Tax Review/Taxation

Daily Alert Service

Huzaima & Ikram
January 02, 2014

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This issue contains:

Kind Regards,

Huzaima Bukhari
Editor

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AA Consultants & Publishers
Suite # 14, 2nd Floor, Sadiq Plaza, Regal Chowk, Mall Road,
Lahore, Pakistan
Phone. 042-36365582 & 042-36280015 Fax 042-35310721
Email: sales@aacp.com.pk website: http://aacp.com.pk

Exorbitant taxes on POL products

by
Huzaima Bukhari & Dr. Ikramul Haq

It is sad that the government through higher taxes on petroleum products is reducing fiscal deficit, without realizing that price hikes in these items affect economy in general and poor masses in particular and retard growth in all sectors. Our tax system favours the wealthy and collects exorbitant indirect taxes from the poor. The government, instead of collecting income tax from the rich, imposes heavy taxes on petroleum products—extending extraordinary benefits to a few powerful oil companies. By plugging loopholes that prevent wealthy companies and individuals from paying a fair share of taxes, the government can generate enough revenues to build public transport system that would save billions that are mercilessly spent on import of crude oil.

Our oil demand is to rise by 7 percent by the end of June 30, 2014-it would touch 21 million tons against 19.5 million tons due to closure of Compressed Natural Gas (CNG) stations and rising circular debt. Over the last eight years, POL products demand rose by an average 4-5 percent per year. According to data released by the Oil Companies Advisory Committee (OCAC), Pakistan consumed 8.9 million tons of oil products over July-November, up by 10 percent from 8.1 million ton in the same period of 2012. If the CNG outlets remain closed for the next four months, we would be forced to import additional petrol worth $2 billion. The production of two-wheelers alone rose to 1.6 million units in 2012-13, from around 250,000 units in 2003-04—motorcycle account for about 55 percent of the country's total petrol consumption.

Rising need of petroleum and its heavy taxation leaves the common man stripped of his earnings, and renders the lives of the poor more miserable than before, but despite all these, brings in super duper profits to the petroleum companies and revenues in trillions for the government (per *Rana Bhagwandas Commission Report on Petroleum Prices* submitted to Supreme Court of Pakistan in 2009).

It is an incontrovertible fact that the main beneficiaries of price rises are a few oil companies and the Federal Board of Revenue (FBR). FBR, in its *Year Book 2012-13*, has admitted that ‘sales tax is major revenue generating source of federal tax receipts. It constitutes around 44% of the total net revenue collection during the FY 2012-13. The gross and net sales tax collection during the year has been Rs 871 billion and Rs 841.3 billion, respectively, showing a growth of 2.5% and 4.5% respectively over the collection of previous fiscal year. Of net collection, more than half of total sales tax is contributed by sales tax on imports while the rest originates from domestic sales”.

The same is the story of “17% growth” in revenue collection of FBR during the first six months of FY 2013-14, about which Premier Nawaz

Sharif and his economic wizard Ishaq Dar are proud of. They are least concerned if high petroleum prices push millions of Pakistanis below the poverty line, destroy the economy and create unrest in the society. The share of government taxes and levies in petroleum prices is more than half from the stage of importation to final ex-refinery supply point—reference report submitted to Supreme Court by *Rana Bhagwandas Commission* dated 10 July 2009 revealing that from 2002 to 2009, the government made Rs. 10.23 trillion in taxes on petroleum products.

It is shameful that during 64 years we have failed to provide mass transit facility for at least 2 large cities—Karachi and Lahore—and bus service for every city and town despite burdening the citizens with all kinds of taxes. On the contrary, consumer loans were vastly disbursed under Musharraf-Shaukat era inducing massive purchase of personal vehicles resulting in enormous profits both for the petroleum companies and car manufacturers. Public transport has been the least priority of all regimes because of which the real sufferer is the common man who cannot afford personal transport. More and more cars on the roads cause pollution, traffic mayhem and are the main source of increase in our oil import bill. In fiscal year 2012-13, Pakistan imported oil worth $14.914 billion—$9.525 billion on petroleum products and $5.392 billion on import of petroleum crude. Petroleum import constituted more than one-third of the country's total imports of $44.95 billion during the period under review. In order to cut import bill, we need decent public transport system that can solve all the prevalent problems. The challenge before us is to build good public transport system and a clean energy economy.

If government collects just Rs. 200 billion extra from the ultra super rich, it can reduce prices of petrol and diesel by Rs. 25-30 resulting in major relief for the masses, bringing down prices of the essential commodities along with substantial reduction in the cost of electricity.

Canada

Canada marks NAFTA's 20th anniversary

The North American Free Trade Agreement (NAFTA) placed Canada, Mexico, and the US at the forefront of trade liberalization, Ed Fast has said.

Marking the 20th anniversary of NAFTA's entry into force on January 1, 1994, Canada's International Trade Minister praised the treaty for providing a solid foundation for the country's future prosperity. Approximately 75.7 percent of Canada's total merchandise exports were destined for its NAFTA partners in 2012.

When implemented, the deal created the largest free trade region in the world.

Canada's annual GDP has risen by nearly CAD1.2 trillion (USD1.1 trillion) over the last two decades, while its trilateral trade in goods with the US and Mexico has more than tripled. In 1993, trilateral trade within the North American region stood at USD289bn. In 2012, total merchandise trade reached nearly USD1.1 trillion – a nearly fourfold increase.

Canada is the top export destination for 38 US states, and an estimated 8m US jobs depend on trade with Canada. One in seven Canadian jobs rely on trade with the US. Approximately CAD1.8bn in goods and services cross the border every day – the equivalent of CAD1.2m every minute. Canada is also the largest supplier of oil, nuclear fuel, electricity, and natural gas to the US.

NAFTA did not affect the phase out of tariffs which had been agreed upon under the Canada-US Free Trade Agreement (FTA). The process was completed on January 1, 1988, after which date virtually all tariffs on Canada-US trade in originating goods were eliminated. Some tariffs remain in place for certain products in Canada's supply-managed sectors, and in the US for products such as sugar, dairy, and cotton.

Canada's bilateral merchandise trade with Mexico was close to CAD31bn in 2012, with trade increasing nearly seven fold since 1993. The average annual growth rate over this period was around 10.6 percent, and Mexico was Canada's third largest trade partner in 2012. The final tariff reduction in the Canada-Mexico phase-out schedule was completed on January 1, 2003.

Looking forward, Fast commented: "Building on this success, our Government is moving forward with the most ambitious trade expansion plan in Canadian history, which includes a comprehensive, next-generation trade agreement with the European Union. This agreement is even broader in scope and more ambitious than NAFTA and will generate benefits in key economic sectors covering every region of Canada." – *Courtesy tax-news.com*

Australia

Carbon tax 'Killed' Australian manufacturing

Australia's unpopular carbon tax has helped damage the country's competitiveness, the Prime Minister's chief business adviser has claimed.

Maurice Newman, chairman of Tony Abbott's Business Advisory Council, told The Australian that "the scientific delusion, the religion behind the climate crusade, is crumbling." He argued that the country had become "hostage to climate-change madness," and warned that "for every 'green job' created, two to three jobs are lost in the real economy."

The Council brings together leaders from the manufacturing, resources, logistics, retail, financial, and constructed sectors. Created in December, 2013, it will meet three times a year with senior members of the Government to help guide programs and policies that are sympathetic to the needs of both small and large businesses in Australia.

Abbott's Coalition Government swept to victory in September with pledges to scrap the much-maligned carbon and mining taxes. Although the House of Representatives passed his carbon tax repeal package late last year, the Prime Minister does not have a majority in the Senate. The Labor party – ousted from office after the general election – has refused to support the legislation when the alternative remains the Government's "direct action plan."

Newman also made the controversial claim in The Australian that the United Nation's Intergovernmental Panel on Climate Change (IPPC) was guilty of "dishonesty and deceit." He suggested that "If the IPCC were your financial adviser, you would have sacked it long ago."

Labor's acting environment spokesman, Shayne Neumann, said that Abbott should press Newman to withdraw his comments. The allegations, he cautioned, would "damage Australia's relationships with its trading partners, all of whom accept that climate change is real and are taking steps to reduce carbon pollution."

Neumann added that Newman's "ignorant comments" gave voice to "what we know Tony Abbott thinks about climate change," stressing that the Government's attempts to axe the carbon tax had made Australia a "laughing stock." – *Courtesy tax-news.com*

India

Indian lawyers calls for changes to tax audit system

Lawyers should be permitted to sign and endorse tax audit certificates and reports, the Bar Council of India (BCI) has said.

The BCI has written to the Indian Finance Ministry and Central Board of Direct Taxes (CBDT) to inform them that a close reading of the Income Tax Law and Advocates Act has "made it clear that such audit reports/certificates could be signed only by advocates."

A new report, published following a BCI committee investigation, calls for an end to the current system whereby only chartered accountants (CAs) complete such processes and appear before the relevant tax authorities.

The report states: "CAs are trained in accounts only and not in interpretation of tax law and procedures." It claims that to practice income tax law and fill in tax audit report forms, "one should specialize in [the] interpretation of income tax law and procedures, besides analysing [the] intention of the legislature, Civil Procedure Code, and [the] impact of furnishing affidavit ad sworn statements in the course of I[ncome] T[ax] proceedings."

The committee concluded that "when legal practitioners are the only class of persons entitled to practice law, there is no justification for prohibiting advocates from issuing certificates or report under the IT Act."

The BCI alleges that were the system changed, the tax base would grow and revenue collection would improve. – *Courtesy tax-news.com*

Double whammy for the poor

The Federal Board of Revenue (FBR) figures speak of the failure of the government in achieving its revenue collection targets for the period July 2013 to Dec 2013.

Even after holding back refund payments, the revenue collection fell short about Rs95 billion of the Rs1.15 trillion target. The shortfall is expected to be Rs130 billions for the whole year.

The development budget for the current year will have to be slashed from Rs580 billion to Rs430 billion, as there seems no other head where expenditure can be cut.

However the most glaring letdown is in the collection of income tax, which stand at Rs375 billion even less than the IMF's conservative target of Rs380 billion. For a healthy economy we should have at least collected twice the amount in income tax; however, instead of moving in that direction, we are regressing.

When the impact of reduction in development expenditure and the trend to collect more in indirect taxes are considered together, they are a double whammy: The Rs130 billion cut in development expenditure of the government simply means work will be started on fewer social welfare projects like roads, hospitals and schools. That will translate into fewer temporary jobs for skilled and unskilled labourers employed by government contractors and the industries which manufacture products for these projects. These millions of labourers form the poorest segment of our society.

The inability of the government to widen the income tax net and collect due taxes from the four million taxable rich and increasing reliance on indirect taxes such as on sales, will enhance the distortion in our already imbalanced economy that is tilted in favour of the rich and against the poor.

Had the government any intention of taxing the rich according to their earnings, the annual budget would have set a much higher target of revenue in direct taxes. Our Finance Minister Ishaq Dar knows that FBR has listed four million potential income tax returnees and he also would know their potential to pay hundreds of billions in income tax. But he will do nothing about it.

The PML-N government has not changed the direction of our economic policy; instead, it has further speeded the process of the rich collecting more wealth at the cost of the poor.

Add to the above two factors of decreasing development funds and increasing the share of indirect taxes in our revenue collection the ever rising trends of inflation and we can easily come to the conclusion that neither in the short nor in the long-term there is any hope for the poor and even lower-middle income segments of our population to see better days; the system is against them. – *Courtesy The Frontier Post*

FBR needs major transformation

AS per directions of Prime Minister Nawaz Sharif, the Federal Board of Revenue (FBR) is preparing a package of reforms, which is expected to be unveiled in about a month. The PM has set the directions by giving instructions to lower tax rate, rationalize taxes and facilitate the taxpayer.

Reforms in FBR are of fundamental importance as these are deeply linked to its ability to collect more so that the country could stand on its own feet and break the proverbial begging bowl. But we are sorry to point out that claims about reforms by successive governments proved to be somewhat lip-service as no worthwhile improvement in the system has been witnessed. This is evident from the shamefully low filing of returns and negligible increase in collection of taxes under different heads mainly because of lack of commitment on the part of the governmental leadership and rampant corruption at the lower level of the tax machinery. We have been hearing since long about expanding the tax net and documentation of the economy but almost every government including the incumbent one retreated after taking just first step towards that direction. Apart from the fact that some sectors are still enjoying exemptions, it is also an open secret that majority of the businessmen and industrialists are not paying their due taxes. Foodoutlets, retail stores, private hospitals and clinics that mint money daily pay only fraction of what they should in the name of taxes and it is all the more ironical that GST deducted from customers is also not deposited in the government kitty. Similarly, due to connivance of the concerned inspectors, factories producing goods worth millions of rupees are not paying their due taxes. Similarly, we have heard the mantra of tax facilitation but every time the process ends up in complicating the system further to the disadvantage of those who honestly pay their taxes. Shaukat Aziz government had taken an appreciable measure, following BD model, to spare salaried class from unnecessary hassle of filing returns as 100% tax is deducted from source but now everyone is required to file return just to raise the number of tax-filers to hoodwink, no one knows whom. It is time to discard such gimmicks and instead focus on tax-evaders but this requires surgical accountability in FBR itself to weed out the corrupt. – *Courtesy Pakistan Observer*

There're 3.6 million new potential taxpayers, insists Nadra

National Database and Registration Authority (Nadra) stands by its data that based on its information there are 3.6 million new potential taxpayers that Federal Board of Revenue (FBR) can pursue, senior officials of Nadra informed this correspondent on condition of anonymity.

Federal Finance Minister Ishaq Dar in a briefing to the cabinet and the media on the instructions of Prime Minister Nawaz Sharif claimed that the data of 3.2 million new taxpayers identified by Nadra was "flawed." Nadra officials further maintained that 1.3 million out of the 3.6 million are old taxpayers who are registered but not filing their tax returns anymore; and added that Nadra has photographs of all 3.6 million potential taxpayers with their addresses and other relevant details and is ready to assist the FBR.

Nadra officials also informed this correspondent that the FBR Chairman had contacted Nadra chairman to discuss the modalities of acquiring data, however, the process is halted subsequent to Chairman Nadra's removal and the ongoing litigation and investigation against him. If the FBR succeeds in bringing these potential taxpayers into the tax net then not only would government revenue rise but also Nadra would generate revenue for its operations as 2.5 percent of the recovered taxes would accrue to Nadra. – *Courtesy Business Recorder*

FBR decides to amend customs baggage rules

The Federal Board of Revenue (FBR) has decided to amend the customs baggage rules for enhancing the baggage allowance from $500 to $2,500 for holders of Taxpayer's Privilege Cards under Prime Minister's multi-pronged tax incentive package. Sources told here on Wednesday that the FBR has issued instructions to FBR Member Customs for amendment in the baggage rules for implementation by the deadline of March 2013.

Through amended baggage rules, the FBR will considerably enhance the baggage allowance from $500 to $2,500 for holders of

Taxpayer's Privilege Cards. In a recent meeting, the FBR has discussed the Prime Minister's multi-pronged tax incentive package to ensure its timely implementation in case of baggage rules and other remaining parts of the package. It has been decided to co-ordinate with the Civil Aviation Authority (CAA) for implementation of the package at airports by March 2013.

In order to promote tax culture and acknowledge leading taxpayers, the Prime Minister announced that top hundred taxpayers in each category of Companies (CEOs), Association of Persons (main shareholders), salaried individuals and non-salaried individuals will be issued Taxpayer's Privilege Card.

The holders of these cards will be entitled to use VIP Lounge at airports; fast track clearance at immigration counters; issuance of gratis passport and increase in baggage allowance from $500 to $2,500. Excellence Awards shall be given to top ten taxpayers in each category and they shall be invited to annual dinner with the Prime Minister at Excellence Award Ceremonies.

PM had announced a multi-pronged tax incentive package aimed at promoting investment, creating jobs, and simultaneously enhancing tax collection, increasing the number of income tax return filers and acknowledging leading taxpayers. The government has decided to shift the focus towards promoting industrial growth. Accordingly, an effective package was been announced by the Prime Minister. – *Courtesy Business Recorder*

MCC Gwadar makes record collection during July-December period

Model Customs Collectorate (MCC) Gwadar has made record tax collection of Rs 8.4 billion during first half (July-December) 2013-14 against assigned target of Rs 3.5 billion, showing enormous growth of 236.47 percent. Sources told here on Wednesday that the Federal Board of Revenue (FBR) has received the performance report of the MCC Gwadar (July-December) 2013-14, showing remarkable growth of 236.47 percent due to intensified anti-smuggling efforts near Pak-Iran border, interception of Afghan Transit Trade smuggled goods and constant interception of smuggled vehicles carrying smuggled POL products and other items.

The MCC has been able to successfully control smuggling at the coastal areas of Balochistan. The interesting aspect of the data is that the 236.47 percent growth in collection by the said collectorate has been witnessed despite law and order situation in Balochistan and constant security threats to customs functionaries operating in the said area. Tax authorities have taken due notice of this exceptional growth of the MCC Gwadar under current import trends where other MCCs are trying to achieve the targets.

The accumulated revenue of sales tax, customs duty, Federal Excise Duty and withholding tax has been instrumental in amassing growth of 236.47 percent during the period under review, reflecting monitoring and surveillance at the import stage to collect sales tax/FED and WHT at the import stage.

According to the report, from July 1 to December 31, MCC Gwadar was able to achieve 236.47 percent higher than its overall consolidated target of all taxes together by collecting Rs 8486.58 million against the allocated target of Rs 3588.83 million. Break-up of tax collection revealed that the customs duty collection stood at Rs 138 million against Rs 177 million, reflecting achievement of 80 percent of the target. Sales tax collection amounted to Rs 6395.02 million against 2780.26 million, showing extraordinary increase of 230 percent. The collection of withholding tax totalled at Rs 1951.58 million against Rs 629.49 million. The collection of the federal excise duty (FED) was Rs 1.27 million against Rs 1.82 million. As against the corresponding period of last fiscal year (2012-13), MCC Gwadar achieved 164.20 percent growth by collecting Rs 8486.58 against last year's collection of Rs 3212.13 million, data added. – *Courtesy Business Recorder*

Import of 340 additional items from Saarc states: tariff concessions announced

The government has announced tariff concessions on the import of additional 340 items, which includes crude oil from South Asian Association for Regional Co-operation (SAARC) member countries under the South Asian Free Trade Area (SAFTA) from January 1, 2014.

The Federal Board of Revenue (FBR has amended SRO.1274(I)/2006 through an SRO. 1073(I)/2013 issued here on Wednesday in this regard. Through SRO.1073(I)/2013, a new table has been added to allow tariff concessions on the import of 340 items from SAARC member countries with effect from January 1, 2014. Under the SRO, customs duty of Rs 3288/MT would be applicable on the import of crude oil (PCT heading 1508.1000) under SRO.1073(I)/2013 from January 1, 2014. The reduced rate of duty would also be applicable on the import of different kinds of fruits, tobacco for chewing, matches, woven fabrics, machines and apparatus for the manufacturers of flat panel displays, amplifiers, articles of apparel and clothing accessories and other items specified in the SRO.1073(I)/2013.

As per SRO, the government has exempted on import into Pakistan from SAARC Member States, the goods falling under the respective Heading and sub-Heading numbers from so much of the customs-duty as is in excess of the specified rates. This is subject to the condition that if imports are made in conformity with the "Rules of Determination of Origin of Goods under the Agreement on SAFTA" and the "Operational Certification Procedures For South Asian Free Trade Area (SAFTA), Rules of Origin" and further subject to the Import Policy Order notified by the Ministry of Commerce. – *Courtesy Business Recorder*

After lapse of six months of current fiscal: three major budgetary measures still in litigation

Three major budgetary measures ie 0.5 percent Income Support Levy (ICL) on moveable assets above Rs 1 million, online access to banking information under section 165-A of the Income Tax Ordinance 2001 and provincial luxury tax, ranging between Rs 0.5-1.5 million on residential houses in Punjab are still under litigation despite the passage of six months of 2013-14.

Experts told here on Wednesday that the Federal Board of Revenue (FBR) had imposed 0.5 percent ICL on moveable assets and Punjab government introduced 'luxury tax' on houses (over 1000 Sq Yards) through its Finance Act 2013. The federal government had estimated collection of Rs 6 billion from ICL and Punjab government projected revenue of over Rs 2.5 billion from imposition of the luxury tax on houses during 2013-14.

At present, Sindh High Court (SHC) has reserved judgement in the case of ICL whereas the petitions are pending before the Lahore High Court (LHC). The matter of luxury tax is still pending before the LHC and next date of hearing is January 15, sources said.

Provisions of section 165-A (furnishing of information to banks) of the Income Tax Ordinance 2001 have also been challenged before the SHC and LHC by different banks. The main contention is the online access allowed to the FBR is against the provisions of the Banking Companies Ordinance and Protection of Economic Reforms Act.

The matter of FBR's powers to disallow input tax adjustment against provincial sales tax laws is also under litigation. Under Finance Act 2013, the definition of Provincial Sales Tax was amended to enable the FBR to allow or disallow input tax adjustment against specified provincial sales tax laws through notification. Sources said that the petition against the luxury tax was filed against Excise and Taxation Department and government of Punjab. It was argued that by virtue of Section 10 of the Punjab Finance Act 2013 a new category of luxury tax was imposed by the provincial government to be recovered from the category of houses having area of more than 1,000 Sq Yards. It is inter alia argued that the imposition of luxury tax is discriminatory and is violative of Article 25 of the Constitution. The Punjab Excise and Taxation Department started issuance of notices to the owners of the big houses for payment of luxury tax on houses for 2013-14.

In the Finance Act 2013, the Punjab government had levied a luxury tax on residential houses located in a part of rating area of Punjab Urban Immoveable Property Tax Act 1958 at the following rates: Residential house measuring two kanals & above but less than four kanals: Rs 0.5 million; residential house measuring four kanals & above but less than eight kanals Rs 1 million and residential house measuring eight kanals and above Rs 1.5 million.

Sources said that the Income Support Levy imposed through Finance Act 2013 was challenged in the Lahore High Court (LHC) as well as Sindh High Court (SHC) on the ground that it is discriminative in nature being charged only from taxpayers. The Income Support Levy Act, 2013 was challenged as ultra vires of the Constitution in the LHC. The levy was challenged on the grounds that it is discriminative in nature as it is applicable and collectable from a taxpayer and no other person. Secondly, the levy is a fee and cannot be passed as party of Money Bill through an Act of the Parliament. Thirdly, the levy tends to take away the already taxed property of the person which can only be taken away by the state in case of emergency.

Fourthly, the person pays all direct and indirect taxes and must be informed as to why the state needs this levy when they have sufficient funds collected from sources. The spending must be identified by the state under Article 19-A. The levy does not fall within the definition of the Federal Consolidated Fund hence it was not passed in accordance with the provisions of Article 77 of the Constitution. The levy does not qualify to be passed as a Money Bill as the same is not part of Federal Consolidated Fund as defined in the Constitution.

The levy is a sort of double taxation as the accumulated wealth represents income already taxed or exempt income, sources added. Furthermore, it has been challenged that the constitutional guarantees given to the persons to hold property have been taken away through passage of Income Support Levy Act, 2013, which being a fundamental right cannot be taken away, but only in state of emergency.

It has been argued that the levy is to be recovered from persons who are paying income tax and filing their tax returns. There is no way the FBR can recover levy from persons who are out of the tax net. This alone creates discrimination and taxes the persons who are already being taxed. The levy is discriminatory in nature as all individuals have not been charged to the said levy but prima facie those who are already in the tax net, sources said. – *Courtesy Business Recorder*