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Kind regards

**Mrs. Huzaima Bukhari**  
Editor

**Lahore**  
Suite No. 14, Second Floor,  
Sadiq Plaza, Regal Chowk, Mall Road,  
Lahore 54000 Pakistan  
Ph. (+9242) 36280015 & 36365582

**Karachi**  
Ms. Sadaf Bukhari  
Cell: 0301-8458701

## FBR's lack of agility

by

*Huzaima Bukhari & Dr. Ikramul Haq*

The problem with incompetence is its inability to recognize itself— *Orrin Woodward, L.I.F.E. Living Intentionally For Excellence*

Over the last two decades, Federal Board of Revenue (FBR) has proved to be an epitome of inefficiency, corruption, indiscipline and highhandedness. It has failed on all fronts: collection targets, widening of tax base, countering tax evasion and avoidance, recovery of arrears, voluntary compliance, reform process and what not. Tax-to-GDP ratio in 2012-13 dipped to 8.2 percent from 9.4 percent in 2011-12. From 2005-2011, FBR ruthlessly wasted borrowed funds of millions of dollars under Tax Administrative Reforms Programme (TARP) but could not compel 20 million potential taxpayers to file tax declarations. The majority of non-filers are rich and mighty, including 70% elected members of parliaments. FBR has not only failed to tap the actual tax potential of Rs. 6 trillion, but is also guilty of shifting the tax burden from the rich to the poorer segments of society. It is serving as handmaid of the ruling elite—indomitable militro-judicial-civil complex, corrupt politicians and greedy businessmen.

According to Press reports, FBR in the first three months of the current fiscal year has miserably failed to enforce rich and mighty to file tax returns. It served 30,333 notices but only 174 people filed income tax returns with total tax payment of just Rs.7.3 million. Mr. Shahbaz Rana in his report, **'Letdown: Tax base broadening plan gets cold response'** [October 22, 2013], remarked that "such a low rate of compliance underlines the deep-rooted corruption" in FBR. He added that "officers are allegedly receiving kickbacks far in excess of what has been deposited in the national kitty, underscoring the need to review the strategy of broadening the base through serving notices".

FBR under the initiative, Broadening of Tax Base (BTB) has promised IMF issuance of 100,000 notices to tax evaders before 30 June 2014. Till 30 September 2013, in Karachi which is the largest city, the Commissioner Headquarters of FBR served 2005 notices but merely 15 people filed returns and paid a total amount of slightly over one million rupees. Lahorites received the maximum number of notices 7000 but only 36 persons made compliance paying Rs. 824,030. In Faisalabad, the country's third largest city, about 1700 people were issued notices and only 23 filed returns paying just over Rs. 100,000. In Peshawar, 3364 notices were sent and only 9 people filed income tax returns paying total amount of Rs. 22,500.

In Multan, 2985 notices were served but returns received were 24 depositing Rs. 1.6 million tax. In Rawalpindi, in response to 2434 notices,

only 30 people filed returns paying Rs. 2.6 million. In Islamabad, the FBR served over 1800 notices, 19 people came forward paying Rs1.1 million. In Quetta, over 1000 notices were served and only two persons filed income tax returns without admitting any liability. Similarly, in Gujranwala, the FBR asked over 1400 persons to file income tax returns but only one person came forward with nil tax. In Sukkur 359 notices were served but none were complied with. In Sialkot, FBR served 2340 notices, only four filed returns and paid a meagre amount of Rs. 12,835. In Sargodha, 1183 got notices, one complied and paid Rs.19,726. In Bahawalpur, over 1000 persons received notices, four filed returns with Rs. 22,375 as income tax.

FBR's data reveals that income tax collection from individuals has declined from 1.5 percent of GDP in 2000-2001 to less than one percent in 2012-13. At present, the ratio of individual return filers is only 0.5 of total population. In 2012, only 4143 people showed income of Rs. 5 million or above. In 2011, only 6,152 individuals showed personal income tax liability exceeding Rs. 5 million. It a proven fact that FBR instead of targeting the rich and mighty was facilitating them—Rs. 1500 billion is the cost of the exemptions and concessions from taxation granted in just last five years under various Statutory Regulatory Orders (SROs) and revenue losses due to poor enforcement and corruption were nearly Rs. 1200 billion.

The present tax scenario shows that an overwhelming majority of Pakistanis is paying income tax at source and in some cases the tax withheld is full and final discharge of liability (for example 10% tax withheld on interest income from banks and national saving centres). Since only a fraction of **income tax payers' population** file returns, a general misconception prevails that our income tax base is narrow. The fact is that millions pay income tax under various withholding provisions, but do not file returns or statements and if they do so the FBR would have to refund billions to those who earn income which is below taxable limit. This narrative is not available in any official and independent discourse—maligning the Pakistanis as a nation of tax chats. The reality is that the rich and mighty are tax evaders and get state patronage for that.

The total number of income taxpayers in Pakistan is in millions. According to Pakistan Telecommunication Authority (PTA), Pakistan crossed the figure of 125 million mobile users in June 2013. A huge population, not less than 50 million (if we exclude multiple and inactive subscribers), is paying 15% adjustable income tax from 1st July 2013 for using this facility in addition to 19.5% sales tax—both pre-paid and post-paid customers bear enormous tax burden of 34.5%. In 2012, about 55,000,000 mobile subscribers paid 10% adjustable income tax, but only 1,443,414 filed income tax returns. FBR did not bother to issue tax notices to those who paid substantial amounts, say Rs. 30,000 or more on this single utility by acquiring information from the telecommunication

companies. One wonders how FBR can be absolved from such sheer 'iniquitous negligence'!

Majority of the mobile users have income below taxable limit. They would not bother to claim the refund of tax withheld by filing tax returns—primarily because filing return would cost more than the amount withheld and secondly, for refund claim one has to file application electronically—for many illiterate Pakistanis, imposing such conditions by FBR shows its mind-set of highhandedness which is highly deplorable. On the contrary, majority of the rich and mighty just pay a fraction of income tax by way of withholding tax on their colossal incomes. They never bother to file returns and wealth statements—in 2011 and 2012 as per admission of the FBR 70% of parliamentarians did not file tax returns and wealth statements! Can FBR tell the nation how many judges, generals and high-ranking civil servants filed tax returns in the last five years along with wealth statements as their annual income must certainly be more than Rs. 500,000?

FBR should tell the nation how much tax was paid by the rich 1% of Pakistanis—judges, generals, bureaucrats, parliamentarians, politicians, professionals, industrialists and traders, during the last 5 years. It must explain to the nation how these wealthy classes have accumulated colossal assets without paying due taxes. Can FBR explain to the citizens what prevented it from issuing notices to the rich and mighty who received free plots and paid no tax under section 13(11) or section 39(1)(j) of the Income Tax Ordinance, 2001? People have the right to ask why FBR is reluctant to tap tax delinquents sitting in the parliaments having taxable income but failing to file tax returns and wealth statements under the law. In fact, FBR should enforce section 114, 115 and 116 of the Income Tax Ordinance, 2001 across the board, without any hesitation forcing those who qualify under law to file tax returns/statements or be prepared for suffering penal actions.

The above analysis confirms beyond any doubt the ineffectiveness and incompetence of FBR. Our tax base is not narrow as nearly 50 million persons are paying income tax at source, but the rich and mighty are not paying taxes on their enormous incomes and assets—look at the staggering amount of money stashed in Swiss banks alone [**'No will to tax the rich'**, *Business Recorder*, June 14, 2013 and **'Swiss 'Return of Illicit Assets Act': we can get billions back'**, *Business Recorder*, October 1, 2010]. Unfortunately, the high-ranking officials of FBR have not been speaking truthfully. They intentionally hide the fact that where our actual problem lies. They have been more preoccupied in giving amnesty to their rich political masters, rather than taking them to task. Our tax base is distorted—the system protects tax avoiders and plunderers of national wealth as well as forgoes revenues of billions of rupees through exemptions, amnesties, concessions and immunities—most of the time using the wicked device of SROs—**'Onslaught of SROs continues'**, *Business Recorder*, October 11, 2013.

Though measuring actual tax potential of Pakistan is a difficult task as size of informal economy is enormous yet it can safely be assumed that we have 6 million individuals (half salaried and half self employed) having taxable income of Rs. 1.5 million—total income tax collection from them, according to tax rates for tax year 2014, comes to Rs. 627.5 billion. If super-rich, who about 0.2 percent of population (368,000) are taxed properly, tax collection from them would be around Rs. 150 billion. If we add income tax due from corporate bodies, non-individual taxpayers (AOPs) and individuals having taxable income up to Rs. 1,500,000, the gross figure would be nearly Rs. 3000 billion. FBR collected around Rs. 715 billion as income tax in fiscal year 2012-13. Similarly, due to rampant corruption in sales tax, federal excise and custom duties, the total collection is not more than 30% of actual potential. In fiscal year 2012-13, FBR collected Rs. 830 billion under the head, sales tax. Estimates for customs and excise duties are Rs. 235 billion and Rs. 120 billion respectively. The total indirect collection of just Rs 1,185 billion was pathetically low. It should have been at least Rs 3500 billion. If prevalent tax gap is bridged, the total revenue collection would be around Rs. 6500 billion without imposing any new taxes or raising existing tax rates as has been done by Ishaq Dar in the Finance Act 2013.

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## **European Union – China**

### **EU, China to Hold Trade & Economic Talks**

The European Commission is to hold a fourth High Level Economic and Trade Dialogue (HED) with China this week.

The talks will take place in Brussels on October 24, and will cover trade and investment issues, customs cooperation, the challenges facing the international economy, and future sources of growth. The HED will be co-chaired by the Commission's Vice President Oli Rehn, its Trade Commissioner Karel De Gucht, and the Chinese Vice Premier Ma Kai.

De Gucht said of the meeting: "Trade ties are at the heart of our bilateral relationship. But as the interdependence of our two economies increases, tensions can arise. This meeting will be an important opportunity to discuss how to work better together to identify and diffuse potential areas of friction before they impact on our economic and trade relations."

Attendees will also prepare for a forthcoming summit between the European Union (EU) and China, where both sides expect to be able to launch negotiations for an investment agreement. EU trade ministers last week authorized the opening of these talks, and have expressed their hope that an agreement will improve EU access to the Chinese market and provide greater investment protection. They want to see negotiations completed no less than two and a half years after they have started.

Over EUR1bn (USD1.4bn) is traded between the EU and China each day. The current level of bilateral investment is however regarded as too low by the EU. EU companies invested EUR9.9bn in China in 2012, with Chinese FDI into the EU amounting to EUR3.5bn. China accounts for just 2.1 percent of overall EU FDI. By contrast, 30 percent of the EU's stocks are located in the US. – *Courtesy tax-news.com*

## **United States**

### **Business Survey Sees Reduced Chance of US Tax Reform**

This month's TTC/EY Tax Reform Barometer, issued by The Tax Council and Ernst and Young LLP, finds that, while business tax professionals expect progress in Congress on United States tax reform in 2013, they are less confident than in previous surveys.

The barometer is a monthly survey completed by approximately 100 leading US tax executives and practitioners, and tax reform is defined as a significant broadening of the tax base or changes in the tax rate for either US corporate or individual taxpayers.

The new Barometer Despite discovers, perhaps surprisingly given problems over the federal government shutdown, budget and the debt limit, that business tax professionals still expect forward movement on the initial stages of tax reform in the remainder of this year.

The median likelihood that a detailed tax reform plan will be released by the House of Representatives Committee on Ways and Means this year is put at 70 percent (reduced from 80 percent in the previous month), while the equivalent figure is 35 percent (as against 50 percent in September) with regard to the Senate Finance Committee.

“Most business tax professionals think there is a strong likelihood of progress toward tax reform even with the significant uncertainty about the federal budget in early October,” said Lynda Walker, TTC’s Executive Director. “Despite the decline in the forecast of progress this fall, the expectations did not fall off a cliff. Survey respondents believe there is a one-in-five chance of tax reform by the end of calendar year 2014.”

There is also a 42 percent median expectation that federal tax reform would definitely or likely help the respondents’ organizations, while only 28 percent believe it would definitely or likely hurt their organizations.

“Business tax professionals who think tax reform will be helpful to their organizations are more optimistic about federal tax reform being enacted in 2014 than those that think it will hurt,” added Tom Neubig, Director of Quantitative Economics and Statistics for Ernst & Young LLP. “A tax reform that makes the American economy more efficient and makes US companies more competitive could also increase revenues with a stronger economy.”

“Even if tax reform is not enacted by the end of 2014,” the report continues, “the actions taken during the next 15 months (e.g., hearings, debates, chairmen’s drafts, committee legislation, additional proposals) will influence any future tax reform.”

A key element of tax reform was said to include whether it will reduce, increase or be revenue-neutral, lose or raise revenue. In fact, six-in-ten of the Barometer’s respondents continue to believe

that any tax reform bill will raise revenue, while most of the others expect tax reform to be revenue-neutral.

The median expectation is also that the top individual tax rate in tax reform legislation will be 35 percent, compared to the current 39.6 percent, while the median expectation for the top federal corporate income tax rate is 28 percent, compared to the current 35 percent. – *Courtesy tax-news.com*

## **European Union**

### **EU Expert Group To Review Digital Economy Taxation**

A High Level Expert Group is to examine the best ways of taxing the so-called “digital economy” in the European Union (EU).

The Group, to be appointed by the European Commission, will be comprised of up to seven members. It will be chaired by a person “of political profile” and members are expected to be “internationally renowned experts on the digital economy and on taxation.”

They will need to identify the key problems with digital taxation, from an EU perspective, and present a range of potential solutions. The Commission will then draw up any reforms deemed necessary for improving the tax framework of the digital sector.

The Group will begin its work before the end of the year, and report back to the Commission in the first half of 2014.

Tax Commissioner Algirdas Šemeta said: “Today’s tax systems were conceived in a pre-computer age. So it is no surprise that they often clash with the modern, digital economy. Taxation must not be an obstacle to all that is good about the digital revolution. Yet, we must also ensure that the digital sector plays fair and pays fair.

“The challenges linked to taxing the digital economy are immense and there are no ready-made answers. Therefore, we need deep, informed and focused reflection on this issue within the EU, to ensure that the next steps we take are the right ones.”

The Commission is particularly concerned about the opportunities the digital economy presents for corporate tax avoidance and aggressive tax planning. It has found that the taxes paid by the digital economy are frequently not in line with the presence and profits of this sector in the EU.

The Commission nevertheless intends that tax systems support, rather than hamper, the growth of the digital sector in the Single

Market. It hopes to foster a business-friendly environment and remove any tax obstacles that might discourage investment and growth. – *Courtesy tax-news.com*

## Japan

### **Japanese Industry would stash away any Corporate Tax Cut**

A recent survey by Reuters found that 42 percent of 400 large Japanese companies contacted would not use any corporate tax cut, provided by the Government as part of a package to counteract the recessionary effects of the 3 percent consumption tax rate rise due in April next year, to increase their capital investment plans.

The announced package would already provide tax incentives to boost business investment – for example, accelerated depreciation for companies spending on high-technology plant and machinery – and also includes increased tax breaks for companies that increase their employees' wages.

The Government is also studying the possibility of cancelling in March next year (one year earlier than planned) the special tax that is in force to provide resources for recovery following the earthquake, tsunami and ensuing nuclear power station disaster in March 2011. It has been estimated that such a tax cut could put additional funds amounting to some JPY900bn (USD9.15bn) in corporate pockets.

However, the Reuter's survey disclosed that, rather than counteracting the consumption tax rise, and possibly because of their continued risk-aversion in the face of economic uncertainty, 30 percent of the companies contacted have decided that any additional funds from a corporate tax rate cut would go to increase their retained profit reserves, which are calculated to amount already to more than JPY220 trillion overall in the Japanese corporate sector.

In addition, 12 percent of the corporate respondents confirmed that they would use additional funds generated by the corporate tax rate reduction to offset higher costs resulting from the consumption tax rate hike, while only 5 percent would look to use the windfall to raise their employees' wages and 5 percent would increase the number of their workers. – *Courtesy tax-news.com*

## New Zealand

### **'Kiwisaver Tax' Holds Back NZ Pension Income**

The New Zealand Government has been urged to do away with its subsidy on the KiwiSaver retirement initiative, and introduce a lower tax rate on investment returns.

The Financial Services Council (FSC), whose members manage more than NZD80bn (USD67.8bn) in savings for around 2m New Zealanders, has unveiled its proposals for dealing with the country's aging population.

According to FSC chief executive Peter Neilson, "people are not saving anywhere near sufficient [amounts] and are also miscalculating how much they need to save as their longevity increases but their savings do not." He believes that the tax system fails to encourage individuals to save, and has even gone so far as to describe it as "hostile" for long-term savings in financial products with compound returns.

Neilson is therefore calling on the Government to halve the tax on KiwiSaver returns, which would bring the scheme in line with the tax treatment of property.

A recent paper from PwC tax partner Paul Mersi, endorsed by the FSC, recommended a tax rate close to 1 percent for investments in financial instruments and KiwiSaver-type schemes. Mersi argued that this "would reduce the disincentive effect and encourage more people to save for their retirement from an earlier stage of life, [which] is critical to ensur[ing] that New Zealand builds a more solid economy for the future and that people have a comfortable standard of living in their retirement years." – *Courtesy tax-news.com*

**Ministry working on new auto industry policy**

Ministry of Industries and Production (MoI&P) has reportedly started work on new auto industry policy in the light of Economic Co-ordination Committee's (ECC) guidelines, well informed sources told.

A committee comprising Minister for Water and Power Khawaja Muhammad Asif (convenor), Chairman Board of Investment (BoI), Secretary Industries and Production, Chairman Federal Board of Revenue (FBR) and Chief Executive, Engineering Development Board (EDB), has been constituted to finalise the auto industry policy draft within 45 days starting from October 2, 2013.

Finance Minister Senator Ishaq Dar has expressed serious reservations over local car assemblers for not showing desired growth despite enjoying financial incentives on the expense of tax payers. The sources said that Secretary Industries and Production, Shafqat Naghmi, who is also Chief Executive of Engineering Development Board (EDB) chaired a hurriedly called meeting in the Ministry on Tuesday and expressed annoyance over the 'lazy' officials of the EDB, who did not prepare any reasonable draft of the policy to be presented to the ECC for approval. The EDB officials have been accused of showing leniency towards the auto sector for personal gain. Officials in the EDB also accuse each other for looking after the interests of different companies in private meetings.

Official documents reveal that the government has authentic information that the auto sector is showing negative growth. Finance Minister, who is also the chairman of the ECC, recently expressed concern that this sector was not showing any growth for many years notwithstanding a number of incentives given by the government.

The ECC was further informed that not a single car manufacturer in the country could complete its deletion programme even after the extended period of the prescribed timeframe. Moreover, their products were costly and based on obsolete technologies. It was pointed out that the manufacturers were exploiting the consumers by unduly keeping the latter's advance money for several months and earning profit on that money before actual delivery of the vehicles.

Official documents further disclose that an auto industry policy was being formulated and its first draft was ready. The ECC, however, observed that the draft policy should be based on

thorough review of the existing facilities being offered to the auto industry, the need for new entrants in the sector, the existing duty structure on import of motor vehicles, the EDB standards, the requirement of a long term policy framework etc.

The Ministry of Industries and Production has also been directed to take into account the proposals from the manufacturers/dealers and vendors of the auto industry. The sources said Secretary Industries and Production has directed the concerned officials to prepare the draft of auto policy within three days so that it could be presented to the committee as early as possible fearing that in case of delay, Finance Minister will be further angered.

“There was an emergency like situation in the Ministry of Industries and Production on Tuesday with regard to preparation of auto policy draft,” said an official on condition of anonymity. PML (N) parliamentarians in the past have criticised local auto sector for overcharging consumers through dealers’ network. –  
*Courtesy Business Recorder*

### **Income tax returns: FBR to ratify IT circulars, SROs, rules**

The Federal Board of Revenue (FBR) will ratify all the income tax circulars of 2013, Income Support Levy Rules as well as SROs regarding income tax returns for individuals, companies and Association of Persons to meet the legal requirement of FBR Rules 2007.

Sources told here on Tuesday that the Board-in-Council of the FBR would ratify four income tax circulars of 2013, Income Support Levy Rules, 2013, SRO.799(I)/2013 and SRO.828(I)/2013 regarding income tax returns for individuals, companies and Association of Persons (AOPs) to fulfil legal requirement under FBR Rules 2007.

Sources further said that the FBR had issued income tax circular in 2013-14 with the approval of the concerned FBR Members which were legal as per FBR Rules, 2007, but these circulars also need ratification by the Board-in-Council as per FBR Rules, 2007. To fulfill the requirement of the FBR Rules, 2007, the FBR’s Board-in-Council would ratify four income tax circulars of 2013, they added.

Board-in-Council has decided to ratify circular No 06 of 2013 (Finance Act 2013 explanation), circular 07 of 2013 (extension in date for filing of income tax return/statement for tax year 2013); circular 08 of 2013 (exemption from collection of tax under section 2013

148 of the Income Tax Ordinance 2001 on imports by industrial undertakings) and income tax circular 09 of 2013 (extension in date for filing of income tax return/statement for tax year 2013); Income Support Levy Rules, 2013 and SRO No 799(I)/2013, 828(I)/2013 regarding Income Tax Returns for Individuals, Companies and AOPs.

Board-in-Council also decided to revise the FBR Rules, 2007 in view of the current circumstances and any short-comings therein shall be addressed to avert difficulties relating to functioning of the Board. The decisions would be implemented by FBR Member Legal in consultation with FBR Member (IR-Policy), FBR Member Customs and FBR Member (Admn).

Sources said that the FBR Member (IR-Policy) explained before Board-in-Council that according to FBR Act, 2007, no inherent powers are available either to FBR Chairman or the FBR Members. The powers of the Board have been elaborated in section 4 of the FBR Act. The section 4(2) states that “the Board may, where appropriate, issue statutory rules and orders (SROs), orders, circulars and instructions for the enforcement of any of the provisions of fiscal law and the provisions of this Act.” However, Section 8 of the Act stipulates that the Board may delegate any of its functions and powers to any Government agency, Chairman or any member or employee duly appointed under this Act. Delegation of powers has been enumerated in Rule 3 of the FBR Rules, 2007. As per Rule 3(1), the Board may delegate its powers and functions to the Chairman or any line/functional/support Member. Rule 3(2) provides that the Chairman may distribute powers, functions and business of the Board among its members as he may deem fit. Rule 3(3) provides that until such powers are delegated, any power, function or business exercised by the Chairman or a member shall be deemed to have been allocated to him. However, Rule 3(4) provides that any such power, function or business performed under Rule 3(3) shall be ratified by the Board.

As such, FBR has issued various circulars in the Financial Year 2013-14 with the approval of the concerned members which are legal as per Rule 3(3), but required to be ratified by the Board-in-Council as per rule 3(4) of the FBR Rules, 2007. After detailed discussions on the issue under consideration, the following decisions were taken: Board-in-Council decided to ratify following Circulars, SROs and Rules ie Circular Nos. 06 of 2013, 07 of 2013, 08 of 2013 and 09 of 2013; Income Support Levy Rules, 2013; SRO

No 799(I)/2013, 828(I)/2013 regarding Income Tax Returns for Individuals, Companies and AOPs and FBR Rules, 2007 shall be re-visited in line with the current circumstances and any shortcomings therein shall be addressed to avert any difficulties relating to functioning of the Board. The FBR decided that action would be taken by Member (Legal) in consultation with Member (IR-Policy), Member (Customs) and Member (Admn). – *Courtesy Business Recorder*

### **New entrant policy for motorcycles industry: no additional custom duty to be charged**

The Federal Board of Revenue (FBR) will not charge the additional customs-duty on sub-components and components, imported in any kit form by a new entrant assembler or manufacturer of motorcycles in Pakistan. In this regard, the FBR has issued SRO.939(I)/2013 and SRO.940(I)2013 here on Tuesday to notify duty concessions for the manufacturers of motorcycles in line with the new entrant policy for motorcycles manufacturing industry applying new technology.

Through these notifications, the FBR has amended SRO 656(1)/2006, dated June 22, 2006 and SRO 693(I)/2006, dated July 1, 2006. According to SRO 939(I)/2013, in line with the new entrant policy for motorcycle manufacturing industry with new technology notified by Ministry of Industries and Production vide Notification No 4-1/2013/LED-II-(Vol-III), dated the 26th September, 2013, the additional customs-duty leviable under this notification shall not be charged on sub-components and components, imported in any kit form by a new entrant assembler or manufacturer, for assembly or manufacturing of motorcycles classified under Pakistan Customs Tariff (PCT) heading 87.11 specified for a period of five years from the start of assembly or manufacturing with new technology. This is subject to the fulfilment of certain conditions.

Firstly, the new entrant assembler or manufacturer shall achieve the annual localisation or indigenisation targets / levels in accordance with the localisation, plan spreading over a maximum period of five years, duly approved by Ministry of Industries and Production. Secondly, the additional customs-duty shall be levied on the sub-components and components which become localised/ indigenised by the new entrant assembler or manufacturer, in accordance with the said localisation plan.

Thirdly, the new entrant shall abide by all the terms and conditions laid down in separate notifications issued by the Ministry of Industries and FBR for assembly or manufacturing of motorcycles and the expressions 'new technology' and 'new entrant' shall bear the same meaning as declared or notified by the Ministry of Industries and Production in respect of Motorcycle Manufacturing Industry."

Under SRO 940(I)/2013, in line with the new entrant policy for motorcycle manufacturing industry with new technology notified by Ministry of Industries and Production vide notification No 4-1/2013/LED- II(Vol-III), dated September 26, 2013, the incentive of importing CKD kit in any form @ 10% customs-duty imported by the new entrant for assembly or manufacturing of motorcycles shall be withdrawn on components localised by the new entrant each year in accordance with the approved localisation plan. The expressions 'new entrant' and 'new technology' shall bear the same meaning as declared or notified by the Ministry of Industries and Production in respect of motorcycle manufacturing industry. –  
*Courtesy Business Recorder*

### **Perfumes/deodorants/body sprays: New customs values fixed**

Directorate General of Customs Valuation Karachi has fixed new customs values for perfumes/Eau de toilette/Eau de cologne, personal deodorants and body sprays for accurate assessment of duty at import stage. Sources told here on Tuesday that the Directorate General had issued a valuation ruling number 588 of 2013 for determination of customs values of perfumes/Eau de toilette/Eau de cologne/personal deodorants/body sprays under section 25-A of the Customs Act, 1969.

The customs value of the said items would be calculated on the basis of weight and such values range between \$2.38 to \$204 per kg, depending on the type/specification of the imported product. According to the ruling, the customs value of perfumes/Eau de toilette/Eau de cologne/personal deodorants/body sprays was determined under Section 25-A of the Customs Act, 1969 vide a Valuation Ruling No 513, dated 21-12-2012. With a view to reflect the current prices prevailing in the international market, an exercise to determine the customs values of the subject goods afresh was taken up.

The valuation methods given in section 25 of the Customs Act, 1969 were followed to determine customs values. Transaction value method provided in section 25(1) was found inapplicable because the requisite information was not available. Identical/similar goods value methods provided in sub-section (5) & (6) of section 25 *ibid* were also not found applicable due to unreliable and under-invoiced values. Market enquiry as envisaged under section 25(7) of the Customs Act, 1969, was conducted and values so worked out were taken up for determination of customs values of the subject goods. Consequently, deductive value method under section 25(7) of the Customs Act, 1969, was applied to arrive at the customs values of the goods.

A meeting was fixed with the stakeholders and importers including representatives of trade bodies to discuss the current international values of Perfumes/Eau de toilette/Eau de cologne/personal deodorants/body sprays. Perfumes/Eau de toilette/Eau de cologne/personal deodorants/body sprays hereinafter specified shall be assessed to duty/taxes at the specified customs values, ranging between \$2.38 to \$204 per kg. The brands covered included Amouage, Armani, Bond No 9, Bvlgari, Burberry, Chanel, Clive Christian, Chloe, Canali, Christian Dior, Chopard, Cartier, Carolina Herrera, Dali, DKNY, Dolce & Gabbana, Salvatore Ferrgamo, Fendi, Givenchy, Gucci, Guerlin, Hermes, Jean-Paul Gautier, Karl Lagerfeld, Lacoste, Lancome, Lavnir, Micallif, Mont Blanc, Nina Ricci, Parco Rubbano, Prada Versace, Sheikh, Tussadri, YSL, Armis, Azzaro, Body Shop, Calvin Klein, Clinique, Clarins, Davidoff, Dunhill, Estee, Lauder Escada, Elizabeth Arden, Issey Miyake, Joop Jump, Jean Patou, Kenzo, Lancaster, Liz Caliborne, MAC, Narciso, Rodriguez, Ralph Lauren, Roger & Gaillet, Tommy Hill, Van Cleef & Arpels, Toni & Guy, Perry and brand Ellis.

The values did not apply on the imports made directly by multinational companies whose consignments shall be assessed according to the provisions of Section 25 of the Customs Act, 1969, sources said.

In cases where declared values are higher than the customs value determined, the assessing officers shall apply those values in terms of sub-section (1) of section 25 of the Customs Act, 1969. In case of consignments imported by air, the assessing officer shall take into account the differential between air freight and sea

freight while applying the customs values determined in the Ruling. The values determined vide this Ruling shall be the applicable customs value for assessment of the subject imported goods until and unless it is rescinded or revised by the competent authority in terms of sub-sections (1) or (3) of section 25 of the Customs Act, 1969.

A review petition may be filed against this Ruling, as provided under Section 25-D of the Customs Act, 1969, within 30 days from the date of issue, before the Director General, Directorate General of Customs Valuation, 7th Floor, Custom House, Karachi. The Collectors of Customs may kindly ensure that the values given in the Ruling are applied by the concerned staff. This Ruling supersedes Valuation Ruling No 513, dated December 21, 2012 and all the corrigenda/amendments etc issued from time to time. –  
*Courtesy Business Recorder*

### **Misuse of passport for vehicle import: FIA reluctant to withdraw customs officials' names from FIR**

Federal Investigation Agency (FIA) is reluctant to withdraw the names of customs officials from the FIR, lodged for misusing passport of a passenger for importing a vehicle, it was learnt here on Tuesday. According to sources, customs department in its letter to FBR requested the board to persuade FIA authorities to withdraw the names of customs officials, saying that officials were neither guilty of loss of revenue nor committed any act of corruption.

The letter said that department did not find any proof of collusion on the part of customs officials and termed the FIR as unwarranted against customs staff. However, the FIA officials were of the view that nomination of customs officials in the FIR was based on investigation hence they were not ready to withdraw their names. Meanwhile, the confrontation between the two agencies is adversely impacting the clearance of imported vehicles, which has virtually blocked, creating problems for commercial importers.

They said the customs department despite having Sindh High Court (SHC) verdict had given verbal orders to its field formations to stop the clearance of imported vehicles where Goods Declarations (GDs) had been filed by the clearing agents on behalf of the importers.

The sources said that customs department had made the presence of importers mandatory for the clearance of imported vehicles, which was not only against SHC's orders but also causing to block the clearance of imported vehicles, virtually. Replying to a question, the sources said that customs department in order to avoid contempt of court notice had neither given written instructions nor admitted to have communicated new guidelines to its field formations regarding the clearance of imported vehicles.

However, the SHC in its judgement dated June 21, 2010 in CP 861/2010 said, "Where-after the vehicles are imported in the name of individuals but the import documents are in possession of the dealer would not be in the way of the dealer through the customs agents."

"This is for the simple reason that possession of the import documents itself denotes that the individual in question has authorised the dealer to get his motor vehicle released from the customs authorities," it said. "Once the vehicles are released from the port premises then of course they would be registered upon sale to the individual buyers in accordance with section 23 of the Motor Vehicle Ordinance."

"Therefore, the customs department is bound to entertain the documents submitted by the clearing agent on behalf of the importer," it added. It is to be mentioned here that the FIR was registered after investigation conducted by FIA on the basis of a written complaint lodged by a passenger regarding misuse of his passport by an agent dealing with issuance of visa. The complainant alleged the customs clearing agent imported vehicle on his passport fraudulently under Personal Baggage Scheme (PBS) without his knowledge.

The FIA Crime Circle, Karachi during the course of investigation scrutinised immigration data base and the entry/exit stamp affixed on the said passport were found fake/forged thus arriving at the conclusion that the clearing agent had committed fraud with the complainant from whom the passport was taken for issuance of visa. The FIA officials have further nominated six more officials of the Collectorate in this FIR. – *Courtesy Business Recorder*

### **Broadening of tax base: team of experts formed to monitor exercise**

The Federal Board of Revenue (FBR) has constituted a team of experts for ensuring co-ordination and monitoring of the

broadening of tax base exercise on national level. In this regard, the FBR issued an office order here on Tuesday.

According to the notification, for co-ordination and monitoring of broadening of tax base activities, a team has been constituted with the following members in addition to their own duties: Dr Muhammad Iqbal, SA to Chairman, FBR, Team leader; Malik Amjad Zubair Tiwana, Chief (Income Tax Policy), FBR, Member; Imran Latif Minhas, Secretary (Withholding Tax), FBR, Member; Muhammad Khalid Jamil, Secretary (Exemptions/Rules), FBR, Member and Ijlal Khan, Deputy Director (I&I), Lahore, Member. Dr Muhammad Iqbal is also working as Commissioner (HQ) Broadening of Tax base, Islamabad, for issuance of notices to unregistered persons under the national exercise of broadening the tax-base through the centralised system at board level. – *Courtesy Business Recorder*

### **Curbing disappearance of transit consignments: Commission for increasing powers, functions of DGTT**

The Commission on 'smuggling of arms and ammunition' has strongly recommended enhancement in powers and functions of the Directorate General of Transit Trade (DGTT) of Federal Board of Revenue (FBR) to check missing of transit consignments destined for Afghanistan.

Sources told here on Tuesday that the former FBR Member Customs, Ramzan Bhatti has chalked out a comprehensive strategy to improve functions of the Directorate General of Transit Trade in his one-member commission report on 'smuggling of arms and ammunition'. According to sources, the Directorate General of Transit Trade should be made comprehensively functional and all wherewithal including human resources shall be provided for improving the efficiency of the Directorate General in ensuring the safest and quickest transit of imported goods to Afghanistan.

The Commission has also noted that after the submission of report of Shoaib Suddle, ex-FTO in pursuance of orders of Supreme Court of Pakistan in Suo Moto Case No 16/2010, a separate Directorate General of Customs (Transit) has been established and made functional besides the revision or issuance of Standard Operating Procedures (SOPs) to ensure safe transit of goods to Afghanistan. All the containers unloaded at Karachi Ports are scanned and images are sent to Collectorates of Customs in Peshawar and Quetta who are responsible for ensuring transit of all cargo

whether containerised or not, to Afghanistan. The Customs Department has also hired the services of a private company (namely TPL Trakkers Pvt Ltd) for the en-route tracking of trucks/trollers on which containers are transported to the border Customs Collectorate for onward movement to Afghanistan. A number of improvements have also been made in the Computer software for timely capture of data of transit goods at both ends for reconciliation purposes. Now the sub-letting of transit cargo transportation to hired mechanical transport (HMT) has been stopped and the cargo in transit is transported only through the Customs licensed Bonded Carriers, of course after obtaining of no objection certificate from the NLC reportedly on payment of fee of Rs 20,000/-.

The Director General, Directorate General of Transit Trade (DGTT), Custom House, Karachi vide his written statement has informed the Commission that along with DGTT, some related functions such as licensing of Bonded Carriers / Transport Operators, sealing, de-sealing, allow-loading and gate-out operations at Karachi Port and en-route tracking and monitoring of the transit trade containers are being performed by other organisations including Preventive Collectorate and Appraisement Collectorate. The procedure is prescribed under SRO 601(I)/2011 dated 13.06.2011. At present, the financial and physical transaction is mostly carried out by the Border Agents at Chaman and Torkham. The financial transaction is through Hawala or telegraphic transfer (TT). Whereas, due to absence of EDI the actual consignee cannot be identified. The scanned image at Karachi cannot be reconciled, due to absence of similar facility at Torkham / Chaman. Lastly, some faults with the tracking devices have also been identified. However, the aforementioned issues have been taken up with the Afghan Government for setting up an Electronic Data Interchange (EDI) with FBR for scanning facilities at Pak-Afghan Border. The attested copy of Jawaznama issued by Government of Afghanistan is the basic document upon which transit of goods is allowed by the Pakistan Customs.

Sources said that the Directorate General of Customs (Transit) has not been made fully functional as certain processes pertaining to transit were still being performed by other Collectorates. There is a dire need of installations of scanners at Torkham and Peshawar for the benefit of mirroring of scanned images at Karachi Port and Border stations besides reconciliation of data at two ends, sources added. – *Courtesy Business Recorder*

**F.No.1(2)Jurisdiction/2010-Vol-II/136117-R**Islamabad, the 30<sup>th</sup> September, 2013**ORDER**

In exercise of the powers conferred by Sub-Section (1) of Section 209 of the Income Tax Ordinance, 2001, Sections 30 and 31 of the Sales Tax Act, 1990 and Section 29 of the Federal Excise Act, 2005, Federal Board of Revenue is pleased to transfer the jurisdiction over the case of Raja Liaquat Hayat, NTN 1834579-4, from Chief Commissioner IR, RTO, Sargodha to Chief Commissioner IR, RTO, Islamabad.

2. This order shall take immediate effect.

**C.No.4(3)ST-L&P/2011/140232-R** Islamabad, the 14<sup>th</sup> October, 2013

**SALES TAX GENERAL ORDER NO. 44/2013**

Subject: **Amendment in STGO 16/2007 dated 13-09-2007 – allowing facility of zero-rating on supply of gas.**

In exercise of powers conferred by clause (d) of section 4 of the Sales Tax Act, 1990, the Federal Board of Revenue is pleased to make the following further amendments in its Sales Tax General Order No. 16 of 2007 dated 13<sup>th</sup> September, 2007, namely:–

In the aforesaid General Order, in the table, after serial number 1020 in column 91) and the entries relating thereto in columns (2), (3) and (4), the following new serial numbers and the entries relating thereto shall be added, namely:–

S. #	Name of Unit	Registration No.	Consumer No.
1021	M/S Pelikon Knitwear	1200610308682	8476480000 (3)

**F.No.1(2)Jurisdiction/2013/140863-R**Islamabad, the 21<sup>st</sup> October, 2013**ORDER**

In exercise of the powers conferred by Sub-Section (1) of Section 209 of the Income Tax Ordinance, 2001, Sections 30 and 31 of the Sales Tax Act, 1990 and Section 29 of the Federal Excise Act, 2005, Federal Board of Revenue is pleased to transfer the jurisdiction over the case of M/s Dawlance Electronics (Pvt) Ltd, NTN 2139610, from Chief Commissioner IR, RTO-III, Karachi to Chief Commissioner IR, LTU, Karachi.

2. This order shall take immediate effect.

**F.No.1(2)Jurisdiction/2013/140866-R**Islamabad, the 21<sup>st</sup> October, 2013**ORDER**

In exercise of the powers conferred by Sub-Section (1) of Section 209 of the Income Tax Ordinance, 2001, Sections 30 and 31 of the Sales Tax Act, 1990 and Section 29 of the Federal Excise Act, 2005, Federal Board of Revenue is pleased to transfer the jurisdiction over the case of M/s byco Oil Pakistan Ltd, NTN 2727267-2, M/s Byco Terminals Pakistan Ltd, NTN 1424455-1, from Chief Commissioner IR, RTO-I, Karachi to Chief Commissioner IR, LTU, Karachi.

2. This order shall take immediate effect.

**C.No.2(2)Tax. Base/2011-141513-R**Islamabad, the 22<sup>nd</sup> October, 2013**INCOME TAX CIRCULAR NO. 11/2013**

Subject: **Extension in Date of Filing of Income Tax Returns/ Statements of Tax Year 2013.**

In exercise of the powers conferred under section 214A of the Income Tax Ordinance, 2001, Federal Board of Revenue is pleased to extend the date of filing of Income Tax Returns/Statements for the Tax Year 2013 as under:—

1. The date of filing of Returns of Total Income/Statements of Final Taxation of companies whose tax year end any time between the 1<sup>st</sup> day of July, 2012 of 31<sup>st</sup> day of December, 2012 due on or before 30<sup>th</sup> September, 2013 and extended to 31<sup>st</sup> October, 2013, is hereby further extended to **30<sup>th</sup> November 2013.**
2. The date of filing of returns by other persons due on 30<sup>th</sup> September, 2013 and extended to 31<sup>st</sup> October, 2013, is hereby further extended to **30<sup>th</sup> November 2013.**
3. The date of filing of Returns of Total Income/Statements of Final Taxation due on 31<sup>st</sup> August, 2013 and extended to 31<sup>st</sup> October, 2013, is hereby further extended to **30<sup>th</sup> November 2013.**