

Think Ahead

ACCA

ACCA's Initial Pre-Budget Proposals

(Summary - Tax Year
2018)

ACCA Pakistan Taxation Subcommittee

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رَبِّ اشْرَحْ لِي صَدْرِي ﴿٢٥﴾ وَيَسِّرْ لِي أَمْرِي ﴿٢٦﴾
وَاحْلُلْ عُقْدَةً مِّنْ لِّسَانِي ﴿٢٧﴾ يَفْقَهُوا قَوْلِي ﴿٢٨﴾

OH MY LORD! OPEN MY CHEST.
AND EASE MY TASK FOR ME.
REMOVE THE IMPEDIMENT FROM
MY SPEECH SO THAT THEY MAY
UNDERSTAND WHAT I SAY.

SURAH TA-HA [20:25-28]

Introduction



A highly IT literate and experienced accounting, finance, management and economics professional holding **FCCA (senior ACCA member), CFA Charter, the Anti-Money Laundering Specialization, BSc (Hons) in Applied Accounting, Certified Mentor (OBU UK)** and several professional certifications from UK along-with **15 years' plus fund of experience** gained in **top management positions** in leading **British and Pakistani** companies.

Currently serving as a **Managing Partner at Millennium Law & Corporate Company** and **Director at Professionals' Social Network**. Besides I'm also **an experienced trainer** having worked with esteemed organizations in corporate, public and academic sectors. My portfolio includes having conducted mandatory promotional **trainings of Government Officers at MPDD (Pun Govt)**, professional trainings at **National Bank of Pakistan, HBL, Lahore Tax Bar Association, Lahore Chamber of Commerce and Industry (LCCI)** and globally recognized international body **ACCA (UK) Pakistan** as well as conducting programs at **Bahria University (Pak Navy) and UET**.

I'm a **regular contributor** to various national and international publications like **Daily Nation, Daily Times, Pakistan Today, Express Tribune** and the renowned **"Blue Chip" journal**. Besides I'm also advisor to several parliamentarians and recipient of ACCA's Exceptional Public Value Award.

I'm also a **life member** and **third time serving Chairman Liaison Committee of Lahore Tax Bar Association**, Member **Global Tax Forum (ACCA UK)**, Member MNP & Chairman Taxation Subcommittee of ACCA (Pak), **Director Millat Thinkers' Forum**, Member **Hamdard Thinkers' Forum** and professionally associated with globally reputed organizations like **ACCA (UK), CFAI (USA), UKSIP (UK), PRIMA (USA), PRMIA (USA), MPDD (PAK) & www.mymfb.com**

Academic:

- FCCA – Association of Chartered Certified Accountants, (UK)
- CFA Charterholder – Chartered Financial Analyst, (USA)
- BSC (HONS) in Applied Accounting from Oxford Brookes University (UK)
- Adv. Financial Diploma - UK
- Anti – Money Laundering Course (Organized by UHY Hacker Young, UK)
- CAT – Certified Accounting Technician, (UK)
- Customer Service Management Certificate (Co-Certified by SMEDA and LCCI)
- Certified Mentor – OBU (UK)

Professional Affiliations:

- ACCA (Association of Chartered Certified Accountants) – UK
- PRMIA (Professional Risk Managers' International Association) – USA
- UKSIP (UK Society of Investment Professionals) – UK
- CFAI (Chartered Financial Analyst Institute) – USA
- PRIMA (Public Risk Management Association) – USA
- LTBA (Lahore Tax Bar Association)- PAK
- MPDD (Management and Professional Development Department)-PAK



Think Ahead

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Overview of ACCA's initial budget proposal

ACCA Pakistan

Summary of Budget Proposals

Tax Year 2018

1. Broadening of Tax Base
2. Structural Reforms
3. Direct Tax (Income Tax)
4. Indirect Tax (Sales Tax)
5. Custom Duty and FED
6. Key Reforms

Broadening of Tax Base

Increased impetus on Direct Taxation

To reduce the continued reliance on indirect taxes which normally lead to inflation, uncompetitive businesses on a global stage and a reduction in real GDP growth.

Volume over Margin

Pakistan has one of the highest rates of the indirect taxes in the region. The high cost of taxation contributes to a culture of tax evasion where a few have to bear a heavy taxation burden.

Reduction in tax rates to single digits while focusing on broadening the tax base making the cost of tax avoidance along-with the penalties non-attractive. This, coupled with structural reforms can assist in expanding the tax base.

Broadening of Tax Base

Co-ordination between Federal and Provincial Taxation Authorities and Legislators

A policy board comprising of the Chairmen of the Federal and Provincial revenue authorities should be formed to ensure harmonization of the policies, standard tax rates and removal of all anomalies/ conflicts between the laws of the different revenue boards

Broadening of Tax Base

Utilization of NADRA database

NADRA database should be integrated with to identify the individuals living beyond their declared means and to bring them as new taxpayers under the tax net.

Utilization of WHT data

The withholding taxes data can be analyzed to focus on non-filers paying higher rates of withholding taxes and to bring them under the formal tax net considering the amount of taxes already deduced from them.

Broadening of Tax Base

Utilization of databases of other authorities

FBR should have integrated access to the databases of other authorities or at least be able to get information to utilize for identifying high net worth and otherwise taxable individuals and entities to bring them under the tax net.

Formalized Asset Valuations

There is a general tendency to undervalue assets leading to tax avoidance. To curb this, FBR can form desks to declare formalized asset valuations in line with the fair market values in consultations with the stakeholders.

Structural Reforms

- **Ensuring no post remains vacant for more than a week to avoid delays in resolving tax-payers issues arising out of transfers, postings and additional charges, e.t.c.**
- **Segregating the Appellate Apparatus from the Tax Collection Authorities**
- Resolving the outstanding refunds issue positively
- Introducing confidence by establishing a swift response complaint resolution cell to deal with corruption and harassment of tax payers
- **Review and revamp the Afghan transit trade (ATT) agreement with Afghanistan to ensure transparency and avoid the misuse of ATT.**

Structural Reforms

- **Introducing impact on economic sectors (GDP development) along with collections target as a performance evaluation criteria for FBR functionaries**
- Resolving issues within IRIS to make it more user friendly
- Integration of Federal and Provincial Revenue Authorities' systems
- Reducing the discretionary powers vested in FBR officials and shifting towards an objective criteria based approach
- Developing the existing policy of differential tax treatments and incentives for filers while penalizing non-filers
- Ensuring time limits specified in laws are adhered to
- Facilitating the tax payers

Direct Tax

Corporate Tax Rate should be reduced

Pakistan's last Economic Survey revealed a tax-to-GDP as one of the lowest in the region.

Hence, in order to attract FDI and facilitate the local business ecosystem the Corporate tax rate should be reduced from the current high level of 31% (one of the highest in the region) to between 20-25%.

Direct Tax

Section 111 (4) regarding foreign exchange remitted from outside Pakistan

It should be amended to:

to any amount of foreign exchange remitted from outside Pakistan through normal banking channels that is encashed into rupees by a scheduled bank and a certificate from such bank is produced to that effect

and a declaration along-with evidence of the source of funds.

This will continue to promote the inflow of foreign exchange remittances towards the country while stopping the misuse of the provision to whiten/laundry black monies and de-incentivizing genuine tax paying businesses.

Direct Tax

Section 113 regarding minimum tax

The minimum tax is irrespective of the net profit or loss. This often gives rise to a situation where businesses end up paying double taxes on their revenues and profits as well as loss making businesses facing additional cash-flow pressures by paying this tax.

The current rate should be brought down to 0.4%. Also the proviso regarding businesses making gross loss should be reintroduced.

This will facilitate the business eco-system contributing to a growth in GDP which can lead to increased revenue collections for the treasury.

Direct Tax

Section 152 regarding Payments to non-residents

Section 153(4) empowers the Commissioner Inland Revenue for issuing Exemption Certificates in cases where the underlying payment is not chargeable to tax due to various reasons

This provision should also be inserted in Section 152 to facilitate the business with non-residents companies/businesses where the underlying payments are not chargeable to taxes as the current backlog of refunds creates undue stresses on businesses.

Direct Tax

Section 153 regarding minimum tax for providing or rendering services

In the presence of Section 113 already dealing with minimum tax on turnover, the minimum tax should not be applicable on companies providing services. **These should be subject to the normal tax regime (by reinstating the deleted clause 79, Part IV of Second Schedule). As a minimum, this minimum tax should be made adjustable against future tax liabilities.**

Service sector has been one of the largest growing employer and contributing to national economy as well as the treasury. This should help expand the sector leading to improved revenue collections in the long term as well as assist in the goal of corporatization and resulting documentation of the economy.

Direct Tax

Section 156 regarding Prizes and Winnings

the word prize in the context of companies should be properly defined to remove ambiguity. A proposed amendment may be: **“prizes offered by companies for promotion of sales means in a lottery, competition or contest of chance.”**

Direct Tax

Section 170 regarding refunds

Sub section (4) states The Commissioner shall, within [sixty] days of receipt of a refund application under sub-section (1), serve on the person applying for the refund an order in writing of the decision [after providing the taxpayer an opportunity of being heard].

However the issue of not following the time limit resulting in delayed refunds is left unaddressed.

It should be amended to add:

after the lapse of the above-mentioned time period, the refund application shall be deemed to be successful.

Direct Tax

Section 177 regarding audit

it should be amended to clarify that:

the powers can be exercised in cases of existing audits and not as a tool for audit selection.

This is to remove the practical problem of some commissioners using the powers under this section as an audit selection tool whereas it is done under a different system by the FBR.

Direct Tax

Section 214 A regarding condonation of time limit

it should be amended to add that:

the condonation should not be exercised to be detrimental to the taxpayers.

This is in line with the principles of fair and equitable taxation.

Section 236 P regarding Advance Tax on Banking Transactions other than through cash

Exemption should be provided to widows, pensioners, students, farmers and salaried class.

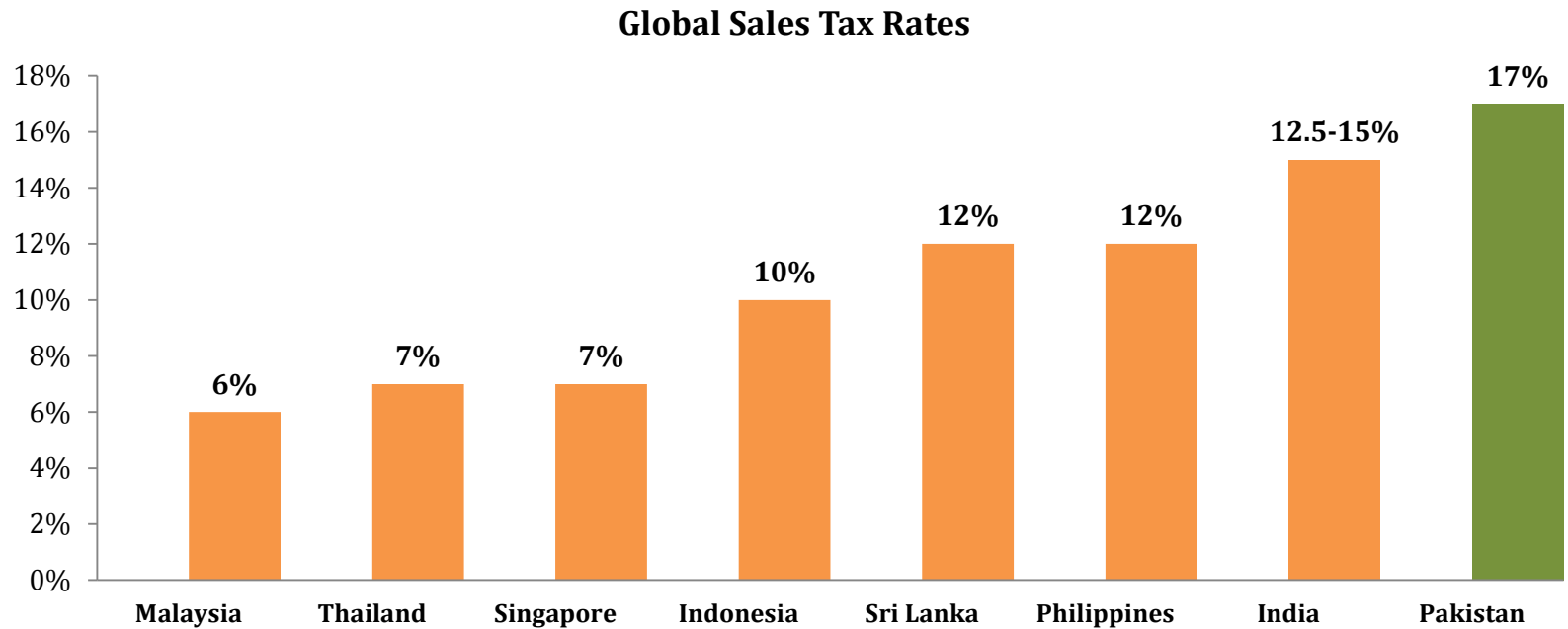
Indirect Tax

SALES TAX RATE SHOULD BE REDUCED

The existing rate of Sales Tax at 17% is one of the highest in the region with 12.5% in India, 10% in Indonesia and just 6% in Malaysia.

Sales Tax should be used to broaden the tax base and to avoid the net negative costs and multiplicative inflationary effects for economy, **the rate should be brought down to single digit.**

Indirect Tax



Indirect Tax

AVOIDING DOUBLE TAXATION

The conflicts between various provincial revenue authorities and the federation resulting in double taxation of services owing to classification and jurisdiction disputes should be resolved to create a business-friendly environment and facilitate the tax-payers.

Indirect Tax

JOINT & SEVERAL LIABILITY U/S 8-A

Should be limited to cases of non-active suppliers on a date of transactions to comply with the principles of fairness and natural justice.

Sales Tax Withholding

Concept of withholding of Sales tax should be abolished subsequent to the introduction of the real-time invoice verification system introduced in Sales Tax return filing by FBR.

It'll simplify the process, save time and resources for the taxpayers.

Indirect Tax

APPEALS U/S 45-B

In line with the principles of fairness, equity and justice for all, the appeals should be heard by a person not under the administrative jurisdiction/influence of FBR.

Custom Duty & FED

CONSISTENCY IN COMPUTING VALUES OF IMPORTS

The value determined under the Customs Act, 1969 should be used as the basis for valuing imported goods by the Commissioner of Income tax

FIXATION OF VALUES

Another measure through which mis-declaration can be discouraged is fixation of values such as to assess goods not on the declared value but on a standard value e.g. tea is assessed on Reuters Price rather than on value declared by importer.

Custom Duty & FED

DATA EXCHANGE BETWEEN CUSTOMS AUTHORITIES

In the past the Pakistan Custom Services has made arrangement to share information with Chinese Customs Authority. This should be revived.

The declared value should be confirmed from the port of origin i.e. from where the goods are shipped.

Access should be given to all interested parties to the custom record.

Penalties for under-invoicing to be made more stringent, as under-invoicing by traders' remains a big concern for all manufacturers.

Custom Duty & FED

DE-NOTIFICATION OF SERVICES UNDER PROVINCIAL PURVIEW

Post the 18th constitutional amendment certain areas have fallen within the purview of the provincial authorities. Such services should be de-notified from the Federal Excise Act 2005.

TARIFF/ NON-TARIFF AREA

There is an uneven competition in the local market between manufacturers in tariff areas vis a` vis non-tariff areas. This is due to loopholes in the enforcement system whereby the goods manufactured in the non-tariff areas are easily brought into the tariff areas without incurring any cost on account of Federal Excise Duty or Sales Tax. This is resulting in an uneven playing field for the genuine businesses in tariff areas.

Effective enforcement should be ensured on transfer of goods from non-tariff to tariff areas

Key Reforms

AGRICULTURAL SECTOR

Agricultural sector needs to be re-evaluated. Being an Agricultural country its GDP share must be according to its volume. Currently its share in GDP is minimal while it has the potential to reach upto 55%.

Large landowners should be taxed at minimal rates i.e. 7% with that revenue used to subsidize seeds, fertilizers, water, electricity, fuel, e.t.c. for the small farmers.

Cheap & low quality smuggling and imports from India should be controlled.

Key Reforms

HRD & SECTORAL FOCUS

For Pakistan, a country of 200 million people, human capital is a huge resource in new era, but unfortunately due to incompetent and poor policies we are unable to convert this power in to workable force, unemployment has increased up to 5.9 % and 4 million people are unemployed,

Keeping in view the above indicators govt. needs to encourage Services sectors, new industries and agriculture. Banking sector should be used to incentivize and promote a culture of entrepreneurship.

Incentives must be announced for Services sectors particularly Telecom, IT, BPO, home based industries, Young entrepreneurship programs with special focus on Women.

Key Reforms

CPEC

CPEC projects should involve experts and practitioners in Pakistan to ensure most benefits to the economy. Furthermore the special economic zones should be setup in a manner that atleast 50% of the ownership and employment opportunities should be for Pakistanis.

ACCA is prepared to collaborate with regulatory authorities and other partner organizations to provide knowledge assets in this regard.

Key Reforms

PAST REFUNDS ISSUE & AUDIT POLICY

To solve the liquidity crisis arising out of the blocked refunds of hundreds of billion as per business community, these should be made into discounted instruments backed by Government's guarantee to be used as a collateral or traded at discounts with the banks.

The audit policy needs to be on parametric based balloting with the criteria transparent and well publicized to build public confidence. The three year exemption period post an audit should be reintroduced.

Key Reforms

Savings to GDP Ratio

It is even less than half of that in India.

Government should encourage savings by offering better returns on its' saving schemes as well as ensuring a conducive business ecosystem.

Key Reforms

Current Account Deficit

Tangible measures must be taken to decrease the Import burden.

Heavy duties should be levied on non-essential imports like expensive Electronics, Cars & Luxury items.

In addition incentives should be announced for local industry to encourage domestic products.

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Thank you

**Omer Zaheer Meer,
FCCA**