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This issue contains:

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Afghan trade

by
Nafeesa Hashmi

Afghanistan has evolved to one of Pakistan's top three trade partners. The volume of bilateral trade between the two countries has increased manifold during the last few years and has increased from US $1110.9 million in 2005-06 to US $2.4 billion in 2011-12. Exports from Pakistan to Afghanistan have increased from US $1063.4 million to US $2449 million during the said period. Main exports include pharmaceutical products, foods, textile, petroleum products and building material. Pakistan also represents a major export market for Afghan products, with roughly about US $71 million exported to Pakistan every year, equal to 21.8 percent of all Afghan exports. Much of Afghanistan's exports are raw materials, which are processed or used in manufacturing in Pakistan. Apart from the formally recorded flows there is also evidence of a large-scale informal trade between the two countries.

Afghanistan-Pakistan Transit Trade Agreement (APTTA) was signed in 2010. APTTA allows Afghan trucks to carry Afghan products to the huge markets of India and China as well as the rest of the world through the seaports of Karachi, Port Qasim and Gwadar. In July 2012, Afghanistan and Pakistan agreed to extend APTTA to Tajikistan as first step for establishment of North-South trade corridor. The trade between Pakistan and Afghanistan is expected to reach $5 billion by 2015.

The two states also signed an MoU on the construction of rail tracks in Afghanistan to connect with Pakistan railways which has been in the making since at least 2005. According to APTTA, the entry points for the Afghan trade cargo into Pakistan are Karachi Port and Port Qasim. The exit points are Torkhum in Khyber Pakhtunkhwa (KP) and Chamman in Balochistan.

Other than these two existing trade routes, a third proposed trade route is still under discussion. The proposed third trade corridor is a three-branched route originating from Karachi and ending in Kabul. APTTA stimulated employment and business inside Pakistan as services and logistical businesses support to Afghan trucks. Afghan freight forwarders and transport operators are also allowed to establish business in Pakistan to support trade and transit activities.

Historically, Afghanistan has been a major trading partner of Pakistan. Following the Soviet invasion of Afghanistan in 1979, and the subsequent period of civil war, formal trade between Pakistan and Afghanistan ceased but informal trade between the two countries remained substantial. Since the end of Taliban regime in 2001 and resumption of normal trade relations, documented trade between the two countries has expanded rapidly. Between 2002 and 2010, there was a seven-fold increase in Pakistan's exports to Afghanistan.

The US and Nato have been transporting large quantities of logistic goods to Afghanistan for sustenance of their troops and conduct of operations. Since Pakistan afforded an easy access to Afghanistan, so it was an obvious and convenient choice for the US and Nato forces to transit its military equipments, reconstruction material and logistic cargo to Afghanistan via Pakistan. For sustaining the force in a land-locked Afghanistan, the US and Nato needed to import a wide range of materiel into Afghanistan, the bulk of which routed through the port of Karachi.

Businessmen and common people who are attached with trade and business activities across Afghanistan and Pakistan are generating handsome profits though there are few complications involved like insecurity, corruption and poor road infrastructure. By removing the barriers both government and businesspeople can get maximum profit. Most people in KPK and Balochistan are dependent on trade with Afghanistan.

Another major issue is the smuggling of goods and commodities which is harming the formal trade. Additionally the volatile security in Afghanistan is a huge obstacle for trade. Traders are worried about this issue also. After the start of withdrawal of Nato forces from Afghanistan, that is due to end by the close of 2014, major trade of Nato goods between Afghanistan-Pakistan will be closed and only civilian trade will be left. There is an estimate that currently 17 percent cargo moving to Afghanistan through Pakistan is Afghan Cargo (Non Commercial which pertains to humanitarian aid) and 83 percent is Nato cargo.

The post-2014 US exit scenario presents opportunities and challenges for Pakistan-Afghanistan relations. If we look at the opportunities, the reconstruction in Afghanistan is major opportunity for Pakistani industrialists. All other goods and service sectors will also be able to take benefit of this. And if we look at the challenges, the major challenge will be insecurity that will adversely affect trade.

Pakistan is already facing economic problems and losing transit trade with Afghanistan that will harm its economy. Pakistan and Afghanistan have great prospects to cooperate not only in the fields of politics and security but also in the fields of trade and economy. The question is: how can we safeguard the trade between Afghanistan-Pakistan after the exit of Nato forces?

Check on Real Estate to trace real investment

by
T.V. Ganesan

The Finance Act, 2013 has made amendments which will have far reaching implications on the real estate transactions, especially during the Financial Year 2013-14 relating to the Assessment year 2014-15. One of the amendments relates to taxation of a deemed income in the same manner as gift wherein an immovable property, namely, land, building, flat, etc., if purchased for a consideration of less than the stamp duty valuation, viz., the circle rate in which the difference is more than Rs. 50,000. This article highlights the various amendments which will have a bearing on the real estate transactions, with special reference to the impact on the real estate builders as well as on the investors.

Introduction

1. It is true that almost everyone would like to own a residential flat as it is one of cherished desires of an individual during his lifetime. It is not uncommon that people already owning residential flats are aspiring for a second home, villa or weekend home due to various tax benefits and also from investment perspective. Government is also equally trying to get maximum tax on these real estate transactions by imposing VAT and service tax apart from the stamp duty charged according to the State Stamp Act. The Finance Act, 2013 and its amendments relating to some of the real estate transactions have received a mixed response and will have far reaching consequences, both for the real estate companies as well as for the individuals who are aspiring to have apartments, especially large sized apartments costing above a threshold limit. In this article, the author has enumerated the important amendments relating to taxing the notional income in real estate transactions as against the real income of both, real estate companies as well as of the investors. These amendments and provisions should be properly understood before entering into real estate transactions during the fiscal year 2013-14, or else the real estate players will face serious consequences in concluding the transactions.

Service Tax on real estate transactions applicable w.e.f. 8-5-2013

2. The service tax on value of the real estate transactions would be levied as per the table below:–

Service Tax on 25% of the gross amount charged as determined as per the Notification No. 26/2012-ST	Service tax on 30% of the gross amount charged as determined as per the Notification No. 26/2012-ST
Conditions:–	***Applicability:*** The following fall under this case–
1. Property is Residential property; and	1. property is non-residential; or

2. Property has carpet area of less than 2000 sq.ft.; and	2. property is residential property having carpet area of more than or equal to 2000 sq.ft. or
3. Amount charged for property/flat is less than Rs. 1 crore.	3. amount charged is Rs. 1 crore or more.

Note : The provisions that existed prior to 8-5-2013 have been ignored for the purposes of analysis under this Article.

Here, for determining taxable value the amount actually charged from the customer as consideration shall be taken (as determined as per the Notification No. 26/2012-ST) and the stamp duty valuation is irrelevant.

Comments

3. It can be inferred from the provisions that the rate of abatement on residential units sized 2000 sqft. or more or those price Rs. 1 crore or more has been reduced by 5% from 75% to 70%. This will result in an increase in service tax outflow. It is to be noted that the rate of abatement or deduction is used in the calculation of service tax to be paid by developers. It can be said that the lower the abatement, higher would be the service tax liability.

Circle rate to be adopted for computation of profits and gains of business or profession

3. The Finance Act, 2013 has introduced a new section 43CA wherein stamp duty value to be considered for the purpose of computation of income under the head "Profits and Gains of Business or Profession" is covered in respect of all transactions relating to land or building or both. Said amendment would affect the real estate builders. This is because the income would be computed on the basis of notional income and not on the basis of real income appearing in the books of the taxpayer.

3.1 ***Comments and observations on circle rates to be adopted for transactions relating to land or building*** - If X sells a property for Rs. 95 lakhs and during the registration of the Sale Deed at the office of Registrar, he finds the valuation of the property as per circle rate to be Rs. 105 lakhs, then the stamp duty shall be payable on Rs. 105 lakhs, even though X received a payment of Rs. 95 lakhs only. The stamp duty is being paid by the buyer. But in view of the provisions contained in section 50C of the Income-tax Act, 1961, X will be liable to payment of capital gains by treating the sale price as Rs. 105 lakhs, which is the circle rate or the stamp duty authority's value of the said property. Hence, for all purposes while computing the capital gain X will have to take into consideration the sale price as Rs. 105 lakhs, being the value adopted by the stamp duty authority for the purpose of charging stamp duty on sale consideration. The aforesaid provision is applicable to all taxpayers and assessees who earn income by transferring/selling real estate assets and, thus, are liable to capital gains tax. This provision creates a very difficult situation for the seller of the property, as he is required to pay tax on extra money which he never received. Alternatively, if seller wants to claim exemption by investing in a residential house or capital bonds, depending upon the facts of his case, then he is required to invest an extra amount which he never received on sale. However, this provision is not applicable to persons deriving business income by selling immovable property, *i.e.* , these provisions do not apply to transfer of immovable property, which is held by the transferor as his stock-in-trade. The Allahabad High Court in the case of *CIT* v. *Kan Construction & Colonizers (P.) Ltd.*

Germany

Germany Mulls end to Flight Ticket Tax

Germany's prospective Grand Coalition partners, the Christian Democratic Union (CDU) and the Social Democrats (SPD), are edging nearer to plans to end the country's controversial flight ticket tax (*Luftverkehrsteuer*).

Within the framework of ongoing coalition negotiations, a "transport working group" concluded that the levy should be abolished in the new legislative period, without, however, endangering plans to increase investment in transport infrastructure in Germany.

Although party leaders have yet to provide their endorsement, German Transport Minister Peter Ramsauer, who co-chaired the working group discussions, has championed the idea of repealing the levy for some time now.

Environmental lobby groups will be bitterly disappointed with the outcome. On November 19, Friends of the Earth Germany (BUND) had underlined the need for the future Grand Coalition to maintain the ticket tax, and even to extend the scope of the levy.

The association advocated that the rate of the tax be increased and that the levy be differentiated according to the type of ticket purchased. Furthermore, the group stressed that the tax should better reflect the polluter pays principle. These measures would increase the ecological steering effect of the tax and generate additional revenue for climate protection, BUND said.

Defending its position, BUND cited the findings of a recent university study, which refuted claims by the German aviation industry that the levy merely leads to passengers electing to fly from neighboring airports abroad and reduces the competitiveness of airline companies, thereby risking job losses.

Introduced in Germany at the beginning of 2011 to ensure that the aviation industry contributions to fiscal consolidation, the levy serves to generate around EUR1bn (USD1.4bn) annually for the state. The tax is currently imposed at a rate of EUR7.50, EUR23.43, or EUR42.18 on flights departing from German airports, depending on the destination.

Germany's aviation industry fiercely criticized the levy from the outset, arguing that the tax costs airline companies around EUR500m a year. – *Courtesy tax-news.com*

Switzerland

Switzerland Adopts Proposals on Multiple Tax Accords

The Swiss Federal Council has adopted proposals on multiple double taxation agreements (DTAs), together with a proposal on the first tax information exchange agreements (TIEAs).

The DTAs are with with Australia, Hungary, and China, replacing the currently valid agreements, and containing administrative assistance provisions in accordance with the internationally applicable standard. Furthermore, the treaties aim to promote the development of bilateral economic relations.

The revised agreement with Australia was signed on July 30, 2013, with Hungary on September 12, 2013, and with China on September 25, 2013.

Aside from an OECD administrative assistance clause, the three accords provide for reductions in withholding tax, and sometimes even tax exemption, in the case of dividends, interest and royalty payments in the source state. The agreements thereby facilitate the activities of the export economy, promote bilateral investments, and contribute to the prosperity of Switzerland and that of the partner states.

The first tax information exchange agreements are with the Isle of Man, Guernsey, and Jersey.

Like DTAs, TIEAs are instruments for concluding an administrative assistance clause in accordance with the international standard. Unlike DTAs, which are aimed primarily at avoiding double taxation and therefore contain other material provisions, TIEAs merely govern the exchange of information upon request.

The bilateral TIEA with the Isle of Man was signed on August 28, 2013, with Guernsey on September 11, 2013, and with Jersey on September 16, 2013.

The agreements will now be submitted to parliament for approval, before they can enter into force. Further, they are subject to an optional referendum. The Swiss cantons and business associations concerned have welcomed the conclusion of the treaties.

Tax information exchange agreements with other jurisdictions are currently being negotiated. – *Courtesy tax-news.com*

France

French Union Slams Corporate Land Tax Reform

France's independent workers' union UNAPL has vehemently denounced the Government's proposed reform of the country's corporate land tax contribution (CFE), provided for within the framework of the 2014 finance bill (PLF 2014).

Alluding to the relentless tax onslaught on independent professionals in France, UNAPL lamented the Government's decision to subject independent professionals, taxed under the non commercial profits regime (BNC), to a significantly greater corporate land tax contribution than their counterparts operating under the commercial and industrial profits tax regime (BIC).

Outraged by the sheer "injustice" of the plans, the union underscored that the "vast majority" of self-employed workers in France operate under the BNC regime. Categorically refuting the Government's claim that BNC taxpayers have a greater contributive capacity than other taxpayers, the union insisted that independent professionals are facing unprecedented economic difficulties in the current challenging economic climate.

The PLF 2014 provides for a reform of the existing tax scale for the minimum CFE contribution, to better take into account the limited contributive capacity of small taxpayers and to eradicate any disproportionate levels of taxation.

The new tax scale for the minimum CFE contribution comprises six tax brackets, compared to three currently, and new thresholds have been introduced for determining the basic minimum charge. By adjusting the number of tax brackets, the Government hopes to better distinguish the various categories of taxpayers, by considering actual turnover or revenue realized.

However, under the provisions, local authorities may opt to apply a separate scale specifically for BNC taxpayers. This tax scale is considerably less favorable, subjecting those operating under the BNC regime to a significantly greater CFE contribution. – *Courtesy tax-news.com*

Tax incentives may have no negative impact on collection: Prime Minister to announce package on November 26

The government's economic reforms and incentive package for the business community may cover tax incentives for specific sectors without having negative impacts on the revenue collection of the Federal Board of Revenue (FBR) during 2013-14.

Sources told here on Sunday that fines and penalties would be waived off for those who would voluntarily come into the tax net and file their income tax returns under the documented regime. Such persons need to be encouraged to voluntarily come into the formal regime for carrying out businesses, sources said and added such kind of incentives would expand the tax base on both the income tax and sales tax sides.

The government is actively taking input of federal tax authorities along with that of Ministry of Commerce, Ministry of Industries, Board of Investment (BoI) and other ministries for devising an incentive package for the business and trade.

Proposals are being discussed to encourage foreign investment in the country. In this regard, meetings are being held at the Ministry of Finance which would continue on Monday (today) and final decisions would be announced by Prime Minister Nawaz Sharif during his visit to Karachi on Tuesday (November 26).

The Prime Minister had reportedly said that the government has prepared economic reforms and incentive package for the business community to attract maximum investment while addressing the opening session of "1000-plus consultation" conference on next five-year plan as well as Vision 2025.

According to the sources, the government would address the procedural and legal issues of the business community in the taxation matters. Based on the past experience of business community with tax department along with recommendations of the ministries etc, changes in tax laws are expected to be made to facilitate local as well as foreign investment.

However, no such proposal would be part of the government's economic reforms and incentive package which would have negative impact on revenue collection of the FBR. The FBR's revenue collection plan through budgetary measures would remain intact during 2013-14, but procedural and technical amendments would be introduced in tax laws where ever required.

The taxation measures of Rs 200 billion including administrative and enforcement actions would continue in the remaining quarters of 2013-14.

However, the government is also examining some proposals to encourage investment of private sector in vocational training so that young trained professionals can do jobs within the country or outside Pakistan. The issues of the agriculture and poultry sectors are also being examined by the concerned authorities.

The government is also holding consultations with the representatives of agriculture sector to introduce reforms. – *Courtesy Business Recorder*

Increasing revenue collection mechanism: FBR ready to facilitate provinces

The Federal Board of Revenue (FBR) has assured provinces of full assistance towards strengthening provincial revenue authorities through introduction of tax reforms including drafting of tax laws/regulations for tax enforcement and increasing sales tax collection from services' sector.

Sources told here on Sunday that the issue of FBR's co-ordination with provinces in fiscal matters was discussed during the last meeting of the provincial finance secretaries on 'Creation and Appropriate Use of Additional Fiscal Space by provinces' held at Finance Division.

The finance secretary, Balochistan shared that the provincial revenue authority would be established in the province for collection of sales tax on services whereas the tax authorities assured that the FBR is ready to facilitate all four provinces to increase their revenue collection mechanism.

As services is provincial subject, the FBR will assist provinces by helping them in drafting effective rules and regulations for implementation at the provincial level for expanding the tax base with increased revenue collections, sources said.

According to sources, tax authorities gave valuable suggestions for improving the general sales tax (GST) collection and assured full co-operation to strengthen provincial revenue authorities in terms of framing appropriate tax laws/regulations, further refinement of definition of tax bases, risk based audits, tax enforcement and sharing of data. The FBR's official has assured the provinces of full co-operation in improving GST on services.

On the issue of increasing revenue from the traditional provincial taxes (UIPT, AIT, Stamp duties, MVT, etc), the FBR's authorities underscored the importance of proper valuation of properties as per prevailing market rates which could provide the provincial governments a sizeable and predictable revenue stream. Tax authorities of the FBR view that if provincial governments could disaggregate the existing expenditure in social sector, they would be able to meet the requirements of non-salary Operations & Maintenance (O&M) social spending as envisaged in the policy matrix, with relative ease.

The meeting decided that provinces will provide one-page briefs to Finance Division on proposed reforms for increasing revenues from GST and traditional sources.

The meeting also decided that the provinces will calculate the non-salary expenditure in education and health sectors to come up with exact figures of such spending in the said sectors. This will give a clearer picture on the required efforts from provincial governments.

It has also been decided that Inter-Provincial Revenue Committee would be formally notified along with their terms of references (ToRs).

During the meeting, Finance Secretary highlighted that external inflows have decreased over the last few years. He added that 7th NFC Award and the 18th Constitutional amendment have resulted in transfer of a larger portion of divisible pool taxes to the provinces. This has increased the consolidated fiscal deficit (both federal and provincial) to unsustainable levels and lowering the deficit to more sustainable levels requires urgent actions from each government in the federation.

The Finance Secretary informed the meeting that Finance Division is currently in discussion with the World Bank for a Development Policy Credit (DPC). The policy matrix being finalised with the bank requires preparation of a roadmap to be finalised with provinces for (i) generating additional revenues from the harmonised expansion of the scope of services taxed by the General Sales Tax on Services (GSTS); (ii) increasing by no less than 20% the budget allocations to non-salary education and health spending; and (iii) expanding the primary education linked conditional cash transfers (CCTs) in no less than 20 districts covering all provinces with a benefit of Rs 200 per child with effective co-financing arrangements with provincial governments.

Chairman, FBR pointed out that given large increase in salary bills, non-salary expenditure continues to be inadequate. Tax authorities, therefore, emphasised the need of curtailing salary bills by provinces to create more fiscal space.

The Finance Secretary, Punjab informed the meeting that although after the 7th NFC Award provinces are getting a larger share but at the same time, their responsibilities have also been multiplied. He informed that the Punjab Government has initiated an austerity drive by imposing a 15% cut on expenditures. It was added that Punjab Revenue Authority has the collection target of Rs 62 billion for the current fiscal year and highlighted the commitment of the chief minister for keeping the development budget intact.

The finance secretary, Balochistan informed the meeting that managing finances in the province is becoming increasingly difficult in the present scenario. Despite that they have thrown up a budget surplus. He further informed that they have already increased spending considerably in health and education sectors and was of the view that they could meet the target of 20% spending in these sectors. He, however, conveyed the inability for contributing in conditional cash transfers (CCTs) under BISP. He added that Balochistan is contemplating establishment of a Provincial Revenue Authority for which a study will first be undertaken.

The secretary Khyber Pakhtunkhwa informed that their Revenue Authority was established in 2012 and a tax survey project has also been planned. He added that for enhanced social protection, special initiatives like stipends for students and treatment facility for special diseases have been undertaken. He informed that they are providing subsidies on wheat, etc while a considerable portion of their budget is spent to maintain law and order. Given above, he was of the view that no fiscal space is available with the Khyber Pakhtunkhwa Government for contribution as indicated in the policy matrix.

The finance secretary, Sindh informed that they have also curtailed their expenditure and in current fiscal year no vehicle has so far been purchased. He added that Sindh Revenue Authority is working satisfactorily and revenue collection is on an increasing trajectory. He appreciated the idea of CCTs and assured co-operation, sources added. – *Courtesy Business Recorder*

IT returns: PTBA demands extension in deadline

Following the malfunctioning of web-portal of Federal Board of Revenue (FBR), the Pakistan Tax Bar Association (PTBA) has demanded to extend the date of e-filing of income tax returns by December 15, 2013. In its letter sent to chairman FBR Tariq Bajwa, PTBA said that filing of income tax returns within extended deadline appears to be impossible, due to severe problems in FBR's web-portal. It said that nominal number of taxpayers was able to perform their statutory obligations because of these issues.

Therefore, the PTBA has demanded the board to extend the date of e-filing of tax returns by December, 15 2013 or allow filing of manually filled tax returns for the tax year 2013 which should be punched by the FBR employees to facilitate the taxpayers of the country in order to get the tax returns / wealth statements in a proper manner otherwise it is impossible to meet the deadline. PTBA further said that taxpayers had kept requesting that tax return form should be hassle free.

However, it has been observed that board always delays the issuance of tax return forms and later extends the date of filing of income tax returns. It said that taxpayers should have been given sufficient time to fill income tax forms when it was due on July 1, 2013.

PTBA said that tax return forms were finalised only a month ago following the deadline ie November 30, 2013, which in PTBA's opinion, was illegal as law gives three months from the date of finalisation of the tax return form. – *Courtesy Business Recorder*

Smuggled Iranian petrol: 61 illegal petrol pumps demolished in Karachi

Pakistan Customs on Sunday said that it had demolished 61 illegal petrol pumps, selling Iranian smuggled gasoline in the city.

According to a press release of Customs department, in compliance with the directives of Supreme Court of Pakistan regarding co-ordinated and joint efforts against illegal movement of smuggled and contraband goods, a number of meetings were arranged by the Attorney General for Pakistan, which were attended by Chairman, Federal Board of Revenue, Pakistan Rangers, Sindh, Director General Anti-Narcotics Force, Director General Pakistan Coast

Guards, Director General Maritime Security Agency and Chief Secretary Sindh.

In a recent crackdown against availability of smuggled POL products in the city, a joint operation has been launched by Pakistan Customs against illegally constructed petrol pumps along the Northern Bypass and Karachi West.

The following agencies/ department aided Pakistan Customs in the operation:

i. Pakistan Rangers (Sindh)
ii. District Administration
iii. Sindh Police
iv. Municipal Commissioner

The operation was started in the morning and the teams started co-ordinated field operations on November 24. As a result, some 61 illegal petrol pumps were demolished and illegally-constructed and installed plant machinery was removed and confiscated by District Administration. – *Courtesy Business Recorder*