illicit Assets Act 2010, the Swiss government allows the exchange of information on dirtymoney in its banks. It will be no less than a miracle if the government succeeds in retrieving this illicit money, which Mr Dar claims is almost three quarters the size of Pakistan`s economy.

But there is no dearth of sceptics who consider the pursuit of money lying in Swiss banks as a waste of time and taxpayers` money. The claim about the size of the Swiss accounts held by Pakistanisis said tobe rather exaggerated and most account holders are believed to have already moved their deposits to safer havens ever since Bern agreed to open up its banking system for outside scrutiny in a global effort to crack down on the movement of funds for terrorist activities.

Thus, the much better, more sustainable and easier way for the minister to increase tax revenues would be to reform the inefficient and corrupt tax machinery at home and bringtaxthievesinto thenetinstead of encouraging evasion through differentmoney in its banks. It will be no less than a miracle if the government succeeds in retrieving this illicit money, which Mr Dar claims is almost three quarters the size of Pakistan`s economy.

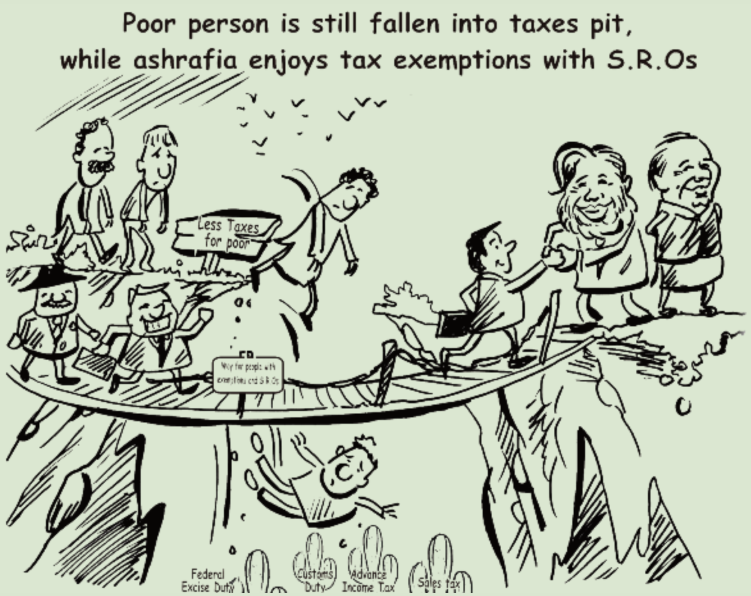
Dawn
11th May

Bureaucracy resists SRO withdrawal

ISLAMABAD: Top officials in bureaucracy are opposing withdrawal of a discretionary statutory regulatory order (SRO) which allows them immunity from higher taxation on their monetised transport allowance.

The immunity was given to officials in Grade 20-22 by the PML-N government through an SRO issued on June 10, 2013, just two days ahead of the announcement of its first budget.

These government officials are paying just 5 per cent tax on their monetised transport allowance. As per the normal income tax law, this amount should be clubbed with the total salary income of these officials, which may attract higher tax rates.



Contrary to this, for salary people below the grade 20, the transport allowance is part of the total salary and subject to standard income tax slabs which resulted into higher tax collection.
Dr Ikramul Haq, a tax expert, said bureaucracy bestowed on itself this benefit of reduced rate taxation, blatantly bypassing the Parliament. He said Finance Minister Ishaq Dar despite being aware of it has done nothing against it, which confirms that politicians and bureaucrats work hand in hand to cause the exchequer stupendous loss through SROs.

`This SRO is against the spirit of equity because it gives immunity to the higher income people`, a tax official said, adding these officials were getting higher transport allowance and opposing its abolishment.

The FBR has already finalised the plan for phasing out discriminatory SROs in three years and some of them would withdrawn in budget 2014-15. Thus, the much better, more sustainable and easier way for the minister to increase tax revenues would be to reform the inefficient and corrupt tax machinery at home and bringtaxthievesinto thenetinstead of encouraging evasion through differentincentive schemes. This is one of those areas of the economy where the government`s performance has been very poor. The failure to increase the miniscule base of taxpayers and punish tax dodgers means the government will again miss its target of Rs2.475 trillion by a wide margin. Although the Federal Board of Revenue has collected 15.5pc more tax revenue during the first 10 months of the present financial year, the IMF has further cut its tax collection estimate for the country.

Most of us, as well as the minister, know that the economy cannot be turned around and sustainable, high growth rates cannot be achieved without raising the tax net and bringing the wealthy segments of the population into it. Ignoring this fact for a longer period in the hope of a Swiss miracle or more `gif ts` from the Gulf countries will only compound our economic difficulties at the expense of ordinary Pakistanis.

Dawn
30th May

Filing of returns must for FBR officials

ISLAMABAD: Finance Minister Ishaq Dar has asked the Federal Board of Revenue (FBR) to make income tax return filing mandatory for officials of the board.

The direction came at a time, when the tax directory revealed that 1,200 FBR officials out of 1,743 did not file their returns for the tax year 2013.

Dar directed FBR to direct the defaulting tax ofHcers to Ele their returns by June 10 subject to exist-ing rules.

A similar concession of waiving penalty for not filing tax returns within the due time was given to parliamentarians who did not file their returns.

`Punitive action will be taken against those who fail to comply with the direction and their performance allowance shall be stopped, said an official announcement of the FBR. Dar said the government would not allow evasion of tax declaration by government officials, who ought to set an example for ordinary citizens.

Dawn
30th May

Tax officials given more powers

ISLAMABAD: The government has granted additional powers to Intelligence and Investigation officers of Inland Revenue Service (IRS) to ensure collection of evade d revenue.

The powers will ensure that the cases initiated are brought to a conclusion and revenue is collected and deposited in government exchequer.

The powers were notified through an SRO 351(I)/2014 on Monday.

The Intelligence and Investigation Wing, Inland Revenue, was created in March 2011. So far the agency has unearthed major scams of tax evasion from textile tycoons, cricketers, media persons and business elites. But due to limited powers, the recovery was negligible from the tax evaders.

According to the details issued by the Directorate General of Intelligence and Investigation (IR), the additional powers were given following the observation that investigation reports sent to the field formations were not getting the attention they merited.

Moreover, this duplication of work made it inconvenient for the taxpayers to appear at different fora for finalisation of their cases.

The powers to enter and search premises under section 175 as well as powers to call for information from the taxpayers u/s 176 of the Income Tax Ordinance, 2001 were already vested with the Directorate General and were exercised with due care.

With additional powers, there would be enhanced checks and balances on the officers to ensure that an atmosphere of harassment was not created.

An official statement of the directorate claims that the granting of additional powers will not only make the organisation more incisive and effective, but also make it more accountable as it will have to realise and collect the revenue shown in the investigation reports as collectable.

With the grant of additional powers, the scope and nature of work of the directorate general remains the same; however a new responsibility of collection of revenue has been added.

As per the new powers, the directorate general would continue to target selected `high net worth cases` where there is a clear evidence of tax evasion or a select number of cases involving glaring tax evasion. It would not target cases of compliant taxpayers.

The purpose of creation of the Intelligence and Investigation Wing was to identify and unearth areas involving huge leakage ofrevenue and to create deterrence for the tax evaders. The idea behind this is to ensure a level playing field as tax evaders make the market non-competitive for honest taxpayers.

Further, tax evaders use various techniques to hoodwinl← the tax authorities; cross jurisdictional transactions being one of them. This creates problems for LTUs/RTOs who have specific jurisdiction and cannot go beyond it.

Dawn
13th May

FBR in action to curb smuggling

KARACHI: The Directorate General of Intelligence and Investigation Wing (Customs) has confiscated smuggled tyres and some other goods worth millions of rupees after raiding shops and warehouses in some cities of Punjab.

Finance Minister Ishaq Dar, after recent media reports regarding huge loss of revenue due to smuggling, had ordered strict measures to curb the menace of smuggling.

Sources said the the finance ministry had been monitoring the measures taken by the FBR to root out under-invoicing/smuggling of tyres, cigarettes, tea, petrol/diesel depriving the national kitty of around Rs50 billion in revenue annually, out of which almost Rs15bn is lost due to smuggling of 2.5 million tyres every year.
Sources said Director Customs Intelligence Lahore had recently supervised a raid in Subzi Mandi area and confiscated 912 LEDs and 180 tyres that were concealed in a warehouse.

They said raids were also being made in Rawalpindi and soon it would be initiated in Karachi.

They said customs checkposts would play key role in breaking the ring helping smugglers transport smuggled goods specially tyres through the two land routes -Chaman and Landi Kotal -in disguise of the imports through the transit trade.

Sources said FBR would set up customs checkposts every 50 to 100 km which would hinder the easy flow of tyres and other smuggled goods.

Dawn
13th May

Tax-to-GDP ratio down

ISLAMABAD: The budget strategy paper for 2014-17 presented to the federal cabinet by Finance Minister Ishaq Dar sets ambitious targets for reduction of debt build-up and fiscal deficit, but concedes that the tax-to-GDP ratio has declined during the current year despite an increase in tax rates.

According to sources, the minister informed the cabinet on Thursday that even though tax collection had improved by more than 15 per cent during this year, the tax-to-GDP ratio had dropped significantly.

The government had set a target to achieve the ratio of 10.9pc thisyear, which has now been brought down to 10.5pc on the basis of the collection in the first 10 months and projected collection in the remaining six weeks.

This was despite the fact that the general sales tax on all products and services was increased by 1pc by Mr Dar in his first budget speech and withholding tax was also imposed on seven key sectors.

A number of measures for documentation of economy to broaden the tax base and increase the taxto-GDP ratio announced in the budget were gradually withdrawn overthecourse ofthenscalyear.

The strategy paper projected the ratio to grow to 11.3pc by the end of the next fiscal year, followed by12pc in 2015-16 and reaching up to 12.7pc in 2016-17. The government has set a target of 5.5pc GDP growth in 2014-15 which will be increased to 7pc and 7.2pc for the next two years. It was reported that the GDP growth rate this year was estimated at 4.14pc against a target of 4.4pc.

The document projected the public debt-to-GDP ratio at 60.2pc at the end of the current ñscalyear, lower than the 61.3pc budget target. The target is to reduce public debt to 56.7pc of GDP in 2014-15, 53.2pc in 2015-16 and 49.8pc in 2016-17. The foreign exchange reserves12pc in 2015-16 and reaching up to 12.7pc in 2016-17. The government has set a target of 5.5pc GDP growth in 2014-15 which will be increased to 7pc and 7.2pc for the next two years. It was reported that the GDP growth rate this year was estimated at 4.14pc against a target of 4.4pc. The document projected the public debt-to-GDP ratio at 60.2pc at the end of the current ñscalyear, lower than the 61.3pc budget target. The target is to reduce public debt to 56.7pc of GDP in 2014-15, 53.2pc in 2015-16 and 49.8pc in 2016-17.

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The foreign exchange reserves were $13.9 billion on May 13 and will increase to $19bn by the end of the next fiscal year, $22bn in 2015-16 and $22.5bn by 2016-17.

The budget paper put the current year`s investment-GDP ratio at 13.5pc and set a target of 16.5pc for the next year, 20.2pc by 2015-16 and 21pc by 2016-17. The cabinet was informed that the inflation rate was expected to settle down at 8.5pc this year against a target of 8pc, but would remain stable at the same level during the next three years. The government expects to achieve a consolidated fiscal deficit level of 5.7pc of GDP this year against the budget target of 6.3pc. The figure will be brought down to 4.8pc next year and stabilised at 4pc over the subsequent two fiscal years.A cabinet member told Dawn that the finance minister had not presented a traditional budgetary strategy paper containing a detailed macroeconomic framework along with strategies to achieve the targets as had been customary in the past.

Dawn
17th May

WB proposes annexing income at market level

ISLAMABAD: In a bid to take tax revenues to a respectable level, the World Bank (WB) has proposed capturing agricultural income at a stage when farmers bring their crops to the market - as the existing mechanisms to collect tax on farm earnings have failed to yield results.
The proposal is part of prospective areas that the bank has identified to increase extremely low provincial tax revenues. The Washington-based lending agency has added these tax measures in its recently approved five-year Country Partnership Strategy for Pakistan.

It is aiming at following the identified areas during its discussions with the provincial authorities.

According to the proposal, Pakistan may levy a presumptive agriculture income tax at marketing stage. The purpose is to charge tax at a certain percentage of the total value of crops such as wheat, cotton and rice.

The proposal is workable and provinces may capture the value of the agriculture income and levy a presumptive tax at 2% of the total value that will give them significant revenues, said Ashfaq Tola, a renowned Karachi-based tax expert, who has done several studies on enhancing provincial revenues.

Express Tribune
4th May

Dar suspends order aimed at tax evaders

ISLAMABAD: Apparently succumbing to pressure from powerful lobbies, Finance Minister Ishaq Dar has suspended the implementation of an order meant for recovery of tax from evaders.

Last week, the Federal Board of Revenue (FBR) issued SRO 351, granting power of assessment and recovery to officials of the tax intelli-gence unit of the Inland Revenue Service (IRS), to unearth and recover the evaded tax from fraudsters.

`The FBR issued the SRO without my approval and was unfair in its spirit,` Finance Minister Dar told representatives of the chambers of trade and industry and exporters and importers, who were not happy with the grant of additional powers to tax officials.

These stakeholders were attending a Tax Advisory Council meeting headed by the minister to discuss proposals for the upcoming budget at the FBR headquarters here on Saturday.

Mr Dar added that all `discriminatory SROs` would be abolished within three years and all the stakeholders were working together in this regard, an official statement said.

In the past 10 months (JulyApril), the intelligence unit has unearthed cases involving tax evasion of Rs6 billion. These cases were referred to the regional tax offices and large taxpayers units (LTUs) for recovery from the evaders.So far only Rs800 million has been recovered from evaders, reflecting poor compliance of the tax department.

It is because of the poor performance of the field formations that the FBR has granted the power of assessment and recovery to its intelligence unit, according to analysts.

They say that recent tax evasion cases instituted by the unit against mobile phone sellers, software ven-dors, property developers, etc have irked the powerful lobbies.

The new powers were granted to ensure that the cases initiated by the intelligence unit were brought to a conclusion and revenue was collected and deposited in the government exchequer quickly. The tax intelligence unit was created in March, 2011, despite strong opposition from within and outside the tax department. So far the unithas unearthed major scams of tax evasion from textile tycoons, cricketers, media persons and business elites. A tax official said the SRO in question was drafted in a period of two months because of strong opposition from some top officials of the IRS, who were not willing to delegate the powers to the tax intelligence unit. Ironically, the power of lodging FIR against tax evaders and search-ing their premises is available under the existing laws. The additional power was for early recovery of tax from evaders.

According to the official statement, Mr Dar underlined the need for formulation of realistic proposals aimed at ensuring growth in revenue generation, enabling the government to allocate appropriate amounts for development work and social safety net.

Dawn
18th May

Pakistan wants increased tax on cigarettes

ISLAMABAD: Pakistan is committed with the World Health Organization (WHO) to increase tax rates on cigarettes by at least 70 percent against the existing average incidence of around 59 percent.

The tobacco industry is in-sisting on the government to stick to the existing excise duty structure where fixed tax is paid instead of collecting tax at retail price by arguing that the fixed system was delivering and gen¬erate desired revenues of up to Rs87 billion in the outgoing fiscal year, the officials said.
In their counter arguments, the FBR high-ups said that the Framework Convention on Tobacco--Control (FCTC) under the umbrella of WHO, was signed by 168 of the 192 members to adopt tax and price measures to reduce tobacco consumption and minimum tax limit was committed at 70 percent.

The FBR officials said that after introduction of two-tier systems for paying excise duty, three major brands increased retail price by around 16.67 percent during the ongoing fiscal year but the increase in the excise duty stood at only 6.38 percent after change in the excise structure. Citing another example of an-other brand of cigarettes, the official said that the price of that brand stood at Rs48 per packet before Julyl, 2013 and after two-tier structure, the price remained at the same level but the excise duty decreased from Rs24.23 to Rs17.7 in the last 10 months, registering a negative growth of 27.5 percent in revenues.

However, industry sources said that under the existing tax structure, the FBR is expected to collect Rs87 billion in the shape of excise duty from the tobacco industry in the outgoing financial year.

The tobacco industry has also proposed the government to introduce legislation to counter the issue of pre-budget hoarding by way of introducing biannual excise increases, in line with the Consumer Price Index (CPI).

The FBR's top hierarchy continued deliberations on Wednesday to devise a strategy for increase the tax payment from this revenue spinner sector.

In the first 10 months (July-April) period of the outgoing fiscal year, the FBR has collected more than Rs70 billion and the overall collection will touch Rs87 billion till the end of June.

The excise structure for cigarettes was changed in the last budget from three-tier mixed system to a dual-tier specific structure.

The tobacco industry suggested that this structure should continue because it disconnects government revenue from cigarette prices.
This structure not only gives the government complete autonomy to manage excise levels but also gives tobacco industry the liberty to set prices of cigarettes based on market dynamics.

A specific structure has been adopted by various countries, since it protects government revenues and also provides pre-dictability.

Record shows low tax collec-tions during the first few months of the fiscal year. It is a normal phenomenon of the Pakistani tobacco industry where the trade channel hoards stocks at pre-budget prices and witness low sales during the post-budget months. The reformed structure is poised to give a growth of over 14 percent in the government revenues.

Illicit trade, steep excise hikes and pre-budget hoarding y are the key challenges that are faced by the tobacco industry.

The industry also seeks increased and effective enforcement of laws to counter the menace of illicit trade in cigarettes, which is growing at an exponential rate, undermining the government's fiscal and health objectives.

According to a September 2013 study by the International Tax and Investment Center and Oxford Economics on illicit tobacco trade, in 2012, 25.4 percent of the cigarettes consumed in Pakistan were illicit, causing the government a loss of approxi-mately Rs26.9 billion ($275 million) in revenues. The legal industry's volume has dropped from 76 billion sticks to 64 billion sticks due to a steep excise hike in 2009.

At this stage when the government is struggling to meet its revenue targets illicit trade is increasing exponentially, causing revenue loss in billions of rupees to the national kitty on an annual basis, it said. Although, the FBR has launched crackdown against illicit trade through I&1 Wing of the Inland Revenue (IR), they require more financial and human resources to launch an effective onslaught against illegal cigarettes.

The News
22nd May

Ishaq Dar calls for broadening tax net

ISLAMABAD: Finance Minister Senator Ishaq Dar has asked the Federal Bureau of Revenue (FBR) officials involved in budget making process to make all out efforts for broadening the tax net for the economic stability of the country.

He asked the FBR officials to consult all the stakeholders including chambers, professional bodies and industry representatives in finalising budget proposals.

Chairing a meeting to review budget process at the FBR on Sunday, the finance minister said that they had to focus on expanding the tax net and enabling the government to find fiscal space for allocation of funds for the development of energy and infrastructure.The finance minister was briefed by the FBR chairman on the broad outlines of the measures being considered for inclusion in the proposals with the objective to broaden the tax base and encourage documentation of economy. FBR members in their respective areas assisted the chairman.
The minister underlined that they had to work with full dedication for the uplift of the country. He added that the taxpayers should be facilitated by simplifying tax reporting. He emphasised that the overall economic vision must be roped in the budgetary proposals. He added that they had to work with complete sincerity and dedication to take the country forward.

The News
19th May

Powers of SROs to be taken away from FBR

ISLAMABAD: In order to strengthen the elected Parliament and curbing misuse of the SRO culture, the government has decided to withdraw the powers of the Federal Board of Revenue (FBR) to issue Statutory Regulatory Orders (SROs) and grant this power to the elected House, it is learnt.

Yes, the government is considering surrendering the powers of the FBR in favour of Parliament for approving SROs through upcoming Finance Bill in the budget 2014-15. For future SROs, the proposal is under consideration to grant this power only to Parliament," official sources confirmed to The News.

An FBR official said that they had already minimized issuance of SROs as in the outgoing fiscal year only those SROs were issued which were necessary to run day to day affairs of the tax machinery. No one can cite any example to give benefit to any individuals or few people through issuance of SRO, they added.

In the past, the misuse of SROs was rampant in order to give benefits to well connected people and segments of the society. There were over 12,000 SROs issued, and majority of them was used once or twice to benefit only influential class, and afterwards they were never used.

When contacted, one FBR. officer said if this proposal got through, then it would create problems for the tax machinery to nut its routine affairs because they will have to wait for meetings of Parliament even for minor changes.

FBR officials are proposing that only those SROs should be presented before Parliament which possessed major revenue impact, and if only procedural changes were required this power should remain with the FBR.

Under the IMF's bailout package of $6.67 billion, the government is committed with the Fund to eliminate tax exemptions and withdraw SROs in order to fetch Rs145 billion in the national kitty. Under the proposed plan, the FBR is in the process of finalizing those income tax ex-emptions in the budget which will yield 0.2 percent of GDP through next Finance Bill 2014¬15.

Through withdrawal of SROs, the FBR is eyeing to collect 0.4 percent of GDP in the next budget Ibtal revenue impact with both these measures of abolishing income tax exemptions as well as withdrawal of SROs will fetch 0.6 percent of GDP or Rs145 to Rs150 billion in the next financial year.

The government is considering fixing the FBR's target around Rs2,800 billion in the next fiscal year against two time revised collection target of Rs2,275 billion.

The FBR will have to achieve 24 percent growth compared to the collection figure of Rs2,275 billion in order to materialize another challenging target of Rs2,800 billion for the next budget.

The News
17th May

FBR criticised for creating parallel authority to assess taxpayers

KARACHI: Businessmen, tax experts and officers of the Inland Revenue Services (IRS) on Thursday resented the decision of the Federal Board of Revenue (FBR) to create a parallel authority to assess taxpayers.

Through a statutory regulatory order (SRO) on May 7, the revenue body conferred the powers of audit, assessment and to enter business premises to the officers of the Directorate General of Intelligence and Investigation of Inland Revenue.

Which had already been exercised by the chief commissioners and commissioners of Inland Revenue. "It is duplication of powers and the taxpayers will face harassment and unnecessary workload," Syed Wasimuddin Hashmi, president of the Karachi Tax Bar Association, He said that such initiatives will open doors for corruption in the taxation system.
The business community across the country also criticised the FBR for taking antibusiness measures. The Karachi Chamber of Commerce and Industry (KCCI) at a press conference resolved that the revenue body should withdraw the controversial SRO forthwith.

Abdullah Zald, president of the KCCI, and Siraj Kassam Teli, leader of the Businessmen Group (BMG), demanded that the implementation of the SRO would intensify the hardships of the business community. They said that another organisation DG I&I IR within the FBR had been granted discretionary powers for the recovery of taxes along with the authority to affest individuals.

"The notification will not only multiply the problems already being suffered by the business community but will also open flood gates of corruption,"

The KCCI said that such measures will create rift between various government organisations, as the power given to the DG Intelligence and Investigation, Inland Revenue would severely affect the working of the Large Taxpayers Units (LTUs) and Regional Tax Offices (RTOs), which were operating With the issuance of an SRO, a total of 75 sections have been granted to the Directorate of Intelligence and Investigation, Inland Revenue, which is the only department of the FBR with the powers to make arrest.

The business community said that the authority and capacity go together but the SRO had granted maximum authority to the Directorate I&I, IR, which has a very limited capacity.

They said that the I&I is the weakest department of the FBR but it had been granted extraordinary powers in order to empower a handful of people.

The business leaders said that the same set of powers cannot be enjoyed by more than one organisation at a time, adding that such a law was not workable because it would further increase the non-filers and also results in flight of capital laid said that the KCCI is in touch with all the chambers of commerce and trade bodies across the country and the entire business community stands united against this unfair SRO.

The News
16th May

FBR, oil companies in a fix over withholding tax collection

KARACHI: The Federal Board of Revenue (FBR) and oil exploration and production (E&P) companies are in a fix over the issue of withholding tax where an estimated amount of Rs5 to Rs6 billion is stuck up.

The issue was popped up as gas utility companies and re-fineries had not made the mandatory deduction of with-holding tax on the purchases from E&P companies. Whereas, the E&P companies are contesting that there was lacuna in the law that remained unresolved after making amendments in the Finance Act 2012.

On non-receipt of revenue under the withholding tax, the tax departments issued notices to refineries and gas utility companies, which subsequently asked the E&P companies to deposit the due liabilities since July 2012.

Seeking resolution of the issue, Pakistan Petroleum Exploration and Production Companies Association (PPEPCA) wrote a letter to 'Pang Bajwa, chairman of the FBR, saying that the E&P companies enjoy exemption under Clause 46 of Part. IV of the Second Schedule of Income Tax Ordinance, 2001.

The resident E&P companies have exemption from the with-holding tax on supply of petroleum through a notification issued on June 30, 1991 and the similar exemption was later granted to permanent establishment (PE) of non-resident companies through changes in the Second Schedule of the Income Tax Ordinance, 2001.
However, through the Fi-nance Act, 2012, the withholding provisions on PE of non-resident companies were moved from Section 153 (1) to Section 152 (2A) but corresponding change was not made in the Clause 46 of Part IV of the Second Schedule of the Ordinance.
The association informed the FBR chairman that the buyers continued to pay without with¬holding tax due to the understanding that it was an omission that would be corrected later.

"However, member companies have received notices from buyers, including refineries and gas utility companies, who are In his address of welcome, Lasbela Chamber President Ismail Suttar said that the FTO institution had risen to the expectations of around one million Pakistanis who had fallen prey to official apathy, incompetence and maladministration.

"It is for the satisfaction of all concerned that this institution has disposed of around 70,000 cases by the end of 2013, which is really quite appreciative and an exemplary performance for other public institutions."

"The F1'0 Office is also watching the pending cases of sales tax refund claims, amounting to more than Rs97 billion and the issues relating to it," he said.

"In our opinion, the reduc-tion of the rate of sales tax and income tax, as has been suggested by the business community, will not only reduce the complaints against the tax collecting agencies but also broaden the tax base in the country," Suttar said.

The News
14th May

KCCI welcomes decision to suspend SRO 351

KARACHI: The leadership of Businessmen Group (BMG) and officebearers of the Karachi Chamber of Commerce and Industry (KCCI) have welcomed the finance minister's decision to suspend the controversial SRO 351, which has sent aposi-tive signal to the entire business community, as it clearly indicates government's intentions towards creating an enabling environment, a statement said on Saturday.

Businessmen Group Chairman and former president of the KCCI, Siraj Kassam Teli, BMG Vice Chairmen Tahir Ehaliq, Zubair Motiwala, Ha-roon Farooki and Anjum Nisar, president of the KCCI, Abdullah Zald, Senior Vice President Muffasar A Malik and Vice President Muhammad Idrees appreciated the finance minister's prompt intervention and his immediate response to the KCCI's press conference in which, the business community of Karachi strongly condemned the issuance of the controversial SRO 351, it said.

They said that the entire business community stood united and joined hands against this antibusiness SRO, which, if implemented, could have created a disastrous situation for the business community but thanks to the finance minister's timely intervention, the trade and industry has been rescued from the likely disaster.

It has helped restore the confidence of the business community on the government policies, it said.

They added that instead of imposing such unjust SROs to punish the honest taxpayers, the government should devise a clear strategy on how to effectively deal with the non-taxpayers, who continue to enjoy as they remain outside the tax net.

The BMG leadership and the KCCI office-bearers, while appreciating various probusiness initiatives being taken by the present government, commented that the antibusiness SRO 351 was planted by some FBR officials to create more problems for the businessmen / industrialists and promote corruption but thanks to Dar's timely intervention, this serious issue stands resolved now.

Underscoring the significance of coordinated efforts between the business community and the government officials, they expressed the hope that similar support will be displayed in the days, which would considerably improve various economic indicators and create an enabling business environment for everyone.

They also requested the finance minister to hold a meeting with the business community either in Islamabad or Karachi prior to the Federal Budget 2014-15 so that the busi-nessmen / industrialists could get a chance to discuss joint, budget proposals of all chambers of commerce, which had already been submitted to all the authorities concerned.

The News International
May 18th

Govt asked to withdraw tax exemptions, concessionary SROs

ISLAMABAD: The Federal Board of Revenue (FBR) has asked the government to with-draw tax exemptions and concessionary statutory regulatory orders (SROs) in order to fetch tax revenues of 0.9 percent of GDP, equivalent to Rs240 billion, starting from the next budget 2014-15, a senior official said on Tuesday.

This was stated by FBR Chairman Tariq Bajwa at a panel discussion of the Upper House of the Parliament.
The FBR chairman informed the committee that the total cost of exemption stood at Rs480 billion, equivalent to two percent of GDP. He said that FBR has proposed the withdrawal of exemption and SROs worth 0.9 percent to one percent of GDP in phases.

When senators asked why the FBR did not withdraw all exemptions in one go, Bajwa said that if the government could withdraw all exemptions, the FBR would be happy.
Later, talking to newsmen, he said that the FBR will gradually phase out SROs worth one percent of GDP. There are certain exemptions, which cannot be withdrawn such as those exemptions provided under sovereign guarantees, international obligations and commitments.

The exemption available to the independent power producers (IPPs) cannot be withdrawn for import of crude oil.
Exemptions are also available under the free trade agreements and preferential trade agreements, he said, adding that the total cost of Customs duty exemptions incurred during July-February 2013-14 stands at Rs21 billion.

The FBR chairman said that the government had established a high-powered committee to review all exemptions, concessionary SROs and the report of the committee is expected this week.
The international trades, as well as domestic taxpayers have to face an intricate regime of concessionary duties and taxes in the shape of different SROs, he said, adding that these SROs constitute a complex de facto tax structure to allow concessions to various sectors based on different criteria each with its own regulatory and control management.

In order to address these issues and to ensure equitable tax system in the country, the FBR has prepared a plan for rationalisation of the concessionary regime and with-drawal of exemptions / SROs in respect of sales tax, Customs duty and income tax, he said.

The plan has been approved by the government; however, a high-powered committee has been constituted to suggest phase-wise withdrawal of exemptions, Bajwa said

The committee, he said, has held a number of meetings and is expected to finalise its finding soon. During the current fiscal year.

The News
14th May

PM tax incentive scheme expires

ISLAMABAD: The government has not extended the deadline for availing the Prime Minister Tax Incentive Scheme from April 30, 2014, officials said on Wednesday.

The scheme has abysmally failed to lure investors for declaring their investment and coming into the normal taxation regime, they said.

This was despite the incentives that the income source would not be probed if a fixed amount was paid, said the officials.

"Only Rs200 million plus taxes have been deposited into the national kitty under this scheme. Therefore, there is no intention to grant any further extension," top officials at the Federal Board of Revenue (FBR) confided with The News.

Till March, over 3,300 investors had availed this scheme and a few hundred more might be added into the list of the beneficiaries of this scheme.

The FBR spokesman confumed the expiry and no further extension of the PM Incentive Scheme. He, however could not confirm the figures in this regard.

The International Monetary Fund has expressed reservations over the tax incentive package. The IMF staff said though the package seeks to improve the investment climate by reducing tax scrutiny, yet it adds to the loopholes related to remittances and equity stock investment in the system. This also raises the potential risk of money laundering, remarked the staff.

The IMF further said the im-munity from routine audit hin-ders the selfassessment process and the amnesty — entailed by waiving penalties and interests — is likely to be detrimental to improving compliance and collection as taxpayers will expect immunities in future. However, it said some fac-tois could mitigate the negative impact of the package. The authorities consider this as one-off and refrain from issuing another amnesty during the programme period, recommended the staff.

Besides, the immunity from routine audit does not extend to the cases where noncompliance is detected from other sources, it added.

The tax amnesty package was introduced in December 2013 to encourage investment and widen the tax net by reducing tax scrutiny.

According to the IMF, this package might result into some additional revenue in the shortrun, while it will likely hinder the system in the long-run.

Under the scheme, in some key productive sectors, there was immunity from tax scrutiny on source of new investment.

Additionally, the current tax filers who paid 25 percent more income tax than the previous year had an immunity from routine audit. This incentive expired at end-January, 2014.

There was immunity from routine audit, penalties and interests for non-filer registered taxpayers that were not filing tax returns provided that they would file missing returns for the past five years.

A minimum payment of Rs20,000 per year (broadly in line with the average tax paid by non-salaried individuals) is required to enjoy the exemption.

The News
1st May

LHC strikes down capacity tax on a 'technicality'

Advocate argued that companies fall under 3rd schedule of Sales Tax Act

KARACHI: The Lahore High Court (LHC) suspended a statutory regulatory order (SRO), which divided the beverage industry, caused embarrassment to the government and resulted in billions of rupees in tax loss. Justice Syed Mansoor Ali Shah struck down SRO 649, which was introduced by the government on July 9, 2013, soon after coming to power.

Ironically, the case that dragged on for months and involved multiple enquiries, parliamentary debates and substantial media hype, culminated in a matter of mere technicality.

Senior advocate Salman Akram Raja, who represented Pakistan Fruit Juice Company, the bottler for RC Cola, said that aerated water companies fall under the third schedule of Sales Tax Act that does not require them to pay capacity tax.

Instead of being imposed on retail sale of soft drinks, the capacity tax is levied at the plant's potential to fill the bottles. "It was introduced without any proper study.

It was illegal," Raja lamented. The tax regime, which targets the capacity of the plant instead of actual sales, was levied at the behest of bottlers working for multinational companies Pepsi and Coke. Advocate Raja said courts always try a case on the narrowest of grounds. "Bigger issues with capacity tax remain. But if a judge 'mocks out a case on something basic then there was no need to go into details."

It was bitterly opposed by Pakistan's local beverage makers, some of whom, like Pakola makers in Karachi, had stopped production.

Ranging between Rsi .175 million to Rs4.7 million per valve of the beverage plant depending on the origin of the machine, the tax followed a commitment on part of the two major industry players to increase revenue collection by 25%.

Up till December, the industry had actually paid just 21% of targeted figure. This happened despite the fact the price of beverages increased by 22% to 28% but government didn't get additional revenue as tax was fixed on perspout basis.

The Federal Board of Revenue (FBR) has not shared the actual figure of shortfall in tax collection. According to FBR, the industry representatives, who assured it of increase in taxation, overstated the number of installed valves, managing to get the rate per valve fixed at a lower level.

Subsequently, the government raised the tax by 60% to 70% in absolute terms in February in a bid to make up for the revenue loss since the capacity tax was introduced in July 2013. But that prompted even the multinational companies to go to court.

The tax became a bone of contention since its introduction as local brands, which have smaller market share, faced immediate crunch. Local companies and smaller bottlers say they have extra capacity and sales fluctuate according to seasonal demand. While companies sought court's help to block the new tax, many rolled back capacity by dismantling filling machines in fear of paying penalties.

Sales of Pakistan's beverage industry increased 37% to Rs-172 billion in 2012-13 over the previous year. In 2012-13, government collected Rs2o. 4 billion in taxes from the industry. A detailed judgement on the case will be released in few days.

The News
20th May

Economy's size swells to $245 billion

ISLAMABAD: The size of Pakistan's economy jumped to $245 billion during the outgoing fiscal year (2013-14) against a revised estimate of $232 billion in the last fiscal year (2012-13), official sources confirmed to The News on Friday.

They said the economy's size is projected to go up to $267 billion in the next fiscal year Before the announcement of the budget 2014-15, the Prime Minister will approve the macroeconomic figures at the National Economic Council.

In rupee term, the size of the economy is projected to touch Rs28,901 billion in the FY15 budget.

The sources calculated one percent of gross domestic product at Rs289 billion. Thus, the country's fiscal deficit of 4.8 percent of GDP will require bridge financing of Rs1,387 billion in the next fiscal year. The Federal Board of Revenue will have to collect Rs2,770 to Rs2,800 billion next year to bring tax to GDP ratio close to 9.7 percent, said the sources.

The FBR will have to collect Rs2,770 to Rs2,800 billion next fiscal year to bring the tax-to-GDP ratio close to 9.7 percent.

The minister is expected to come back on May 22. Therefore, the APCC will be convened on the same or the next day.

However, some policymakers hinted at a possibility of no APCC meeting this year as was happened last time because of the absence of deputy chairman Planning Commission.

The present government calculated the size of the econ omy at Rs25,402 billion, based on market price, for the ongoing fiscal year as against the revised estimate of Rs22,489 billion in the last fiscal year. The National Accounts Committee has validated the figure. The country's finalised budget deficit would rise to 8.2 to 8.3 percent of GDP for FY13 as against an earlier provisional figure of eight percent.
Mehtab Haider

ISLAMABAD: Pakistan's trade deficit stands at $16.1 billion in the first 10 months of the outgoing financial year against $16.5 billion in the same period of the last fiscal year, showing a decline of 2.5 percent, according to the figures of the Pakistan Bureau of Statistics (PBS) released on Friday.

During July-April 2013-14, exports amounted to $21 billion and imports $37.1 billion against the corresponding period's exports of $20.14 billion and imports of $36.66 billion - a growth of 4.24 percent in exports and 1.2 percent increase in imports over the last year, it showed. Interestingly, the country's exports unexpectedly dipped in April, as the economy sold abroad 14.47 percent less products than the previous month, which was the biggest decline in 10 months since the start of this financial year in July.

Over the corresponding month of the last fiscal year, the decline in exports was recorded at 10 percent, the first dip sinceDecember 2013, the PBS data revealed. Products worth $1.915 billion were ex¬ported during April against $2.127 billion in the same month of the last fiscal year, depicting a decline of 10 percent, it showed.
Israr Ahmed

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